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ECONOMIC DIGEST

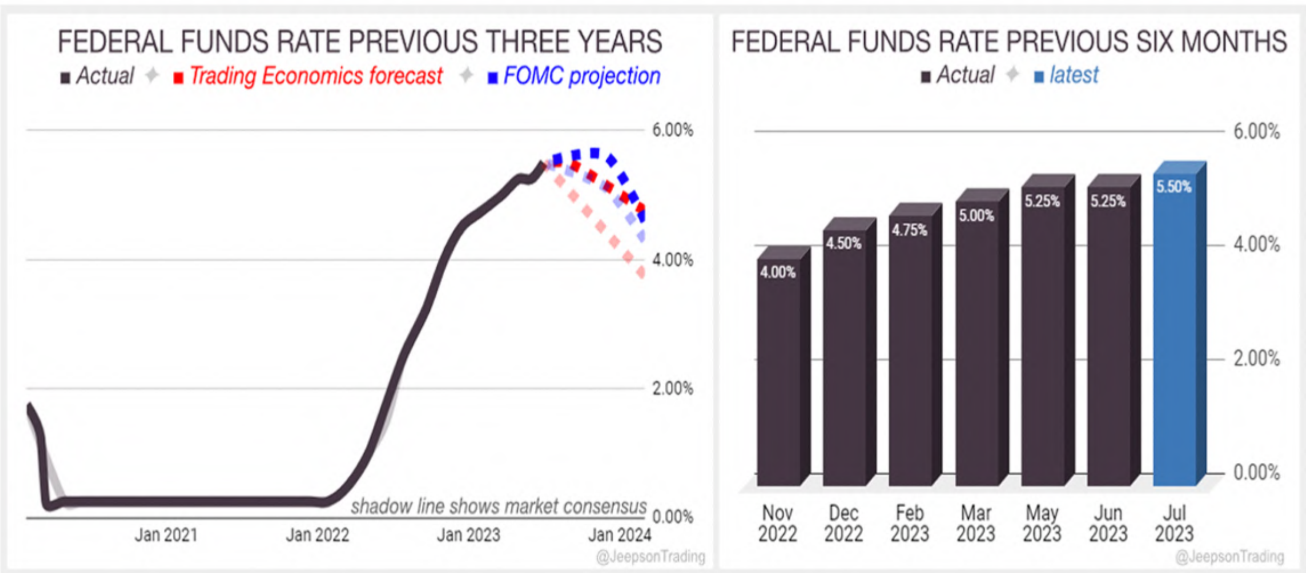
THE ECONOMIC PERISCOPE: LATEST TRENDS AND DEVELOPMENTS

03 October 2023

INTRODUCTION

The Fed has kept its major interest rate unchanged but does not rule out further rate hike possibilities. The next meeting is due on 1 Nov'23. The second estimate of the annualised quarterly change in the value of all goods and services produced by the US during Q2 climbed from 2.0% to 2.1%, below expectations of 2.4%. The latest report is on track to achieve the FOMC 2023 change in real GDP forecast of 2.1% (revised up from 1.0%).

Chart 1: Fed Funds Rate



Source: US Fed, Gavin Pearson-Jeepson Trading, Trading Economics, FX street.

As a percentage of the labour force, unemployment in the US for August climbed from 3.5% to 3.8%, far above expectations of 3.5%.[1] The change in the number of non-farm workers on payroll in the US

[1] "Unemployment rate unexpectedly rose to 3.8% in August as payrolls increased by 187,000"(1 September2023), CNBC; https://www.cnbc.com/2023/09/01/jobs-report-august-2023.html.

for August climbed from 157K (revised down from 187K) to 187K, above expectations of 170K. Over the previous nine months, unemployment has been moving sideways with a low of 3.4% and a high of 3.8%. Over the previous three months, unemployment has been steady but recently jumped higher.[2]

The outlook for the global economy remains ambivalent with some mixed signals. While beliefs of a soft landing in the US are increasing, concerns about slowdowns in China and Europe are prevalent. The impact of aggressive monetary tightening is spreading, with the services sector joining housing, bank lending and industrial production in a loss of momentum.

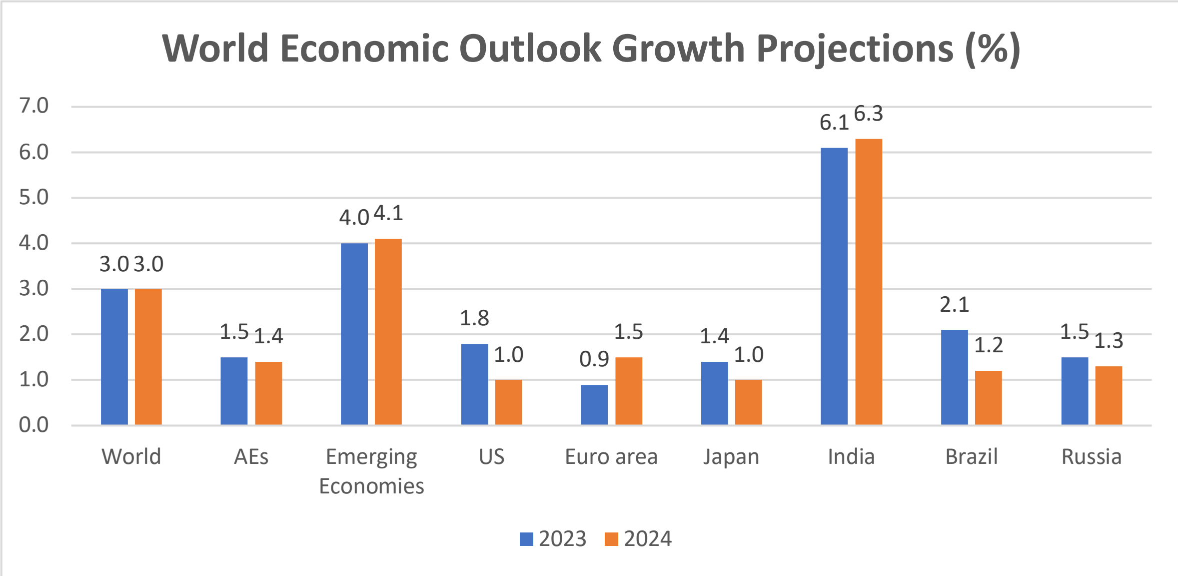
While a positive development happened that Eurozone inflation dropped to 4.3 per cent in Sept’23 compared to 5.2 per cent in Aug’23, however wages remain sticky and energy prices remain volatile, especially amid recent oil price upsurge.

The ADB has marginally lowered the growth estimate for the developing Asia at 4.7%, while maintaining positive views amid emerging risks. The growth forecast for 2024 is unchanged at 4.8%. Inflation in developing Asia is forecast to decline from 4.4% last year to 3.6% in 2023 and 3.5% in 2024. Much of this year’s decline will be driven by the People's Republic of China (PRC), where the inflation forecast is revised down to 0.7%.

