

EcoSphere

*EXPLORING INDIAN AND GLOBAL ECONOMIES WITH
InsPIRE*

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Exploring Indian and Global Economies with InsPIRE

June 2024, Volume 1, Issue 4

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

Cautious Optimism: Global Economic Stability and India's Growth Prospects

The June 2024 edition of *EcoSphere* arrives amid a complex global economic landscape. The World Bank's *Global Economic Prospects* report has projected global growth to stabilize at 2.6% this year, a remarkable steadiness after three tumultuous years. This growth is anticipated to inch up to 2.7% in 2025-26, buoyed by slight improvements in trade and investment. Global inflation is forecasted to taper off gradually, averaging 3.5% for 2024. However, this period of stability is nuanced by the persistence of high interest rates and escalating geopolitical tensions.

Central banks across the globe, wary of inflationary pressures, are likely to maintain a cautious stance on monetary easing. Benchmark interest rates are expected to remain significantly higher than the 2000-2019 average, influencing economic activities in both advanced economies and emerging markets.

Despite a positive near-term growth outlook, the global economy's performance remains subdued when compared to historical standards. Over the forecast horizon, global growth is predicted to be nearly half a percentage point below the average pace of 2010-19. Alarmingly, this trend will affect approximately 60% of economies, encompassing over 80% of the global population and output. Particularly in vulnerable economies, growth remains fragile, and many conflict-affected regions are expected to remain poorer than pre-pandemic levels.

The downside risks to this outlook are notable. Geopolitical tensions could lead to volatile commodity prices and disrupted trade networks. Persistent inflation might delay monetary easing, prolonging the period of high interest rates and dampening global economic activity. Furthermore, domestic challenges could slow major economies, and climate change-related natural disasters could hinder economic progress. Conversely, faster-than-expected moderation in global inflation could lead to quicker monetary easing, and stronger-than-anticipated growth in the United States could present an upside.

In this global context, India stands out as a beacon of growth. The World Bank forecasts India to continue as the fastest-growing major economy, with an average growth rate of 6.7% over the next three fiscal years starting FY 2024-25. The Reserve Bank of India projects a robust real GDP growth of 7.2% for 2024-25. Despite high food inflation driven by supply-side factors, India's overall retail inflation has decelerated to a 12-month low, indicating positive economic management.

In line with global trends, the RBI's Monetary Policy Committee decided to maintain the policy repo rate at 6.50%, focusing on gradually aligning inflation with targets while supporting growth. This decision aligns with the cautious approach seen in other major economies, such as the Federal Reserve, the Bank of England, and the Bank of Japan, all of which have maintained their respective interest rates to counter inflationary pressures.

Globally, inflation dynamics remain mixed. The U.S. saw a slight decrease in CPI to 3.3% in May, while the UK, Euro area, and Japan experienced varying inflation rates, reflecting the diverse economic challenges each region faces. The FAO Food Price Index continued its upward trend, driven by higher cereal and dairy prices, despite overall food prices remaining below their peak from March 2022.

In the arena of foreign direct investment (FDI), the UNCTAD *World Investment Report* highlighted a 2% decrease in global FDI in 2023, with more significant declines when excluding volatile financial flows. Nevertheless, greenfield project announcements showed modest growth, signalling cautious optimism among multinational enterprises.

June 2024 was a mixed month for global markets. The Dow Jones Industrial Average demonstrated resilience, while the S&P 500 and NASDAQ Composite showed strong gains. In contrast, Asian markets like Japan's Nikkei 225 and China's Shanghai Composite faced downward pressure due to concerns about economic slowdowns. Indian equity benchmarks, however, reached new peaks, with the SENSEX and NIFTY50 hitting record highs, reflecting strong investor confidence.

As we navigate through these complex economic waters, it is clear that while there are significant challenges ahead, there are also opportunities for growth and stability. The cautious optimism seen in India's economic trajectory provides a hopeful outlook for the region and potentially for global economic dynamics.



Debesh Roy

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SECTION 1

INDIAN ECONOMY

NAVIGATING MACROECONOMIC TRENDS

INDIA'S ECONOMIC OUTLOOK FOR FY25

According to the Monetary Policy Statement of Reserve Bank of India's (RBI) Monetary Policy Committee, India's real GDP growth for 2024-25 is projected to be 7.2%, with quarterly growth rates of 7.3% for Q1, 7.2% for Q2, 7.3% for Q3, and 7.2% for Q4. The risks to this projection are evenly balanced.

However, according to the Economic Activity Index (EAI) developed by the RBI, India's GDP growth in the first quarter of 2024-25 is expected to be around 7.4%. Projections from the RBI's in-house dynamic stochastic general equilibrium (DSGE) model indicate that year-on-year GDP growth could reach 7.6%. The baseline projections for Q2, Q3 and Q4 of FY2024-25 are 7.4%, 8.4% and 6.8%, respectively. For the year 2025-26, GDP growth is projected to be 6.4%. (*Source: RBI Bulletin June 2024*).

According to the World Bank's *Global Economic Prospects* June 2024 report, India will continue to be the fastest-growing economy among the world's largest, though its growth rate is expected to moderate. Following a high growth rate in FY 2023-24, India is projected to have steady growth of 6.7% per year on average over the three fiscal years starting in FY 2024-25. This moderation is primarily due to a slowdown in investment from a high base. However, investment growth is still anticipated to be stronger than previously expected and remain robust throughout the forecast period, driven by strong public and private investment. Private consumption growth is expected to benefit from improved agricultural production and decreasing inflation. Government consumption is projected to grow slowly, in line with the government's objective of reducing current expenditure relative to GDP.

Fitch Ratings has revised India's GDP growth projection for the current financial year upward to 7.2%, from an earlier estimate of 7%, attributing this increase to expected recovery in consumer spending. In its June *Global Economic Outlook* report, Fitch noted that while investments will continue to grow, the pace will be slower compared to recent quarters, and consumer spending is predicted to recover due to elevated

confidence. This aligns with the Reserve Bank of India's forecast of 7.2% but is higher than the International Monetary Fund's projection of 6.8%. Most economists, however, anticipate growth below 7% for FY25.

Fitch highlighted positive indicators such as continued growth at the financial year's start, supported by a normal monsoon season, though a recent heatwave poses risks. For FY26 and FY27, Fitch expects GDP growth to decelerate to 6.5% and 6.2%, respectively. In FY24, India's economy had grown by 8.2%, with Gross Value Added (GVA) growing at 7.2%.

On inflation, Fitch predicts moderation due to above-normal rainfall, with retail inflation expected to decline to 4.5% by year-end and average the same in FY25. For 2025 and 2026, CPI inflation is forecasted to average 4.3%. Fitch also expects the Reserve Bank of India to reduce the repo rate by 25 basis points this fiscal, from the current 6.5%.

Globally, Fitch raised its 2024 world growth forecast to 2.6% from 2.4%, increased China's growth forecast to 4.8%, but maintained the US growth projection at 2.1%. For 2025, global growth is expected to slightly decrease to 2.4%, with US growth slowing to 1.5% and eurozone growth rising to 1.5%.

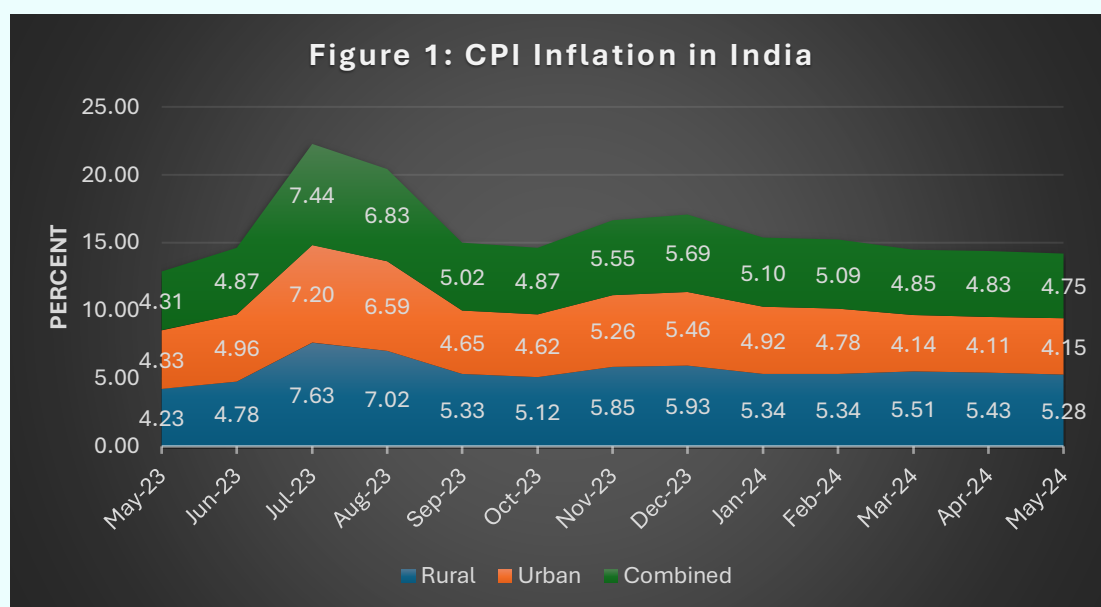
S&P Global Ratings has maintained its growth forecast for India at 6.8% for FY25, attributing the tempered demand in non-agricultural sectors to high interest rates and a lower fiscal boost. This follows a revision of India's GDP growth for FY24 to 8.2%. For FY26 and FY27, S&P projects growth rates of 6.9% and 7%, respectively. The agency also forecasts that the Reserve Bank of India (RBI) will reduce its policy rate from 6.5% to 6% this financial year, with further cuts to 5.5% and 5.25% in subsequent years. S&P's projections are lower than the RBI's, which recently increased its FY25 growth projection to 7.2%. Additionally, S&P predicts India's retail inflation will be 4.5% for FY25, matching the RBI's forecast. Moody's Analytics notes that India's GDP is now 3.5% below its pre-pandemic trend, down from 7% a year ago, and highlights the importance of Government of India's ability to address inflation, unemployment, and socio-economic disparities for future growth.

INSIGHTS INTO INDIA'S MAY 2024 INFLATION

Retail Inflation

India's retail inflation, based on the consumer price index, decelerated to a 12-month low of 4.75% in May 2024 from 4.83% in April (Figure 1), marking the lowest rate in a year. This decrease was driven by reduction in core (3.1%) and fuel inflation (-3.83%), though food inflation (8.69%) remained high. Inflation has been below 5% since March 2024.

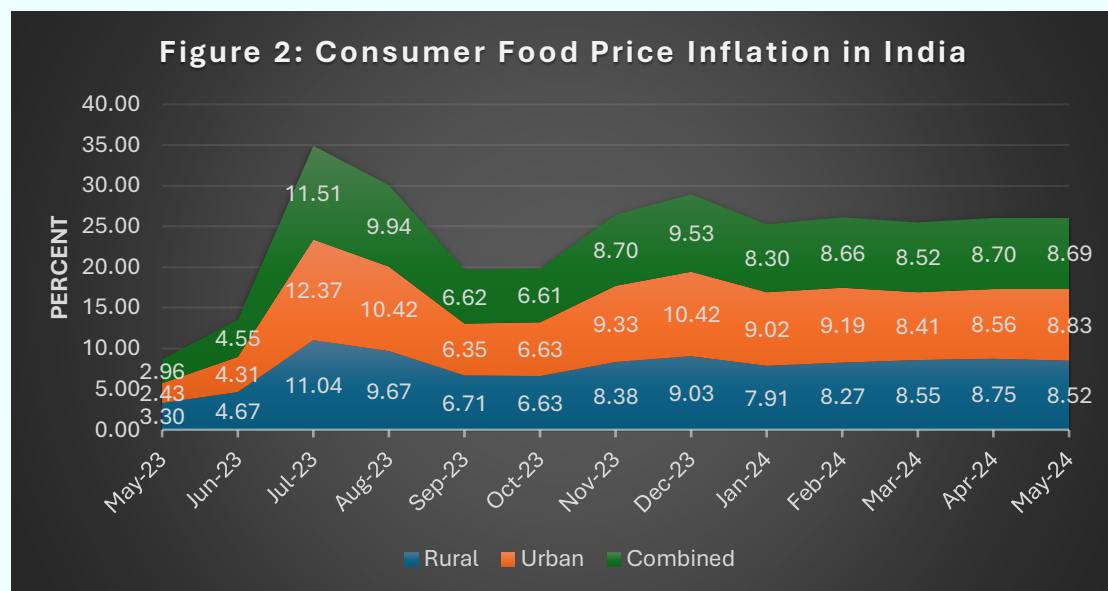
Retail inflation has been declining since December 2023, when it was at 5.69%. The inflation rates for January, February, March and April were 5.10%, 5.09%, 4.85%, and 4.83%, respectively. Retail inflation, while still above the central bank's target of 4%, has stayed within its tolerance range of 2-6% for the ninth consecutive month. Rural inflation at 5.28% (5.43% in April) was higher than urban inflation at 4.15% (4.11% in April). This was the eleventh consecutive month in which rural inflation remained higher than urban inflation, adversely affecting rural real wages, and hence, consumption demand.



Source: NSO, MoSPI, GoI

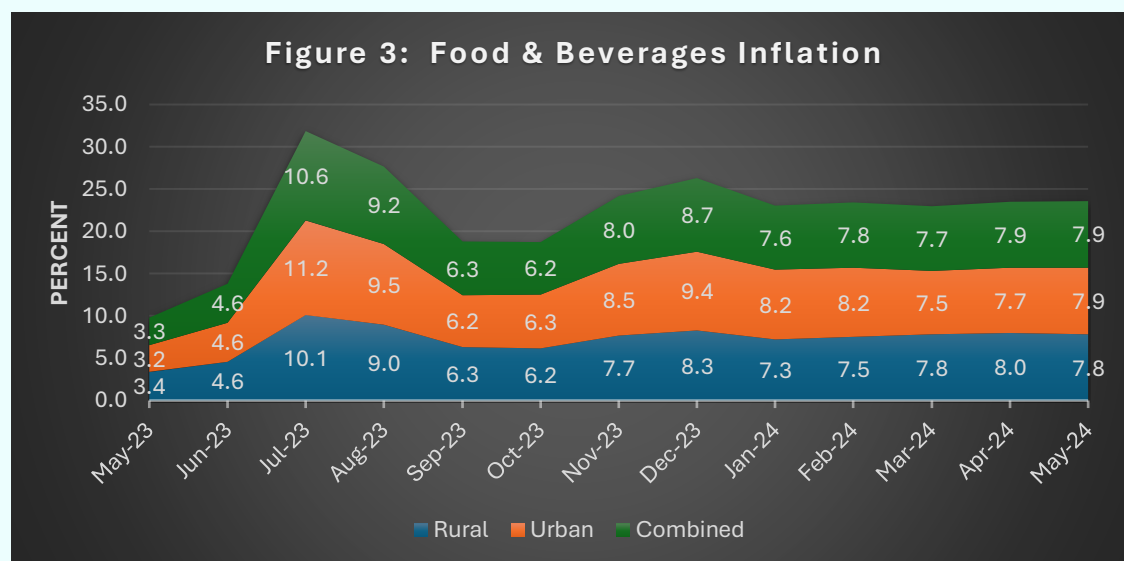
However, food inflation continued to remain high at 8.69% in May (Figure 2), slightly down from 8.7% in April. Rural food inflation at 8.52% (8.75% in April) was lower than urban food inflation at 8.83% (8.56% in April). The outlook for food inflation

has improved with expectations of a normal monsoon, but its distribution will be critical. Rising global commodity prices and food prices pose additional risks, as these costs could be passed on to consumers.



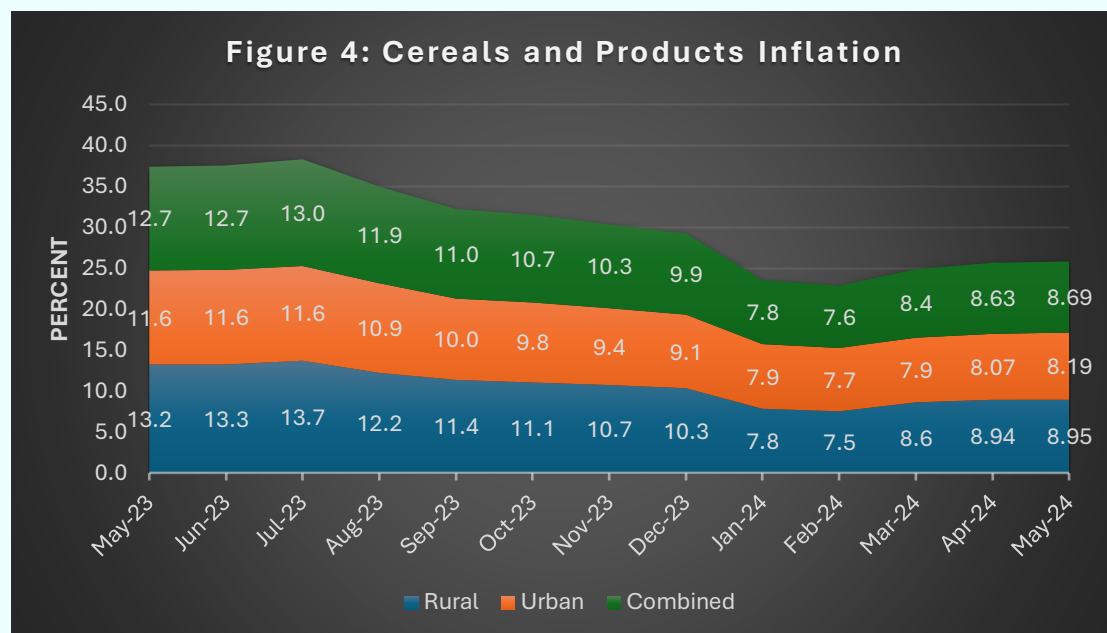
Source: NSO, MoSPI, GoI

Food and beverages inflation remained constant at 7.9% in May as in April (Figure 3). Rural inflation decreased to 7.8% (from 8% in April), and was lower than urban inflation (7.9%, compared to 7.7% in April).



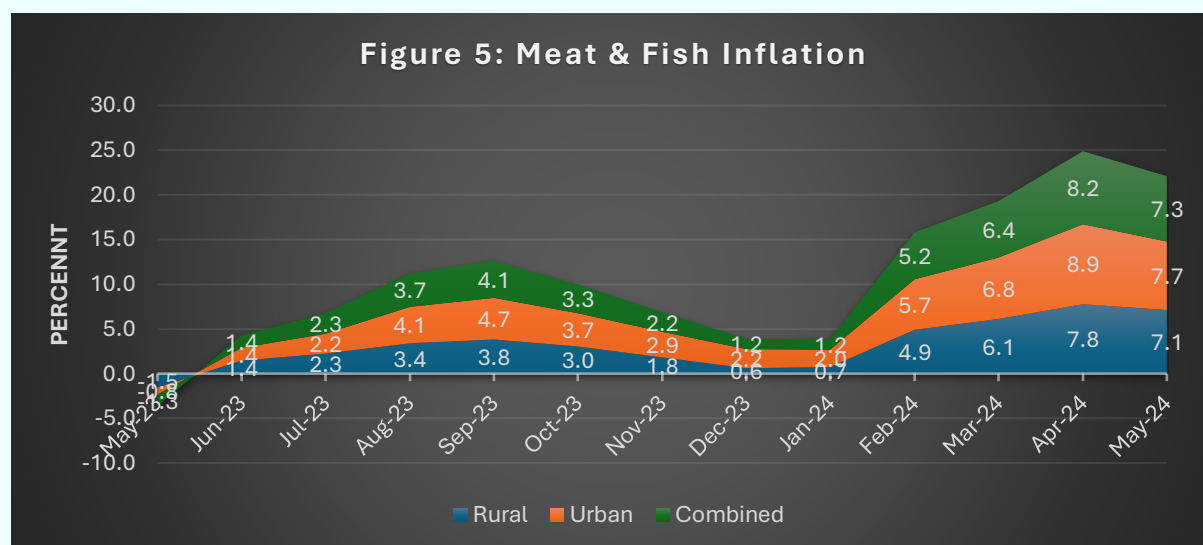
Source: NSO, MoSPI, GoI

The surge in cereal inflation continued for the third consecutive month and touched 8.69% in May, up from 8.63% in April (Figure 4). Rural inflation increased to 8.95% (8.94% in April) and was higher than urban inflation at 8.19% (8.07% in April).



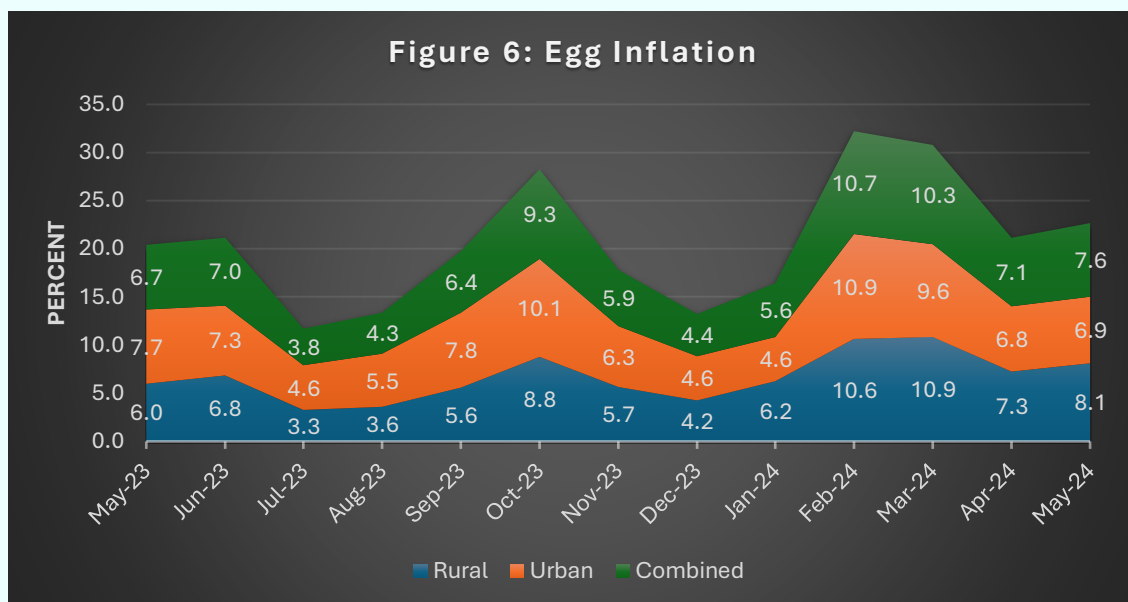
Source: NSO, MoSPI, GoI

Meat and fish inflation declined to 7.3% in May (8.2% in April) (Figure 5). Rural inflation declined to 7.1% (7.8% in April) and remained below urban inflation for the tenth consecutive month. Urban inflation declined to 7.7% from 8.9% in the previous month.



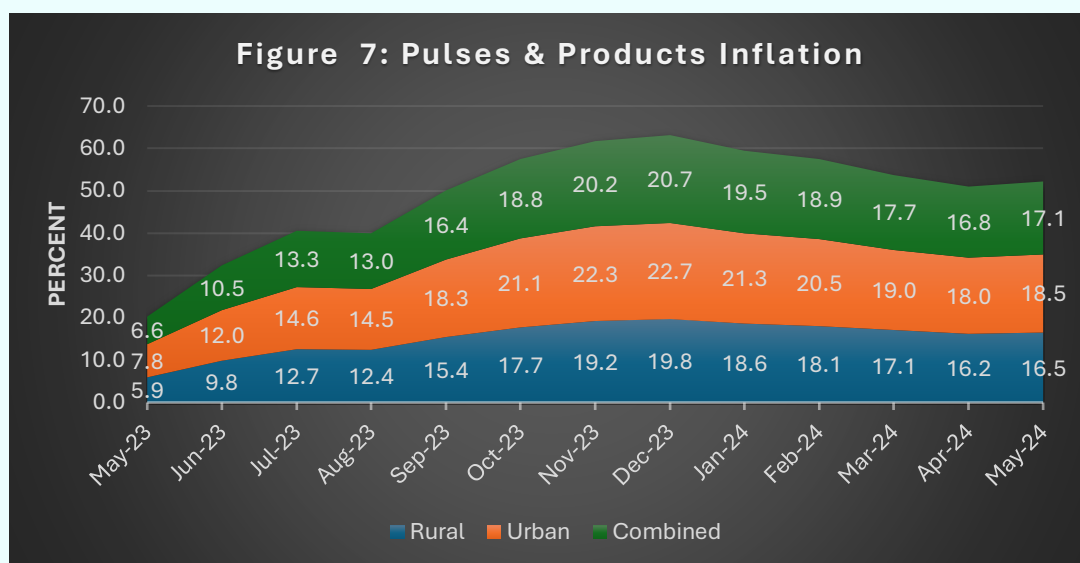
Source: NSO, MoSPI, GoI

Egg inflation rose to 7.6% in May from 7.1% in the previous month (Figure 6) . Rural inflation rose to 8.1% from 7.3% and remained higher than urban inflation (6.9%) for the third consecutive month.



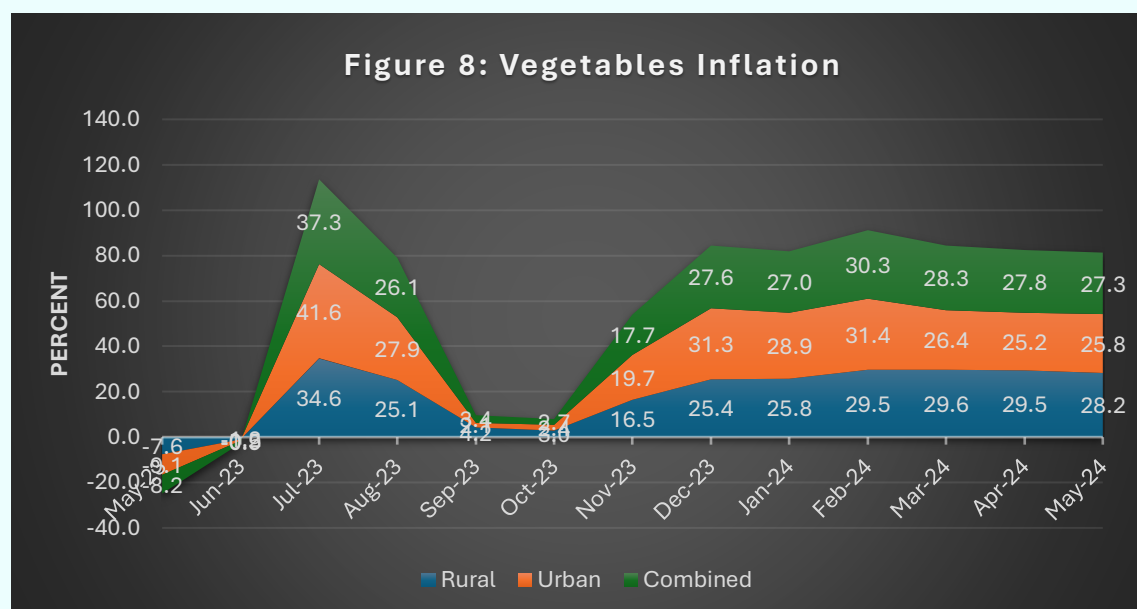
Source: NSO, MoSPI, GoI

Despite government efforts, inflation for pulses rose to 17.1% in May from 16.8% in April (Figure 7). Pulses contribute significantly to the food basket and overall consumer inflation calculations, with food inflation rising to 8.7% in May. The reduced tur production from last year and the progress of the monsoon are crucial factors affecting prices. Pulses inflation, which has been in double digits for the past 12 months, is expected to remain high at least until the end of the second quarter of FY25. India's pulse production does not meet local demand, making imports necessary.



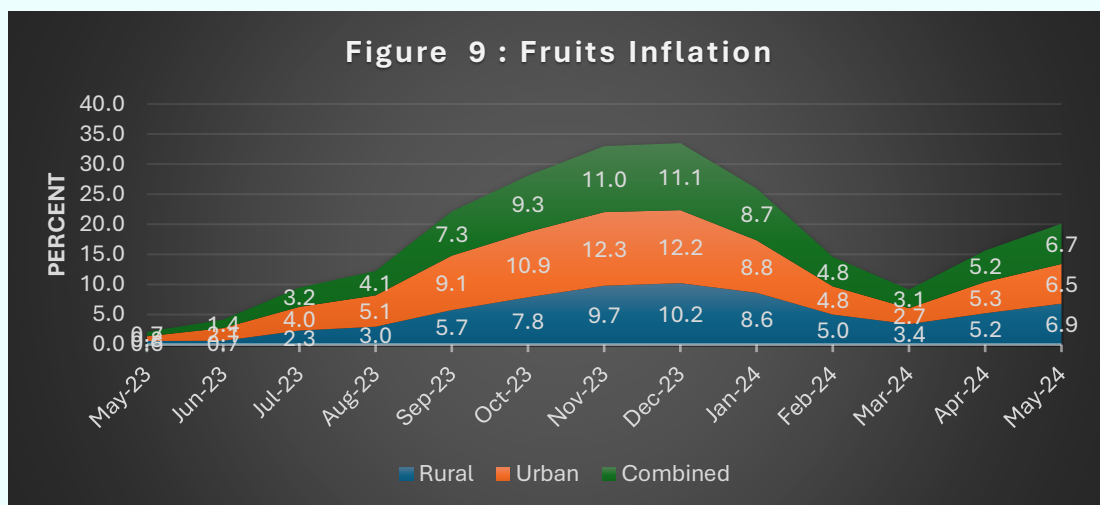
Source: NSO, MoSPI, GoI

Vegetable inflation continued to be very high, though declined marginally to 27.3% in May (Figure 8). Rural vegetable inflation was higher at 28.2% (29.5% in April) than urban inflation at 25.8% (25.2% in April). The average vegetable inflation during the last six months stood at 28.1%.



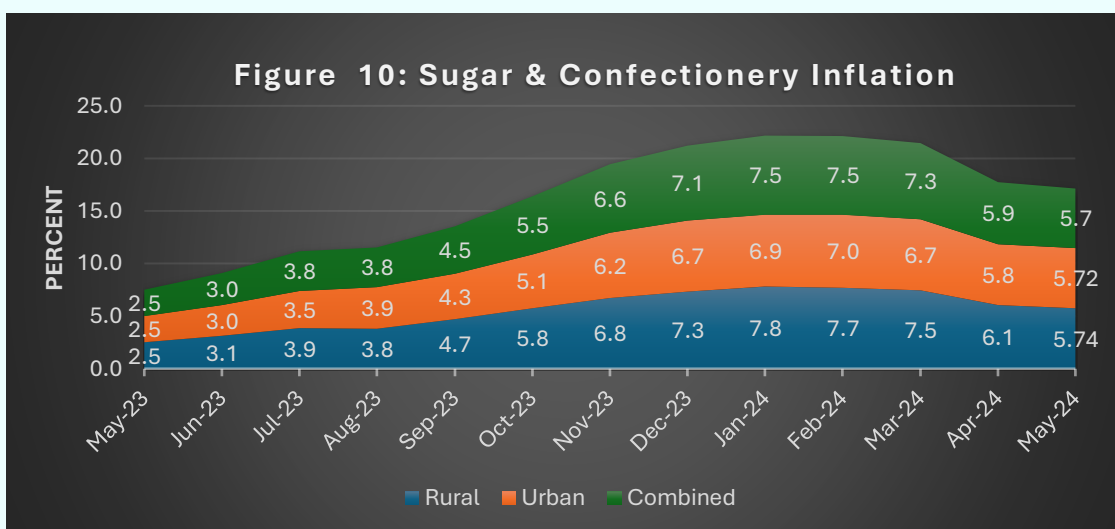
Source: NSO, MoSPI, GoI

Fruits inflation increased to 6.7% in May from 5.2% in April (Figure 9). Rural inflation at 6.9% was higher than urban inflation (6.5%).



