

1. Global Economic Outlook

Chinese Economy: China's economy is facing a cyclical and structural slowdown. It has the potential to inhibit the achievement of China's goals of 5% GDP growth and the creation of over 12 million new jobs. Reasons behind this slowdown are the geopolitical tensions, property crash, and internal shifts towards a service and high-value-added production economy. Though it is difficult to distinguish between cyclical and structural factors, it seems that China is planning to borrow and spend to reach its 2024 GDP growth target. China is also likely to meet its employment growth target unless there are more shocks in 2024, which can not be ruled out given the challenging macroeconomic environment in the world's second largest economy.

USA Economy: Despite stubborn inflation and still-high interest rates, the US economy has proved resilient so far in 2024. The Federal Reserve has been trying to cool the economy and will continue to reduce inflation. The target for inflation is 2% and it is currently above 3%, which is still too high. Economist Intelligence Unit (EIU) expects US GDP growth to grow by 2.2% this year and by 1.8% in 2025.

Brazilian Economy: The Finance Ministry of Brazil has estimated its Gross Domestic Product to grow by 2.5% in 2024, up from the 2.2% forecast in March 2024. The government cited robust growth in retail sales and services provided to families, an increase in net job creation and an expansion in credit concessions among the reasons behind the upwards revision. Also, its inflation estimates have risen to 3.70% this year from 3.50% previously, while 2025 consumer prices are now seen rising to 3.20%, compared with the 3.10% forecast in March 2024.

2. Domestic Economic Outlook

7.5% growth in GDP in Q1 FY25: The May Bulletin of RBI predicted the GDP to grow by 7.5% for the June quarter (Q1) of the current financial year and the GDP growth for the full FY25 has been estimated to be 7% compared with 7.6% in FY24. Rising aggregate demand and non-food spending in rural India are the major reasons behind this hike in GDP growth. According to the Economic Activity Index (EAI) of RBI, the Indian economy has

demonstrated marked resilience in the face of geopolitical headwinds imparting supply chain pressures.

Cost inflation index for FY25 higher than that of last fiscal: The income tax department has notified the cost inflation index (CII) for FY25 at 363, which is higher than 348 for FY24. The CII is a tool used to measure inflation for computing long-term capital gains on the sale of assets, including immovable property, securities and jewellery. The current revision (for FY25) reflects inflationary trends, safeguarding taxpayers from excessive capital gains taxes and ensuring a fair tax framework. Consistent updates to the CII are vital to adapt to economic shifts, preserving the accuracy and equity of the tax system.

Robust business activity growth in May: India's business activity expanded at the third strongest rate in nearly 14 years. The HSBC Flash PMI, rose to 61.7 in May from 61.5 in April. According to S&P Global, the services firms recorded a sharp increase in business activity, the steepest in four months, while factory production rose at the slowest pace since February. Although the manufacturing sector growth slowed slightly in May, driven by a slowdown in new orders and production, the rise in output in the manufacturing industry continued to surpass that in the services economy. Meanwhile, amid reports of higher labour and material costs, input prices across the private sector rose at the fastest pace in nine months. The prices for chemicals, food, plastics, electronic components and electrical items had risen.

Agriculture credit target surpassed: The agriculture credit target disbursed in FY24 surpassed its target of ₹20 trillion and rose by 15%. The commercial banks, cooperative banks, and Regional Rural Banks have disbursed ₹24.84 trillion in 2023-24 under term and crop loans. Over 50.5% (₹12.5 trillion) was disbursed to five southern states- Andhra Pradesh, Telangana, Karnataka, Tamil Nadu, and Kerala and five northern states- Rajasthan, Punjab, Haryana, Jammu & Kashmir and Himachal Pradesh received about 15% of the total credit flow at ₹3.74 trillion.

Windfall tax on crude oil reduced: The Centre has reduced the windfall tax levied in the form of Special Additional Excise Duty (SAED) on domestically produced crude to ₹ 5,700 per tonne from ₹ 8,400 per tonne with effect from Thursday. As per the notification, the windfall tax, however, remains unchanged at nil for diesel and aviation fuel turbines. India started the tax on crude oil producers and on exports of gasoline, diesel and aviation fuel in July 2022 to regulate private refiners who wanted to sell fuel overseas instead of locally in a bid to gain from robust refining margins.

3. Interest Rate Outlook

Easing global yield make the Indian government bonds lucrative: Together due to the easing of US inflation and India's inclusion in global bond indices, foreign investors have resumed purchases of fully accessible government securities this month, reversing a six-week selling streak which saw their holdings drop by close to \$2 billion. From May 8 to 22, Foreign Portfolio Investors' holdings of fully accessible route (FAR) Indian government bonds increased from ₹3,304.8 crore to ₹1.6 lakh crore, showed latest data on the Clearing Corporation.

Indian government bond yields seen steady as traders await fresh triggers: Indian government bond yields are expected to trend little changed as traders continue to await fresh cues, while they might not react much to yet another announcement of debt buyback from the government. The benchmark 10-year yield is likely to move in a 6.98% to 7.02% range, following its previous close of 6.9780%, which was lowest for the 10-year yield since June 6, 2023. Bond yields have eased over the last few sessions, after the Reserve Bank of India's board last week approved the transfer of a record 2.11 trillion rupees as surplus to the government for the financial year that ended in March 2024.

Yields on the benchmark 10-year US Treasury retreated to 4.5% by early May: In April, yields on the benchmark 10-year US Treasury note jumped 0.5%, peaking at 4.7%, before retreating to around 4.5% in early May. The economy added a modest 175,000 jobs, which pushed bond yields lower as

investors saw it as a sign favouring Fed interest rate cuts. Economic growth remains solid, which might indicate interest rates need to remain elevated for some time. The most recent data indicates inflation may linger higher for longer, and the USA economy is also seeing foreign buyers stepping back from the U.S. market. Both factors contribute to keeping bond yields higher as well. The movement of bond yield for India and USA is as under:

Date	6 May	10 May	15 May	21 May	27 May
USA 10 yr	4.48	4.49	4.34	4.41	4.46
Ind 10 yr	7.10	7.12	7.08	7.07	6.98
Ind 5 yr	7.11	7.12	7.09	7.06	7.04
Ind 3 yr	7.10	7.09	7.09	7.05	7.04

Source: worldgovernmentbonds.com

Reserve Bank board approves transfer of ₹2.11 trillion surplus to government: The Central Board of the Reserve Bank of India (RBI), approved the transfer of ₹2.1 trillion as surplus to the central government for the accounting year 2023-24. This is the highest ever profit sharing by the central bank and is more than double what the Centre had budgeted for the year at ₹1.02 trillion.

The higher-than-budgeted surplus transfer would help boost the government's resource envelope in FY25, allowing for enhanced expenditure or a sharper fiscal consolidation than what was pencilled into the interim budget.

In the wake of this news, the benchmark 10-year bond yields dropped 4 basis points to 7% after the announcement as the market is expecting the government to borrow lower than what was budgeted.