Downside risks to the outlook have strengthened. A close watch is needed on the weaknesses in the PRC’s property sector. Across the region, authorities will need to take policy steps to ensure that supply disruptions and the wide-ranging effects of El Niño do not raise food security challenges. Financial stability risks require continued vigilance in vulnerable economies as the era of easy money ends. On a positive note, a faster-than-expected decline in inflation in the United States could boost global prospects.

[2] https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20230920.pdf.

Chart 2: World Economic Growth Projections (%)



Source: ADB, India Economic Pulse, EY (Sept'23).

The Bank of Japan has kept its policy rate unchanged (a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank). Further, the Bank will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent. The Bank will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, while it will conduct yield curve control with greater flexibility, regarding the upper and lower bounds of the range as references, not as rigid limits, in its market operations. The consumer price inflation in Japan remains flat at 3.1% during Aug'23.

Developments in the Indian Economy:

The Indian economy grew at 7.8% in Q1 of FY 24 propelled by domestic demand, investments in infrastructure and real estate sectors, strength of the service sector and the overall positive sentiment. PMIs are at a 13 year high. E-way bills generated, growth in passenger traffic and household credit exhibiting sustained double-digit growth bodes well. The growth in passenger vehicle sales has, however, been moderated.

Rural demand is also increasing with higher tractor, fertilizer and two-wheeler sales, though there has been an increase in people demanding work under MNREGA from June 2023 onwards. Demand for electricity in August 2023 was up 16% vis-à-vis August 2022. With short term wholesale power prices also increasing sharply, electricity supply would be an area that would require the close attention of policy makers.

Infrastructure and real estate sectors are doing well as reflected in the growth of IIP for Infra, cement and steel consumption and prioritizing spending towards infrastructure development by the Government. Even though credit creation for manufacturing continues to be muted, gross fixed capital formation as a percentage of GDP has increased.

Table 1: Manufacturing and Services PMI of various countries

Manufacturing PMI	Jan23	Jul23	Services PMI (Jul23)
India	55.4	57.7	62.3
Thailand	54.5	50.7	
Japan	48.9	49.6	53.8
Australia	50	49.6	
Canada	51	49.6	
South Africa	48.5	49.4	
China	49.2	49.2	54.1
US	46.9	49	52.3
Vietnam	47.4	48.7	
Brazil	47.5	47.8	50.2
UK	47	45.3	51.5
France	50.5	45.1	47.1
Germany	47.3	38.8	52.3

Source: "India Economic Pulse"(September 2023), Ernst & Young (EY) Report.

OIL PRICES INCHED UP

A new risk to global financial stability stems from the commodity markets as crude prices ruling above US $ 90 per barrel challenge 10-month highs due to Saudi Arabia and Russia extending voluntary production cuts to the end of 2023. Global inflation is once again under siege as deep deficits in global oil balances become persistent unless global demand is hit by a sharp economic downturn.

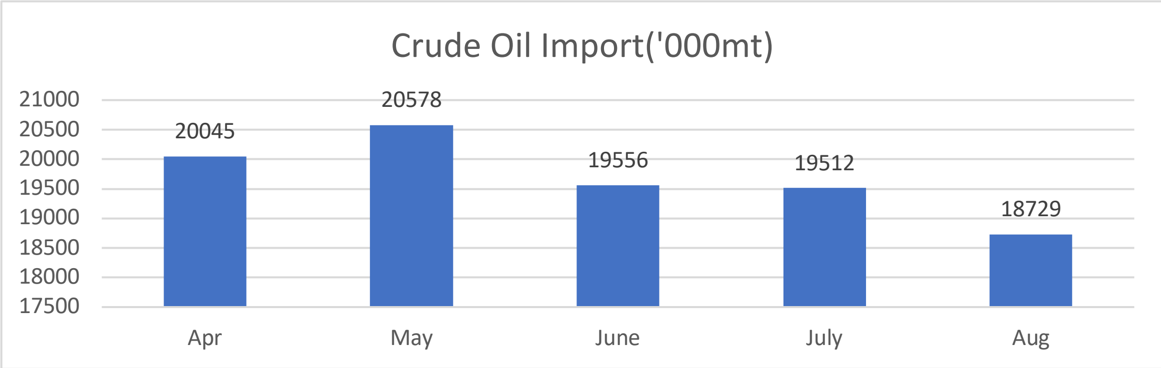
Oil prices continued to climb as the EIA predicted a continued slowdown in U.S. shale production, adding to concerns of a tightening oil market. Losing steam after their November 2022 peaks, freight rates from West Africa to East Asia have dropped to Worldscale 43.5, whilst Gulf-to-East Asia rates are even lower than that.[3] Saudi Arabia accounts for more than a quarter of VLCC deliveries, with more than 90% of Aramco exports taking place by means of VLCC tankers, hence the oversized impact of Saudi cuts on freight rates.[4]

Whilst the freight market expects depressed VLCC rates to recover later this year, so far there's been little upside – quite the contrary with Suezmax tankers that bottomed out earlier this month and the Gulf-East Asia route strengthened from w75 to w90 over the past two weeks. News of shrinking US supply has only added bullish sentiment in oil markets, keeping ICE Brent and WTI around $95 and $93 per barrel, respectively.

Crude oil imports by India declined by almost 4% (mom) to 18.73 mt in Aug'23 largely due to narrowing discounts on the Urals Grade and smaller appetite from Indian refiners due to planned autumn maintenance at some refineries and lower domestic demand due to rainy season till Sept'23.[5]

[3] Oil & Energy Insider, OilPrice Intel.
[4] Oil & Energy Insider, OilPrice Intel.
[5] "Crude oil imports slip to 10-month low in August" (21 September 2023) The HinduBusinessLine.

Chart 3: Crude Oil Import ('000 mt)



Source: PPAC, https://ppac.gov.in/import-export.

SECTORAL PERFORMANCES OF THE INDIAN ECONOMY:

Real GDP growth for the first quarter of 2023-24 remains at 7.8 per cent year-on-year (y-o-y), led by domestic drivers; private consumption and fixed investment. In the second quarter, available indicators point to a gain in quarter-on-quarter (q-o-q) momentum on the back of domestic demand that has raised hopes of a pick-up in demand through the rest of the festival season with a pick-up in the discretionary retail spending. The share of Private Final Consumption Expenditure (PFCE) in GDP (Current Prices) rose from 59.2 per cent in Q1 of FY23 to 59.7 per cent in Q1 of FY24. As strengthening consumption led to a rise in demand for goods and services, both the manufacturing and the services sectors saw their output and value-added grow robustly in Q1 of FY24.

