# *SBI Research*

# Prelude to MPC Meeting: August 6-8, 2024

Global Fragmentation gathers winds despite progress made on trade fronts…Political Risk key concern in H2 2024

Domestic economy bolstered by budget announcements emphasizing on multi-pronged approach connecting jobs creation, labor market formalisation & skilling..important now to take it forward in terms of concrete actions … asymmetric transmission takes centerstage as borrowing needle is moving down for India Inc. as WALR declines though Weighted average Deposit Rates inch up…downward rigidity in deposit rates opens up a pandora's box in RBI rate easing cycle as and when it happens

Issue # 11, FY25 04-August-2024

# Executive Summary…..1/2

- The year of elections, as 2024 has rightly been dubbed, has thrown a few surprises so far with the ascend of Keir Starmer in UK while the hastily called French elections stopped short of giving a clear majority to any political ensemble in second round against the anticipated foresights….With President Joe Biden withdrawing mid-way from the contest for Nov'24 elections, the insanely intense fight between the Democrats and Republicans, and its outcome, could steer the course of the world through years to come, on multiple fronts at once

- Global growth prospects that had brightened of late (Q1 2024), with both goods as also services showing positive sentiments, could come under renewed pressure as geopolitical tensions show fresh escalation in Middle East and supply side gluts around Red Sea route, also the logjam around major ports aggravate resulting in Baltic Dry Index shooting ~48% YTD in CY24 (despite some cooling off last month)…a good sign though has been the trade growth broadly being shouldered by select economies notably India, along with the US and China

- The biggest concern, jolting the markets (inter-alia the investors) is the probability of US entering a recession, with the trigger of Sahm Rule post a mercurial drop in payroll data and unemployment rate jumping to 4.3% indicate it being a leading indicator this time (against a usual notion of its arrival in a declared recession time series) towards a recessionary outlook for the largest economy…While yields have tangoed in unison, dropping substantially post FOMC meet and Fed chair Powell's declaration of a discussion about rate cut this time, the ability of the Fed to stay course an independent monetary policy conduct seems clouded in a **Wild Wild West type electoral year** with a see-saw momentum between the two distinct opponents….**Markets could increasingly be swayed towards pricing a 50 bps rate cut in September as key yields gravitate**

- Banks have garnered incremental deposit of Rs 7.02 lakh crore as against incremental credit of Rs 3.80 lakh crore (YTD basis) with Banks' reliance on high-cost funds (CDs) increasing by more than 3X to match the credit demand, in turn altering the fabric of ALM management of most banks

# Executive Summary…..2/2

- The CD issuances have kept the momentum going so far; increasing by 66% to Rs 2.65 lakh crore in Q1FY25 (as against Rs 1.60 lakh crore in Q1FY24) while the FY24 mop-up stands close to Rs 10 lakh crore (Rs 2.90 lakh crore in FY22)…However, the WAY shows a softening trend, declining by around 30 bps (i.e. from 7.28 in Feb'24 to 6.97 in June'24)

- Almost in lockstep, the Weighted average lending rate (WALR) on fresh rupee loan have dropped by 11 bps from the beginning of the year….Benchmark rates like 3M T bill and 10 years G-sec yield too have softened by 35 bps and 24 bps respectively, since Jan'24 while the fresh rupee weighted average domestic term deposit rate (WADTDR) have inched up 3 bps to 6.46 during the same period…**additionally, the WAY of CPs has fallen to around 7.40% in July'24, from close to 8% in January'24, vindicating the pricing power of India Inc.**

- **Given the greater instability to CASA deposits** with the advent of walletization, apps / IMB (Internet & Mobile Banking) and UPI sweeping the payment landscape, time deposits too have been showing a shift to shorter duration (up to 3 years) as despite banks rising the deposit rates handsomely, the returns do not get commensurate to yield on other risky asset classes…**given the unfavorable tax treatment and application….this could be antagonistic to banks' endeavor to pass on the lower lending rates uniformly to all borrowing cohorts going forward as and when the Central Bank induces the rate cuts**…the deposit rates may remain suspended in higher echelons imposing a challenge on banks' ability to manage their ALM prudently (and optimal profitability plough back), especially given the humongous capital requirement to fund the economy on the upmove and the climate related transitions that warrant significant milestone based investments, frontloading some to counter the carbon taxation…Banks are also ramping up their Basel III compliant AT1, as also Tier2 bonds issuance across investors segments

- RBI itself agrees that neutral rate is "not observable" and the estimates are sensitive to "model selection, measurement issues and statistical uncertainty". Thus, reading too much between the lines for arriving at a natural and/or neutral rate in Indian context may not open new vistas of knowledge. **Interestingly, it is getting apparent that real interest rates don't have much significant impact on deposits mobilization as the correlation between the two has turned negative since FY23. We strongly believe that there is a dire need for a fresh research study on this, as no new study has been done by central bank on this aspect in recent times for several decades…** Another reason that could have led to lower deposits is the increase in outward remittances under the Liberalised Remittance Scheme (LRS). The historical data shows that deposit growth and remittances growth under the LRS are negatively correlated thus emphasizing that there is increasing propensity towards foreign consumption rather than towards saving.

- **In the Indian context, studies show the substitution effect of real interest rate is more than the wealth effect leading to overall negative impact of higher interest rates on savings rates. However, the actual coefficients are significantly small and insignificant in most of the cases. Causality analysis in India between income per capita and savings rates shows that such causality run mostly from income to savings. This implies that high GDP growth and only an increase in per capita income would significantly improve the savings rates in India rather than the obsession with real interest rate**

# Global Developments

# Global economy is weathering the aggressive restraint of monetary policy, but how long?

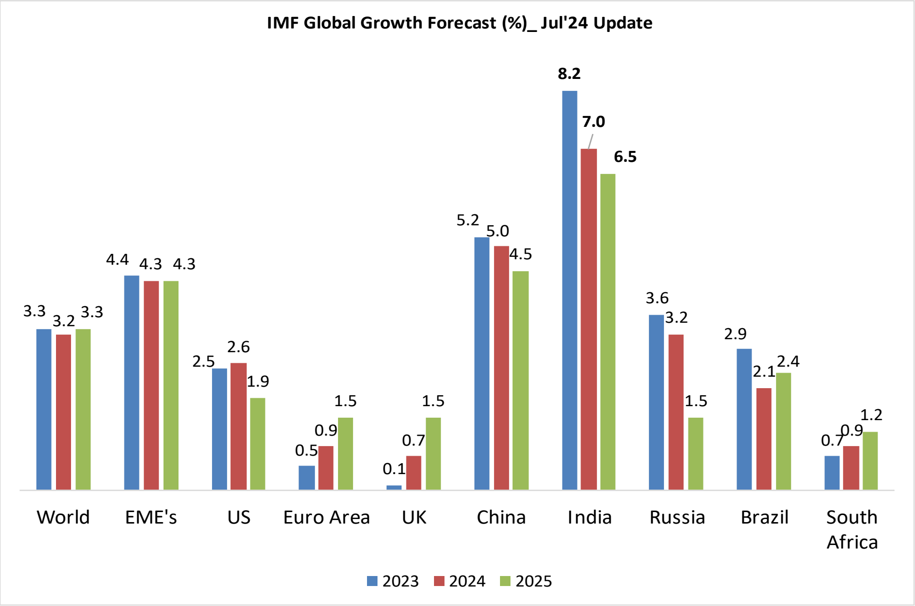
- Global economy exhibiting stronger than expected growth in 2024 has brightened in recent months

