

ECONOMY OUTLOOK - OCTOBER 2024

Tax Reform: A Tyranny of Status Quo

BWR

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Economy outlook
October 2024

TAX
REFORM

TABLE OF CONTENTS

Tyranny of Status Quo in GST Reform	2
Advance Tax Collection Surges 22.6% to Rs 4.36 Lakh Crore in H1 FY25.....	4
India Targeting Annual FDI of \$100 billion in coming years: DPIIT.....	4
India's Wholesale Inflation Drops to 1.31% in August 2024 on lower food prices and mild fuel deflation	5
India's Manufacturing PMI Eases to Three-Month Low in August 2024 at 57.5.....	6
India Services Sector Growth hits 60.9 in August 2024, indicating strong expansion, largely fuelled by a surge in domestic demand.....	7
India Composite PMI stood unchanged at 60.7 in August 2024 as acceleration in services offset manufacturing slowdown.....	7
Flash India PMI indicates Business Activity Slows to Nine-Month Low in September	7
India's Core Sector Output Contracted by 1.8% in August 2024, marking the first decline in 42 months	8
India's Industrial Output Rises to 4.8% in July 2024; Manufacturing Momentum: 4.6% Growth Amidst Challenges.....	9
India's Trade Deficit Surges to \$29.65 Billion in August; Imports Soar and Exports Decline	10
Stock Markets.....	11
Nifty Crosses New Milestone: Crossed 26,000 mark for the first time.....	11
Forex	13
India's Forex Reserves Surge to Historic High of \$692.3 Billion; Record-breaking six-week rise	13
Rupee	14
Indian Rupee faces pressure; hits new low of 83.98 against US Dollar amid global tensions; Rupee Stabilizes amid foreign fund inflows	14
Oil.....	15
GLOBAL	15
European Central Bank (ECB) Cuts Key Interest Rates.....	16
US Fed Cuts Interest Rates by 50 Bps; Signals More Easing Ahead	16
China Announces Stimulus Measures to Bolster Sputtering Economy	16
Bank of England holds interest rates at 5%	17
Bank of Japan Holds Interest Rates Steady in September 2024, Upgrades Consumption Outlook	18
SUMMARY.....	19

Tyranny of Status Quo in GST Reform

— Dr M. Govinda Rao, Chief Economic Adviser, Brickwork Ratings

The GST Council meetings have become routine meetings to tinker with some rates and minor changes in the administration as needed by the exigencies rather than transforming the tax structure towards the best practice approach. The Council seems to take a short-term view that the system has stabilized, the stakeholders are well acquainted and have accepted the system and, therefore, undertake decisions merely to meet the exigencies and minor corrections. There is no attempt to take a long-term view to direct the structure to move it towards the best practice system in which the three costs associated with taxes namely, the collection cost, the compliance cost, and the cost in terms of the distortions in the economy are minimized. Implicit in this way of thinking is also the fear of losing revenue and the lack of basic research to support the improved tax structure without losing revenue. Not surprisingly, the Council meeting held on September 9 merely tinkered with the system by exempting the import of services by foreign airlines, reducing rates on cancer drugs and helicopter rides, and setting up two groups of ministers to examine life and health insurance premiums and the compensation cess.

The prevailing structure of GST is sub-optimal and needs major reforms if we want to make it competitive while ensuring revenue productivity. The aspirational aim to become a developed country by the middle of this century requires having a competitive tax system with a minimum cascading effect. It is important to reform the tax system to steer it towards the international best practice with a broad base, low and less differentiated rates, and a simple and transparent structure. In such a system, the three costs associated with taxes namely, the cost of collection, the compliance cost and the distortion cost are minimized. This is the right time to embark on the directional change in the tax system because major reforms are implemented when the economy is on the upswing to ensure revenue buoyancy. Indeed, the global experience with implementing the Value Added Tax (VAT) shows that there is a 'no one size fits all' system and, each country adopts a structure and administration that best suits its conditions and is easily acceptable to the stakeholders. Nevertheless, most countries adhere to certain general principles to minimize the three costs mentioned above. The important general principles recommended by most experts are: (i) aim for a global tax with few exemptions and exclusions (ii) the main objective of taxes is to focus on revenues and not use the tax system to achieve too many goals; (iii) keep the threshold at a reasonably high level to focus on the "whales" rather than "minnows". This will serve to minimize administrative costs and help to make the tax more equitable; (iv) avoid multiple rates to evolve a simple structure to minimize administrative, compliance, and distortion costs; (v) do not collect more information than that is required and can be processed; (vi) actively encourage good record keeping and aim at the long-term goal of self-assessment. The experience also shows that if some 'bad' features such as too high or too low thresholds, overly extensive exemptions, or multiple rates are adopted as a political compromise or for reasons of acceptability in the first place, it may not be easy to remove them later.

At the heart of the reform is the urgent need for rate rationalization. Since the year 2000 of the 31 countries that have implemented the VAT in one form or another, 25 of them have adopted a single rate of tax, and the countries with more than two rates except India are hard to find! Multiple rates create classification disputes, create anomalies in terms of inverted duty structures, and induce unintended changes and resource allocations, besides increasing compliance and administrative complexity. Unfortunately, the GST Network does not put out the rate-wise revenue collections, but the information collected from Karnataka state shows that more than 75% of the GST revenues in 2023-24 accrued from two rates - 12 per cent and 18 per cent. The back-of-the-envelope calculation shows that combining these two rates into 15% will be revenue-neutral. Similarly, limiting 28% rate to demerit goods would free the construction and passenger vehicles industry from the excessive burden and, can improve the labour-intensive construction sector and passenger car services sectors. Even if some revenue is sacrificed on this account, this could be offset by pruning the large list of exempted items and increasing the 5 per cent rate to 6 per cent. Thus, effectively, the number of rates can be reduced to two with an additional rate on sumptuary or demerit goods without sacrificing revenue.

Another major reform needed to make the tax system comprehensive and competitive is the inclusion of petroleum products and electricity in the GST base. In 2019-20, the excise duty on petroleum products constituted 29 per cent of the consumption taxes at the Centre. The sales tax on petroleum products was almost 53 per cent in the non-special category states varying from 36 per cent in Bihar to 61 per cent in Telangana. The exclusion imposes the penalty on the exporters as they cannot zero-rate the input taxes on the transports used in the production-distribution processes. Besides, it renders the tax base narrow as the entire transport sector except for air travel and air-conditioned and first-class train travel is exempted.

In general, there is resistance to change and that is particularly true of the tax system. As stated by Johanson and Miles of the Institute of Fiscal Studies, while reviewing the report on tax reform of a Committee chaired by James Mirrless, "In the real World, the proposals for tax reform are constrained by politics. Those who lose from tax reforms tend to be vengeful and those who gain, tend to be ungrateful. This can lead to tax policy, perhaps more than any other policy, to a tyranny of status quo". The GST Council has appointed a group of Ministers to review the rate structure and recommend the changes. However, very little progress has been made in this regard, partly because, in the absence of credible research, no one is willing to risk revenue. The argument is that the people have come to accept the rate structure, and the stakeholders are acquainted with it, therefore, there is no need for any major change is short-sighted and does not consider the invisible economic damage caused by the distortions. Hopefully, the rate rationalization and measures to make the GST comprehensive will be taken sooner.

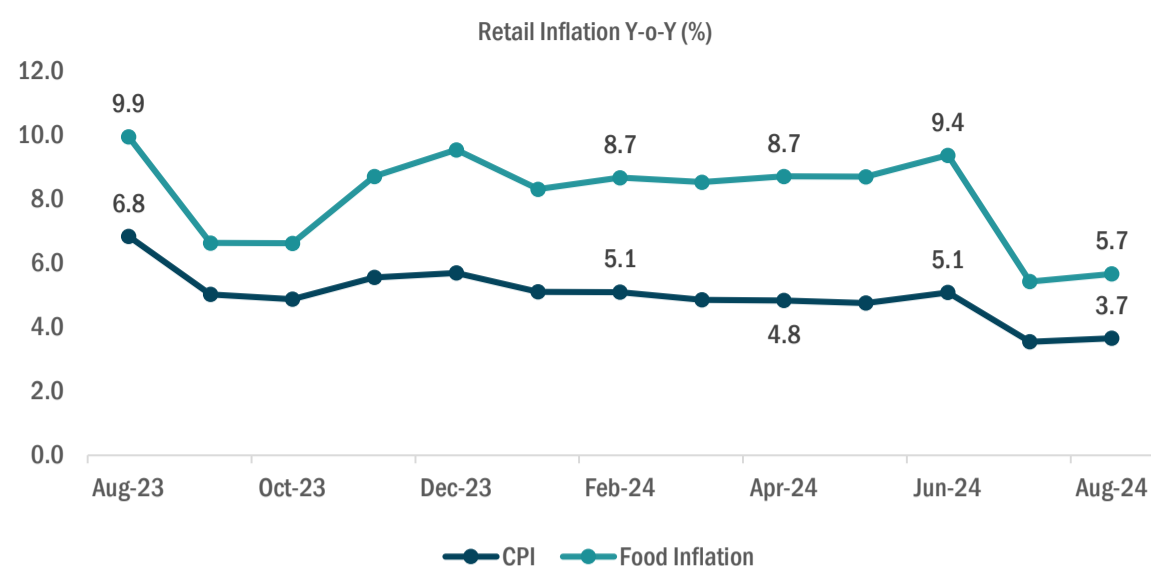
Advance Tax Collection Surges 22.6% to Rs 4.36 Lakh Crore in H1 FY25