On the investment side, capex by large central public sector enterprises (CPSEs) remains strong keeping pace with the emphasis on capital spending by the central government. Highways, the petroleum sector and railways are leading the surge in CPSE capex in the first five months of 2023-24. Indian Railways has invested over one lakh crore in various ongoing infrastructure and safety projects across the country till July in the current financial year of 2023-24. To strengthen the hands of the States in the spirit of cooperative fiscal federalism, the scheme for providing financial assistance to the States for capital expenditure introduced in FY 2022-23 has been extended in FY 2023-24, with the enhanced outlay of Rs.1.30 lakh crore. This represents an increase of 30 per cent over BE 2022-23 allocation and accounts to nearly 0.4 per cent of GDP of FY 2023-24.

The services sector continues to do very well and drive the growth of the Indian economy. contact-intensive services being the major growth driver of this sector. Growth in PMI services has been even quicker as the consumption pattern in India, following the global trend. The financial, real estate and professional services grew at 12.2% in Q1 of FY 24 over Q1 of FY 23. Growth in real estate is also reflected in the growth in cement and steel sectors. The trade, hotels, transport, and communication sector grew by 9.2% in real terms and 7.7% in nominal terms, which means prices decreased. Electricity and gas sector grew at 2.9% in real terms.

GST revenues for the month of August 2023 are 11% higher than that in the same month last year. The gross GST revenue collected in the month of August 2023 is ₹1,59,069 crore of which CGST is ₹28,328 crore, SGST is ₹35,794 crore, IGST is ₹83,251 crore (including ₹43,550 crore collected on import of goods) and Cess is ₹11,695 crore (including ₹1,016 crore collected on import of goods).

The government has settled ₹37,581 crore to CGST and ₹31,408 crore to SGST from IGST. The total revenue of Centre and the States in the month of August 2023 after regular settlement is ₹65,909 crore for CGST and ₹67,202 crore for the SGST.

Customs duty collections during April – July FY24 increased by 27.5% as against the same period in FY23. On the other hand, union excise duty declined by 10.6% during April–July 2023 as against the same period previous year. The decline could be partially attributed to the slashing of windfall tax on crude oil in May 2023.

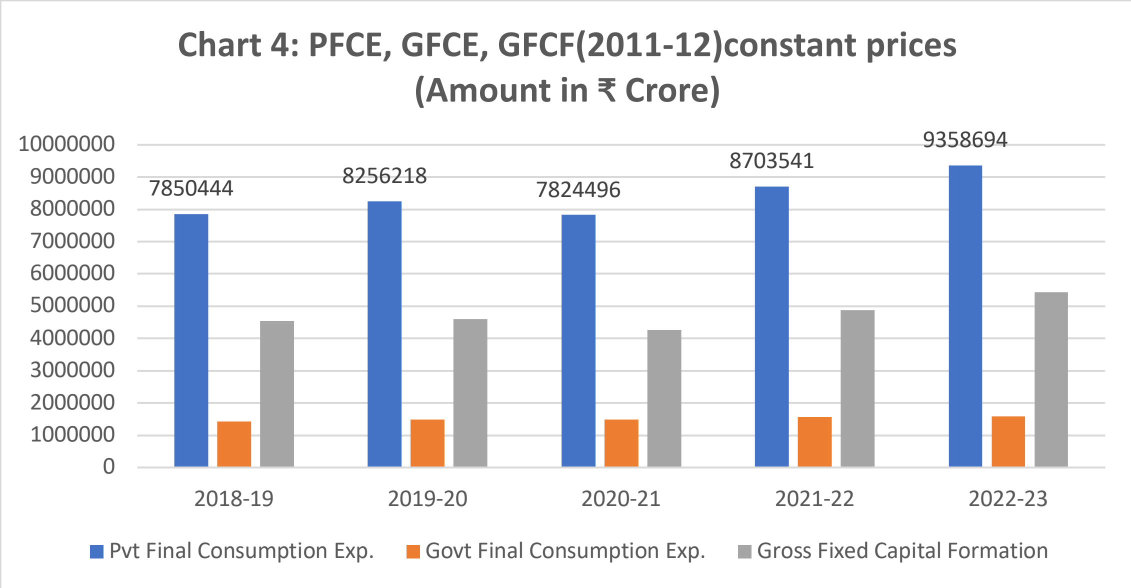
Fertilizer sales have seen uptrend due to enhanced demand, despite irregular monsoon. The sales have increased by 2.5 per cent in the first quarter of the current fiscal, from a year ago, to touch 102.12 lakh tonnes (lt).[6] The subsidy in the (April-June)'23 period accounts for 26 per cent of the budget estimate of Rs 1.75 lakh crore for 2023-24 fiscal. The aggregate growth from Jan to July 2023 is 5% higher than the same period in 2022.In the months of July and August 2023, demand for work under MNREGA is higher than in the corresponding months in 2022. Tractor registrations have recorded vigorous growth in recent months with a 51% increase in August 2023 over August 2022. Average wages paid recorded an 11% increase in August 2023 over August 2022.[7] Despite lower sales, import of muriate of potash (MoP) has doubled to 7.92 lt during the first quarter, whereas Di-ammonium phosphate (DAP) import recorded a 51.7 per cent increase to 20.88 lt from 13.76 and that of complex surged 11.4 per cent to 8.57 lt from 7.69 lt. But urea import, which is controlled by the government, fell 20.8 per cent to 11.41 lt from 14.4 lt.[8]

After a slow start in 2023, the Indian stock market has picked strength with Nifty 50 up by 9.5%year to date. The increase has been broad based driven by sectors which have noted high consumer demand (and inflationary pressure) such as FMCG and auto. Bank index is also showing resilience as banks' balance sheetscontinue to improve with lower NPAs, with a 22% increase in bank index since Jan 2023. Meanwhile, the IT sectoral index has continued to remain weak, recording a significant decline of 21%. The weakness continues as economic conditions in key global markets remain subdued. It is in line with global trends, where large IT players have announced layoffs and the PE/VC investments(a large portion of which is invested in the IT sector) have declined due to slowdown in advanced economies.

[6] "Fertiliser sales rise 2.4% to 102 lakh tonnes in Q1 FY24" (20 July 2023) The HinduBusinessLine; (https://www.thehindubusinessline.com/economy/agri-business/fertiliser-sales-rise-24-to-102-lakh-tonnes-in-q1-fy24/article67100532.ece).

[7] EY Economic Pulse Report (September 2023).

[8] "Fertiliser sales rise 2.4% to 102 lakh tonnes in Q1 FY24" (20 July 2023) The HinduBusinessLine; (https://www.thehindubusinessline.com/economy/agri-business/fertiliser-sales-rise-24-to-102-lakh-tonnes-in-q1-fy24/article67100532.ece).



Source: RBI Handbook of Statistics on Indian Economy 2022-23 released on 15 September 2023, link: https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=56379 and (https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/04T_150920231996B05D95DF4F19BF5F93CB49E17ECE.PDF)

Industrial production Trends:

- Coal production (weight: 10.33 per cent) increased by 14.9 per cent in July, 2023 over July, 2022. Its cumulative index increased by 10.1 per cent during April to July, 2023-24 over corresponding period ofthe previous year.

