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THE ECONOMIC PERISCOPE

27 December 2023

Global Economic Developments

Decline in the inflation rate in US is strengthening the expectation of easing its monetary policy more quickly than expected. In November'2023, the CPI inflation has further reduced to 3.1% compared to 3.2% in October 2023. Core inflation remains around 4%.The biggest driver of the decline was a fall in energy and gasoline prices, followed by lower travel costs and hotel rates. As far as monetary policy is concerned, there is low probability to expect the first rate cut before June 2024. Before the Fed cuts interest rates permanently, it will probably ensure that core inflation declines sustainably and that the labour market continues to weaken.

Due to the time lag in the impact of its monetary policy, it would normally have to act well before inflation reaches 2%. The market expects a rate cut of 25 basis points (bps) per meeting from June to December 2024, followed by a cut every other meeting until 2025. This would mean that the target range for the key interest rate would be 3.00% to 3.25% by the end of 2025.

> However, some experts have highlighted: “The Fed is likely on hold until we get more credibly toward 2.0% core inflation, and then it could start signalling a gradual reduction of interest rates to get to a less restrictive policy stance.”[1]

The following extract from the note of the Brayan Rich’s, Pro Perspectives have shown that Fed will have to move faster and more aggressively. The interest rate market is pricing that in; with expectations for a Fed Funds rate below 4% by the end of next year.[2]

Percent

Variable	Median[1]				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8
September projection	2.1	1.5	1.8	1.8	1.8
Unemployment rate	3.8	4.1	4.1	4.1	4.1
September projection	3.8	4.1	4.1	4.0	4.0
PCE inflation	2.8	2.4	2.1	2.0	2.0
September projection	3.3	2.5	2.2	2.0	2.0
Core PCE inflation[4]	3.2	2.4	2.2	2.0	
September projection	3.7	2.6	2.3	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	5.4	4.6	3.6	2.9	2.5
September projection	5.6	5.1	3.9	2.9	2.5

Source: Brayan Rich’s, Pro Perspectives, Fed.

As the US treasuries are showing downward trends, the 30-Year mortgage rate in the US has declined for seven consecutive weeks, moving from its highest level since 2000 (7.79%) down to 6.95%. It may be noted that amid rate hikes and monetary tightening, US homeowners were facing a 30-year mortgage rate of nearly 8%, which based on current house prices would consume around 26% of median income.[3] US High Yield bonds have seen a 195 bps decline yields (9.45% to 7.50%) while Investment Grade bonds yields are 126 bps lower (6.44% to 5.18%). Further, as highlighted by Charlie Bilello in a note, Apple, Microsoft, Google, Amazon, Nvidia, Tesla, and Meta have gained 75% in 2023 versus a gain of 12% for the remaining 493 companies in the S&P 500.

Earnings expectations for 2024 are solid for the US and other equity markets, and US equity valuations are higher than their long-term average. The US stocks closed higher, with the Dow Jones Industrial Average (DJIA) notching a fifth straight record close and the S&P 500 closing just shy of its peak, as investors keep cheering the chances of Federal Reserve rate cuts next year and an economy that keeps chugging along. The Nasdaq 100 set another all-time high while the S&P 500 added 0.6%, fast approaching the benchmark’s record peak. The blue-chip Dow Jones Industrial Average also hit a fresh record.

[1] “Weekly market wrap” (November 2024) Edward Jones.
[2] The FOMC members now expect that the Fed funds rate should drop to 4.6% by the end of 2024, and to 3.6% by the end of 2025, which means three rate cuts of 25 basis points each over the next year followed by four cuts the year after. Is the market ahead of Fed regarding the rate cut expectations?
[3] National Association of Realtors, EMEA J.P Morgan.

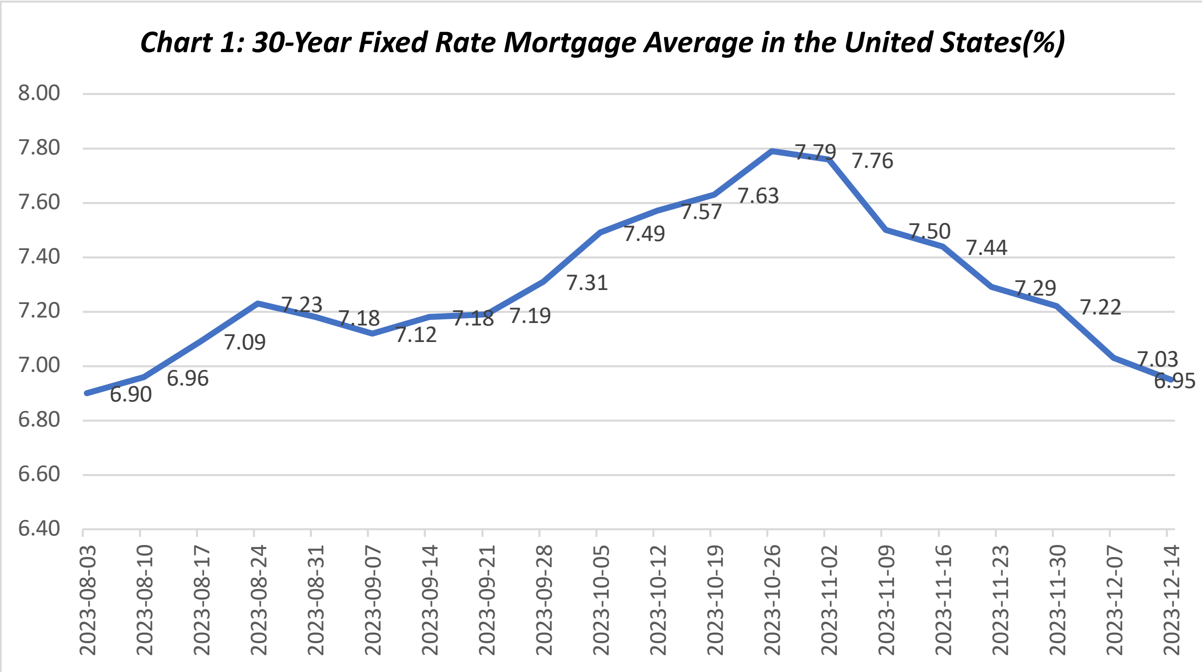
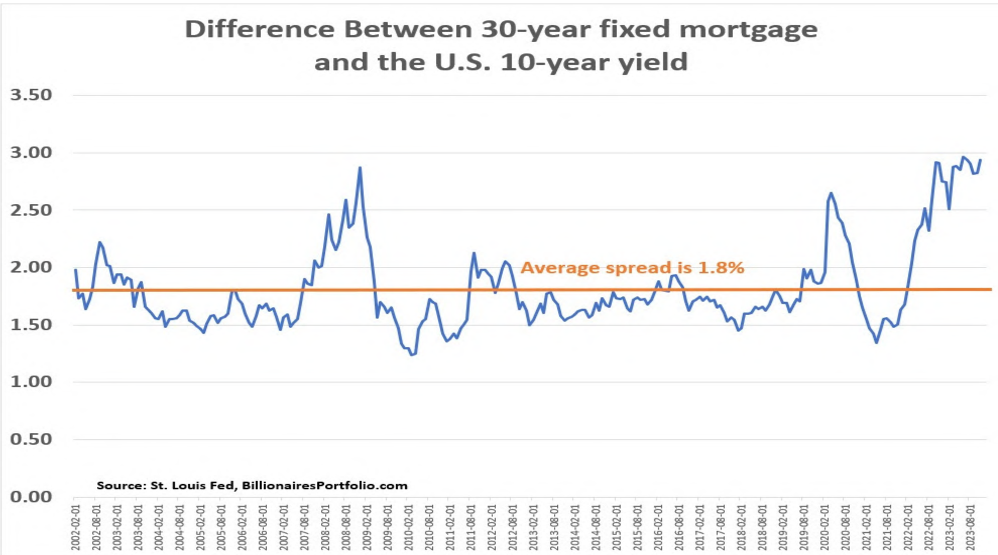


Chart 1: 30-Year Fixed Rate Mortgage Average in the United States(%)

Source: FRED Economic Data, Link:[https://fred.stlouisfed.org/series/MORTGAGE30US].

