India: The Economic Pathway

December 2023

Global Economy

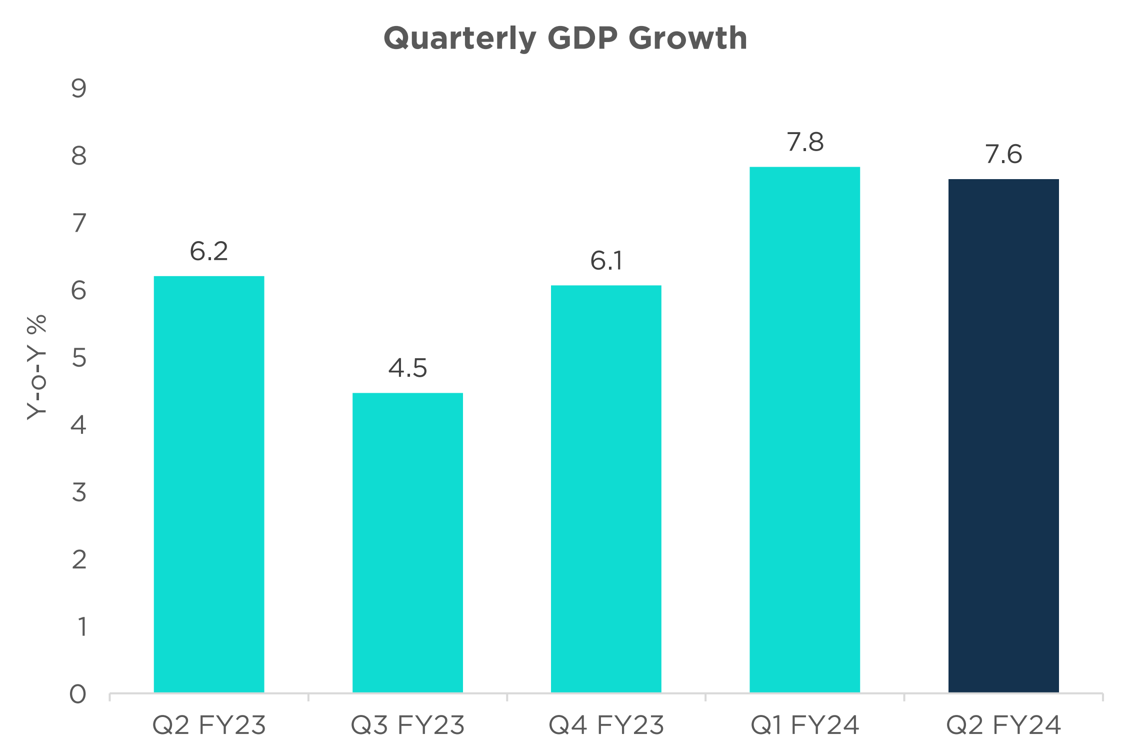
Global: Dovish Surprise from Fed

Key Takeaways from Monetary Policy Meetings in December		
Fed	Dovish Pause	• Policy rate kept at 5.25-5.5% for the third consecutive meeting. • Changes made to the policy statement and forward guidance were more dovish than anticipated. • FOMC projections indicate potential for a soft landing. • Inflation forecasts revised downward. Core PCE inflation is projected at 3.2% in 2023 (50bps lower than earlier projection). • Projections suggest 75bps of rate cuts in 2024, which is more aggressive than the 50bps indicated previously. • Additionally, 100bps of rate cuts are projected in 2025, followed by 75bps of rate cuts in 2026. • However, policy rate is projected to settle at 2.5% in the long run, indicating higher for longer interest rates.
ECB	Hawkish Pause	• Policy rate kept at 4% for the second consecutive meeting. • Growth and inflation forecasts revised downwards. • ECB announced plans to speed up the shrinking of its balance sheet. • Policymakers pledged to maintain rates at sufficiently restrictive levels for as long as necessary. • President Lagarde told reporters that policymakers did not discuss any rate cuts.
BoE	Hawkish Pause	• A 6-3 majority voted to keep the policy rate at 5.25% for the third consecutive meeting. The 3 members voted for a 25bps rate hike. • BoE emphasized that monetary policy is likely to be restrictive for an extended period to curb inflation. • BoE also highlighted the potential requirement for further tightening should persistent inflationary pressures persist.
BoJ	Dovish Pause	• BoJ maintained key short-term rate at -0.1% and that of 10-year bond yields at around 0%. • The loose upper band for the long-term government bond yield was left unchanged at 1.0%. • BoJ said that it will patiently continue with monetary easing and will not hesitate to take extra easing measures if needed. • Separately, BoJ Governor said that wage increases have lagged rising prices and that the target level of inflation may not be sustained.
RBI	Less Hawkish Pause	• Policy rate kept at 6.5% for the fifth consecutive time and “withdrawal of accommodation” stance maintained. • FY24 growth forecast revised upward by 50bps to 7%. FY24 inflation forecast kept unchanged at 5.4%. • RBI Governor expressed confidence in the softening of core inflation but acknowledged potential risks to headline inflation from volatile food prices. • The policy language exhibited a less hawkish tone compared to the October statement.

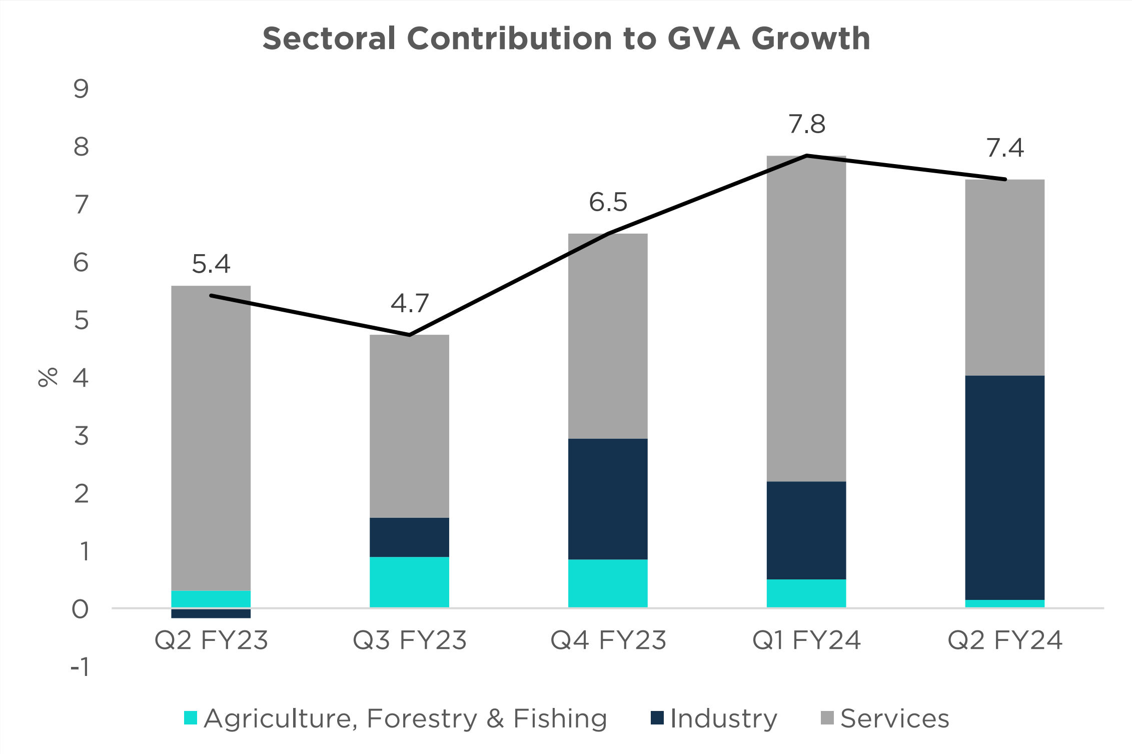
Sources: Respective Central Bank websites, CareEdge

