

DECEMBER 2023



MONTHLY NEWSLETTER



CENTRE FOR BUDGET STUDIES (CBS)
CUSAT

NEWS

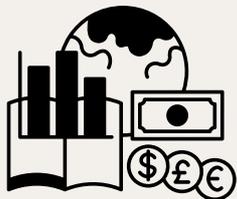
MACROECONOMIC ANALYSIS

Economy is moving in right direction: FM Nirmala Sitharaman



India's Finance Minister, Nirmala Sitharaman, has praised the country's economic progress and declared it the fastest-growing major economy globally. The Lok Sabha approved Supplementary Demands for Grants, allowing the government to spend over Rs 1.29 lakh crore, with Rs 58,378 crore being the current fiscal outgo. The remaining Rs 70,968 crore will be matched by savings and receipts. Additional expenditures include Rs 13,351 crore for fertiliser subsidy and Rs 7,000 crore for Department of Food and Public Distribution spending.

Indian economy to exceed growth estimates in FY24: Economists



Several economists predict a 6.7%-7.7% growth rate in the fiscal year ending March 31, 2024, after the country exceeded growth estimates for the July-September quarter. The economy expanded 7.6%, surpassing the estimate of 6.8%, and the government's 6.5% growth forecast. The strong growth in the first half of the year caused by increased government spending, and private investment revival have led to a higher growth forecast than the government's 6.5%. Gross fixed capital formation rose 11% in the quarter, while consumption remained weak, signalling parts of the economy still need recovery.

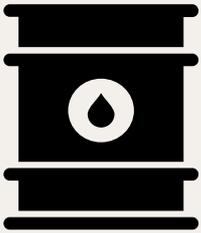
No change in repo rate in December MPC meeting



The Monetary Policy Committee unanimously decided to keep the key interest rate at 6.5% in their December 6-8 meeting, citing inflationary concerns. Reserve Bank Governor Shaktikanta Das warned that the overall inflation outlook could be impacted by volatile and uncertain food prices and intermittent weather shocks. A resurgence of vegetable price inflation is expected to push up food and headline inflation. In the short term, the headline rate of Consumer Price Index remains high at 5 per cent. The next meeting of the MPC is scheduled for February 6-8, 2024.

NEWS 

ECONOMIC POLICY



Oil falls more than 1% as Angola decides to exit OPEC

Oil prices fell by roughly \$1 a barrel on December 21 after Angola said it would exit the Organization of the Petroleum Exporting Countries (OPEC), raising questions about the producer group's efforts to support prices by limiting global supplies. Angola's oil minister Diamantino Azevedo said the country's membership in OPEC was not serving its interests. The Saudi-led producer group in recent months has been rallying support to deepen output cuts and boost oil prices.



Trade restrictions estimated to slash farm exports by \$4 billion

Trade restrictions imposed on staples such as wheat, rice, and sugar are expected to cut the country's agricultural exports by approximately \$4 billion, said the officials of Ministry of Commerce. There has been a 9 percent decline in the Agricultural and Processed Food Products Export Development Authority's (APEDA's) exports, dropping to \$13.99 billion. The retail prices of key agricultural produce such as rice, wheat and sugar have been increasing, prompting the government to take measures to arrest this price rise.



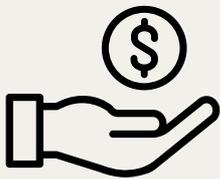
Suez Canal crisis: Could this impact India's earnings story?

A prolonged blockage of the Suez Canal, one of the world's most vital trade routes, could erode India Inc's earnings as global freight costs may rise significantly and stoke inflation, analysts said. One of the biggest impacts of the blockage of trade or use of alternative routes is usually an increase in freight rates as routes get longer and volumes reduce. In a December 19 report, CNBC reported that cargo worth around \$35 billion had been diverted, with around 57 cargo ships changing their route as major shipping corporations announced their decision to pause movements through the Suez Canal.