Chart 2: Spread between US 10-Yr Yield and 30-Yr fixed mortgage(%)



Source: Brayan Rich, Pro Perspectives.

According to the November'2023 Survey of Consumer Expectations, Median inflation expectations declined somewhat to 3.4 percent at the one-year-ahead horizon, the lowest reading of the series since April 2021, but were unchanged at 3.0 percent and 2.7 percent at the three- and five-year-ahead horizons, respectively. [4]

[4] Median inflation uncertainty—or the uncertainty expressed regarding future inflation outcomes—fell at the one-year-ahead horizon, increased slightly at the three-year horizon, and remained unchanged at the five-year horizon. (https://www.newyorkfed.org/microeconomics/sce#/)

The main findings from the November 2023 Survey are as follows as revealed from the Fed data:

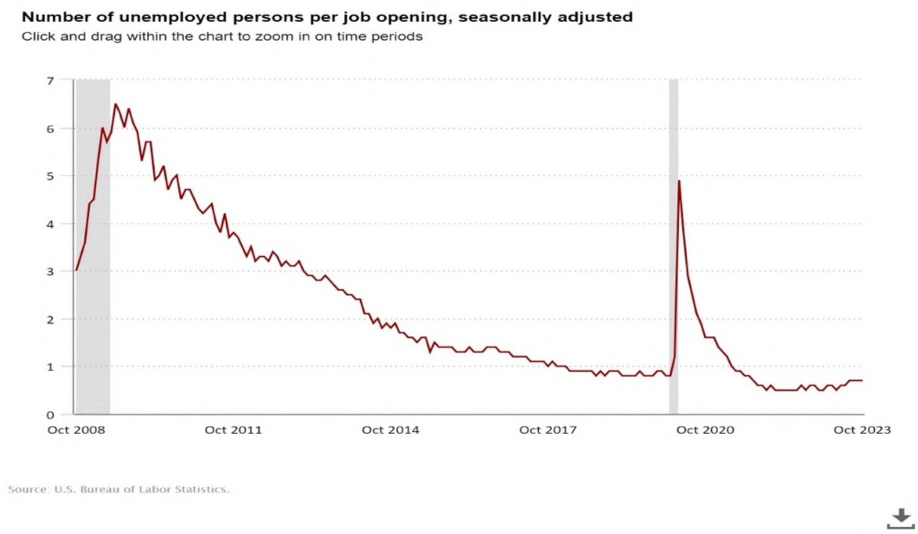
Inflation

- Median one-year ahead inflation expectations declined by 0.2 percentage point in November to 3.4%. This is the lowest reading since April 2021. Median inflation expectations at the three- and five-year ahead horizons remained unchanged at 3.0% and 2.7%, respectively.
- Median inflation uncertainty (the uncertainty expressed regarding future inflation outcomes) declined at the one-year ahead horizon, increased slightly at the three-year ahead horizon, and remained unchanged at the five-year ahead horizon.
- Median home price growth expectations were unchanged for the second consecutive month at 3.0%. The series has remained within a narrow range of 2.8% to 3.1% since June 2023.
- Median year-ahead expected price changes decreased by 0.5 percentage point for gas to 4.5%, 0.2 percentage point for the cost of a college education to 5.8% (the lowest reading since January 2021), 1.1 percentage points for rent to 8.0% (the lowest reading since January 2021), and 0.3 percentage point for food to 5.3%, while it remained flat for medical care at 9.1%.

Labour Market Trends

According to the US Bureau of Statistics, total nonfarm payroll employment increased by 199,000 in November2023, and the unemployment rate edged down to 3.7 percent.[5] Job gains occurred in health care and government. Employment also increased in manufacturing, reflecting the return of workers from a strike. Employment in retail trade declined. This upturn, however, still reflects a cooling labor market, with yearly average job gains decreasing from 238,800. Wage growth is predicted to moderate to a 0.3% monthly increase, potentially reducing the annual rise to 4.0%. U.S. net non-farm payrolls (NFP) increased by a modest 150,000 in Oct'23 (lower than consensus of 180,000), down sharply from the increase of 297,000 in Sep'23 (which itself was downwardly revised from the previously reported increase of 336,000). The unemployment rate has also edged up to 3.9% in Oct'23 (the highest since Jan'22).

Chart 3: Number of Unemployed Persons (UPs)/Job Opening



[5] US Bureau of Labour Statistics(November 2023), https://www.bls.gov/news.release/pdf/empsit.pdf

Source: Job Openings and Labor Turnover Survey (JOLTS), US Bureau of Statistics.

The Fed's SCE labour market survey has highlighted:

- The proportion of individuals who reported searching for a job in the past four weeks increased to 23.1 percent from 19.4 percent in July. The increase was most pronounced for women.
- The average full-time offer wage received in the past four months increased sharply to $79,160 from $69,475 in July, marking the highest reading of the series since its start in November 2014.
- The expected likelihood of moving to a new employer increased to 12.3 percent from 10.6 percent in July. The expected likelihood of moving out of the labor force rose to 3.5 percent, the highest reading of the series since its start in November 2014; this increase was most pronounced for respondents with annual household incomes below $60,000.
- The average reservation wage—the lowest wage respondents would be willing to accept for a new job—declined to $73,391 in November from $78,645 in July.

Household Finance

- Median expected growth in household income was unchanged at 3.1% in November, remaining above the series' pre-pandemic level of 2.7% in February 2020.
- Median household spending growth expectations declined by 0.1 percentage point to 5.2% in November. Consumers were more optimistic about future credit access with a decreased share of respondents expecting tighter credit conditions a year from now.
- The average perceived probability of missing a minimum debt payment over the next three months decreased by 0.2 percentage point to 11.8% in November, a level comparable to those prevailing just before the pandemic.
- Median year-ahead expected growth in government debt increased to 10% in November from 9.8% in October.
- Perceptions about households' current financial situation were mostly unchanged compared to last month. In contrast, consumers were more optimistic about their year-ahead financial situation with a smaller share expecting to be worse off.

Another important topic for the financial markets in 2024 will be the election of the US president. It will take place on 5th November 2024, as will the complete re-election of the House of Representatives and the election of 33 of the 100 senators. While the Democratic Party is supporting incumbent President Joe Biden as its candidate, the Republican Party will hold its primaries between January and June. Provided there are no legal obstacles due to ongoing court cases, former US President Donald Trump is likely to become the Republican Party's candidate. The Colorado Supreme Court ruled Trump to be ineligible for public office because of the insurrection by his supporters on Jan. 6, 2021.

The congressional elections are also subject to a high degree of uncertainty. They are likely to be crucial in terms of how much of the new president's agenda can be implemented. The Democrats currently have a majority of 51 to 49 votes in the Senate, while the Republicans narrowly control the House of Representatives. Recent opinion polls suggest that a split in Congress is very likely, with the Senate falling to the Republicans and the House of Representatives to the Democrats.

Market Trends in November 2023:

- The US economy added more jobs than expected in November and the jobless rate fell to 3.7%. This data suggests that the US economy is still relatively strong and that the Federal Reserve may not need to raise interest rates as aggressively as previously thought.
- The University of Michigan's consumer sentiment index rose to 69.4 in December, the highest level since August. This suggests that US consumers are becoming more optimistic about the economy and that they may be more likely to spend money.
- The yield on the US 10-year Treasury note fell below 3.85% on expectation of a looming Fed rate cut. US GDP grew by 4.9% in Q3 which was a notable increase from 2.1% in the previous quarter.