Domestic Economy

Q2 GDP Growth Better-than-Expected at 7.6%



Source: MOSPI



Source: MOSPI

- GDP growth in Q2 FY24 was mainly driven by investments and government consumption while growth in private consumption was muted.
- Manufacturing and construction activities witnessed significant acceleration while services sector lost momentum amid normalising discretionary spending.
- We project GDP growth at 6.8% in FY24.

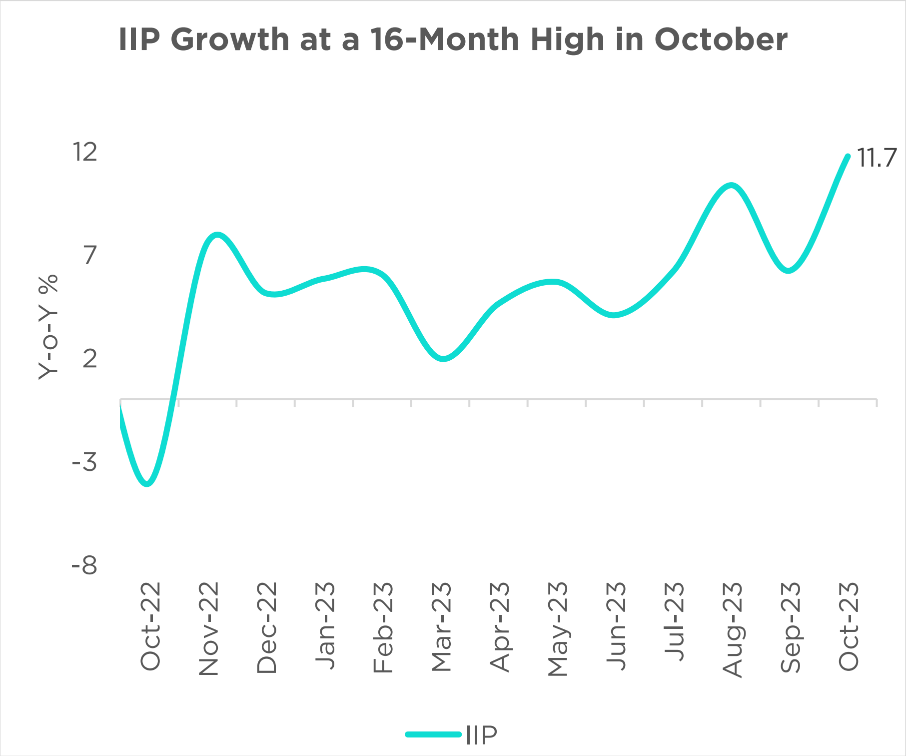
Snapshot of Economic Activity

Indicator		Unit	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
Business Activity	PMI-Manufacturing	Index	57.2	58.7	57.8	57.7	58.6	57.5	55.5	56.0
	PMI-Services	Index	62.0	61.2	58.5	62.3	60.1	61.0	58.4	56.9
Domestic Trade	GST	Rs Lakh Crore	1.87	1.57	1.61	1.65	1.59	1.63	1.72	1.68
	E-Way Bills	Crore	8.4	8.8	8.6	8.8	9.3	9.2	10.0	8.8
Travel	Air Passenger Traffic	Crore	3.1	3.2	3.0	3.0	3.0	3.0	3.1	3.1
	Railway Passenger Traffic	Crore	54.8	58.9	56.3	56.9	59.1	57.0	59.9	
Urban Demand	Sales of Passenger Vehicles	Lakh	2.8	2.9	2.8	3.0	3.1	3.2	3.4	2.9
Rural Demand	Sales of Two-Wheelers	Lakh	13.4	14.7	13.3	12.8	15.7	17.5	19.0	16.2
	Sales of Three-Wheelers	Lakh	0.4	0.5	0.5	0.6	0.6	0.7	0.8	0.6
	Sales of Tractors*	Lakh	0.9	0.9	1.1	0.7	0.6	1.1	1.3	0.8

