

**MAY 2024**



**MONTHLY NEWSLETTER**



CENTRE FOR BUDGET STUDIES (CBS)  
CUSAT

## NEWS

### MACROECONOMIC ANALYSIS



#### **FIEO pegs FY25 goods exports at \$500-510 billion**

India's merchandise exports are expected to rise by approximately 14% to \$500–510 billion in FY25 from \$437 billion in 2023–24, according to the Federation of Indian Export Organisations (FIEO). This increase is expected to be driven by technology-driven export sectors like machinery, electrical and electronic, automobile, pharmaceutical, and biotechnology, which have benefited from production-linked incentive schemes. It has advocated for the study of social media marketing and how to use platforms like Facebook and Instagram to promote exports of e-commerce. In 2024–2025, merchandise exports are projected to be between \$500 and 510 billion.



#### **RBI warns NBFCs a mode they use for giving loans may bring grief**

The Reserve Bank of India has issued a warning to non-bank finance companies in the nation, warning them not to rely too much on algo-based credit models lest they come to regret it. It is vital to understand that rule-based credit engines are only as good as the information and standards that form their foundation. In a speech on May 15, RBI Deputy Governor Swaminathan J warned against over-reliance on algorithms or historical data since it could result in errors or oversights in credit assessment, especially in dynamic or changing market conditions.



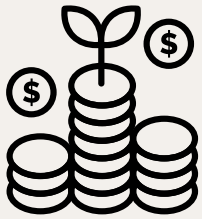
#### **Q1 tax revenue likely to exceed budgeted growth**

The government expects its tax revenues in the first quarter to exceed budgeted growth but is likely to stick to the interim budget revenue estimates in the full budget. Officials stated that the interim budget's full-year prediction was reasonable and that it was made after accounting for a number of circumstances, including headwinds from around the world. "With continuity in tax policy we will stick with the collection target given in the interim budget, which was arrived at after considering margins for both upside and downside trend," stated a government official.

## NEWS

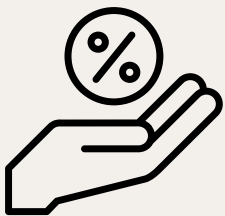
### ECONOMIC POLICY

#### **UN revises India's 2024 economic growth projection upwards to nearly 7%**



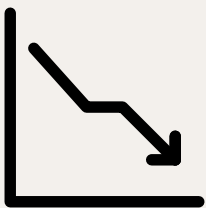
India's economy is projected to grow by 6.9% in 2024, up from 6.2% forecasted earlier, driven by robust public investment and resilient private consumption. Inflation is expected to decelerate, while labour market indicators improve. Despite challenges like tight financial conditions, India's strong performance supports South Asia's outlook. Geopolitical tensions pose risks to global trade, impacting India's exports.

#### **Business activity expands in May as exports surge, PMI rises to 61.7**



In May, India's business activity surged, led by robust services sector growth, according to HSBC's PMI. Composite index rose slightly to 61.7, indicating strong expansion for the 34th consecutive month. Services PMI hit a four-month high, with record export growth and sharp job additions. Rising input costs may impact inflation and pressure the Reserve Bank of India to maintain elevated interest rates. Despite higher input costs squeezing margins, particularly for service providers, firms remained optimistic, leading to increased staffing levels and material purchases.

#### **Net FDI declines by 62% to \$10.5 billion in FY24, shows RBI data**



India witnessed a sharp decline in net FDI inflows to \$10.58 billion in FY24, the lowest since 2007, attributed to increased repatriation of capital and Indian investments abroad. Manufacturing, energy, and services sectors attracted significant FDI. Despite global challenges like rising borrowing costs and protectionism, India remains among the top 10 economies for FDI momentum in 2024. In contrast, FY23 saw gross FDI flows of \$71.3 billion, with \$29.3 billion repatriated and \$14 billion invested abroad, resulting in net inflows of \$27.98 billion.