US growing debt trends:

According to the US fiscal treasury data, over the past 100 years, the U.S. federal debt has increased from $404 billion(B) in 1923 to $33.17 trillion(T) in 2023.[6] As DBS Insights (First Quarter 2024) put it "Adding to the proverbial wall of worries are rising concerns on US indebtedness and its untenable fiscal situation. Years of fiscal largesse, coupled with rapid rate hikes, have put the US in an unenviable position of servicing a mountain of debt. According to the Congressional Budget Office, federal debt as percentage of GDP will hit 98% this year and this is not far from the post-WWII peak of 106% in 1946."[7]

The U.S. debt to GDP ratio surpassed 100% in 2013 when both debt and GDP were approximately 16.7 trillion. When adjusted for inflation, the U.S. federal debt has steadily increased since 2001. Without adjusting for inflation, the U.S. federal debt has steadily increased since 1957. Another way to view the federal debt over time is to look at the ratio of federal debt related to GDP. This ratio has generally increased since 1981. Further, in the US, many pandemic-related tax moratoriums, such as student loan repayments, endured for much of 2023, coupled with the introduction of multi-year, multi trillion-dollar stimulus programmes in the form of the CHIPS and Science Act, the JOBS Act and the Inflation Reduction Act.[8]

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[6] See, https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/#:~:text=The%20inflation%20data%20is%20sourced%20from%20the%20Bureau%20of%20Labor%20Statistics.&text=Over%20the%20past%20100%20years,to%20%2433.17%20T%20in%202023.Last accessed on 20th December 2023.

[7] DBS CIO Insights First Quarter 2024.

[8] EMEA JP Morgan Insights.

Japan's Monetary Policy remains same, highlighting heightened uncertainty:

The Bank of Japan decided unanimously on 19th Dec23 that it would keep interest rates at-0.1%, while also sticking to its yield curve policy that references the 1% upper bound for 10-year Japanese government bonds (JGB) as its limit in line with their quantitative and qualitative monetary easing (QQE). The monetary policy of Japan has provided major thrust on maintaining 2% inflation target with price stability. The yen shows downward trend, whereas Nikkei gained. As reported by the CNBCTV, the cost of hedging stands at 33% or 200 pips, its highest level, since BOJ's July'23 meeting.[9] The forthcoming wage increase would push up inflation further, as some labour unions would demand higher wages. BOJ's MP states " underlying CPI inflation is likely to increase gradually toward achieving the price stability target, as the output gap turns positive and as medium- to long-term inflation expectations and wage growth rise." It seems, the BOJ is more concerned about the financial market stability, and in its wait-and-watch mode; they would gradually modify the YCC policy only after a discussion with labour unions to understand the future path of the wage-price spiral.

Eurozone Outlook remains mixed, with certain recession fears:

The European Central Bank (ECB) will continue its restrictive monetary policy (at least in the first half of the year), as the ECB council has highlighted the lagged impact of the policy rate change on economic activity. ECB's bank lending survey in Oct 2023 denoted further tightening in credit standards across all loan categories, and deceleration has been observed in demand for loans by non-financial corporations' -0.9% in 3Q23 (4.4% in 1Q) and households 0.3% (vs 3% in 1Q).[10] Fiscal policy is also likely to be restrictive compared to previous years, which will weigh on consumption. Fiscal policy has become quite restraining in the Eurozone, with the budget deficit for the Euro area member countries averaging 3% in 2024 and 2025 while in the US, the budget deficit is expected to reach 6% of GDP over the same period. Inflation in the Eurozone has weakened further in all price categories in recent months. Prices for services are also moving in the right direction, although they will remain more stubborn due to wage increases in this sector. The Italian government 2024 Budget is going through the Parliament, whereas the Italian yields show signs of stress relative to European corporates and German Bund yields. (bps). Recently Moody's has upgraded the outlook from negative to stable, nevertheless the potential fiscal threat is not completely wiped out.

[9] https://www.cnbctv18.com/market/currency/yen-overnight-volatility-jumps-to-the-highest-level-since-july-bank-of-japan-meet-boj-18596411.htm

[10] DBS CIO Insights First Quarter 2024.

China:

In China, the market expectation about GDP growth is that it would slow to 4.5% in 2024 and 4.3% in 2025, after around 5.2% growth this year.[11] The economic recovery following the lifting of all pandemic-related restrictions has been significantly less energetic than many expected. Consumer confidence has declined to its lowest level since 1991, which is putting pressure on consumption and is expected to continue into 2024. Around 70% of Chinese households' assets are tied up in property, meaning that falling property values affecting wealth. Increasing regulation in the areas of property, education and technology is also weighing on consumer confidence, coupled with high youth unemployment rate, the economic downturn is hitting the younger generation, who have a high propensity to consume. Major fiscal stimulus measures by the government to strengthen growth are currently not in sight.

In addition, China is busy reducing the enormous overcapacity in the property sector, meaning that major rescue packages are unlikely, even if the government continues to ease liquidity conditions for property developers to reduce potential contagion risks.[12] Finally, the current crisis of confidence is partly due to other structural factors – such as a poorly developed social safety net and pension system – which need to be improved through structural reforms.

Recession risk does not leave UK, despite softening of Inflation:

In UK, the inflation declined to 3.9 per cent in November2023, from 4.6 per cent in the previous month. Food and fuel prices have shown softening trends, that pull overall inflation down. Nevertheless, the recession fear is not completely wiped out. According to the Office of National Statistics of the UK, monthly real gross domestic product (GDP) is estimated to have grown by 0.2% in September 2023, following growth of 0.1% in August 2023, revised down from growth of 0.2% from the last reading. Looking at the broader picture, GDP showed no growth in the three months to September 2023. UK is facing subdued consumer optimism with mounting insolvencies, stalling retail sales and a warning of slowing demand that leaves the UK's near-term outlook with a slow growth. The Bank of England (BOE) has highlighted that the UK interest rates would require to stay high for an extended period. The BOE kept its rate at 5.25 per cent with a 6-3 voting.

[11] ING, other industry market forecasts.
[12] Moody's Investors Service cut its outlook for Chinese sovereign bonds to negative, underscoring deepening global concerns about the level of debt in the world's second-largest economy.

Indian Economic Developments:

The Reserve Bank of India (RBI) has raised its growth forecast for the current fiscal year to 7%, up from the previous 6.5%, after witnessing stronger-than-expected economic performance in the July-September quarter. This optimistic revision reflects the resilience and momentum of the Indian economy. Despite this growth outlook, the central bank remains vigilant over inflation risks, maintaining the repo rate at 6.50% for the fifth consecutive meeting. The RBI's monetary policy committee (MPC) continues its stance of "withdrawal of accommodation," focusing on aligning inflation with its target while supporting economic growth.

According to the IMF: STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION(3 November 2023), India remains among the fastest growing economies in the world, with GDP growth reached 7.2 percent in FY2022/23, moderating from 9.1 percent in FY2021/22. Growth has been supported by robust consumption stemming from pent-up demand of households and strong investment, with historically high levels of public capital expenditure. While being on the conservative side, the baseline potential real GDP growth estimate for India has been revised upwards from 6% to 6.3% for FY 2023-24 and 2024-25. Risks to the growth outlook are balanced, with upside risks from stronger than expected consumer demand and private investment.

India's GDP growth trends:

India's Real GDP or GDP at Constant (2011-12) Prices in Q2 2023-24 is estimated to attain a level of ₹41.74 lakh crore, as against ₹38.78 lakh crore in Q2 2022-23, showing a growth of 7.6 percent as compared to 6.2 percent in Q2 2022-23. The unexpected pick up in the GDP growth is pulled up mostly by the mining, manufacturing, and construction activities. Despite favourable base effects, it is also worth highlighting that the capex by the government has been picking up which is getting reflected after a lag impact. This has been reflected in improved Gross Fixed Capital Formation (GFCF).