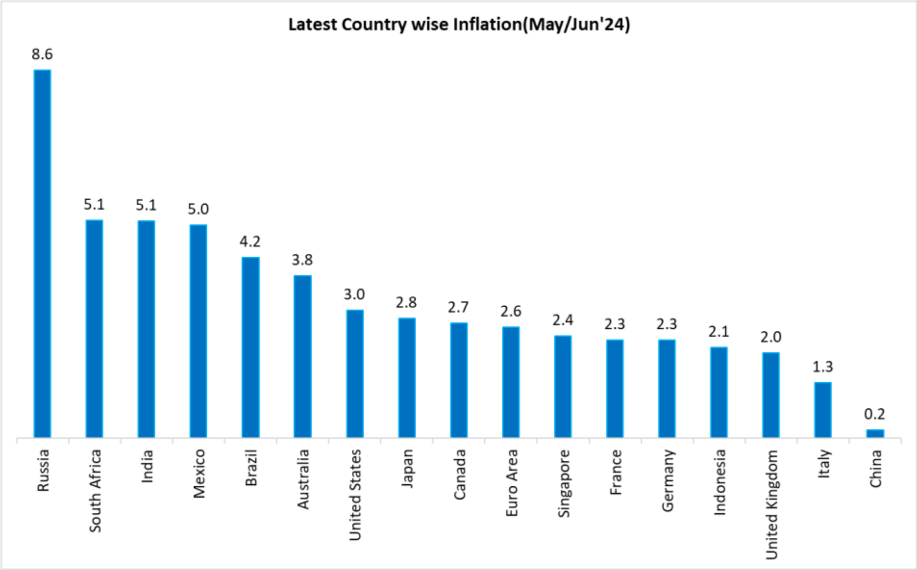
- Current global trade trends have turned positive, with goods trade increasing by around 1% quarter over quarter (QoQ ) in Q1 2024

- Services trade grew at approximately 1.5% QoQ

- Global trade growth was driven by increased exports from China, India, and the United States, while Europe and Africa disappointed

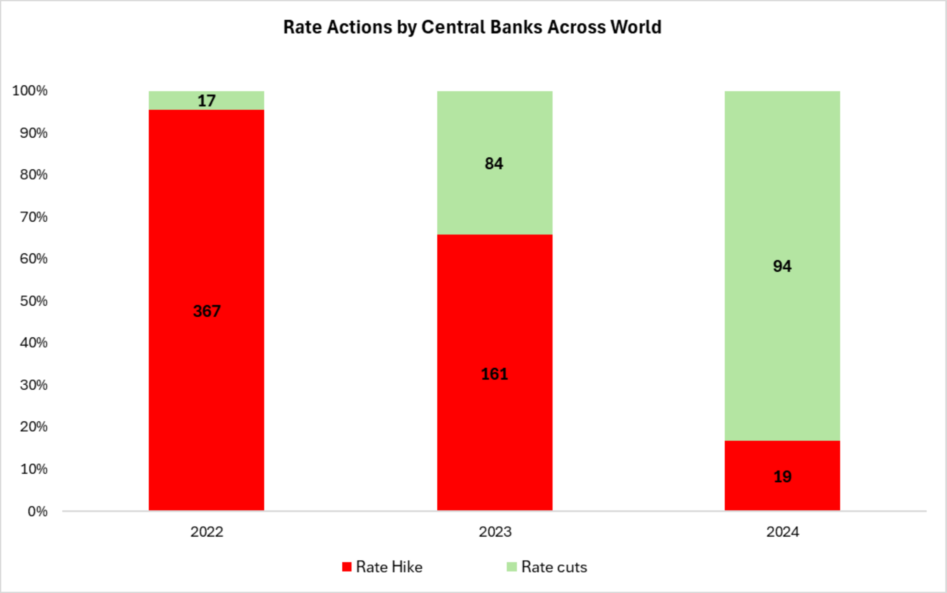
- Headline inflation remained above the target in major economies, despite moderation during the course of 2023
  - Peak rate to be achieved somewhere in H2 of 2024 for major countries and then become broad based

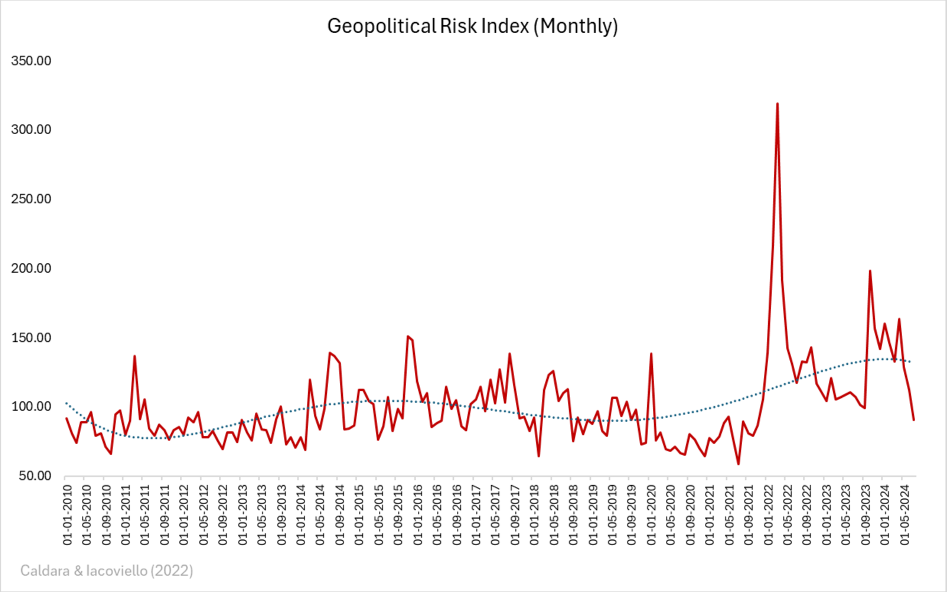


# Geopolitical risks and central banks rate actions

- Central bank rate action drifting towards accommodation in 2024 but broader convergence still elusive
- Fed has maintained pause in July. At the current glidepath of inflation expectation of rate cut is nearly certain in September
- With US labor markets cooling with unemployment jumping to 4.3%, US economy can achieve a soft landing
- In China policy accommodation may accelerate with rising trade protectionism and slower domestic growth
- Geopolitical risks remain high and container shipping costs soared due to the ongoing hostilities in the Red Sea and disruptions in other key global trade routes
  - Baltic dry index up 48.5% in 2024
- Faster disinflation, continued fiscal support and improvements in productivity are expected to buffer against geopolitical tensions and supply disruptions



# Fresh surprises …Political risk in 2024 and beyond

- The year 2024 carries additional risk of unexpected political shifts in many countries

- At the start of the 2024 in over 80 nations and territories—representing more than half the world's population were scheduled or expected to head to the polls

