DEAR
ECO THINK
Issue No. 77/ February 2024

ECONOMY

Key Highlights for Agriculture and Cooperation in interim Budget 2024-25

Digital Public Infrastructure for Agriculture: Open-source, open-standard, and interoperable digital infrastructure for agriculture will be built. It is aimed at providing inclusive, farmer-centric solutions.

Agriculture Accelerator Fund will be set up to support rural agri-startups, especially those led by young entrepreneurs.

Enhancing Productivity of Cotton Crop: Implementation of a cluster-based and value chain approach via Public Private Partnerships (PPPs) for enhancing the productivity of extra-long staple cotton.

Atmanirbhar Horticulture Clean Plant Program: A program to enhance availability of disease-free, quality planting material for high-value horticultural crops will be launched, with an allocation of ₹2,200 crore.

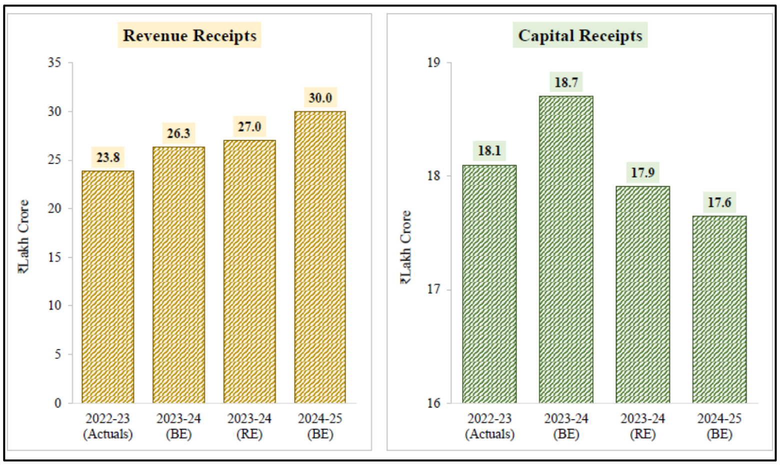
Global Hub for Millets "Shree Anna": Indian Institute of Millet Research, Hyderabad, to be supported as a Centre of Excellence to promote millets globally.

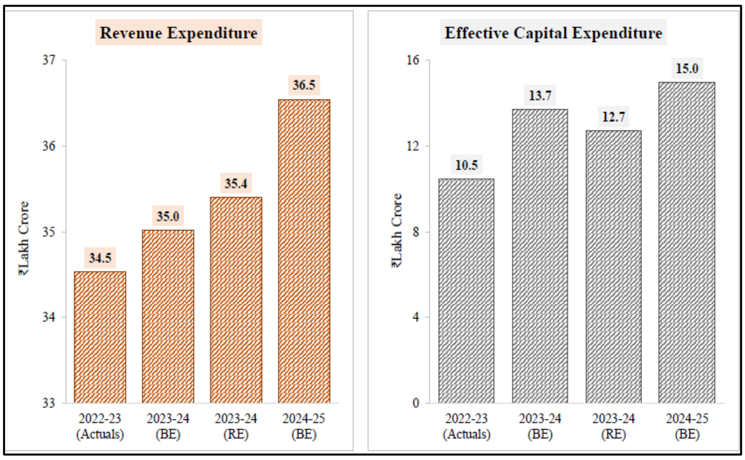
Agriculture Credit: Agriculture credit target of ₹20 lakh crore, with emphasis on animal husbandry, dairy, and fisheries sectors.

Fisheries: A new sub-scheme under PM Matsya Sampada Yojana with ₹6,000 crore investment will be launched focusing on enhancing value chain efficiencies and expanding the market.

Cooperation: Plans to set up massive decentralized storage capacity; facilitate setting up of multipurpose cooperative societies, primary fishery societies and dairy cooperative societies especially in uncovered panchayats and villages, to help farmers store and sell produce at remunerative prices.

Receipts and Expenditure Scenario





Final area coverage under rabi crops

According to the latest data released by the Ministry of Agriculture, Rabi crops have been sown in a total of 709.29 lakh hectares across the country as on 02 February 2024, whereas last year it was sown in 709.09 lakh hectares. There has been an increase in the area of wheat, while the sowing of pulses has decreased. Besides, there has been an increase in the area of oilseed and coarse grain crops.

