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THE ECONOMIC PERISCOPE

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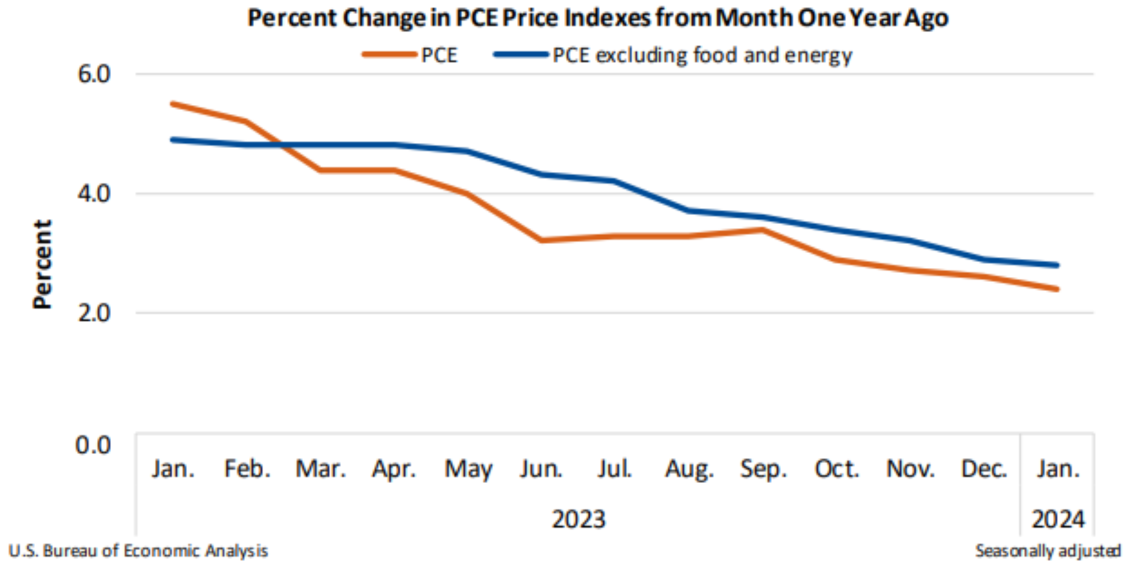
Global Economic Developments:

Real gross domestic product (GDP) of the US economy has increased at an annual rate of 3.2 percent in the fourth quarter of 2023, according to the "second" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 4.9 percent.[1]

Though the US CPI inflation remains bumpy, it indicates certain slowdown as the personal consumption expenditure (PCE) price index for January increased 2.4 percent, slower than Dec'23's print of 2.6 per cent. Prices for services increased 3.9 percent and prices for goods decreased 0.5 percent. Food prices increased 1.4 percent and energy prices decreased 4.9 percent.

[1] https://www.bea.gov/news/2024/gross-domestic-product-fourth-quarter-and-year-2023-second-estimate

Chart 1: Per cent Change (%) in the Personal Consumption Expenditure (PCE) Indexes in US



Source: US Bureau of Economic Analysis, https://www.bea.gov/news/blog/2024-02-29/personal-income-and-outlays-january-2024.

Despite the decline of US CPI to 3.1% in Jan-24 compared to 3.4% in Dec-23, it is below the consensus expectations of 2.9%. The recently published ISM services data for US has increased at 53.4 in Jan'24, compared to 50.5 in Dec'23. Despite core inflation softening, in a recent interview the Fed Chairman Jerome Powell said that there is a need to wait further to ensure the recent softness of the inflation is sustainable at attaining 2 per cent target inflation rate. The market expectation, therefore, has shifted from March'24 to May-June 2024 for the first rate cut, depending on the future inflation scenario.