- As we pass the mid-point in 2024

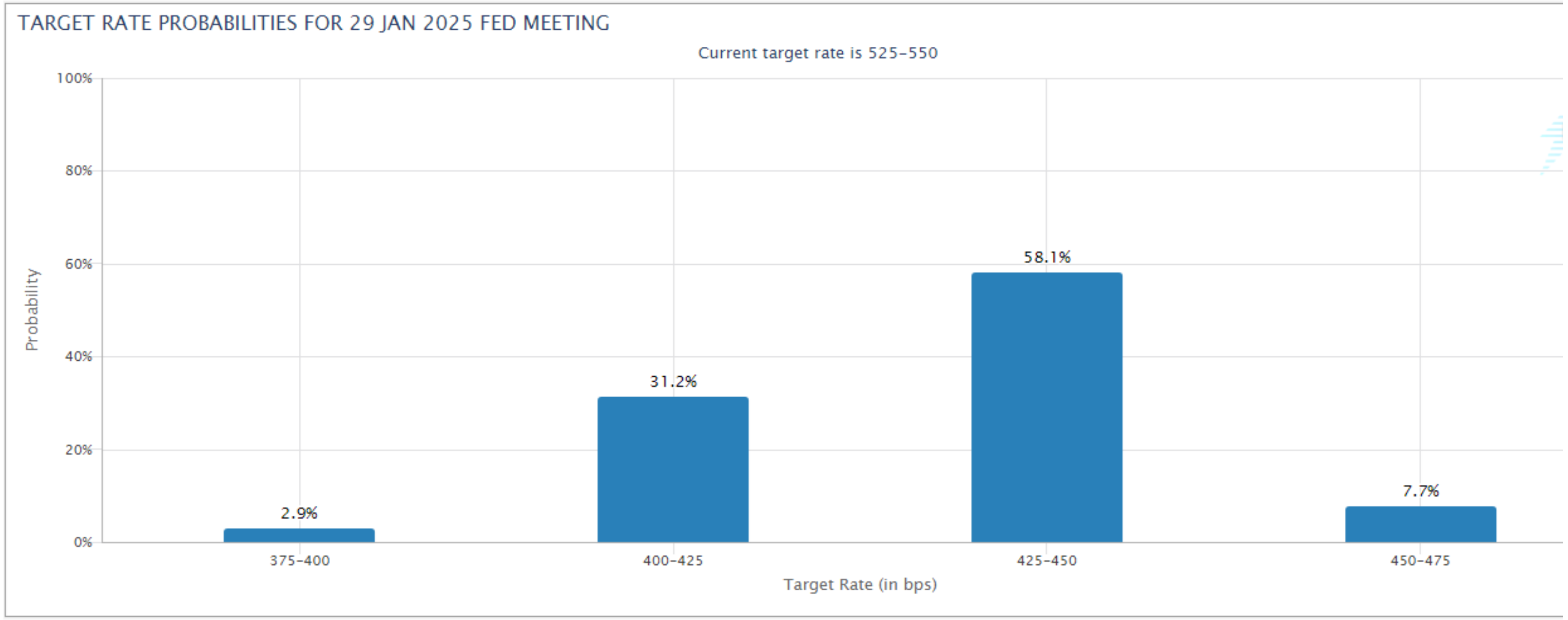
  - The EU parliament election show that right parties have made significant gains. This trend carries forward in impending French elections with right making gains but no party securing a majority
  - The recently concluded election the UK have been termed as one the most significant events in the recent UK history
  - China's internal perception of threat has widened from Taiwan to recent tension with Philippines
  - The public decision on US presidential elections remains evenly balanced

- The internal political realignment in some of major economies is important for India's long-term interest. Not in all cases the turn of events has been favourable

  - The situation in Maldives and Bangladesh need careful monitoring
  - Sri Lanka is scheduled for elections in 2024

# Fed tone indicates a Pivot, though still in quest of further Good Data…

- Bolstered by Fed chair Powell comments, in quick succession to latest FOMC minutes showing "the Committee is attentive to the risks to both sides of its dual mandate", a near U-turn from the earlier rhetoric "the Committee remains highly attentive to inflation risks" even as the hunt for more good data, along with careful interpretation of the evolving outlook and the balance of risks, stopped the committee to take a final rate cut call despite both PCE and CPI retracing almost 60% from their mid-2022 levels, was sufficient to trigger a rally in US benchmark (10Y) yields to sub-4%
- Longer-term SOFR rates are pricing in the Fed's incoming pivot with the average 6-month, as also 12-month SOFR rates declining
- Markets are repricing their bets, albeit a little aggressively we believe, as the CME FedWatch data shows Fed rates to hover around 425-450, shedding 100 bps, by Fed's Jan'2025 meet (it can be linear cuts of 25 bps each through Sep, Nov, Dec and Jan meets or a 50 bps cut once in Sept, joining two 25 bps cuts through Jan 2025..the sharp correction witnessed in US markets on weekend, is another indicator of complexities interwoven in broader markets clouding Fed's mind and views both at this juncture and will be a litmus test for its proclaimed independence sans political compulsions






Source: CME FedWatch, SBI Research

# Is US heading towards a recession?….Sahm Rule says YES ☹

- Sahm rule (SR) says that a recession appears on the horizon after the unemployment rate's current three-month moving average exceeds the lowest three-month moving average of the trailing 12 months by half a percentage point or more. Currently, this reading is 0.53% points
- What is more concerning is that the SR may turn out this time as a leading indicator, not the best lagging indicator of a recession
- Further, not only did the US non-farm payroll (NFP) come in weaker than expected at 114k (175 expected) in July, but the last few months the revised estimates downward spiral has been substantial. We believe that persistent downward revisions of NFP are establishing a pre-recessionary tendency

**Nonfarm Payroll Employment: Revisions between over-the-month estimates('000)**

| Month | First estimate | Revised Estimate | Change | Change % |
|---|---|---|---|---|
| Jul-23 | 187 | 236 | 49 | 26.2 |
| Aug-23 | 187 | 165 | -22 | -11.8 |
| Sep-23 | 336 | 262 | -74 | -22.0 |
| Oct-23 | 150 | 105 | -45 | -30.0 |
| Nov-23 | 199 | 182 | -17 | -8.5 |
| Dec-23 | 216 | 290 | 74 | 34.3 |
| Jan-24 | 353 | 256 | -97 | -27.5 |
| Feb-24 | 275 | 236 | -39 | -14.2 |
| Mar-24 | 303 | 310 | 7 | 2.3 |
| Apr-24 | 175 | 108 | -67 | -38.3 |
| May-24 | 272 | 216 | -56 | -20.6 |
| Jun-24 | 206 | 179 | -27 | -13.1 |
| Jul-24 | 114 | - | - | - |
| Total till Jun 24 | 2859 | 2545 | -314 | -11.0 |
| Average till Jun 24 | 238 | 212 | - | - |