Sr. No.	Crops	Area Sown (in Lakh Ha) as on 02 Feb 2024	
		2023-24	2022-23
1	Wheat	341.57	339.20
2	Paddy	39.29	40.37
3	Pulses	160.08	166.19
4	Coarse cereals	57.38	53.57
5	Oilseeds	110.96	109.76
6	Total Crops	709.29	709.09

Source: Department of Agriculture & Farmers' Welfare

IMF raises India's FY24 growth forecast to 6.7%

The International Monetary Fund (IMF) has raised India's GDP growth projection for FY24 by 40 basis points (bps) to 6.7%, and for FY25 by 20 bps to 6.5%, in its latest 'World Economic Outlook' report, citing "resilient domestic demand". At 6.7% India would remain the fastest growing major economy in the world. However, the forecast for FY24 is still 60 bps lower than the National Statistical Office's (NSO) projection. The NSO projected India's economy to grow at 7.3% in the current fiscal, based on data extrapolated for the first seven to eight months. The

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IMF's estimate is also 30 bps lower than the RBI's estimate of 7.0% for FY24.

Inflation Outlook

Inflation expected to ease more in January 2024

Inflation, measured by the Consumer Price Index (CPI), is expected to have eased by 53 basis points in January 2024 to 5.16 %. This would mark a three-month low in retail inflation in India. Inflation was 5.69 % in December 2023. The fall in inflation in January can be attributed, both, to core inflation, as well as non-core inflation. On a month-on-month basis, however, prices have been rather stable (CMIE). Fuel & light, which has been in the deflationary zone for four months now, is expected to have deflated for another month in January 2024. Core inflation, which excludes the food and fuel & light group, is expected to remain below the RBI's 4 % target. Core inflation is expected to have fallen a bit, to 3.80 % in January 2024, from 3.90 % in December 2023.

Crude oil prices rise in January 2024

Crude oil prices were on a rising path during the month of January 2024. They had reversed a falling trend seen during mid-December 2023 and continued to rise during January. The average price of the Indian basket of crude oil in January was USD 79.1 per barrel. This was 2.2 % higher than its average level in December 2023. This increase comes after three consecutive months of decline. The price had fallen from USD 93.5 per barrel in September 2023 to USD 77.4 per barrel in December. The rising trend in crude oil prices since mid-December can be attributed largely to the security problems around Red Sea.

Interest Rate Outlook

Indian Rupee appreciates in January 2024

Indian Rupee (INR) appreciated against the US Dollar for the second consecutive month in January 2024. It had appreciated by a modest 0.02 % in December 2023. In January 2024, the appreciation was somewhat more material at 0.19 %. These appreciations come after four months of depreciation in the INR.

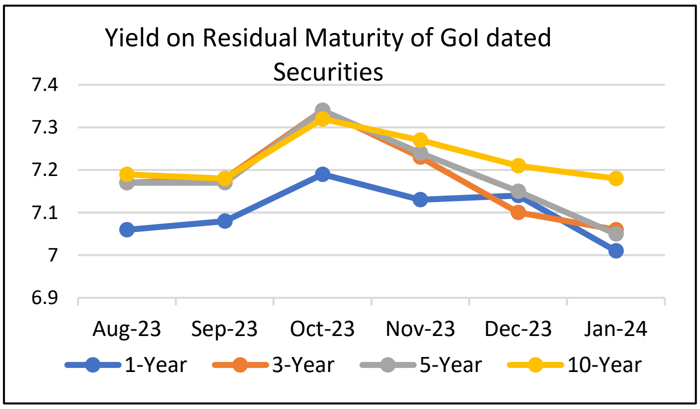
Between October 2022 and July 2023, the INR moved mostly within a narrow band of Rs.82 per USD and Rs.82.5 per USD. Then it depreciated gradually to Rs.83.3 per USD by November 2023 and appreciating again mildly to Rs.83.1 per USD in January 2024.

G-Sec yields fall, corporate bond risk premiums rise-Yields on government securities (G-Secs) dropped across the maturity spectrum in January 2024. Yields for the maturity periods have fallen to their six-month lows. The fall in yields was the largest for 1-year G-Secs. These yields fell by 13 basis points (bps) from 7.14 % in December 2023 to 7.01 % in January. 3-year yield dropped from 7.10 % in December to 7.06 % in January while 5-year yields fell to 7.05 % from 7.15 %. 10-year yields declined to a four-month low of 7.18 %.