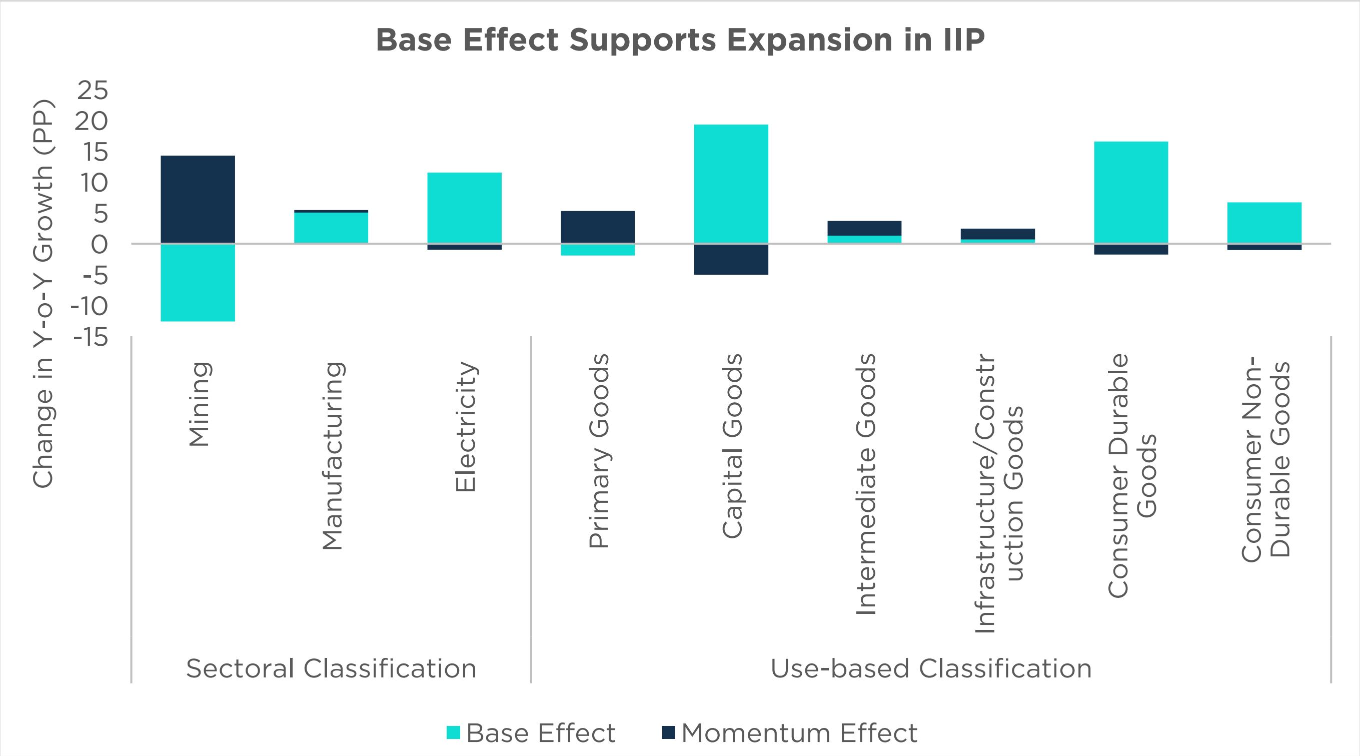
Source: CEIC, CMIE

- Manufacturing PMI inched up slightly while Services PMI moderated in November. However, both continued to stay comfortably within the expansion territory.
- Though elevated, the total unemployment rate eased to 9.2% in November (from 10.1% last month) owing to some easing in the rural unemployment rate.
- Going ahead, a durable recovery in demand, particularly rural demand remains critical.

IIP Growth Jumps on a Favorable Base



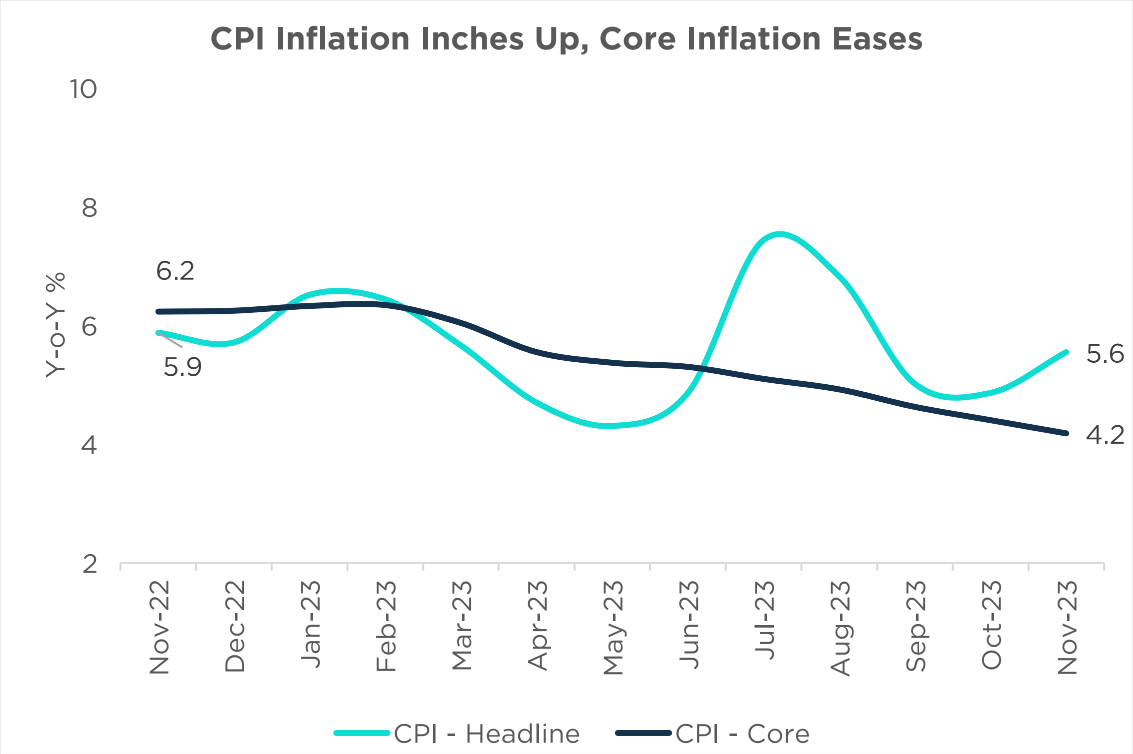
Source: CEIC



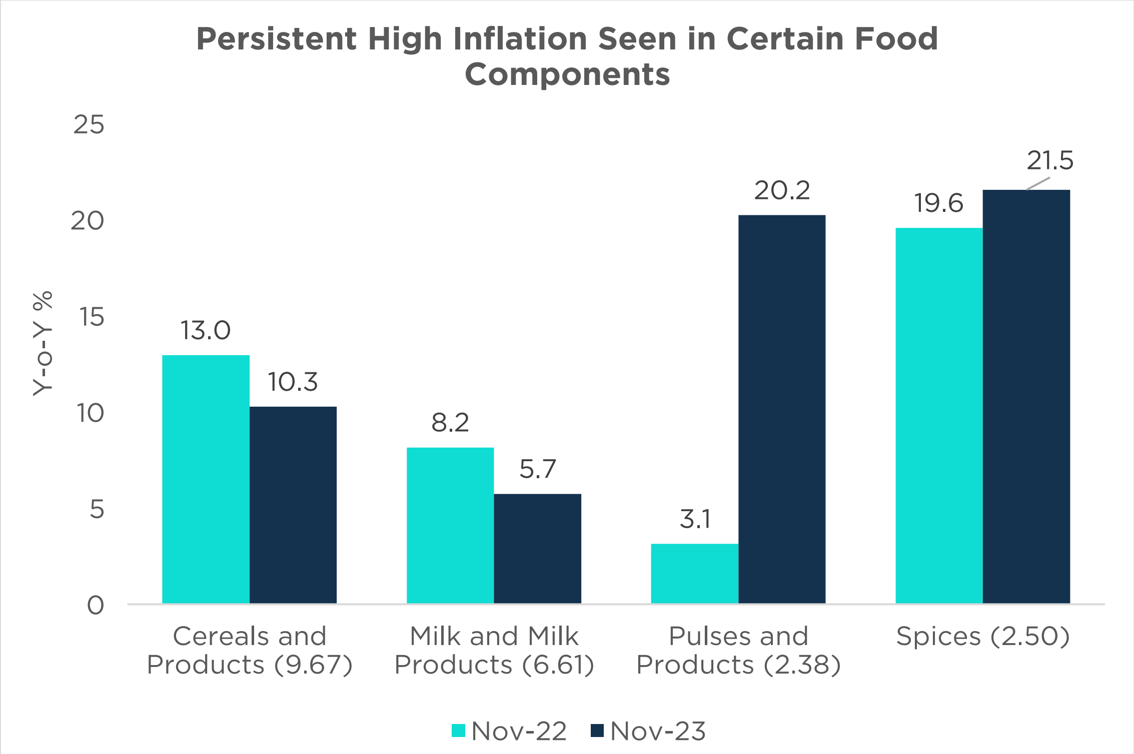
Source: CEIC & CareEdge

- Though IIP growth in October was largely on account of a supportive base, some improvement in momentum (at 1.8% m-o-m) was a positive.
- Consumer goods (both durables and non-durables) continued to exhibit weakness and are yet to show a sustained recovery.