NEWS

FINANCIAL TECHNOLOGY

Uttar Pradesh govt. invites bids for 100-acre fintech park in Noida



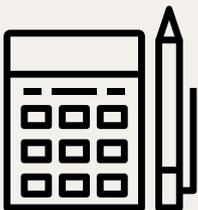
The Uttar Pradesh government has invited bids for a 100-acre fintech park in Noida, which the state plans to turn into a major financial services hub in Asia. The fintech park, to be developed in Noida Sector 13, will encompass infrastructure amenable for the growth of financial services companies across the financial and allied value chain. It will facilitate stock exchanges, stock brokers, crowdfunding, angel funding, banking, insurance, digital money, digital economy, financial R&D, capital markets, etc, apart from providing peripheral facilities such as hospitality, data centres, shopping arcades, etc.

India's assault on unsecured loans hits Paytm and other fintech companies



India's central bank has moved to curb rising stress in the burgeoning market for unsecured consumer loans, hitting fintech lenders such as Paytm who had been increasingly relying on riskier borrowing for growth. Fintech and non-bank financial lenders sprung up to cater to the millions of Indians joining the country's credit-hungry middle class – many of whom have traditionally had limited access to the formal financial system. But early signs that credit quality was starting to deteriorate among consumers prompted the RBI to intervene.

Compliance costs may spur fintech sector consolidation: Industry experts



The frequent changes announced by the Reserve Bank of India (RBI) and the rising compliance costs may lead to consolidation in the fast-growing fintech sector, according to industry players. Some recent changes that the central bank has announced include new norms such as digital lending guidelines (DLG), first loss default guarantee (FLDG), and increased risk weights for unsecured personal loans. The sudden introduction has meant rethinking of each firm's growth strategy.

NEWS 

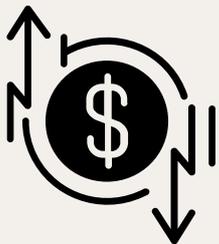
INTERNATIONAL ECONOMICS

First-ever COP Trade Day explores ways to support clean technologies and sustainable finance



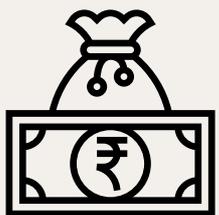
The first-ever Trade Day at the COP climate talks took place this year, with discussions centred on how trade can support technology transfers and international collaboration to help the world meet its 2030 climate targets. International trade can help to scale up breakthrough clean technologies and increase investments in energy efficiency, delegates were told. This could be particularly important for decarbonizing global value chains by reducing scope 3 emissions from suppliers.

Asia stocks fall as Wall Street rally stalls



Asian shares fell on Thursday after Wall Street snapped a long winning streak, while Treasury yields were near five-month lows on hopes Britain's notably soft inflation reading would be echoed in looming U.S. price data. The equities rally, which had been driven by falling interest rates and the Federal Reserve's dovish turn, stalled on Thursday even after U.S. economic data that beat expectations initially turned the major indexes green. A far steeper-than-expected decline in British inflation also took markets by surprise.

Rupee rises 12 paise to settle at 83.15 against US dollar



Rising for the first time this week, the rupee appreciated by 12 paise to settle at 83.15 against the US dollar on Friday amid a weak American currency and positive equity market sentiment. The Indian currency, however, remained under pressure due to continuous upward movement in the crude oil price triggered by evolving geopolitical situation and outflow of foreign funds, forex traders said. At the interbank foreign exchange, the domestic currency opened at 83.25 and traded in the range of 83.11 to 83.27 against the greenback during intra-day.



ARTICLES OF THE MONTH

FINANCIAL SOUNDNESS OF THE INDIAN CORPORATE SECTOR

➤➤➤ READ MORE

Assessing the Financial Health of the Indian Corporate Sector

-Palak Godara, Priyanka Sachdeva, Abhinandan Borad

The long-term trend in the financial soundness of the Indian corporate sector is examined using balance sheet information and the most stressed sectors are identified. A corporate vulnerability index is constructed using financial indicators which captures various dimensions of stress in the Indian corporate sector. The study reveals that corporate debt vulnerabilities increased in the aftermath of the global financial crisis with a notable reversal after 2016. The sectoral analysis identified that there has been a significant improvement in debt-to-GDP ratio and debt at risk, notably after 2016, even as sectoral idiosyncrasies remain. While the earlier impact of COVID-19 was reckoned to be severe, the corporate sector showed an impressive rebound, albeit uneven.

