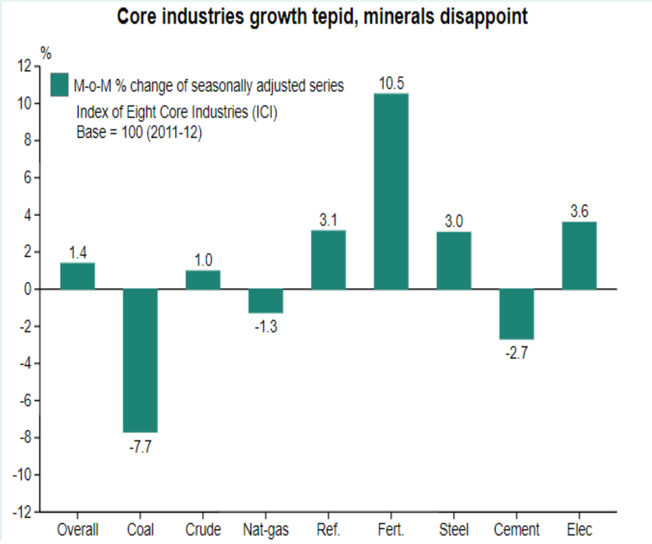
DEAR
ECO THINK
Issue No. 81/ June 2024

ECONOMY

State of the Indian Economy

Record high RBI dividend boosts fiscal leeway: Dividend transfers by Reserve Bank of India (RBI) to the Centre jumped to a whopping ₹2.11 trillion for fiscal year 2023-24. This amounts to a phenomenal increase of 141.4% from ₹874 billion that was transferred last year. The dividend transfer will reflect in the Central government's budget account for 2024-25. In the interim budget for 2024-25, the Centre budgeted dividends from RBI, nationalised banks and financial institutions at ₹1.02 trillion. Markets expected dividends from RBI to be around ₹1 trillion. Actual dividend transfer turned out substantially higher than what the markets expected. The Centre has two alternatives on channelling these additional funds. One, to boost government spending while comfortably maintaining its gross fiscal deficit target. If government does not opt to increase expenditure, the additional transfers would translate to an increase in revenue receipts. This would lead to a lower gross fiscal deficit and reduce the Centre's reliance on market borrowings.

Lukewarm growth in the core industries: The output of the core industries fell in April 2024. Index of Eight Core Industries (ICI) which shows the collective health of India's industrial base dropped sequentially by 8.1 % in April. Majority of the core industries- coal, crude oil, natural gas, refinery products, steel and cement- registered a decline in output during the month. In year-on-year comparison, core industries output was 6.2 per cent higher in April 2024 compared to April last year. This is lower than the 7.6 per cent rise noted during 2023-24. ICI, when adjusted for seasonality, shows a tepid 1.4 per cent sequential increase in output during the month. Output of refinery products, fertilizers, steel and electricity grew at an accelerated rate while that of coal, natural gas and cement dipped during the month. Crude oil noted a reversal in trend. It grew marginally after contracting during the previous month.



Source: CMIE

MPC kept the repo rate unchanged: The Reserve Bank of India's Monetary Policy Committee (MPC) kept the repo rate unchanged at 6.5% in its first meeting since Lok Sabha Elections 2024. RBI decided to hold the key policy rate for the eighth consecutive time in its June 2024 meeting. The MPC had last changed the benchmark interest rate in February 2023. Real GDP growth is expected at 7.2% for FY25.

Boom in the services sector employment: Employment in India improved significantly in the service sector in 2023-24. Over 17.6 million people gained employment in the year. The size of the workforce, consisting of employed persons, leaped to 423.3 million in 2023-24 from 405.7 million in 2022-23. This is the highest increase in employment recorded since 2016-17. **IIP rises by 5.9% in FY24:** During 2023-24, IIP growth improved to 5.9% from 5.3% in the preceding year. Growth in mining output accelerated to 7.5% from 5.8% in 2022-23. Manufacturing output grew at a faster pace of 5.4% compared to 4.7% in 2022-23. Growth in electricity generation slowed to 7% during 2023-24 from 8.9% in the preceding year. In case of use-based break-up, consumer goods output grew the slowest at 3.9% during 2023-24. Primary goods and capital goods output grew by over 6%, each. Output of intermediate goods grew by 5.2% whereas that of infrastructure/construction goods recorded the fastest growth of 9.7% during 2023-24.