3-year yields of AAA rated corporate bonds rose by 2 bps, to close at 7.86 % in January 2024 from 7.84 % in December 2023. 5-year yields rose substantially, by 17 bps, to 7.85 % from 7.68 %. 10-year corporate bond yields closed at 7.86 %, falling by a mere 2 bps from 7.88 %. 1-year corporate bond yields fell from 8.01 % to 7.98 % in January. 1-year yields were greater than 3-year, 5-year and 10-year periods, and yields of 3-year, 5-year and 10-year corporate bonds have converged.

As yields on G-Secs fell and those of corporate bonds did not correspondingly fall, the effective risk premium on corporate bonds widened across the maturity spectrum. 1-year securities witnessed the largest spread of 97 bps. For the month of January, the risk premium on 3-year and 5-year yields was 80 bps each. 10-year securities saw spread of 68 bps which was almost the same as seen in December 2023.

Source: CMIE



RBI keeps repo rate unchanged-RBI in its Monetary Policy Committee (MPC) meeting held during 06-08 February 2024, kept the key policy repo rate unchanged at 6.5%. Consequently, the Standing Deposit Facility Rate remains at 6.25%. The Marginal Standing Facility Rate and Bank Rate are unchanged at 6.75%.

Real GDP growth for 2024-25 is projected at 7.0 % with Q1 at 7.2 %; Q2 at 6.8 %; Q3 at 7.0 %; and Q4 at 6.9%. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.

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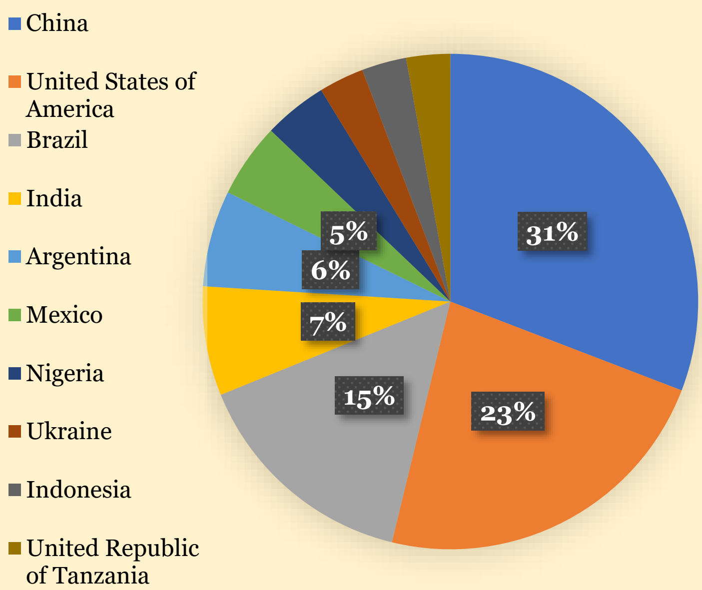
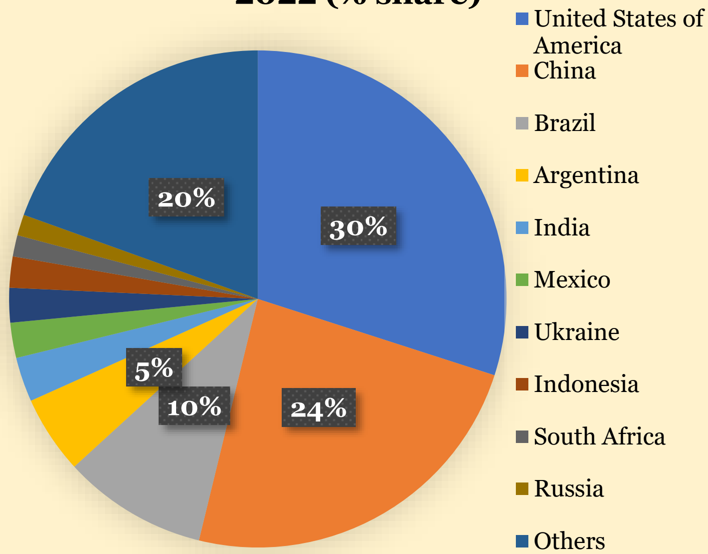
Dashboard on Agricultural Commodity: Maize