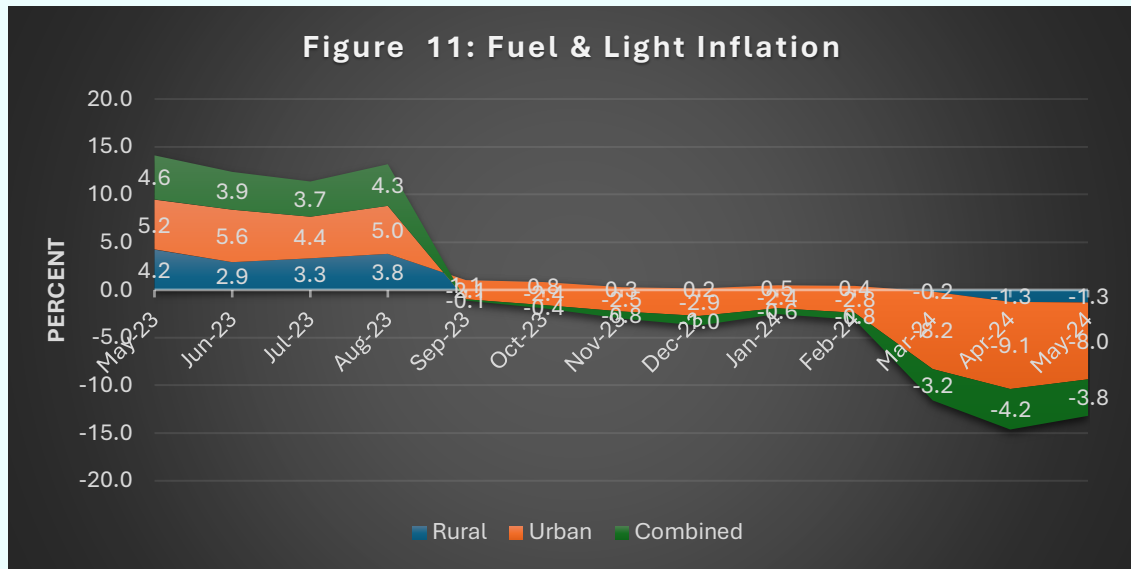
Source: NSO, MoSPI, GoI

Sugar and confectionery inflation declined to 5.7% in May from 5.9% on the previous month (Figure 9). Rural inflation (5.74%) was marginally higher than urban inflation (5.72%).



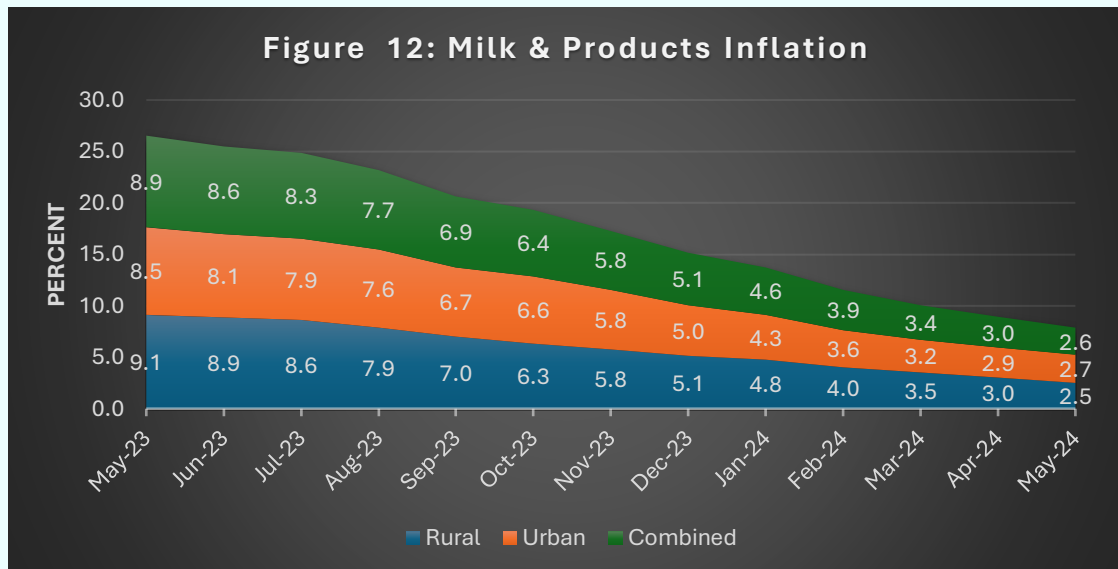
Source: NSO, MoSPI, GoI

Fuel and light inflation continued to be negative for ninth consecutive month and touched -3.83% in May (Figure 11). At -8% urban areas continued to face sharp deflation, compared to -1.3 in rural areas.

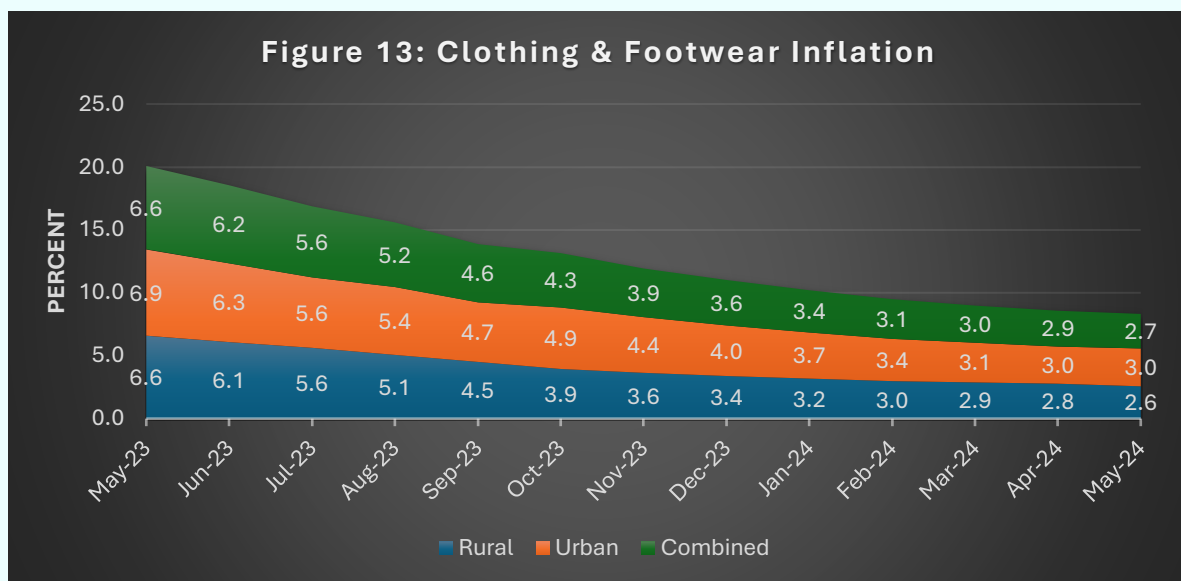


Source: NSO, MoSPI, GoI

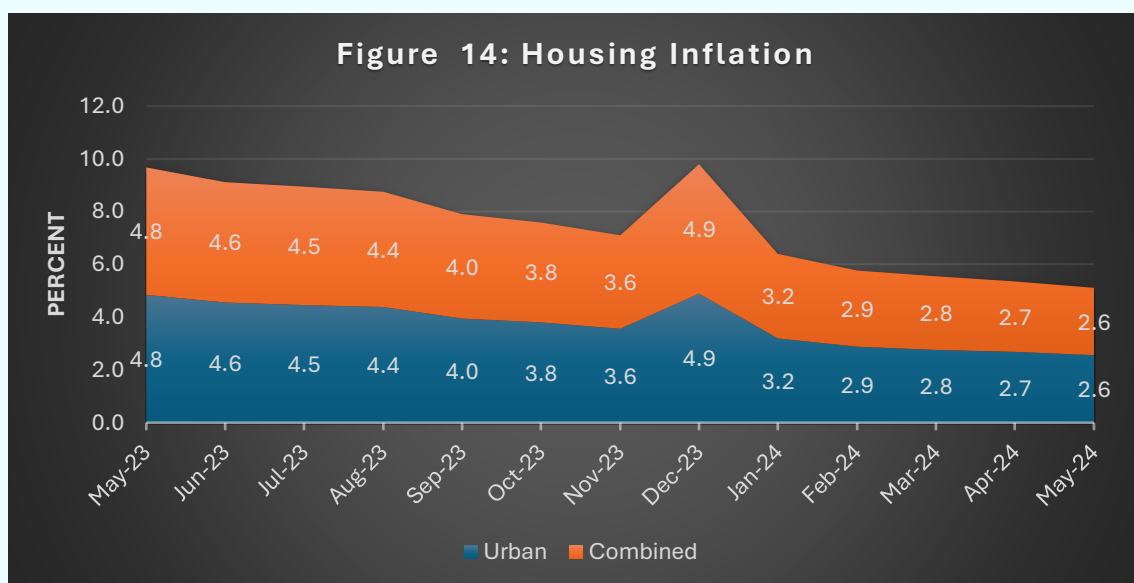
Inflation across other segments, including milk (2.6%) (Figure 12), clothing and footwear (2.7%) (Figure 13), housing (2.6%) (Figure 14), household goods and services (2.5%) (Figure 15), health (4.2%) (Figure 16), transport and communication (1%) (Figure 17), and education (4.1%) (Figure 18), showed a lower price rise in May compared to April.



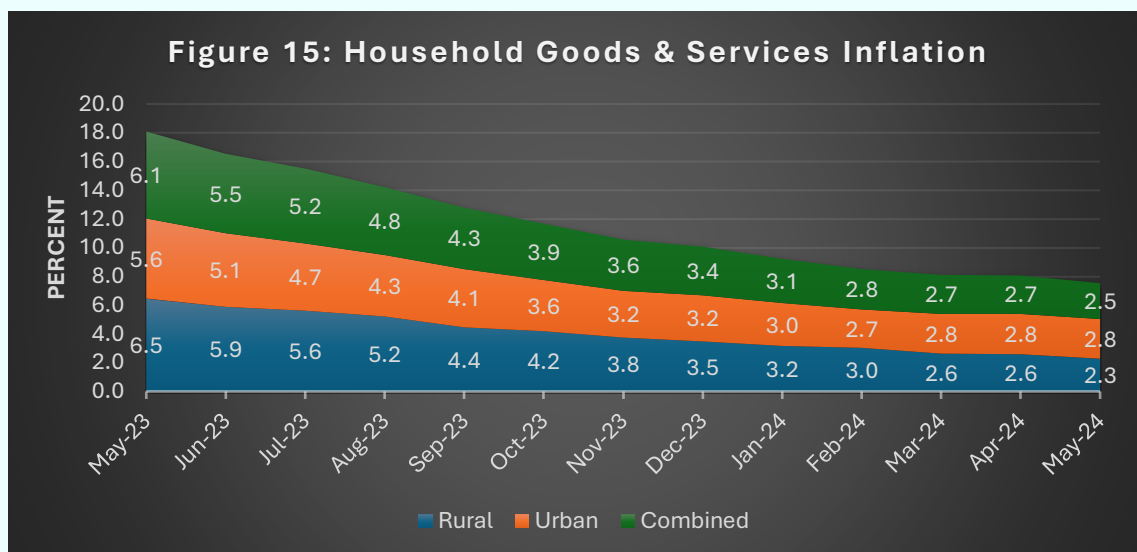
Source: NSO, MoSPI, GoI



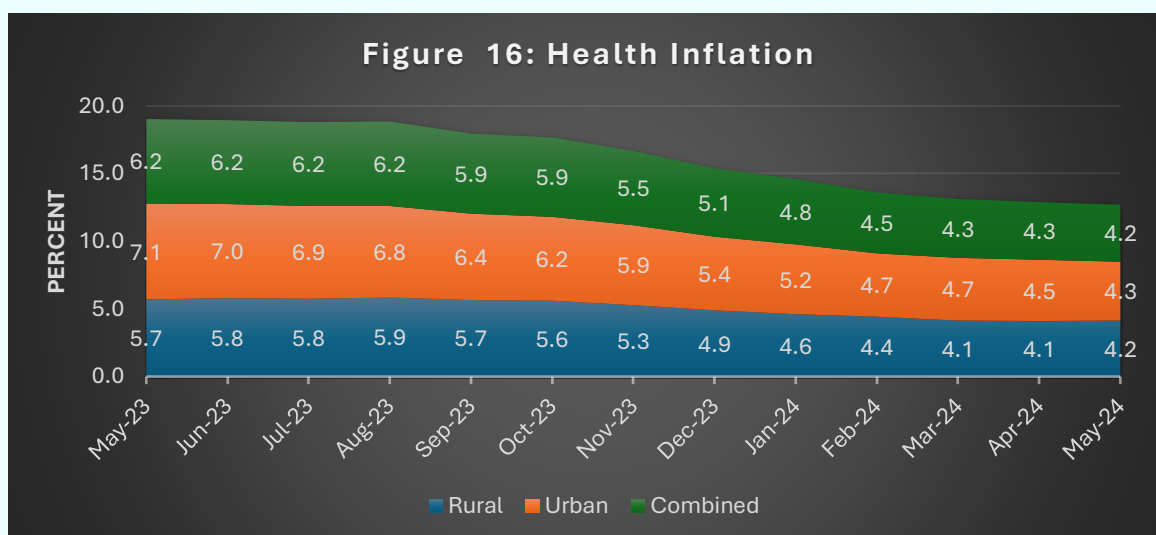
Source: NSO, MoSPI, GoI



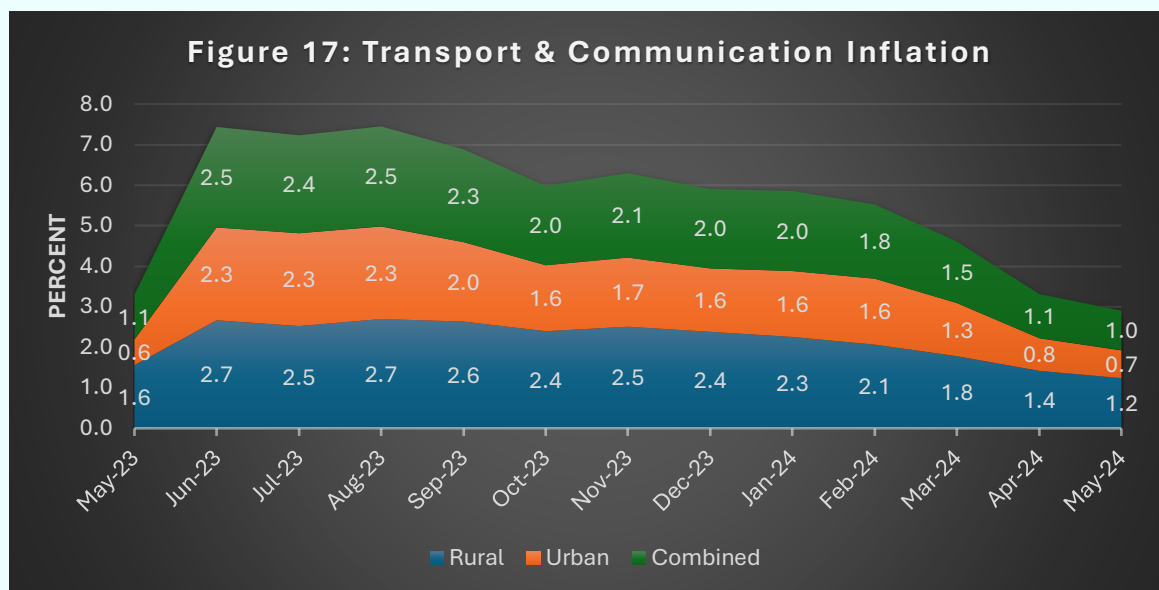
Source: NSO, MoSPI, GoI



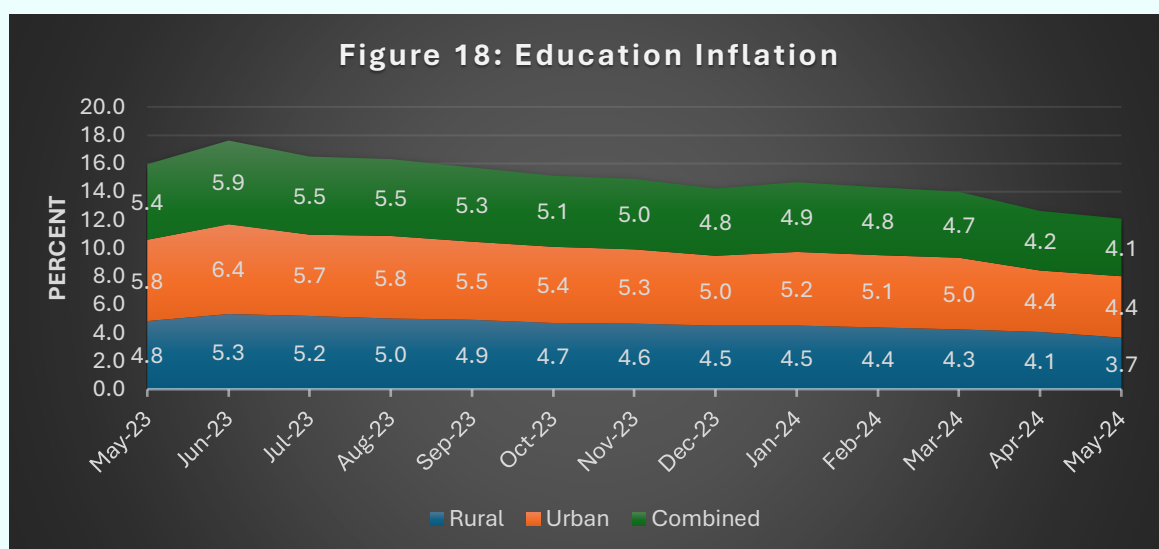
Source: NSO, MoSPI, GoI



Source: NSO, MoSPI, GoI



Source: NSO, MoSPI, GoI



Source: NSO, MoSPI, GoI

Food inflation in India, driven by supply-side factors like adverse weather affecting crops, has remained around 8.71 percent year-on-year since July 2023 and is unlikely to ease anytime soon, despite the early arrival of monsoon rains and forecasts of above-normal rainfall.

Elevated food prices, which make up nearly half of the overall consumer price basket, have kept headline inflation above the central bank's target of 4%, preventing it from

cutting interest rates. A drought last year and an ongoing heatwave have significantly reduced the supplies of foods like pulses, vegetables, and cereals.

Measures such as curbs on food exports and reducing tariffs on imports have had little effect. Although vegetable supplies generally decrease during the summer months, this year's decline is much more pronounced. Temperatures in nearly half of the country had soared 4-9 degrees Celsius above normal in May-June, spoiling harvested and stored vegetables and hindering the planting of crops such as onions, tomatoes, eggplant, and spinach.

Farmers typically prepare vegetable seedlings before the June-September monsoon rains and transplant them to the main fields afterward. However, this year, excessive heat and water scarcity have disrupted both seedling planting and replanting, further exacerbating the vegetable shortage. Vegetable prices are expected to fall from August onwards if the monsoon revives and covers the entire country as per the usual schedule. However, floods or a prolonged dry spell in July and August could disrupt the production cycle.

Prices of milk, cereals, and pulses are unlikely to decrease soon due to tight supplies. Wheat supplies are dwindling, and the government has announced no plans to import grain, which will likely cause wheat prices to rise further. Rice prices may increase as the government recently raised the minimum support price of paddy rice by 5.4 percent. Supplies of pulses, such as pigeon peas, black matpe, and chickpeas, were severely affected by last year's drought and will not improve until the new season crops are harvested. Sugar prices are likely to remain high as next season's production is expected to fall due to lower planting.

While government interventions such as restricting exports and easing imports can help reduce the prices of some food commodities, there is little the government can do about the prices of vegetables, which are highly perishable and difficult to import.

Wholesale Inflation

India's wholesale inflation surged to a 15-month high of 2.61% in May (Figure 19), driven by rising prices of food articles and primary products like crude petroleum and

natural gas, according to data released by the commerce ministry on Friday. The Wholesale Price Index (WPI)-based inflation, an indicator of producer prices, had increased to 0.26% in March and 1.26% in April. For comparison, WPI inflation was 0.33% in January, 0.20% in February, 0.86% in December, and 0.39% in November.

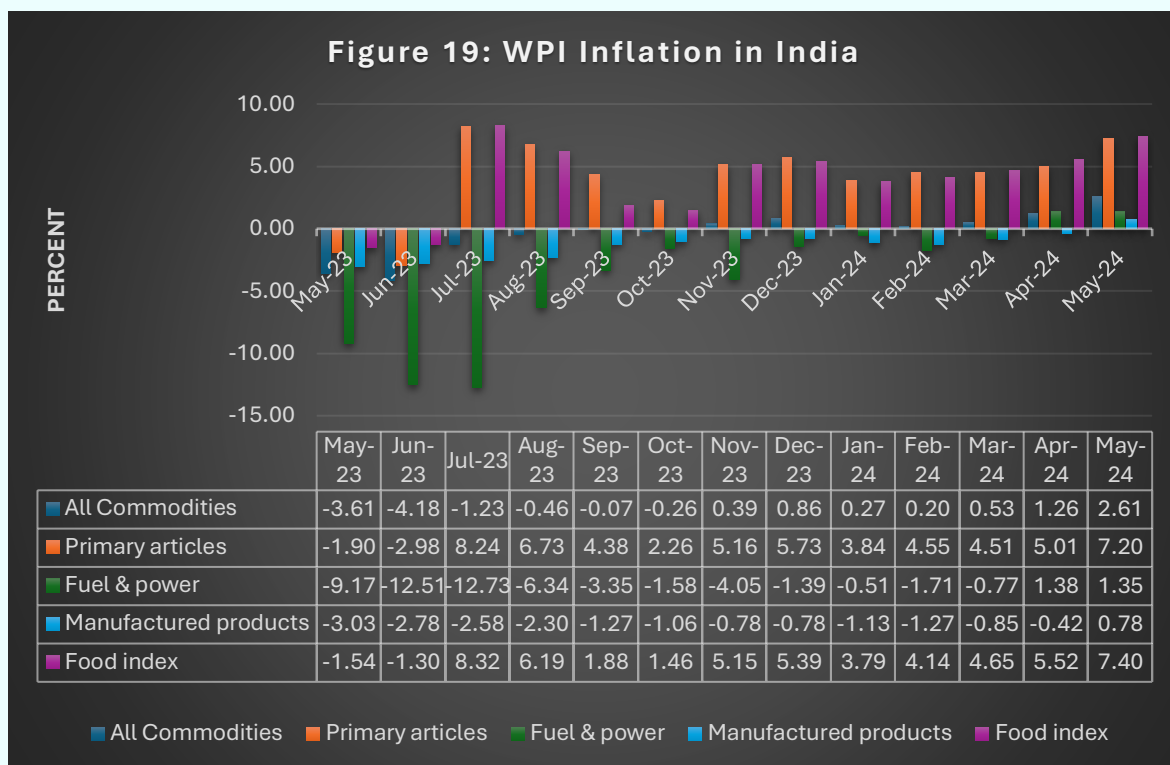
The May figure exceeded the 2.5% rise projected by a Reuters poll of economists. This marks a sharp contrast from a year ago when the WPI was -3.61%.

Food inflation was a significant factor, rising to 9.82% in May from 7.74% in April and 6.88% in March. This increase was mainly due to higher prices of cereals, wheat, pulses, vegetables, and fruits. However, prices of onions, eggs, meat, fish, and milk declined compared to April.

Non-food primary articles saw a price decline of 3.99% in May, slightly less than the 4.41% decline in April. Fuel and power prices increased by 1.35%, close to the previous month's 1.39% rise. Crude petroleum and natural gas prices jumped 9.8% from 4.97% in April. Wholesale prices had been in deflation from April to October last year due to falling prices in sectors such as chemicals, electricity, textiles, basic metals, food products, and paper. However, prices have been rising since then.

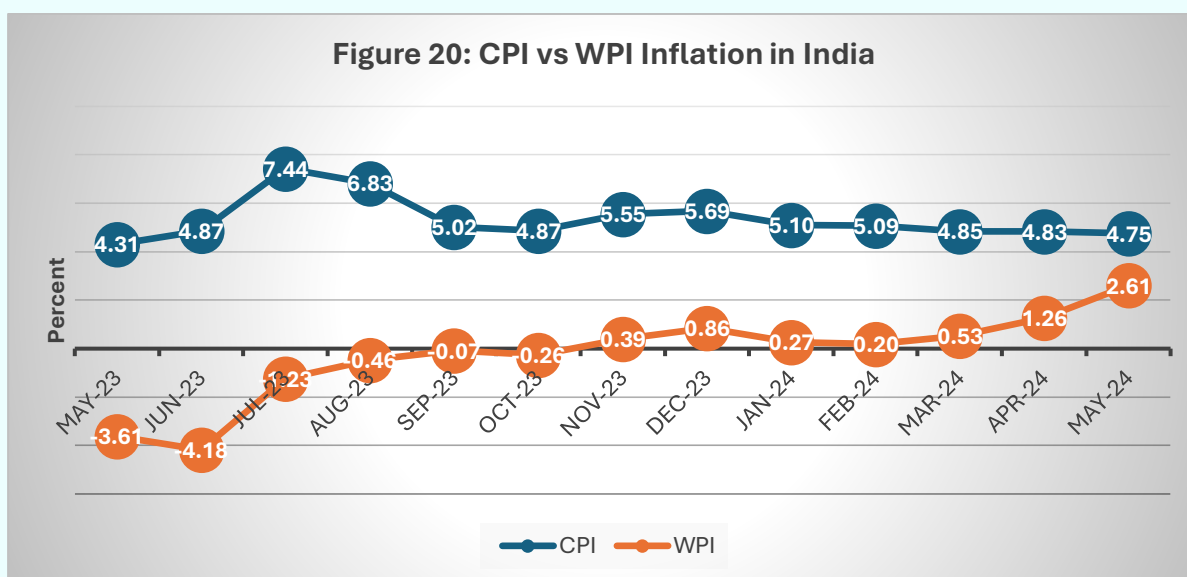
A gradual rise in global commodity prices, increased logistics costs due to geopolitical risks, seasonal food price hikes, and robust industrial activity in India are contributing to the uptick in wholesale prices. A notable shift in manufacturing inflation, which moved from deflation to a 0.8% year-on-year increase in May, indicates stronger demand from the industrial sector. Given the anticipated increases in fuel, power, and manufacturing inflation in the near term, WPI inflation is expected to continue its upward trend this year.

Manufactured product prices rose by 0.78% in May, compared to a decline of 0.42% in April and a 3.03% fall in the same period last year.



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

Despite CPI inflation consistently remaining significantly higher than WPI inflation, the difference between the two gradually decreased from 905 basis points (bps) in June 2023 to 214 bps in May 2024 (Figure 20). Although the RBI primarily focuses on retail inflation for its monetary policy decisions, the sustained elevation of WPI could potentially push CPI inflation higher.



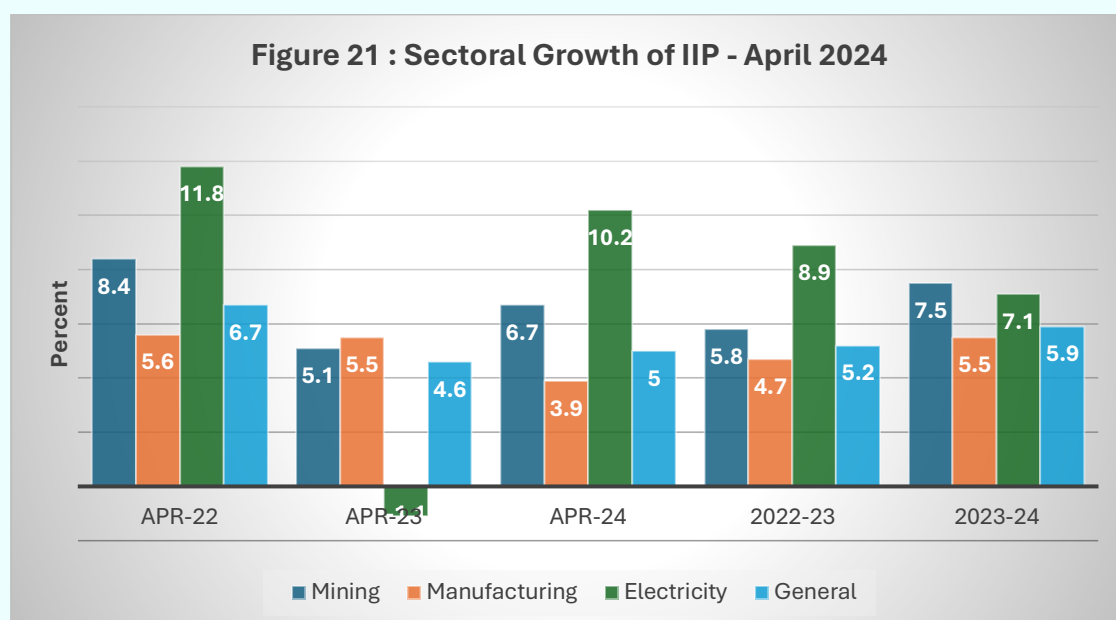
Source: Data accessed from NSO, MoSPI & Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

INDIA'S INDUSTRIAL OUTPUT GROWTH: APRIL 2024 OVERVIEW

Industrial Production (IIP) growth moderated in April as manufacturing growth decelerated to 3.9% from 5.76% in March, constraining overall performance, even as growth in electricity (10.2%) and mining (6.7%) accelerated (Figure 21). Data showed that six out of 23 manufacturing sectors in the IIP, such as food products, tobacco, leather, wood, and paper, registered a contraction in output growth during April.

In the use-based categories, growth in capital goods (3.1%) and intermediate goods (3.2%) decelerated during the month, while growth in primary goods (7%), infrastructure goods (8%), and consumer durables (9.8%) accelerated. However, the output of consumer non-durables (-2.4%) contracted during the month.

The steady growth in infrastructure and primary goods segments is due to ongoing infrastructure activity, while the demand for consumer durables may be partly attributed to rural spending and the wedding season, which typically boosts purchases of such goods in April-May. The decline in FMCG (fast-moving consumer goods) indicates stress at lower income levels.



Source: NSO, MoSPI, GoI

In April 2024, the IIP, as per the Use-based classification, shows growth rates of 6.1% in primary goods, 6.2% in capital goods, 5.2% in intermediate goods, 9.7% in

infrastructure/construction goods, 3.6% in consumer durables, and 4.1% in consumer non-durables compared to April 2023 (Table 1). Consumer goods have experienced a resurgence, reinforcing the perception of increased consumption as FY24 to a close. Consumer durables grew strongly at 9.8% and non-durable goods decelerated by -2.4%.

Table 1: IIP Growth – Use-based classification

(Percent)

	April -22	April-23	April-24	2022-23	2023- 2024
Primary goods	10.3	1.9	7.0	7.5	6.1
Capital goods	12.0	4.4	3.1	13.1	6.2
Intermediate goods	7.1	1.7	3.2	3.8	5.2
Infrastructure/ Construction goods	4.0	13.4	8.0	8.4	9.7
Consumer durables	7.2	-2.3	9.8	0.6	3.6
Consumer non-durables	-0.8	11.4	-2.4	0.7	4.1

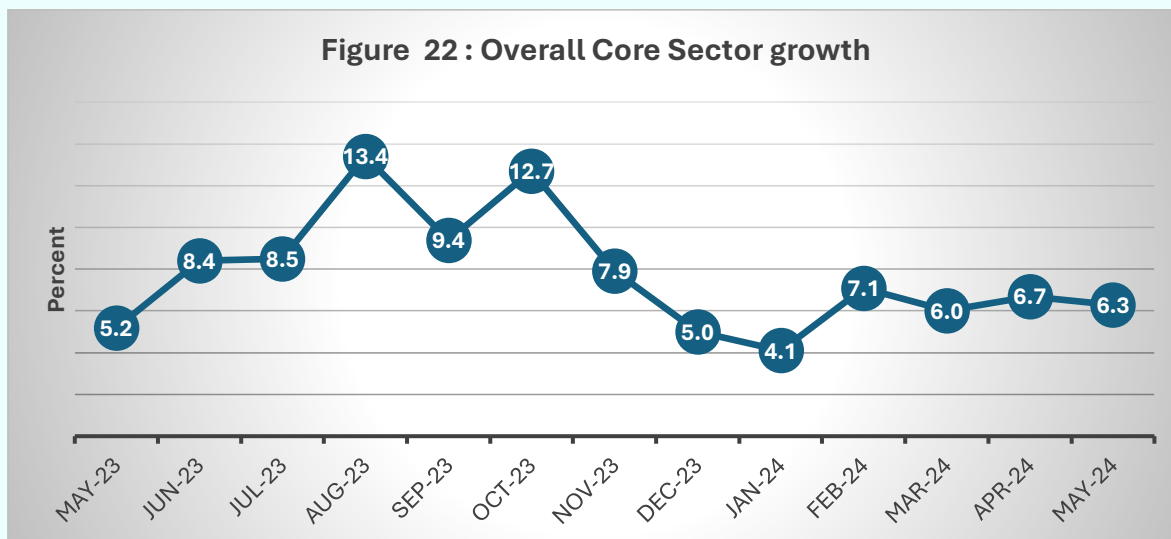
Source: NSO, MoSPI, GoI

INDIA'S CORE SECTOR GROWTH - MAY 2024

The combined Index of Eight Core Industries (ICI) increased by 6.3% (provisional) (Figure 22) in May 2024 as compared to the Index in May 2023. This was lower than the growth recorded in April 2024 (6.7%). The production of electricity, coal, steel, natural gas and refinery products recorded positive growth in May 2024.