READ MORE <<<

The Tax State and the Conundrums of Public Budgeting
-Rajalaxmi Kamath

This article elaborates on two broad trends that are shaping the public budgets of nations: (i) the tensions of globalization and its implications on the tax state; and (ii) the process of financialization. It shows that these two lenses can be employed to understand many of the proposals in the current Indian budget, and indeed even future budgets. They foreshadow the increasing status quo and incrementalism that has come to mark public budgeting exercises the world over.

TRENDS SHAPING THE PUBLIC BUDGETS OF NATION



ARTICLES OF THE MONTH

CONVERGENCE IN TRAJECTORIES OF HDI

➤➤➤ **READ MORE**

India's Human Development Index- An Analysis of the Post-reform Story.

-M A Oommen, Parma Chakravarti

The human development index initiated by the United Nations Development Programme has gained universal acceptance as a measure of human progress. This study constructs a comparable time series of HDI for 15 major states of India for the period 1991–2018. We find both β - and σ - convergence for all the states, with the non-income indices playing a major role in convergence, and a slowdown in the speed of convergence during the post-fiscal reform regime since 2005. Although the trajectories of HDI of different states tend to converge over time, the gap between the levels of HDI of low- and high-performing states has not been reduced significantly.

READ MORE <<<

A Tale of Two Countries- Why Economic Reforms Produced Different Outcomes in China and India

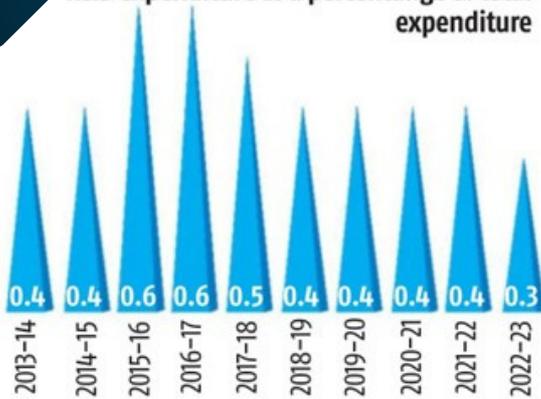
-Nitya Nanda

Economic reforms produced different outcomes in China and India. This is because, despite the direction of reforms being very similar, the resultant policy regimes in the two countries were very different. China retained important roles for the public sector and the government, particularly in matters of planning and policy coordination, but India tended to leave everything to the market. Initial conditions, including health, education, and the structure of the economy were favorable for higher growth in China. In addition, certain policies of India made some essential inputs and services relatively expensive, affecting its competitiveness in a liberalized economy.

THE OUTCOMES OF ECONOMIC REFORMS

DATA POINT

R&D expenditure as a percentage of total expenditure



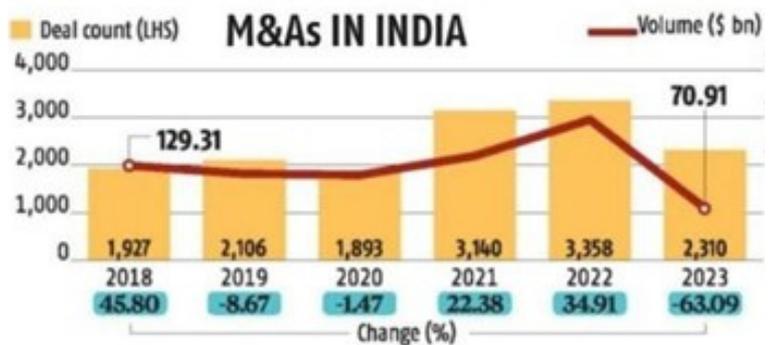
Note: Data for 445 companies with uniform data across years

INDIAN COMPANIES SQUEEZE SPENDING ON RESEARCH

Indian companies spent Rs. 651.3 trillion in the last decade but less than one percent of it went into research and development (R&D). As a share of net sales, spending on R&D was 0.3 percent in the FY 2022-23. This analysis covers 445 S&P BSE500 companies with uniform data across years. Most of the total R&D expenditure goes into recurring expenses like salaries, wages, and maintenance. Capital expenditure on R&D-investment in buildings, machinery, and other fixed assets was 19.3 percent in FY23. Among 66 sectors, the pharmaceutical industry spends the most on R&D.