- India's advance tax collection for 2024-25 increased significantly to reach Rs 4.36 lakh crore till September 17, 2024, a 22.6% increase from the previous year
- This surge in advance tax collections was attributed to both corporate and personal income tax contributions, with personal income tax collections increasing by 39.22% and corporate tax contributions increasing 18.17%, indicating a robust economic performance and increased optimism among taxpayers about their earnings, leading to higher upfront tax payments
- Gross direct tax collection stood at Rs 12.01 lakh crore between April 1 and September 17, 2024, a growth of 21.48% so far this fiscal
- India's net direct tax collections increased 16.12% to Rs 9.96 lakh crore till September 17, compared to Rs 8.58 lakh crore in FY24, according to the income tax department
- Net personal income tax collection grew 19% to Rs 5.15 lakh crore between April 1 and September 17, 2024
- Corporate tax collection went up 10.55% to over Rs 4.52 lakh crore during the same period as compared to Rs 4,09 lakh crore
- Revenues from Securities Transaction Tax (STT) stood at Rs 26,154 crore as against Rs 13,352 crore
- Refunds worth over Rs 2.05 lakh crore were issued, a 56.49% jump over the same period last fiscal

India Targeting Annual FDI of \$100 billion in coming years: DPIIT

- India is aiming to significantly boost its foreign direct investment (FDI) inflows to \$100 billion annually, stated by Amardeep Singh Bhatia, Secretary of the Department for Promotion of Industry and Internal Trade (DPIIT)
- India currently receives between \$70 billion and \$80 billion in foreign direct investment (FDI) annually and the Indian government is optimistic about achieving its FDI target through initiatives like the Make in India program, which celebrated its tenth anniversary
- The government has implemented production-linked incentive schemes, resulting in the creation of around 900,000 jobs and generating sales worth Rs 1.4 lakh crore
- The DPIIT is enhancing FDI approval processes and easing regulations in sectors like defense, railways, insurance, and telecommunications
- **Sectoral Focus:** The government has emphasized the importance of investing in key sectors like defense, railways, insurance, and telecommunications for enhanced growth
- Indian companies like Tata and L&T have been awarded defense contracts, enhancing the defense manufacturing ecosystem

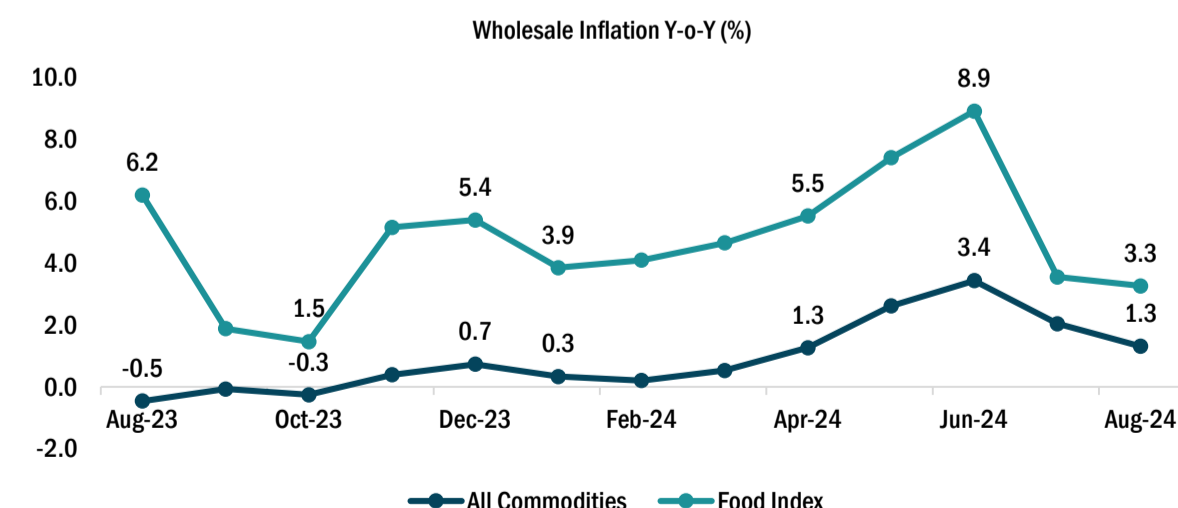
India's Retail Inflation Holds Steady at 3.65% in August 2024



Source: RBI

- India's Consumer Price Index (CPI) inflation rose to 3.65% in August 2024, slightly above the upwardly revised figure of 3.60% in July 2024
- This is the second lowest retail inflation rate in the last five years
- India's retail inflation remains within the Reserve Bank of India's acceptable range of 2-6%, but still below the RBI's target of 4%
- Food price inflation increased by 5.66% in August 2024 compared to 5.42% in July 2024. A significant driver of the inflation increase was the rise in food prices, particularly vegetables, which surged by 10.7% compared to 6.8% the previous month
- Pulses and products experienced a 13.6% increase in August 2024, while tomatoes plummeted by 47.91% due to increased supply from southern and western states, which led to a market glut.
- Fuel and light prices decreased by 5.31%, while housing inflation remained stable at 2.66%, slightly down from 2.68% in July
- Core inflation remained stable at 3.44%, but personal care product inflation increased by 7.9% due to rising input costs
- Rural inflation stood at 4.16% while urban inflation was 3.14% in August 2024, a significant decline from 7.02% and 6.59% in August 2023
- The inflation rate in recent months has been influenced by significant food price base effects, leading to lower overall inflation figures. However, as the favourable base diminishes, it's causing upward pressure on prices

India's Wholesale Inflation Drops to 1.31% in August 2024 on lower food prices and mild fuel deflation



Source: Ministry of Commerce & Industry, Government of India

- India's wholesale inflation for August 2024 has dropped to 1.31%, a four-month low, marking a significant drop from 2.04% in July, due to lower food, fuel, and manufactured goods prices

BWR VIEW

Inflation is expected to increase in September 2024 due to dissipating last year's base effects and potential risks from above-normal rainfall and La Nina conditions

The erratic monsoon patterns could potentially impact agricultural yields, leading to higher food prices and prolonged inflationary pressures

Monsoon rains' disruptions in production and distribution are causing supply-side pressures, causing concerns about crop yields and potentially exacerbating food price increases and inflationary pressures

The RBI has set its inflation forecast for the second quarter of the fiscal year at 4.4% with Q3 and Q4 inflation rates of 4.7% and 4.3%, citing persistent food price inflation as a concern

The reduction in wholesale inflation may help maintain lower retail inflation levels. The decrease in WPI inflation indicates a cooling trend in Indian economy price pressures, potentially influencing RBI's future monetary policy decisions for price stability and economic growth

Key Factors Contributing to the Decline

- **Moderation in Food Inflation:** Food price inflation decreased to 3.3% from 3.6% in July, marking a ten-month low, despite persistent inflation in potatoes and onions.
 - Inflation rate in food articles decreased from 3.45% in July to 3.11% in August, primarily due to a drop in vegetable prices
 - Vegetable prices experienced a 10.01% deflation, significantly impacting the overall decline in wholesale prices
 - Potatoes and onions experienced significant inflation rates of 77.96% and 65.75%, respectively, due to their high demand
- **Decrease in Manufactured Goods Prices:** Inflation in manufactured products, which constitutes a substantial portion of the WPI, decreased to 1.22% in August 2024, largely due to lower prices in sectors like textiles and pharmaceuticals
- **Fuel and Power Deflation:** A significant reduction in fuel prices played a crucial role in lowering wholesale inflation. The fuel and power category experienced a 0.67% deflation in August 2024, compared to a 1.72% increase in the previous month
 - High-speed diesel and petrol prices decreased by 3.03% and 4.23%, respectively, resulting in a -0.67% deflation rate in the fuel and power category
- Core WPI inflation decreased to 0.7% in August 2024 from 1.2% in July, indicating a broader easing of price pressures in non-food sectors.
- The global commodity price softening has significantly reduced wholesale inflation. The price of crude oil has been particularly low. The easing of inflation was influenced by a higher base effect from the previous year, as WPI inflation had been negative in 2023, making current figures more favourable

India's Manufacturing PMI Eases to Three-Month Low in August 2024 at 57.5

- In August 2024, India's manufacturing sector showed moderation, with the HSBC India Manufacturing Purchasing Managers' Index falling to 57.5, the lowest reading in three months
 - The PMI decrease indicates a moderation in factory conditions growth, but remains above the long-term average of 54.0, indicating ongoing sector expansion