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Forex reserves fall by $2 billion: Foreign exchange reserves fell by $2 billion to $646.7 billion in the week ended May 2024 as per the latest data from the Reserve Bank of India (RBI) showed on Friday. Forex reserves had expanded $4.5 billion to an all-time high of $648.7 billion in the week ended 17 May 2024. According to the weekly statistical supplement by RBI, foreign currency assets fell $1.5 billion to $567.5 billion. Gold reserves fell $482 million to nearly $57 billion. Special drawing rights fell $33 million to $18.1 billion.

GST collection in May 2024 moderates to ₹1.73 lakh crore: Goods & Services Tax (GST) collections during the month of May 2024 came in at ₹1.73 lakh crore, recording a growth of 10% on-year, according to the latest data released by the Ministry of Finance. For the previous month (April), GST collection had breached the ₹2 lakh crore milestone. The gross GST collection during April had hit a record of ₹2.10 lakh crore, up 12.4% on-year. The growth was driven by a strong increase in domestic transactions (up 15.3%) and the slowing of imports (down 4.3). After accounting for refunds, the net GST revenue for May 2024 stood at ₹ 1.44 lakh crore, reflecting a growth of 6.9% as compared to the same period last year.

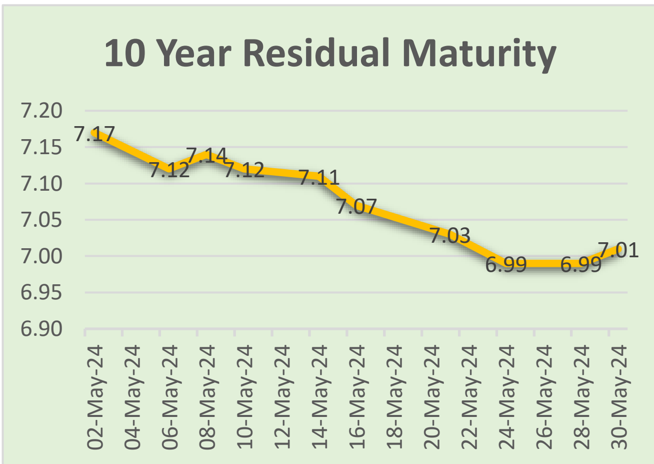
Inflation Outlook

WPI inflation rises to 13-month high of 1.26% in April: India's wholesale price index (WPI)-based inflation accelerated to 1.26% in April on an annual basis, as against 0.53% in March, said the provisional data released by the Ministry of Commerce & Industry. The April WPI came to a 13-month high and is above the Reuters estimates which showed that WPI inflation was expected at 1%. The ministry said that the positive rate of inflation in April 2024 is primarily due to increase in prices of food articles, electricity, crude petroleum & natural gas, manufacture of food products, other manufacturing, etc. In food articles, inflation in vegetables was 23.60%. Wheat inflation during the month of April was at 5.69% as against 7.43% in March, while pulses were at 16.58%. Milk inflation stood at 4.30% from 4.73% in March. Eggs, meat & fish inflation came in at 0.88% in April. Potato and onion showed a major surge in inflation at 71.97% and 59.75% respectively.

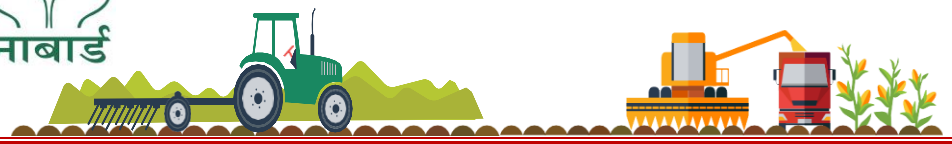
CPI inflation at 11-month low in April: Retail inflation fell to an 11-month low of 4.83% year-on-year in April from 4.85% in March, mainly due to a higher deflation in fuel and light and lower core inflation, as per the data released by the statistics ministry. On a sequential basis, the CPI index rose 0.5% in April, the highest rate in six months. The increase in sequential price pressures was led by higher food prices.

Interest Rate Outlook

Benchmark bond yield stays below 7% on positive cues: The yield on the benchmark 10-year G-Sec has fallen 23 basis points over the past one month due to positive global and domestic factors. The recent record dividend transfer of ₹2.11 lakh crore by the Reserve Bank of India (RBI) to the government has added to the euphoria. The yield on 10-year G-Sec has declined from 7.23% on 19 April 2024 to 6.996% on 28 May 2024. On 22 May 2024, the yield fell below 7% to 6.992%. The bond yields will drift lower given that core inflation is easing, the larger-than-expected dividend giving fiscal leeway to the government and favorable demand-supply dynamics providing tailwind.



