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1. Global Economic Outlook

US Economy: The recent decision by the US Federal Reserve to reduce interest rates by 50 basis points is expected to ease the path for central banks in emerging markets, including India, to lower their key policy rates. It also slows down the arrival of the recession and aggressively control the condition of the US economy. The U.S. central bank cut the overnight rate by half a percentage point, more than the usual quarter-point adjustment, citing greater confidence that inflation will keep receding to its 2% annual target. The overnight rate, which guides how much interest banks pay to each other and affects rates for consumers, is now 4.75%-5.00%. Fed officials feel confident that inflation has largely been defeated. It has plummeted from a peak of 9.1% in June 2022 to 2.5% in August 2024, not far above the Fed's 2 percent target. The consumer price index (CPI) saw an annual increase of 2.5% in August 2024. The Central bank's officials are now more focussed on backing a weakening job market and achieving a rare "soft landing," whereby it curbs inflation without causing a sharp recession.

Chinese Economy: World's second-largest economy slowed broadly in August 2024, fuelling expectations for more stimulus. China has been relying on increased spending on infrastructure and manufacturing to support growth, with the central bank steadily lowering borrowing costs. China's GDP deflator, the broadest measure of prices across goods and services, has fallen for five consecutive quarters — the longest deflationary streak since 1999.The measure is widely expected to stay negative for a sixth quarter in July-September, with producer price deflation deepening and consumer prices staying sluggish. There are heavy chances that China could enter a peak recession period if their target growth of 5% is not met with by the end of the year. China's ageing society is expected to deplete the vigour and vitality of the world's second-largest economy in the coming decades. But the adverse effects of demographic change are already apparent for Chinese businesses that cater to children. Many are scaling back operations or changing course.

Brazilian Economy: While the United States Federal Reserve decided to cut its reference interest rate arguing inflation was under control, Brazil's Central Bank decided the opposite and hiked 25 basis points. The bank's monetary policy committee, Copom, in a unanimous decision agreed on the increase, fearing a resurgence of inflation given a faster than expected Brazil's 12-month inflation reached 4.24% in August 2024. The central bank raised its baseline inflation forecasts to 4.3% for this year and 3.7% for 2025 growth performance of the Brazilian economy. Brazil Finance Minister Fernando Haddad said on 11 September 2024 that the government is expected to raise its annual economic growth forecast to above 3%, up from the current projection of 2.5%.

2.Domestic Economic Outlook

India on track to become third largest economy: India is set to become the third largest economy and transition to the upper-middle-income category by 2030-31, driven by a projected annual growth rate of 6.7% this fiscal, said a report by S&P Global. India is poised for growth, and with a young and dynamic workforce well-positioned to shape the global economic landscape. Indian government bonds have attracted sizable foreign portfolio inflows, in absolute terms, since the 2023 announcement of India's inclusion in major emerging market indexes. In terms of energy security, affordability and sustainability, India faces growing domestic energy demand, has a heavy reliance on energy imports and requires more aggressive investment in new, sustainable technologies. The S&P Global report also emphasized that advancements in agriculture will rely on new technologies and policies to enhance infrastructure and productivity. Addressing critical issues such as irrigation, storage, and supply distribution is paramount for ensuring food security and economic stability.

Rs 1,000-crore credit guarantee fund aimed at boosting pledge financing for farmers: The government has approved a Rs 1,000-crore credit guarantee scheme for pledge financing availed of by farmers against electronic negotiable warehouse receipts (e-NWRs) after depositing commodities in accredited warehouses. It is also expected to improve trust on warehouses as they increase post-harvest finance to farmers through e-NWRs. Post harvesting, when prices of commodities decline, farmers can deposit their produces at 6,000-odd WDRA-registered warehouses and generate e-NWRs for accessing bank credit for the next crop. In March 2024, the government launched an online digital gateway, e-Kisan Upaj Nidhi, which would allow farmers store agricultural produces with the Warehousing Development and Regulatory Authority (WDRA) and obtain post-harvest loans from banks. Out of 0.1 million agri warehouses in the country, 40,000 are privately held. Officials said farmers getting loans against stored commodities also provide liquidity in the hands of farmers at the time of harvest.

Direct tax receipts up 16% on year: The Centre's direct tax collections, net of refunds, rose about 16% on year to Rs 9.92 lakh crore till September 15, 2024, in the current financial year. The direct tax receipts were 45% of the FY25 target of Rs 22.07 lakh crore, broadly in line with annual trends. Given that the going growth rate is higher than the required rate of growth, which was 12.8% to achieve the FY25 target, direct tax receipts is expected to exceed the target of Rs 22.07 lakh crore by a decent margin. The slower pace of spending despite buoyant revenues will likely rein in the fiscal deficit below 4.9% of GDP in the current financial year. The Centre has enhanced the outlay on interest-free capex loans to Rs 1.5 trillion for FY25 from Rs 1.3 trillion in the interim budget and two-thirds of these loans or Rs 95,000 crore are linked to reforms.

Trade deficit surges to 10-month high of $29.7 billion: India's merchandise trade deficit jumped to its highest in 10 months to $ 29.6 billion in August 2024, as exports shrank by a steep 9.3% on year, even as import growth to slowed to 3.3%. The contraction in export shipments was the sharpest in any month since July 2023, when the slump was 10%. Exports dropped to $34.71 billion in August 2024, from $ 38.28 billion in the year ago month. The drop of $ 3.57 billion in overall exports on an annual basis can be entirely attributed a 37% fall in value of petroleum exports to $5.9 billion from $9.5 billion. Imports in August 2024 stood at $ 64.36 billion. One reason for the fall in exports of petroleum products is the subdued crude oil prices. Gold imports in August 2024 were $10 billion, more than double the level of $4.9 billion in the year ago period. In the first quarter of FY25, India's merchandise exports grew by 6% aided by a very favourable base, while in July-August period of the second quarter, onward shipments fell by 5.7%.

While other key sectors of manufacturing exports like electronics, engineering goods, drugs and pharma, chemicals, readymade garments, and plastics continued to do well.

Interest Rate Outlook

No RBI rate cuts expected this calendar year, economists see bond yields staying above 6.5%: While the Reserve Bank of India (RBI) is not expected to cut interest rates until December 2024, economists believe a shift in its policy stance could happen sooner. B Prasanna, Head of Global Markets Group at ICICI bank, pointed to key factors underpinning their forecast, including a favourable global environment, falling oil prices, and easing inflation—particularly in goods linked to China's economic slowdown. It is expected that bond yields will decline from current levels but not fall below 6.25%.

Indian bond yields decline after US Fed slashes interest rates: Indian bond yields fell in the afternoon trade on September 19, 2024, after the US Federal Reserve cut interest rates.

(per cent)

Date	11 Sept	13 Sept	15 Sept	17 Sept	19 Sept
USA 10 yr	3.66	3.66	3.65	3.64	3.72
Ind 10 yr	6.94	6.90	6.79	6.89	6.87
Ind 5 yr	6.83	6.81	6.70	6.80	6.78
Ind 3 yr	6.83	6.81	6.70	6.81	6.79

Source: worldgovernmentbonds