Key factors contributing to the decline:

- **Slower Growth in New Business Orders:** New business orders experienced a seven-month low due to increased competition and changing consumer preferences, despite some firms benefiting from strong demand trends
 - New factory orders and export orders experienced slow growth in seven months, but overall expansion rates remain elevated compared to historical standards
 - Manufacturers reported a decrease in outstanding business volumes for the first time in nearly a year, suggesting easing of demand pressures
- **Input Costs and Prices:** Input price inflation reached a five-month low, enabling manufacturers to increase raw material purchases, leading to a significant rise in inventories
 - **Output Price Inflation:** Despite easing input cost pressures, output price inflation remains high, close to an 11-year peak, indicating manufacturers are still passing on cost burdens to consumers due to resilient demand
- **Business Confidence:** Business confidence has reached its lowest point since April 2023, largely due to competitive pressures and inflation concerns, indicating a cautious outlook among manufacturers regarding future activity levels
- **Reduced Export Orders:** Export orders experienced their weakest growth since 2024, with some firms experiencing increased international sales due to key market demand, but overall growth was insufficient to counter domestic challenges
- **Moderation in Production Growth:** Manufacturing output grew, but growth slowed since January due to intense competition and changing consumer preferences, negatively impacting production capabilities
- **Job Creation Slowed:** Historically, job creation remained strong, but it slowed down during this period due to reduced headcounts by some firms, reflecting cautious sentiment amid slower business activity

BWR VIEW

In August 2024, wholesale inflation eased due to lower fuel costs, moderated food price inflation, declines in manufactured product prices, and favourable global commodity trends, potentially allowing the Reserve Bank of India more flexibility

India's wholesale inflation, as measured by the WPI, has significantly decreased since its 16-month high of 3.36% in June 2024, dropping to 2.04% in July 2024 and 1.31% in August 2024

Moderate wholesale inflation may ease retail price pressure, which slightly increased to 3.65% in August, remaining below the Reserve Bank of India's 4% target

WPI inflation is expected to remain around 2.0% in September 2024 due to stable commodity prices, particularly crude oil, which has been near a three-year low of approximately \$70 per barrel. However, wholesale inflation may trend towards 2.50% by Q4 2024, with gradual increases due to stabilizing lower prices

India's manufacturing sector is experiencing a slight downturn due to fluctuating demand and cost pressures, slower new orders, reduced export growth, and declining business confidence. While positive signs like easing input price inflation and increased inventory levels are encouraging, declining business confidence and softer new orders may pose challenges.

The sector faces mixed outlook, with long-term growth driven by government initiatives and foreign investments, but reduced new orders and inflation concerns could hinder growth. Despite this, the long-term outlook remains positive due to strategic government policies and increasing investments, but current conditions may prompt cautious operational adjustments among manufacturers.

India Services Sector Growth hits 60.9 in August 2024, indicating strong expansion, largely fuelled by a surge in domestic demand

- India's services sector experienced significant growth in August 2024, with the HSBC India Services PMI reaching 60.9, up from 60.3 in July 2024, indicating robust growth in the services sector primarily driven by domestic demand
- This marks its thirty-seventh consecutive month of expansion, with the strongest rate since March 2024 and above its long-run average, driven by productivity gains and positive demand trends

The figure exceeded the preliminary estimate of 60.4 and reached a five-month high, indicating strong demand and ongoing expansion in the services sector

Key Factors for PMI Increase

- **Rise in New Orders:** New business surged strongly due to domestic demand reaching a four-month high, indicating a positive trend in the services sector, which has remained above the neutral 50 mark since August 2021
 - **Domestic Demand:** The services sector's growth is primarily driven by domestic demand, outpacing slowing international demand, showcasing local consumption's resilience amidst global economic fluctuations.
- **Employment Growth:** Hiring remained steady, with a slight slowdown since April 2024, but firms remained optimistic about future growth
- **Easing Cost Pressures:** Input costs for service providers slowed in six months, enabling better expense management due to easing inflation rates, which reached a five-year low in July.
 - Inflation eased to its lowest level since August 2020, allowing service providers to pass on costs to clients at a milder rate
 - The output charge inflation decreased, aided by cost pressures reaching their lowest level in four years
- **Business Sentiment:** Despite the positive growth figures, business sentiment reached a 13-month low due to market competition concerns
- **Optimism Despite Challenges:** Business confidence dropped to its lowest level in over a year, but companies remained optimistic about future demand, crucial for sustaining growth in the services sector
- **Sector Performance:** Finance and insurance sectors showed strong performance due to increased domestic demand, contributing significantly to the overall Services PMI

India Composite PMI stood unchanged at 60.7 in August 2024 as acceleration in services offset manufacturing slowdown

- India Composite PMI for August 2024 indicates a robust Indian economy, with a reading of 60.7, above the long-term average of 54.6. This marks the 37th consecutive month of private sector expansion, despite a slight manufacturing growth slowdown
- The services sector experienced the highest business activity increase since March, contributing positively to the overall PMI score, indicating healthy expansion. Conversely, the manufacturing sector experienced its weakest expansion in seven months, due to softer new orders and production levels
- In August, manufacturing and services companies experienced consistent input price trends, with cost pressures receding and inflation retreating to a six-month low
- The Composite PMI data for August reveals a resilient private sector in India, bolstered by strong service sector performance and ongoing demand despite challenges in manufacturing growth and inflationary pressures

Flash India PMI indicates Business Activity Slows to Nine-Month Low in September

- Flash India PMI for September 2024 shows a significant decrease in business activity, dropping to 59.3, down from 60.7 in August 2024, marking the lowest level recorded in 2024

BWR VIEW

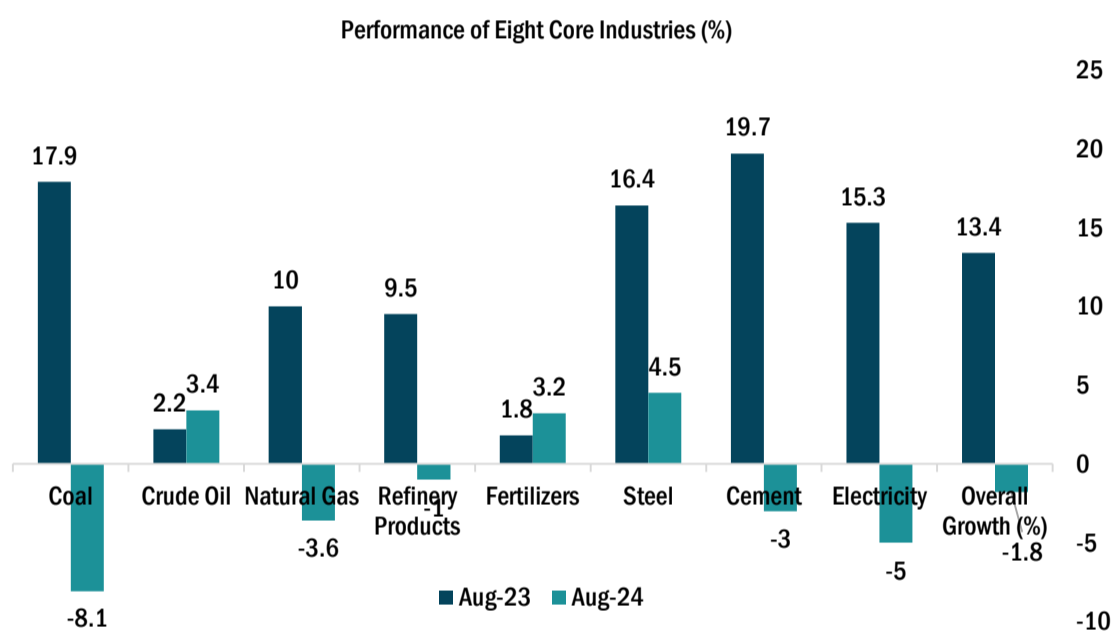
The August Services PMI results reveal a robust services sector in India, driven by robust domestic demand and easing inflationary pressures, despite moderating business confidence and indicating positive economic sentiment.

India's domestic demand in August 2024 significantly impacted the new orders index, indicating the strength of the domestic market despite a six-month low in international demand, bolstering positive business sentiment.