- Crude Oil production (weight: 8.98 per cent) increased by 2.1 per cent in July, 2023 over July, 2022. Its cumulative index declined by 1.0 per cent during April to July, 2023-24 over the corresponding period of previous year.
- Natural Gas production (weight: 6.88 per cent) increased by 8.9 per cent in July, 2023 over July, 2022. Its cumulative index increased by 2.3 per cent during April to July, 2023-24 over the corresponding period of previous year.
- Petroleum Refinery production (weight: 28.04 per cent) increased by 3.6 per cent in July, 2023 over July, 2022. Its cumulative index increased by 2.3 per cent during April to July, 2023-24 over the corresponding period of previous year.

- Fertilizer production (weight: 2.63 per cent) increased by 3.3 per cent in July, 2023 over July,2022. Its cumulative index increased by 9.1 per cent during April to July, 2023-24 over the corresponding period of previous year.

- Cement production (weight: 5.37 per cent) increased by 7.1 per cent in July, 2023 over July, 2022. Its cumulative index increased by 11.2 per cent during April to July, 2023-24 over the corresponding period of previous year.

- Electricity generation (weight: 19.85 per cent) increased by 6.9 per cent in July, 2023 over July, 2022. Its cumulative index increased by 2.7 per cent during April to July, 2023-24 over the corresponding period of previous year.

Table 2: Growth Rates of the Eight Core Industries (on Y-o-Y basis in per cent)

Sector	Coal	Crude Oil	Natura lGas	Refinery Products	Fertilizers	Steel	Cement	Electricity	Overall Growth
Weight	10.33	8.98	6.88	28.04	2.63	17.92	5.37	19.85	100.00
Jul-22	11.4	-3.8	-0.3	6.2	6.2	7.5	0.7	2.3	4.8
Aug-22	7.7	-3.3	-0.9	7.0	11.9	5.8	2.1	1.4	4.2
Sep-22	12.1	-2.3	-1.7	6.6	11.8	7.7	12.4	11.6	8.3
Oct-22	3.8	-2.2	-4.2	-3.1	5.4	5.8	-4.2	1.2	0.7
Nov-22	12.3	-1.1	-0.7	-9.3	6.4	11.5	29.1	12.7	5.7
Dec-22	12.3	-1.2	2.6	3.7	7.3	12.3	9.5	10.4	8.3
Jan-23	13.6	-1.1	5.2	4.5	17.9	14.3	4.7	12.7	9.7
Feb-23	9.0	-4.9	3.1	3.3	22.2	12.4	7.4	8.2	7.4
Mar-23	11.7	-2.8	2.7	1.5	9.7	12.1	-0.2	-1.6	4.2
Apr-23	9.1	-3.5	-2.9	-1.5	23.5	16.6	12.4	-1.1	4.6
May-23*	7.2	-1.9	-0.3	2.8	9.7	10.9	15.3	0.8	5.0
Jun-23*	9.8	-0.6	3.5	4.6	3.4	20.8	9.9	4.2	8.3
Jul-23*	14.9	2.1	8.9	3.6	3.3	13.5	7.1	6.9	8.0

Source: Office of the Economic Adviser, GoI.

USD-INR Trends:

The Indian Rupee is expected to trade within the range of 82-84 by the end of this quarter. The rupee closing at a record low of 83.27 (INR/USD) despite RBI selling dollars makes international travel and education more expensive, with the US yields rising and oil prices inching towards the $95 level globally. Though Fed is likely not to raise rate this time, prospect of rate hikes by other central banks are high, and rising oil prices weighed down Sensex breaking its continuous eleven session winning run that closed 242 points lower at 67,597. The high US treasury yield and strong dollar index might put some pressure on Indian rupee. The China slowdown has also put certain downward pressure on emerging market currencies. The INR depreciated by 0.6 per cent (m-o-m) in terms of the 40-currency real effective exchange rate (REER) in August 2023 as negative relative price differentials more than offset the appreciation of the INR in nominal effective terms.

Table 3: Rupee movements against major currencies

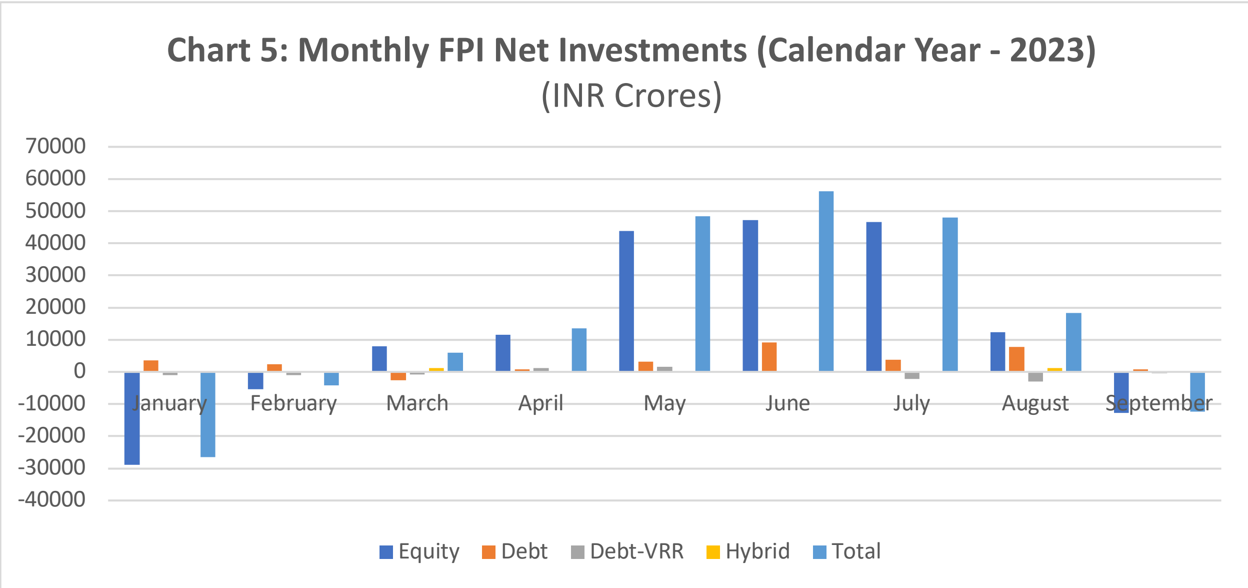
Date	USD	GBP	EURO	YEN
20/09/2023	83.2553	102.8408	88.9966	56.2800
18/09/2023	83.2102	103.1562	88.7559	56.3700
15/09/2023	83.0557	103.2299	88.5662	56.2800
14/09/2023	82.9760	103.6835	89.1516	56.3900
13/09/2023	82.9527	103.2982	89.1122	56.3300
12/09/2023	82.9760	103.7891	89.0576	56.4900

11/09/2023	82.8809	103.7464	88.9511	56.7300
08/09/2023	83.1589	103.9326	89.1486	56.5000