## NEWS

### FINANCIAL TECHNOLOGY



#### **Paytm CEO hints at layoffs as sales slide, losses mount**

FinTech unicorn Paytm reported record loss of Rs 550 crore for Q4FY24 as compared to Rs 167.5 crore in Q4FY23, mainly due to the regulator's intervention and ban on its payments bank arm. Post this record loss, in a letter to the shareholders, Paytm CEO Vijay Shekhar Sharma hinted on job cuts, improving governance and leveraging AI among other things. "Our ongoing experiments and learnings in AI promise to revolutionize customer and merchant care for the financial industry, while also unlocking new avenues for revenue generation and cost savings," he stated.



#### **Reverse Flip: Razorpay Restructures To Cut Tax, Groww Might Pay \$70 Mn In Tax**

Razorpay is working to bring its six India units under a single local holding company, Razorpay Software India, as part of a restructuring exercise. It is estimated to result in a tax outgo of up to \$200 Mn for Razorpay Groww, which recently completed its reverse flip, shifting its domicile to India from the US, has reportedly accounted for around \$60 Mn-\$70 Mn in tax. Razorpay cofounder and CEO Harshil Mathur told earlier this year that the startup was looking to shift its headquarters to India from the US by 2024 end.



#### **SEBI recommends oversight of crypto trading, but RBI still sees 'Risk'**

In its submissions to the government panel, however, SEBI recommended different regulators should oversee activities linked to cryptocurrencies that fall under their domain and that a single unified regulator for digital assets should be avoided. The RBI remains in favour of a ban on stablecoins. Stablecoins are cryptocurrencies designed to maintain a constant exchange rate with fiat currencies so that they are less vulnerable to wild volatility. In 2021, the government prepared a bill that would have banned private cryptocurrencies though it has not been introduced.

## NEWS



### INTERNATIONAL ECONOMICS

#### IMF warns of trade division risks between U.S. and China



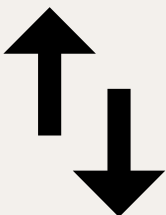
IMF's Gita Gopinath warns that rising trade tensions between U.S.-led Western and China-aligned blocs could reverse global economic gains. Fragmentation, driven by economic and national security concerns, threatens global trade cooperation and growth, with low-income countries most vulnerable. Neutral countries like Mexico and Vietnam may help maintain integration.

#### OECD predicts U.K. to be worst-performing advanced economy in 2024



The OECD forecasts the U.K. will have the weakest growth among advanced economies in 2024, with GDP rising only 0.4%. Despite a global recovery and inflation control efforts showing success, high interest rates and inflation continue to burden the U.K., predicting modest growth of 1% in 2025.

#### EU threatens trade war with China over cheap Imports



The EU, led by Ursula von der Leyen, warns of potential trade war with China over cheap imports of electric cars, steel, and green technology. The bloc aims to protect its economy and jobs, citing unfair competition from state-supported Chinese industries. Tensions continue despite diplomatic efforts.

## DATA POINT

**NRI deposit outstanding values**



Source: RBI Bulletin

### NON-RESIDENT DEPOSIT INFLOWS AT 8-YEAR HIGH OF \$11.8 BILLION

The Indian diaspora redirected a record amount of funds back home, with fresh non-resident deposit flows increasing by 48% in fiscal year 2024, reaching \$11.8 billion. This growth is attributed to high interest rates, which influenced the attractiveness of deposits as investment avenues. The RBI removed interest caps, doubling fresh NRI deposit flows from FY22 to FY23.

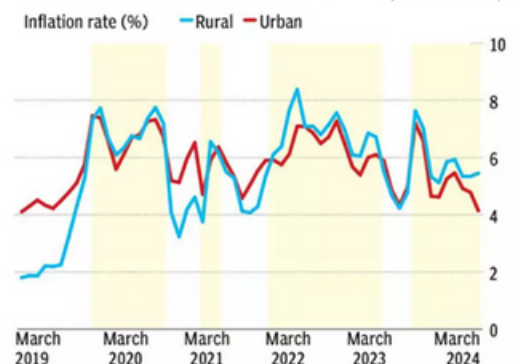
### POST-PANDEMIC SURGE: RURAL INDIA FACES HIGHER INFLATION

India's rural inflation has surged since July 2023, primarily due to food prices and the Covid-19 pandemic. Supply chain disruptions and population migration have impacted rural areas more than urban ones. The government has implemented supply-side measures to address inflation, including reducing excise duty on petrol and diesel, prohibiting wheat exports, and reducing import duties on pulses.