BWR VIEW

- The data indicates the manufacturing and services sectors experienced a decline, but the private sector continued to expand for the 38th consecutive month, despite the index remaining above the neutral 50 mark
- **Sector Performance:** Both manufacturing and services sectors experienced slower growth rates. While, the services sector index decreased from 60.9 to 58.9, while manufacturing's index fell from 57.5 to 56.7
- **Moderation in New Orders and Output Growth:** New order growth and output moderated, marking the slowest expansion in 2024 compared to previous months
- Employment levels increased significantly, especially in the services sector, which saw its fastest job creation rate since August 2022
- **Inflation Trends:** Input cost inflation remained modest, with only a slight increase in August 2024, and service providers raised charges at the slowest pace in over two and a half years
 - Output price inflation slowed in manufacturing and services sectors, with manufacturers experiencing a larger margin reduction.
- Despite the slowdown, firms remain optimistic about the business outlook for the upcoming year, with expectations of securing new business

India's Core Sector Output Contracted by 1.8% in August 2024, marking the first decline in 42 months



Source: Ministry of Commerce & Industry, Government of India

- India's core sector experienced a significant contraction in August 2024, with a 1.8% decline in output compared to the same month in the previous year
- The contraction, the first negative growth in 42 months, indicates broader economic challenges
- The growth rate has declined significantly compared to the 6.1% growth recorded in July 2024 and 13.4% in August 2023. The downturn was largely due to a high base effect and adverse weather conditions, particularly excessive rainfall, which negatively impacted sectors like coal, electricity, and cement

Sector Performance: Six out of eight core sectors experienced a significant contraction, primarily due to negative growth in several key sectors

- **Coal:** Coal production fell by 8.1% in August 2024, compared to a 17.9% increase in the same month last year
- **Crude Oil** output decreased by 3.4% compared to the previous year
- **Natural gas** experienced a contraction of 3.6% in August 2024, compared to a 10% increase last year
- The **electricity** generation sector experienced a 5.0% decrease
- **Cement** production has experienced a 3.0% decrease

On the other hand, **Fertilizers and Steel** were the only sectors to show positive growth

- **Steel** output increased by 4.5% in August 2024, although this was a slowdown compared to 16.4% growth in August 2023

The contraction in India's core sector output could significantly impact industrial production, which are crucial indicators of India's economic health

The contraction of core sectors in August 2024 raises apprehensions over the overall economic environment and future economic momentum, particularly in infrastructure development and building activities, which seem to have deteriorated during this time

The current trend may prompt policymakers to reconsider their strategies to boost growth and tackle the underlying issues affecting production in crucial sectors

Despite the fact that overall growth is anticipated to slow down in comparison to FY24, a possible rebound in October 2024 is expected as a result of increased government investment on infrastructure projects

Core sector performance in India is anticipated to remain subdued in September 2024 due to the late withdrawal of the monsoon, which has adversely affected industrial activity

Government infrastructure spending is crucial for boosting growth in core sectors like construction, particularly cement and steel, by increasing capital expenditure. By addressing challenges and fostering growth through strategic investments, the government can significantly influence the recovery trajectory of these key industries

- Steel, accounting for 17.92% of the core sector's weight, significantly impacts overall industrial output due to its substantial impact
- Though the steel sector posted growth, the sector's growth was slowed to 4.5%, its lowest in 26 months, indicating weakened construction activity during this period
- **Fertilizer** production increased by 3.2%, indicating some resilience despite broader declines
 - The growth of the fertilizer sector is influenced by ongoing agricultural demands and potential government policies aimed at enhancing agricultural productivity
 - The sector, with a smaller weight of 2.63%, has consistently contributed positively to the overall index
- From April to August 2024, the cumulative growth of the eight core industries was 4.6%, a decline from the 8.0% growth recorded in the previous fiscal year
- This indicates a significant slowdown in industrial production, which is crucial as these sectors contribute 40.27% to India's Index of Industrial Production

Key Factors Contributing to the Decline:

- **Adverse Weather Conditions:** Excessive monsoon rainfall negatively impacted industrial activities, especially mining and electricity generation, reducing coal, crude oil, and natural gas demand and lowering electricity output, potentially hindering supply chains and operations within the sector
- **High Base Effect:** The previous year's strong performance established a strong base, making current output appear weaker in comparison

India's Industrial Output Rises to 4.8% in July 2024; Manufacturing Momentum: 4.6% Growth Amidst Challenges

Mining and Non-Durables Slow Down: A Mixed Bag for July

Index of Industrial Production, Y-o-Y Growth

	Mining	Manufacturing	Electricity	General
July 2024*	3.7	4.6	7.9	4.8
July 2023	10.7	5.3	8.0	6.2
Weight in IIP	14.4	77.6	8.0	100

Source: Ministry of Commerce & Industry, Government of India

Index of Industrial Production, April 2024-June 2024

	Mining	Manufacturing	Electricity	General
Y-o-Y Growth	6.9	4.2	10.1	5.2

Source: Ministry of Commerce & Industry, Government of India

* Figures for July 2024 are Quick Estimates

Sector-wise Classification

	Primary Goods	Capital Goods	Intermediate goods	Infrastructure/construction goods	Consumer durables	Consumer non-durables
July 2024*	5.9	12.0	6.8	4.9	8.2	-4.4
July 2023	7.7	5.1	3.2	12.6	-3.6	8.3
June 2024	6.3	3.8	3.0	7.1	8.7	-1.5
Weight in IIP	34.05	8.2	17.2	12.3	12.8	15.3

* Figures for July 2024 are Quick Estimates

- India's Index of Industrial Production (IIP) index rose by 4.8% in July 2024, reflecting a positive industrial output trend, with the overall index standing at 149.6, up from 142.7 in July 2023
- This growth marks a slight increase from the 4.7% recorded in June 2024, but represents a slowdown compared to the 6.2% growth seen in July 2023

Sectoral Growth:

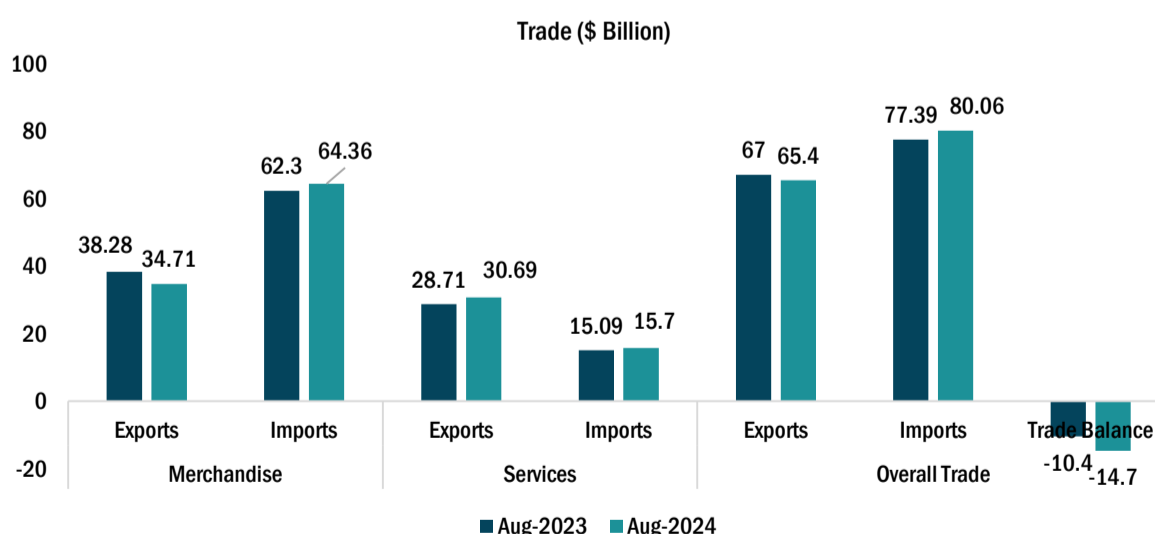
- **Manufacturing Sector:** The manufacturing sector, which accounts for 77.6% of the IIP, experienced a slight growth of 4.6% compared to previous months
- **Electricity Production:** The electricity production increased by 7.9% in July 2024 due to increased demand and enhanced energy generation efficiency
- **Mining Sector:** The mining sector experienced a modest growth of 3.7% in July 2024, contributing positively to the overall IIP despite a decrease from previous months

Use-Based Classification

- **Capital Goods:** The capital goods segment experienced a 12% growth in July 2024, indicating robust investment and increased demand for machinery and equipment
 - Robust growth in Capital goods indicates a favourable investment climate, attracting both domestic and foreign investments, promoting industrial expansion and job creation
- **Consumer Durables and Non-Durables:** The IIP experienced a decrease in consumer durables output by 8.2% and a contraction in non-durable consumer goods by 4.4% in July 2024, despite the overall performance of other sectors, indicating potential vulnerabilities in consumer spending patterns that could impact future growth
- **Intermediate Goods:** Production in this category increased by 6.8%, a significant increase over the 3% growth recorded in the previous month, indicating a surge in manufacturing activity
- The uncertainty surrounding government budget allocations and capex spending negatively impacted both sectors, particularly mining operations
- Further, supply chain disruptions from the Middle East crisis exacerbated fears of weak demand, leading to cautious business sentiment and reduced production levels
- Moreover, declining commodity prices squeezed revenues and profits, affecting mining companies' profitability
- Also, weak industrial demand, particularly in China, resulted in lower production levels across various commodities
- Uncertainty in government budget allocations and capex spending negatively impacted industries, particularly mining, due to low government investment and a sluggish industrial environment