Headline Inflation Reverses the Downward Trend



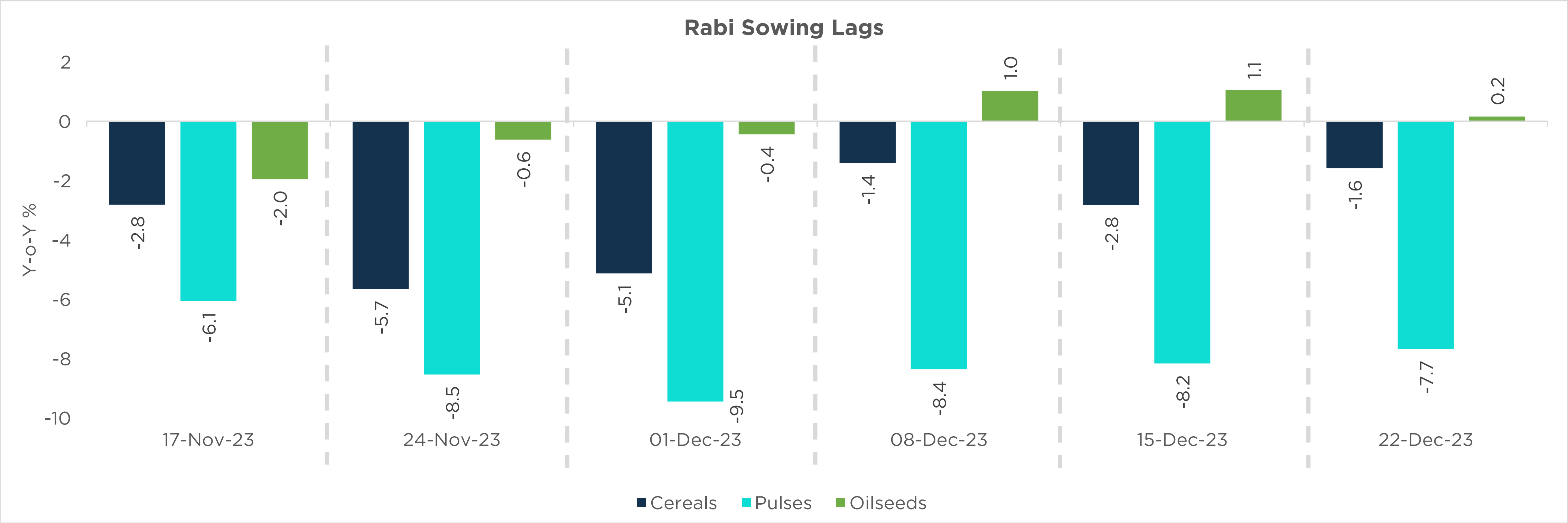
Source: CEIC & CareEdge



Source: CEIC & CareEdge

- CPI inflation rose to a 3-month high on account of spike in certain vegetable prices and sticky inflation in non-perishable food items (cereals, pulses and spices).
- Core inflation continued to trend lower amid moderation across discretionary items (clothing and footwear, housing, recreation and household goods and services).
- We project CPI inflation to be higher around 5.8-6% in December due to an unfavourable base.
- For the full fiscal, we expect inflation to average at 5.4% with risks tilted to the upside.