Source: CMIE



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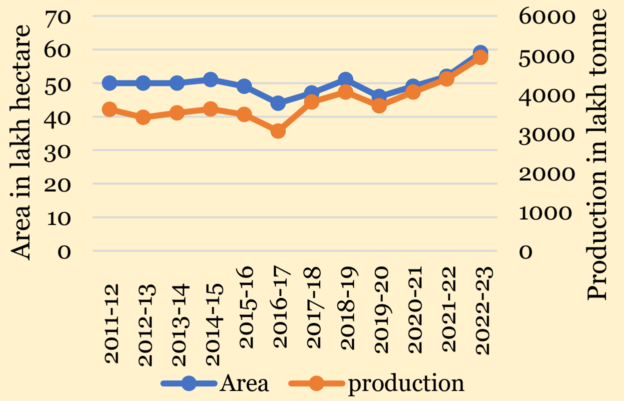
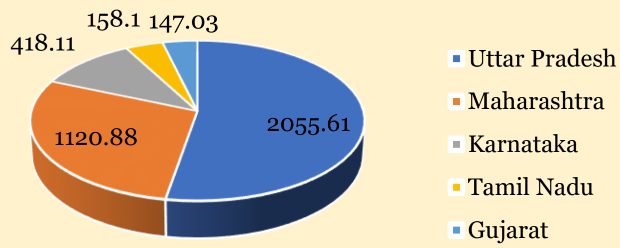
Dashboard on Agricultural Commodity: Sugarcane

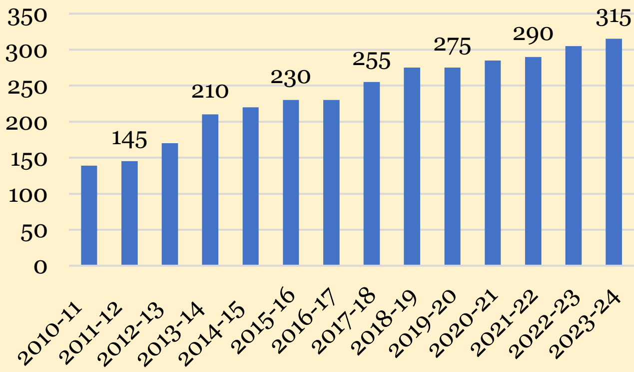
Area and Production of Sugarcane



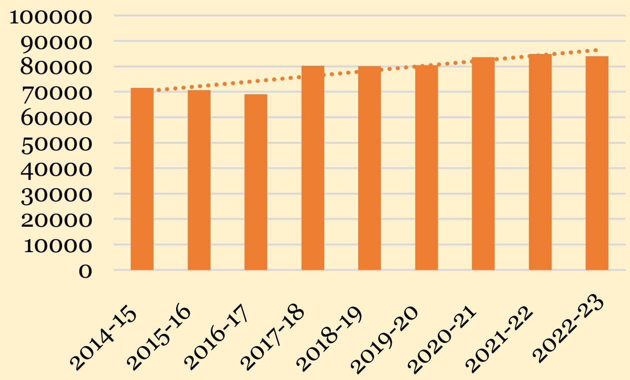
Top 5 states -Production in Lakh Tonne



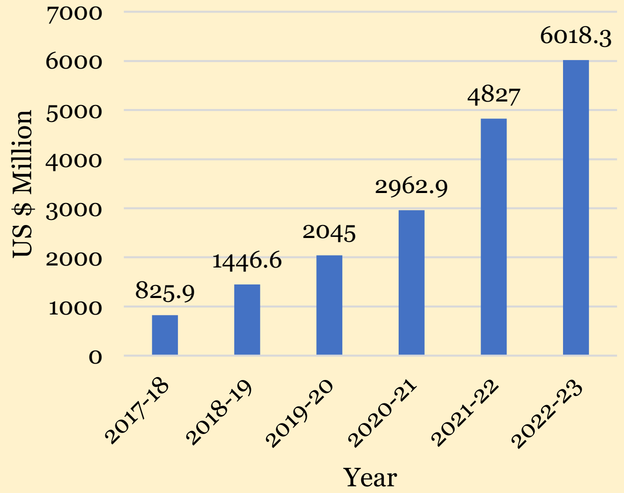
Fair Remunerative Price (Rs. per quintal)



Sugarcane Yield (Kg per hectare)



Export of Sugar and Mollases



The Cabinet Committee on Economic Affairs approved the Fair and Remunerative Price (FRP) of sugarcane for Sugar Season 2024-25 at ₹340/quintal at sugar recovery rate of 10.25%. This is historic price of sugarcane which is about 8% higher than FRP of sugarcane for current season 2023-24. The revised FRP will be applicable w.e.f. 01 Oct 2024.