Table 1: India's Gross Value Added (GVA) 2022-23 and 2023-24 (%)

Industry	GVA at Basic Price									
	2021-22		2022-23		2023-24		Percentage Change Over Previous Year			
							2022-23		2023-24	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
1. Agriculture, Livestock, Forestry & Fishing	4,84,982	4,19,687	4,96,547	4,30,119	5,13,946	4,35,371	2.4	2.5	3.5	1.2
2. Mining & Quarrying	75,606	64,853	82,809	64,773	87,587	71,229	9.5	-0.1	5.8	10.0
3. Manufacturing	6,00,990	6,53,141	6,37,520	6,28,098	6,67,770	7,15,465	6.1	-3.8	4.7	13.9
4. Electricity, Gas, Water Supply & Other Utility Services	78,422	82,533	90,134	87,449	92,704	96,249	14.9	6.0	2.9	10.1
5. Construction	2,38,390	2,54,755	2,76,648	2,69,185	2,98,393	3,04,938	16.0	5.7	7.9	13.3
6. Trade, Hotels, Transport, Communication & Services related to Broadcasting	4,73,100	5,87,179	5,94,803	6,78,928	6,49,560	7,07,881	25.7	15.6	9.2	4.3
7. Financial, Real Estate & Professional Services	8,12,166	8,71,337	8,81,599	9,32,864	9,89,293	9,88,993	8.5	7.1	12.2	6.0
8. Public Administration, Defence & Other Services*	3,62,621	4,47,829	4,39,780	4,72,847	4,74,678	5,08,574	21.3	5.6	7.9	7.6
GVA at Basic Prices	31,26,277	33,81,314	34,99,841	35,64,263	37,73,932	38,28,698	11.9	5.4	7.8	7.4
Net Taxes	1,84,773	2,70,345	2,44,445	3,13,738	2,63,212	3,45,613	32.3	16.1	7.7	10.2
GDP@	33,11,050	36,51,659	37,44,285	38,78,000	40,37,144	41,74,312	13.1	6.2	7.8	7.6

Source: MOSPI.

However, despite the robust GDP number for Q2FY24, the growth seems to be a bit unbalanced as rural sector growth remains subdued, which is also reflected in the struggle of many FMCG players in finding the desired pace of product's growth. Uneven monsoons and moderated kharif production have also weighed adversely for the agricultural sector. Rabi sowing and reservoir levels would be crucial for the growth of the agricultural sector. Private final consumption expenditure (PFCE) and services sector growth also remain moderated, which has been faced the heat of the continued policy rate hike by the central bank to curb the elevated inflation. It may be noted that the annual financial liabilities of households have increased sharply by 5.8% of GDP in FY23, compared to 3.8% in FY22, which indicates that private household consumption is majorly being undertaken through borrowed funds.

The surge in real GDP growth in India in Q2FY24 is largely driven by construction and manufacturing activities that shows the push by the Indian government on infrastructure is showing certain results.

Despite certain sectors lagging, it is encouraging to note that India has outperformed many other countries regarding the growth. For instance, a comparison with other countries have shown that in the end of the September'23 quarter, the real GDP growth of US remains at only 2.8 per cent, which is the highest among the developed countries. China and Japan have seen 4.9 per cent and 1.2 per cent growth respectively. According to the IMF's Oct'23 growth projections, India will be the fastest growing economy, with a projected growth of 6.3% in 2023 and 2024.

Tax Collection Trends:

The net direct tax collection has increased 21 per cent to over ₹13.70 lakh crore during April-Dec'23 period as against ₹11.36 lakh crore last year. Corporate Income tax (CIT) is collected at ₹6.95 lakh crore and personal income tax (PIT) including securities transaction tax (STT) at ₹6.73 lakh crore.

Table 2: Tax and Non-Tax Collection Trends (2022-23 and 2023-24) [₹ Crore]

	2023-24	2023-24	2022-23	%to BE	
Item	BE#	(Actuals)	(Actuals)	2023-24	2022-23
1. Revenue Receipts	2632281	1567722	1349882	59.6	61.2
1.1 Tax Revenue (Net)	2330631	1301957	1171103	55.9	60.5
1.2 Non-Tax Revenue	301650	265765	178779	88.1	66.3

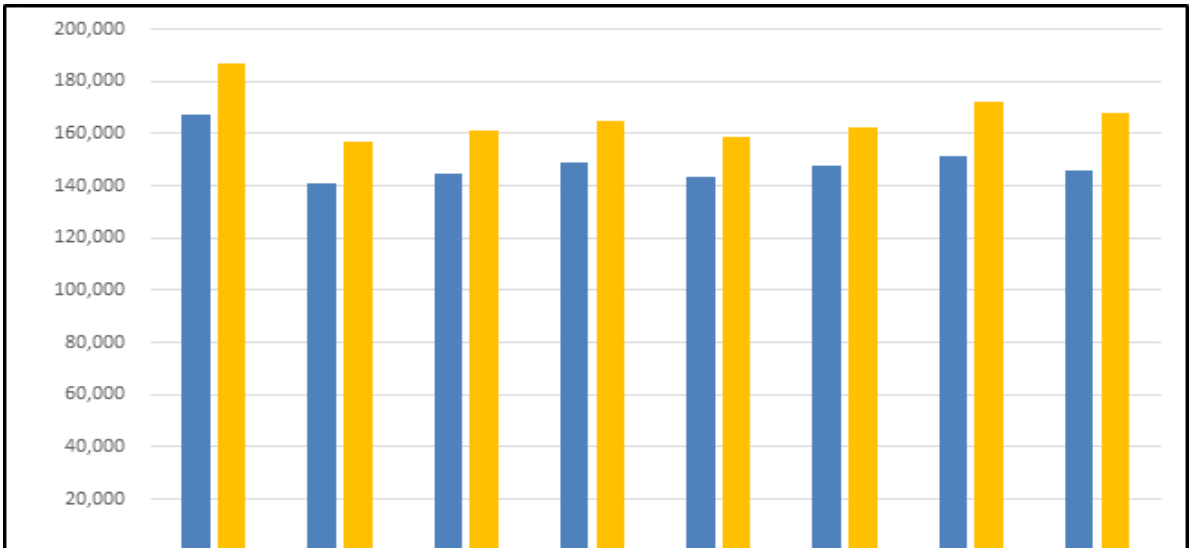
Source: CGA, RBI Bulletin.

#Budget Estimates.

India's goods and services tax (GST) collections rose 15% in November to ₹ 1.68 lakh crore, driven by festive demand and improved compliance. The gross GST revenue collected in the month of November, 2023 is ₹1,67,929 crore out of which CGST is ₹30,420 crore, SGST is ₹38,226 crore, IGST is ₹87,009 crore (including ₹39,198 crore collected on import of goods) and cess is ₹12,274 crore (including ₹1,036 crore collected on import of goods). The government has settled ₹37,878 crore to CGST and ₹31,557 crore to SGST from IGST. The total revenue of Centre and the States in the month of November, 2023 after regular settlement is ₹68,297 crore for CGST and ₹69,783 crore for the SGST.

The revenues for the month of November, 2023 are 15% higher than the GST revenues in the same month last year and highest for any month year-on-year during 2023-24, upto November 2023. During the month, the revenues from domestic transactions (including import of services) are 20% higher than the revenues from these sources during the same month last year. It is for the sixth time that the gross GST collection has crossed ₹1.60 lakh crore mark in FY 2023-24. The gross GST collection for the FY 2023-24 ending November, 2023 [₹13,32,440 crore, averaging ₹1.66 lakh per month] is 11.9 % higher than the gross GST collection for the FY 2022-23 ending November, 2022 [₹11,90,920 crore, averaging ₹1.49 lakh crore per month].

Chart 4: Gross GST Collection (₹ Crore)



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
2022-23	167,540	140,885	144,616	148,995	143,612	147,686	151,718	145,867
2023-24	187,035	157,090	161,497	165,105	159,068	162,712	172,003	167,929

Source: Ministry of Finance, GoI.