The ICI assesses the collective and individual production performance of eight essential industries: cement, coal, crude oil, electricity, fertilizers, natural gas, refinery products, and steel. Together, these eight core industries account for 40.27% of the total weight of items included in the Index of Industrial Production (IIP).

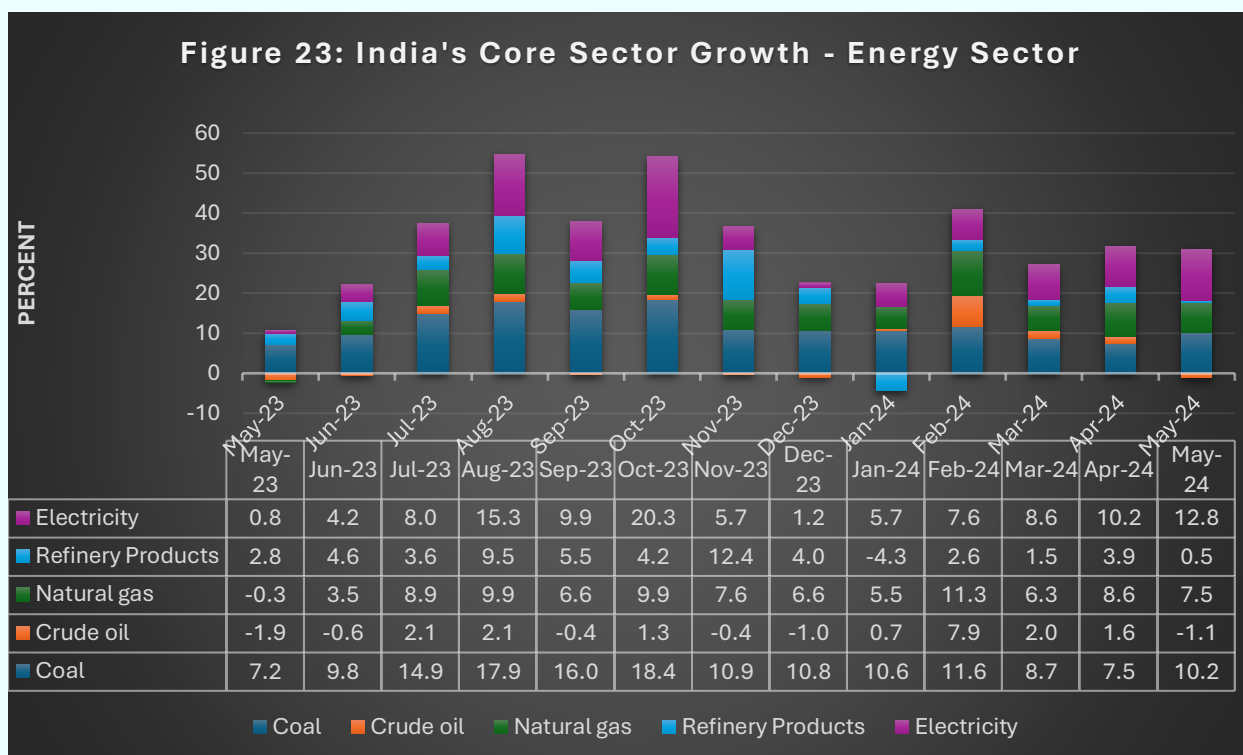
Figure 22 : Overall Core Sector growth



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

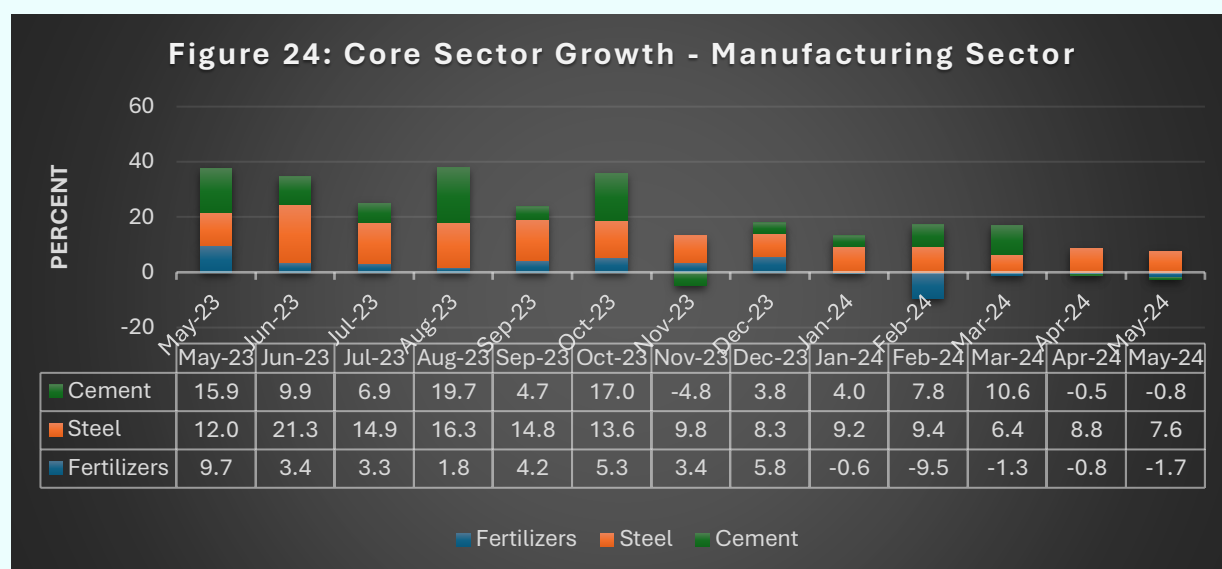
In the energy sector, notable expansions were seen in electricity (12.8%), coal (10.2%), and natural gas (7.5%) (Figure 23). Although electricity and coal showed accelerated growth in May compared to the previous month, natural gas experienced a deceleration. Refinery products saw growth slow to 0.5%, while crude oil experienced a decline of -1.1%.

Figure 23: India's Core Sector Growth - Energy Sector



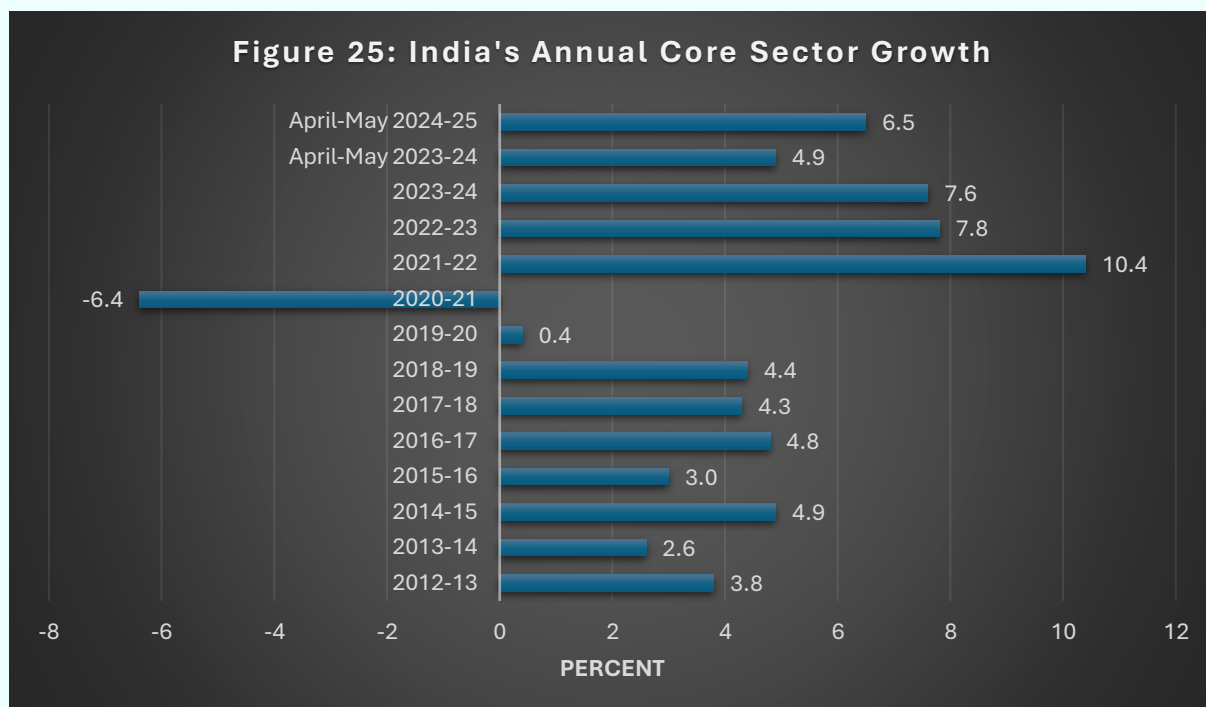
Source: Office of Economic Adviser, DPIIT, Ministry of Commerce & Industry, GoI

In the manufacturing sector, while there was a strong growth of 7.6% in steel output in May, compared to 8.8% in March, the growth in cement output contracted further to -0.8% from 0.5% in the previous month (Figure 24). Fertilizer output contracted (-1.7%) for the fifth consecutive month.



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

Overall, India's core sector grew by 7.6% in FY24, slightly lower than the 7.8% growth recorded in the previous financial year (Figure 25). However, in April-May 2024-25, core sector growth increased to 6.5%, up from 4.9% during the same period in 2023-24.



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

INDIA'S FISCAL OUTLOOK BRIGHTENS WITH HIGHER REVENUE AND RBI DIVIDEND BOOST

The Reserve Bank of India's record dividend transfer led to a fiscal surplus of approximately ₹1.6 trillion in May, which helped narrow the central government's fiscal deficit to ₹0.5 trillion, or 3% of the full-year estimate for the first two months of 2024-25, according to data from the Controller General of Accounts. This is a significant improvement from the 11.8% fiscal deficit of budget estimates during the same period last year. Higher tax revenue and the RBI dividend transfer boosted revenue receipts to 19% of the budgeted estimates for April-May FY25, compared to around 15% in the same period last year.

The increased revenue from non-tax and tax receipts provides room for boosting expenditure and accelerating fiscal consolidation. In FY24, the fiscal deficit was ₹16.54 trillion, below the budgetary target of ₹17.86 trillion, containing the fiscal deficit at 5.6% of GDP, compared to the revised estimate of 5.8%. Capital expenditure for April-May was 12.9% of the budget estimate, down from 16.8% in the previous year, partly due to general elections impacting government spending.

The windfall from the RBI dividend is expected to offer an additional leeway of ₹1 trillion for increased expenditures or sharper fiscal consolidation. The government aims for a fiscal deficit target of 5.1% of GDP, or ₹16.85 trillion, for FY25, aiming to reduce the deficit to 4.5% of GDP by FY26. S&P Global ratings will monitor India's fiscal consolidation path over the next two years and may consider a ratings upgrade if the government adheres to its fiscal targets.

Table 2

Amount in ₹trillion			
	BE FY24	Up to May 2024	% of BE FY25
Revenue receipts	30.01	5.7	19
Non-debt capital receipts	0.79	0.02	2.6
Revenue expenditure	36.54	4.79	13.1
Capital expenditure	11.11	1.43	12.9
Fiscal deficit	16.85	0.5	3

Source: Controller General of Accounts

INDIA'S CURRENT ACCOUNT SURPLUS HIGHLIGHTS BOP IMPROVEMENTS IN Q4 2023-24

India's current account recorded its first surplus in four years in Q4 FY24, with a surplus of \$5.7 billion (0.6% of GDP) compared to a deficit of \$8.7 billion (1% of GDP) in the previous quarter. The improvement was driven by higher services exports and a lower merchandise trade deficit. For FY24, the current account deficit (CAD) moderated to \$23.2 billion (0.7% of GDP) from \$67 billion (2% of GDP) in FY23, marking the lowest CAD since FY17, excluding the pandemic-impacted FY21. This was largely due to a services trade surplus and strong remittances. Services exports grew by 4.1% in Q4 FY24, led by software, travel, and business services, with net services receipts rising to \$42.7 billion. Experts anticipate a slight increase in CAD to 1-1.2% of GDP in FY25 due to domestic demand and higher commodity prices but

expect it to remain manageable. Despite a decline in the overall trade deficit for FY24, the merchandise trade deficit is widening again due to a surge in imports and slowing global growth. Foreign portfolio investment saw a net inflow of \$44.1 billion in FY24, while net foreign direct investment fell to \$9.8 billion. The widening gap between real and nominal effective exchange rates since FY21 has also impacted India's export competitiveness.

Highlights

- Current Account Balance: Surplus of \$5.7 billion (0.6% of GDP), improving from a deficit of \$8.7 billion (1.0% of GDP) in Q3:2023-24 and a surplus of \$1.3 billion (0.2% of GDP) in Q4:2022-23.
 - Merchandise Trade Deficit: Reduced to \$50.9 billion from \$52.6 billion a year ago.
 - Services Exports: Grew by 4.1% y-o-y, driven by software, travel, and business services. Net services receipts rose to \$42.7 billion from \$39.1 billion a year ago.
 - Primary Income Account: Net outgo increased to \$14.8 billion from \$12.6 billion a year ago.
 - Private Transfer Receipts: Increased by 11.9% to \$32.0 billion, mainly from remittances by Indians abroad.
 - Foreign Direct Investment: Net flows were \$2.0 billion, down from \$6.4 billion a year ago.
 - Foreign Portfolio Investment: Net inflow of \$11.4 billion, compared to a net outflow of \$1.7 billion in Q4:2022-23.
 - External Commercial Borrowings: Net inflows rose to \$2.6 billion from \$1.7 billion a year ago.
 - Non-resident Deposits: Net inflow increased to \$5.4 billion from \$3.6 billion in Q4:2022-23.
 - Foreign Exchange Reserves: Accretion of \$30.8 billion, up from \$5.6 billion a year ago, on a BoP basis (excluding valuation effects).
-

BoP during 2023-24:

- Current Account Deficit: Decreased to \$23.2 billion (0.7% of GDP) from \$67.0 billion (2.0% of GDP) in the previous year, driven by a lower merchandise trade deficit.
 - Net Invisibles Receipt: Increased, mainly due to higher receipts from services and transfers.
 - Portfolio Investment: Recorded a net inflow of \$44.1 billion, reversing from a net outflow of \$5.2 billion the previous year.
 - Net FDI Inflow: Decreased to \$9.8 billion from \$28.0 billion in 2022-23.
 - Foreign Exchange Reserves: Increased by \$63.7 billion on a BoP basis.
-

IN FOCUS

RBI MONETARY POLICY

“In the recent years, the world has gone through one crisis after another; and the pattern continues. Even against this backdrop, the Indian economy exhibits strong fundamentals, together with financial stability and positive growth momentum. Nevertheless, we need to remain vigilant in an unsettled global environment. The new realities brought about by technological advancements; supply chain realignments; trade and financial fragmentation; and climate change pose opportunities as well as challenges. In this milieu, India looks ready to embark upon a new era of transformation aided by a favourable demography, improving productivity and technology, and a conducive policy environment. The confluence of these factors brightens the prospects of sustained high growth in India in the years ahead.” – Mr. Shaktikanta Das, Governor, Reserve Bank of India¹

Based on an evaluation of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) of the RBI decided during its meeting on June 7, 2024, to:

- Maintain the policy repo rate under the liquidity adjustment facility (LAF) at 6.50%. Consequently, the standing deposit facility (SDF) rate remains at 6.25%, and the marginal standing facility (MSF) rate and the Bank Rate remain at 6.75%.
- Continue focusing on the withdrawal of accommodation to ensure inflation gradually aligns with the target, while also supporting growth.

These decisions align with the objective of achieving a medium-term consumer price index (CPI) inflation target of 4%, within a tolerance band of +/- 2%, while supporting growth.

¹ Governor’s Statement is available at:

<https://website.rbi.org.in/documents/87730/39710918/PR452202425.pdf>

Dr. Shashanka Bhide, Dr. Rajiv Ranjan, Dr. Michael Debabrata Patra, and Mr. Shaktikanta Das voted in favour of maintaining the policy repo rate at 6.50%. Conversely, Dr. Ashima Goyal and Prof. Jayanth R. Varma voted to decrease the policy repo rate by 25 basis points.

Dr. Shashanka Bhide, Dr. Rajiv Ranjan, Dr. Michael Debabrata Patra, and Mr. Shaktikanta Das voted to maintain the focus on withdrawing accommodation to ensure inflation gradually aligns with the target while supporting growth. Dr. Ashima Goyal and Prof. Jayanth R. Varma voted to shift to a neutral stance.

Assessment and Outlook

Global economic activity is rebalancing and is expected to grow steadily in 2024. Inflation is moderating unevenly, with services inflation remaining high, slowing progress towards targets. Uncertainty about central banks' policy changes is causing financial market volatility. Equity markets have reached new highs in both advanced and emerging economies. Non-energy commodity prices have risen, while the US dollar and bond yields are fluctuating, impacting emerging market currencies. Gold prices have surged to record highs due to safe haven demand.

According to provisional estimates by the National Statistical Office (NSO) released on May 31, 2024, real GDP growth in Q4 2023-24 was 7.8%, down from 8.6% in Q3. Real GDP growth for 2023-24 was 8.2%. On the supply side, real gross value added (GVA) rose by 6.3% in Q4 2023-24 and recorded a growth of 7.2% for 2023-24.

Looking ahead, high-frequency indicators of domestic activity show resilience in 2024-25. An above-normal southwest monsoon is expected, benefiting agriculture and rural demand. Sustained momentum in manufacturing and services should boost private consumption. Investment activity is likely to remain strong due to high capacity utilization, healthy balance sheets of banks and corporates, continued government infrastructure spending, and positive business sentiments. Improved world trade prospects could support external demand. However, geopolitical tensions, volatility in international commodity prices, and geoeconomic fragmentation pose risks. Considering these factors, real GDP growth for 2024-25 is projected at 7.2%,

with quarterly growth rates of 7.3% for Q1, 7.2% for Q2, 7.3% for Q3, and 7.2% for Q4. The risks are evenly balanced.

Headline inflation has moderated slightly from 5.1% in February to 4.8% in April 2024, but food inflation remains high due to persistent pressures in vegetables, pulses, cereals, and spices. Fuel price deflation deepened in March-April due to cuts in liquified petroleum gas (LPG) prices. Core inflation (CPI excluding food and fuel) eased to 3.2% in April, the lowest in the current CPI series, with core services inflation also at historic lows.

Looking ahead, overlapping shocks from adverse climate events create considerable uncertainty for the food inflation trajectory. Market arrivals of key rabi crops, especially pulses and vegetables, need close monitoring due to recent price spikes. A normal monsoon could ease food inflation pressures throughout the year. Input costs are starting to rise, and early results from enterprises surveyed by the Reserve Bank indicate that selling prices are expected to remain firm. Volatility in crude oil prices and financial markets, along with rising non-energy commodity prices, pose upside risks to inflation. Considering these factors, CPI inflation for 2024-25 is projected at 4.5%, with quarterly projections of 4.9% for Q1, 3.8% for Q2, 4.6% for Q3, and 4.5% for Q4. The risks are evenly balanced.

The MPC observed that the balance between domestic growth and inflation has improved since its last meeting in April 2024. Economic activity remains robust, driven by strong domestic demand. Investment demand is gaining momentum, and private consumption is showing signs of recovery. While headline inflation is gradually decreasing, mainly due to a softening of its core component, the path to lower inflation is disrupted by volatile and high food prices caused by adverse weather events. Inflation is expected to temporarily dip below the target in Q2 2024-25 due to a favourable base effect, but it is likely to rise again afterward.

To achieve a lasting reduction in inflation and anchor it, monetary policy must remain vigilant regarding the spillover effects of food prices on core inflation and inflation expectations. The MPC is committed to aligning inflation with the 4 percent target on a sustainable basis. Therefore, the MPC decided to keep the policy repo rate

unchanged at 6.50 percent at this meeting. The MPC has emphasized the need to maintain a disinflationary stance until headline CPI inflation aligns durably with the target. Sustained price stability will create a strong foundation for a prolonged period of high growth. Consequently, the MPC will continue focusing on withdrawing accommodation to ensure that inflation progressively aligns with the target while supporting growth.

The full Monetary Policy Statement is available at:

<https://website.rbi.org.in/documents/87730/39710918/PR453202425.pdf>

MINUTES OF THE MPC MEETING

Summary of Statements by MPC members:

Dr. Shashanka Bhide: In his statement during the MPC meeting, Dr. Shashanka Bhide highlighted the robust macroeconomic environment marked by high GDP growth and moderating inflation for the fiscal year 2023-24. Key points include:

Economic Growth:

- Real GDP growth for 2023-24 is estimated at 8.2%, up from 7% in 2022-23 and 9.7% in 2021-22.
- Growth has remained strong despite fluctuations in macro estimates due to external and domestic factors.
- Investment demand, reflected in a 9% growth in real gross fixed capital formation, increased from 6.6% in 2022-23.

Inflation:

- Headline inflation for 2023-24 is at 5.4%, and 5% for Q4 2023-24.
- Food inflation remains a concern, with figures above 7.5% in Q4 2023-24 and 7.9% in April 2024.

3. Sectoral Performance:

- Agriculture and allied activities growth dropped to 1.4% from 4.7% in 2022-23.
-

- Industry GVA rose to 9.3% from -0.6% in 2022-23, driven by manufacturing.
- Services sector GVA growth slowed to 7.9% from 9.9% in the previous year.

Future Prospects:

- Indicators such as PMI, non-food bank credit, and GST collections suggest continued growth momentum into 2024-25.
- Global economic conditions are expected to improve, with IMF projecting a 3.2% growth in world output and 3% growth in world trade volume in 2024.

Risks and Recommendations:

- Risks include geopolitical conflicts, trade policies, and extreme weather affecting agriculture.
- For 2024-25, GDP growth is projected at 7.2%, with quarterly growth rates ranging from 7.2% to 7.3%.
- CPI inflation for 2024-25 is projected at 4.5%, with moderate inflation necessary for sustained growth.

Policy Stance:

- Dr. Bhide supports maintaining the policy repo rate at 6.50%.
- Focus remains on withdrawing accommodation to ensure inflation aligns with the target while supporting growth.

Overall, the statement underscores the need for vigilant monitoring of inflation, particularly food prices, and continued efforts to sustain economic growth amid global and domestic challenges.

Dr. Ashima Goyal: In her statement during the MPC meeting, Dr. Ashima Goyal emphasized the following points:

Economic Growth and Inflation:

- Indian growth has surpassed expectations, driven by near-neutral real policy rates and supply-side actions.
- Headline inflation has remained around 5% since January 2024, with core inflation below 4% since December 2023, approaching the target despite global uncertainties and supply shocks.

Real Policy Rates:

- The neutral real policy rate (NIR) is around 1% in India due to high unemployment and a transition to higher productivity jobs.
- With a projected headline inflation of 4.5% for 2024-25, the average real repo rate will be 2%, which is above neutral and could hinder growth.
- Dr Goyal argues for reducing real policy rates as inflation approaches the target to support potential growth without sacrificing economic stability.

Monetary Policy Stance:

- Dr Goyal advocates for cutting the repo rate by 25 basis points and shifting to a neutral stance to align with falling inflation.
- She argues against the need for higher real policy rates given the current inflation and economic conditions, suggesting that past experiences and the current supply-side responses have effectively controlled inflation without significant growth sacrifices.

Arguments Against Status Quo:

- Dr Goyal refutes concerns over recurrent supply shocks and emphasizes the reduced impact of global uncertainties on inflation expectations.
 - She highlights that growth remains below potential and may slow further, necessitating lower repo rates to boost consumption, investment, and employment.
 - She addresses concerns about high personal credit growth, suggesting that prudent regulation can manage leverage without restrictive monetary policy.
-

Global Context and Communication:

- Dr Goyal points out that other central banks are cutting rates and that India's inflation differential with the US is narrowing, making US interest rates less relevant to India's policy decisions.
- She advocates clear communication that aligns the repo rate with inflation, maintaining a neutral stance to allow flexibility in future rate adjustments.

Dr. Goyal supports a 25 basis points repo rate cut and a shift to a neutral policy stance to sustain growth and bring inflation closer to the target without overly restrictive monetary policy.

Prof. Jayanth R. Varma: Prof. Jayanth Varma expressed concern about the prolonged restrictive monetary policy, fearing it would result in significant growth sacrifices not only for 2024-25 but also for 2025-26. He noted that professional forecasters expect growth in both years to be significantly lower than in 2023-24 and below the potential growth rate of around 8%, attributing this slowdown to the high real policy rate. Given that headline inflation is only slightly above target and core inflation remains low, he argued that the current real policy rate of about 2% is excessive. Consequently, he voted for a 25 basis points cut in the repo rate and a shift to a neutral policy stance to better align with the inflation target and support growth.

Dr. Rajiv Ranjan: Dr. Rajiv Ranjan emphasized the importance of the three Cs—Caution, Consistency, and Credibility—in guiding monetary policy during the current transition phase. He noted that growth remains strong and has exceeded expectations, while core inflation has softened, though food inflation risks persist. The growth projection for 2024-25 has been revised upward due to strong momentum, improving rural demand, and a turnaround in external demand.

On inflation, while headline and core inflation have moderated, near-term risks remain, primarily due to food prices. The disinflation process is expected to continue gradually, with headline inflation projected to reach 4.5% by Q4:2025-26, contingent on a normal monsoon and adequate reservoir recharge.

Dr. Ranjan cautioned against policy misjudgement, stressing the importance of staying vigilant to prevent food price shocks from spilling over into core inflation. He argued against changing the policy rate prematurely, emphasizing that the current macroeconomic environment supports maintaining the status quo. He also highlighted that monetary policy should prioritize long-term price stability over short-term growth support, as stable prices contribute to sustainable growth. Consequently, he voted to keep the policy rate and stance unchanged.

Dr Michael Debabrata Patra: Dr. Michael Debabrata Patra highlighted that India's economic activity is broadly aligned with baseline projections. A favourable monsoon is expected to counteract the typical slowdown in first-quarter GDP post-pandemic. Domestic demand, particularly bolstered by rural spending and corporate investments in fixed assets, is likely to sustain economic growth. With output balanced in relation to its potential, monetary policy can remain neutral towards growth and continue to focus on aligning inflation with the target.

However, Dr. Patra expressed concern about the slow pace of disinflation, especially compared to other countries. Persistent food price shocks are a significant barrier to faster disinflation and pose a risk of spilling over into other inflation components and expectations. These recurring shocks necessitate a heightened monetary policy vigil. Given the anticipated temporary softening of inflation in July-August 2024 and the expected uptick from September, he argued against any change in the monetary policy stance. Consequently, he voted to keep the policy rate and the stance of withdrawal of accommodation unchanged.

Mr. Shaktikanta Das, Governor RBI, emphasized the resilience of the global economy, although it is growing at a slower rate than its historical trend. Inflation is easing unevenly across major economies, and the importance of domestic factors in policymaking has led to divergent monetary policy actions across countries.

In India, the economy has been growing robustly, averaging 8.3% over the last three years, with an impressive 8.2% growth in 2023-24 driven by domestic demand, particularly investment, and supported by manufacturing and services sectors. The

growth outlook for 2024-25 remains positive, with an expected above-normal south-west monsoon boosting agricultural activity and rural consumption.

Inflation is projected to moderate to an average of 4.5% in 2024-25. However, immediate concerns include the impact of exceptionally warm summer months on certain perishables, potential shortfalls in rabi production of pulses and vegetables, and upward revisions in milk prices. These factors warrant close monitoring, though a normal monsoon could ease price pressures in key food items.

The disinflationary stance of monetary policy since early 2022-23 has effectively reduced inflation from elevated levels, broken core inflation persistence, and prevented unanchored inflation expectations, achieved with minimal output sacrifice as growth remains strong. Given the favourable growth-inflation balance and the persistence of high food inflation, Mr. Das advocated for maintaining the disinflationary policy stance to ensure inflation aligns durably with the 4.0% target, which is crucial for sustainable growth. He voted to keep the policy repo rate unchanged at 6.5% and to continue with the stance of withdrawal of accommodation.

RBI's STATEMENT ON DEVELOPMENTAL AND REGULATORY POLICIES

This Statement sets out various developmental and regulatory policy measures relating to (i) Regulations; and (ii) Payment Systems and FinTech.

I. Regulations

1. Review of limit of Bulk Deposits for Scheduled Commercial Banks (excluding RRBs), Small Finance Banks and Local Area Banks

Banks can offer different interest rates on bulk deposits based on their needs and Asset-Liability Management (ALM) projections. In 2019, the bulk deposit limit for Scheduled Commercial Banks (SCBs), excluding Regional Rural Banks (RRBs), and Small Finance Banks (SFBs) was set at ₹2 crore and above. It is now proposed to revise this limit to ₹3 crore and above for SCBs (excluding RRBs) and SFBs. Additionally, the bulk deposit limit for Local Area Banks will be defined as ₹1 crore and above, similar to the limit for RRBs.

2. Rationalisation of Export and Import regulations under Foreign Exchange Management Act (FEMA), 1999

To provide greater operational flexibility to Authorized Dealer banks and align with the progressive liberalization under FEMA 1999, the Reserve Bank has decided to streamline existing guidelines on the export and import of goods and services. This rationalization aims to simplify operational procedures and promote ease of doing business in line with the evolving dynamics of global cross-border trade.

II. Payment Systems and Fintech

3. Setting up a Digital Payments Intelligence Platform

The RBI has implemented various measures over the years to ensure the safety and security of digital payments, aiming to maintain public confidence. To further minimize fraud, which often involves deceiving victims into making payments or sharing credentials, the Bank recognizes the need for network-level intelligence and real-time data sharing across payment systems. Consequently, it proposes establishing a Digital Payments Intelligence Platform that leverages advanced technologies to mitigate fraud risks. To advance this initiative, a committee chaired by Mr. A.P. Hota, former MD & CEO of NPCI, has been formed to explore the development of this digital public infrastructure. The committee will provide its recommendations within two months.

4. Inclusion of recurring payments for Fastag, National Common Mobility Card (NCMC), etc. with auto-replenishment facility under the e-mandate framework

i. The RBI's current e-Mandate framework, established on January 10, 2020, facilitates recurring payments with fixed periodicity (daily, weekly, monthly, etc.). The RBI now proposes expanding this framework to include payments like Fastag and NCMC replenishments, which are recurring but lack a fixed periodicity. These payments are made on an as-needed basis, making their replenishment time and amount non-specific. The proposed enhancement introduces an automatic replenishment feature under the e-mandate framework. This feature triggers

replenishment when the Fastag or NCMC balance drops below a customer-set threshold amount.

ii. The current e-mandate framework requires a pre-debit notification at least a 24-hours before the actual debit from customer's account. It is proposed to exempt this requirement for payments made from customer's account for automatic replenishment of balances in Fastag, NCMC, etc. under the e-mandate framework.

5. Introducing auto-replenishment of UPI Lite wallet - Inclusion under the e-mandate framework

The UPI Lite facility currently allows customers to load up to ₹2000 into their UPI Lite wallet and make payments up to ₹500 from it. To enhance user experience and based on stakeholder feedback, an auto-replenishment feature will be introduced, allowing automatic loading of the wallet when the balance falls below a user-defined threshold. As the funds are transferred from the customer's account to the wallet, additional authentication or pre-debit notification will not be required. Guidelines for this proposal will be issued soon.

6. RBI Hackathon HARBINGER 2024 – Innovation for Transformation

RBI has been continuously working towards ensuring trust, safety, security and inclusivity in the financial system focusing on inclusive access and minimisation of frauds. Technology has opened up effective possibilities of identifying and preventing financial frauds as well as widening the reach of financial services, thereby ensuring equitable access to financial products and services. The Bank has been encouraging innovation in identified focus areas through its annual Hackathons. The third edition of our global hackathon, “HaRBInger 2024 – Innovation for Transformation” will be launched with two overarching themes viz., ‘Zero Financial Frauds’ and ‘Being Divyang Friendly’. Solutions aimed at enhancing safety and security of digital transactions with focus on detecting, preventing and combating financial frauds, as also prioritising inclusivity for persons with physical disabilities, will be invited as part of HaRBInger 2024.

The Statement on Developmental and regulatory policies is available at:
<https://shorturl.at/U3LwK>

SPOTLIGHT

RBI's FINANCIAL STABILITY REPORT JUNE 2024

The Financial Stability Report (FSR) is a semi-annual publication contributed by all financial sector regulators, providing the Sub Committee of the Financial Stability and Development Council's collective assessment of current and emerging risks to the stability of India's financial system.

Overview

Global Macrofinancial Risks:

The global economy and financial system are showing resilience amid significant risks and uncertainties. Although short-term prospects are improving, challenges such as incomplete disinflation, high public debt, overvalued assets, economic fragmentation, geopolitical tensions, climate disasters, and cyber threats present substantial downside risks. Emerging market economies (EMEs) remain susceptible to external shocks and spillovers.

