

1. Global Economic Outlook

US Economy: According to United States Department of Labor, job growth in the US was weaker than expected in August 2024, raising concern that the economy is getting affected under the weight of higher interest rates. As per government release, employers added 1,42,000 jobs in August 2024, less than the roughly 1,60,000 jobs that was forecasted by analysts. The data shows that unemployment rate declined to 4.2% in August 2024, compared to 4.3% in July 2024. Construction and health care firms led the hiring in August 2024, while manufacturers and retailers got rid of roles. Treasury Secretary Janet Yellen asserts that the U.S. economy is healthy and recent months of cooler jobs data is a signal of a soft landing, not a recession. Economic data is indicating towards a major stock market dip and US traders are relying on the interest rate cuts in next Federal Open Market Committee meeting to be held on 17th-18th September 2024 to keep the economy on track and avoid a recession.

UK Economy: The British Chambers of Commerce (BCC) Quarterly Economic Forecast (QEF) has upgraded growth expectations for FY2024. The UK economy is expected to grow by 1.1% for 2024, with the projection for FY2025 remaining at 1.0%. The overall growth landscape remains relatively weak, with government spending as the main driver of GDP this year. Household consumption is expected to increase significantly in FY2025 as the impact of lower inflation and interest rate cuts kick in. The services sector is projected to be the highest growing sector in the economy, with yearly growth above 1% across the forecasting period. CPI is expected to be slightly higher than previous forecast by the end of FY2024, at 2.6% due to global trade uncertainties, pay growth, and rising energy costs. It is then expected to slow down, closer to the Bank of England 2% target, reaching 2.2% in 4th quarter of FY2025 and 2.1% in 4th quarter of FY2026. The average unemployment rate is expected to be 4.3% in FY2024, rising slightly next year to 4.4%, before easing to 4.1% in FY2025. However, youth unemployment will remain high, with the percentage out of work forecast to be 13.3% this year, 13.4% in FY2025 and 13.1% in FY2026.

Chinese Economy: In order to keep liquidity at a reasonable level in the banking system, the People's

Bank of China (PBOC) conducted reverse repo operations of the amount of RMB 141.5 billion through quantity bidding at a fixed interest rate on 6th September 2024. The People's Bank of China, which has steadily reduced interest rates and injected liquidity this year, is under pressure to do more to ensure that the economy grows around 5% this year, in line with the government's target. The average reserve requirement ratio, or RRR, for financial institutions is around 7% at present. China's central bank has cut the weighted average RRR from nearly 15% in 2018 to the current level, pumping more than 12 trillion yuan into the economy. China's central bank held back on buying gold for its reserves for a fourth straight month in August 2024. The PBOC is expected to resume purchases at some point despite high prices due to its desire to be less dependent on the U.S. dollar as a reserve asset.

2. Domestic Economic Outlook

World Bank upgrades India's FY25 growth forecast to 7%: In the report titled "India Development Update: India's Trade Opportunities in a Changing Global Context" released on 3rd September 2024, the World Bank upgraded its growth forecast for India, revising it to 7% for FY2025 from its earlier estimate of 6.6%. The report stated that India remained the fastest-growing major economy and grew at a rapid clip of 8.2% in FY2024, boosted by public infrastructure investment and an upswing in household investments in real estate. On the services side, the growth was supported by a buoyant manufacturing sector, which grew by 9.9%, and resilient services activity, which compensated for underperformance in agriculture. The World Bank expects India's medium-term outlook to remain positive. With robust revenue growth and further fiscal consolidation, the debt-to-GDP ratio is projected to decline from 83.9% in FY2024 to 82% by FY2027. Further, the current account deficit is expected to remain at around 1-1.6% of GDP up to FY2027.

Services PMI rises to five-month high of 60.9 in August 2024: According to data released by S&P Global, India's services activity rose at a five-month high in August as the HSBC India Services Business Activity Index, or services PMI, stood at 60.9 on resilient demand amid easing inflationary pressures. The survey stated that payroll numbers rose solidly as companies remained upbeat regarding the economic outlook.