Source: RBI

FOREIGN PORTFOLIO INVESTMENT TRENDS

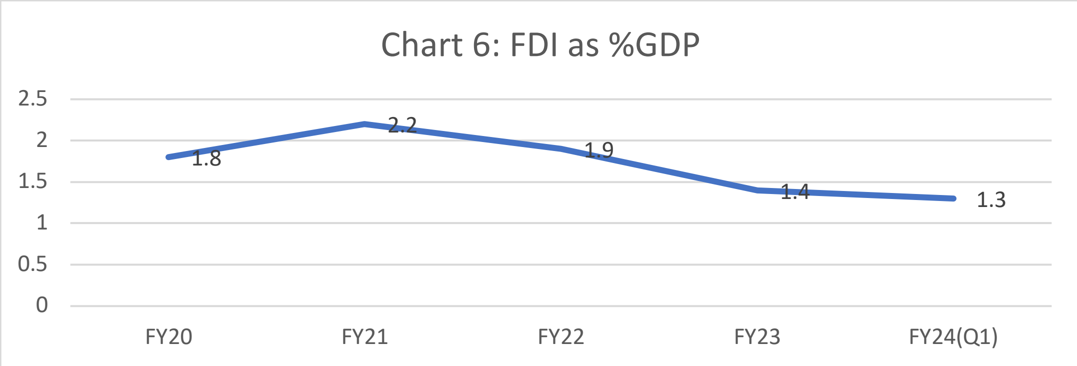
Foreign portfolio investors (FPIs) have pulled out over ₹ 10,000 crore from Indian equities in the first three weeks of September'23 due to increasing US interest rate, possibility due to the fear of a "not so smooth soft-landing" as well as anticipated overvalued domestic stocks. Before this, there was a more or less consistent buying of the Indian equities during March-Aug'23. The latest outflow came after FPI investment in equities hit a four-month low of ₹ 12,262 crore in Aug'23. The benchmark US treasury yield has surged towards 4.5%.



Source: NSDL.

FOREIGN DIRECT INVESTMENTS (FDI) TRENDS:

Gross inward foreign direct investment (FDI) moderated to US$ 22.0 billion during April-July 2023 from US$ 29.6 billion a year ago. Two-third of the FDI equity flows were directed towards manufacturing, financial services, business services, computer services, and electricity and other energy sectors. Singapore, Japan, the Netherlands, the US and Mauritius were major source countries, accounting for more than two-third of the FDI equity flows during the same period. Net FDI declined to US$ 5.7 billion on account of moderating gross FDI and a rise in repatriation. Despite government investment rising, the private investment is yet to pick up.



Source: "Economic Outlook for India: Short and Medium Term"(26Sept'23), Presentation by Dr. Arvind Subramanian; at PIIE Global Economic Prospects: Fall 2023.

Table 4: STATE-WISE FDI EQUITY INFLOW FROM OCTOBER 2019 TO JUNE 2023				
Sr.No.	State Name	Amount of Foreign Direct Investment Equity inflow		% age out of total FDI Equity inflow (in USD terms)
		Amount (In INR Crore)	Amount (In USD Million)	
1	MAHARASHTRA	4,43,961.4916	58,431.1963	29.3227
2	KARNATAKA	3,47,103.1669	45,927.2278	23.0478
3	GUJARAT	2,45,017.9878	32,629.9059	16.3747
4	DELHI	2,05,450.9622	27,060.6894	13.5799
5	TAMIL NADU	69,267.6474	9,132.8356	4.5832
6	HARYANA	63,528.1214	8,315.7182	4.1731
7	TELANGANA	42,595.3344	5,575.8634	2.7981
8	JHARKHAND	19,370.5548	2,665.7091	1.3377
9	RAJASTHAN	16,643.0564	2,173.9160	1.0909
10	WEST BENGAL	11,335.3599	1,481.5083	0.7435
11	UTTAR PRADESH	10,535.3960	1,384.2744	0.6947
12	PUNJAB	7,552.8983	1,013.5968	0.5087
13	ANDHRA PRADESH	6,495.1917	850.3862	0.4268
14	KERALA	6,126.2918	807.2618	0.4051
15	MADHYA PRADESH	4,007.0026	536.1186	0.2690
16	HIMACHAL PRADESH	1,896.1760	246.7489	0.1238
17	BIHAR	1,639.0369	214.5051	0.1076
18	Dadra & Nagar Haveli and Daman & Diu	1,277.3466	171.3596	0.0860
19	ODISHA	1,228.4846	162.7150	0.0817
20	UTTARAKHAND	1,114.8188	147.9840	0.0743
21	GOA	999.6602	135.2285	0.0679
22	CHANDIGARH	608.4614	79.9885	0.0401
23	PUDUCHERRY	467.7386	63.3710	0.0318
24	State Not Indicated	208.0443	28.3154	0.0142
25	ASSAM	154.4259	20.7345	0.0104

26	ARUNACHAL PRADESH	40.9465	5.5549	0.0028
27	CHHATTISGARH	32.5986	4.0807	0.0020
28	MEGHALAYA	8.1684	1.0965	0.0006
29	JAMMU AND KASHMIR	8.3195	1.0756	0.0005
30	TRIPURA	4.2041	0.5622	0.0003
31	LADAKH	1.6990	0.2242	0.0001
32	NAGALAND	0.1050	0.0139	0.000007
33	MANIPUR	0.0050	0.0006	0.0000003
	Gross-Total	15,08,680.7027	1,99,269.7668	

Note: State wise data is maintained w.e.f. October, 2019.

Source: Department for Promotion of Industry and Internal Trade (DPIIT).

RECENT DEVELOPMENTS:

Government to sell up to 4.92% stake in SJVN via Offer for Sale:

The government plans on divesting up to 4.92 percent stake in hydroelectric power generator SJVN Ltd. via an Offer for Sale. The base offer will be to sell up to 9.66 crore shares or 2.46 percent of the total equity with a green shoe option to sell another 9.66 crore shares or 2.46 percent of the total equity. Floor price of the OFS has been fixed at Rs 69 per share.

Under the G20's Finance track specifically, other major achievements include a way forward for regulating crypto assets; two pillar taxation solutions; scaling up sustainable finance for social sectors like health and education; and global conversations on transition policies. On climate change, the declaration notes the need for US$ 5.8 -5.9 trillion in the pre2030 period for developing countries as well as US$ 4 trillion per year for clean energy technologies by 2030 to reach net zero by 2050.

Among several initiatives that were committed to on the sidelines, two initiatives stand out as momentous in shaping the world of tomorrow. First, an India-Middle East-Europe economic corridor was announced that will enhance connectivity and economic integration across continents. It will include railway projects, a reliable and cost-effective cross border ship-to-rail transit network to supplement existing maritime and road transport routes, linking of energy grids, internet, and telecommunication lines through undersea cables.