Domestic Macrofinancial Risks:

India's economic growth is supported by strong macroeconomic fundamentals and a stable financial system. Factors such as moderating inflation, a strong external position, and ongoing fiscal consolidation are boosting business and consumer confidence. The financial health of domestic institutions is solid, characterized by strong balance sheets, high capital buffers, improving asset quality, adequate provisioning, and robust earnings.

Financial Institutions: Soundness and Resilience:

Scheduled Commercial Banks (SCBs):

- Increased profitability and reduced non-performing assets (NPAs).
- Return on assets (RoA) at 1.3% and return on equity (RoE) at 13.8%. Gross NPAs (GNPA) at 2.8% and net NPAs (NNPA) at 0.6%.
- Strong capital buffers with capital to risk-weighted assets ratio (CRAR) at 16.8% and common equity tier 1 (CET1) ratio at 13.9%, both above regulatory minimums.
- Stress tests indicate SCBs have adequate capital even under adverse conditions.

Urban Co-operative Banks (UCBs):

- CRAR increased to 17.5% in March 2024.

Non-Banking Financial Companies (NBFCs):

- Slight decline in CRAR to 26.6%, still above regulatory minimum.

Insurance Sector:

- Solvency ratio remains above the 150% minimum threshold.

Other Financial Sectors:

- Stress tests on mutual funds and clearing corporations confirm their resilience. Network analysis shows increasing bilateral exposures among financial institutions, with SCBs holding the largest share.

Regulatory Initiatives and Other Developments:

Global Efforts: Focus on maintaining financial stability, consistent application of global standards, and addressing risks from non-banking financial institutions and digital finance. Initiatives also aim to improve climate-related risk assessments and strengthen defences against cyber risks.

Domestic Efforts: Aim to enhance the safety and resilience of the financial system. Regulations are proportional, leveraging technology to improve customer service, governance, risk management, and efficiency while limiting procyclical activities.

Assessment of Systemic Risk:

Systemic Risk Survey (SRS): Conducted in May 2024, it categorized all major domestic financial stability risks as 'medium'.

Optimism: Respondents showed optimism about the domestic financial system's soundness, with reduced global spillover risks and increased confidence in the Indian financial system.

Key Near-Term Risks: Identified as geopolitical tensions, tightening global financial conditions, and capital outflows.

SOUNDNESS AND RESILIENCE OF SCHEDULED COMMERCIAL BANKS

According to RBI's Financial Stability Report, the Indian banking sector has shown continuous improvement in capital positions, asset quality, and profitability while experiencing strong business growth. Credit growth remains strong, primarily fuelled

by personal loans and lending to the services sector. Term deposit accruals have increased due to better monetary policy transmission. Additionally, the regulatory requirement of higher risk weights for specific loan categories has moderated the growth of those loans.

During 2023-24, deposit mobilization by Scheduled Commercial Banks (SCBs) increased significantly, with many new deposits being term deposits. Banks offered more attractive interest rates to mobilize funds and meet rising credit demand. Growth in current and savings accounts (CASA) accelerated across all bank groups. Bank credit growth accelerated among public sector banks (PSBs) and foreign banks (FBs) but slowed for private sector banks (PVBs). The share of loans to the services sector and personal loans increased, with personal loans making up over half of the credit growth for PVBs. The expansion in personal loans was widespread, led by housing loans, followed by other types of personal loans.

Asset Quality

The asset quality of Scheduled Commercial Banks (SCBs) in India improved significantly, with the Gross Non-Performing Assets (GNPA) ratio reaching a 12-year low in March 2024. The Net Non-Performing Assets (NNPA) ratio also hit a record low. Public sector banks (PSBs) saw a substantial reduction in their GNPA ratio, and both PSBs and foreign banks (FBs) improved their provisioning coverage ratio (PCR) due to active provisioning. The half-yearly slippage ratio, indicating new NPA accretions, decreased across all bank groups. Although write-offs declined, the write-off ratio remained stable due to the reduction in GNPA stock. The continuous improvement in the GNPA ratio since March 2020 is attributed to fewer new NPAs and increased write-offs.

The improvement in asset quality was widespread. The agriculture sector had the highest impairment ratio but showed consistent improvement. The GNPA ratio for personal loans decreased across all bank groups. In the industrial sector, asset quality improved in all major sub-sectors except for the vehicles and transport equipment sector.

During 2023-24, the share of large borrowers in the gross advances of Scheduled Commercial Banks (SCBs) declined. The asset quality of large borrower portfolios improved, reducing their share in the total GNPA of SCBs. Special Mention Account (SMA) loans decreased across all maturity buckets by March 2024. The SMA-2 ratio for large borrowers, which had risen in the first half of 2023-24, declined in the third and fourth quarters. The proportion of standard assets in large borrower accounts continued to increase. The share of the top 100 borrowers in the total funded amount decreased after rising in the previous two years, with only one of these accounts classified as an NPA by the end of March 2024. Investment-grade advances (rated BBB and above) made up 91.3% of the total externally rated funded advances to large borrowers.

Capital Adequacy

During the second half of 2023-24, the Capital to Risk-weighted Assets Ratios (CRARs) of public sector banks (PSBs) increased, while those of private sector banks (PVBs) and foreign banks (FBs) declined. This decline for PVBs and FBs was due to their higher shares of certain loan categories that faced increased risk weights due to regulatory measures. The system-level CRAR decreased by 37 basis points during 2023-24 as the growth in risk-weighted assets (RWA) outpaced the growth in total capital for PVBs and FBs. All bank groups experienced higher growth in RWA during October-December 2023 compared to the previous year due to the revision in risk weights. The common equity tier 1 (CET1) capital ratio neared its record level from March 2023, with its share in total capital increasing. The Tier I leverage ratio remained close to its September 2023 level, as additional Tier I capital accretion matched the incremental total exposure during the second half of 2023-24. Capital ratios are showing a tendency to revert to the mean, though at different speeds.

Earnings and Profitability

During 2023-24, the net interest income (NII) of Scheduled Commercial Banks (SCBs) increased, boosted by a surge in trading income, which enhanced other operating income (OOI). With a reduced need for additional provisions due to a declining stock of NPAs, the profit after tax (PAT) rose by 32.5% year-on-year in

March 2024, despite a significant increase in operating expenses. Private sector banks (PVBs) saw higher PAT growth compared to public sector banks (PSBs) due to a substantial increase in NII and OOI. However, foreign banks (FBs) experienced a decline in OOI, which moderated their PAT despite a steep reduction in provisioning.

The lagged effects of monetary policy rate increases and changes in liquidity conditions led to a nearly 100 basis points rise in the cost of funds, compared to a 75 basis points rise in the yield on assets during 2023-24. Consequently, the net interest margin (NIM) of SCBs shrunk slightly. Nevertheless, the profitability of banks remained high, as reflected in their Return on Equity (RoE) and Return on Assets (RoA) ratios.

Resilience – Macro Stress Tests

Macro stress tests are conducted to evaluate the resilience of Scheduled Commercial Banks' (SCBs) balance sheets to unexpected shocks from the macroeconomic environment. These tests project capital ratios over a one-year horizon under a baseline scenario and two adverse scenarios (medium and severe). The baseline scenario is based on forecasted macroeconomic variables, while the adverse scenarios apply increasing shocks of 0.25 to 2 standard deviations to these variables.

The stress test results show that SCBs are well-capitalized and can absorb macroeconomic shocks without needing further capital infusion. Under the baseline scenario, the aggregate Capital to Risk-weighted Assets Ratio (CRAR) of 46 major banks is projected to decrease from 16.7% in March 2024 to 16.1% by March 2025. In the medium stress scenario, it may drop to 14.4%, and in the severe stress scenario, it could fall to 13.0%, which is still above the minimum capital requirement of 9%. No SCB would breach this minimum requirement over the next year.

The Common Equity Tier 1 (CET1) capital ratio for these 46 banks is expected to decline from 13.8% in March 2024 to 13.4% by March 2025 under the baseline scenario. Even in the severe stress scenario, the CET1 ratio would only decrease by 300 basis points, remaining above the minimum regulatory norm of 5.5%.

The Gross Non-Performing Assets (GNPA) ratio of all SCBs may improve to 2.5% by March 2025 under the baseline scenario. However, under the severe stress scenario, the ratio could rise to 3.4%. For public sector banks (PSBs), the GNPA ratio may increase from 3.7% in March 2024 to 4.1% in March 2025. For private sector banks (PVBs), it may go from 1.8% to 2.8%, and for foreign banks (FBs), from 1.2% to 1.3%.

Sensitivity Analysis

Under macro stress tests, shocks are applied in the form of adverse macroeconomic conditions. In contrast, sensitivity analyses involve applying hypothetical shocks to individual factors, such as GNPA, interest rates, equity prices, and deposits, one at a time.

Macro Stress Tests:

Purpose: Assess resilience of SCBs' balance sheets to macroeconomic shocks.

Scenarios: Baseline and two adverse scenarios (medium and severe) based on macroeconomic variable shocks.

Results:

- SCBs are well-capitalized to absorb shocks without needing further capital infusion.
- CRAR: Projected to slip from 16.7% in March 2024 to 16.1% by March 2025 under the baseline, 14.4% under medium stress, and 13.0% under severe stress.
- CET1 Ratio: Decline from 13.8% to 13.4% under baseline, still above regulatory norms even under severe stress.
- GNPA Ratio: Expected to improve to 2.5% by March 2025 under baseline but could rise to 3.4% under severe stress.

Sensitivity Analyses:

Credit Risk:

- Severe shock (2 SD): GNPA ratio could rise from 2.8% to 7.9%, CRAR could drop to 13.3%, and Tier 1 ratio to 11.2%.
- Six banks may fail to maintain the regulatory minimum CRAR under severe shock.

Credit Concentration Risk:

- Failure of top three individual/group borrowers: No bank would fall below the regulatory minimum CRAR.
- System-level CRAR would decrease by 90-130 bps.

Sectoral Credit Risk:

- Shocks to basic metals and energy sub-sectors would have minimal impact on system-level CRAR.

Interest Rate Risk:

- Parallel upward shift of 250 bps in yield curve: System-level CRAR and CET1 ratio would reduce by 92 and 93 bps, respectively.
- Trading profits increased across all bank cohorts.
- Significant notional losses in the HTM book of SCBs declined.

Equity Price Risk:

- 25%, 35%, and 55% drops in equity prices would reduce system-level CRAR by 23 bps, 32 bps, and 51 bps, respectively.

Liquidity Risk:

- Extreme scenario of 15% uninsured deposit withdrawal and 75% credit line utilization: Liquid assets would decrease from 21.0% to 10.4% of total assets.
 - Majority of banks would need over 30% uninsured deposit run-off to deplete liquid resources completely.
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These stress tests and sensitivity analyses highlight the resilience of SCBs under various hypothetical adverse conditions, ensuring their ability to meet regulatory capital requirements.

Bottom-up Stress Tests: Credit, Market and Liquidity Risk

Bottom-up stress tests (sensitivity analyses) for select banks as of March 2024 confirmed the resilience of banks to various types and magnitudes of shocks. These results align with the top-down stress test assessments. All sample banks would be able to meet the regulatory minimum CRAR under different shock scenarios.

The bottom-up stress test for liquidity risk shows that the liquid asset ratios of all sample banks would remain positive under different shock scenarios, highlighting the adequacy of their high-quality liquid assets (HQLAs) to withstand sudden and unexpected deposit withdrawals. Under scenarios of (i) a 10% deposit run-off in 1-2 days and (ii) a 3% deposit run-off for five consecutive days, the average liquid asset ratios of the select banks would decrease from 23% to 16.3% and 12.6%, respectively.

Bottom-up Stress Tests: Derivatives Portfolio

A series of bottom-up stress tests on derivative portfolios for select banks as of end-March 2024 involved subjecting these portfolios to separate shocks on interest rates and foreign exchange rates. Interest rate shocks ranged from 100 to 250 basis points, while foreign exchange rate shocks assumed a 20% appreciation or depreciation. These stress tests were conducted individually for each shock scenario.

The results indicate that as of March 2024, foreign banks (FBs) generally maintained a significantly negative net mark-to-market (MTM) position relative to their CET1 capital, a trend that has persisted recently. In contrast, the impact on MTM positions for public sector banks (PSBs) and private sector banks (PVBs) was comparatively muted. Overall, the system-wide negative MTM position reached its highest level in the past two years.

The stress test outcomes suggest that the selected banks, on average, could benefit from an increase in interest rates, consistent with recent trends. Regarding exposure to

forex derivatives, banks stand to gain from depreciation of the Indian Rupee (INR), but potential losses from INR appreciation have increased significantly, showing an asymmetric risk profile.

Income from derivatives portfolios includes both realized income and changes in MTM positions. Despite many foreign banks reporting negative MTM positions, income from their derivative portfolios remains a substantial part of their earnings. However, the contribution of derivatives to foreign banks' net operating income (NOI) has been declining, standing at 7.1 percent in March 2024. Conversely, for PSBs, this contribution has been increasing since September 2022 (Chart 2.26).

Based on panel data since March 2017, a study of 13 banks reveals that the impact of interest rates and exchange rates on derivative income is notably stronger than on realized income. Banks generally benefit from interest rate changes but tend to incur losses from exchange rate fluctuations. Additionally, better-capitalized banks tend to take more risks in the derivative market.

RBI's Financial Stability Report June 2024 is available at: <https://shorturl.at/SYoRP>

IN THE NEWS

AGRICULTURE & RURAL ECONOMY

RETAIL GIANTS MUST REPORT PULSE STOCKS TWICE WEEKLY AS INFLATION SURGES

The Indian government has mandated that private retail chains and online grocers like D-Mart, Reliance Retail, BigBasket, Amazon, and Flipkart declare their pulse stocks twice a week to curb rising prices. This directive, initially requiring weekly disclosures from millers, retailers, wholesalers, importers, processors, and stockists, has been updated for big retail chains due to non-compliance issues. Government officials are also verifying stocks at ports and industry hubs. The average retail prices of major pulses have significantly increased year-on-year. Despite the decline in headline inflation, food inflation remains high, with pulses showing substantial inflation. The government is urging all stakeholders to act responsibly and not profit from the situation. Concerns about hoarding and supply manipulation persist, especially with yellow pea imports not affecting chana prices as expected. The market's tight supply is exacerbated by reliance on imports and reduced carryover stocks. The government continues to monitor and enforce measures to stabilize prices.

GOVERNMENT WHEAT STOCKS AT 16-YEAR LOW AS PROCUREMENT MISSES TARGET

For the second consecutive year, the Indian government missed its wheat procurement target, acquiring only 26.6 million tonnes (MT) for the 2024-25 season, which is 28.7% below the 37.3 MT target. The Food Corporation of India (FCI) currently holds wheat stocks at a 16-year low of 30.3 MT, just above the buffer requirement of 27.5 MT. Lower procurement is attributed to farmers in major producing states like Madhya Pradesh selling to private traders for better prices than the government's minimum support price. The Centre is not overly concerned, as the current stock will meet public distribution needs and market intervention requirements. However, wheat procurement was significantly below targets in key states like Madhya Pradesh, Punjab, Haryana, and Uttar Pradesh due to weather disturbances, better open market prices, and procurement inefficiencies. Despite declining stocks, the government does

not plan to alter import duties on wheat, believing current supplies are sufficient to stabilize prices. Wheat retail inflation rose to 6.5% in May, contributing to the overall food inflation rate of 8.69%.

INDIA AIMS TO BOOST WHEAT SUPPLY WITH DUTY CUTS AND STOCK LIMITS

India plans to resume wheat imports by reducing the current 44% import duty and imposing stock limits to control prices and increase supply, according to three officials. The government also aims to start open market operations sales. Although India is the world's second-largest wheat producer, the high import duty imposed six years ago halted wheat shipments. Traders have been urging for relaxed import norms due to low international prices caused by a surplus in Russian production. The government is considering importing 3-4 million tonnes of wheat, ensuring the move is sensitive to farmers' interests. Wheat production for the 2024-25 season is estimated to be similar to last year's 112.9 million tonnes. Reduced import duties may allow international wheat to enter India through major southern ports from July 1.

NEW WHEAT STOCK LIMITS ENFORCED TO ENSURE FOOD SECURITY AND PRICE STABILITY

The Indian government has imposed stock limits on wheat wholesalers, retailers, and processors effective from 24 June to curb hoarding and stabilize prices amid concerns over rising wheat prices and rumours of inadequate supply. The limits are set at 3,000 tonnes for wholesalers, 10 tonnes for retailers and outlets, 3,000 tonnes for big chain retailers across all depots, and 70% of the monthly installed capacity for processors. Food and public distribution secretary Sanjeev Chopra clarified there is no wheat shortage, with production estimated to be on par with last year at 112.9 million tonnes. This measure follows a rise in essential commodity prices and aims to prevent food security issues. The government is not considering lifting the export ban on sugar and wheat and is open to using market tools to maintain price stability. Additionally, stock limits on pulses like tur and chana have led to price reductions, and the government plans to increase sowing areas for tur, urad, and onion to build buffer stocks and moderate prices.

NORTH INDIA'S TEA PRODUCTION DROPS AMID ADVERSE WEATHER, PRICES SURGE

Tea production in North India has declined significantly due to adverse weather conditions, resulting in increased tea prices. However, the price hike has not fully compensated for the higher costs and crop losses faced by the industry. Data from the Calcutta Tea Traders Association (CTTA) show significant price increases for various tea categories at Kolkata auctions compared to the previous year. Despite the price rises, production in Assam and West Bengal has fallen, with projections of a 60 million kg drop by the end of June 2024 compared to the previous year. This has resulted in a zero-sum situation where gains in price are offset by losses in crop, leading to continued financial strain. Export demand has improved, particularly from Iran and Russia, which has helped mitigate some of the industry's challenges.

LABOUR & EMPLOYMENT

EXCESS RICE STOCKS MAY BE UTILIZED FOR MGNREGS AMID RISING RURAL DISTRESS

The Indian government is considering using surplus rice stocks as part-payment for workers under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) to address rising rural distress and swelling granaries. The food department has proposed this idea to the rural development ministry, aiming to use excess rice to pay a portion of MGNREGS wages. The plan comes ahead of upcoming assembly elections and follows measures to curb rice prices, which have led to a surplus of 14 million tonnes of rice, increasing warehousing costs. The proposal suggests giving workers rice instead of cash for some days of work, with the remaining wages paid in cash. This move aims to alleviate rural distress, as indicated by the rise in person-days under MGNREGS and stagnant rural wages despite high food inflation. Other options being explored include distributing rice under the Pradhan Mantri Garib Kalyan Yojana and reducing rice prices under the open market sales scheme.

INTERNATIONAL TRADE

INDIA'S TRADE DEFICIT REACHES SEVEN-MONTH HIGH AMID RISING IMPORTS

India's merchandise trade deficit widened to a seven-month high in May, primarily due to a surge in imports, according to official data released by the commerce ministry on Friday. The deficit reached \$23.78 billion in May, up from \$19.1 billion in April and \$22.53 billion in May 2023. This figure exceeded economists' expectations, with a Reuters poll predicting a deficit of \$19.5 billion for the month.

Merchandise exports rose to \$38.13 billion in May, up from \$34.99 billion in April and \$34.95 billion in May 2023. Imports, however, increased more sharply, reaching \$61.91 billion in May, compared to \$54.09 billion in April and \$57.48 billion in May 2023.

According to the Commerce Secretary Sunil Barthwal, overall exports have grown by double digits, which is significant, and merchandise exports have grown by 9.1% annually. He stated that with inflationary pressures easing in advanced economies, purchasing power is expected to rise in the coming quarters, boosting demand for Indian goods and services.

Despite this positive outlook, Indian exports have been impacted by a slowdown in global growth. The tightening of interest rates due to persistent inflation, particularly in Western economies, has slowed business, investment, and trade. Geopolitical challenges, including conflicts in West Asia, Ukraine, and the Red Sea crisis, have also affected global trade.

According to Ajay Sahai, Director General & CEO of the Federation of Indian Export Organisations, merchandise exports during April exhibited 3% growth, while exports in May 2024 rose 9.1%. This is a remarkable performance given the global headwinds from geopolitical uncertainty, the Red Sea crisis, rising inflation, and high interest rates globally.

There has been a healthy growth in sectors such as apparel (about 10%), handicrafts (21%), and carpets (17.5%), although labour-intensive sectors have struggled with exports for some time. Exports to India's top 10 markets (US, UAE, Netherlands, UK, China, Singapore, Saudi Arabia, Bangladesh, Germany, France) were positive, with many recording healthy double-digit growth, indicating that advanced economies are recovering.

The main drivers of merchandise export growth were petroleum products, engineering goods, electronic goods, drugs and pharmaceuticals, textiles, and plastic and linoleum. Petroleum product exports rose 15.75% annually to \$6.78 billion in May 2024, engineering goods exports increased by 7.39% to \$9.99 billion, electronic goods exports grew by 22.97% to \$2.97 billion, and drugs and pharmaceuticals exports rose by 10.45% to \$2.30 billion.

In addition, services exports in May stood at \$30.16 billion, up from \$29.57 billion in April and \$26.99 billion in May 2023. Services imports rose to \$17.28 billion from \$16.97 billion in April and \$15.88 billion in May 2023. The total trade deficit was \$10.90 billion in May, down from \$11.41 billion a year ago.

CHINA RECLAIMS TOP SPOT AS INDIA'S LARGEST TRADING PARTNER IN FY24

In FY24, China surpassed the US to become India's largest trading partner after a two-year gap. Bilateral trade between India and China grew by 4% to \$118.4 billion, while India-US trade fell by 8.6% to \$118.3 billion. Over the past five years, trade between India and China has increased significantly from around \$80 billion. Despite India's substantial \$36.7 billion trade surplus with the US, it faces a significant trade deficit with China, which reached a record \$85 billion last fiscal year. Imports from China grew by 3.3% to over \$100 billion, even as India's overall imports declined by 5.6%.

China accounts for 10.6% of India's global trade and 15% of its import bill, with machinery and electric appliances making up over half of all Chinese imports. India imported nearly \$54 billion worth of machinery, \$11.5 billion in chemicals, and \$5.7 billion in plastic goods, among other products. Despite efforts to reduce reliance on

Chinese goods by increasing import duties and restricting certain items, India struggles to decouple from China due to the latter's ability to produce a wide range of goods at scale and low prices. This dependency is particularly pronounced in sectors like renewable energy, electronics, and electric vehicles. Production-linked incentive (PLI) schemes aim to boost local production but are expected to yield results only in the medium term.

INDIA-SOUTH KOREA TRADE AGREEMENT SPURS SIGNIFICANT GROWTH IN MANUFACTURED GOODS EXPORTS

India's exports of manufactured goods to South Korea have grown at a faster rate than imports from FY11 to FY24, following the signing of a trade agreement over a decade ago. Manufactured goods exports grew at 6.4% compared to a 4.3% increase in overall exports, according to a Business Standard analysis of CMIE data. This growth surpasses the 4.7% increase in manufactured goods imports over the same period. The Comprehensive Economic Partnership Agreement, effective from January 2010, aimed to reduce trade restrictions. Engineering goods led the rise in exports, growing from \$947.3 million in FY11 to \$2.7 billion in FY24, with a CAGR of 8.4%. Other notable categories include electronics and readymade garments, although they involve lower trade values. Chemicals, related products, and textiles (excluding readymade garments) also saw significant export values.

INDUSTRIAL SECTOR

INDIA'S SHIFT TO CLEANER FUELS AND EVs ACCELERATES AMID STRICTER EMISSION REGULATIONS

India is witnessing a sharp rise in the adoption of cleaner fuels and electric vehicles (EVs) due to stringent automotive emission regulations. As of 2023-24, nearly 19.23% of passenger vehicle sales consist of battery electric vehicles, hybrid EVs, plug-in hybrids, and compressed natural gas (CNG) vehicles, a significant increase from 9.29% in FY22. Conversely, the share of petrol and diesel vehicles has declined. Major automakers like Maruti Suzuki and Tata Motors are expanding their portfolios

to include a mix of petrol, EVs, hybrids, CNG, ethanol, and compressed biogas vehicles. Maruti Suzuki aims for 15-20% of its sales to be EVs by FY31, while Tata Motors, leading the EV market, targets 30% EV penetration by FY30. The Bureau of Energy Efficiency (BEE) is pushing for reduced automotive emissions with the upcoming CAFÉ III standards, which will enforce stricter carbon emission targets starting 2027. Compliance with these standards will necessitate significant advancements in fuel efficiency and emissions reduction, potentially impacting vehicle prices and demand.

ANNUAL SURVEY OF UNINCORPORATED SECTOR ENTERPRISES (ASUSE) FOR 2021-22 AND 2022-23

The Annual Survey of Unincorporated Sector Enterprises (ASUSE) for 2021-22 and 2022-23 highlights the significant role of the unincorporated non-agricultural sector in India's economy. This sector is crucial for employment, GDP contribution, and supporting the incorporated sector.

Impact of COVID-19 on ASUSE 2021-22

- The second wave of the pandemic (April-June 2021) severely affected the survey, resulting in lower estimates of establishments and workers.
- The number of establishments and workers showed gradual improvement from July 2021 onwards.

Key Highlights from ASUSE 2021-22 and 2022-23

Resilient Growth

- **Establishments:** Increased from 5.97 crore in 2021-22 to 6.50 crore in 2022-23, marking a 5.88% annual growth.
- **Other Services Sector:** Grew by 15.12% annually.
- **Manufacturing Establishments:** Increased by 2.22%.
- **Gross Value Added (GVA):** Grew by 9.83% annually.
- **Manufacturing GVA:** Increased by 19.14%.
- **Other Services GVA:** Grew by 18.90%.

Expanding Labour Market

- **Employment:** Rose from 9.8 crore in 2021-22 to 11 crore in 2022-23, showing a 7.84% growth.
 - **Other Services Sector:** Employment grew by 13.42%.
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- **Manufacturing Sector:** Employment increased by 6.34%.
- **Average Annual Earnings for Informal Workers:** Increased from ₹1,06,381 in 2021-22 to ₹1,10,982 in 2022-23.

Improved Productivity

- GVA per Worker: Increased from ₹1,38,207 in 2021-22 to Rs. 1,41,769 in 2022-23.
- Gross Value of Output (GVO) per Establishment: Rose from Rs. 3,98,304 to Rs. 4,63,389.

These results reflect the sector's resilience and its critical role in India's economic recovery and growth post-pandemic.

The Press Note of ASUSE is available at: <https://shorturl.at/bUhip>

INDIA INC

CORPORATE CAPEX SLOWS IN FY24 AMID WEAK DEMAND AND SALES

After significant growth in 2022-23 (FY23), capital expenditure (capex) by India's corporate sector slowed in 2023-24 (FY24). The combined fixed assets of the top 990 listed companies, excluding BFSI and stockbroking firms, grew by only 7.6% year-on-year (Y-o-Y) in FY24, down from 12.2% in the previous year. This deceleration was seen across most key sectors, including oil and gas, and mining and metals companies, which are highly capital-intensive. The combined fixed assets of non-BFSI firms, excluding oil, gas, mining, and metals, grew by 5.4% Y-o-Y in FY24, down from 8.9% in FY23.

Capex growth in FY23 was the highest in nine years, raising hopes for a revival in private-sector investment, which did not materialize in FY24 due to weak economic demand and poor sales growth. The fixed assets of the 990 companies increased to ₹69.7 trillion in FY24 from ₹64.74 trillion in FY23, showing a CAGR of 7.6% over the last five years. However, this growth rate is lower than the 15.7% CAGR during FY09-14. Analysts attribute the capex slowdown to weak demand in manufacturing, low sales growth in FMCG, reduced price realization in chemicals, and lower capacity utilization in cement and the auto sector.

ADANI'S AGGRESSIVE EXPANSION: A ₹1.3 TRILLION INVESTMENT IN INFRASTRUCTURE AND RENEWABLE ENERGY

The Adani Group plans to nearly double its capital expenditure to ₹1.3 trillion in FY25, focusing on infrastructure and green energy. This significant increase from the ₹70,000 crore allocated in FY24 will be funded through a mix of debt, equity, internal accruals, and promoter capital. Major investments include ₹34,000 crore in renewable energy, ₹7,000 crore in ports, ₹4,200 crore in data centres, and additional funds for airports, roads, and energy equipment manufacturing. The group aims to raise \$2.5–3 billion by selling shares in group companies this fiscal. Adani's capital requirement for the next decade is \$100 billion, with 68% secured through its own capital, expected to rise to 88% in FY25. The group is reducing its leverage ratio, which has decreased from 3.3 times in FY23 to 2.2 times in FY24. Adani plans to refinance \$3–4 billion of maturing debt and list Adani Airports Holdings by FY28. The focus for FY25 will be on completing ongoing projects like the Navi Mumbai airport and adding new renewable energy capacity.

ADANI GROUP'S \$3 BILLION INVESTMENT IN PUMPED STORAGE HYDROPOWER TO BOOST INDIA'S CLEAN ENERGY SECTOR

The Adani Group plans to invest ₹25,000–27,500 crore (around \$3 billion) to establish its first pumped storage hydropower (PSH) facility. PSH generates electricity by moving water between reservoirs at different elevations. Adani Green Energy Ltd (AGEL) aims to set up 5GW of PSH capacity within the next five years, eventually increasing this to 25GW, contributing to the group's total green-energy capability of 70GW.

The PSH facilities will be initially set up in Maharashtra, Andhra Pradesh, Tamil Nadu, and Telangana, utilizing existing reservoirs and elevation facilities. This move is part of Adani's strategy to compete in India's growing clean energy sector, alongside major players like Reliance Industries, Tata Group, and others. AGEL's current target for clean energy is raised from 45GW to 50GW by 2030.

Adani Group has 11GW of clean energy operational, alongside 15.25GW of thermal power plants. Funding for the 5GW PSH target will come from issuing new shares and raising debt, with basic construction already started on a 500MW project in Andhra Pradesh.

AGEL generated ₹3,400 crore in free cash flow in fiscal 2024, with significant investments from the Adani family. The group commissioned about 3GW in FY24 and has a \$3.4 billion credit facility from a consortium of banks. India's commitment to net-zero carbon emissions by 2070 boosts the importance of PSH projects. The government has recently approved several PSH projects, and Adani's rivals like Tata Power, NTPC, and JSW have also announced significant PSH plans.

OLA ELECTRIC JOINS GLOBAL LEADERS IN CUTTING-EDGE 4680 BATTERY PRODUCTION

Ola Electric is set to join a select group of electric vehicle (EV) manufacturers by starting the commercial use of the advanced 4680 battery cells, which are currently undergoing trials in Ola's two-wheelers. Designed and manufactured by Ola Electric Mobility, a subsidiary, these cells offer significantly higher energy density and output compared to current 2170 cells, enhancing mileage and range by over 20%. Ola plans to produce 10,000 cells per day at its Tamil Nadu plant, aiming for 5.45 million cells by mid-2025. With approvals for a 20 GWh capacity plant, Ola anticipates needing 4 million cells monthly to support its EV sales. The 4680 technology, pioneered by Tesla, is also being adopted by BMW, General Motors, Stellantis, and Chinese automakers. Ola has filed over 200 patents for this technology and is preparing for a significant IPO.

INFRASTRUCTURE

INDIA TO INVEST ₹15 TRILLION IN INFRASTRUCTURE OVER NEXT TWO YEARS: CRISIL

India's key infrastructure sectors—real estate, renewable energy, and roads—are projected to receive investments totalling approximately ₹15 trillion over the next two financial years, representing a 38% increase compared to the previous two years,

according to CRISIL Ratings. The investment surge will be driven by the need for sustainable infrastructure, enhanced physical connectivity, and increased demand for residential and commercial real estate. Despite strong demand drivers and policy support, key risks remain, such as the slow adoption of storage-linked renewable capacities and challenges in the build-operate-transfer (BOT) toll model for road projects. The government has launched a pipeline of 53 BOT projects worth ₹2.2 trillion to boost private participation and meet highway awarding targets, although past unpopularity of the BOT model due to non-performing assets remains a concern.

INDIA'S HYDROPOWER OUTLOOK: CHALLENGES AMID DRYING RESERVOIRS AND DELAYED MONSOON

Hydropower generation in India is facing challenges amid delayed monsoon rains and depleted reservoir levels. As of late June, live storage in key reservoirs is at 21% of capacity, significantly lower than the previous year, impacting hydropower prospects. In FY24, power generation from hydropower declined by 17.33%, with April seeing a 7.71% year-on-year decrease. The India Meteorological Department forecasts normal monsoon rainfall, suggesting hydropower generation may remain stagnant compared to last year, but could decline if rainfall remains below normal. The situation is compounded by hydro plants yet to fully recover from shutdowns due to adverse weather in previous years. India's large hydro capacity, constituting 10% of total power generation, faces challenges in capacity addition and operational efficiency. Moody's Ratings highlighted increasing water stress in India, projecting a drop in per capita water availability by 2031, potentially disrupting agricultural, industrial, and power sectors reliant on water.