Source:BLS, SBI Research

US Sahm Rule Recession Indicator


Source: US Bureau of Labor Statistics, Bloomberg, Raymond James, SBI Research

# Domestic Economy

# Credit growth continue to outpace deposit, Banks not shying away from tapping high-cost resources

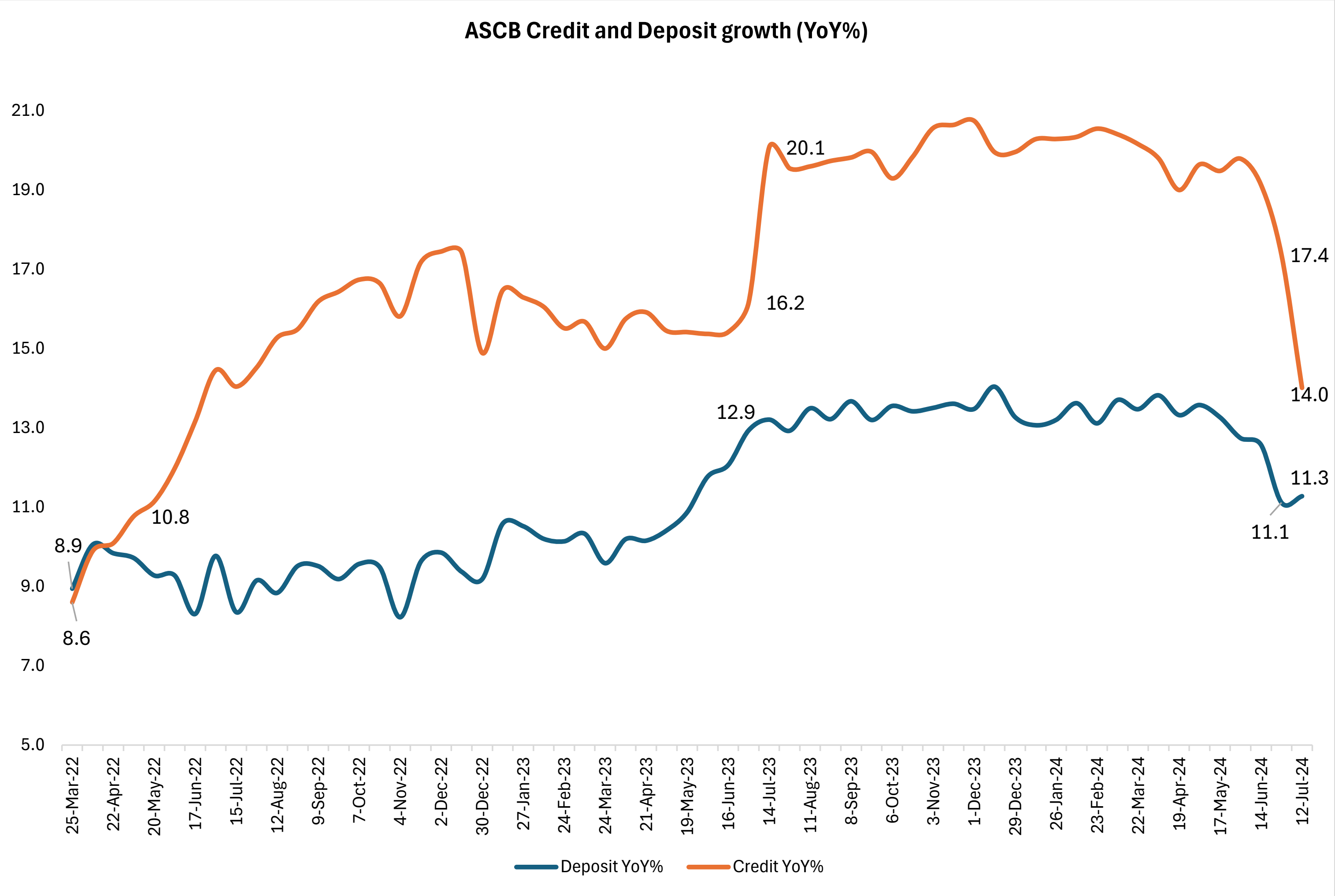
- Latest fortnightly credit and deposit growth number shows credit growth continue to outpace deposit, though moderated from last year growth of 16.2% (June'23 YoY)

- In the fortnight ending 12th July 2024, ASCB credit grew at 14%, while deposit reported growth of 11.3% on a YoY basis

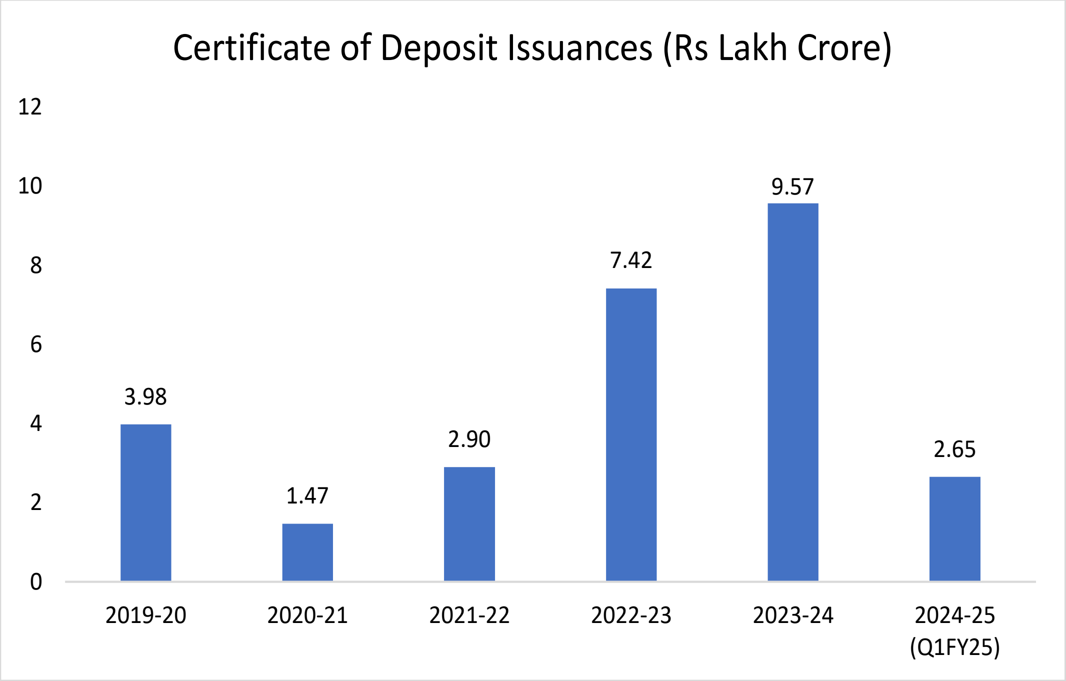
- Credit to Industry also increased from 5.1% in March'23 to 8.4% in March'24 and grew 8.1% in June'24 on a YoY basis