India's Trade Deficit Surges to \$29.65 Billion in August; Imports Soar and Exports Decline

Gold Imports pushed Trade Deficit to Ten-Month Peak: \$29.65 Billion



Source: Government of India, Ministry of Commerce & Industry

- India's merchandise trade deficit increased to \$29.65 billion in August 2024, marking a significant increase from \$24.2 billion in August 2023, surpassing July's deficit of \$23.5 billion
- This widening in trade deficit is attributed to a record high imports, totalling \$64.36 billion in August 2024, and a 9.3% decrease in merchandise exports due to weak global demand and geopolitical challenges

BWR VIEW

Economic uncertainty, supply chain disruptions, falling commodity prices, weak industrial demand, and seasonal factors contributed to the mining and manufacturing sector's slowdown in July 2024

The steady growth in IIP indicates industrial activity recovery, crucial for economic growth. Manufacturing sector resilience, especially in electrical equipment and petroleum products, contributed significantly to growth

IIP growth from 142.7 in July 2023 to 149.6 in July 2024 indicates long-term growth potential, but challenges like fluctuating global demand and domestic consumption need monitoring for sustained momentum. However, challenges persist in mining and consumer non-durables sectors, which have shown weaker performance recently

The capital goods sector has shown significant improvements, indicating a positive outlook for industrial investment and manufacturing in India

India's trade deficit raises concern about long-term economic impacts, including currency depreciation and increased reliance on foreign goods, but officials maintain strong economic growth can handle fluctuations

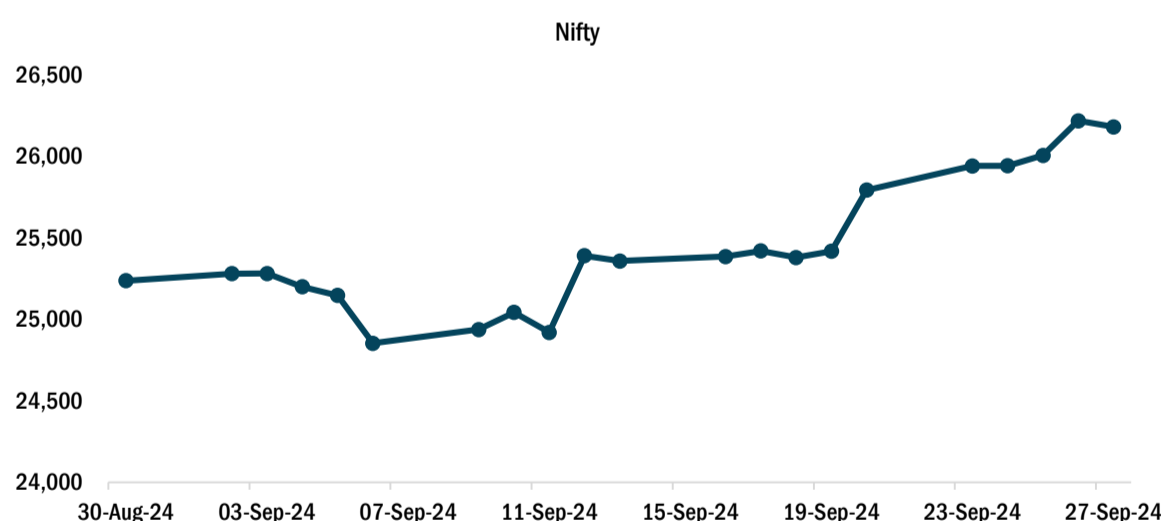
- India's exports faced significant challenges in August 2024, contracting by 9.3% to \$34.7 billion due to a combination of reduced global demand and geopolitical issues

Key Factors Contributing to the Trade Deficit:

- **Decline in Exports:** Major sectors like petroleum and gems & jewellery experienced significant declines in August 2024
- **Petroleum Products:** Exports of petroleum products fell 37.6% compared to the previous year due to lower global demand and falling crude oil prices, reducing their overall value
- **Gems and Jewellery:** The sector experienced a significant contraction, with exports decreasing by over 20% in both July and August 2024 due to G7 sanctions following the Russia-Ukraine conflict, intensifying the difficulty in acquiring rough diamonds
- **Surge in Gold Imports:** Gold imports reached a record \$10.1 billion, doubling from previous months due to reduced duties and increased domestic demand ahead of the festive season
- **Overall Import Growth:** Total merchandise imports reached an all-time high of \$64.36 billion, largely due to increased gold imports despite a drop in oil import costs due to lower global oil prices
- **Other Sectors:** Global demand for pharmaceuticals and electronics slowed down exports, leading to a 9.3% decline in merchandise exports. The electronics sector experienced a slowdown, exacerbating India's export challenges
- **Weak Global Demand:** The economic slowdown in China and European recession have further reduced demand for Indian exports, particularly in pharmaceuticals and electronics
- **Transportation and Logistics Issues:** The rise in logistics and transportation costs has exacerbated challenges for exporters, making international shipping more expensive
- **Decline in Exports to China:** India's exports to China, particularly in stone, plaster, cement, and iron ore, experienced a 22.4% decline in August 2024 due to China's economic troubles and reduced infrastructure spending
- Despite the negative growth in merchandise exports, India's trade performance from April 2024 to August 2024 showed a 5.35% cumulative export growth, with total exports at \$328.86 billion and imports at \$375.33 billion

Stock Markets

Nifty Crosses New Milestone: Crossed 26,000 mark for the first time



Source: BSE and NSE

- The Indian stock market started the September 2024 month positively, breaking resistance levels. Mid-September saw upward momentum due to economic indicators and foreign investments. Late September saw new heights but profit-taking set in
- **Nifty hit record highs:** The Nifty 50 reached a record high of 26,277.35 on September 29, 2024, amidst a bullish trend that consistently surpassed the 26,000 mark
- In late September 2024, the BSE Sensex also reached record highs, with the Sensex reaching 85,978.25
- Despite reaching new highs, profit-taking amid record gains caused market volatility, with both indices experiencing minor dips as investors reacted to global cues
- However, the market experienced a sharp decline on September 30, 2024 with the BSE Sensex dropping over 1200 points and the Nifty index falling below 25,850, primarily

BWR VIEW

India's services sector maintains a surplus, potentially balancing the current account despite a widening trade deficit due to domestic and global economic challenges

India's export performance in August 2024 was significantly impacted by global economic downturns, sector-specific challenges, rising costs, and geopolitical instability, leading to a significant contraction in merchandise exports

The World Trade Organization predicts a gradual recovery in global merchandise trade volume by 2025, but the outlook is subdued due to geopolitical tensions and economic uncertainties

China's economic slowdown has widened India's trade deficit, reducing export demand and increasing imports, posing challenges for economic stability and growth prospects

The growing trade deficit in India could lead to currency pressure, economic growth challenges, and increased competition, as the depreciation of the rupee and over-reliance on imports may exacerbate the deficit and slow down export performance

due to losses in Reliance Industries and IT stocks, indicating significant bearish sentiment in the market

- The market's upward trend was bolstered by global factors, including US Federal Reserve rate cuts, but mixed signals and profit booking led to declines towards the end of September 2024
- In September 2024, banking stocks significantly contributed to the Nifty index reaching record highs, especially in the latter part of the month. The Nifty Bank index saw a significant rise, marking its seventh consecutive day of gains, with major banks like ICICI Bank and HDFC Bank contributing significantly
- The Nifty Bank index experienced significant gains, rising nearly 3,000 points throughout September. Alongside banking stocks, automobiles and metals, significantly influenced the market's upward trajectory
- Further, positive global factors such as China's economic stimulus announcements and stable U.S. data, boosting investor confidence across Asian indices
- Moreover, expectations of a recovery in corporate earnings for the second half of FY25, supported by government spending and stable U.S. economic data, bolstered investor confidence
- Despite market weakness, some sectors, like Nifty Metal and Nifty FMCG, showed resilience
- September 2024 saw strong FII inflows and highs for Indian indices, but global uncertainties and profit-taking pressured the market, with volatility expected into October 2024 due to upcoming U.S. elections
 - September 2024 saw strong foreign investment and record highs, followed by a sharp decline due to sector-specific weaknesses and market corrections
 - In September 2024, Foreign Portfolio Investors invested Rs57,359 crore in Indian equities, marking the highest inflow in nine months, surpassing Rs 1 lakh crore mark in 2024, driven by US Federal Reserve rate cut

In September 2024, Foreign Portfolio Investors (FPIs) made a significant buying spree in Indian equities due to several key factors including:

- **US Federal Reserve Rate Cut:** The most pivotal factor was the US Federal Reserve's 50 basis points rate cut on September 18 initiated a new rate-cutting cycle, guiding monetary policy direction and encouraging Foreign Portfolio Investors (FPIs) to invest in emerging markets like India
- **Improved Market Sentiment:** Investor sentiment improved during the month following Fed Chair Jerome Powell's positive comments on future rate cuts, leading to substantial net inflows into Indian equities, particularly in the first week of September, due to the favourable economic outlook
- **Strong Domestic Economic Indicators:** India's stable macroeconomic environment, robust GDP growth, controlled inflation, and strong domestic liquidity, along with ongoing regulatory reforms, significantly attracted foreign direct investment (FDI) investments
 - FDI in India surged 26.4% in Q1 2024-25, reaching \$22.5 billion, marking the strongest growth in five quarters and boosting investor confidence
- **Global Economic Content:** Geopolitical factors and potential US and China recessions influenced FPI behaviour, leading investors to view Indian equities as a safer option. The US 10-year bond yield decline was favourable for FPI inflows
- **Recent Market Performance:** Key indices like Nifty and Sensex reached record highs, enhancing Indian equities' attractiveness. Domestic institutional investors and retail participation supported market momentum, encouraging FPIs to increase holdings

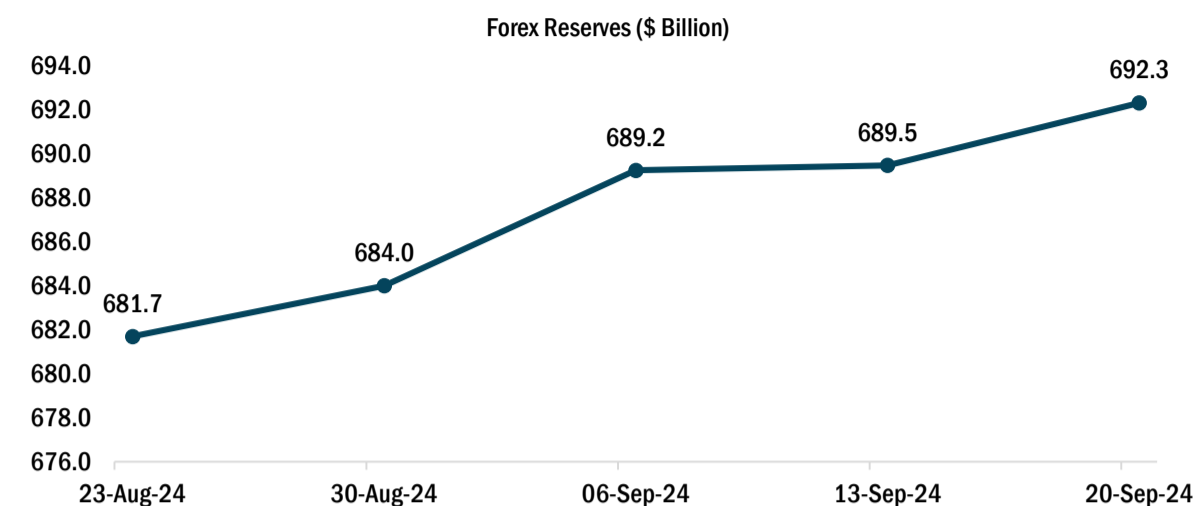
BWR VIEW

Recent central bank rate cuts have bolstered global markets, but geopolitical tensions and upcoming US elections may introduce volatility

Going ahead, October 2024 month presents favourable conditions for India's equity markets, but high valuations and external risks require cautious optimism. Investors should focus on growth-oriented sectors and remain vigilant

Forex

India's Forex Reserves Surge to Historic High of \$692.3 Billion; Record-breaking six-week rise



Source: RBI

- India's foreign exchange reserves reached a record high of \$692.3 billion as of September 20, 2024. This figure marks an increase of \$2.84 billion from the previous week, continuing a trend of growth for the sixth consecutive week
- **Foreign Currency Assets (FCA):** The reserves were strengthened by a \$2.057 billion increase in foreign currency assets, reaching approximately \$605.6 billion, reflecting RBI interventions and appreciation of foreign assets
- **Gold Holdings:** Gold holdings increased by \$726 million to a total value of around \$63.6 billion during that week, significantly influencing the increase
 - This reflects government's ongoing strategy of diversifying reserve assets as Gold is viewed as a safe-haven to protect against currency fluctuations and economic uncertainties
 - The notable surge in gold holdings played a critical role in bolstering the overall reserves
- **Special Drawing Rights (SDRs):** SDRs increased by \$121 million, while the Reserve Tranche Position in the IMF decreased by \$66 million
- The rise in foreign exchange reserves can be attributed to foreign investors' significant inflows into Indian stocks and bonds, partly driven by a recent U.S. Federal Reserve rate cut
 - U.S. interest rate reductions make investments in emerging markets like India more attractive, potentially increasing foreign direct investment and foreign portfolio investments in India
- Further, India's strong growth indicators and inclusion in key emerging market indices have boosted investor confidence and sustained economic inflows
- Moreover, a series of large IPOs as well as their recent successful listings have attracted significant foreign capital, opening new investment opportunities and making the Indian market more appealing to international investors

BWR VIEW

Foreign capital influx may boost Indian Rupee demand, potentially lowering import costs, but may increase export costs for foreign buyers

Gold holdings significantly increased India's foreign exchange reserves, reflecting a strategic asset allocation and a response to global economic conditions

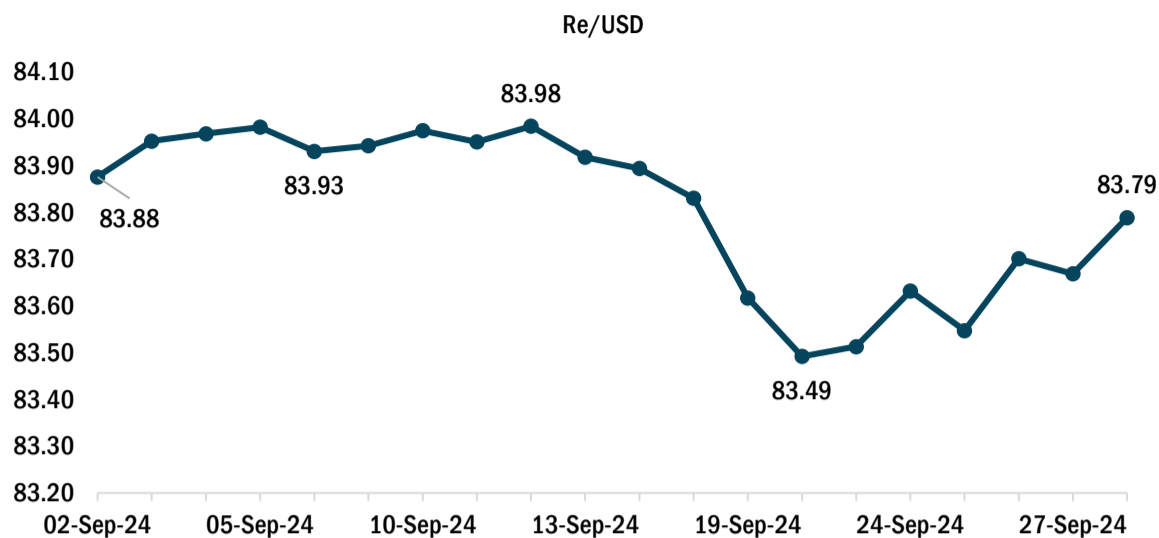
The Reserve Bank of India manages gold reserves to maintain market stability and prevent exchange rate volatility, bolstering India's financial stability amid global economic challenges

The interest rate differential between India and the US is anticipated to continue attracting Foreign Direct Investments

India's growing weightage in global indices and robust economic growth prospects are expected to sustain foreign direct investment (FDI) inflows in the future

Rupee

Indian Rupee faces pressure; hits new low of 83.98 against US Dollar amid global tensions; Rupee Stabilizes amid foreign fund inflows



Source: RBI

- The rupee experienced a record low of 84 against the US dollar on September 11, but rebounded to around 83.70 mid-month due to improved investor sentiment boosted by contrasting monetary policies between the Reserve Bank of India and the U.S. Federal Reserve
- The rupee experienced its largest weekly gain of the year, appreciating 0.4% against the dollar, reaching a two-month high of 83.56. This upward trend was fuelled by \$10 billion in foreign portfolio investor inflows in September
- The rupee's strength was boosted by lower crude oil prices and a weakening dollar index, but the Reserve Bank of India intervened in the forex market to manage volatility
- Further, the weaker US dollar and Federal Reserve's 50 basis point interest rate cut led to increased investor interest in emerging market currencies, including the Indian rupee.
- Foreign Investment Inflows: September saw a surge in foreign portfolio investment, reaching the highest net inflows for 2024, bolstering the rupee as investors seek higher yields in emerging markets
- The rupee has shown resilience in late September 2024, recovering from previous declines and aligning more closely with Asian peers. Analysts predict continued positive sentiment, contingent on global economic conditions and domestic monetary policy adjustments
- September saw a significant recovery for the Indian rupee, thanks to favourable market conditions and strategic RBI interventions
- The rupee is expected to sustain positive sentiment in October 2024 influenced by global economic conditions and domestic monetary policy adjustments