The rise in internet and mobile payment channels vis-à-vis ATMs underscores the rapid uptake of digitalization in the financial sector. This can also be noted in the total value of digital retail payments that reached an all-time high of ₹17.9 lakh crores in July 2023.

The pandemic induced shift towards UPI appears to have stabilized, as noted in the market shares of different digital retail payment tools. On an absolute basis, payments through UPI have grown by over 44% in July 2023, vis-à-vis July 2022.

While card payments are losing market share to UPI, they are, however, still growing on an absolute basis. In July 2023, they increased by 10% over July 2022.In September 2022, the RBI launched UPI Lite to accelerate UPI payments, especially in areas with weak internet/ telecom connectivity. To further facilitate digital transactions, four banks have initiated offering UPI interoperability on RBI's CBDC app.

An important development is that JPMorgan Chase & Co. will add Indian government bonds to its benchmark emerging-market index, a keenly awaited event that could drive billions of foreign inflows to the nation's debt market. India has finally been included in the JP Morgan EM Bond Index today effective 28th June 2024. In April 2020, the Reserve Bank of India introduced a clutch of securities that were exempt from any foreign investment restrictions under a "fully accessible route" (FAR), making them eligible for inclusion in global indexes.

LIQUIDITY SITUATION:[9]

In consonance with the strategy of calibrated withdrawal, surplus liquidity in the banking system moderated considerably since August 12, 2023 following the imposition of the incremental CRR (I-CRR) which impounded liquidity of about ₹1.13 lakh crore from the banking system. The liquidity remains in deficit despite the reversal of the Incremental CRR (I-CRR). This could be due to the RBI's intervention in the FX market, tax outflows among other factors. Further, the RBI might want to doubly check excess liquidity amid the forthcoming festival season due to the ongoing concern about inflation.

Average total absorption under the liquidity adjustment facility (LAF) declined sharply to about ₹1.0 lakh crore during August 16 to September 12, 2023 from ₹1.9 lakh crore during 16th July – 15th August 2023. Of the total average surplus liquidity, placement of funds under the standing deposit facility (SDF) averaged ₹0.8 lakh crore while the remaining amount was mopped up through variable rate reverse repo (VRRR) operations.[10]

With moderation in surplus liquidity, net absorption under the LAF came down to ₹0.6 lakh crore during August 16 to September 12, 2023 from ₹1.7 lakh crore during July 16 - August 15, 2023. During this period, net LAF slipped into deficit for three consecutive days, i.e., August 21-23, when average recourse to the marginal standing facility (MSF) was in excess of ₹0.89 lakh crore.

Withdrawals under the MSF peaked at ₹0.91 lakh crore on August 23 and averaged ₹0.31 lakh crore during August 16 to September 12, 2023 (₹0.13 lakh crore during July 16 - August 15). The shrinkage in surplus liquidity was also reflected in overnight money market conditions. During August 17 to September 12, the weighted average call rate (WACR) firmed up and breached the ceiling of the LAF corridor on 5 occasions. On average, the WACR, triparty repo and market repo rates traded 14 bps, 12 bps and 14 bps, respectively, above the policy repo rate.

Across the term money segment, the yield on 3-month certificates of deposit (CDs) and commercial paper (CP) for non-banking financial companies (NBFCs) stayed elevated, while the yield on 3-month treasury bills (T-bills) was broadly aligned with the MSF rate. In the primary market, fund mobilisation through issuances of CDs remained robust at ₹2.39 lakh crore during 2023-24 (up to August 25) on account of higher growth in credit vis-a-vis that of deposits. Furthermore, the I-CRR also prompted banks to resort to fresh CD issuances for their funding requirements – ₹5.88 lakh crore (up to August 31) they were marginally higher than ₹5.50 lakh crore in the corresponding period of the previous year. After easing in the second half of August, domestic bond yields firmed up in tandem with US

[9] Extracted from the latest RBI Bulletin.
[10] RBI September 2023 Bulletin.

treasury yields but softened on September 13, taking cues from the lower-than-expected CPI inflation reading for August.

The yield on the old 10-year benchmark G-sec (7.26 per cent GS 2033) remained at 7.20 per cent on September 13, 2023 as against 7.21 per cent on 14^{th} August'23. The yield on the new 10-year benchmark (7.18 per cent 2033) eased to 7.17 per cent from 7.18 per cent on August 14. Although the yield on the 10-year US treasury eased from a high of 4.34 per cent on August 21 consequent upon benign employment and inflation data releases, it hardened thereafter as resilient economic data and higher inflation prints fuelled expectations of a prolonged period of elevated interest rates. Overall, the domestic yield curve flattened as the short to mid-end of the curve hardened while long term bond yields softened.

Corporate bond yields and associated risk premia generally increased during August 17 to September 12, 2023; however, the average risk premia in the bond market (5-year AAA minus 5 year G-sec) declined by 6 bps, indicating healthy investor appetite in this segment Favourable market conditions on the back of stable long term-yields and a cost advantage over bank loans increased the preference for corporate bonds.[11]

Table 5: Liquidity Operations by RBI (₹ Crore)

Date	Liquidity Adjustment Facility						Standing Liquidity Facilities	OMO (Outright)		Net Injection (+)/ Absorption (-) (1+3+5+7+9-2-4-6-8)
	Repo	Reverse Repo	Variable Rate Repo	Variable Rate Reverse Repo	MSF	SDF		Sale	Purchase	
	1	2	3	4	5	6	7	8	9	10
Jul. 1, 2023	-	-	-	-	3437	33944	-	-	-	-30507
Jul. 2, 2023	-	-	-	-	1085	12858	-	-	-	-11773
Jul. 3, 2023	-	-	-	63843	964	162473	-	-	-	-225352
Jul. 4, 2023	-	-	-	67295	1534	103924	-477	-	-	-170162
Jul. 5, 2023	-	-	-	87870	3581	86261	-599	-	-	-171149
Jul. 6, 2023	-	-	-	39000	2349	123240	605	-	-	-159286
Jul. 7, 2023	-	-	-	106224	2442	78968	-667	-	-	-183417
Jul. 8, 2023	-	-	-	-	92	11850	-	-	-	-11758
Jul. 9, 2023	-	-	-	-	133	3131	-	-	-	-2998
Jul. 10, 2023	-	-	-	-	5183	59761	-	-	-	-54578
Jul. 11, 2023	-	-	-	40291	868	100814	-	-	-	-140237
Jul. 12, 2023	-	-	-	-	935	144623	-	-	-	-143688
Jul. 13, 2023	-	-	-	-	959	170449	-	-	10	-169480
Jul. 14, 2023	-	-	-	59875	1836	135167	-	10	-	-193216
Jul. 15, 2023	-	-	-	-	2073	15287	-	-	-	-13214
Jul. 16, 2023	-	-	-	-	197	2849	-	-	-	-2652
Jul. 17, 2023	-	-	-	-	1256	91080	-	-	-	-89824
Jul. 18, 2023	-	-	-	-	1148	80680	-241	-	-	-79773
Jul. 19, 2023	-	-	-	-	1207	66194	-	-	-	-64987
Jul. 20, 2023	-	-	-	-	1131	70189	-	10	10	-69058
Jul. 21, 2023	-	-	-	-	2375	62325	667	-	-	-59283
Jul. 22, 2023	-	-	-	-	95	7390	-	-	-	-7295
Jul. 23, 2023	-	-	-	-	93	8830	-	-	-	-8737
Jul. 24, 2023	-	-	-	-	5226	68198	330	-	-	-62642
Jul. 25, 2023	-	-	-	-	1413	94250	150	-	-	-92687
Jul. 26, 2023	-	-	-	-	3123	92543	-480	-	-	-89900
Jul. 27, 2023	-	-	-	-	772	108118	-	-	-	-107346
Jul. 28, 2023	-	-	-	93761	25417	85132	476	-	-	-153000
Jul. 29, 2023	-	-	-	-	1337	9142	-	-	-	-7805
Jul. 30, 2023	-	-	-	-	135	2909	-	-	-	-2774
Jul. 31, 2023	-	-	-	-	1668	65779	-476	-	-	-64587