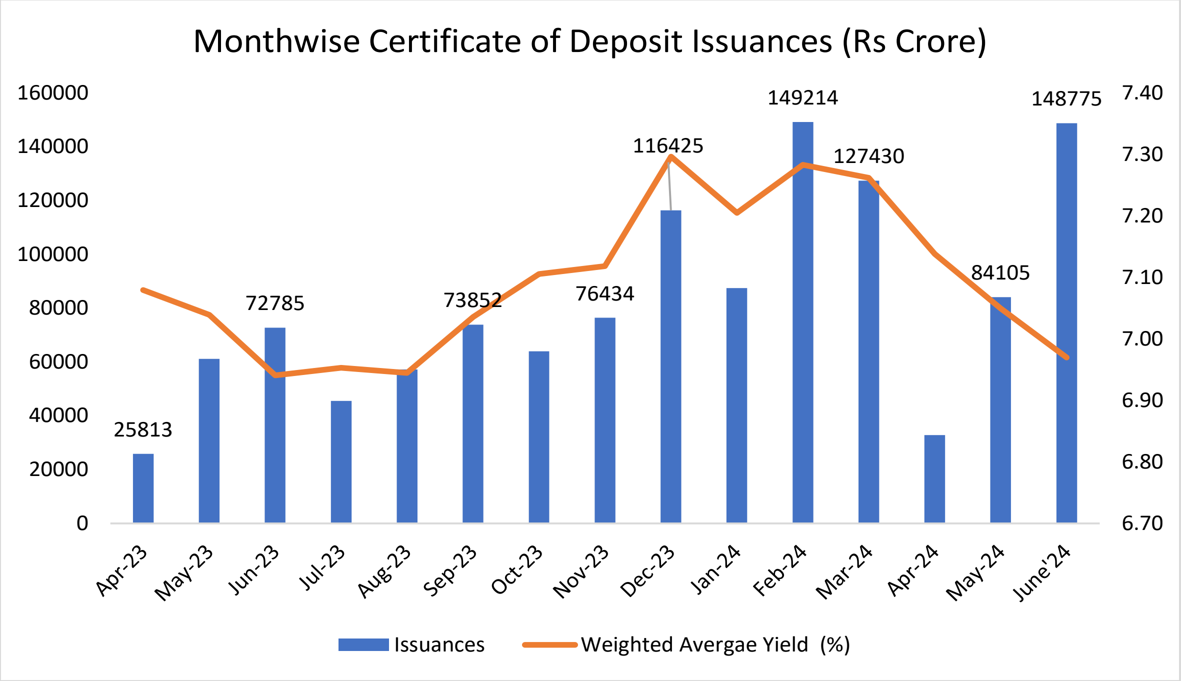
- **However, in the fortnight ended 12th July'2024, Banks garnered incremental deposit of Rs 7.02 lakh crore as against incremental credit of Rs 3.80 lakh crore on YTD basis**

- Banks reliance on high-cost deposits (Certificate of Deposit) increased by more than 3X to match the credit demand



# Certificate of Deposit (CD) issuances more than tripled since FY22 to reach around Rs 10 trillion




- CD issuances increased to near Rs 10 lakh crore in FY24 from Rs 2.90 lakh crore in FY22, a jump of 3.3X
- In Q1FY25 also CD issuance increased by 66% to Rs 2.65 lakh crore as compared to Rs 1.60 lakh crore in Q1FY24
- It is pertinent to mention, since March, even though the issuances are high, the WAY started softening and declined by around 30 bps (i.e. from 7.28 in Feb'24 to 6.97 in June'24)

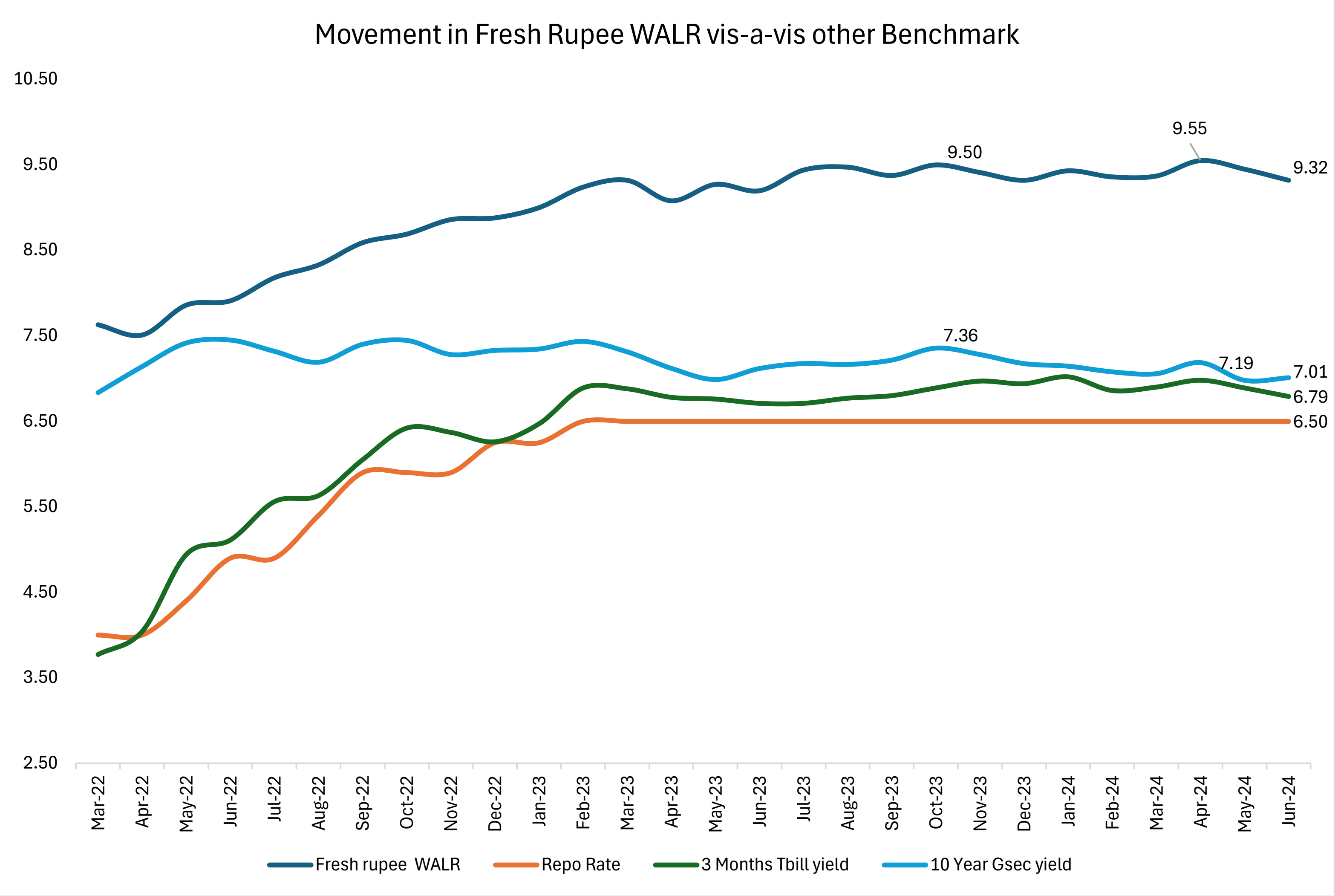
# Corporate still holding the pricing power - WALR on fresh rupee loan decreased by 11 bps even though the WADTDR increased.. A classic case of asymmetric transmission

- Even though the Banks are chasing deposits to fund the incremental credit growth, RBI recent report suggests, the weighted average lending rate (WALR) on fresh rupee loan decreased by 11 bps from the beginning of the year (i.e. from 9.43 in January'24 to 9.32 in June'24)

- Benchmark rates like 3M T bill and 10 years G-sec yield too soften by 35 bps and 24 bps respectively, since Jan'24

- Interestingly, the fresh rupee weighted average domestic term deposit rate (WADTDR) increased by 3 bps to 6.46 during the same period

- It seems borrowers, specifically the large ones still holding the pricing power, which also reflects from the **declining in the WAY of Commercial Papers (CP) from 8% in January'24 to around 7.40% in July'24.**