The Indian rupee demonstrated notable strength in September 2024, influenced by several key factors:

- **Weakening US Dollar:** The rupee's appreciation was bolstered by a weaker US dollar, easing US inflation, and anticipated Federal Reserve interest rate cuts, creating a favourable environment for the rupee. Further, favourable interest rate differentials in the overall economic environment reinforced rupee strength
- **Strong Foreign portfolio investments in India:** The rupee's strength has been bolstered by significant portfolio inflows into Indian stocks and debt, reaching \$10 billion in September 2024 driven by global conditions and improved economic prospects
- **Positive Domestic Economic Indicators:** The rupee's strength was further bolstered after the Asian Development Bank predicts a 7% growth in the Indian economy, attributed to improved agricultural output and increased government spending

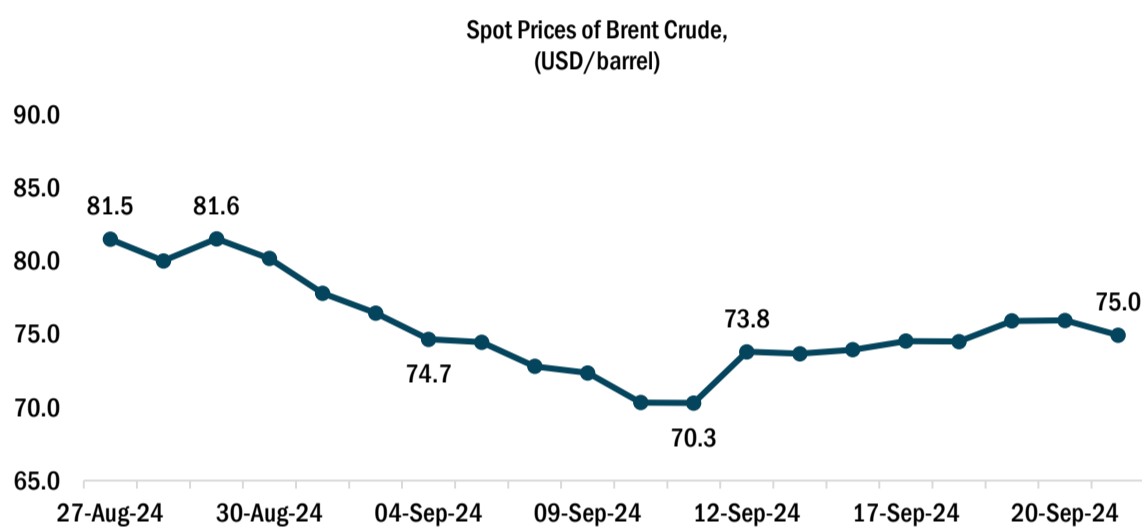
BWR VIEW

Going ahead, the rupee's strength is expected to be tempered by global economic uncertainties and inflation pressures, despite the ongoing economic turmoil. The rupee, despite facing challenges like inflation and global economic uncertainties, is expected to stabilize within a range of 83.50 to 84.00 for the remainder of 2024

- **Stable Domestic Equity Markets:** The role of domestic equities in the market, particularly the Sensex, was pivotal in boosting investor sentiment and bolstering the rupee against the dollar.
- The Sensex reached an all-time high in September, reflecting strong investor sentiment and rupee strength against the dollar, despite fluctuations due to profit booking and external factors
- **RBI Policies:** The Reserve Bank of India's (RBI) policies, focusing on maintaining liquidity and managing inflation, have contributed to currency stability and investor confidence in the rupee
- The Reserve Bank of India (RBI) effectively stabilized the rupee against the dollar, preventing it from breaching significant psychological levels, despite fluctuations in the rupee against other currencies like the euro and pound due to their respective strengths against the dollar

Oil

Brent Crude Hits a three-year low; Drop Below \$70 amid weak global demand



Source: U.S. Energy Information Administration

- In September 2024, Brent crude prices dropped by \$10 from previous month due to oversupply and weak demand, particularly from China, with prices reaching a low of \$70.31 per barrel, indicating a significant drop
- Crude oil fell on demand concerns as global Oil demand growth has slowed significantly, driven by a decline in Chinese consumption for four consecutive months. According to the International Energy Agency (IEA), global crude oil demand growth is expected to slow significantly in 2024, with a projected increase of only 900 kb/d, primarily due to declining consumption in China
- Oil prices are further influenced by geopolitical factors such as rising Middle East tensions and political unrest in Libya, leading to uncertainty and production outages
- OPEC's Demand Forecast Adjustment: OPEC revised global crude oil demand forecast, reducing increase from 2.11 million to 2.03 million barrels per day, causing a cooling oil demand outlook and causing price decline, falling below \$70 per barrel for the first time in three years
- The U.S. Energy Information Administration (EIA) predicts Brent crude to average \$82 per barrel by December 2024, despite current low prices, as global demand outpaces production and due to slowing global economic activity and reduced fuel demand in China
- Oil demand is dampened by weak economic growth in developed countries and lower-than-expected trade data from China, causing fears of economic stagnation and a global economic slowdown
- The U.S.'s record-breaking oil production has led to oversupply in the market, causing downward pressure on prices as supply outstrips demand

The drop in crude oil prices in India presents mixed economic benefits, with potential relief in reduced import bills and inflation largely dependent on government decisions on fuel taxation and pricing strategies

The decrease in crude oil prices is expected to positively impact India's economy, as the country imports 87% of its crude oil needs. Lower prices could reduce the import bill, stabilize the rupee, and potentially lower consumer prices if tax reductions are implemented

OPEC revised global demand growth forecast for 2024 to 2.03 million barrels per day, but oversupply and weak demand pressure prices. EIA predicts Brent crude could return above \$80 per barrel due to ongoing inventories withdrawals

GLOBAL

European Central Bank (ECB) Cuts Key Interest Rates

- **ECB Cuts Deposit Rate to 3.50%:** The European Central Bank (ECB) cut its key interest rates for the second time in three months, addressing inflation and a struggling Eurozone economy, reducing the deposit facility rate by 25 basis points (bps) from 3.75% to 3.50% in its meeting on September 12, 2024
- **Refinancing Rate Adjusted:** In addition to the deposit rate cut, the ECB also reduced its marginal lending facility to 3.90%. The ECB also adjusted its refinancing rate by reducing it by 60 basis points to 3.65% as part of a broader monetary policy strategy amid economic challenges
- This interest cut by the ECB on September 12, 2024 comes following a similar cut in June 2024, which was the first reduction in five years, due to a slowdown in inflation and economic stagnation, exacerbated by weak consumer spending and high interest rates
- The ECB began increasing rates in July 2022, marking the first increase since March 2016, reaching their peak in December 2023, the highest level since the 2007-2008 financial crisis
- **Inflation Projections:** The ECB has maintained its Inflation projections at its policy meeting, predicting headline inflation to average 2.5% in 2024, 2.2% in 2025, and 1.9% in 2026. The figures align with the projections made in June 2024
 - However, the ECB predicts a potential rise in inflation in late 2024 due to previous energy price declines, but it expects it to decrease towards the 2% target in the latter half of 2025
 - The ECB revised core inflation slightly for 2024 and 2025 due to higher services inflation, but expects a rapid decline from 2.9% in 2024 to 2.3% in 2025 and 2.0% in 2026
- **Economic Growth Projection Revised:** In addition to the inflation outlook, the ECB revised its economic growth projections, estimating growth at 0.8% for 2024, down from earlier forecasts, with gradual increases to 1.3% in 2025 and 1.5% in 2026
 - This downward revision in growth estimates is attributed to decreased domestic demand and reduced economic activity, despite increased wage pressures causing inflation

US Fed Cuts Interest Rates by 50 Bps; Signals More Easing Ahead

- **Interest Rate Cut:** The Federal Reserve's Federal Open Market Committee (FOMC) concluded its September 17-18, 2024 meeting by announcing a 50 basis point cut to the federal funds rate, lowering it to a target range of 4.75% to 5%
- This cut in interest rates marks its first rate cut since March 2020, when US Fed reduced rates to near-zero to support the economy during the COVID-19 pandemic, marking a strategic move to boost economic growth amid a slowing job market
- Federal Reserve's Chair Jerome Powell expressed confidence in inflation's sustainable progress towards its 2% target, stating that employment and inflation risks are balanced, indicating a cautious yet optimistic outlook
- **Future Rate Projections:** FOMC updated its projections, suggesting further rate cuts, with 50 basis points reduction by end of 2024, reaching 4.25%-4.5%, and a total of 100 basis points in cuts by 2025, bringing the rate to 3.25%-3.5%, reflecting a gradual monetary policy adjustment based on economic data
- The Federal Reserve's decision to cut interest rates by 50 basis points is poised to have significant implications for the Indian economy across various sectors and markets. While there are opportunities for growth through increased foreign investment and lower borrowing costs, challenges remain-particularly for export-oriented sectors facing currency pressures
- As global economic conditions evolve following this monetary policy shift, all eyes will be on how both Indian markets respond and how the RBI navigates its policy options amidst changing dynamics. The interplay between global monetary policy shifts and domestic economic conditions will ultimately shape India's economic trajectory in the coming months and years