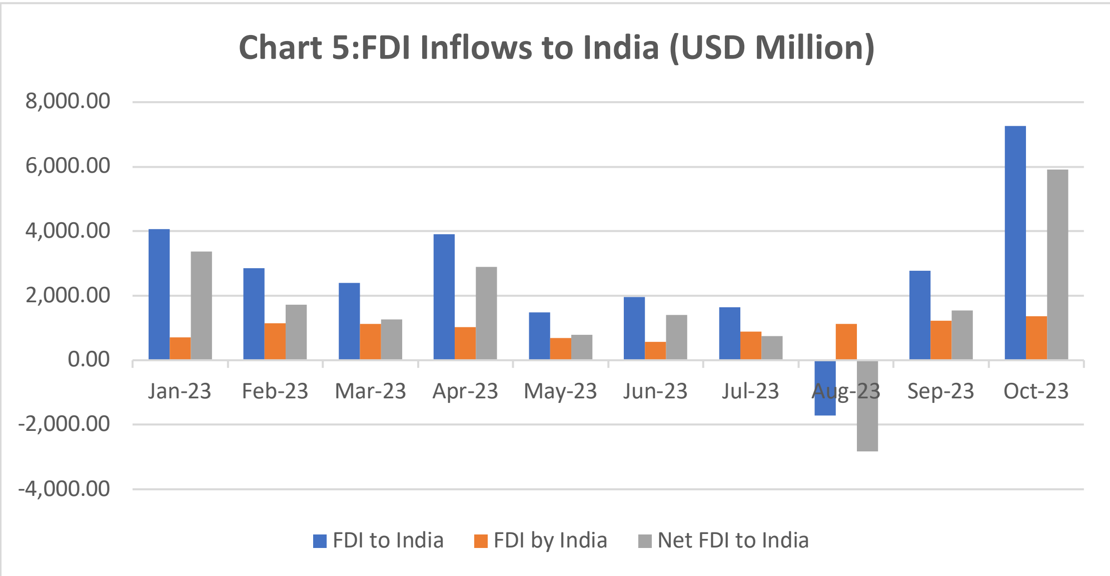
Growth in India's dominant services sector continues to lose steam marked by the headline Purchasing Managers' Index (PMI) figure falling for the second consecutive month in November to its lowest levels in a year.

FDI Trends:

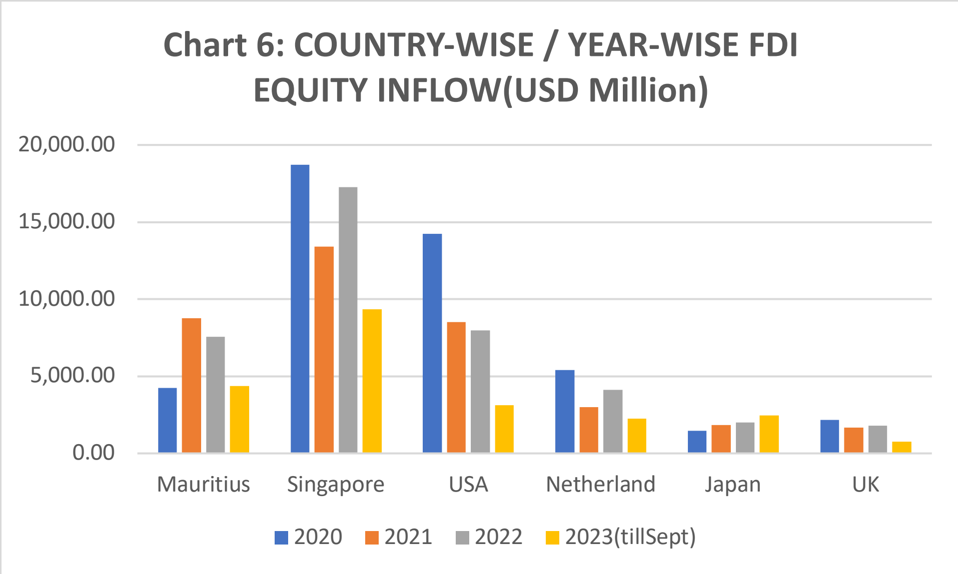
The government has received foreign direct investment (FDI) proposals worth about ₹1 lakh crore since April 2020 from countries sharing land border with India and half of those applications have been cleared so far. India's gross foreign direct investment (FDI) inflows dropped almost 16% in the first six months of FY24 from a year before to $33.12 billion, the second straight fall in the first half of a fiscal.

The information and broadcasting (I&B) sector has attracted foreign direct investment (FDI) worth ₹ 6,058 crore in the first half of FY24, surpassing the previous fiscal's FDI inflow of ₹3,745 crore. Due to the continuing face-off on the Sino-Indian border since April 2020, there has been an intensified screening of foreign direct investment (FDI) proposals from countries sharing land borders with India.

Foreign direct investment (FDI) into India from Cayman Islands and Cyprus contracted significantly during April-September this fiscal as the overall inflows declined by 24 per cent. However, according to the RBI's Dec'23 bulletin, foreign direct investment (FDI) at US$ 5.9 billion rose to a 21-month high in Oct'23, primarily due to strong gross inflows and lower repatriation. Around four-fifths of the gross inward FDI equity flows were received in manufacturing, retail and wholesale trade, electricity and other energy sector, and financial services sector. The major source countries were Mauritius, Singapore, Cyprus and Japan, contributing more than four-fifths of the total FDI inflows in October 2023. During 2023- 24 so far (April-October), net FDI moderated to US$ 10.4 billion from US$ 20.8 billion a year ago. Amidst global de-risking efforts, emerging economies like India remain attractive investment destinations.



Source: CMIE, RBI Bulletin, Infomerics Research.



Source: DPIIT, Infomerics Research.

According to the World Banks' latest Migration and Development Brief, in the South Asian region, remittance flows to India experienced notable growth. India retains its position as the largest recipient of remittances with an estimated $125 billion in 2023. The top five remittance recipient countries in 2023 are India ($125 billion), Mexico ($67 billion), China ($50 billion), the Philippines ($40 billion) and Egypt ($24 billion). However, there is a decline in the outward remittances under the Liberalised Remittance Scheme (LRS) to USD 2176.98 million in Oct'23 compared to USD 3492.91 million in Sept'23.

Table 3: Outward Remittances under the Liberalised Remittance Scheme (LRS) for Resident Individuals (USD Million)

Item	2022-23	2022	2023		
		Oct.	Aug.	Sep.	Oct.
1 Outward Remittances under the LRS	27140.65	1924.09	3379.54	3492.91	2176.98
1.1 Deposit	1011.07	64.28	60.74	118.56	26.28
1.2 Purchase of immovable property	188.73	15.28	16.29	29.13	11.02
1.3 Investment in equity/debt	1256.15	111.41	94.08	208.45	83.86
1.4 Gift	3005.27	208.11	268.89	383.70	184.79
1.5 Donations	12.78	1.68	0.63	0.91	0.96
1.6 Travel	13662.15	973.50	2039.72	1765.07	1368.98
1.7 Maintenance of close relatives	4174.06	280.67	378.41	559.79	206.16
1.8 Medical Treatment	55.74	4.02	4.41	4.85	8.53
1.9 Studies Abroad	3427.81	217.87	483.29	396.08	269.19
1.10 Others	346.89	47.27	33.10	26.37	17.22

Source: RBI.

Foreign Portfolio Investment (FPI) Trends:

FPIs turned net buyers in Indian capital markets in November 2023 after two months. Net FPI inflows were to the tune of US$ 3.9 billion in November'23. Net inflows in the equity segment stood at US$ 2.3 billion in November, comparable to other emerging market peers. Sovereign bond, consumer services and capital goods attracted the highest investments during the month. The debt segment has attracted inflows throughout the current financial year, reaching the highest monthly level in November 2023 since September 2021. This is supported by the announcement of the inclusion of Indian government bonds in the Global Bond Index-Emerging Markets (GBI-EM) index next year. FPIs invested US$ 6.7 billion in domestic markets in December 2023 (up to December 15).