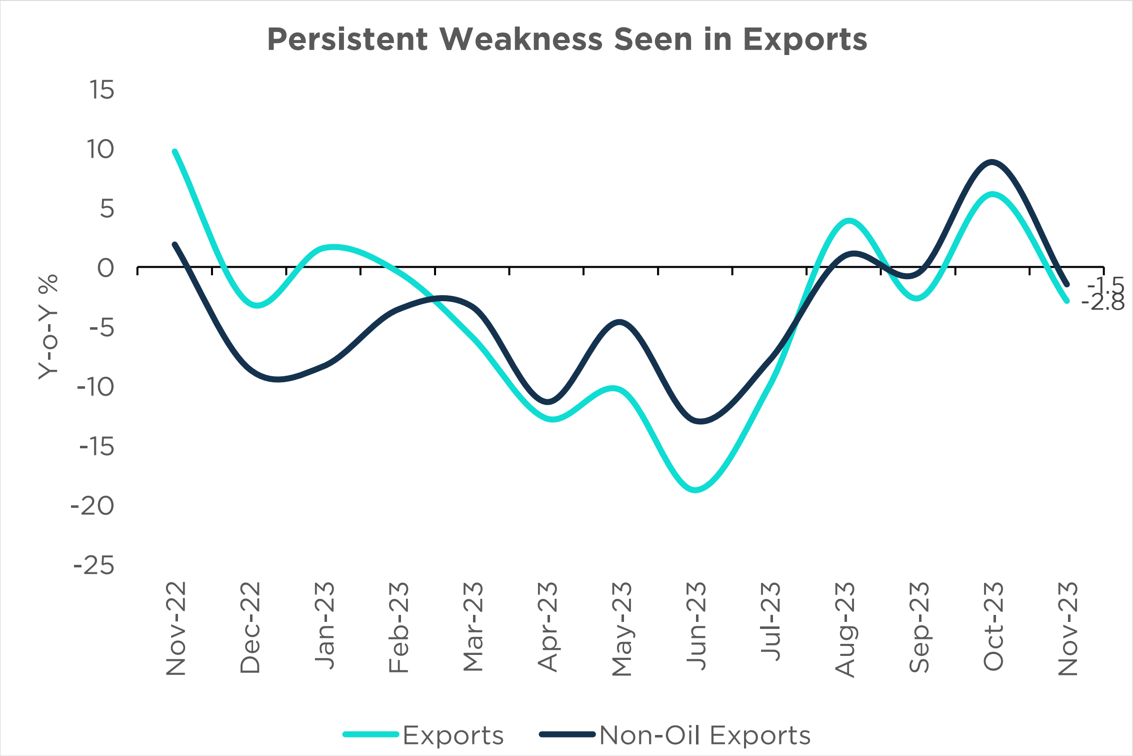
Progress in Rabi Sowing



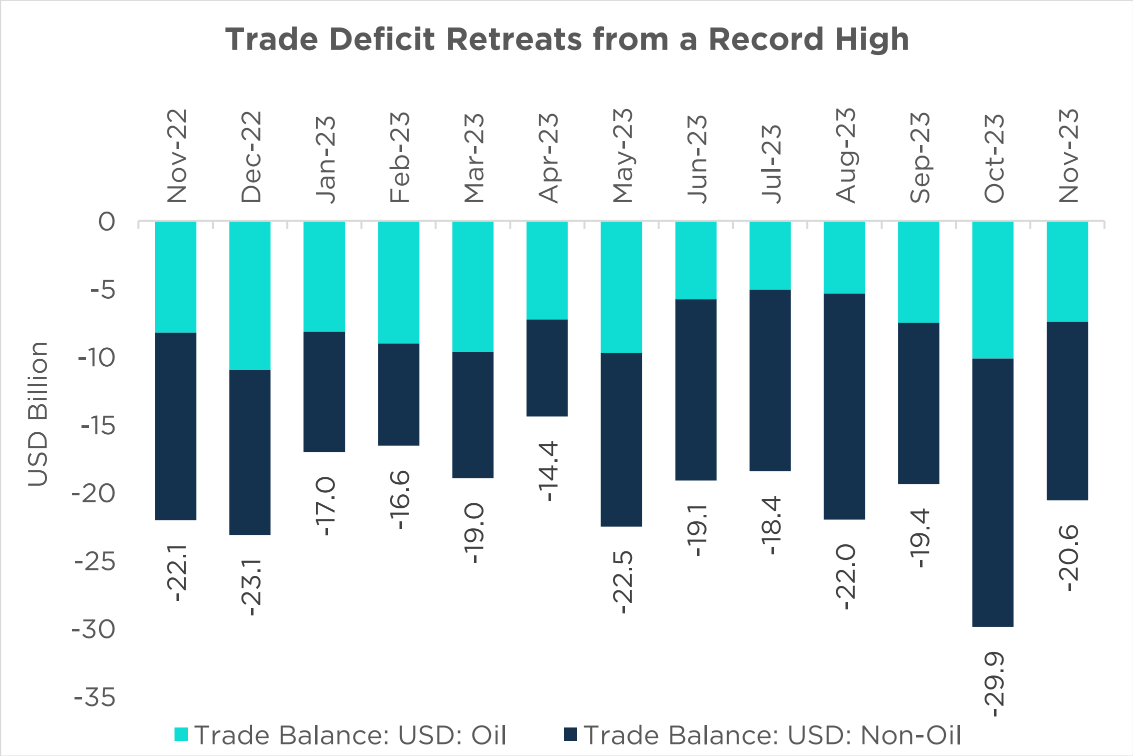
Source: CMIE

- High food prices could feed into the inflationary expectations amid lingering uncertainty around Kharif production and weak prospects for Rabi sowing.
- Government's supply-side interventions remain critical to ensure sufficient buffer stock of essential food items.

Merchandise Trade Deficit Narrows



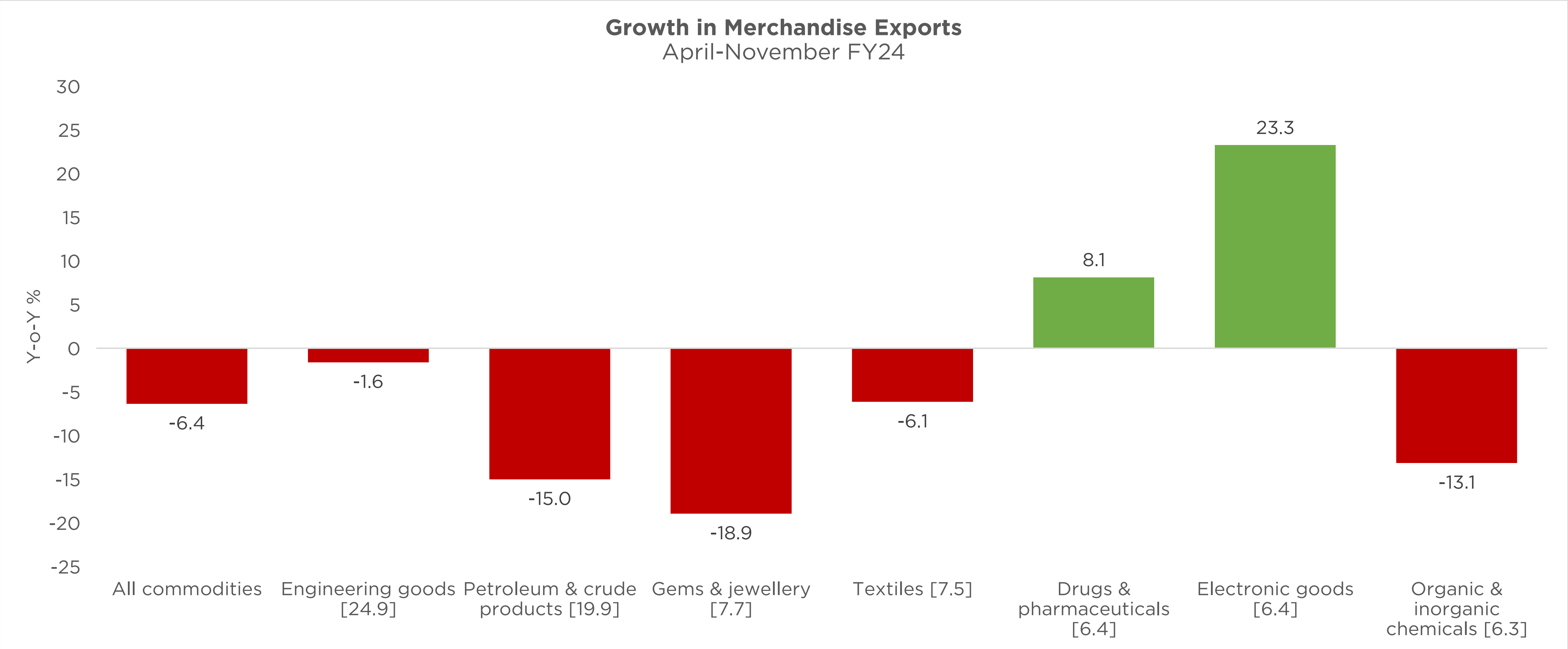
Source: CEIC



Source: CEIC

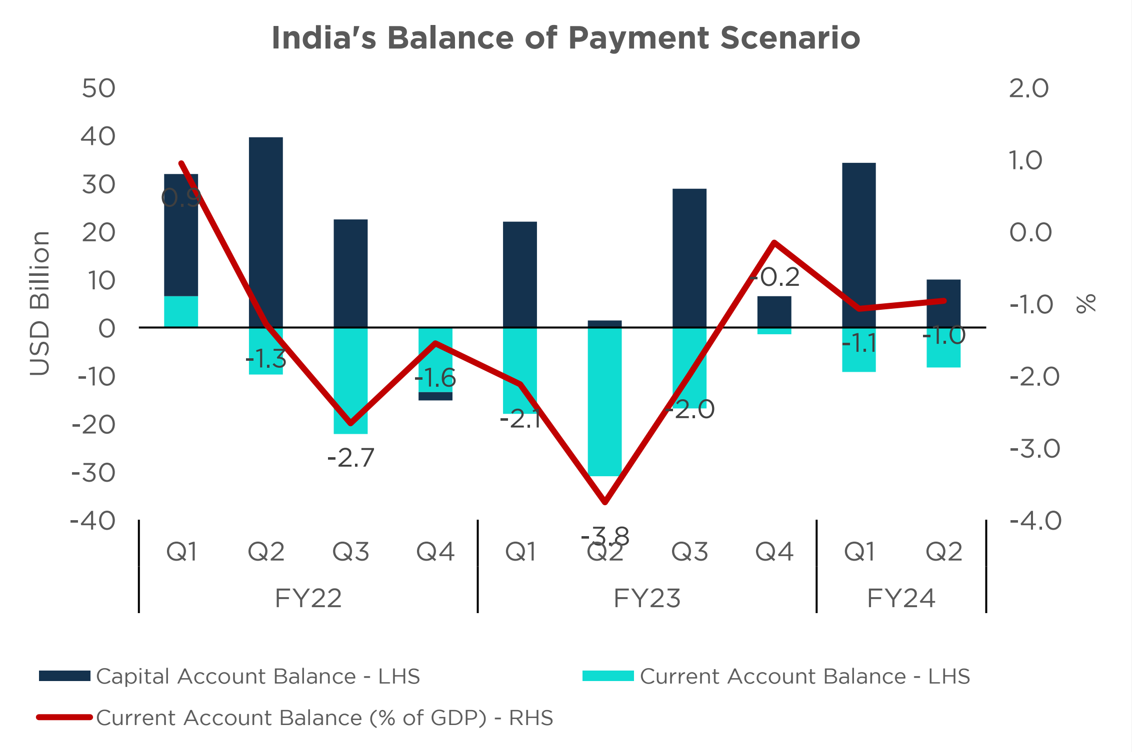
- Moderation in both oil and non-oil imports (gold in particular) aided the lower trade deficit in November.
- So far in FY24, India’s merchandise trade deficit is seen at USD 166 billion, lower in comparison with USD 189 billion last year.