# Monsoon slightly above normal, however major foodgrain producing states in deficit

- The southwest monsoon covered the whole country six days ahead of its normal date and owing to that the cumulative rainfall during Jun-July 2024 is at 2% above LPA
- Consequently, the cumulative kharif sowing stood at 905 lakh hectares (as on August 02, 2024), 82% of the full season normal acreage and 3% higher than the corresponding date of the previous year
- However, certain major foodgrain producing states are still in huge deficit mode
- Going forward, IMD's forecast of above normal rainfall augurs well for replenishment of reservoir levels and further progress of kharif sowing

| Cumulative Distribution of rainfall as % of Normal | | |
|---|---|---|
| State | Jun-Jul 23 | Jun-Jul 24 |
| Andhra Pradesh | 4 | 43 |
| Assam | -17 | -5 |
| Bihar | -48 | -36 |
| Chhattisgarh | -10 | 7 |
| Gujarat | 76 | 23 |
| Haryana | 56 | -43 |
| Jharkhand | -46 | -41 |
| Karnataka | 4 | 33 |
| Kerala | -35 | -4 |
| Madhya Pradesh | 3 | 7 |
| Maharashtra | 14 | 39 |
| Odisha | -12 | -11 |
| Punjab | 38 | -45 |
| Rajasthan | 78 | -2 |
| Tamil Nadu | -1 | 56 |
| Telangana | 56 | 27 |
| Uttar Pradesh | -16 | -15 |
| Uttarakhand | 19 | -4 |
| West Bengal | -22 | -13 |
| All India | 5 | 2 |

Source: SBI Research, IMD

| Kharif crop sowing area as on 2nd Aug'24 (lakh hectare) | | | | |
|---|---|---|---|---|
| **Crops** | **Major producing states** | **Actual Area sown** | | |
| | | **2024** | **2023** | **% change** |
| Rice | Telangana, UP, WB, Punjab, Odisha | 276.9 | 263.0 | 5.3 |
| Oil seeds | Rajasthan, MP, Gujarat, Maharashtra, UP | 179.7 | 174.5 | 3.0 |
| Pulses | MP, Maharashtra, Rajasthan, UP, Karnataka | 110.6 | 99.7 | 10.9 |
| Millets & Coarse Cereals | UP, MP, Punjab, Bihar, Rajasthan | 165.6 | 160.4 | 3.2 |
| Sugarcane | UP, Maharashtra, Karnataka, Tamil Nadu, Gujarat | 57.7 | 57.1 | 1.0 |
| Jute & Mesta | WB, Bihar, Assam, Odisha, Andhra Pradesh | 5.7 | 6.3 | -9.5 |
| Cotton | Gujarat, Maharashtra, Telangana, Rajasthan, Karnataka | 108.4 | 118.2 | -8.3 |
| Total | - | **904.6** | **879.2** | **2.9** |

Source: SBI Research, Ministry of Agriculture & Farmers Welfare, upag.gov.in

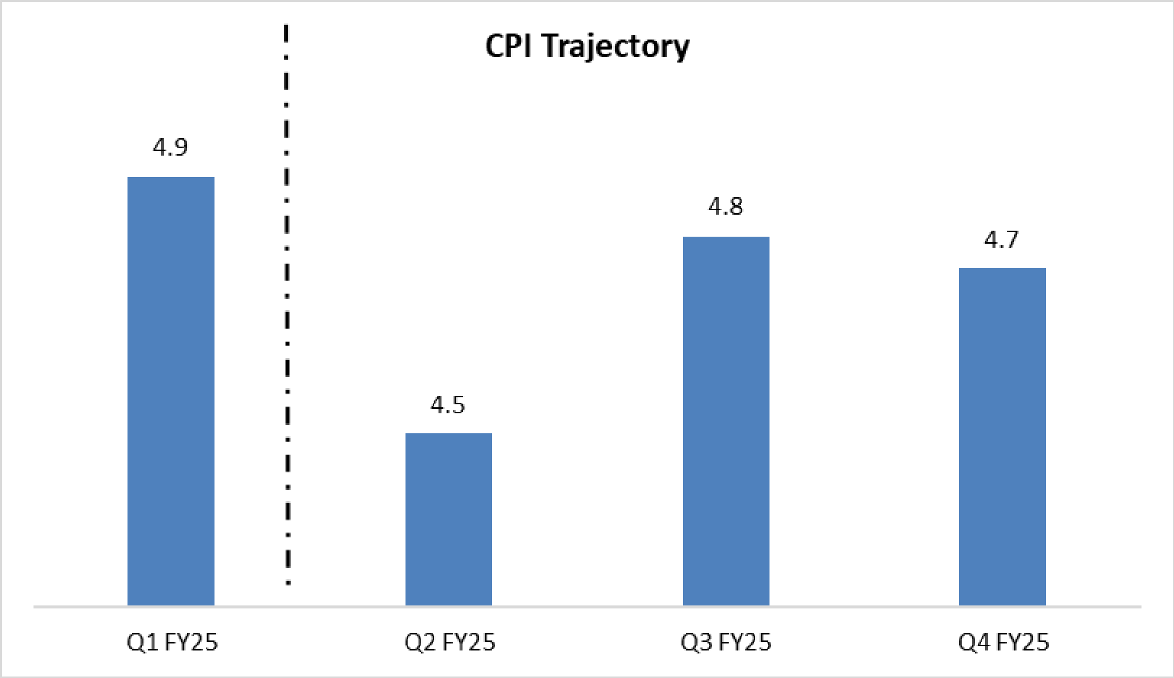
# CPI expected to remain within RBI target in FY25..though currently looking higher

- India's retail inflation increased to 5.08% in June 2024, compared to 4.80% in May, owing to higher food and beverage inflation. Core CPI increased to 3.13% compared to 3.07% in May. Both rural and urban inflation increased in June. While rural inflation increased to 5.66%, urban inflation rose to 4.39% in June'24

- CPI inflation is expected to remain below or close to 5.0% in the remaining months, except for Sep'24 and Oct'24

- **For the whole FY25, CPI inflation is likely to average to 4.6%-4.7%**

- With monsoon progressing satisfactorily with 2% surplus till date and progress of area coverage under Kharif crops showing 2.9% yoy, we expect inflation to remain within RBI target in FY25... However, with La Nina getting precedence, excess rainfalls could result in crop loss and thus a negative impact on food prices



# Current Liquidity trend shows ~Rs 0.14 lakh crore average deficit in FY25

- The Net liquidity was in deficit mode from 22 Apr'24 to 27 Jun'24 (except for 03 Jun'24 to 06 Jun'24, where it was in surplus mode with an average of Rs 0.4 lakh crore, mainly on account of month end government spending) with an average deficit of Rs 1.1 lakh crore. Then It came to surplus mode since 28 Jun'24 with an average of Rs 1.0 lakh crore till Jul'24
- RBI has been actively managing liquidity through main and fine-tuning operations
- Average supply of liquidity by way of variable rate repo auction held in FY25 is Rs 0.69 lakh crore, and average absorption through variable rate reverse repo auction amounts to Rs 0.27 lakh crore
- Government surplus cash balances averages to Rs 2.8 lakh crore in Jul'24
- Durable/core liquidity surplus has gone up to Rs 4.03 lakh crore as on 31st July with an average of Rs 3.8 lakh crore post last policy

| Average Liquidity Position (Rs lakh crore) | | | |
|---|---|---|---|
| | **07-Jun-24** | **Post policy average** | **31-Jul-24** |
| Repo Outstanding | 0.54 | 0.52 | 0.04 |
| Reverse Repo Total | 0.00 | 0.30 | 0.96 |
| SDF | 0.57 | 0.68 | 0.76 |
| MSF | 0.01 | 0.08 | 0.03 |
| Net LAF (-absorption) | 0.10 | -0.28 | -1.56 |
| Government Cash Balance (net LAF-core liquidity) | 3.95 | 3.50 | 2.29 |
| Core Liquidity (-Surplus) system liquidity adjusted with GOI Balances | -3.98 | -3.79 | -4.03 |
| **Ratios** | **07-Jun-24** | **31-Jul-24** | **change in bps** |
| 30 Year Gsec | 7.13 | 7.06 | -7.5 |
| 20 Year Gsec | 7.15 | 7.04 | -11.2 |
| 15 Year Gsec | 7.10 | 7.10 | 0.0 |
| 10 Year Gsec | 7.02 | 6.93 | -9.1 |
| 5 Year Gse | 7.02 | 6.85 | -17.2 |
| 2 Yers Gsec | 7.00 | 6.83 | -17.5 |
| 364 days Tbill | 7.01 | 6.79 | -22.0 |
| 182days Tbill | 6.99 | 6.77 | -22.0 |
| 91days Tbill | 6.84 | 6.65 | -19.0 |
| AAA Corp Spread(bps) | 55.41 | 55.27 | -0.1 |