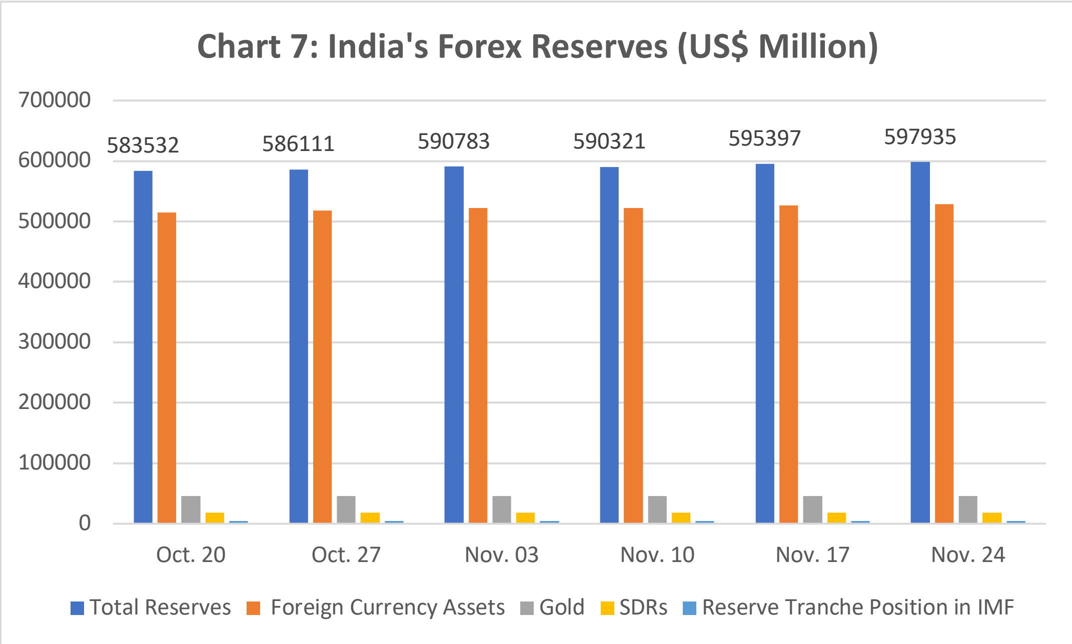
Table 4: Monthly FPI Investments (₹ Crores)

	Monthly FPI Net Investments (Calendar Year - 2023)				
Calendar Year	₹ Crores				
	Equity	Debt	Debt-VRR	Hybrid	Total
January	-28852	3531	-1076	-146	-26544
February	-5294	2436	-1044	-237	-4139
March	7936	-2505	-727	1195	5899
April	11631	806	1235	-126	13545
May	43838	3276	1514	-298	48330
June	47148	9178	-242	173	56258
July	46618	3726	-2227	-140	47977
August	12262	7733	-2933	1276	18338
September	-14768	938	54	-36	-13810
October	-24548	6382	406	-115	-17875
November	9001	14860	737	-52	24546
December **	58624	15092	72	4257	78045
Total - 2023	163596	65453	-4231	5751	230570
** up to 21 Dec 2023					

Source: NSDL.

Forex Reserves:

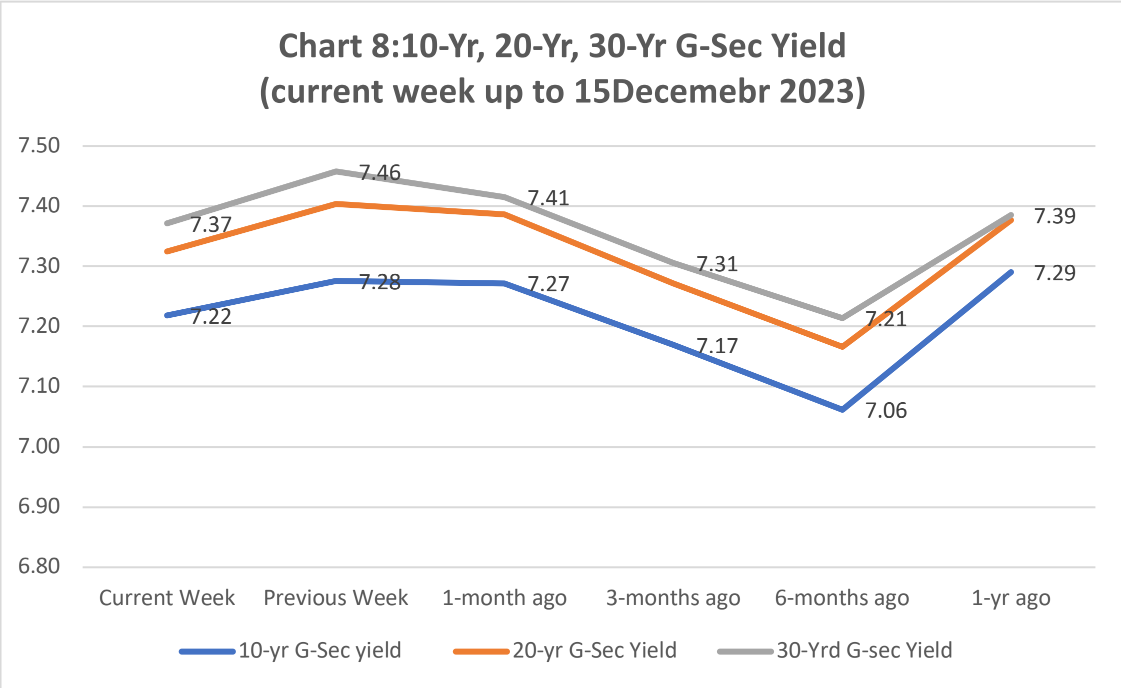
The foreign exchange reserves stood at US$ 606.9 billion on December 8, 2023 covering 10.4 months of imports projected for 2023-24 and 96 per cent of total external debt outstanding at end-June 2023. India's foreign exchange reserves were the fourth highest among major foreign exchange reserves holding countries, having increased by US$ 28.4 billion during 2023-24 so far. In this context, it can be highlighted that, IMF in its annual review re-classified India's foreign exchange policy from floating to stabilized arrangement, on account of excessive intervention from Dec'22 to Oct'23, in view of the RBI's continuous dollar purchases, despite weak Indian currency (Rupee).While a primary objective is to stabilise domestic currency amid heightened uncertainty, another might be to cautiously build-up forex buffers amid volatile world situations.



Source: RBI.

G-Sec Yield Trends:

Softening US treasury yields and buying support from foreign portfolio investors (FPIs) kept G-sec yields largely range bound. The yield on the 10-year G-sec benchmark was at 7.16 per cent on December 15 as compared with 7.22 per cent on November 15. The average term spread in the G-sec market (10-year minus 91-day treasury Bills) during November 16 to December 15 at 30 bps remained moderate, reflecting stable domestic financial conditions.



Source: CCIL, Infomerics Research.

Bank Credit:

Bank loans to non-banking finance companies (NBFCs) increased 22.1 per cent year-on-year in October, and their exposure to the sector was Rs 14.8 trillion in October 2023. The impending festive season in India, particularly in December, has significantly stimulated the demand for bank credit during the second quarter of FY24. As of December 1, 2023, the outstanding credit reached ₹158,297,690 million, reflecting a substantial year-on-year growth of 20.78 per cent from ₹131,062,440 million in the same period last year. This surge is striking, potentially driven by increased consumer spending, and borrowing habits during the festive season.

Specifically, outstanding credit disbursed by scheduled commercial banks (SCBs) witnessed a significant increase of ₹2.4 trillion in December 2023, surpassing the average monthly increase of ₹1.5 trillion observed during April-September 2023. The recent upward trend can be attributed to a temporary spike in credit, particularly for retail loans, aligning with the festive season dynamics (see Table 5).

Table 5: SCBs Credit, Food, Non-food (₹ million)

Month	Total	Food credit	Non-food credit
Sep-22	130,324,730	191,670	130,133,060
Oct-22	128,646,950	319,980	128,326,970
Nov-22	130,022,650	546,570	129,476,080
Dec-22	133,068,530	539,720	132,528,810
Jan-23	133,375,360	501,650	132,873,710
Feb-23	134,502,690	352,760	134,149,930
Mar-23	136,752,350	199,060	136,553,290
Apr-23	138,792,840	276,690	138,516,150
May-23	139,024,500	335,710	138,688,790
Jun-23	143,837,180	279,060	143,558,120
Jul-23	147,871,230	208,360	147,662,870
Aug-23	149,173,120	193,550	148,979,570
Sep-23	153,236,600	186,870	153,049,730
Oct-23	154,390,942	198,410	154,192,532
Nov*-23	156,208,071	402,606	150,402,088
Dec**-23	158,297,690	416,930	157,880,760

*As on November 17, 2023. **As on December 1, 2023.
Source: CMIE | RBI | Infomerics Economic Research

Going forward, in October 2023, scheduled commercial banks (SCBs) sustained a robust growth of 15.3 per cent in outstanding non-food credit. Non-banking financial Companies (NBFCs) displayed an assertive borrowing trend from SCBs, with a notable 22.1 per cent increase in loans, as they engage in the business of loans and advances. SCBs also experienced strong growth, approximately 20 per cent, in credit extended to various services like transport, trade, and professional services.