STARTUPS

STARTUP ECOSYSTEM MATURES: FOUNDERS FOCUS ON FUNDAMENTALS OVER GROWTH

Investors observe that startup founders, even at early stages, are now prioritizing core fundamentals like operating models and paths to profitability over mere growth. This shift, described as temporary, is seen as a sign of a maturing ecosystem where long-term value takes precedence. Recent corrections in private markets, prompted by a

pandemic-era funding boom and subsequent overvaluation, have forced startups to recalibrate. According to Bain's report, funding dropped from \$25.7 billion to \$9.6 billion between 2022 and 2023. Investors emphasize sustainable growth and financial health over aggressive expansion. Series B-and-beyond investors now demand more reasonable valuations and clear profitability paths, highlighting a disciplined approach in growth rounds.

BANKING & FINANCIAL SERVICES

SBI'S ₹10,000 CRORE BOND ISSUE TO FUND POWER AND ROAD PROJECTS AMID INFRASTRUCTURE BOOM

State Bank of India (SBI) raised ₹10,000 crore through 15-year infrastructure bonds at a 7.36% coupon rate to fund projects in power and roads sectors. This issuance brings SBI's total outstanding long-term bonds to ₹49,718 crore. The bond issue was oversubscribed by four times the base issue size of ₹5,000 crore, indicating strong investor interest from various funds and corporates. The funds will enhance long-term resources for infrastructure and affordable housing. The raised amount is exempt from regulatory reserve requirements, allowing full deployment in lending operations. SBI's infrastructure loans rose by 5.72% year-on-year to ₹3.94 trillion at the end of March 2024. Investments in infrastructure, renewable energy, and real estate in India are expected to grow by 38% in the financial years 2025 and 2026, driven by initiatives like the National Infrastructure Pipeline (NIP) and the National Monetisation Pipeline (NMP).

PUBLIC SECTOR BANKS TO USE QIPs FOR STAKE REDUCTION TO MEET SEBI'S PUBLIC HOLDING NORMS

Five state-owned banks—UCO Bank, Central Bank of India, Punjab & Sind Bank, Bank of Maharashtra, and Indian Overseas Bank—are planning to sell shares through Qualified Institutional Placements (QIPs) in the second half of FY25 to reduce the government's stake to the market regulator's limit of 75%. With the deadline to raise public shareholding approaching on 1 August, these banks have requested a two-year

extension from the Securities and Exchange Board of India (SEBI). The share sale is expected to be between 5% and 10% of each bank's paid-up equity capital, possibly followed by further sales over the next two years. The government may also dilute a portion of its equity later. The QIP route is preferred for its fewer regulatory obstacles and faster capital raising. Currently, there are no plans for a direct market share sale. The estimated value of government shares to be sold is around ₹64,500 crore at current market prices, with the highest in Indian Overseas Bank and the lowest in Bank of Maharashtra. The banks aim to use the capital raised to improve their capital adequacy ratio, provisioning, lending capacity, and to write off bad debts.

CLSA HIGHLIGHTS ROBUST PROFITABILITY AND ASSET QUALITY IN INDIAN BANKING SECTOR

Indian banks are experiencing their strongest balance sheets in over a decade, with significant improvements in asset quality and provision buffers, according to CLSA. Sector profitability has quadrupled over the past decade and Return on Equity (RoE) is at its highest since FY11, averaging 15%. CLSA predicts better returns for private sector banks, highlighting ICICI Bank and IndusInd Bank as top picks. Factors contributing to the bullish outlook include cleaner balance sheets, record profits, and strong capital positions. The net non-performing loan (NPL) ratio has decreased significantly, and sector profitability has grown at a 16% CAGR over the past ten years. Loan growth has accelerated to 15%, and private sector banks are expected to continue gaining market share. Despite recent stock market lagging, private sector banks are anticipated to yield better returns. Key risks include potential negative impacts on net interest margins from sharp repo rate cuts.

FINANCIAL MARKETS

BSE SENSEX AND NIFTY50 ACHIEVE HISTORIC 79,000 AND 24,000 MILESTONES DRIVEN BY RELIANCE AND PRIVATE BANKS

Indian equity benchmarks reached new peaks on 27 June 2024 fuelled by gains in Reliance Industries and robust foreign portfolio investor (FPI) buying. The BSE Sensex concluded the session at 79,243, up 569 points or 0.7% from its previous close, while the NSE Nifty closed at 24,044, gaining 176 points or 0.7%. This marked the first time the Sensex surpassed the 79,000 level (within two days of achieving 78,000) and the Nifty crossed the 24,000 mark, both indices achieving their 10th record high of the month.

The total market capitalization of BSE-listed companies increased by approximately ₹1.4 trillion to about ₹438 trillion. Strong macroeconomic indicators and FPIs turning net buyers have contributed to the indices' best monthly gains this year. On Thursday, FPIs were net buyers to the tune of ₹7,658 crore, according to provisional exchange data. This activity has made FPIs net buyers for the 2024 calendar year as well.

PERFORMANCE OF BSE SENSEX IN JUNE 2024

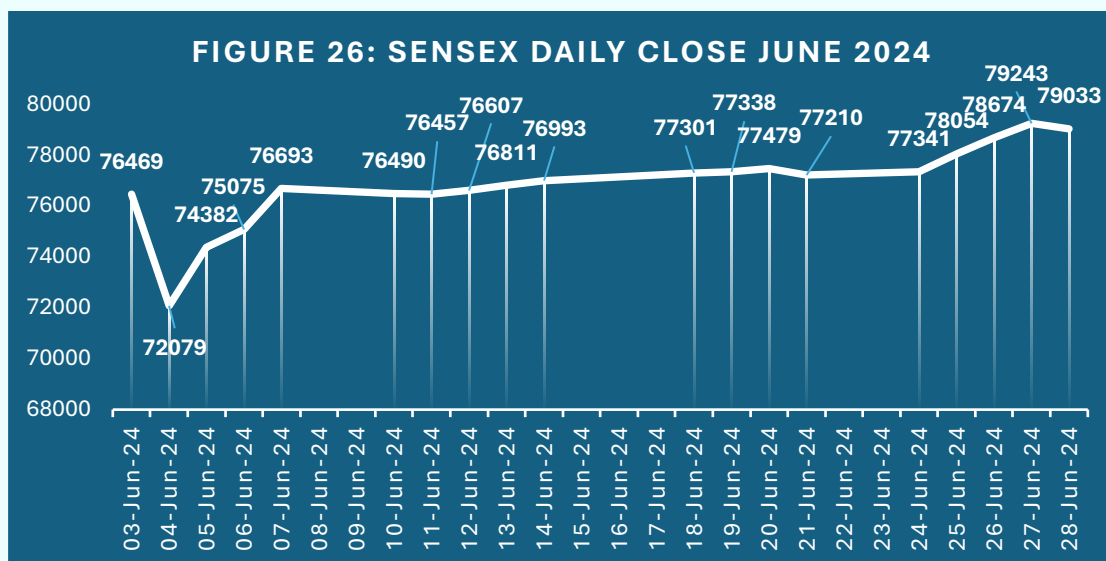
The BSE SENSEX experienced a remarkable performance in June 2024, marked by significant gains and record-setting milestones. Key factors driving this upward trend included robust foreign portfolio investor (FPI) buying, strong macroeconomic indicators, and notable contributions from major sectors and companies.

Key Highlights:

- **Record Highs:** The SENSEX crossed the 79,000 mark for the first time, ending the month with multiple record highs. The index concluded the month at 79,243 points (Figure 26), a notable increase from its previous levels.
- **Monthly Gain:** Over the course of June, the SENSEX gained 7.1%, reflecting strong investor confidence and positive market sentiment.

- **FPI Involvement:** FPIs were net buyers throughout the month, with a net investment of ₹7,658 crore on a single day towards the end of June. This marked a significant shift, making FPIs net buyers for the 2024 calendar year.
- **Sectoral Performance:** The private banking sector played a crucial role in driving the SENSEX's growth. The Nifty Private Bank index saw a 9% increase during June. Other major contributors included technology giants and key industrial firms.
- **Top Performers:** Four stocks—Infosys, Reliance Industries, Tata Consultancy Services, and Ultratech Cements—were pivotal in the SENSEX's rise, accounting for more than half of the gains recorded in June. Reliance Industries, in particular, saw a 7.1% increase during the month, while IT heavyweights benefited from bargain hunting.
- **Market Capitalization:** The overall market capitalization of BSE-listed firms surged by approximately ₹1.4 trillion, reaching about ₹438 trillion. This increase underscores the broad-based growth and the significant value appreciation in the market.

June 2024 was a landmark month for the BSE SENSEX, characterized by robust growth, record highs, and strong investor participation. The positive performance was driven by a combination of favourable economic conditions, strategic FPI investments, and the impressive performance of key sectors and companies. This sets a positive tone for the Indian equity markets as they move forward into the second half of the year.



Source: <https://www.bseindia.com/indices/IndexArchiveData.html>

PERFORMANCE OF NIFTY50 IN JUNE 2024

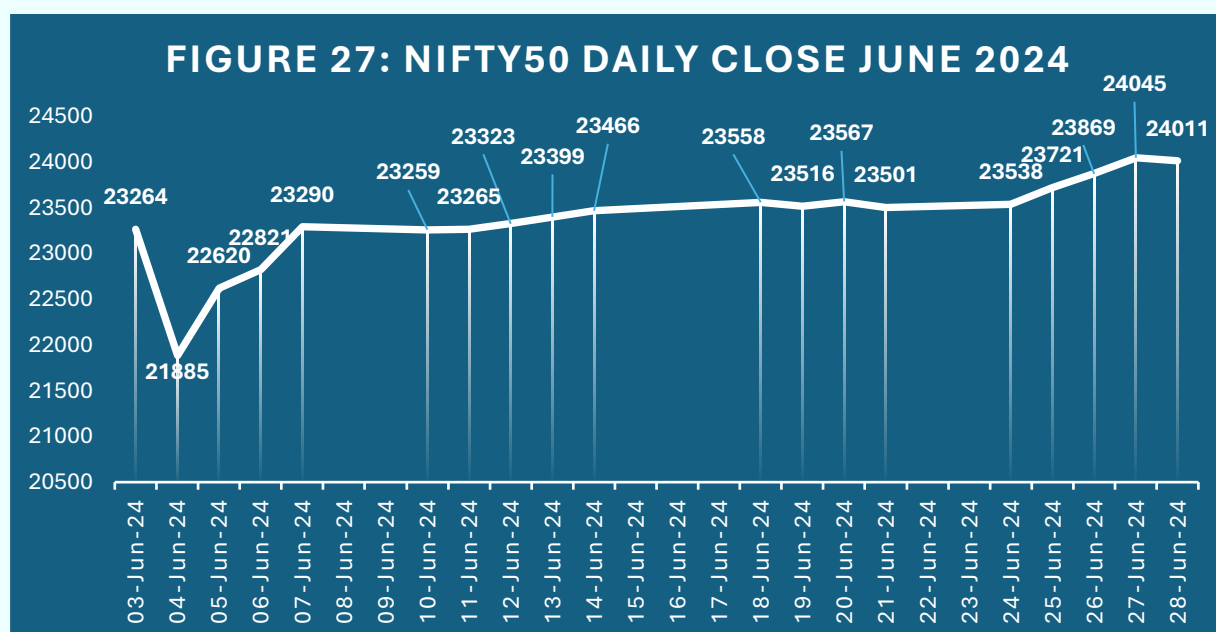
The NIFTY50 index demonstrated outstanding performance in June 2024, achieving new milestones and reflecting strong investor confidence driven by favourable economic indicators and substantial foreign portfolio investor (FPI) activity. Below are the key aspects of its performance:

Key Highlights:

- **Record Highs:** The NIFTY50 crossed the 24,000 mark for the first time in its history, closing the month at 24,044 points (Figure 27). This represented a significant achievement with multiple record highs throughout June.
- **Monthly Gain:** The NIFTY50 posted a robust gain of 6.7% during June, indicative of broad-based market optimism and positive sentiment among investors.
- **FPI Involvement:** Foreign portfolio investors were net buyers in June, significantly boosting the market. On a notable trading day, FPIs invested a net ₹7,658 crore, contributing to their net buyer status for the 2024 calendar year.
- **Sectoral Performance:** Private banks were among the top performers, with the Nifty Private Bank index rising by 9% over the month. This sector's performance was critical to the overall gains of the NIFTY50.

- **Top Contributors:** Major companies such as Infosys, Reliance Industries, Tata Consultancy Services, and Ultratech Cements were key drivers of the index's performance. These four stocks accounted for more than half of the gains seen in June. Reliance Industries, in particular, showed a strong increase of 7.1% during the month.
- **Market Dynamics:** The gains in the NIFTY50 were supported by strong macroeconomic indicators, including robust GDP growth and improved business sentiment. This favourable environment attracted both domestic and international investors.
- **Investor Confidence:** The positive performance of the NIFTY50 was also a reflection of increased investor confidence, buoyed by the gradual easing of economic constraints and a resurgence in key sectors like IT and manufacturing.

June 2024 was a historic month for the NIFTY50, marked by significant gains and unprecedented highs. The index's performance was driven by strong FPI participation, impressive sectoral contributions, and a favourable economic environment. As the NIFTY50 continues to climb, the outlook remains positive, setting a strong foundation for the remainder of the year.



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

INDIA'S SOVEREIGN BONDS IN JPMORGAN INDEX TO ATTRACT \$25 BILLION, LOWER BORROWING COSTS

Fundraising by Indian companies is expected to become cheaper following the inclusion of India's sovereign bonds in the JPMorgan Emerging Markets Index. This inclusion is anticipated to attract \$20 billion to \$25 billion in global flows over the next 10 months, increasing foreign ownership from 2.5% to 4.4%. This influx of foreign investment will allow domestic investors to focus more on broader debt issuances from Indian companies, thereby lowering corporate fundraising costs. The inclusion is also expected to boost overall liquidity and lower borrowing costs by reducing risk premiums. The move highlights India's importance in emerging markets and promotes greater integration and participation of global investors in Indian credit markets. JPMorgan will continue to engage with the central bank and its clients to further encourage investments.

INDIA'S G-SEC YIELDS STEADY AS JPMORGAN INDEX INCLUSION BEGINS

Yields on government securities (G-sec) in India ended flat on Friday, despite India's official inclusion in JPMorgan's Government Bond Index-Emerging Markets (GBI-EM). The benchmark 10-year government bond yield settled at 7%, slightly up from 7.02% earlier in the day. Underwhelming foreign inflows contributed to this stagnation. Foreign banks net-purchased approximately ₹46,954 crore worth of government bonds in June, while foreign portfolio investors bought around ₹15,616 crore under the fully accessible route. JPMorgan's inclusion process, which began in September 2023, will phase in Indian bonds over 10 months, ultimately giving them a 10% weighting. Since the announcement, India's G-sec has seen foreign inflows of \$10.4 billion. Standard Chartered projects monthly inflows of \$2-3 billion as India's index weighting increases.

2024 IPO BOOM: DIVERSE SECTORS TAP MARKET AMID STRONG INVESTOR SUPPORT

The primary market for initial public offerings (IPOs) is experiencing a significant surge, marking the best first half in 17 years. In the first half of the year, 37 companies from diverse sectors have raised nearly ₹32,000 crore, making it the

second-best year in terms of funds raised, only behind 2022. The strong liquidity support from both foreign and domestic investors, coupled with supportive secondary market valuations, has encouraged new issuers to go public. This year's record dealmaking contrasts with previous election years when IPO markets were subdued. Domestic mutual funds have invested over ₹1.85 trillion in domestic stocks, and foreign investors have shown interest when they see value. The financial sector has been a major player, raising ₹7,879 crore. The IPO pipeline remains strong for the second half of the year, with notable companies like Swiggy, Hyundai India, and Ola planning to enter the market.

INDIA EMERGES AS A PRIME MARKET FOR GLOBAL PRIVATE EQUITY GIANTS

Two decades ago, Blackstone Inc. ventured into India, facing early setbacks but eventually achieving significant success by shifting to majority stakes and engaging closely with local entrepreneurs. Today, India stands as Blackstone's third-largest investment market, offering higher returns than any other country. The nation's robust economic growth, talent pool, and regulatory improvements have attracted more private equity (PE) firms, who now prefer majority stakes in promising startups. Despite challenges like complex tax laws and regulatory hurdles, international firms have increased their investments in India fivefold over the past decade. Firms like KKR, Carlyle, and Blackstone have made substantial investments across various sectors, leveraging their global expertise to enhance local businesses. Although India has developed homegrown PE firms, global giants dominate due to their financial power and ability to navigate economic fluctuations. The growing interest in India has driven up valuations, and while China remains Asia's largest PE market, India's share of Asia-Pacific deals has risen, indicating strong growth potential.

SURGE IN MARKET GAINS ADDS 23 FIRMS TO ₹1 TRILLION MCAP CLUB IN 2024

In 2024, 23 new companies entered the ₹1 trillion market capitalization (Mcap) club, bringing the total to 96 companies from 73 at the end of 2023. New entrants include ABB, BPCL, Hero MotoCorp, TVS Motor, and Havells India, while Shree Cement

dropped out. This increase is attributed to strong market gains, with the Nifty index rising 8% in 2024 despite recent election-related turbulence. Domestic investors have been significant net buyers, offsetting outflows from foreign investors. The rise in Public Sector Undertaking (PSU) stocks like BHEL and Canara Bank has been notable, with the BSE PSU index gaining 37.5% year-to-date. Market experts believe the trillion mcap club will continue to grow as the market rally has not yet peaked.

SECTION 2

GLOBAL ECONOMY

GLOBAL MACROECONOMIC TRENDS

WORLD BANK'S GLOBAL ECONOMIC PROSPECTS JUNE 2024

Global Outlook

World Bank's *Global Economic Prospects June 2024* has estimated that global growth would stabilize at 2.6% in 2024 (Table 3), maintaining this rate for the first time in three years despite escalating geopolitical tensions and high interest rates. Growth is forecasted to slightly increase to 2.7% in 2025-26, driven by modest improvements in trade and investment. Global inflation is projected to decrease gradually, averaging 3.5% this year. Given persistent inflation, central banks in advanced and emerging market economies are anticipated to be cautious in easing monetary policy, keeping benchmark interest rates about double the 2000-19 average.

Despite better near-term growth prospects, the outlook remains subdued compared to historical standards for both advanced economies and EMDEs. Global growth over the forecast horizon is expected to be nearly half a percentage point below the average pace of 2010-19. In 2024-25, growth will fall short of the 2010s average in nearly 60% of economies, covering over 80% of the global population and world output. EMDE growth is predicted to slow from 4.2% in 2023 to 4% in both 2024 and 2025. Many vulnerable economies, particularly those facing fragile and conflict-affected situations, will remain poorer than pre-pandemic levels by the end of this year.

Global risks remain skewed to the downside, despite some potential for positive surprises. Escalating geopolitical tensions could cause volatile commodity prices and further disrupt trade networks. Persistent inflation might delay monetary easing, leading to a prolonged period of high interest rates that would dampen global activity. Some major economies might grow more slowly than expected due to domestic challenges. Climate change-related natural disasters could also impede activity. Conversely, faster-than-expected moderation in global inflation could enable quicker monetary easing, and stronger-than-anticipated growth in the United States could provide an upside.

In this context, decisive global and national policy efforts are essential to tackle pressing challenges. Globally, priorities include safeguarding trade, supporting green and digital transitions, delivering debt relief, and enhancing food security. Nationally, EMDEs must focus on price stability in the face of inflation risks. High debt levels and elevated debt-servicing costs require policies to sustainably boost investment while maintaining fiscal sustainability. Structural policies to raise productivity growth, improve public investment efficiency, build human capital, and close gender gaps in the labour market are crucial for meeting development goals and bolstering long-term growth.

Regional Prospects

Growth is expected to slow in most EMDE regions in 2024. The East Asia and Pacific region's slowdown reflects moderating growth in China. Europe and Central Asia, Latin America and the Caribbean, and South Asia are also set to see decelerated growth due to slowdowns in their largest economies. In contrast, growth is projected to improve in the Middle East and North Africa and Sub-Saharan Africa, though less robustly than previously forecasted.

Harnessing the Benefits of Public Investment

Public investment can be a powerful tool for growth in EMDEs, including by encouraging private investment. However, public investment has significantly slowed in these economies over the past decade. In EMDEs with ample fiscal space and a record of efficient government spending, increasing public investment by one percent of GDP can boost output by up to 1.6% over the medium term. Public investment also stimulates private investment and enhances productivity, promoting long-term growth. To maximize the impact, EMDEs should undertake policy reforms to improve public investment efficiency and create fiscal space through revenue and expenditure measures. The global community can support these reforms through financial support and technical assistance, particularly in lower-income developing countries.

Fiscal Challenges in Small States: Weathering Storms, Rebuilding Resilience

The COVID-19 pandemic and subsequent global shocks have worsened fiscal and debt conditions in small states, intensifying their existing fiscal challenges, particularly in managing climate change-related natural disasters. Nearly two-fifths of the 35 EMDE small states are at high risk of debt distress or already experiencing it, about twice the share of other EMDEs. Fiscal deficits in small states have widened post-pandemic due to increased government spending to support households and businesses and weaker revenues.

Comprehensive fiscal reforms are crucial for addressing these challenges. Small states need to stabilize their revenue sources and improve spending efficiency. These changes should be supported by reforms to fiscal frameworks, including better utilization of fiscal rules and sovereign wealth funds. Additionally, the global community can enhance funding for small states to invest in climate resilience and other priorities, providing technical assistance in fiscal policy and debt management.

Table 3
Real GDP

(Percent change from previous year unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
World	6.3	3.0	2.6	2.6	2.7	2.7
Advanced Economies	5.5	2.6	1.5	1.5	1.7	1.8
United States	5.8	1.9	2.5	2.5	1.8	1.8
Euro area	5.9	3.4	0.5	0.7	1.4	1.3
Japan	2.6	1.0	1.9	0.7	1.0	0.9
Emerging market and developing economies	7.3	3.7	4.2	4.0	4.0	3.9
East Asia and Pacific	7.6	3.4	5.1	4.8	4.2	4.1
China	8.4	3.0	5.2	4.8	4.1	4.0
Indonesia	3.7	5.3	5.0	5.0	5.1	5.1
Thailand	1.6	2.5	1.9	2.4	2.8	2.9
Europe and Central Asia	7.2	1.6	3.2	3.0	2.9	2.8
Russian Federation	5.9	-1.2	3.6	2.9	1.4	1.1
Türkiye	11.4	5.5	4.5	3.0	3.6	4.3
Poland	6.9	5.6	0.2	3.0	3.4	3.2

Latin America and the Caribbean	7.2	3.9	2.2	1.8	2.7	2.6
Brazil	4.8	3.0	2.9	2.0	2.2	2.0
Mexico	6.0	3.7	3.2	2.3	2.1	2.0
Argentina	10.7	5.0	-1.6	-3.5	5.0	4.5
Middle East and North Africa	6.2	5.9	1.5	2.8	4.2	3.6
Saudi Arabia	4.3	8.7	-0.9	2.5	5.9	3.2
Iran, Islamic Rep. 2	4.7	3.8	5.0	3.2	2.7	2.4
Egypt, Arab Rep. 2	3.3	6.6	3.8	2.8	4.2	4.6
South Asia	8.6	5.8	6.6	6.2	6.2	6.2
India 2	9.7	7.0	8.2	6.6	6.7	6.8
Bangladesh 2	6.9	7.1	5.8	5.6	5.7	5.9
Pakistan 2	5.8	6.2	-0.2	1.8	2.3	2.7
Sub-Saharan Africa	4.4	3.8	3.0	3.5	3.9	4.0
Nigeria	3.6	3.3	2.9	3.3	3.5	3.7
South Africa	4.7	1.9	0.6	1.2	1.3	1.5
Angola	1.2	3.0	0.9	2.9	2.6	2.4
Real GDP1						
High-income countries	5.5	2.8	1.5	1.6	1.9	1.9
Middle-income countries	7.5	3.5	4.5	4.1	4.0	4.0
Low-income countries	4.1	5.0	3.8	5.0	5.3	5.5
EMDEs excluding China	6.5	4.3	3.4	3.5	4.0	3.9
Commodity-exporting EMDEs	5.8	3.4	2.6	2.8	3.4	3.2
Commodity-importing EMDEs	8.0	3.9	4.9	4.7	4.3	4.3
Commodity-importing EMDEs excluding China	7.3	5.3	4.5	4.4	4.6	4.7
EM7	7.8	3.3	5.1	4.5	4.0	4.0
World (PPP weights) 3	6.6	3.3	3.1	3.1	3.2	3.2
World trade volume 4	11.2	5.6	0.1	2.5	3.4	3.4
Commodity prices 5						
WBG commodity price index	100.9	142.5	108	106	102.1	101.5
Energy index	95.4	152.6	106.9	104	100	99
Oil (US\$ per barrel)	70.4	99.8	82.6	84	79	78.1
Non-energy index	112.1	122.1	110.2	110.1	106.4	106.6

Source: World Bank.

Note: e = estimate (actual data for commodity prices); f = forecast. EM7 = Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Türkiye. WBG = World Bank Group. World

Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date. For the definition of EMDEs, developing countries, commodity exporters, and commodity importers, please refer to table

1.2. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan and República Bolivariana de Venezuela owing to lack of reliable data of adequate quality. Turkmenistan and República Bolivariana de Venezuela are excluded from cross-country macroeconomic aggregates.

1. Headline aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates.

2. GDP growth rates are on a fiscal year (FY) basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. For India and the Islamic Republic of Iran, the column for 2022 refers to FY2022/23. For Bangladesh, the Arab Republic of Egypt, and Pakistan, the column for 2022 refers to FY2021/22. Pakistan's growth rates are based on GDP at factor cost.

3. World growth rates are calculated using average 2010-19 purchasing power parity (PPP) weights, which attribute a greater share of global GDP to emerging market and developing economies (EMDEs) than market exchange rates.

4. World trade volume of goods and nonfactor services.

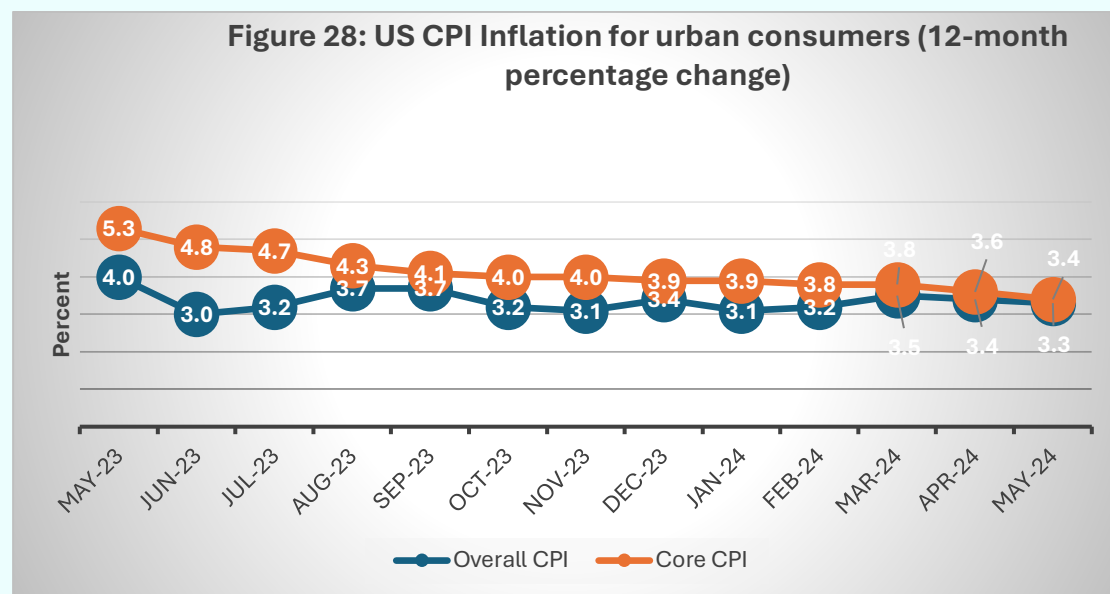
5. Indexes are expressed in nominal U.S. dollars (2010 = 100). Oil refers to the Brent crude oil benchmark. For weights and composition of indexes, see <https://worldbank.org/commodities>.

World Bank's Global Economic Prospects June 2024 is available at:
<https://shorturl.at/Cwimj>

INFLATIONARY TRENDS

US INFLATION EASES IN MAY 2024

The U.S. CPI all-items index rose by 3.3% in May 2024, a slight decrease from the 3.4% increase recorded for the 12 months ending in April (Figure 28). The index excluding food and energy rose by 3.4% over the past year. The energy index increased by 3.7%, while the food index rose by 2.1% during the same period.



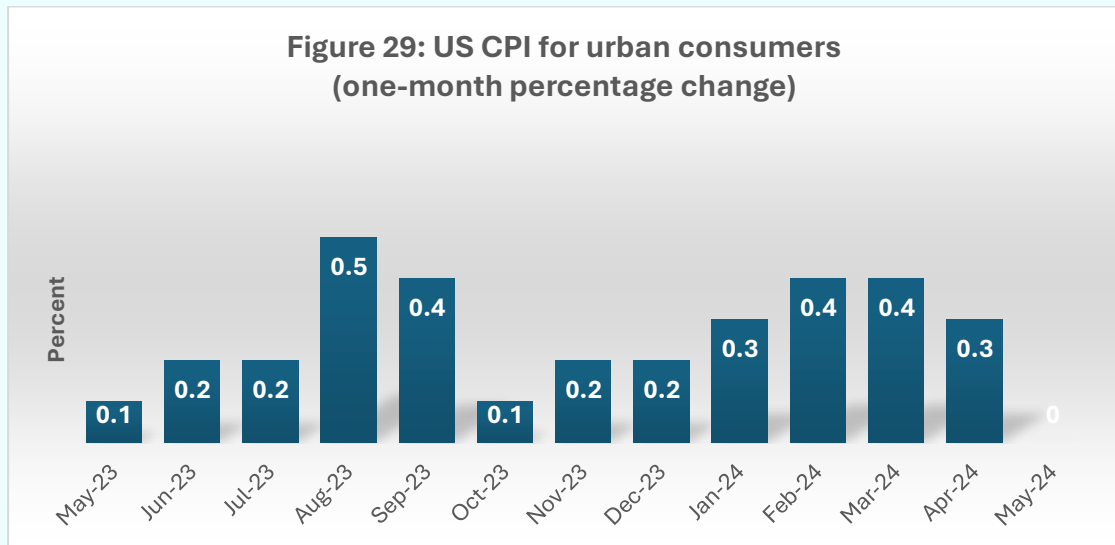
Note: Figures are not seasonally adjusted

Source: US Bureau of Labor Statistics, US Department of Labor

The CPI for All Urban Consumers (CPI-U) remained unchanged in May on a seasonally adjusted basis, following a 0.3% increase in April, as reported by the U.S. Bureau of Labor Statistics (Figure 29).

In May, a decline in gasoline prices was more than offset by a 0.4% increase in the shelter index, marking its fourth consecutive month of growth. The food index rose slightly by 0.1%. Specifically, the index for food away from home increased by 0.4%, while the index for food at home remained unchanged. The energy index saw a 2.0% decline, primarily due to a 3.6% drop in the gasoline index.

Excluding food and energy, the index for all other items increased by 0.2% in May, following a 0.3% rise in the previous month. Indices that saw increases included shelter, medical care, used cars and trucks, and education. Conversely, indices for airline fares, new vehicles, communication, recreation, and apparel experienced decreases.