Source: RBI, SBI Research

# Rupee Exchange rate movement

- Merchant dollar demand has again become higher than supply in the spot as well as forward market in recent months with anticipation of a stronger dollar and hence may be holding to long position in dollars (even after factoring distortion in data through cancellations / Inter Bank covering operations, it remains a lagging indicator worth a look to corroborate with the trend). Thus, rupee might come under pressure

- However, inclusion in JP Morgan Bond index will provide the necessary support to the rupee dollar exchange rate. Though the recent move of RBI to exclude new issuances of 14-year and 30-year G-secs from the Fully Accessible Route (FAR) could create uncertainty among the FPIs, but the large domestic investors can absorb the fresh supply of these tenures easily. Overall, the rupee is likely to remain between Rs 82.5 to Rs 83.5 per dollar

**Turnover in Foreign Exchange Market ($ mn)**

| Month | Merchant | | | Interbank | | | Grand Total | IB SWAP Excess Demand |
|---|---|---|---|---|---|---|---|---|
| | Forward Excess Demand | Spot Excess Demand | Total Excess Demand | Forward Excess Demand | Spot Excess Demand | Total Excess Demand | | |
| Jun-24 | 8,544 | 3,187 | 11,731 | -8,388 | -12,666 | -21,054 | -9,323 | -5,827 |
| May-24 | 10,225 | 5,070 | 15,295 | -12,805 | -2,748 | -15,554 | -258 | -34,217 |
| Apr-24 | 13,741 | 4,720 | 18,461 | -2,630 | -15,666 | -18,296 | 165 | 15,114 |
| Mar-24 | 5,501 | -10,626 | -5,125 | 5,713 | -10,172 | -4,458 | -9,583 | -26,546 |
| Feb-24 | 11,723 | 3,354 | 15,078 | -5,604 | -8,309 | -13,913 | 1,165 | -34,961 |
| Jan-24 | 12,880 | 2,581 | 15,461 | 576 | -31,426 | -30,851 | -15,389 | 4,730 |
| Dec-23 | 2,301 | 101 | 2,401 | -42,043 | -9,779 | -51,822 | -49,420 | -658 |
| Nov-23 | 3,206 | 1,766 | 4,972 | -9,358 | -474 | -9,832 | -4,860 | -4,117 |
| Oct-23 | 3,684 | 12,090 | 15,774 | -17,534 | -8,343 | -25,876 | -10,102 | -8,186 |
| Sep-23 | 14,621 | -1,168 | 13,452 | -7,621 | -14,205 | -21,826 | -8,373 | -12,846 |
| Aug-23 | 11,733 | 3,712 | 15,446 | 2,174 | -10,535 | -8,361 | 7,085 | -4,001 |
| Jul-23 | 9,137 | -4,305 | 4,833 | -1,224 | -549 | -1,773 | 3,060 | -15,323 |
| Jun-23 | 20,679 | -2,125 | 18,554 | -10,359 | -4,794 | -15,153 | 3,401 | -13,255 |
| May-23 | 3,603 | -1,422 | 2,180 | -1,150 | -2,131 | -3,281 | -1,101 | -13,864 |
| Apr-23 | 9,563 | -2,860 | 6,703 | -5,466 | 1,767 | -3,699 | 3,004 | 1,831 |

Source: RBI, SBI Research, Jun'24 is til 21 Jun24

# Monetary policy responds to unanticipated changes? Relying solely on neutral/natural rate for monetary policy decision not advisable

- Some economists argue that only unexpected monetary policy shocks or money surprises will affect output and employment while others, particularly those of the Keynesian tradition, asserted that anticipated monetary policy shocks also have real effects on the economy

- Adherence to a rule-based monetary policy limits the use of unanticipated money shocks to address economic downturns. Unanticipated shocks (if they are large enough) can unanchor inflation expectations that could lead to permanent changes in the long-run inflation trend

- In this context, the natural rate which has been estimated by the RBI recently should not be seen as the benchmark for monetary policy implication

- The natural interest rate provides policymakers with a benchmark for the interest rate at which economic activity reaches its full potential and inflation will stabilize. The deviation of policy rates from this neutral rate determines whether monetary policy is accommodative or restrictive

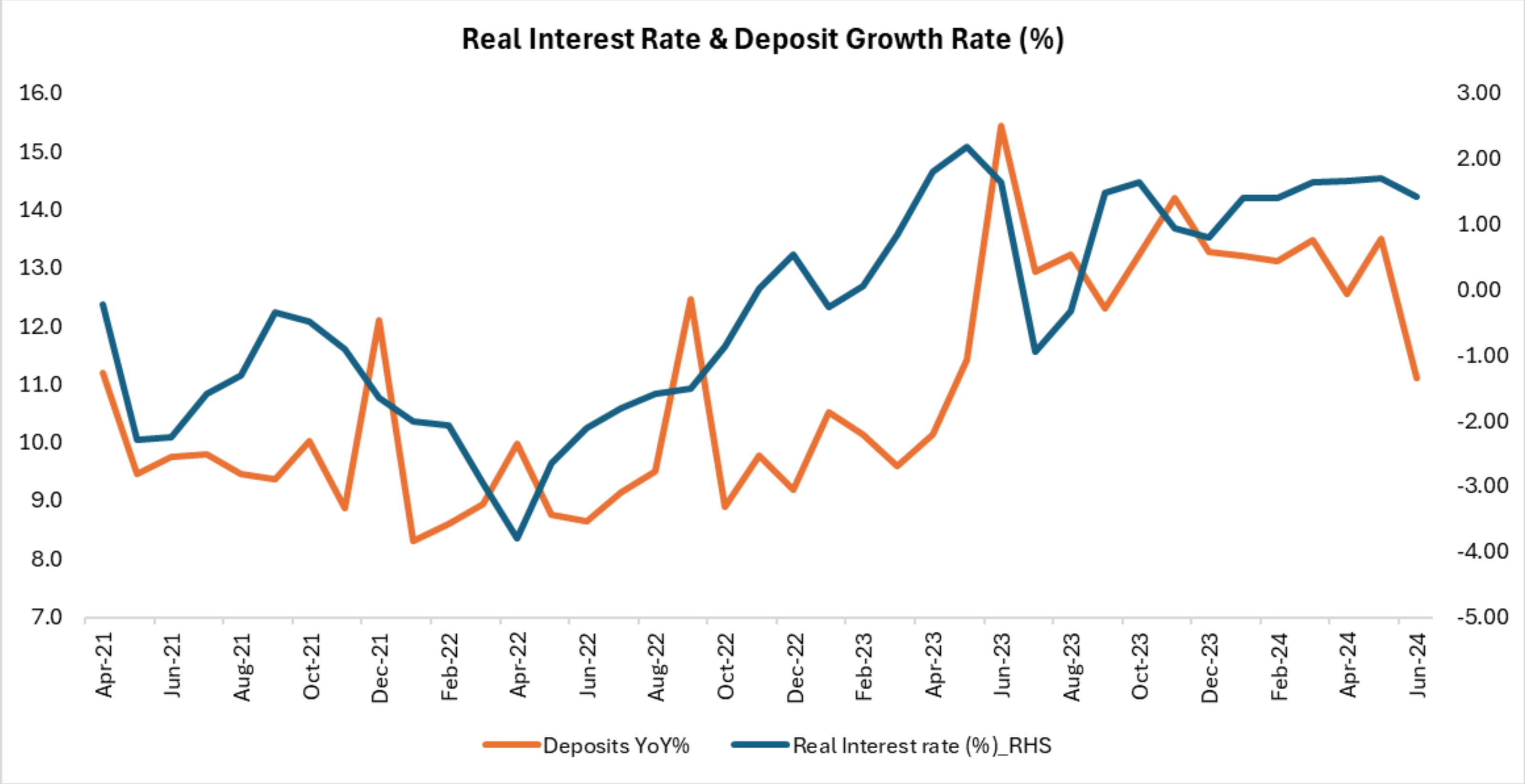
- The natural rate is determined by factors that impact long-run saving-investment behaviour