Personal loans in SCBs expanded by 18 per cent, while housing loans increased by 14.5 per cent. SCB credit to agriculture and allied activities recorded a significant 17.5 per cent uptick. Despite minimal industrial credit growth at 5.4 per cent in October 2023, overall non-food credit has remained elevated, exceeding 15 per cent for over a year, despite rising interest rates.

Table 6: Outstanding Credit of SCBs (Y-o-Y % Change)

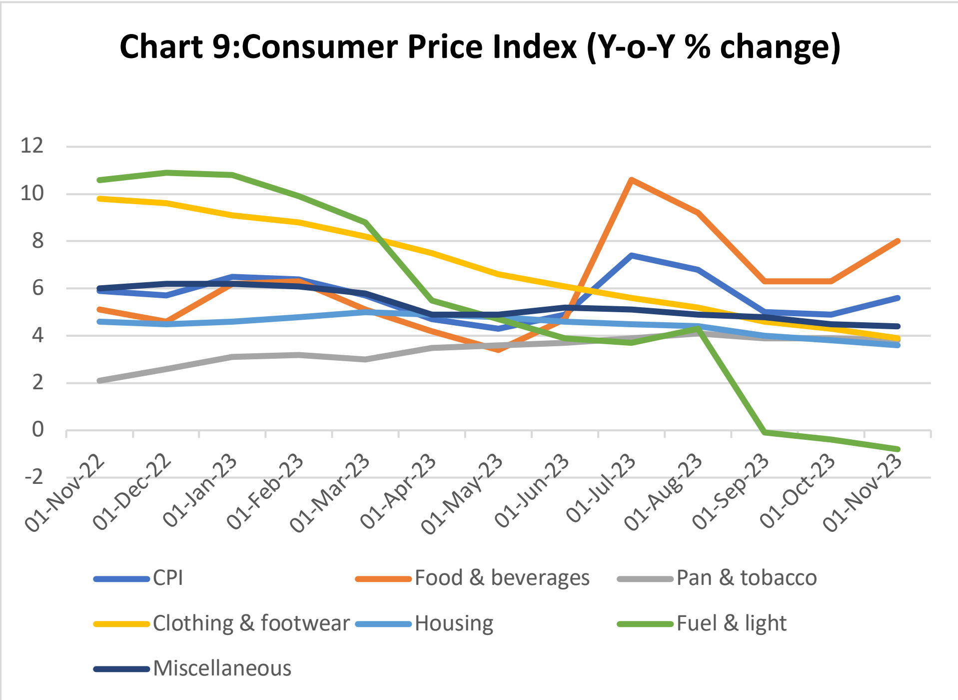
	23-May	23-Jun	23-Jul	23-Aug	23-Sep	23-Oct
Non-food credit excl. HDFC merger					15.3	15.3
Non-food credit	15.6	16.4	19.8	19.9	20	19.8
Agriculture	16	19.7	16.9	16.6	16.8	17.5
Industry excl. HDFC merger					6.5	5.4
Industry	6	8.1	5.8	6.7	7.1	5.9
Micro & small	9.5	13	10.2	10.7	10.1	16.9
Medium	18.9	13.2	9.7	9.8	9.8	12.1
Large	3.9	6.4	4.3	5.4	6.1	2.8
Services excl. HDFC merger					21.3	20.1
Services	21.4	26.7	23.1	24.7	25.1	23.6
Transport operators	19.1	23.7	20.8	22	21.6	22.7
Computer software	11.9	16.2	5.2	12.7	8.6	0.8
Tourism, hotels & restaurants	3.6	6.9	9	12	11.1	11.7
Professional services	13.9	21	19.9	20.8	22.2	19.6
Shipping	-18.3	-16.4	-21.6	-21.1	-21.7	-11.1
Aviation	41.3	93.4	78.4	70.8	69.4	66.8
Trade	17.5	17.3	17.1	14.2	16.2	18.9
Wholesale trade	13.4	11.8	14.9	5.6	11.1	17.9
Retail trade	21.8	23.3	19.3	23.6	21.4	19.9
Commercial real estate excl. HDFC merger					14.8	14.0
Commercial real estate	6.6	11.3	38.1	38.5	37.8	35.6
NBFC	27.6	35.1	23.6	25.8	26.3	22.1
HFCs	7.2	13.9	1.7	3	-0.2	2.0
PFIs	33	49	25.8	28.6	34.9	20.1
Personal loans excl. HDFC merger					18.2	18.0
Personal loans	19.2	20.9	31.7	30.8	30.4	29.7
Housing excl. HDFC merger					13.8	14.5
Housing	14.6	15	37.4	37.7	37.3	36.9
Advances against FDs	35.4	46.4	24.2	19.9	17.9	16.5
Advances against shares & bonds	9.8	5.9	3.8	4.2	4.4	-4.9
Credit card outstanding	29.9	36	31.2	30	29.9	28
Education	18.3	19.4	19.9	20.2	20.8	20.6
Vehicle loans	22.2	22.9	21.2	20.6	21.2	20
Loans against gold jewellery	22.1	26	23.1	22.1	20.1	17.3
Consumer durables	14.2	17.2	11.7	11.1	10.9	7.7
Other personal loans	23.2	26.1	29	26	25.5	24.9

Source: CMIE | RBI | Infomerics Economic Research

Inflation

CPI Trend:

Retail price inflation rebounded in November 2023, marking the end of a three-month decline, and increased to 5.6 per cent from October's 4.9 per cent. The rise in inflation was primarily concentrated in the food group, with food & beverages experiencing a surge. The vegetable prices soared to 17.7 per cent, and fruits inched up to nearly 11 per cent. Pulses and sugar also saw slight increases, while cereals and spices exhibited declines. Fuel & light prices remained in deflationary territory for the third consecutive month. Core inflation approached the RBI's medium-term target of 4 per cent, easing to a 44-month low of 4.1 per cent, with all three sub-groups: clothing & footwear, housing, and miscellaneous items; reporting a decline. (see Chart 9).



Source: CMIE, MOSPI, Infomerics Research.

WPI Trend:

Wholesale price inflation, as indicated by the WPI, entered positive territory in November 2023, registering a year-on-year increase of 0.26 per cent. This marks a reversal from the deflationary trend of 0.5 per cent observed in October 2023, demonstrating the end of seven consecutive months of deflation. Within the WPI, the manufactured products group, carrying the highest weight, experienced a milder deflation of 0.6 per cent in November 2023, an improvement from the 1.1 per cent deflation recorded in October 2023 while the inflation in primary articles surged to 4.8 per cent in November 2023, up from 1.8 percent in October 2023. On the contrary, the deflation in fuel & power increased to 4.6 per cent in November 2023, compared to 2.5 per cent in October 2023[13].

[13] https://pib.gov.in/PressReleasePage.aspx?PRID=1986133

Table 7: All India Wholesale Price Indices and Rates of Inflation (Base Year: 2011-12=100) for November 2023

Commodities/Major Groups/Groups/Sub-Groups/Items	Weight	Index	Latest month over month		Cumulative Inflation (YoY)		Rate of Inflation (YoY)	
		(Nov-23)*	Nov-22 over Oct-22	Nov-23 over Oct-23*	Apr-Nov 2022	Apr-Nov 2023*	22-Nov	Nov-23*
ALL COMMODITIES	100	152.9	-0.26	0.53	12.42	-1.34	6.12	0.26
PRIMARY ARTICLES	22.62	186.9	-1.55	1.3	13.71	2.85	5.94	4.76
FUEL & POWER	13.15	155.3	3.04	0.78	36.4	-6.4	19.71	-4.61
LPG	0.64	121.4	-5.51	3.94	21.82	-15.33	-13.4	5.57
Petrol	1.6	159.6	1.34	-1.36	45.58	-4.77	14.11	0.69
HSD	3.1	174.3	6.42	-0.74	64.43	-12.36	42.1	-13.07
MANUFACTURED PRODUCTS	64.23	140.4	-0.42	0.07	7.55	-2.01	3.44	-0.64

*Provisional
Source: PIB

The Index of Industrial Production (IIP) Trends:

In October 2023, industrial output, as measured by the Index of Industrial Production (IIP), experienced a substantial year-on-year growth of 11.7 per cent, surpassing the 6.2 per cent growth observed in the previous month and marking the highest recorded growth in the past 16 months. The mining sector saw a 13.1 per cent increase in output, while electricity generation witnessed a significant rise of 20.4 per cent. The manufacturing sector reported a robust growth of 10.4 per cent in production, with 19 out of the 23 sub-groups showing increased production. In terms of use-based classification, primary goods output increased by 11.4 per cent, intermediate goods by 9.7 per cent, capital goods by 22.6 per cent, and infrastructure/construction goods by 11.3 per cent. Within consumer goods, durables production rose by 11.3 per cent, and non-durables production increased by 8.6 per cent. The cumulative IIP for April-October 2023 exhibited a notable growth of 6.9 per cent, compared to the 5.3 per cent growth recorded during the same period in the previous year.