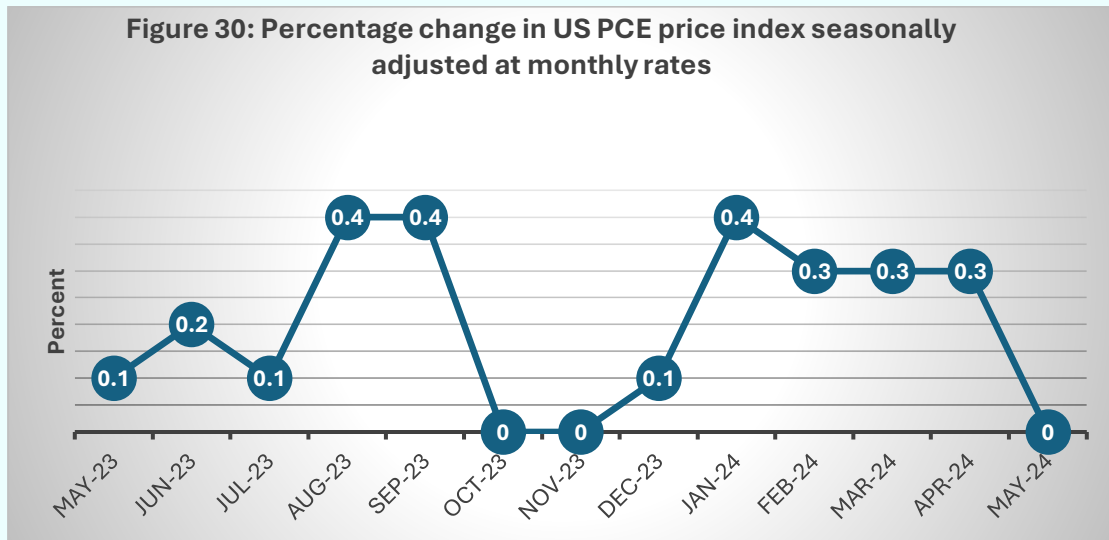


Note: Figures are seasonally adjusted

Source: US Bureau of Labor Statistics, US Department of Labor

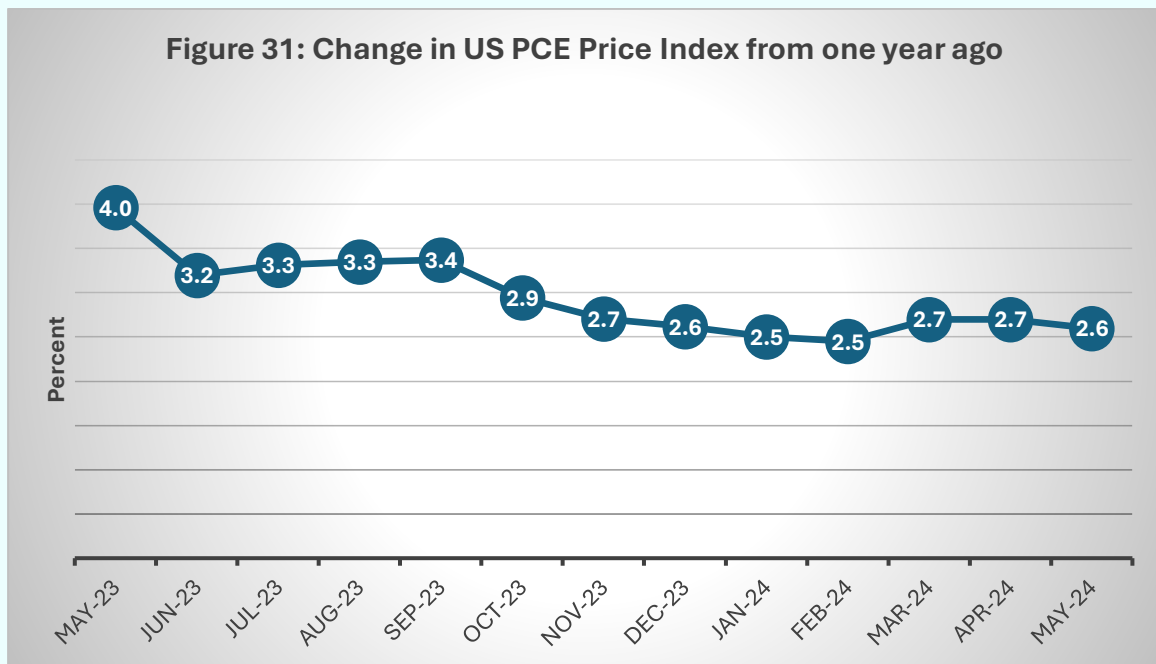
US Personal Consumption Expenditure Price Index

According to the US Bureau of Economic Analysis, the US PCE price index fell by less than 0.1% in May compared to the previous month (Figure 30). Goods prices decreased by 0.4%, while services prices rose by 0.2%. Food prices saw a slight increase of 0.1%, and energy prices dropped by 2.1%. When excluding food and energy, the PCE price index rose by 0.1%.



Source: US Bureau of Economic Analysis

Year-over-year, the PCE price index for May increased by 2.6%, compared to 2.7% in April (Figure 31). During this period, goods prices decreased by 0.1%, and services prices rose by 3.9%. Food prices increased by 1.2%, and energy prices surged by 4.8%. Excluding food and energy, the PCE price index also rose by 2.6% compared to the same month last year.



Source: US Bureau of Economic Analysis

UK INFLATION EASES IN MAY 2024 AS FOOD PRICES FALL

The Consumer Prices Index including owner occupiers' housing costs (CPIH) increased by 2.8% in the 12 months to May 2024, down from 3.0% in the 12 months to April. On a monthly basis, CPIH rose by 0.4% in May 2024, compared to a 0.6% rise in May 2023.

The Consumer Prices Index (CPI) saw a 2.0% increase in the 12 months to May 2024, down from 2.3% in the previous 12 months to April. Monthly, CPI rose by 0.3% in May 2024, compared to a 0.7% increase in May 2023.

The largest downward pressure on the monthly change in both CPIH and CPI annual rates came from food prices, which fell this year but had risen a year ago. The largest upward pressure came from motor fuels, which saw a slight increase this year compared to a decrease last year.

Core CPIH (excluding energy, food, alcohol, and tobacco) rose by 4.2% in the 12 months to May 2024, down from 4.4% in April. The CPIH goods annual rate declined from -0.8% to -1.3%, while the CPIH services annual rate slightly eased from 6.0% to 5.9%.

Core CPI (excluding energy, food, alcohol, and tobacco) increased by 3.5% in the 12 months to May 2024, down from 3.9% in April. The CPI goods annual rate fell from -0.8% to -1.3%, and the CPI services annual rate eased from 5.9% to 5.7%.

Source; Office of National Statistics, UK

EURO AREA INFLATION RISES TO 2.6% IN MAY 2024, LED BY SERVICES SECTOR

Euro area annual inflation is estimated at 2.6% in May 2024, an increase from 2.4% in April, according to a flash estimate by Eurostat, the statistical office of the European Union.

Among the main components of euro area inflation, services are expected to have the highest annual rate in May at 4.1%, up from 3.7% in April. This is followed by food, alcohol, and tobacco at 2.6%, down from 2.8% in April; non-energy industrial goods

at 0.8%, down slightly from 0.9% in April; and energy at 0.3%, rising from -0.6% in April.

Source: Eurostat

ANNUAL INFLATION IN CHINA REMAINS STABLE IN MAY 2024, CORE PRICES INCREASE BY 0.6%

China's annual inflation rate remained at 0.3% in May 2024, unchanged for the second consecutive month and below market expectations of 0.4%. This marks the fourth consecutive month of consumer inflation, indicating a continuing recovery in domestic demand. Non-food prices continued to rise (0.8% vs. 0.9% in April), with stable inflation rates for clothing (1.6%), housing (0.2%), and health (1.5%), and a slight decrease in education costs (1.7% vs. 1.8%). Meanwhile, transport prices fell by 0.2% after a 0.1% increase in April, when several local governments raised utility and train ticket prices. Food prices decreased for the 11th month, although the decline was the smallest since February (-2.0% vs. -2.7%). Core consumer prices, excluding food and energy costs, rose by 0.6% year-on-year, compared with a 0.7% increase in April. On a monthly basis, the CPI fell by 0.1%, marking the second decline this year and falling short of expectations for a flat reading, following a 0.1% rise in April.

Source: National Bureau of Statistics of China

JAPAN'S CPI CLIMBS TO 2.8% IN MAY 2024 WITH NOTABLE ENERGY AND FOOD INCREASES

In May 2024, Japan's annual inflation rate accelerated to 2.8% from 2.5% in April, marking the highest level since February. This increase was driven by a significant rise in electricity prices as energy subsidies ended completely (14.7% vs. -1.1% in April), reversing a 15-month decline trend. Additionally, prices increased for food (4.1% vs. 4.3%), housing (0.6% vs. 0.6%), transport (2.3% vs. 2.7%), furniture and household utensils (2.9% vs. 2.5%), clothing (2.2% vs. 2.2%), healthcare (1.1% vs. 1.2%), culture (5.2% vs. 6.2%), miscellaneous goods and services (1.2% vs. 1.1%), and communication (0.4% vs. 1.0%). However, education prices declined for the second consecutive month (-1.0% vs. -0.9%). The core inflation rate rose to 2.5%

from April's three-month low of 2.2%, slightly below market expectations of 2.6%. Monthly, the CPI increased by 0.5%, the highest rise since October of the previous year.

Source: Ministry of Internal Affairs & Communications, Japan

MONETARY POLICY

FED OFFICIALS SIGNAL PATIENCE ON RATE CUTS AMID INFLATION CONCERNS

Federal Reserve officials highlighted the need for more evidence of cooling inflation before considering lowering interest rates. Fed Governor Adriana Kugler suggested a possible rate cut later this year, contingent on economic conditions. St. Louis Fed President Alberto Musalem indicated it could take "quarters" for the data to justify a cut. While New York's John Williams and Richmond's Thomas Barkin refrained from specifying a timeline, all emphasized the importance of economic data in guiding policy. The Fed has maintained high borrowing costs for nearly a year and recently reduced the forecast for 2024 rate cuts from three to one. Despite some positive recent price data, officials remain cautious, with Boston Fed President Susan Collins stressing the need for sustained improvement. The cautious approach is reflected in quarterly projections, with some officials predicting no cuts in 2024. Mixed economic signals, including tempered consumer spending and strong job growth, add to the uncertainty. Kugler noted the current policy stance aims to cool the economy and reduce inflation without severely impacting economic activity or employment.

RETAIL SALES SLUMP SPARKS DEBATE OVER FED'S NEXT MOVE

Consumers, fatigued by high prices, are cutting back on spending, as shown in May's retail sales data in the US. This raises questions about whether this pullback is a healthy cooling of the economy to tame inflation or a sign of deeper economic weakness. Gregory Daco from Ernst & Young worries about a significant slowdown and suggests the Federal Reserve may be too slow in cutting interest rates due to a backward-looking approach. Ian Shepherdson of Pantheon Macroeconomics echoes this concern, emphasizing the risk of the Fed being late in adjusting rates. Despite ongoing economic resilience, there is significant uncertainty among analysts and Fed officials. Some, like Shepherdson, advocate for a proactive rate cut to avoid potential downturns. The modest 0.1% increase in May retail sales, along with downward

revisions of previous months, could indicate a positive shift towards disinflation, but economists argue the Fed needs a more forward-looking approach.

BANK OF ENGLAND MAINTAINS 5.25% BANK RATE AMID MODERATING INFLATION

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to achieve a 2% inflation target while supporting growth and employment. In its meeting ending on 19 June 2024, the MPC decided by a 7–2 majority to keep the Bank Rate at 5.25%. Two members preferred a 0.25 percentage point reduction to 5%.

Twelve-month CPI inflation decreased to 2.0% in May from 3.2% in March, aligning closely with the May Monetary Policy Report projection. Short-term inflation expectations, especially for households, have continued to moderate. CPI inflation is anticipated to rise slightly in the latter half of the year as last year's energy price declines drop out of the annual comparison.

UK GDP grew more strongly than expected in the first half of this year. However, business surveys suggest a slower underlying growth rate of around $\frac{1}{4}\%$ per quarter.

The significant uncertainty in ONS Labour Force Survey estimates makes assessing labour market activity difficult. However, based on various indicators, the MPC judges that while the labour market is loosening, it remains relatively tight by historical standards.

Indicators of aggregate pay growth have eased in recent data. Services consumer price inflation was 5.7% in May, down from 6.0% in March, but higher than projected in the May Report. This strength partly reflects prices that are index-linked or regulated and typically changed annually, along with volatile components.

The MPC's remit emphasizes the primacy of price stability, with the 2% inflation target applying at all times. The framework acknowledges occasional deviations due to shocks and disturbances. Monetary policy aims to ensure CPI inflation returns to the 2% target sustainably in the medium term.

At this meeting, the MPC maintained the Bank Rate at 5.25%, as headline CPI inflation reached the 2% target. The restrictive monetary policy stance is impacting real economic activity, loosening the labour market, and reducing inflationary pressures. Key indicators of persistent inflation have moderated but remain elevated.

Monetary policy will stay restrictive long enough to sustainably return inflation to the 2% target, consistent with the MPC's remit. Since last autumn, the MPC has judged that monetary policy needs to be restrictive for an extended period until the risk of embedded inflation above the 2% target diminishes.

The MPC remains ready to adjust monetary policy as needed based on economic data to sustainably return inflation to the 2% target. It will continue to monitor persistent inflationary pressures and the overall economic resilience, including labour market tightness, wage growth, and services price inflation. In the August forecast round, the Committee will consider all available information and reassess the risks of inflation persistence to determine the appropriate duration for maintaining the current Bank Rate.

BANK OF JAPAN MAINTAINS INTEREST RATE, PLANS JGB PURCHASE REDUCTION

The Bank of Japan's Monetary Policy Statement, issued after its meeting held on June 14, 2024, outlined several key decisions and economic assessments:

Monetary Policy Decisions:

- The Bank decided unanimously to maintain the target range for the uncollateralized overnight call rate at 0 to 0.1%.
 - Regarding asset purchases (JGBs, CP, and corporate bonds), the Bank will follow the purchase guidelines set in March 2024. There was an 8-1 majority decision to reduce future JGB purchases to allow long-term interest rates to adjust more freely in financial markets. Detailed plans for this reduction will be decided in the next meeting based on market feedback.
-

Economic Assessment:

- Japan's economy has shown moderate recovery, although some sectors exhibit weakness. Overseas economies have grown moderately overall, while Japan's exports have been flat.
- Industrial production has remained stagnant recently due to production halts at certain automakers. Business fixed investment has moderately increased alongside improving corporate profits.
- Employment and income conditions have improved moderately, supporting resilient private consumption despite ongoing price impacts, particularly evident in reduced automobile sales.
- Housing investment remains weak, and public investment has shown minimal change.
- Financial conditions are accommodative, and the year-on-year CPI (excluding fresh food) has ranged between 2.0% to 2.5%, driven by moderate rises in services prices reflecting wage increases. Inflation expectations have moderately increased.

Outlook and Risks:

- Japan's economic growth is projected to exceed potential rates, supported by ongoing moderate global growth and favourable financial conditions.
- Inflation, excluding fresh food, is expected to rise through fiscal 2025, influenced by diminishing effects of past import price increases and the government's economic measures.
- Underlying CPI inflation is anticipated to gradually increase, driven by improved output gaps and rising medium- to long-term inflation expectations.
- Significant uncertainties remain, including developments in global economic activities, commodity prices, and domestic wage- and price-setting behaviours. Monitoring financial and foreign exchange market developments is crucial for managing economic activity and prices.

The full Monetary Policy Statement of Bank of Japan is available at:

<https://shorturl.at/fCrjX>

INTERNATIONAL TRADE

WTO's AID FOR TRADE AT A GLANCE 2024

Highlights of several key findings and initiatives presented in WTO's *Aid for Trade at a Glance 2024*:

Impact and Funding: Since 2006, over 90 donors have contributed a cumulative total of US\$ 648 billion to Aid for Trade, aimed at integrating developing economies and least-developed countries (LDCs) into the global trading system. This initiative supports infrastructure, trade capacity building, and future export industries, enhancing economic growth and livelihoods.

Monitoring and Evaluation (M&E): The 2024 M&E exercise, conducted jointly by OECD and WTO, evaluates Aid for Trade's effectiveness. It emphasizes environmental and social impacts alongside traditional trade metrics, reflecting evolving priorities and challenges in global trade and development cooperation.

Current Challenges and Opportunities: Despite challenges like geopolitical tensions and climate change, Aid for Trade has rebounded strongly post-COVID-19, with disbursements reaching record levels in 2022. This surge reflects renewed commitments to using trade as a driver for economic recovery, inclusive growth, and achieving Sustainable Development Goals (SDGs).

Sectoral Priorities: Traditional sectors like agriculture and manufacturing remain high priorities, while digitalization, services, and green transitions are emerging areas of focus. Support for sectors like renewable energy and digital infrastructure underscores efforts to foster sustainable development.

Inclusivity and Sustainability: Aid for Trade increasingly targets gender equality, MSMEs, and youth employment, aiming to ensure inclusive economic growth. Climate change mitigation and adaptation are critical, with significant commitments directed towards climate-related Aid for Trade initiatives.

Financial Mechanisms: There is a growing reliance on private finance alongside traditional aid flows to support trade-related needs. The shift towards loans over

grants presents challenges, particularly for LDCs, requiring tailored financial instruments and flexible approaches.

Regional Focus: Aid for Trade disbursements are concentrated in Africa and Asia, with LDCs receiving targeted support to bridge development gaps. Enhancing trade facilitation and infrastructure development in these regions remains crucial for sustainable growth.

Future Directions: The report calls for continued adaptation of Aid for Trade to meet evolving global challenges, such as digital transformation and climate resilience. Flexibility, responsiveness, and alignment with national development strategies are essential for maximizing the initiative's impact.

The Aid for Trade initiative remains pivotal in leveraging trade as a catalyst for economic development and sustainability, requiring ongoing global collaboration and strategic investment to address new challenges and opportunities in the post-pandemic era.

The report is available at: <https://shorturl.at/m31nY>

UNCTAD's WORLD INVESTMENT REPORT 2024

UNCTAD's *World Investment Report 2024* highlights several key trends and developments in international investment:

Global FDI Trends: Global foreign direct investment (FDI) in 2023 decreased by 2% to \$1.3 trillion. Excluding volatile financial flows through European conduit economies, global FDI was down more than 10% from 2022 levels.

Challenges and Opportunities: Despite a challenging environment with economic fracturing, trade tensions, and geopolitical uncertainties, multinational enterprises (MNEs) are cautiously expanding overseas. Greenfield project announcements saw modest growth, especially in manufacturing and developing countries.

Regional FDI Performance:

- **Developed Countries:** FDI flows were mixed, with Europe seeing a significant swing due to financial flows, while North America experienced a 5% decline.
- **Developing Countries:** FDI flows declined by 7%, influenced by decreases in developing Asia and modest changes in Africa and Latin America. However, certain vulnerable economies and least developed countries (LDCs) saw increased inflows.
- **Sectoral Trends:** Investment was lower in infrastructure and digital sectors but grew in manufacturing and critical minerals.

Investment Policy Trends: There was a decrease in new investment policy measures, with a majority still favourable to investors. Developing countries focused on liberalization and promotion, while developed countries introduced more restrictive measures, particularly concerning national security.

Sustainable Finance: The sustainable finance market continued to grow, reaching over \$7 trillion in 2023. However, there are challenges, including greenwashing and varying levels of institutional investor commitment to sustainability.

Digitalization and Investment Facilitation: Investment facilitation through digital government initiatives expanded significantly, improving transparency and efficiency in business environments. Digital tools like online single windows and information portals have been pivotal, particularly in developing countries.

International Investment Agreements (IIAs): Efforts to reform IIAs are ongoing, with a focus on safeguarding the right to regulate and addressing sustainability concerns. However, progress remains slow in updating old-generation agreements.

Investor-State Dispute Settlement (ISDS): ISDS cases continued in 2023, primarily affecting developing countries in sectors like construction, manufacturing, and extractives.

Future Outlook: The report suggests a cautiously optimistic outlook for 2024, with potential growth in greenfield projects and ongoing reforms in investment policies and sustainability standards influencing future trends.

World Investment Report 2024 is available at:

https://unctad.org/system/files/official-document/wir2024_en.pdf

FOOD & AGRICULTURE

MAY 2024 FAO FOOD PRICE INDEX: MIXED TRENDS IN GLOBAL COMMODITY PRICES

The FAO Food Price Index (FFPI) was 120.4 points in May 2024, an increase of 1.1 points (0.9 percent) from April (Table 4). This rise was due to higher prices for cereals and dairy products, which outweighed declines in sugar and vegetable oil prices, while the meat price index remained nearly unchanged. Despite three consecutive monthly increases, the FFPI is still 3.4 percent lower than a year ago and 24.9 percent below its peak of 160.2 points in March 2022.

The FAO Cereal Price Index averaged 118.7 points in May, up 7.1 points (6.3 percent) from April, but 10.6 points (8.2 percent) lower than in May 2023. Prices for all major cereals rose, especially wheat, due to concerns about poor crop conditions affecting yields in key producing areas, including parts of Europe, North America, and the Black Sea region. Additionally, maize prices increased due to production issues in Argentina and Brazil, and limited selling in Ukraine amid high global demand.

The FAO Vegetable Oil Price Index averaged 127.8 points in May, down 3.1 points (2.4 percent) from April but 7.7 percent higher than a year ago. This decrease was mainly due to lower palm oil prices, which outweighed increases in soy, rapeseed, and sunflower oil prices. Palm oil prices fell due to increased production in Southeast Asia and weak global demand. In contrast, soybean prices rose due to higher demand from the biofuel sector, particularly in Brazil.

The FAO Dairy Price Index averaged 126.0 points in May, up 2.3 points (1.8 percent) from April, making it 4.3 points (3.5 percent) higher than a year ago. Prices for all dairy products rose in May due to increased demand ahead of the summer holidays, concerns about lower milk production in Western Europe, and seasonally lower production in Oceania. Renewed import demand, especially from the Near East and Northern Africa, also contributed to the rise.

The FAO Meat Price Index averaged 116.6 points in May, down slightly (0.2 points or 0.2 percent) from April and 1.5 points (1.3 percent) lower than a year ago. Prices for poultry and bovine meats fell due to increased exportable supplies and lower demand, while prices for pig and ovine meats rose due to higher demand and supply constraints, particularly in Western Europe.

The FAO Sugar Price Index averaged 117.1 points in May, down 9.5 points (7.5 percent) from April. This is the third consecutive monthly decline, with the index 40.1 points (25.5 percent) lower than in May last year, reaching its lowest level since January 2023. The drop in sugar prices was driven by a strong start to the new harvest season in Brazil, improved global supply outlook, increased export availability from Brazil, and lower international crude oil prices.

Table 4: FAO Food Price Index (2014-2016 = 100)

Month	Food Price Index	Meat	Dairy	Cereals	Oils	Sugar
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	117.4	112.5	120.7	113.8	120.9	140.8
March 2024	119.0	115.0	124.0	110.9	130.6	133.4
April 2024	119.3	116.8	123.8	111.6	130.9	126.6
May 2024	120.4	116.6	126.0	118.7	127.8	117.1

Source: <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

IN THE NEWS

FED STRESS TEST SHOWS MAJOR U.S. BANKS CAN WEATHER SEVERE RECESSION

The Federal Reserve's latest annual stress test confirmed that major U.S. banks could continue lending even during a severe recession, despite higher projected losses than last year. The test assessed the 31 largest banks' ability to maintain strong capital levels amid hypothetical scenarios of double-digit unemployment and a severe stock market decline. The banks were projected to lose nearly \$685 billion, primarily due to higher expected credit-card losses, riskier corporate loans, and lower projected income. However, all banks passed, remaining above minimum capital requirements. The results may enable banks to resist proposed capital requirement increases. This year's test included additional scenarios like a potential hedge fund catastrophe and a repeat of the 2023 deposit crisis, which suggested the banks could withstand significant losses. The stress tests, introduced after the 2008-09 financial crisis, have become more routine and less intimidating for banks over the years.

JEFFERIES FINANCIAL GROUP SEES EARNINGS SURGE AMID INVESTMENT-BANKING RECOVERY

Jefferies Financial Group Inc. saw a significant rise in earnings and investment-banking revenue in the fiscal second quarter, driven by a 59% increase in investment-banking revenue and a more than doubling of debt underwriting. The company reported earnings of \$145.7 million, or 64 cents a share, up from \$12.4 million, or 5 cents a share, the previous year. This recovery in investment banking suggests a broader recovery in capital-markets activity and M&A, with a 59% increase in total revenue to \$1.66 billion. Notably, equity and debt underwriting revenue rose 68% and 129% respectively, while advisory business revenue grew by 12%. The sales and trading team also performed well, with a 24% rise in revenue to \$691.3 million. Despite a challenging 2023, Jefferies is optimistic about the second half of 2024 and 2025, bolstered by a strong backlog and current trends.

US FED POLICY DRIVES YEN'S WEAKNESS, JAPAN'S MEASURES PROVE INEFFECTIVE

Japanese authorities are grappling with the yen's rapid decline against the dollar, driven by the Federal Reserve's high-interest-rate policy. Despite efforts to stabilize the currency, including a record intervention in the foreign-exchange market, the yen continues to weaken. This situation underscores the dominant influence of US financial policies on global markets. With Japan's interest rates near zero, the widening gap with US rates is a key factor in the yen's fall. The future of the yen largely depends on the Fed's potential easing, as current interventions by Japan are deemed ineffective without a shift in US monetary policy. Investors remain bearish on the yen, anticipating continued challenges for Japan's currency stabilization efforts.

VOLKSWAGEN BETS ON RIVIAN IN \$5 BILLION ELECTRIC VEHICLE PARTNERSHIP

Volkswagen (VW) and Rivian have formed a joint venture to develop battery-powered vehicles and software, giving VW access to Rivian's technology. This partnership is crucial for Rivian, providing financial stability amid production challenges and a slowing EV market. VW will invest initially \$1 billion in Rivian, with the potential to invest up to \$4 billion. This deal follows VW's \$700 million investment in China's Xpeng, reflecting CEO Oliver Blume's strategy to boost US sales and reduce dependency on China. The collaboration raises questions about VW's revival plans for the Scout brand and highlights challenges both companies have faced in previous partnerships.

RIISING INFLATION IN AUSTRALIA PUSHES DOLLAR AND BOND YIELDS HIGHER

Australia's inflation rate rose faster than anticipated for the third consecutive month in May, increasing the likelihood that the Reserve Bank of Australia (RBA) will raise interest rates at its next meeting. The consumer price indicator rose 4% year-over-year, surpassing the predicted 3.8%. The trimmed mean core measure also increased to 4.4% from 4.1% the previous month. This unexpected inflation spike led to a 0.4% rise in the Australian dollar and a significant increase in three-year bond yields. The

RBA's upcoming meeting is now considered "live" for potential rate hikes, contingent on forthcoming economic data.

GLOBAL FINANCIAL MARKETS

AI-POWERED SURGE PROPELS NVIDIA TO WORLD'S MOST VALUABLE COMPANY

Nvidia Corp. has surged ahead in market capitalization, surpassing tech giants Microsoft and Apple to become the world's most valuable company, thanks to the ongoing AI boom. Nvidia's stock closed at \$135.58 on June 18, 2024, valuing the company at about \$3.3 trillion. This achievement underscores the significant investor focus on AI, where Nvidia is a key player with its highly demanded AI-supporting chips. Nvidia's sales soared over 125% last year due to the demand for its H100 accelerators. The company's stock has risen more than 170% in 2024, adding over \$2 trillion in market value. Analysts predict Nvidia's value could approach \$5 trillion within a year. This growth has also made CEO Jensen Huang one of the world's richest individuals. Nvidia's rise highlights its evolution from a chipmaker to a systems provider, driven by its proprietary software and development ecosystem.

TSMC NEARS \$1 TRILLION MILESTONE AMID AI-DRIVEN SURGE AND BULLISH WALL STREET OUTLOOK

The optimism around Taiwan Semiconductor Manufacturing Co. (TSMC) is intensifying as its stock rally pushes its market capitalization closer to \$1 trillion. Multiple Wall Street brokerages have increased their price targets for TSMC, driven by rising AI-related demand and potential price hikes in 2025. Goldman Sachs, the most optimistic, raised its target by 19% to NT\$1,160, citing expected price increases for three- and five-nanometer chips. JPMorgan forecasts that AI could contribute 35% of TSMC's total sales by 2028 and suggests the company may boost its 2024 revenue guidance and capital expenditures. Citigroup and Morgan Stanley also elevated their price targets due to a strong earnings outlook. TSMC, a leader in the foundry sector, benefits significantly from the growing adoption of AI and its role as the primary advanced-chip supplier for Nvidia, now the world's most valuable company. TSMC recently surpassed Berkshire Hathaway to become the eighth-largest company

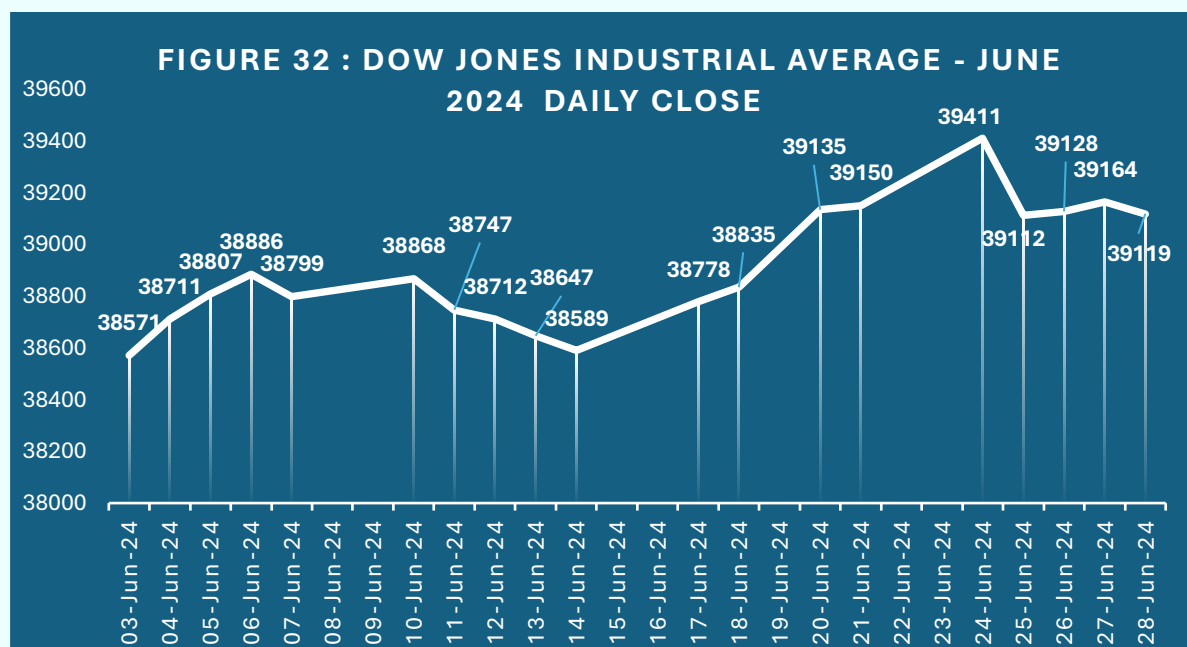
globally by market capitalization, with its US-listed ADRs gaining 73% this year, bringing its market value to \$932 billion.

US MARKETS – JUNE 2024

Dow Jones Industrial Average (DJIA): In June 2024, the Dow Jones Industrial Average (DJIA) demonstrated steady performance. The index started the month at 38,571 and concluded June around 39,119 (Figure 32). Throughout the month, it showed resilience despite global economic uncertainties, with minor fluctuations but maintaining a general upward trend.

A notable point was the DJIA reaching its peak for the month on June 24, closing at 39,411.21, reflecting investor optimism driven by positive economic indicators and corporate earnings report. Despite a few dips, the DJIA remained robust, reflecting investor confidence in the market.

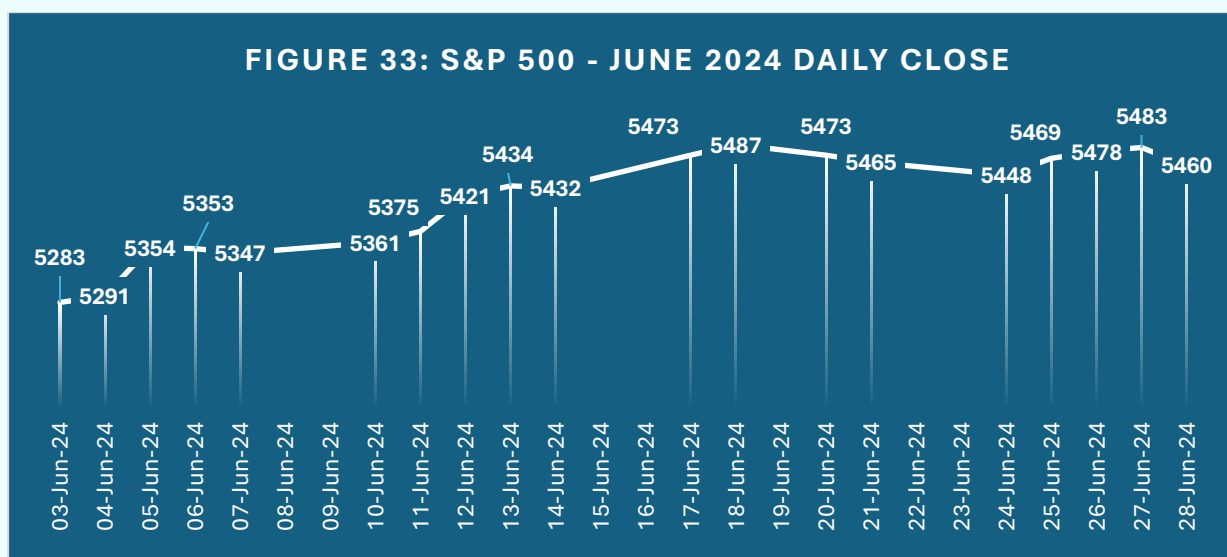
Overall, the Dow Jones gained about 1.36% over the month, indicating a stable performance in a relatively volatile economic environment.