**Rural woes**

**Rural inflation remained higher for most months in the last five years**

(Base 2012=100)



### Promising growth in rooftop solar systems

*Rooftop solar capacity installed under the rooftop solar project*



### UNUTILIZED FUNDS THREATEN GOVERNMENT'S AMBITIOUS SOLAR POWER GOAL

India is utilizing 113 Terawatts of solar energy for electricity generation, accounting for 18.5% of installed capacity and 6.7% of the country's energy, but may struggle to achieve the target of 230 Gigawatts by 2030 due to implementation challenges and insufficient funds. The central government's solar energy programs, including the Rooftop Solar Program and PM-KUSUM scheme, have seen a decrease from 69% in 2021-22 to 53% in 2022-23.



## ARTICLES OF THE MONTH

### TAX AND WEALTH REDISTRIBUTION IN INDIA

#### >>> READ MORE

Towards Tax Justice and Wealth Redistribution in India

**-Nitin Kumar Bharti, Lucas Chancel,  
Thomas Piketty, Anmol Somanchi**

Income and wealth inequality in India have reached historical highs under the billionaire raj. These extreme inequalities and their close link with social injustices can no longer be ignored. In this paper, we propose a comprehensive wealth tax package for the ultra-rich to tackle concentration at the very top of the distribution and create valuable fiscal space for crucial social sector investments. Such proposals could deliver phenomenally large tax revenues while leaving 99.96% of the adults unaffected by the tax.

#### READ MORE <<<

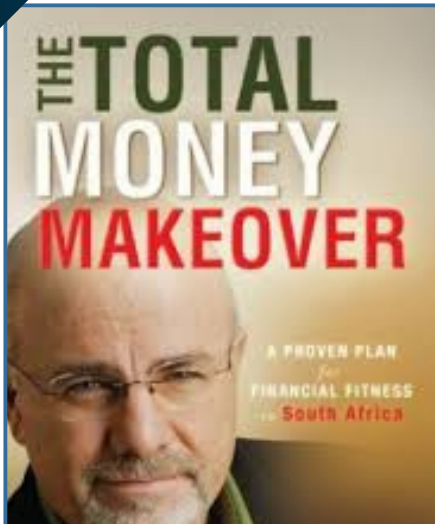
Structural Changes in Labour Productivity Growth

**-Amarjit Singh Sethi**

Based on the information culled out from the Groningen Growth and Development Centre/United Nations University World Institute for Development Economics Research Economic Transformation Database for 1990-91 to 2018-19 on real value added and employment in 12 industrial activities, structural changes in labour productivity growth among 14 developing economies (including India and China) have been examined. Except for the primary sector, both India and China have shown signs of convergence (with the US economy) in labour productivity of the other major economic activities, though at varying speeds.