- However, RBI itself agrees that **neutral rate is "not observable" and the estimates are sensitive to "model selection, measurement issues and statistical uncertainty".** That is why it is said that balancing the risk of tightening monetary policy too much against the risk of tightening too little is essential in deciding the policy rate, rather than taking the decision solely based on the natural rate which is imprecise in values (Powell, 2023)

- The crux of this estimate is that if GDP is higher than predicted, the estimate of the natural rate will be higher.. this could mean wait for rate cut by RBI could get longer….

# Real interest rates does not impact deposits

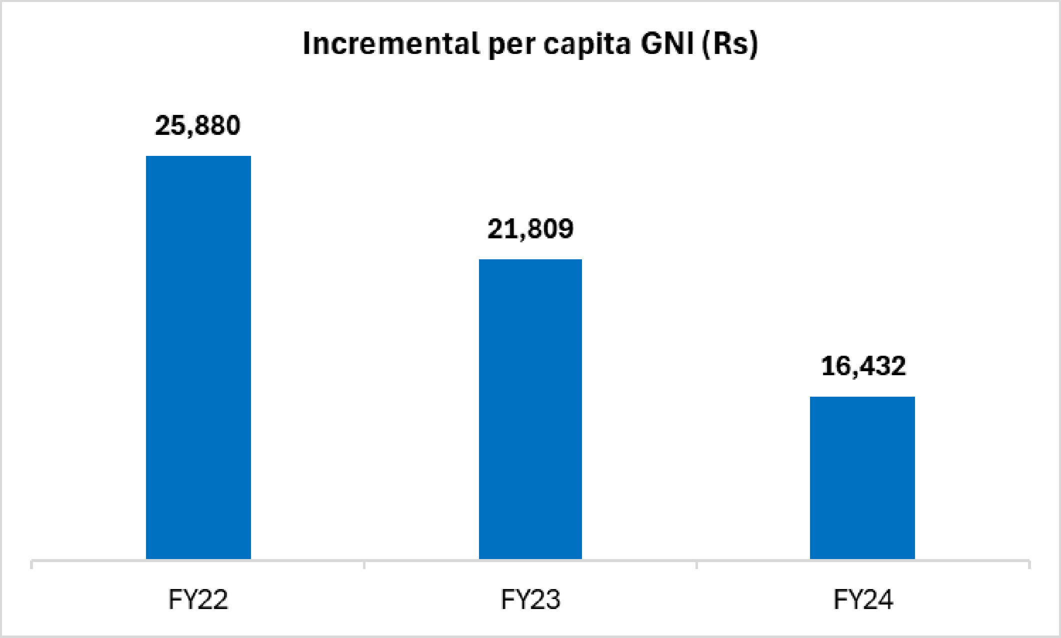
- While this is apparent that real interest rates don't have any significant impact on deposits mobilization. The correlation between the two has become negative since FY23. We believe that there is a dire need for a research study on this
- Another reason that could have led to lower deposits is the increase in outward remittances under the Liberalised Remittance Scheme (LRS). The historical data shows that deposit growth and remittances growth under the LRS are negatively correlated thus emphasizing that there is also increasing propensity towards foreign consumption



# In fact, it is PCI and not the Real Interest rates impact savings

- In 1973, economists Ronald McKinnon and Edward Shaw postulated a relationship between high interest rates and private savings. In theory, high real interest rates have two opposing effects on private savings:
  - **Substitution effect**: saving increases as consumption is postponed to the future
  - **Wealth effect**: savers increase current consumption at the expense of saving
- In the Indian context, studies show the substitution effect of real interest rate is more than the wealth effect leading to overall negative impact of higher interest rates on savings rates. However, the actual coefficients are significantly small and insignificant in most of the cases

- Causality analysis in India between income per capita and savings rates shows that such causality run mostly from income to savings. This implies that high GDP growth and increase in per capita income would significantly improve the savings rates in India
- **The decline in incremental per capita GNI (at current prices) from ~Rs 26,000 to Rs 16,000 in just two years has majorly impacted savings**



# Final Thought

- So, what will be the RBI's policy look like:

| Indicator | Our View |
|---|---|
| **Global Economy** | ❑ The biggest concern, jolting the markets (inter-alia the investors) is the probability of US entering a recession, with the trigger of Sahm Rule post the payroll data… US job market now looks much weaker with downward cumulative payroll revisions at 4.91 lakhs since 2023 till date..<br>❑ Political risk to dominate course of US in H2 2024 as the nation would be highly polarized on key issues having a bearing on future prospects for EMs along trade / protectionism measures<br>❑ Chinese economy showing a resurgence with growth likely to pick up in both 2024, as also 2025 |
| **Stance & Repo Rate** | ❑ We believe the stance should continue to be withdrawal of accommodation<br>❑ RBI is likely to pause as food price movements currently is imparting a positive bias to RBI 4.5% projection…likely prospects of an excess rainfall in August and September could also have a debilitating impact on food prices…<br>❑ **A higher neutral rate at 1.4% -1.9%... this could mean wait for rate cut by RBI could get longer….First cut likely in Dec 2024 / Feb 2025…any disintegrated rate cut and change in stance could front load market movements one way up** |
| **Measures to augment liquidity** | ❑ With returns on bank deposits taxable and treatment (bank deposits are taxed at accruals compared to competing asset classes being taxed at redemption) being completely non uniform as compared to asset classes… the war for deposits could be prolonged…. **We could thus witness a paradox of higher deposit rates even when rate cuts start to happen.. this could significantly impede policy transmission… RBI needs to innovate on liquidity management**…time now to make CRR as a countercyclical policy tool |

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