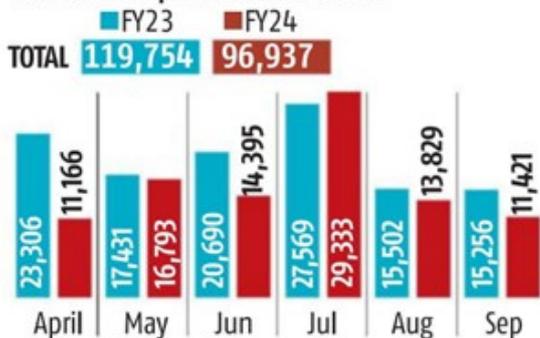
M&AS DEAL VALUE FELL 63 PERCENT IN '23

The deal value fell 63 per cent to \$70.9 billion compared to 2022 when India Inc signed M&As worth \$192 billion. The sharp rise in M&As in 2022 was mainly attributed to the mega-merger between HDFC and HDFC Bank. Bankers said the outlook of M&As in India in 2024, especially in the second half, seems relatively better. A similar trend was observed in the rest of the world. A total of 48,953 deals were announced globally during January-November 2023.



ON A DECLINE

New NPS corporate subscribers



Source: Mospi

NPS ADDS 19% FEWER CORPORATE SUBSCRIBERS

The National Pension System (NPS) added 19 percent fewer new subscribers under the corporate segment in the first half (April-September) of the current financial year versus the corresponding period a year ago. Government officials and experts attribute this to the higher exemption limit of income tax at Rs. 7 lakh announced in this year's Budget. The exemption doesn't require employees under this income bracket to opt for NPS for tax-saving purposes. The move gave more consumption power to the middle-class income group as they could spend the entire amount of income without bothering too much about investment schemes to take benefit of exemptions.

BOOK RELEASES

Technology & Prosperity

**POWER
AND
PROGRESS**

DARON ACEMOGLU
Co-author of WHY NATIONS FAIL

POWER AND PROGRESS: OUR THOUSAND-YEAR STRUGGLE OVER TECHNOLOGY AND PROSPERITY

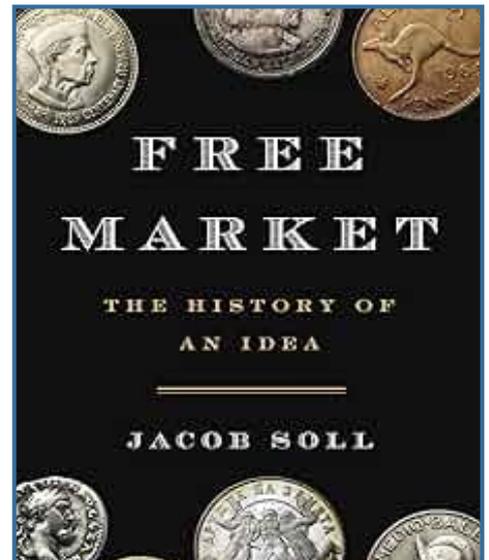
-DARON ACEMOGLU, SIMON JOHNSONE

Throughout the world today, digital technologies and artificial intelligence undermine jobs and democracy through excessive automation, massive data collection, and intrusive surveillance. It doesn't have to be this way. Power and Progress demonstrate the path of technology was once—and may again—be brought under control. Cutting-edge technological advances can become empowering and democratizing tools, but not if all major decisions remain in the hands of a few hubristic tech leaders.