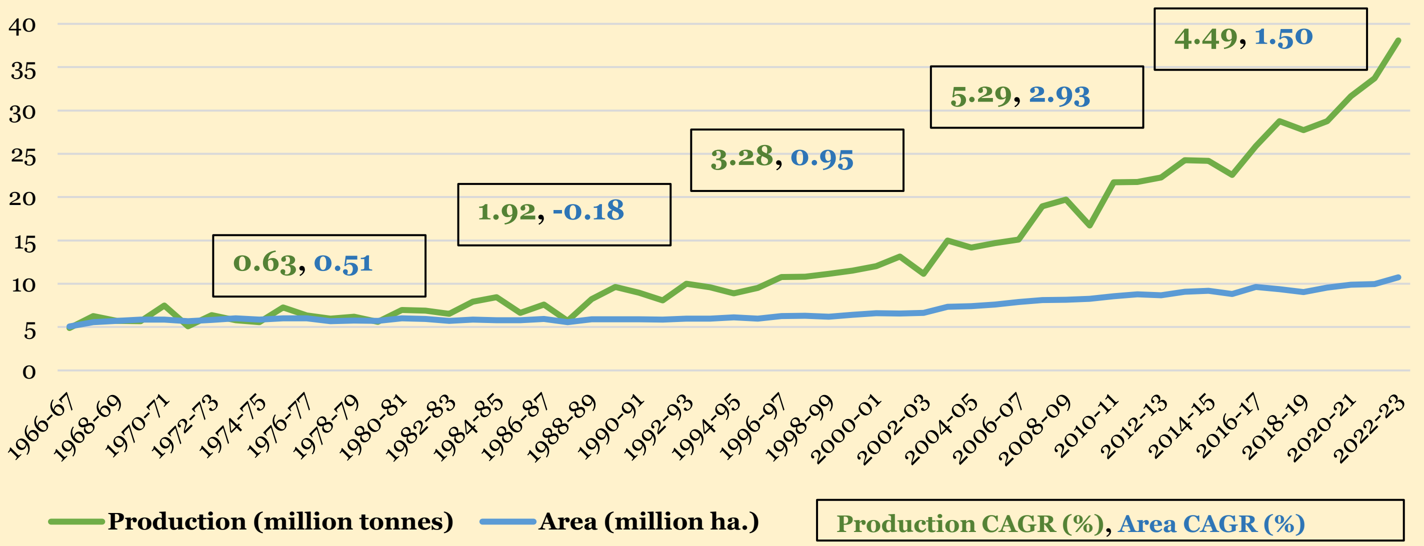
Top 10 countries : Area under Maize Cultivation -2022 (% share)



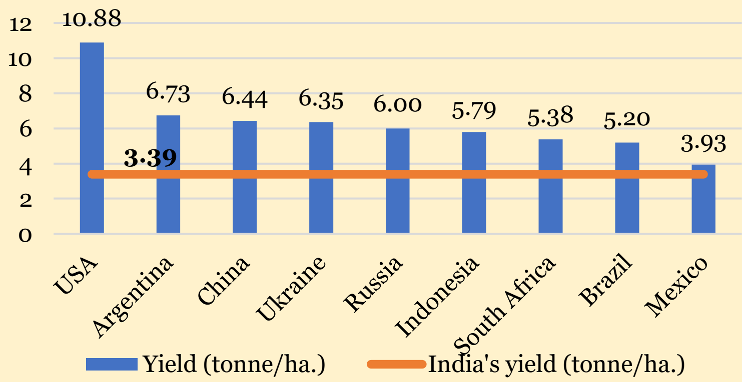
Top 10 Maize producing countries -2022 (% share)



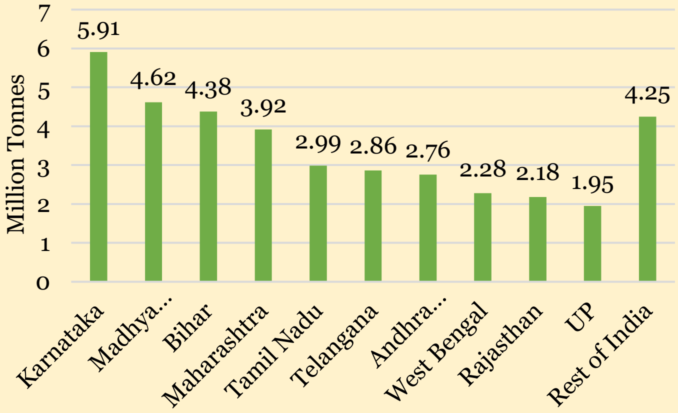
Trends in Area Under Cultivation and Production of Maize in India



Yield of maize in top producing countries vis-a-vis India (2022)



Top 10 Maize producing States in India (2022-23)



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Report THINK

Global Economic Prospects Report:
The report titled 'Global Economic Prospects' is a flagship report released by the World Bank Group biannually in January and June every year. The report examines global economic developments and prospects, with a special focus on emerging market and developing economies.