Table 8: Industrial Output Trends

Month	Mining (14.372472)		Manufacturing (77.63321)		Electricity (7.994318)		General (100.000)	
	2022-23	2023-24	2022-23	2023-24	2022-23	2023-24	2022-23	2023-24
Apr	116.6	122.6	131.6	138.8	194.5	192.3	134.5	140.7
May	120.4	128.1	134.6	143.1	199.9	201.6	137.8	145.6
Jun	113.7	122.3	136.8	141.6	196.9	205.2	138.3	143.9
Jul	101.1	111.9	135	142.1	188.9	204	134.4	142.7
Aug	99.6	111.9	131.3	143.5	191.3	220.5	131.5	145.1
Sep	100	111.5	134.6	141.2	187.4	205.9	133.8	142.1
Oct*	112.6	127.4	128.5	141.8	169.3	203.8	129.5	144.7
Average								
Apr-Oct	109.1	119.4	133.2	141.7	189.7	204.8	134.3	143.5
Growth over the corresponding period of previous year#								
Oct*	2.6	13.1	-5.8	10.4	1.2	20.4	-4.1	11.7
Apr-Oct	4	9.4	5	6.4	9.4	8	5.3	6.9

* Figures for Oct'23 are Quick Estimates. #The growth rates over corresponding period of previous year are to be interpreted considering the unusual circumstances on account of COVID 19 pandemic since March 2020

NOTE: Indices for the months of Jul'23 and Sep'23 incorporate updated production data.

USE-BASED CATEGORIES:

Primary goods: Primary goods rose to 11.36% in Oct'23 from 8.02% in Sep'23, and 2.1% recorded in Oct'22.

Capital goods: Capital goods output rose to 22.59% in Oct'23 from 8.37% in Sep'23, and-2.9% recorded in Oct'22.

Intermediate goods: Intermediate goods output rose to 9.74% in Oct'23 from 6.06% in Sep'23, and-2.31% recorded in Oct'22.

Infrastructure/construction goods: Infrastructure output rose to 11.33% in Oct'23 from 8.92% in Sep'23, and 1.69% recorded in Oct'22.

Consumer goods: The output of consumer durables and consumer non-durables growth stood at 15.93% and 8.6% respectively in Oct'23. The output in Sep'23 for both consumer durables and consumer non-durables were 1.13% and 2.95% respectively.

Source: CSO, CCIL (12 December 2023).

External Balance

In November 2023, India's merchandise trade deficit significantly improved, decreasing from US$ 29.9 billion in October'23 to US$ 20.6 billion. This was US$ 19.4 billion in September. The reduction in the trade deficit was driven by a 14.1 per cent month-on-month decrease in imports, totalling US$ 54.5 billion in November, while exports modestly increased by one percent to US$ 33.9 billion. The widened deficit in October was attributed to increased gold imports during the festive season. But, in November, gold imports saw a remarkable decline of 52.3 per cent, accounting for nearly half of the overall reduction in the trade deficit. This decline in gold imports can also be attributed to 3.8 per cent rise in gold prices compared to October. Apart from this, the silver imports have also been dropped by 63.3 per cent to 0.5 billion, leading to a 16.4 per cent decrease in non-POL imports to US$ 39.5 billion.

In November 2023, there was a 7.5 per cent decline in POL imports, amounting to US$ 14.9 billion, correlating with the 7.2 per cent drop in crude oil prices. This suggests a likely price-driven decrease. In contrast, POL exports experienced a substantial increase of 24.6 per cent, reaching US$ 7.5 billion, indicating a rise in the volume of POL exports during the same period.

On the contrary, non-POL exports contracted by 4.1 per cent month-on-month to US$ 26.4 billion in November 2023. This decline was primarily attributed to decreases in electronic goods, gems and jewellery, and drugs, pharmaceuticals & fine chemicals. However, there were notable increases in the exports of oil meals, iron ore, organic/inorganic/agro chemicals, plastic & linoleum products, and readymade garments. These positive trends in certain export categories led to a modest 1 per cent overall increase in total merchandise exports for November.

Table 9: India's Trade Balance in November 2023(USD billion)

	23-Sep	23-Oct	23-Nov	Apr-Nov 2022	Apr-Nov 2023
USD billion					
Trade balance	-19.4	-29.9	-20.6	-189.6	-166.5
Exports	34.5	33.5	33.9	297.7	278.8
Imports	53.8	63.5	54.5	487.3	445.3
Y-o-Y % change					
Total exports	-2.6	6.2	-2.8	12	-6.3
POL	-10.8	-4.6	-7.5	65.1	-15
Non-POL	-0.5	8.9	-1.5	2.7	-3.9
Total imports	-15	9.6	-4.3	27.8	-8.6
POL	-20.3	-1.1	-8.5	44.9	-18.3
Non-POL	-13	13.9	-2.7	22	-4.7
Gold & silver	-14	99.5	16.2	-8.3	9.6
Non-POL, non-gold & silver	-12.9	4	-4.4	26.3	-6.2

Source: CMIE | Infomerics Economic Research

Concluding Remarks:

The end of 2023 and beginning of the new year 2024 has brought some cheers that is reflected in a softening of the inflationary trends among leading developed economies. Decline in the inflation rate in US is strengthening the expectation of easing its monetary policy more quickly than expected. Nevertheless, in an increasingly uncertain world which is particularly being manifested in last couple of years, any 'black swan' event can spoil the rebound of the growth story.

An IMF paper[14] identifies over 100 inflation shock episodes in 56 countries since the 1970s, including over 60 episodes linked to the 1973–79 oil crises. It found that only in 60 percent of the episodes was inflation brought back down (or "resolved") within 5 years, and that even in these "successful" cases resolving inflation took, on average, over 3 years. Success rates were lower and resolution times longer for episodes induced by terms-of-trade shocks during the 1973–79 oil crises. Most unresolved episodes involved "premature celebrations", where inflation declined initially, only to plateau at an elevated level or re-accelerate. Further, 2024 is a big year for national elections, with 40 nations scheduled to go to the polls, including four of the world's five most populous countries. Taiwan's presidential elections will be the first to come into focus in January. The successful candidate's stance towards China will be the key element for investors to watch. India goes to the polls in April. European Union parliamentary elections will take place over the summer, ahead of the US presidential election that will take place in November. In the UK, an election should be called by 17 December 2024 at the latest.

One of the most globally challenging aspect is how and when the doldrums in China can be under control, and how the trajectory of the global geopolitics to be handled. Despite the emergence of the China plus one strategy, the repercussions effect cannot be lessened due to its substantial impact given its size and dominance on the global economy. Challenges also exist regarding the ever-increasing global debt. Amid such global volatility, India's macros remain prudent, however, global slowdown might impact emerging economies including India as well, the extent of the impact to be watched. For combating such global repercussion effects, continuing macro-prudential policies are inevitable.

[14] https://www.imf.org/en/Publications/WP/Issues/2023/09/13/One-Hundred-Inflation-Shocks-Seven-Stylized-Facts-539159)