Source: WSJ Markets

S&P 500: The S&P 500 experienced a solid performance in June 2024, ending the month with a gain of 4.8%. The index increased from 5,283 on June 03 (close) to 5,460 on June 28 (close) (Figure 33). This positive trend was primarily driven by strong performances in the technology and consumer discretionary sectors. Over the first half of the year, the S&P 500 achieved a year-to-date return of 15.6%, reflecting robust investor confidence and economic resilience.

During June, the index also benefited from cooling inflation and favourable economic data, which reassured investors about the Federal Reserve's monetary policy outlook. This rally helped the S&P 500 reach near-record highs towards the end of the month, marking a strong recovery from previous market uncertainties.



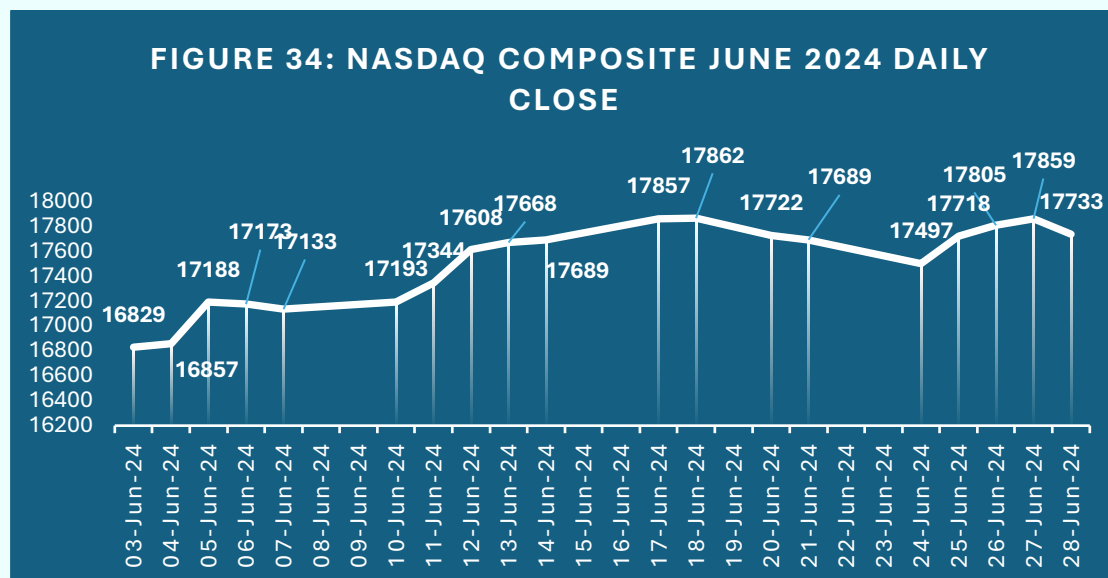
Source: WSJ Markets

NASDAQ Composite: The NASDAQ Composite had a notable performance in June 2024, with a significant gain of approximately 6.9%. This strong performance was part of a broader positive trend, with the index showing a year-to-date return of 19.55% as of the end of June 2024. The technology sector, which is heavily represented in the NASDAQ Composite, played a key role in this growth.

Factors contributing to this performance included ongoing investor optimism around technology and innovation, as well as favourable economic data that supported market

confidence. This performance indicates a robust recovery and strong investor sentiment towards the tech-heavy index during the first half of the year.

In June 2024, the NASDAQ Composite Index increased from a close of 16,829 on June 03, 2024 to close at 17,733 (Figure 34).



Source: WSJ Markets

EUROPEAN STOCK MARKETS

European stock markets showed mixed results in June. The FTSE 100 in the UK and Germany's DAX experienced modest gains, driven by positive corporate earnings and a stable economic outlook. However, concerns over inflation and potential ECB rate hikes kept gains in check. The energy and industrial sectors were among the top performers, while consumer staples lagged due to ongoing inflation concerns.

ASIAN STOCK MARKETS

Asian markets had a turbulent month. The Nikkei 225 in Japan and the Shanghai Composite Index in China faced downward pressure due to ongoing concerns about economic slowdown and regulatory actions in China. Despite some positive economic indicators, investor sentiment remained cautious, leading to overall modest performance in the region.

SECTION 3

RESEARCH DIGEST

INTERNATIONAL MONETARY FUND @80

FOR MY GRANDCHILDREN - KRISTALINA GEORGIEVA

In Kristalina Georgieva's article, she explores how to build an economy that benefits both current and future generations amidst rising geopolitical tensions and weak economic prospects. She draws inspiration from John Maynard Keynes's optimistic 1930 essay "Economic Possibilities for Our Grandchildren," which accurately predicted significant improvements in living standards driven by technology and capital accumulation.

Georgieva highlights the tremendous global progress over the past century, including poverty reduction and improved living standards, driven by technology, capital accumulation, and economic integration. However, she acknowledges policy failures, particularly in sharing the benefits of growth equitably, leading to high economic inequality and diminished trust in institutions.

To address these issues, Georgieva proposes a "high-ambition scenario" for the next century, emphasizing sustainable and equitable growth supported by sound economic fundamentals and enhanced international cooperation. She identifies three priority investment areas:

Climate Economy: Investing in climate mitigation, adaptation, and transition, and implementing effective carbon pricing to combat climate change.

Next Industrial Revolution: Harnessing innovations like artificial intelligence responsibly, while preparing for potential job disruptions through investments in digital infrastructure and retraining.

Investment in People: Focusing on health, education, social safety nets, and economic empowerment, particularly in Africa, to ensure inclusive growth and unlock the potential of young populations.

Georgieva advocates for updated 21st-century multilateralism, balancing the influence of advanced and emerging economies, and enhancing institutions like the IMF to

support global economic cooperation and sound policies. She underscores the necessity of international cooperation to achieve a better world for future generations.

This is a summary of the article Kristalina Georgieva, Finance and Development – An IMF For Tomorrow, June 2024, IMF

The full article is available at: <https://shorturl.at/JrnbR>

REFORM OR RISK IRRELEVANCE – RAGHURAM RAJAN

Raghuram Rajan's article argues for the necessity and reform of the International Monetary Fund (IMF) to meet contemporary global challenges. He emphasizes that the IMF remains crucial, especially in the face of recent crises such as the COVID-19 pandemic and the global financial crisis. With massive borrowing by countries and ongoing disruptions due to climate change and emerging pathogens, the IMF's role is more vital than ever.

Rajan critiques the current structure of the IMF, highlighting its lack of legitimacy and outdated governance, which hinders its effectiveness. He points out that the Western alliance, particularly the United States, maintains disproportionate control, despite the shifting global economic landscape with the rise of countries like China and India. This imbalance undermines the IMF's credibility and its ability to enforce rules impartially.

To address these issues, Rajan proposes redistributing quotas to better reflect the current economic realities and professionalizing the decision-making process to reduce political interference. He suggests that the IMF executive board should focus on governance and broad objectives, leaving day-to-day operations to independent professional management.

Rajan concludes by stressing the urgent need for comprehensive reforms to ensure the IMF can continue to play a pivotal role in global economic stability. Without such changes, the IMF risks becoming less relevant and less effective in addressing the world's economic challenges.

This is a summary of the article by Raghuram Rajan, Finance and Development – An IMF For Tomorrow, June 2024, IMF

The full article is available at: <https://shorturl.at/OzXjL>

SPECIAL DRAWING RIGHTS RECONSIDERED - EDWIN M. TRUMAN

Edwin M. Truman celebrates the 80th anniversary of the IMF, praising it as a cornerstone of post-World War II international architecture aimed at promoting global monetary cooperation and preventing economic unilateralism. He outlines the IMF's evolution, emphasizing its pivotal role in crisis management and financial stability.

Truman acknowledges the IMF's adaptability over its first 80 years but stresses the need for continued evolution, particularly in governance. He highlights the need to move away from the traditional leadership model dominated by the US and Europe, advocating for a more inclusive approach that incorporates emerging powers like China.

He also discusses the potential of the IMF's Special Drawing Rights (SDRs), suggesting annual allocations to increase their share in global reserves. Truman proposes raising the interest rate on SDRs and encouraging their use in addressing global challenges such as climate change and pandemics. He believes that these measures would enhance global liquidity and support economic stability.

In conclusion, Truman calls for visionary reforms to ensure the IMF remains relevant and effective in promoting international monetary cooperation, envisioning a future where the institution continues to evolve and adapt to global economic challenges.

This is a summary of the article by Edwin M. Truman, Finance and Development – An IMF For Tomorrow, June 2024, IMF

The full article is available at: <https://shorturl.at/P8GAA>

NO TIME FOR HALF MEASURES - MARTIN WOLF

Martin Wolf's article commemorates the 80th anniversary of the International Monetary Fund (IMF), highlighting the determination to build a post-war world different from the interwar period. The IMF was designed to foster international economic cooperation, contrasting the immediate post-World War I aim of restoring pre-war conditions. The IMF has contributed significantly to global economic progress over the past eight decades, despite facing contemporary challenges such as

economic power shifts, rising populism, backlash against globalization, technological advancements, financial fragility, secular stagnation, and climate change.

Recent global shocks, including the COVID-19 pandemic, geopolitical conflicts, and rising inflation, have further strained global cooperation and economic stability. The IMF has been active in crisis management, providing substantial liquidity and introducing new lending facilities like the Resilience and Sustainability Trust.

Wolf argues that the IMF and other international financial institutions (IFIs) need fundamental reforms to address these challenges effectively. Four key elements are essential for this reform: improving debt restructuring mechanisms, increasing resources, adjusting voting shares to reflect current economic realities, and diversifying leadership. These changes are crucial to maintain the legitimacy and effectiveness of global institutions in fostering cooperation and stability.

The article underscores the importance of visionary leadership and renewed cooperation to tackle future economic challenges, aiming to preserve and enhance the IMF's role in the international financial system.

This is a summary of the article by Martin Wolf, Finance and Development – An IMF For Tomorrow, June 2024, IMF

The full article is available at: <https://shorturl.at/sCpEb>

MOVING TO COMPLEXITY - HAROLD JAMES

Harold James' article on the 1944 United Nations Monetary and Financial Conference at Bretton Woods outlines the historical significance and long-term impact of the event. The conference marked a new era in global cooperation, aiming for sustained recovery, widespread prosperity, and political stability. It established the idea that peace and prosperity are inseparable, a vision driven by the experiences of the Great Depression and World War II.

Economically, Bretton Woods proposed a fixed exchange rate system supported by the International Monetary Fund (IMF) to prevent destabilizing capital flows. Despite these ambitious plans, political and economic realities, such as the Soviet Union's

refusal to participate and the exclusion of the IMF from the Marshall Plan, hindered full implementation.

Over the decades, the IMF adapted to various crises, such as the Suez Crisis in 1956, the breakdown of the Bretton Woods system in the 1970s, and the debt crises of the 1980s and 1990s. The institution evolved into a lender of last resort and developed new mechanisms for managing global financial risks, emphasizing the need for coordinated international responses.

The article concludes with lessons on global financial risk management, highlighting the importance of recognizing threats from various sources, understanding complex linkages, addressing long-term challenges like climate change, and integrating security concerns with economic policies. These insights underscore the continued relevance of Bretton Woods in addressing modern global challenges.

*This is a summary of the article by Harold James, *Finance and Development – An IMF For Tomorrow*, June 2024, IMF*

The full article is available at: <https://shorturl.at/isTYy>

NEW SURVEILLANCE TESTS - CEYLA PAZARBASIOGLU

Ceyla Pazarbasioglu's article discusses the evolving role of the IMF's surveillance function in addressing major global transformations, such as artificial intelligence, climate change, demographic shifts, and industrial policies. The IMF's surveillance helps countries navigate economic health, withstand shocks, and seize growth opportunities. It has adapted over time, learning from past challenges and criticisms to improve its policy advice.

Key pivots in IMF surveillance history include the expansion of its mandate post-Bretton Woods, responses to capital account crises in the 1990s and early 2000s, and lessons from the 2008–09 global financial crisis. These adaptations have led to more comprehensive monitoring, including early-warning models and focus on financial stability.

In recent times, IMF surveillance has addressed the impacts of the pandemic, geopolitical tensions, inflation, and geoeconomic fragmentation. The IMF's priorities

include sustained disinflation, fiscal consolidation, monetary stability, and addressing post-pandemic vulnerabilities. The Fund is also integrating climate issues, AI, and industrial policies into its analysis to support global economic stability and growth.

Looking ahead, IMF surveillance aims to help countries navigate transitions with focused macroeconomic analysis and policy advice. Inclusive growth strategies are essential, and the IMF continues to refine its approach to support member countries in achieving a stable and prosperous future.

This is a summary of the article by Ceyla Pazarbasioglu, Finance and Development – An IMF For Tomorrow, June 2024, IMF

The full article is available at: <https://shorturl.at/rPb3S>

SYNOPSIS OF RESEARCH PAPERS

TRADE AND TREES

Bård Harstad

American Economic Review: Insights, June 2024, 6(2): 155–175, American Economic Association

Bård Harstad's paper explores the interaction between international trade and natural resource exploitation. The paper presents a dynamic game where the South exploits resources (e.g., deforestation) to export goods (e.g., lumber, agricultural products). The North may suffer from trade due to negative externalities unless the resource is already depleted, prompting the South to exploit faster. However, all negative outcomes can be reversed if renegotiation-proof tariffs are contingent on the remaining resource stock. This can slow down exploitation by using larger trade gains and more attractive terms of trade. Combined with export subsidies, this achieves the optimal outcome.

The paper uses a simplified model to illustrate the negative relationship between free trade and environmental conservation and explores when contingent tariffs can reverse these negative outcomes. The model shows that free trade can drive environmental exploitation, and exploitation can, in turn, drive trade. However, with a contingent tariff agreement (CTA), negative impacts are reversed, and exploitation can be postponed.

The model, though highly stylized, can be generalized to include nonlinear utility functions, multiple goods, and countries. These extensions, detailed in Harstad (2024), confirm that a CTA is always better than a free trade agreement (FTA). Calibrations suggest that even with growing trading partners in the South, a CTA offered by the European Union and the United States can significantly limit or end deforestation.

This analysis is relevant not only for scholars studying trade and environmental issues but also for policymakers, public officials, and activists balancing trade and

conservation. It offers insights into policy initiatives like those from France and the Netherlands. The WTO should create an enabling environment for applying sustainability disciplines, allowing export subsidies for conservation purposes to help preserve more forests.

The full paper is available at: <https://doi.org/10.1257/aeri.20230286>

CRYPTO AS A MARKETPLACE FOR CAPITAL FLIGHT

Clemens M. Graf von Luckner, Robin Koepke and Silvia Sgherri

IMF Working Paper WP/24/133, June 2024, International Monetary Fund

This paper demonstrates how cryptocurrency markets can facilitate cross-border capital flight by acting as platforms that connect individuals with and without (illicit) access to foreign exchange (FX). In countries with restricted international transactions, crypto exchanges enable domestic agents to pay a premium to acquire foreign currency. The sellers in these transactions are individuals with FX access who liquidate their crypto holdings bought abroad. A simplified model shows that limited foreign currency availability amid economic imbalances drives these transactions, creating persistent crypto premia in local markets compared to global ones. The paper examines relative crypto pricing data across several country case studies, providing empirical evidence that crypto markets primarily serve as venues for existing capital flight rather than introducing a new means for it. The authors introduce a novel dataset on crypto market premia, proposed as indicators of excess foreign currency demand and the intensity of capital controls.

The full paper is available at: <https://shorturl.at/3ll3K>

INFLATION TARGETS: PRACTICE AHEAD OF THEORY

Mervyn A. King

NBER Working Paper No. 32594, June 2024, National Bureau of Economic Research

Inflation targets were established long before the theory of inflation targeting was developed. This practice proved successful by introducing new procedures and institutions for setting monetary policy transparently and accountably, referred to as “constrained discretion.” However, the subsequent theory, which claimed to explain the determination of price levels, was less effective. Inflation targeting itself does not constitute a new theory of the monetary transmission mechanism. The misconception that it does lead to the replacement of Milton Friedman’s dictum that “inflation is always and everywhere a monetary phenomenon” with the new idea that “inflation is always and everywhere a transitory phenomenon.” This shift had unfortunate consequences during recent inflation periods.

The announcement of an inflation target was intended to complement, not replace, thorough economic analysis, particularly regarding nominal economic developments. In practice, inflation targets were a method of setting monetary policy under “constrained discretion” rather than a theory of inflation. Models based on rational agents can provide insights, such as the importance of expectations, but they do not accurately describe the economy or predict future outcomes. Policymaking must account for nonstationarities, making past relationships unreliable guides for the future. Effective decision-making requires evolving narratives based on debate and discussion.

The theory of inflation targets evolved to focus solely on real variables, ignoring nominal economic developments and assuming policymakers would always act correctly. This assumption proved problematic, as seen when policies during the pandemic boosted aggregate demand excessively, challenging the credibility of inflation targets.

The flaw in the theory, similar to past model failures, was the unrealistic assumption that policymakers would not deviate from core principles. While models can offer

valuable insights, they should not replace the critical question of “what is going on here?” The issue lies in the misuse of models rather than the models themselves.

Inflation targets have been effective in practice due to institutional changes that impose constraints on discretionary policy responses in a nonstationary economy. However, by ignoring monetary and financial variables, the theory of inflation targets oversimplifies how inflation expectations are formed. Rational expectations depend on the underlying economic processes, not just policy objectives. Announcing an inflation target does not guarantee its achievement. Policymaking in an uncertain environment is challenging, and the real success of inflation targets lies in the transparency and accountability that uphold the credibility of central banks.

The full paper is available at: <https://shorturl.at/JCmEx>

EUROPE'S BANKING UNION AT TEN: UNFINISHED YET TRANSFORMATIVE

Nicolas Véron

WP 24-15, June 2024, Peterson Institute for International Economics

Europe's banking union, aimed at centralizing prudential policy at the European Union level, became a reality in 2014 when the European Central Bank (ECB) was empowered as the banking supervisor. A decade later, the project remains incomplete, as European countries can still use their domestic banking sectors to serve special interests, and the framework for handling banking crises remains a complicated mix of national and EU authorities and instruments. Despite this, the achievements of the partial banking union have been significant. The decision to grant the ECB banking supervision powers in mid-2012 was crucial for resolving the euro area crisis. Over the subsequent decade, supervisory practices have generally succeeded in ensuring the safety and soundness of the banking system. However, Europe's reluctance to complete the union continues to carry significant costs. This paper provides a comprehensive analysis of the origins, implementation, and potential future completion of this important policy initiative.

The full paper is available at: <https://shorturl.at/gCPdB>

INTELLIGENT FINANCIAL SYSTEM: HOW AI IS TRANSFORMING FINANCE

Iñaki Aldasoro, Leonardo Gambacorta, Anton Korinek, Vatsala Shreeti and Merlin Stein

BIS Working Papers No 1194, Monetary and Economic Department, June 2024, Bank for International Settlements

At the core of the financial system lies the processing and aggregation of vast amounts of information into price signals that coordinate economic participants. Throughout history, advancements in information processing, from simple bookkeeping to artificial intelligence (AI), have transformed the financial sector. Using this perspective, the authors analyze how generative AI (GenAI), emerging AI agents, and potentially artificial general intelligence will impact finance. They focus on four functions of the financial system: financial intermediation, insurance, asset management, and payments. Additionally, the authors have assessed the implications of AI advancements for financial stability and prudential policy. The paper also explores potential spillover effects of AI on the real economy, considering both optimistic and disruptive scenarios. To address the transformative impact of AI on the financial system, the paper proposes a framework for updating financial regulation based on well-established general principles for AI governance.

The full paper is available at: <https://www.bis.org/publ/work1194.pdf>

FIRMS' RESPONSE TO CLIMATE REGULATIONS: EMPIRICAL INVESTIGATIONS BASED ON THE EUROPEAN EMISSIONS TRADING SYSTEM

Fotios Kalantzis, Salma Khalid, Alexandra Solovyeva, and Marcin Wolski

IMF Working Paper WP/24/135 June 2024, International Monetary Fund

Using a novel cross-country dataset that combines firm-level financials with information on firms' participation in the European Union's Emissions Trading System (ETS), the authors examine how firm performance is impacted by stricter

environmental policies that impose a cost on pollution. They find that more stringent policies do not significantly harm the profitability of either ETS-regulated or non-ETS firms. Although firms report increased input costs during periods of high carbon prices, their reported turnover also rises. For ETS-regulated firms that need to purchase emission certificates under the EU ETS, stricter climate policies during high carbon price periods lead to increased investment, particularly in intangible assets. The paper confirms the robustness of the results using quantile regression analysis, ensuring that our key findings are not influenced by distributional irregularities. The findings of the paper support the notion that the EU ETS benefits firms' climate transition while keeping firm-level financial costs manageable.

The full policy brief is available at: <https://shorturl.at/tWG2E>

FISCAL TRANSFERS FROM THE UNION TO STATES AND HEALTHCARE IN INDIA

Janak Raj, Rahul Ranjan, Vrinda Gupta and Aakanksha Shrawan

Working Paper 76, June 2024 Centre for Social and Economic Progress (CSEP)

The paper primarily aims to evaluate the influence of fiscal transfers from the Union government compared to States' own revenue on their healthcare spending. It found that both states' own revenue and unconditional transfers from the Union affect their health spending. However, own revenue was more influential than unconditional fiscal transfers for economically well-off states. Conversely, health spending in economically weaker states was solely driven by unconditional fiscal transfers from the Union. Generally, States were substituting their non-National Health Mission (NHM) health spending with NHM health spending, but this substitution effect was much less significant in economically well-off states compared to economically weaker states. After the implementation of NHM, there was a slight increase in horizontal inequalities. The complex relationship between fiscal transfers and health spending by Indian states highlights the need for nuanced policy changes. A differentiated strategy is required for economically well-off and economically weaker states to enhance healthcare spending across the country.

The full paper is available at: <https://shorturl.at/mNaPa>

PROJECTING CRITICAL MINERAL NEEDS FOR INDIA'S CLEAN ENERGY TRANSITION: HOW MUCH OF WHICH MINERALS ARE NEEDED FOR THE TRANSITION?

Rajesh Chadha and Ganesh Sivamani

Working Paper 75, June 2024, Centre for Social and Economic Progress (CSEP)

The Paris Agreement, adopted by 196 countries at the 21st Conference of Parties (COP21) in 2015, significantly advanced the clean energy transition, including solar and wind energy and battery storage, leading to an unprecedented global increase in demand for critical minerals essential for manufacturing the necessary equipment. At COP26 in 2021, India outlined its climate action strategy, committing to achieving net zero emissions by 2070. However, several challenges must be addressed to meet these targets, including mobilizing sufficient investments, resolving technical and operational issues, and establishing a just transition framework. Ensuring resilient access to green technologies and the raw materials required for their production, known as “critical minerals,” is also a pressing concern.

This paper estimates the mineral requirements for manufacturing the clean energy technologies needed for India to fulfil its climate action commitments. It highlights cases where India has domestic access to these materials and where it relies on imported minerals in their raw, processed, or component-embedded forms to meet the demands of its growing domestic clean energy equipment manufacturing sector. Although the paper does not consider the mineral requirements for electric vehicle (EV) manufacturing, a significant demand is anticipated from this sector. Other electrified sectors in India, such as cooking and heating, are also not included in the mineral requirements calculation.

The demand for critical minerals in the clean energy transition is expected to rise significantly over the coming decades. Most of these minerals have been identified as critical by the CSEP and Ministry of Mines reports. For minerals with no known domestic resources, specific strategies are needed to ensure robust access for India's

manufacturing needs and climate change mitigation goals. The study also indicates that promoting recycling and the use of recycled materials in supply chains can help reduce the need for additional mining, as would improvements in mineral intensities and technology efficiencies.

The full paper is available at: <https://shorturl.at/Jbqmk>

CHALLENGES AND OPPORTUNITIES OF PARTNERING WITH THE INFORMAL SECTOR: A CASE STUDY OF INDIA'S E-WASTE MANAGEMENT

Kalyan Bhaskar, Jennifer J. Griffin, and Verena Radulovic

Center on Regulation and Markets Working Paper #11, June 2024, Brookings Institution

This study explores the role of collaborations with informal sector organizations in managing electronic waste (e-waste) in India. Despite being legally excluded from the e-waste process, informal sector entities are both competitors and crucial collaborators in addressing e-waste challenges. The lack of formal recognition by regulatory bodies complicates these collaborations, yet the informal sector's resilience and extensive networks make them indispensable.

Key findings of the paper include:

Informal Sector's Role: Informal organizations have unique skills and relationships crucial for handling e-waste. They operate outside legal frameworks but are essential for effective e-waste management.

Producer Responsibility Organizations (PROs): PROs bridge the gap between formal sector demands and informal sector capabilities, providing low-cost recyclable materials. They play a crucial role in facilitating collaboration.

Challenges and Opportunities: Collaborations with the informal sector can both complicate and ease certain partnership challenges. Informal sector organizations offer low-cost production and relational advantages but face stereotypes and regulatory exclusion.

Policy Implications: Ignoring the informal sector overlooks their contributions and potential for effective waste management. The study suggests that including informal organizations in e-waste management could lead to more sustainable and efficient solutions.

Global Relevance: Lessons from India's e-waste management can apply to other transitioning economies. Effective e-waste management requires a nuanced understanding of informal sector dynamics and cross-sector partnerships.

The study concludes that integrating the informal sector into e-waste management through trust-building and collaboration can lead to socially and environmentally desirable outcomes, addressing grand challenges more effectively.

The full paper is available at: <https://shorturl.at/cYmeI>

BALANCING SELF-SUFFICIENCY AND HEALTH RISKS SHOULD INDIA COMMERCIALISE GENETICALLY MODIFIED MUSTARD CROP?

Sthanu R Nair and Pooja Bhatia

Economic and Political Weekly, June 22, 2024 vol LIX No. 25

The adoption of genetically modified (GM) crops in India has been contentious. While GM cotton was commercially introduced in 2002, expanding GM technology to other crops has been challenging. This paper explores the need for GM mustard in India to achieve self-sufficiency in rapeseed-mustard oil production.

In the 1970s, India addressed a domestic shortage of edible oils through various public policies, increasing oilseed production and reducing import dependency. However, these gains waned after the mid-1990s due to import liberalization and ineffective price support, leading to reduced oilseed output growth and increased edible oil imports. Despite this, rapeseed-mustard oil imports did not rise significantly, partly because of the higher cost of canola-grade rapeseed oil and the practice of blending mustard oil with other edible oils, which has met domestic demand and reduced the high erucic acid content in Indian mustard oil.

The study finds that India does not need GM mustard to lower its mustard oil import bill, as mustard oil imports do not strain foreign exchange. Instead, India meets its demand through blending with imported edible oils, mainly palm oil, making the country indirectly dependent on overall edible oil imports rather than on mustard oil specifically.

The indigenous GM mustard variety DMH-11, which has a higher yield and lower erucic acid content (30-35%), could reduce import dependency by increasing mustard oil production. However, DMH-11 still requires blending with other oils to meet international health standards (<5% erucic acid). Thus, India should continue its oilseed breeding programs to develop GM mustard varieties with lower erucic acid levels.

Achieving an internationally accepted erucic acid level in GM mustard would enhance India's export potential for mustard oil. Currently, high erucic acid content limits Indian mustard oil's acceptability in international markets, especially in Western countries. Therefore, developing GM mustard varieties that meet health standards is crucial for tapping into export opportunities and ensuring public health safety.

The full paper is available at: <https://shorturl.at/CbzdC>

SUMMARY OF OPINION ARTICLES FROM INDIAN PUBLICATIONS

REBOOTING AGRICULTURE

In this article Ashok Gulati argues that Shivraj Singh Chouhan is an excellent choice for leading the ministries of agriculture and rural development in the newly formed National Democratic Alliance (Modi 3.0) cabinet. This appointment is crucial because the Bharatiya Janata Party (BJP) lost many seats in rural areas in the recent parliamentary elections, indicating significant issues in these regions that need urgent attention.

Chouhan, the longest-serving chief minister of Madhya Pradesh, has a proven track record in agriculture and rural development, with the state achieving impressive GDP and agri-GDP growth rates under his leadership. Gulati highlights several key strategies Chouhan should implement to enhance India's agricultural growth and farmers' incomes:

Adopt a Comprehensive Food System Approach: Recognize agriculture as encompassing production, marketing, and consumption. Focus on climate-smart agriculture, increase investment in agricultural research and development (agri-R&D) to at least 1% of agri-GDP, and improve productivity despite climate challenges.

Ensure Access to Technology and Markets: Provide farmers with access to the best technologies and markets. Address policy biases that keep food prices low for consumers at the expense of farmers, and start by lifting export bans, especially on onions, to boost farmers' incomes.

Build Value Chains for High-Value Products: Coordinate with other ministries to develop value chains for fruits, vegetables, dairy, fishery, and poultry. Involve the private sector or cooperatives and incentivize them through schemes similar to the production-linked incentive scheme used in industry.

Reform Fertilizer Subsidies: Transfer the fertilizer subsidy to the agriculture ministry and issue digital fertilizer coupons directly to farmers. This will address the

imbalance in nitrogen, phosphorus, and potassium use and reduce environmental harm from excessive urea usage.

Gulati concludes that implementing these suggestions would significantly benefit Indian agriculture and the farmers relying on it, and Chouhan's leadership could bring about much-needed reforms in the sector.

This is a summary of the article by Ashok Gulati, Financial Express, 24 June 2024. The full article is available at: <https://shorturl.at/5UFKz>.

PRIORITISE DEEP TRADE AGREEMENTS

The article by Amita Batra highlights the importance of India's recent "Chintan Shivir" organized by the Ministry of Commerce to strategize future free-trade agreement (FTA) negotiations. Given the delays in negotiations with the European Union and the UK, and pending reviews of other FTAs, this initiative is timely.

Batra emphasizes the need for India to shift its FTA strategy towards deeper trade agreements rather than limited, shallow liberalization. Deep FTAs, which facilitate the movement of intermediate goods and integrate global value chains (GVCs), are seen as more beneficial. India's past FTA negotiations have been cautious due to experiences of increasing trade deficits with partner economies. Batra suggests reducing preferential margins in FTAs and enhancing the competitiveness of the manufacturing sector by lowering the high most favoured nation (MFN) tariffs.

The article advocates for aligning India's tariffs with those of comparable emerging markets and offering calibrated preferential tariffs to benefit dynamic sectors within GVCs. This approach could help India meet World Trade Organization requirements for substantial trade liberalization in FTAs. Participation in deep FTAs, which address regulatory issues beyond mere trade liberalization, can enhance the competitiveness of India's manufacturing sector.

India has struggled with deeper provisions like investment liberalization and ESG issues in FTA negotiations, especially with the EU and the UK. While deep FTAs, such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),

have become more common globally, India's reluctance to negotiate these "non-trade" issues is seen as outdated.

Batra underscores the importance of deep FTAs for GVC integration, which is crucial for enhancing manufacturing and export competitiveness, as well as for the success of India's production-linked incentive scheme. Such agreements require specific contractual obligations and standards due to the specialized nature of intermediate goods in GVCs.

Empirical evidence shows that deep FTAs positively impact foreign direct investment (FDI) inflows, which are integral to GVC participation. These agreements also signal a commitment to upgrading the domestic regulatory framework, providing a stable business environment. Batra argues that standalone bilateral investment treaties (BITs) are less effective compared to deep FTAs.

India needs to reconsider its stance on investor protection mechanisms in FTAs, as the global standard increasingly involves investor-state dispute settlement without prior domestic recourse. The article concludes that for India to be an attractive investment location and enhance its manufacturing and export competitiveness, it must aim for the early conclusion of deep FTAs.

This is a summary of the article by Amita Batra, Business Standard, 27 June 2024.

The full article is available at: <https://shorturl.at/WluER>

WHEN TRADE BARRIERS ARE JUSTIFIED

The article addresses the adverse global impact of China's macroeconomic policies and proposes that India create trade barriers against Chinese imports as part of a broader strategy to foster domestic economic dynamism.