FREE MARKET: THE HISTORY OF AN IDEA

- JACOB SOLL

After two government bailouts of the US economy in less than twenty years, free market ideology is due for serious reappraisal. Jacob Soll details how we got to this current crisis. Tracing the intellectual evolution of the free market from Cicero to Milton Friedman, Soll argues that we need to go back to the origins of free market ideology to truly understand it—and to develop new economic concepts to face today's challenges.



CLOUDBONEY

CASH, CARDS, CRYPTO
AND THE WAR FOR OUR WALLETS

CLOUDBONEY: CASH, CARDS, CRYPTO, AND THE WAR FOR OUR WALLETS

-BRETT SCOTT

The reach of Corporations into our lives via cards and apps has never been greater; many of us rarely use cash these days. And the great battle of our time is the battle for ownership of the digital footprints that make up our lives. The author explains the technical, political, and cultural differences between our various forms of money and shows how the cash system has been under attack for decades, as banking and tech companies promote a cashless society under the banner of progress.

FACULTY ARTICLE

➤➤➤ READ MORE

EMPOWERING INNOVATORS: THE RISE OF WOMEN IN FINTECH

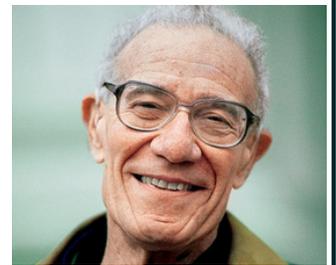
-ANJALI HARIDAS

Historically dominated by male professionals, fintech is now witnessing a positive shift toward inclusivity and diversity, with women playing pivotal roles in shaping the future of finance. One of the key factors contributing to the increasing presence of women in fintech is the industry’s dynamic nature. Initiatives and organizations dedicated to supporting women in fintech have also emerged, fostering a sense of community and providing resources for professional development.



ROBERT M. SOLOW, WHO WON A NOBEL IN ECONOMIC SCIENCE IN 1987 FOR HIS THEORY THAT ADVANCES IN TECHNOLOGY, RATHER THAN INCREASES IN CAPITAL AND LABOR, HAVE BEEN THE PRIMARY DRIVERS OF ECONOMIC GROWTH IN THE UNITED STATES, DIED ON 21 DECEMBER 2023. HE WAS 99.

PROFESSOR SOLOW’S STRATEGY – HIS GIMMICK, HE LIKED TO SAY – WAS TO PICK OUT ONE THING OF SPECIAL INTEREST AND SIMPLIFY THE ROLE OF EVERYTHING ELSE. THE GOAL WAS TO UNDERSTAND COMPLETELY THE ROLE OF A “LITTLE PIECE OF THE PUZZLE.” THIS STRATEGY OF INQUIRY CAME TO BE KNOWN AS BUILDING “TOY MODELS.”



STUDENT ARTICLE

READ MORE <<<

THE ERA OF TAYLOR SWIFT

- KOOTTALA KAAVYA IYER

Taylor Swift’s concerts are more than just spectacles of music and entertainment—they’re economic powerhouses that resonate throughout the United States. The substantial impact of Swift’s tours on the nation’s economy is evident when analyzing the impressive data and statistics associated with her performances. Beyond the music and entertainment, her tours serve as economic engines, fueling growth, creating jobs, and injecting vitality into communities fortunate enough to host her performances.



CBS ORGANISED



Students from Centre for Budget Studies participated in '**Tandav**', the international cultural and management fest organised by the PG and Research Department of Commerce at **Sacred Heart College** on December 16th.

Arshad Sahal K C, Haripriya, Hidhayah Fathima M, Jisha Judson from the second year competed in the '**Skillsync**', the analytics game. They went through four rounds in total. The questions were from the fields of finance, business, etc. They secured the **first position**.



Abel B Punnachalil, Alisha Pascal, Jennifer Stanly and Lara Lawrence from the first year competed in the '**Set To Scavenge**', Treasure Hunt. They went through three rounds in total, collecting and solving the clues. They secured the **second position**.

CBS LINE

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