### INDIA'S POSITION IN LABOUR GROWTH

## BOOK RELEASES

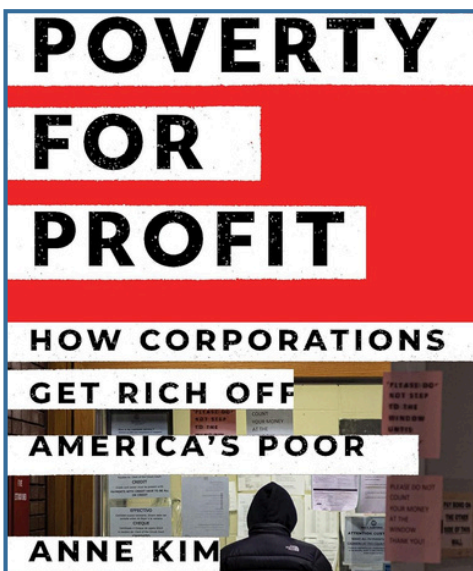
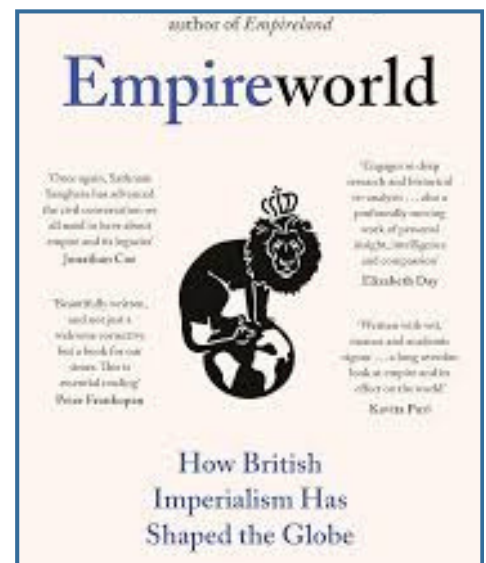


### **TOTAL MONEY MAKEOVER: A PROVEN PLAN FOR FINANCIAL PEACE** -DAVE RAMSEY

"The Total Money Makeover" by Dave Ramsey offers practical, no-nonsense advice for transforming your finances. Ramsey's debt snowball method and long-term strategies help break bad habits, debunk money myths, and prepare for emergencies and retirement. A must-read for financial stability.

### **EMPIREWORLD: HOW BRITISH IMPERIALISM SHAPED THE GLOBE** - SATHNAM SANGHERA

Sathnam Sanghera's latest book delves into the enduring legacy of the British Empire, revealing its profound influence on global economics, politics, and culture. Through a meticulous exploration, Sanghera illustrates how imperial norms continue to shape contemporary systems and societal norms, highlighting the persistent impact of history on our modern world.



### **POVERTY FOR PROFIT: HOW CORPORATIONS GET RICH OFF AMERICA'S POOR** -ANNE KIM

In "Poverty for Profit," Anne Kim exposes the "corporate poverty complex," revealing how various industries exploit the poor across health care, housing, and more. Through investigative reporting, Kim uncovers the complicity of public policies and political influence, offering crucial insights into the mechanics of structural inequality and racism in modern society.

## CBS ARTICLES



### >>> READ MORE

#### SUSTAINABLE INVESTING: BALANCING PROFITABILITY AND SOCIAL RESPONSIBILITY

**-ATHIRA V**

Sustainable investing encompasses a range of practices where investors seek to achieve financial returns while fostering long-term environmental and social value. By integrating environmental, social, and corporate governance (ESG) factors into traditional investment strategies, this approach enables more comprehensive analyses and informed investment decisions. This article mainly focuses how sustainable investing and social responsibility go hand in hand.

### READ MORE <<<

#### BALANCING THE BOTTLE: OPTIMAL ALCOHOL TAXATION IN KERALA

**-ANJALI HARIDAS**

Alcohol poses a dual challenge in Kerala, serving as both a significant social detriment and a vital source of state revenue. Balancing these conflicting aspects requires a nuanced approach to alcohol taxation, aiming to mitigate its adverse social impacts while preserving its financial contributions.. This particular article provides This article paves way towards this conflicting behaviour and how Kerala manages with it.



## CBS SCOOP

In April, the CBS batch of 2022-24 bid farewell, with **13 out of 19 students** securing placements in prestigious organizations such as **Accenture and Federal Bank**. Additionally, two students were selected for **internships at the RBI and the Kerala Planning Commission**. Our first-year students have also commenced their internships at renowned institutions, including **Topsoe India Pvt Ltd, Hurun Report, Geojit, South Indian Bank, and Acmegrade**. CBS has ensured that each student has attained a commendable position in well-respected organizations.

# **CBS LINE**

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