Source: RBI.

[11] Overall, corporate bond issuances during the year so far (up to July) at ₹2.9 lakh crore was nearly twice ₹1.5 lakh crore during the same period last year. Reserve money (RM), excluding the first-round impact of change in the CRR recorded a growth of 6.0 per cent (y-o-y) as on September 8, 2023 (8.5 per cent a year ago). Currency in circulation (CiC), the largest component of RM, decelerated to 4.0 per cent from 8.2 per cent a year ago, reflecting the withdrawal of ₹2000 banknotes 93 per cent has been returned to the banking system, mostly in the form of deposits (as on August 31, 2023).

FOREIGN EXCHANGE RESERVES

The foreign exchange reserves at US$ 593.9 billion on September 8, 2023 stood cover for about 10 months of imports projected for 2023-24 or 95 per cent of total external debt outstanding at end-March 2023. During the calendar year 2023, Indian foreign exchange reserves increased by US$ 31.2 billion, which is the second highest among major foreign exchange reserves holding countries.

Table 6: Forex Reserves of India (both in INR Crore and US$ million)

Item	Unit	2022	2023					
		Sep. 02	Jul. 21	Jul. 28	Aug. 04	Aug. 11	Aug. 18	Aug. 25
		1	2	3	4	5	6	7
1 Total Reserves	₹ Crore	4413659	4975431	4967138	4982323	4988363	4943746	4916873
	US $ Million	553105	607035	603870	601453	602161	594888	594858
1.1 Foreign Currency Assets	₹ Crore	3926994	4407539	4403421	4418603	4427048	4386111	4358044
	US $ Million	492117	537752	535337	533400	534399	527786	527249
1.2 Gold	₹ Crore	305654	373862	369359	370124	367317	364196	366616
	US $ Million	38303	45614	44904	44680	44340	43824	44354
	Volume (Metric Tonnes)	781.29	797.72	797.72	797.72	797.72	798.66	799.59
1.3 SDRs	SDRs Million	13658	13674	13674	13674	13681	13681	13681
	₹ Crore	141897	151414	151715	151376	151801	151292	150383
	US $ Million	17782	18474	18444	18274	18324	18205	18194
1.4 Reserve Tranche Position in IMF	₹ Crore	39114	42616	42642	42220	42198	42147	41828
	US $ Million	4902	5196	5185	5099	5098	5072	5061

Source: RBI September Bulletin.

India's External Debt Situation in June 2023

- At end-June 2023, India's external debt was placed at US$ 629.1 billion, recording an increase of US$ 4.7 billion over its level at end-March 2023. (Valuation effect due to the appreciation of the US dollar vis-à-vis the major currencies such as yen and SDR amounted to US$ 3.1 billion). Excluding the valuation effect, external debt would have increased by US$ 7.8 billion instead of US$ 4.7 billion at end-June 2023 over end-March 2023.
- At end-June 2023, long-term debt[12] was placed at US$ 505.5 billion, recording an increase of US$ 9.6 billion over its level at end-March 2023.
- The share of short-term debt[13] in total external debt declined to 19.6 per cent at end-June 2023 from 20.6 per cent at end-March 2023.[14]
- The share of outstanding debt of non-financial corporations in total external debt was the highest at 39.8 per cent, followed by deposit-taking corporations (except the central bank) (26.6 per cent), general government (21.1 per cent) and other financial corporations (7.6 per cent).
- US dollar-denominated debt remained the largest component of India's external debt, with a share of 54.4 per cent at end-June 2023, followed by debt denominated in the Indian rupee (30.4 per cent), SDR (5.9 per cent), yen (5.7 per cent), and the euro (3.0 per cent).

[12] (with original maturity of above one year).
[13] (with original maturity of up to one year).
[14] The ratio of short-term debt (original maturity) to foreign exchange reserves declined to 20.8 per cent at end-June 2023 (22.2 per cent at end-March 2023).

- The external debt to GDP ratio declined to 18.6 per cent at end-June 2023 from 18.8 per cent at end-March 2023.

Table 7: India's External Debt June 2023 ($billion)

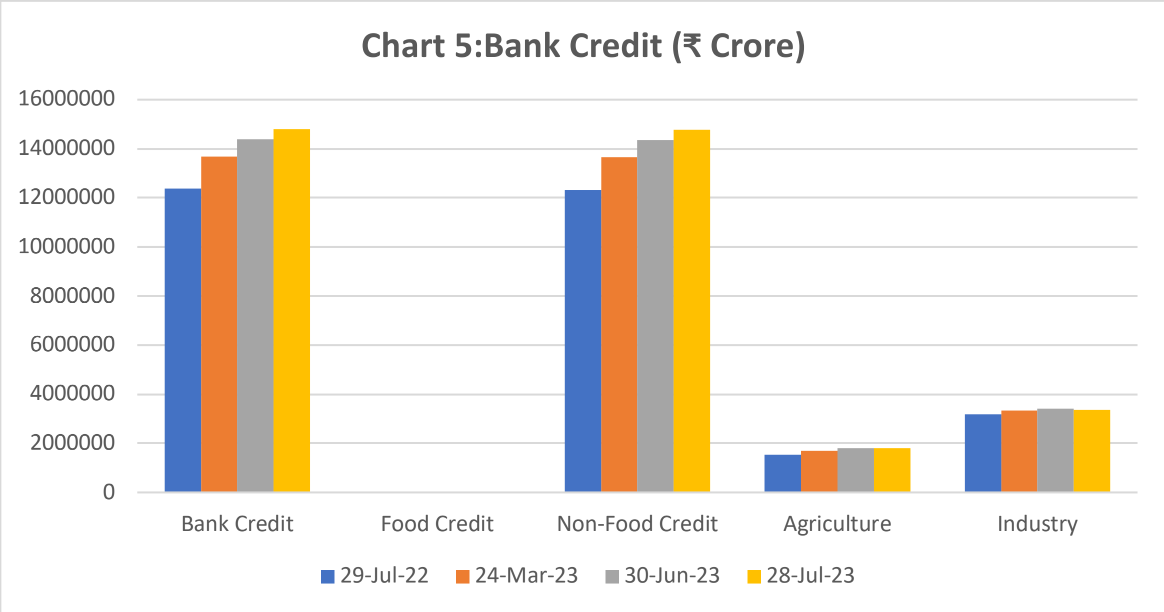
Sl No.	Sector	June 2022	March 2023	June 2023	June 2023 over Mar2023 (absolute variation)
1	Government	127.7	133.3	132.8	-0.6
2	Central Bank	0.1	0.1	0.2	0.1
3	Deposit-taking Corporations, except the Central bank	157.0	163.4	167.2	3.8
4	Other financial corporations	49.9	55.0	47.7	-7.2
5	Non-financial corporations	250.4	243.1	250.3	7.2
6	Direct Investment: Intercompany Lending	27.7	29.5	30.9	1.5
7	Total Debt	612.8	624.3	629.1	4.7