Performance Across Merchandise Exports

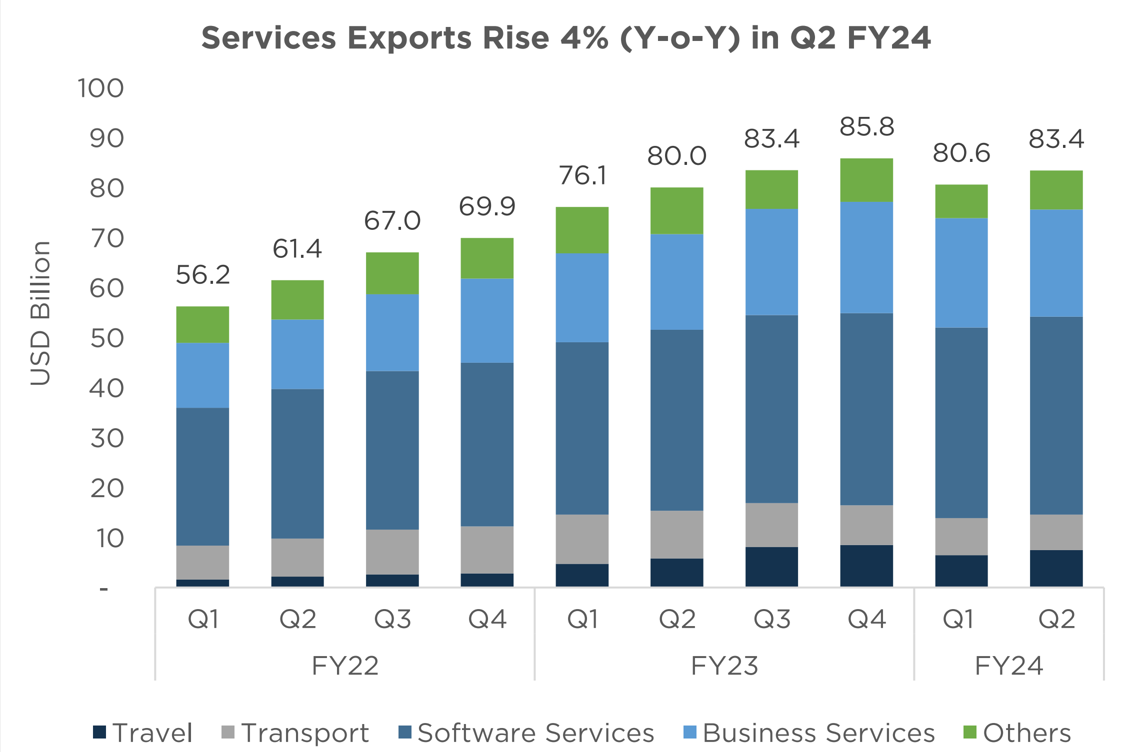


Source: CMIE; Note: Figures in bracket represent % share in total merchandise exports

External Sector Scenario Comfortable



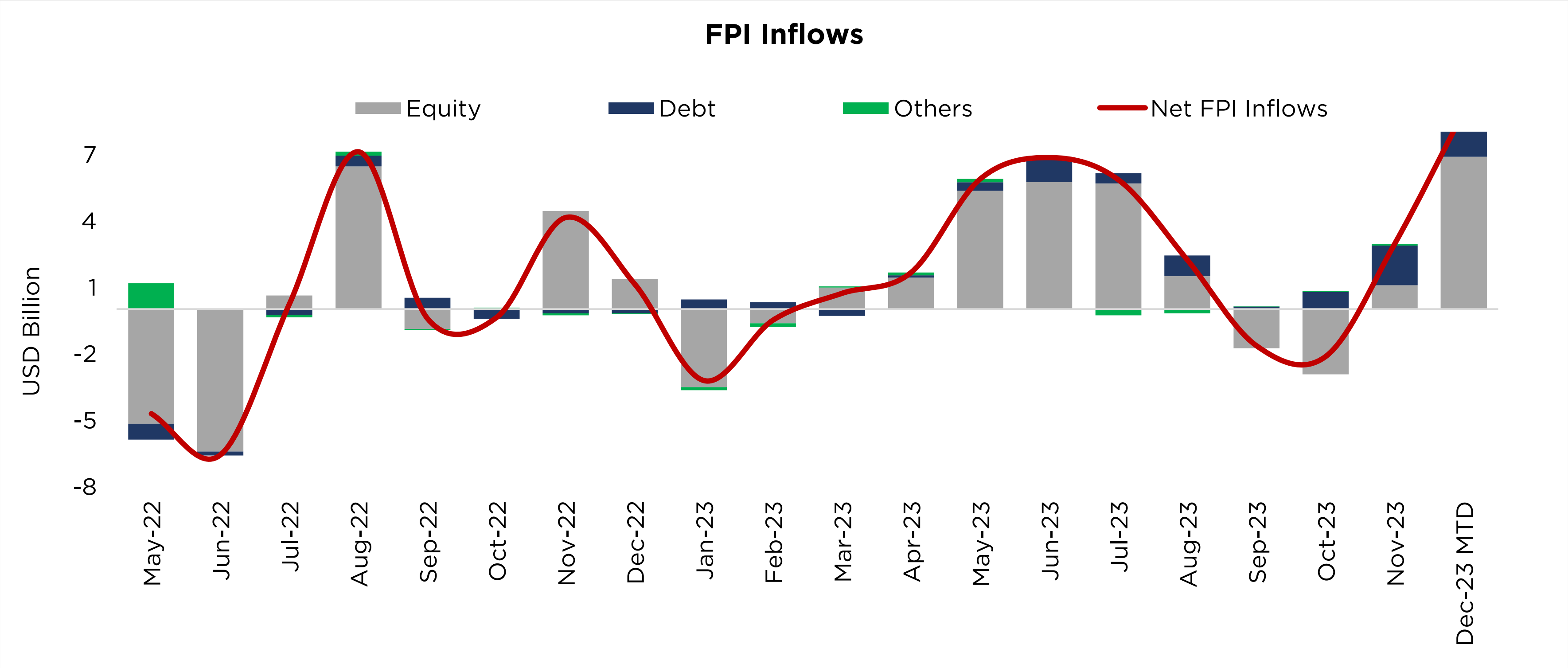
Source: CEIC



Source: CEIC

- Though merchandise trade deficit increased slightly compared to previous quarter, increase in services trade surplus and healthy transfers aided the narrowing of CAD.
- On the capital account front, net FDI witnessed outflows for the first time in 13 quarters amounting to USD 0.3 billion.