Kharif area up 2% on year, paddy rises 4.3%:

According to latest data released by the agriculture ministry on 2nd September 2024, sowing of kharif crops was up 1.9% on year with 106.5 million hectare area being brought under cultivation. In total, the current crop area is 97% of the normal sown area. Sowing of paddy (4.29%), pulses (5.7%) and oilseeds (0.5%) saw increases because of normal to above-normal monsoon rains in key growing states in central, eastern and southern regions. According to India Meteorological Department (IMD), 74% of the 729 odd districts in the country have received rainfall in the range of surplus to normal range.

GST collections increase 10% in August 2024:

As per data released by the finance ministry on 1st September 2024, the gross goods and services tax (GST) collections in August 2024 (July transactions) rose 10% on year to Rs 1.75 lakh crore. The GST collections in July 2024 (June transactions) stood at Rs 1.82 lakh crore, up 10.3% on year. With Rs 24,460 crore refunds issued during August 2024, the net collections for the month came in at Rs 1.5 lakh crore, up 6% from the year-ago month. The shift towards self-reliance is evident in the decreased imports and increased exports.

Rs 95,000 crore capex loans to states linked to reforms:

The Centre has linked release of Rs. 25,000 crore or more than a fourth of the tied part of the interest-free loans to the states in the current fiscal to capex-related achievements. Half of the corresponding share of each state would be released to only those states that reported own capex growth of 10% or more in FY2024 and the other half will be linked to similar annual capex growth in the first half of FY2025. The condition comes in the wake of an over 20% decline in states' capex growth in 1st quarter of FY2025. Of the Rs 1.5 trillion grant-like capex loans allocated for FY2025, the untied component of Rs. 55,000 crore will be unconditional, and states can identify the projects to spend it on. The Centre has also earmarked Rs. 15,000 crore on first-cum-first-serve basis for states initiating reforms in building regulations for commercial purposes to stimulate industrial growth and livelihood-friendly cities.

Govt aims to make 1,00,000 fair price shops into nutri-hubs:

The government aims to transfer around 1,00,000 fair price shops (FPSs) into “nutri-hubs” in the next three years, where beneficiaries under the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) will get to buy millets, pulses and dairy products, besides lifting their share of subsidised free

grains every month. Revamped FPSs would get loans and invoice financing support from the Small Industries Development Bank of India (SIDBI) for making these outlets economically viable. These revamped PDS outlets will sell items under fast-moving consumer goods (FMCG) category which boost their income and ensure large populations get access to nutrition products. Currently, 0.54 million FPSs distribute on an average 60-70 million tonne (MT) of food grain annually under PMGKAY free of cost to more than 800 million beneficiaries.

3. Interest Rate Outlook

The yield on the Indian 10-year government bond is marginally low:

The Indian 10-year government bond yielded below the 6.85% mark in September 2024, its lowest level in over two years amid bets of incoming dovish pivots from the Fed and the RBI, in addition to a strong fiscal backdrop. The latest data showed that Indian inflation fell below the RBI’s target at 3.7% in July 2024, the softest in five years, while GDP growth slowed more than expected to 6.7% annually in the June 2024 quarter. The data added to bets of an RBI rate cut in October 2024, aligning with the incoming monetary loosening by the Fed. This magnified the support for bonds from the prudent fiscal backdrop set by the Indian government, reducing the risk premium on bonds and lowering the outlook of debt supply in the financial year.

Date	21 Aug	23 Aug	27 Aug	29 Aug	02 Sep	04 Sep
USA 10 yr	3.80	3.80	3.82	3.87	3.93	3.76
Ind 10 yr	6.85	6.85	6.86	6.86	6.87	6.87
Ind 5 yr	6.79	6.78	6.78	6.78	6.77	6.79
Ind 3 M	6.64	6.62	6.61	6.62	6.65	6.66

Source: CMIE; worldgovernmentbonds.com