The key takeaways from the report are as follows:

Global outlook: Global growth is expected to slow to 2.4% in 2024 due to effects of tight monetary policies, restrictive credit conditions, and sluggish global trade and investment. While major economies are about to experience subdued growth, economic performance of emerging market and developing economies (EMDEs) with solid fundamentals may improve. Global trade growth in 2024 is expected to be only half the average in the decade preceding the Pandemic. Borrowing costs for developing economies, especially those with low credit ratings, are expected to remain high. A major risk to global economy is posed by conflict escalation in the Middle East on top of Russia-Ukraine war which could further lead to surging energy prices, with broader implications for global activity and inflation. Other risks include financial stress related to elevated real interest rates, persistent inflation, weaker-than-expected growth in China, trade fragmentation, and climate change-related disasters.

Regional Outlook: On account of slower growth witnessed in China, Central Asia, and South Asia; economic growth is expected to soften in East Asia and Pacific region in 2024. Remarkable growth is projected for the Middle East and North Africa, supported by increased oil production, and Sub-Saharan Africa, reflecting recovery. Growth in low-income countries (LICs) is projected to pick up from an estimated 3.5 % in 2023 to 5.5 % in 2024 and 5.6 % in 2025. The projected recovery in 2024 is underpinned by a pickup in LIC metal exporters and the stabilization of some economies marred by conflict in 2023. However, in 2025, growth is projected to strengthen in most regions in alignment with global recovery. In South Asian region, economic growth is expected to edge around 5.6 % in 2024, and consequently strengthen to 5.9 % in 2025. Domestic demand, including public consumption and investment, will remain major drivers of economic growth in the region. Excluding India, output in the region is projected to expand by 3.8 % in 2024 and 4.1 % in 2025.

Prospects for India: India is anticipated to maintain the fastest growth rate among the world's largest economies, but its post-pandemic recovery is expected to slow, with estimated growth of 6.3 % in 2024. Growth is then expected to recover gradually to 6.4 % in FY2025 and 6.5 % in FY2026. Investment is envisaged to decelerate marginally but remain robust, supported by higher public investment and improved corporate balance sheets, including in the banking sector. Private consumption growth is likely to taper off, as the post-pandemic pent-up demand diminishes and persistent high food price inflation is likely to constrain spending, particularly among low-income households. Meanwhile, government consumption is expected to grow slowly, in line with the central government's efforts to lower the share of current spending.

Investment Accelerations: The definition of investment accelerations is episodes of rapid acceleration in investment per capita that are sustained for at least six years. Emerging market and developing economies (EMDEs) face many obstacles in seeking to accelerate investment: the near-term investment growth outlook is weak, long-term growth prospects have deteriorated, fiscal resources are limited, and external borrowing costs are elevated. It is suggested in the report that multilateral development banks (MDBs) can offer various financial instruments and support like providing credit enhancement and disaster risk management instruments, enhancing liquidity in local-currency debt and equity markets in EMDEs with less developed financial markets, and promoting innovative investment products such as blue and green bonds to boost private capital mobilization. In situations where market failures prevent investors from insuring risks, MDBs can also offer loan guarantees. The report advocates for a formidable increase in investment by developing countries, approximately USD 2.4 trillion per year, to address climate change and achieve other key global development goals by 2030.

Fiscal Policy in Commodity Exporters: Fiscal policy has been about 30% more procyclical and about 40% more volatile in commodity exporting emerging market and developing economies (EMDEs) than in other EMDEs. Structural policies, including exchange rate flexibility and the easing of restrictions on international financial transactions, can help reduce both fiscal procyclicality and fiscal volatility. By adopting average advanced-economy policies regarding exchange rate regimes, restrictions on cross-border financial flows, and the use of fiscal rules, commodity-exporting EMDEs can increase their GDP per capita growth by about 1 % point every four to five years through the reduction in fiscal policy volatility.
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