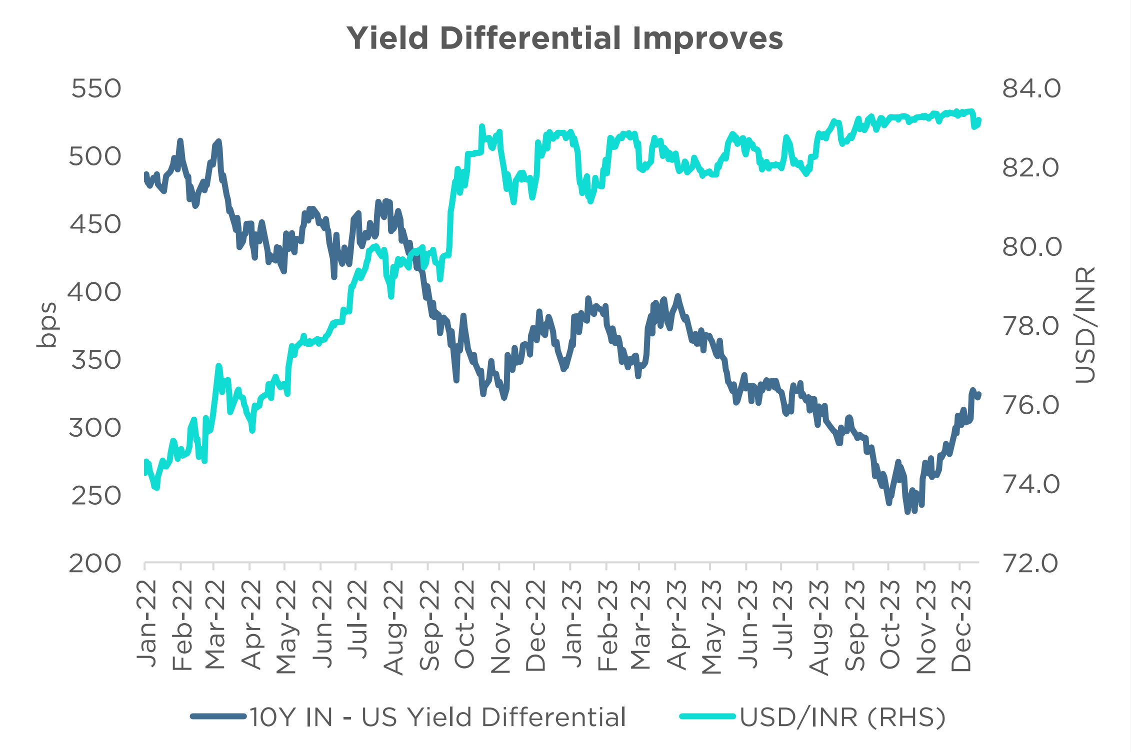
FPI Inflows Rise



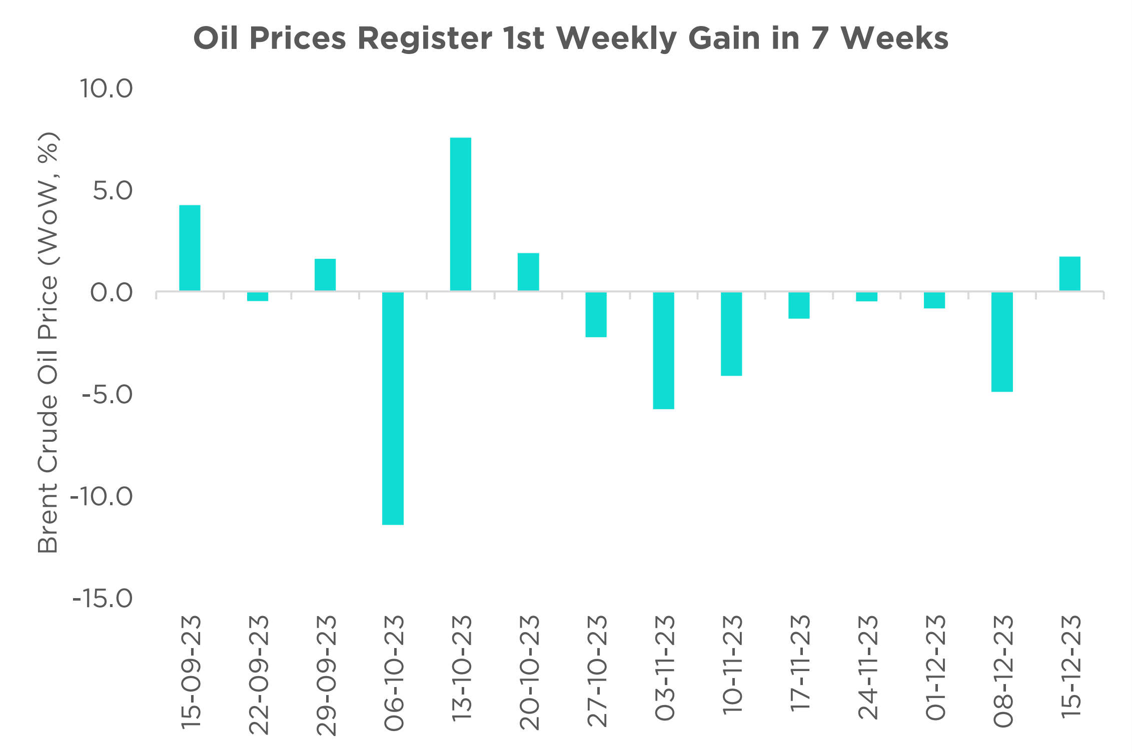
Sources: NSDL, CareEdge.

- Low UST yields, debt purchases ahead of India's inclusion in the JP Morgan bond index, upward revision to India's growth forecast by RBI and expectations of policy continuity following state election results have spurred FPI inflows.