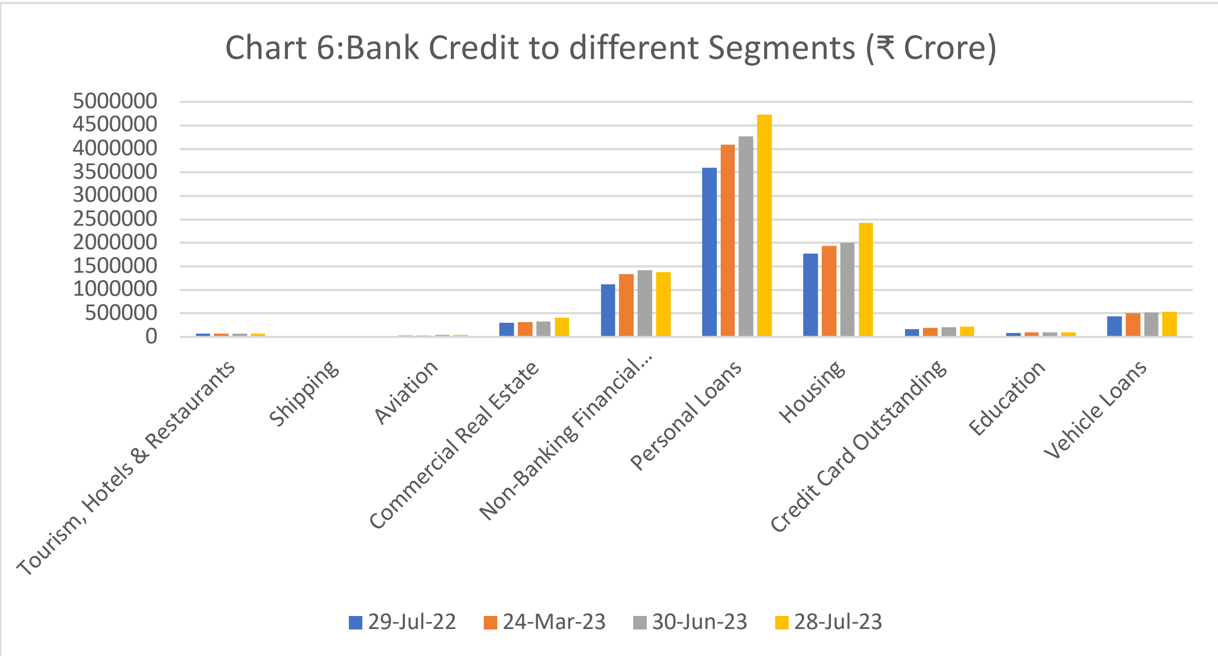
Source: RBI.

India's Balance of Payments during the First Quarter (April-June) of 2023-24: Trends and Developments:

India's current account deficit (CAD) stayed at US$ 9.2 billion (1.1 per cent of GDP) in Q1:2023-24 from US$ 17.9 billion (2.1 per cent of GDP) in Q1:2022-23 but it was higher than US$ 1.3 billion (0.2 per cent of GDP) in the preceding quarter. The widening of CAD on a quarter-on-quarter basis was primarily due to a higher trade deficit coupled with a lower surplus in net services and decline in private transfer receipts. Net services receipts decreased sequentially, primarily due to a decline in exports of computer, travel and business services, though remained higher on a year-on-year (y-o-y) basis. Private transfer receipts, mainly representing remittances by Indians employed overseas, moderated to US$ 27.1 billion in Q1:2023-24 from US$ 28.6 billion in Q4:2022-23 but witnessed an increase on a y-o-y basis. Net external commercial borrowings to India recorded an inflow of US$ 5.6 billion in Q1:2023-24 as against an outflow of US$ 2.9 billion a year ago. While in the financial account, net foreign direct investment decreased to US$ 5.1 billion from US$ 13.4 billion a year ago, net foreign portfolio investment recorded inflows of US$ 15.7 billion as against net outflows of US$ 14.6 billion in Q1:2022-23.

Scheduled Commercial Banks (SCBs) Bank Credit Trends:





Source: RBI.

The bank credit to personal loan segment remains robust, while NBFCs still depends heavily on bank loans though there might be more shift towards debt papers. Interestingly, credit cards spending crossed touched 9.13 crore cards outstanding at end-Aug'23. Credit card spending has grown 2.7 per cent to ₹1.49 lakh-crore in Aug'23. There might be some impact also due to the merger of the HDFC with the HDFC Bank. However, the credit growth could be range-bound due to the likely GDP growth rate around 6 per cent. Retail credit growth is likely to maintain its growth momentum at similar rate.

The MSME sector is also likely experiencing steady growth with rapidly evolving digital infrastructure. Going forward, the growth of retail loans likely to be strong driven by home loan demand, personal and credit card related loans.

CONCLUDING REMARKS

Though market expects that Fed has reached the rate hike limit, another hike is most likely before the expected rate cut not before March 2024 provided inflation remains range bound. In India, the RBI is likely to maintain a pause due to the data-dependant understanding of the lag impact of the rate hike, and as the recent inflationary tendency is largely a price upsurge of vegetables. For India, a big positive is the inclusion of India in JP Morgan GBI-EM index which will be effective from 28th Jun'24. India will get a weight of 10 per cent in the GBI-EM Global Diversified Index.

After Russia's exclusion from the index due to its invasion to Ukraine; China, Indonesia, Thailand, Malaysia, Brazil, Mexico and South Africa, had a 10 per cent weight each. India will enter the 10 per cent club by March 2025 with an expectation of $22-25 billion foreign funds to flow in a staggered manner after this inclusion. Nevertheless, the fund inflow must be aligned with strong macroprudential policies.