China Announces Stimulus Measures to Bolster Sputtering Economy

In September 2024, the People's Bank of China (PBOC) has announced a comprehensive stimulus package aimed at boosting China's economy which has been under pressure due to a prolonged property sector crisis, deflationary trends, and high youth unemployment

- **Interest Rate Cuts:** The PBOC will reduce the policy interest rate and the reserve requirement ratio (RRR) by 0.5 percentage points, which is expected to free up more capital for banks to lend. This move is seen as a direct attempt to stimulate borrowing and investment in the economy
- PBOC plans to reduce the **7-day repo rate**, by 20 basis points to 1.5% as well as lower the interest rate on the **medium-term lending facility** by 20-25 bps, aiming to reduce borrowing costs and alleviate financial strains on households, particularly regarding mortgage repayments
- **Mortgage Rate Adjustments:** To support the housing market, the government plans to lower interest rates on existing mortgage loans and unify down payment ratios for new loans. The average interest rates on existing mortgages will be reduced by approximately 50 basis points. This is anticipated to benefit around 50 million households, reducing their average annual interest payments by about 150 billion yuan
- **Support for the Real Estate Sector:** The stimulus package aims to stabilize the real estate market by lowering mortgage interest rates and reducing minimum down payments for second homes from 25% to 15%, addressing the sector's decline since 2021
- **Liquidity Support for Stocks:** The central bank plans to launch a "swap programme" to enable firms to acquire liquidity, with an initial scale of 500 billion yuan and potential future expansions. This new swap program enables firms to access central bank liquidity for stock purchases, aiming to boost investor confidence
- **Attracting Medium and Long-Term Funds into Capital Market:** China plans to issue a guideline to attract medium and long-term funds into the capital market. Alongside the guidelines, the China Securities Regulatory Commission (CSRC) plans to introduce six measures to promote mergers and acquisitions in the market, facilitating the circulation of private equity and venture capital funds throughout their lifecycle
- **Special Relending Facility:** The PBOC has introduced a 300 billion yuan special lending program, enabling listed companies and major shareholders to borrow from commercial banks to buy back shares and increase their holdings. This facility is aimed at boosting the economy and boosting investor sentiment in the stock market
- China's stimulus package aims to address economic weaknesses and restore confidence among consumers and investors, as the country faces challenges in meeting its 5% annual growth target, a struggling property market and deflationary pressures

Bank of England holds interest rates at 5%

- The Bank of England (BoE) has maintained its main interest rate at 5% on September 19, 2024, following a four-year reduction from 5.25% in August 2024
- The BoE has maintained the interest rate, demonstrating a cautious stance amid fluctuating economic indicators and global monetary trends, while remaining vigilant about inflation and economic growth
- The Monetary Policy Committee (MPC) voted 8-1 to maintain rates unchanged due to inflation concerns, particularly in the services sector, which accounts for 80% of the UK economy
- **Inflation Trends:** Inflation in the UK remains within the 2% target, with a slight increase in service sector prices reaching 5.6% in August, affecting approximately 80% of the economy
- **Wage growth** has slowed to 5.1%, its lowest level in two years, yet still reflects an elevated pace compared to historical standards
- **Economic Growth:** The UK's economy showed no growth in July, indicating stagnation, prompting the MPC to exercise caution due to mixed inflation and employment data
- The MPC plans to closely monitor economic conditions and adjust its policy as needed, with analysts suggesting another rate cut may occur later this year if inflation trends downward

Bank of Japan Holds Interest Rates Steady in September 2024, Upgrades Consumption Outlook

- The Bank of Japan (BoJ) has decided to maintain its benchmark interest rate at 0.25%, the highest level since 2008, following a two-day policy meeting on September 20, 2024
- The decision aligns with economists' expectations and reflects the BOJ's cautious transition from its ultra-easy monetary policy amid moderate economic recovery
- The BOJ expressed optimism about Japan's economic recovery, citing moderate private consumption growth despite price increases and forecasting continued core inflation, potentially indicating future rate hikes, despite acknowledging some economic weaknesses
- The central bank expects core inflation to continue rising through fiscal year 2025
- Another interest rate hike in December 2024 cannot be ruled out, tempered by BOJ Governor Kazuo Ueda's assurance that the BOJ has time to assess economic conditions before making further hikes
- The BOJ's decision comes before the Liberal Democratic Party's September 27 leadership election, which will determine Japan's next Prime Minister

SUMMARY

- India's advance tax collection for 2024-25 reached Rs 4.36 lakh crore, a 22.6% increase from the previous year, driven by increased corporate and personal income tax contributions, indicating robust economic performance
- India is aiming to significantly boost its foreign direct investment (FDI) inflows to \$100 billion annually, stated by Amardeep Singh Bhatia, Secretary of the Department for Promotion of Industry and Internal Trade (DPIIT)
- India's CPI inflation reached 3.65% in August 2024, the second lowest in five years. Food inflation increased by 5.66%, with vegetables driving the increase by 10.7% compared to the previous month
- India's wholesale inflation for August 2024 dropped to 1.31%, a four-month low, from 2.04% in July. Food price inflation decreased to 3.3%, despite persistent inflation in potatoes and onions
- India's manufacturing sector experienced moderation in August 2024, with the HSBC India Manufacturing Purchasing Managers' Index dropping to 57.5, the lowest in three months. Factors contributing include slower growth in new business orders
- India's services sector experienced significant growth in August 2024, reaching a PMI of 60.9, driven by domestic demand. This marks the sector's thirty-seventh consecutive month of expansion, with productivity gains and positive demand trends driving the surge in new orders
 - India Composite PMI for August 2024 indicates a robust Indian economy, with a reading of 60.7, above the long-term average of 54.6.
 - Flash India PMI for September 2024 shows a significant decrease in business activity, dropping to 59.3, down from 60.7 in August 2024, marking the lowest level recorded in 2024
- India's core sector experienced a 1.8% decline in output in August 2024, marking the first negative growth in 42 months. The decline was primarily due to high base effects and adverse weather conditions, affecting sectors like coal, electricity, and cement
- India's IIP index rose by 4.8% in July 2024, reaching 149.6, indicating a positive industrial output trend. However, this growth slows compared to 6.2% in July 2023, with the manufacturing sector experiencing a slight increase
- India's merchandise trade deficit increased to \$29.65 billion in August 2024, surpassing July's deficit of \$23.5 billion. This rise is attributed to record high imports and a 9.3% decrease in exports due to weak global demand and geopolitical issues
- The Indian stock market started the September 2024 month positively, breaking resistance levels. Mid-September saw upward momentum due to economic indicators and foreign investments. The Nifty 50 reached a record high of 26,277.35 on September 29, 2024.
- India's foreign exchange reserves reached a record high of \$692.3 billion as of September 20, 2024. This figure marks an increase of \$2.84 billion from the previous week, continuing a trend of growth for the sixth consecutive week
- The rupee experienced a record low of 84 against the US dollar on September 11, but rebounded to around 83.70 mid-month due to improved investor sentiment boosted by contrasting monetary policies between the Reserve Bank of India and the U.S. Federal Reserve
- Global crude oil demand growth is expected to slow significantly in 2024, primarily due to declining Chinese consumption, according to the International Energy Agency

Global:

- The European Central Bank (ECB) cut its key interest rates for the second time in three months, addressing inflation and a struggling Eurozone economy, reducing the deposit facility rate by 25 basis points (bps) from 3.75% to 3.50% in its meeting on September 12, 2024
- The Federal Reserve's FOMC announced a 50 basis point cut to the federal funds rate, lowering it to a target range of 4.75% to 5%, marking its first rate cut since March 2020, to boost economic growth amid a slowing job market
- In September 2024, the People's Bank of China (PBOC) has announced a comprehensive stimulus package aimed at boosting China's economy which has been under pressure due to a prolonged property sector crisis, deflationary trends, and high youth unemployment
- The Bank of England (BoE) has maintained its main interest rate at 5%, following a four-year reduction from 5.25% in August 2024, demonstrating a cautious stance amid fluctuating economic indicators and global monetary trends
- The Bank of Japan (BoJ) has decided to maintain its benchmark interest rate at 0.25%, the highest level since 2008, following a two-day policy meeting on September 20, 2024. The decision aligns with economists' expectations and reflects the BOJ's cautious transition from its ultra-easy monetary policy amid moderate economic recovery

* Views are personal

Authors

Abhishek Das, Senior Research Analyst

Vikrant Chaturvedi, Senior Manager – Research

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