Economic Impact of China's Policies: Under Xi Jinping's leadership since 2013, China's authoritarian model has led to poor economic performance, collapsed private investment, declining real estate prices, high debt levels, and a reduction in foreign activities in China.

Globalization Shifts: Since 2018, the nature of globalization has changed, with advanced economies restricting economic integration with countries like China that have hostile foreign or military policies. Key industries affected include electric vehicles, batteries, solar panels, and microchips.

Chinese Exports and Global Response: The combination of poor domestic policy and external restrictions has led to an influx of cheap Chinese exports. Advanced economies have imposed high tariffs on Chinese goods to protect their industries.

Impact on India: Chinese exports to India have grown significantly, creating challenges for Indian firms. The article suggests that India should establish non-tariff barriers against Chinese imports, despite recognizing this as protectionism.

Policy Recommendations for India: To maintain the benefits of international integration, India should:

- Remove inverted duty structures.
- Implement long-pending GST reforms.
- Establish non-tariff barriers against Chinese imports.
- Liberalize trade with other countries.

Strategic Engagement: The article emphasizes the need for a nuanced policy that combines protectionism against China with liberalization elsewhere, requiring high professional capabilities in economic policy. This approach aims to optimize the benefits of globalization while protecting domestic industries from the adverse effects of Chinese economic practices.

This is a summary of the article by Ajay Shah and Ila Patnaik , Mint, 24 June 2024.

The full article is available at: <https://shorturl.at/3Bmit>

SEVEN YEARS OF GST: ITS ADOPTION HAS BEEN A REMARKABLE SUCCESS

On July 1, 2017, India implemented the Goods and Services Tax (GST), and by May 2024, monthly gross collections reached ₹1.73 trillion, compared to an average of

₹0.9 trillion initially. This increase reflects a broader tax base, better compliance, reduced leakages, and improved enforcement.

The GST Council, India's most successful Constitutional body, has been crucial in shaping the GST, promoting economic integration, and simplifying business operations by consolidating 17 taxes and 13 cesses into one system. The GST regime has streamlined processes, eliminating inter-state trade barriers and reducing compliance burdens.

Key Points:

Digitalization: The GST system is almost fully digital, aiding registration, compliance, and data analytics. Tools like e-way bills and e-invoicing have enhanced transparency and reduced fraud. In March 2024 alone, 103 million e-way bills were generated.

GST Law: The central GST code has seen over 250 amendments and more than 500 changes to central rules, demonstrating the government's commitment to improvement. The GST Council's recommendations often lead to statutory amendments and clarifications.

Input Tax Credit (ITC): The GST has minimized the cascading effect of taxes by enabling seamless ITC claims, resulting in operational efficiencies and cost savings. However, issues like ITC blockage on construction-related expenses and the exclusion of certain fuels from the GST net need revisiting to prevent tax cascading.

Litigation and Dispute Resolution: The lack of an operational GST Appellate Tribunal (GSTAT) has led to litigation backlogs in high courts. Despite legal challenges, the GSTAT is expected to be operational by the end of 2024.

Conclusion: The GST regime in India is poised for continued success, especially with the inclusion of petro-sector commodities and further digitalization. It is expected to be recognized globally as a model for other economies.

This is a summary of the article by Dinesh Kanabar & Ranjeet Mahtani, Mint, 30 June 2024.

The full article is available at: <https://shorturl.at/PjsAO>

WHY INDIA'S INCLUSION IN THE JPMORGAN BOND INDEX IS A MORAL VICTORY FOR US

India's inclusion in the JPMorgan Emerging Market Bond Index marks a significant milestone, similar to the debut of Indian equity in the MSCI Emerging Market Index in 1994. Despite a large bond market, India's inclusion faced delays due to Western biases. The push for inclusion began over a decade ago and persisted through political changes.

JPMorgan had several expectations for inclusion, such as no ceiling on foreign portfolio investor (FPI) investments, favourable tax treatment for FPIs, and integration into the Euroclear system. India did not meet these conditions, arguing that domestic investors should not face disadvantages and that local operational systems are robust. The issue of the investment ceiling was addressed by designating certain government securities (G-Secs) under the 'Fully Accessible Route' (FAR), allowing unlimited FPI investments in these securities.

The Russia-Ukraine war in 2022, and the subsequent exclusion of Russia from bond indices, created an opportunity for India. On June 28, Indian government bonds were included in the JPMorgan index, with India's weight set to increase to 10% by March 2025. India will also join the Bloomberg index in January 2025, though it is less followed globally, and is not yet part of the FTSE Russell index.

India's inclusion is a moral victory as no concessions were made on tax treatment or foreign listing. The FAR route managed the investment ceiling issue indirectly. Indian government bonds offer attractive yields, with a 10-year yield around 7%, compared to lower yields in developed nations and competitive yields in other emerging markets like South Africa, Indonesia, and Brazil.

FPIs also consider currency hedging costs, and India's currency has shown relative stability and lower depreciation. India's global standing has improved, reflected in the MSCI EM index where its weight has increased to 18.3% while China's has decreased to 25.4%.

Overall, while Indian markets are primarily driven by domestic factors, the inclusion in global bond indices enhances India's global financial standing and attractiveness to foreign investors.

This is a summary of the article by Joydeep Sen, Mint, 30 June 2024.

The full article is available at: <https://shorturl.at/omjmh>

NSS: NOT JUST NERDY STATS BUT A DATA ARSENAL FOR BUSINESS AND POLICY

The article discusses the underutilization of India's National Sample Survey (NSS) regional framework, which divides the country into 85 regions for detailed data collection on economic, social, and demographic indicators. Despite its potential, the NSS framework is largely known only among statisticians and researchers.

Key points include:

NSS Framework Benefits: The NSS regions are defined based on homogeneity related to agro-climatic conditions, demography, and geographical contiguity, providing a useful lens for business strategy and policy planning.

Business Applications: Companies could use the NSS framework to organize sales teams and develop regional strategies, particularly for products and services with significant sub-state consumer penetration. This approach has been beneficial for companies like Unilever.

Government and Philanthropy: Governments and social enterprises can leverage the NSS framework to tailor structural incentives, fiscal allocations, and outreach efforts to specific regional strengths and needs, thereby enhancing output and job creation.

Data Aggregation and Integration: The article advocates for making the NSS code mandatory for all sub-state data-sets collected by public or private agencies, integrating them with other data sources like the GST network and satellite imagery for localized insights.

Legacy of P.C. Mahalanobis: Celebrating Mahalanobis' contributions means not only honouring his work but also reimagining the application of the NSS framework for proactive planning across government, businesses, and social enterprises.

The NSS framework, despite its limitations, offers a practical and representative tool for planning, governance, and action in India's diverse and complex economy.

This is a summary of the article by Poornima Dore, Mint, 29 June 2024.

The full article is available at: <https://shorturl.at/QhO1w>

CREDIT INFORMATION IN INDIA AT THE CROSSROADS: WHAT'S NEXT FOR BUREAUS?

The article discusses the evolution and current state of credit bureaus in India, highlighting their pivotal role in transforming the lending landscape over the past two decades. Key points include:

Role of Credit Bureaus: The four main credit bureaus in India—CIBIL, Equifax, Experian, and CRIF Highmark—compile and maintain credit information for individuals and non-individuals. They provide lenders with comprehensive credit reports that facilitate informed lending decisions, reducing non-performing assets (NPAs) and fostering a healthier lending environment.

Impact on Financial Inclusion: Credit scores have democratized the lending process, making loans more accessible and promoting financial inclusion and economic growth. Lenders can now price loans based on credit behaviour, creating new opportunities in the lending ecosystem.

Comparison with Global Standards: Indian credit scores range from 300 to 900, whereas US scores range from 300 to 850. Despite being relatively young, India's credit bureaus are advancing towards more sophisticated credit assessment capabilities, similar to mature markets like the US.

Challenges Faced: Incomplete and inaccurate credit information, fragmented data sources, and inconsistent reporting by financial institutions pose significant challenges. A lack of credit history for many, particularly first-time borrowers and

rural residents, adds to the risk. Additionally, variations in scores generated by different bureaus complicate credit decisions.

Technological Innovations: The future promises advancements through AI and ML, which will develop more accurate and personalized credit scoring models. These technologies can better predict consumer behaviour and reduce defaults, benefiting both lenders and borrowers and accelerating financial inclusion.

Regulatory Changes: The RBI has introduced measures to enhance data privacy and security, including a framework for compensating consumers for delays in complaint resolutions, fostering greater trust and confidence among customers and lenders.

Internal Scoring Models: Lenders are increasingly developing their own internal scoring systems, tailored to their customer base. This trend could reduce reliance on traditional credit bureaus, as internal models may offer more nuanced and real-time insights into creditworthiness.

Future Prospects: To remain relevant, credit bureaus must improve data quality, ensure consistency in reporting, and embrace technological advancements. By doing so, they can continue to play a crucial role in India's financial ecosystem, providing accurate, efficient, and transparent credit assessment processes.

Overall, the future of credit information in India is poised to be dynamic and transformative, with credit bureaus leading the way in enhancing the country's financial infrastructure.

This is a summary of the article by Satish Mehta, Mint, 28 June 202.

The full article is available at: <https://shorturl.at/IFOTp>

A MILESTONE ON BOND STREET

The article discusses the significant developments in India's government bond market, highlighted by a recent auction and India's inclusion in the JPMorgan Government Bond Index-Emerging Markets (GBI-EM) global index suite. Key points include:

Recent Auction: A 10-year government bond auction attracted 267 bids worth Rs 47,776.5 crore, with a cut-off yield of 7.0191%, while a 40-year bond auction received 209 bids worth Rs 25,570 crore with a 7.1004% yield. Despite expectations, the yields did not significantly drop due to the GBI-EM inclusion.

Global Index Inclusion: India's government bond market, valued at \$1.3 trillion, was included in the GBI-EM index. This inclusion is expected to attract more foreign investors, increasing demand for Indian bonds and potentially lowering yields.

Historical Context: India's entry into the index followed years of regulatory improvements to facilitate foreign investment. This inclusion gained momentum after Russia's exclusion from the index.

Foreign Investments: Foreign investors currently utilize a small percentage of their allowed limit in the Indian debt market. The inclusion in the GBI-EM and other indices like Bloomberg's and FTSE Russell's is expected to boost foreign investment significantly.

Market Impact: Increased foreign participation could lead to an inflow of \$23-24 billion over the next 10 months. This will support government borrowing, relieve pressure on local banks, and potentially strengthen the rupee.

Risks and Benefits: While greater foreign investment could enhance market sentiment and economic stability, it also introduces the risk of volatility due to sudden outflows. However, India's substantial foreign currency reserves provide a buffer against such risks.

Overall, the inclusion in global bond indices marks a milestone for India's bond market, promising increased foreign investment and economic benefits while acknowledging potential risks.

This is a summary of the article by Tamal Bandyopadhyay, Business Standard, 30 June 2024.

The full article is available at: <https://shorturl.at/KsrqE>

A NEW PARADIGM FOR CREATING JOBS

The article argues for a shift in economic policy to prioritize job creation over GDP growth, which has not translated into sufficient employment opportunities. Key points include:

Job Creation Focus: High GDP growth has not resulted in adequate job creation. The focus should be on creating jobs, with GDP growth as a secondary outcome.

Policy Shift: Moving away from the "Washington Consensus" adopted in 1991, which emphasized free markets with minimal state intervention, towards a model where the state actively steers economic development.

China's Example: Unlike India, China's state-guided industrialization and export success have significantly boosted its economy. India should learn from this approach.

State Responsibility: The Indian government needs to believe in and implement smart policies that encourage private sector investment in job creation.

Exchange Rate Policy: The appreciation of India's real exchange rate, driven by remittances and capital inflows, has hurt domestic value addition and job creation. The Reserve Bank of India should intervene to prevent this appreciation, emulating East Asian strategies of artificial depreciation to boost industrialization.

Overall, the article calls for a proactive state role in economic policy to ensure job creation and sustainable growth, challenging the reliance on free market forces alone.

*This is a summary of the article by Ajay Shankar, Business Standard, 28 June 2024.
The full article is available at: <https://shorturl.at/vpr3j>*

RAILWAY REFORMS REQUIRE MUCH FASTER PACE TO PRODUCE TANGIBLE OUTCOMES

In 2019, a high-level committee led by Bibek Debroy recommended solutions to address the resource gap faced by Indian Railways (IR). Key proposals included organizational restructuring, commercial accounting, and establishing an independent regulator to price services based on costs. While the committee avoided advocating for "privatization" or "deregulation," it emphasized substantial "liberalization" and the need for private sector investment to modernize railway infrastructure.

Previous panels had also made recommendations: the Anil Kakodkar panel in 2012 suggested safety investments of ₹1 trillion over five years, and a 2015 panel proposed asset monetization and limiting new rolling stock investments to public-private partnerships (PPPs). Some recommendations, like PPP models and reversing passenger cross-subsidization through high freight rates, have seen limited implementation. However, the pace and scale of reforms remain inadequate due to political considerations and IR's entrenched bureaucracy.

Safety issues persist, highlighted by the June 17 collision in West Bengal, where the anti-collision device Kavach was not installed. Despite being operational in only 1,500 km of IR's 68,000-km network, there is a lack of vendors for necessary equipment and inadequate investment from IR. Overstaffing, combined with 20,000 vacancies in safety-critical positions, further exacerbates the problem.

IR's financial health is precarious, with an operating ratio of 98.65% in FY24, indicating high expenditure relative to earnings. Heavy reliance on the Budget for capital expenditure (23% of central government capex) and increasing indebtedness have led to a freeze on fresh borrowings. The way forward involves tariff optimization, market development, efficient resource allocation, HR upgrades, and creating profit centres like dedicated freight corridors to attract larger private investments.

This is a summary of the article in Financial Express, 29 June 2024 . The full article is available at: <https://shorturl.at/1XgIH>

TOURISM CAN CREATE THE EMPLOYMENT NEEDED TO GO WITH ECONOMIC GROWTH

The most challenging economic issue facing Indian policymakers is converting high GDP growth into high employment growth. The BJP's reduced share of seats, particularly in Uttar Pradesh, reflects voter frustration over the lack of proper employment and decent livelihoods. Despite this, policy debates primarily focus on maximizing GDP growth rather than accelerating employment growth.

Historically, Indian economic policies have prioritized output growth over employment growth. Initially, heavy industries producing capital goods were prioritized, followed by a focus on agriculture during the 1960s food crisis, and structural adjustment reforms post-1991. The assumption that high output growth would lead to high employment growth has not been realized.

To address this, the economic strategy must shift to optimizing both output and employment growth. Tourism and allied activities, often overlooked, have significant untapped potential. India ranks 39th in global tourism with only a 1.6% share in global tourism income. Although tourism directly contributes just 0.9% to GDP, it accounts for 5.5% of employment, demonstrating its employment intensity and strong linkages with allied sectors.

Restoring tourism's direct GDP share to its pre-pandemic level of 2.7% within three years could increase combined direct and indirect employment to 95 million. Further increasing this share to 5.4% could boost employment to 195 million by the decade's end.

Comparisons with other countries highlight tourism's potential. Croatia, with a per capita income of \$23,000, sees tourism contributing 20% to its GDP. In China, tourism contributes 11% of GDP. India's limited tourism significance is a result of policy failures to recognize its potential in optimizing GDP, employment, and foreign exchange earnings.

To realize tourism's potential, policymakers must change their mindset, allocate resources, and create incentives for a robust tourism ecosystem. This includes travel

options, hotels, and efficient, high-quality services at tourism sites. The forthcoming budget offers an opportunity for the finance minister to support the sector, promising substantial benefits in terms of output, employment growth, and foreign exchange earnings.

This is a summary of the article by Sudipto Mundle, Mint, 27 June 2024.

The full article is available at: <https://shorturl.at/KNuzO>

SUMMARY OF SPEECHES, BLOGS & OPINION ARTICLES FROM INTERNATIONAL PUBLICATIONS

ASIA INFRASTRUCTURE FORUM 2024 – KEYNOTE ADDRESS

Bhargav Dasgupta, ADB Vice President, emphasized the urgent need to address climate change, highlighting that the past year was the hottest in 2,000 years. He pointed out the widespread impacts of climate change, from extreme heatwaves and water supply changes to food insecurity and new public health threats.

Dasgupta described the fight against climate change as a battle for the planet's survival, underscoring the necessity to reduce fossil fuel reliance and achieve net zero emissions by mid-century, aligned with the Paris Agreement. He stressed the importance of decarbonizing Asia and the Pacific while promoting sustainable, inclusive economic growth. This involves making new infrastructure sustainable and existing infrastructure climate-resilient, requiring an annual investment of \$3.1 trillion in sustainable infrastructure.

Three main challenges are identified: fiscal constraints of governments, the need for private sector investment backed by stable policies and project bankability, and the limited availability of philanthropic capital. He called for collaboration among governments, MDBs/DFIs, and the private sector to finance the transition, recognizing the opportunities in new technologies, financial products, and markets.

ADB's efforts include pledging \$100 billion over the next decade for Sustainable Development Goals and infrastructure investments. Renewed partnerships with Infrastructure Asia, launching the LEAP 2 fund with Japan International Cooperation Agency, and initiatives like the Climate Innovation and Development Fund have mobilized substantial cofinancing for green projects. The Asia Pacific Project Preparation Facility has facilitated \$3.9 billion in commercial investments in sustainable infrastructure.

ADB's Energy Transition Mechanism supports the phase-out of coal-fired power plants, and collaborations with various organizations aim to establish a transformational transition finance platform. The Innovative Financing for Climate in

Asia and the Pacific (IF-CAP) mobilizes large-scale climate finance, and partnerships with the Green Climate Fund have secured significant funding for climate projects.

Finally, Dasgupta highlighted ADB Ventures' goal to raise over \$1 billion in risk capital for early-stage climate-focused companies by 2030. He concluded by urging all stakeholders to collaborate to achieve sustainable infrastructure development and transition to net zero, stressing that immediate action is crucial.

This is a summary of the Keynote Address by Bhargav Dasgupta, ADB Vice-President (Market Solutions), at the Asia Infrastructure Forum 2024, 5 June 2024, Singapore .

The full speech is available at: <https://shorturl.at/1ohdH>

ENERGY TRANSITION CHALLENGES, OPPORTUNITIES, AND WAY FORWARD

Scott Morris, ADB Vice President, highlighted the diverse pathways Pacific countries are taking towards clean energy transition and carbon neutrality. Each country has set ambitious net-zero emission targets within their long-term energy plans. Morris emphasized the necessity of intra-regional collaboration to achieve these goals, enabling economies of scale, increased private sector investment, and reduced technology costs. This collaboration is also crucial for sharing knowledge, innovation, and lessons learned.

Pacific Small Islands Developing States (SIDS) are shifting from fossil fuel-based power to renewable energy and greater energy efficiency. Despite the diversity in population distribution and energy challenges, all countries can rely on renewable energy, energy efficiency, and energy storage to address their energy issues. However, natural disasters, increasing in frequency and intensity, pose significant challenges. These disasters have caused substantial damage to power infrastructure and resulted in frequent power outages, leading to annual economic losses equivalent to 5% of the combined GDP of the region.

Energy planners in the Pacific are tasked with increasing renewable energy penetration and building climate-resilient infrastructure. However, integrating

variable renewable energy into the grid presents challenges, such as the need to expand and strengthen transmission grids, build reserve capacities like battery energy storage systems (BESS), and enhance institutional and operational capacities.

Addressing these challenges will require stronger inter- and intra-regional cooperation, not only in mobilizing finance but also in enhancing institutional and organizational capacities. Morris expressed hope that the Pacific Regional Session would foster productive cooperation and reaffirmed ADB's commitment as a financial and technical partner in supporting the clean energy transition in the Pacific region and beyond.

This is a summary of the Opening remarks by Scott Morris, ADB Vice-President (East Asia, Southeast Asia, and the Pacific), at the Pacific Regional Session on Energy Transition Challenges, Opportunities, and Way Forward, Asia Clean Energy Forum 2024, 6 June 2024, ADB headquarters, Manila, Philippines.

The full speech is available at: <https://shorturl.at/hIWVA>

THREE WAYS TO HELP TECH-SAVVY YOUTH TRANSFORM AGRICULTURE IN ASIA AND THE PACIFIC

The article emphasizes the need for integrating climate-smart technologies and education to revolutionize agriculture, particularly in developing countries. It calls for leveraging artificial intelligence (AI), big data, and innovation to transform agricultural challenges into growth opportunities, mirroring the significant productivity gains of the Green Revolution. The new agricultural revolution aims for net-zero emissions and substantial increases in food production, particularly benefiting those in poverty and hunger. This requires knowledge-intensive, digitally driven, but low-cost technologies.

Fourth Industrial Revolution technologies, such as AI, the Internet of Things, blockchain, and big data analytics, are driving changes in agriculture. Examples include satellite imagery for land suitability, AI-powered drones for precise fertilizer application, and blockchain for food safety traceability. Successful high-tech adoption can make agriculture a major economic growth engine, as seen in the Netherlands,

where collaboration between government, industry, and knowledge institutions, supported by world-class agricultural universities, has made it a leading exporter of agricultural products.

Developing Asia and the Pacific face challenges, such as small landholdings and limited agricultural extension services. Transforming agricultural tertiary education is key to overcoming these obstacles. This involves fostering interdisciplinary collaboration, where agricultural experts work with computer scientists, engineers, and social scientists to scale commercially viable technologies. An example is the interdisciplinary thesis lab in the Netherlands, where students from various universities collaborate on agro-food system innovations.

Agricultural universities should lead local technology adoption, particularly engaging youth to benefit farmers. Initiatives like the National Instrumentation Center for Environmental Management in Seoul exemplify how high-value agricultural research equipment can be made accessible to industries, universities, and research institutions. The centre also promotes agriculture among school children, changing its perception as a labour-intensive occupation.

A global alliance for adopting agricultural technology is proposed to catalyze this transformation. Korea's interest in establishing a Global High-tech climate-smart agricultural university network can serve as a regional hub for disseminating advanced technologies. Universities in Asia, like Bangladesh Agricultural University and University of Agriculture Faisalabad in Pakistan, are keen to join this network.

Revamping agricultural tertiary education and fostering international collaboration can empower youth to embrace new technologies, turning current agricultural challenges into opportunities and making agriculture a future growth engine for developing countries.

This is a summary of the blog by Ryotaro Hayashi, Noriko Sato and Changgil Kim, Asian Development Bank, 17June 2024.

The full is available at: <https://shorturl.at/fZA5d>

OFF TARGET? ASSESSING POVERTY NOWCASTING AMIDST THE COVID-19 CRISIS

The COVID-19 pandemic significantly impacted poverty through job losses and shutdowns, making it difficult to obtain timely and comparable poverty estimates due to impracticality of household surveys under social distancing measures. Consequently, poverty nowcasts—estimates based on models using available data—became a primary method. In April 2020, initial nowcasts were released using GDP growth projections and country-level data from the Poverty and Inequality Platform (PIP).

Over time, survey-based poverty estimates became available for several countries, allowing for partial assessment of the nowcasts' accuracy. However, regional representation was uneven, with more data from Europe and Latin America compared to the Middle East, North Africa, Sub-Saharan Africa, and South Asia.

Subsequent nowcasts, generated alongside World Bank GDP projections, utilized microsimulations and phone survey data from October 2022 onwards. These efforts aimed to predict global poverty changes from 2019-2020 and were evaluated against survey-based estimates where available.

Findings revealed that the global nowcasts were relatively accurate overall, as errors at the country level tended to offset each other. However, significant deviations occurred in countries with substantial social programs or misalignment between GDP growth and household welfare. For example, in Brazil, large cash transfers in 2020 reduced poverty despite economic contraction, while the cessation of these programs in 2021 increased poverty despite economic recovery. In Kenya, GDP growth suggested poverty reduction in 2021, but survey estimates indicated an increase due to measurement issues.

The GDP-based model, despite its limitations, proved practical for global nowcasts due to its broad applicability and ease of communication. However, incorporating policy decisions and more tailored approaches could improve accuracy for specific countries.

This is a summary of World Bank blog by Jing Xie, Daniel Gerszon Mahler, Nishant Yonzan, Samuel Kofi Tetteh Baah and Christoph Lakner, June 21, 2024.

The blog can be accessed at: <https://shorturl.at/VbVeR>

MOVING TOWARD BETTER BALANCE AND IMPLICATIONS FOR MONETARY POLICY

In this article Lisa D. Cook, a member of the Board of Governors of the Federal Reserve System, discussed the current state of inflation and the labour market, noting improvements over the past year. She emphasized the need to evaluate the economy's evolution after maintaining restrictive interest rates and provided a progress report on disinflation. Inflation has decreased from over 7 percent to 2.7 percent, with further improvements expected. However, the progress has slowed, particularly in service sectors like housing.

Cook highlighted that while the labour market has normalized, consumer spending shows signs of slowing, particularly among low-to-moderate-income households. Despite this, investment spending in equipment and intangibles has been strong, potentially boosting productivity.

Regarding monetary policy, Cook believes the current stance is appropriately restrictive to manage aggregate demand and inflation. She expects inflation to continue its downward trend and sees risks to achieving inflation and employment goals as more balanced. Cook also emphasized the importance of monitoring financial stability and highlighted the resilience of the financial system, despite some vulnerabilities.

In conclusion, Cook underscored the need for ongoing vigilance and adaptability in monetary policy to sustain economic stability and growth, and to ensure inflation returns to the 2 percent target while maintaining a healthy labour market.

This is a summary of the speech by Lisa D. Cook, a member of the Board of Governors of the Federal Reserve System at the Economic Club of New York, New York, June 25, 2024. The full article is available at: <https://shorturl.at/hNraT>

THERE's NO GOOD REASON TO RAISE THE INFLATION TARGET

Alexander William Salter argues against raising the Federal Reserve's inflation target from 2 percent to 4 percent. While some economists believe a higher target would give the Fed more flexibility to ease policy during recessions, the author disagrees, asserting that such a move misunderstands monetary policy and the market price system.

The key arguments made by the author include:

- **Interest Rates and Inflation:** Higher inflation would only increase nominal interest rates without affecting the real interest rate, thus not providing the Fed with additional meaningful policy tools.
- **Inflation's Economic Impact:** Higher inflation harms the economy by disrupting the price system, reducing productivity, and increasing transaction costs and economic uncertainty.
- **Capital Gains Tax:** Inflation raises nominal asset prices, pushing investors into higher tax brackets, which discourages saving and investment, ultimately slowing economic growth.

The author concludes that a higher inflation target is misguided and not supported by sound economic principles or policy practice, warning that it could lead to negative economic consequences.

This is a summary of the article by Alexander William Salter, American Institute for Economic Research, June 24, 2024.

The full article is available at: <https://shorturl.at/c4ulO>

SOVEREIGN DEBT RESTRUCTURING PROCESS IS IMPROVING AMID COOPERATION AND REFORM

In the IMF Blog by Ceyla Pazarbasioglu, the global economy avoided a systemic debt crisis in recent years, but vulnerabilities persist due to high debt servicing costs, especially for low and middle-income countries. Restructuring debt swiftly is crucial to minimize damage; delays increase distress and costs for both debtors and creditors.

The Common Framework has started to deliver faster debt restructuring by reducing the time from IMF staff-level agreement to financing assurances from official creditors. For instance, Ghana's recent agreement took five months, faster than previous cases. Improvements have been due to increased experience and better coordination among creditors, including non-traditional ones like China, India, and Saudi Arabia.

Outside the Common Framework, progress is seen in emerging market restructurings, such as Sri Lanka's case, which was faster than Suriname's in 2021. The Global Sovereign Debt Roundtable (GSDR) has facilitated discussions and improvements in creditor coordination, accelerating restructuring processes.

The IMF has reformed its debt policies to allow program approval within two or three months of a staff-level agreement and created a new procedure for establishing financing assurances. These reforms aim to facilitate faster engagement with debtor countries and provide more information to creditors.

High geopolitical tensions challenge global economic cooperation, yet creditors and IMF shareholders are working together to assist countries needing debt restructuring. Despite progress, some emerging markets and low-income countries remain vulnerable. Continuous progress on debt is essential, with the GSDR addressing restructuring challenges and the IMF planning to publish a sovereign debt handbook. Collaborative efforts from borrowing countries, creditors, and the international community are vital to managing debt sustainably and addressing financing needs for development and climate change.

This is a summary of the blog by Ceyla Pazarbasioglu, IMF, June 26, 2024.

BOOKSHELF CHRONICLES

WHAT WENT WRONG WITH CAPITALISM

Author: Ruchir Sharma

Publisher: Allen Lane

Year of Publication: 2024

Ruchir Sharma's *What Went Wrong With Capitalism* is a timely and incisive examination of the economic forces and policy decisions that have shaped the modern capitalist world, leading to its current state of crisis. Known for his keen insights and clear-eyed analysis, Sharma takes readers on a journey through the evolution of capitalism, highlighting the critical junctures where things began to unravel.

What Went Wrong With Capitalism is structured around a comprehensive critique of the global economic system, focusing on how capitalism, once a driver of unprecedented growth and prosperity, has faltered in recent decades. He meticulously charts the rise of economic inequality, the decline of productivity, and the impact of technology and globalization. One of the central themes of the book is the shift from inclusive to extractive capitalism, where the benefits of economic growth have become increasingly concentrated in the hands of a few.

Sharma's analysis is both broad and deep, covering a wide array of economic indicators and historical contexts. He draws on a wealth of data and real-world examples to support his arguments, making complex economic concepts accessible to a general audience. His writing is clear and engaging, free from the jargon that often plagues economic discourse. Sharma is adept at linking economic trends to political and social outcomes, providing a holistic view of the challenges facing capitalism today.

One of the strengths of the book is Sharma's ability to identify the root causes of current economic problems. He argues convincingly that short-termism in corporate and governmental decision-making, the erosion of competition due to monopolistic practices, and the failure to address systemic inequalities have all contributed to the

malaise afflicting modern capitalism. Sharma is not content to simply diagnose the problems; he also offers thoughtful and pragmatic solutions aimed at revitalizing the capitalist system.

What Went Wrong With Capitalism is well-researched with a balanced perspective. Sharma's ability to blend economic theory with practical examples makes the book an invaluable resource for anyone interested in understanding the complexities of the global economy. Some critics, however, may find his solutions too idealistic or challenging to implement in the current political climate.

In *What Went Wrong With Capitalism*, Ruchir Sharma delivers a compelling and thought-provoking analysis of the contemporary economic landscape. His ability to distil complex ideas into readable and relatable prose makes this book a must-read for both economic enthusiasts and laypersons alike. Sharma's work stands out for its clarity, depth, and the urgency with which it addresses one of the most pressing issues of our time. As capitalism continues to evolve, this book will undoubtedly serve as a crucial reference point for discussions on its future trajectory.

INDIA'S TRADE POLICY: THE 1990s AND BEYOND

Author: Arvind Panagariya

Publisher: Harper Business

Year of Publication: 2024

India's Trade Policy: The 1990s and Beyond by Arvind Panagariya is an insightful and comprehensive examination of India's evolving stance on international trade. As a leading economist and former Vice Chairman of NITI Aayog, Panagariya brings an authoritative voice and deep understanding to the complex landscape of trade policy.

Panagariya meticulously chronicles the historical context of India's trade policies, starting from its post-independence protectionist measures to the significant liberalization steps taken in the early 1990s. He deftly analyzes the economic reforms that have shaped India's trade environment, providing readers with a clear

understanding of the pivotal moments that have defined the country's economic trajectory.

One of the standout features of the book is its detailed examination of contemporary trade issues. Panagariya explores India's current trade relations, including its engagements with major global economies such as the United States, China, and the European Union. He also delves into regional trade agreements and India's role in multilateral trade organizations like the World Trade Organization (WTO).

The book's structure is logical and well-organized, making complex trade concepts accessible to both policymakers and general readers interested in economic affairs. Panagariya's writing is clear and engaging, avoiding overly technical jargon while still providing a rigorous analysis. His ability to distil intricate policy discussions into comprehensible narratives is commendable.

A significant portion of the book is dedicated to discussing the challenges and opportunities that lie ahead for India in the realm of international trade. Panagariya does not shy away from critiquing current policies where necessary, providing a balanced perspective that considers both the potential benefits and drawbacks of various trade strategies. His insights into the impact of trade policies on different sectors of the Indian economy are particularly valuable.

The author's policy recommendations are pragmatic and forward-thinking. Panagariya advocates for a more open trade regime, emphasizing the need for India to integrate further into the global economy to achieve sustainable growth. He also addresses the importance of building robust domestic institutions and infrastructure to support a more competitive trade environment.

India's Trade Policy: The 1990s and Beyond is an essential read for anyone interested in understanding the dynamics of India's trade policies and their implications for the global economy. Panagariya's expertise and thoughtful analysis make this book a valuable resource for policymakers, economists, and academics alike.