Uttar Pradesh, Maharashtra and Karnataka account for nearly 80 percent of the total sugar production in the country. India emerged as the world's largest producer and consumer of sugar and world's 2nd largest exporter of sugar after Brazil in 2022.

Source: CMIE, UPAg, DBIE-RBI, PIB

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Report📖THINK

States and Trends of Carbon Pricing 2024: It is an annually published report by the World Bank, which tracks the progress of carbon pricing instruments globally, including carbon taxes and emissions trading systems. It also highlights the trends in the sector and evaluates challenges and opportunities.

The key takeaways from the report are as follows:

Expansion and Revenue Growth: Carbon pricing revenues reached a record high of $104 billion in 2023, driven by high prices in the European Union and a temporary shift in some German Emission Trading Systems (ETS) revenues from 2022 to 2023. This substantial sum demonstrates the potential of carbon pricing to generate significant financial resources that can be directed towards climate action initiatives and clean energy investments. ETSs continued to account for the bulk of carbon pricing revenues. Over half of the revenue collected was used to fund climate and nature related programs. The report highlights a notable increase in the global coverage of carbon pricing instruments.

Beyond Traditional Sectors: The scope of carbon pricing is expanding beyond the traditional focus on power generation and heavy industries. The report identifies growing interest in applying carbon pricing to new sectors, including aviation, shipping, and waste management. This broader approach has the potential to create a more comprehensive and impactful system for tackling greenhouse gas emissions. For instance, the European Union's Carbon Border Adjustment Mechanism, currently in a transitional phase, is encouraging other governments to consider carbon pricing for sectors with a high embedded carbon footprint.

Emerging flexible designs

Report observed that governments are increasingly using multiple carbon pricing instruments in parallel to expand coverage or price levels. Through multi-instrument approach, countries combine carbon taxes and ETSs to achieve their desired emission reduction and pricing goals. Governments continue to allow regulated entities to use carbon credits to offset carbon pricing liabilities, which can increase flexibility, lower compliance costs, and extend the carbon price signal to uncovered sectors. Carbon pricing continues to offer benefits beyond mitigation, including as a fiscal tool.

New players broadening the scope

The report marks a significant shift in the geographical distribution of carbon pricing implementation. Traditionally, developed economies have been the frontrunners in this space. However, this year's report highlights the growing participation of large middle-income countries like Brazil, India, and Türkiye, which are actively developing and implementing carbon pricing mechanisms. This broader approach has the potential to create a more comprehensive and impactful system for tackling greenhouse gas emissions.

Challenges and Opportunities

Carbon prices remain insufficient despite a decade of strong growth. Despite carbon pricing revenue reaching record highs, its contribution to countries' national budgets remains low. The report identifies a significant "implementation gap" between the ambitious climate pledges made by many countries and the actual implementation of carbon pricing policies. Furthermore, debates around the effectiveness of offset credits, which some entities use to meet their carbon pricing requirements, remain a point of contention. Finally, political considerations and concerns about affordability during periods of high inflation can hinder the wider adoption of carbon pricing policies. These challenges necessitate innovative solutions and clear communication strategies to ensure public acceptance and political will for more robust carbon pricing mechanisms. While carbon tax rates showed slight increases, price changes within ETSs were mixed with ten systems experiencing price decreases over the past 12 months, including long-standing ETSs in the European Union, New Zealand, and the Republic of Korea. Price levels continue to fall short of the ambition needed to achieve the Paris Agreement goals. In 2023, 24% of global emissions were covered by carbon taxes or ETS, a substantial jump from the 7% reported in the first edition of this report over a decade ago. This positive trend is expected to continue, with the potential to reach 30% coverage if proposed carbon pricing initiatives in various countries materialize.

While challenges remain, the report offers a hopeful outlook on the potential of carbon pricing to be a powerful tool in the fight against climate change. Continued efforts to expand coverage, strengthen price signals, address implementation challenges, and ensure policy effectiveness will be crucial for maximizing the impact of carbon pricing in achieving global climate goals.
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