Rupee Remains Rangebound



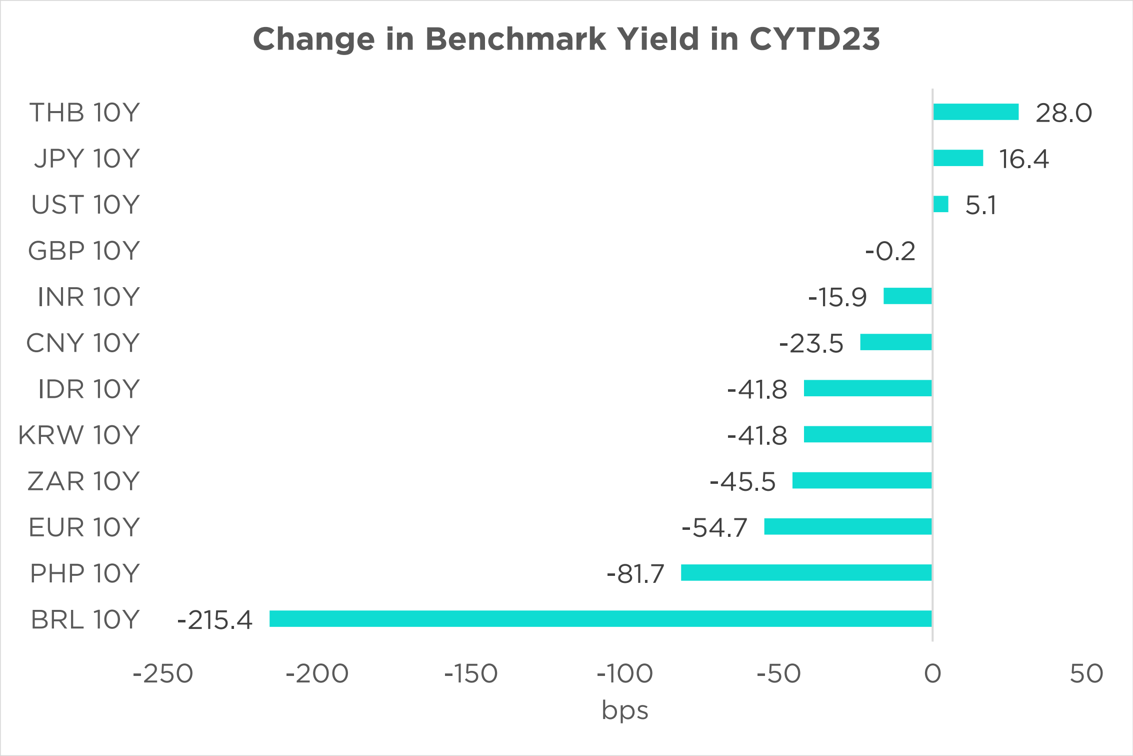
Sources: Refinitiv, CareEdge. Data as on December 19.



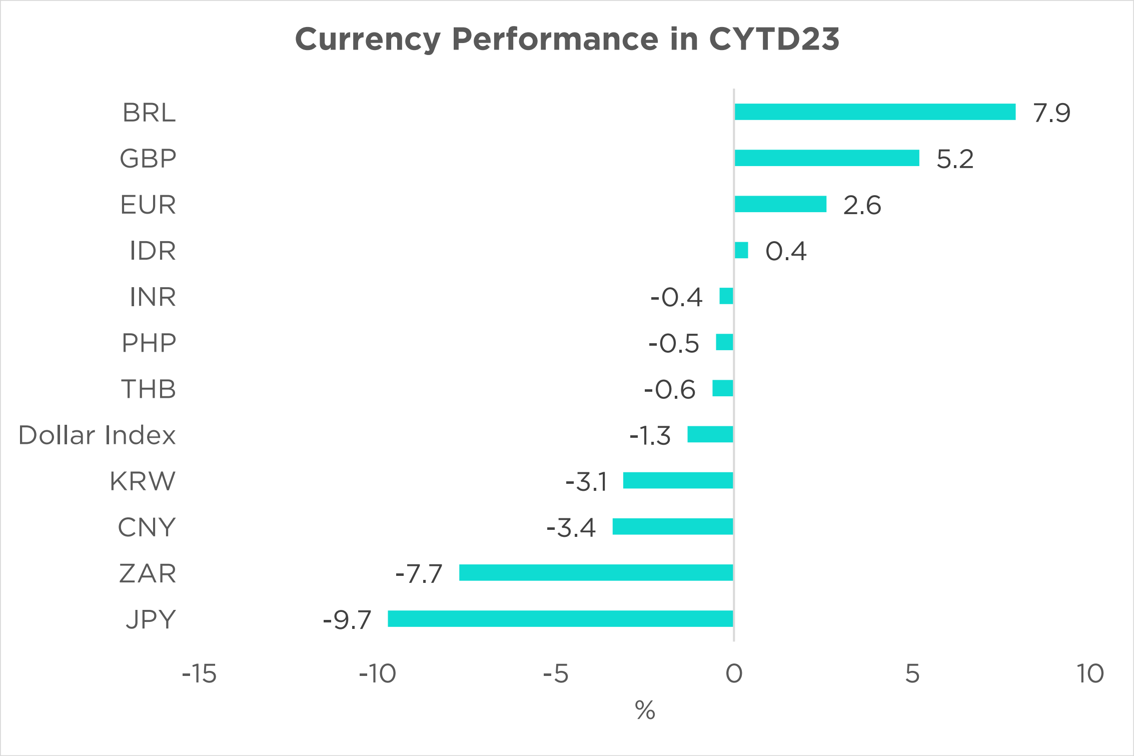
Sources: Refinitiv, CareEdge. Data as on December 19.

- India US 10 yr yield differential has improved by ~90bps since October led by a sharp-pull back in UST yields due to a dovish Fed.
- Crude oil prices have risen from 6-month lows to ~USD 80 per barrel amidst a weaker dollar and supply concerns stemming from Red Sea ship attacks.

India 10Y G-Sec Yield & Currency Relatively Stable in CY23



Sources: Refinitiv, CareEdge. Data as on December 19.



Sources: Refinitiv, CareEdge. Data as of December 19. Note: Currency performance is against USD (except dollar index). Positive values imply appreciation.

- We expect RBI to start rate cuts after Q1FY25 when quarterly inflation is projected to approach the 4% target.
- We expect USD/INR to trade between 82-84 by the end of FY24.
- Going into 2024, market volatility is likely to persist. However, India has adequate forex reserves (~USD 607 billion and equivalent to an import cover of ~10 months) to support RBI interventions to contain rupee volatility.

CareEdge Economy Outlook

Economic Growth

GDP growth projected at **6.8%** for FY24

Inflation

Average inflation projected at **5.4%** for FY24

Current Account Deficit

CAD (as % of GDP) projected at **1.8%** in FY24

Fiscal Deficit

Fiscal deficit (as % of GDP) pegged at **5.9%** in FY24

Interest Rates

10-Year G-Sec Yields to range between **7-7.2%** by end-FY24

Currency

USD/INR projected to be at **82-84** by end of FY24

December Round-Up

From the Economics Desk @ CareEdge	
IIP Report – October 2023	Read Here
CPI Report – November 2023	Read Here
Monetary Policy Outcome	Read Here
Monetary Policy Expectation	Read Here
Global Trade Decoupling and India	Read Here
The Global Debt Wave Post Covid Looks More Menacing	Read Here
Forex Market Update	Read Here
Debt Market Update	Read Here

CareEdge RATINGS

Economics Research Team

Rajani Sinha
Chief Economist
rajani.sinha@careedge.in
+91 - 22 - 6754 3525

Mihika Sharma
Associate Economist
mihika.sharma@careedge.in
+91 - 22 - 6754 3538

Akanksha Bhende
Associate Economist
akanksha.bhende@careedge.in
+91 - 22 - 6754 3524

Mradul Mishra
Media Relations
mradul.mishra@careedge.in
+91-22-6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect

About Us: CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd previously known as CARE Risk Solutions Pvt Ltd, and (II) CARE ESG Ratings Ltd, previously known as CARE Advisory Research and Training Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings Africa (Private) Limited in Mauritius, CARE Ratings South Africa (Pvt) Ltd, and CARE Ratings Nepal Limited.

Celebrating 30 Years