According to the data release by the Fed (15 Feb 2024), industrial production declined 0.1 percent in January2024 after recording no change in December 2023. In Jan'24, manufacturing output declined 0.5 percent and mining output fell 2.3 percent; due to winter weather-related issues. The index for utilities jumped 6.0 percent, as demand for heating risen following a move from unusually mild temperatures in Dec'23 to unusually cold temperatures in Jan'24.[2]Capacity utilization for the industrial sector moved down 0.2 percentage point in January to 78.5 percent, a rate that is 1.1 percentage points below its long-run (1972–2023) average.[3]

According to the IMF January 2024 World Economic Outlook (WEO), global growth is projected at 3.1 percent in 2024 and 3.2 percent in 2025, with the 2024 forecast 0.2 percentage point higher than that in the October 2023 World Economic Outlook (WEO) on account of greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as fiscal support in China.

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[2] At 102.6 percent of its 2017 average, total industrial production in January was identical to its year-earlier level.
[3] Industrial Production and Capacity Utilization - G.17 (15 Feb 2024) Board of Governors of the Federal Reserve System.

Table 1: World Economic Outlook Growth Projections (real GDP, annual percentage change)[4]

World Output	2023	2024	2025
Advanced Economies (AEs)	3.1	3.1	3.2
United States	1.6	1.5	1.8
Euro Area	0.5	0.9	1.7
Japan	1.9	0.9	0.8
UK	0.5	0.6	1.6
Canada	1.1	1.4	2.3
Other Advanced Economies (AEs)	1.7	2.1	2.5
Emerging and Developing Asia	5.4	5.2	4.8
China	5.2	4.6	4.1
India	6.7	6.5	6.5
Russia	3.0	2.6	1.1
South Africa	0.6	1.0	1.3

Source: IMF.

According to the Annual Report, 2023 published by the Financial Stability Oversight Council (FSOC), US, growth is decelerating due to the significant tightening of monetary policy by most central banks in response to ongoing elevated inflationary pressures and due to near completion of the post-pandemic recovery in both services and supply chains. In advanced economies (AEs), the European Central Bank (ECB) and the Bank of England (BoE) raised their policy rates and hinted that their monetary policy would likely need to remain restrictive for some time, to help ensure that inflation returns to targeted levels on a sustained basis.

Other central banks, such as the Bank of Canada and the Reserve Bank of Australia, paused policy rate hikes earlier this year, but they indicated that additional policy tightening might be necessary to bring inflation down in a timely manner. In emerging market economies (EMEs), particularly Latin American EMEs, many central banks began raising their policy rates earlier than their counterparts in advanced economies. Many major EME central banks paused rate hikes some time ago and have left rate hikes on hold against a backdrop of easing domestic inflation. A few EMEs have even begun to cut policy rates.

Notably, energy and food prices have fallen considerably from their 2022 peaks following the buildup of gas inventories in Europe and weaker-than-expected demand in China, Core inflation has enfeebled more steadily. The International Monetary Fund (IMF) predicts that global inflation will moderate to a still-elevated 5.8 percent in 2024, well above the pre-pandemic (2017–19) level of 3.5 percent.

However, two big economies namely Japan and UK are suffering via negative growth, and the UK economy fell into a recession in the second half of 2023. The Office for National Statistics (ONS) said the economy grew 0.1 per cent across 2023 compared with 2022. The Bank of England (BoE) has said it expects output to pick up slightly in 2024 but only to 0.25 per cent growth. The Finance Minister Jeremy Hunt is most likely to cut spending substantially to fund pre-election tax cuts.

Japan's 4Q23 GDP declined -0.1% quarter-on-quarter (QoQ) (0.2% market consensus). Domestic demand was particularly weak. Private consumption fell -0.2% (vs revised -0.3% in 3Q23). While durable goods

[4] https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024

consumption has increased (6.4%), semi-durable (-1.7%) and non-durable (-0.3%) goods consumption declined. Surprisingly, service consumption has declined by 0.6%.[5] On the investment side, business spending also dropped -0.1% (vs revised -0.6% in 3Q23). Residential investment contracted by -1.0% (vs -0.6% in 3Q23) while non-residential investment dropped by a more modest -0.1% compared to previous quarters (-0.6% in 3Q23, -1.4% 2Q23). Amid the YCC policy and the USD-JPY is hovering marginally above the 150 level, the monetary policy would be interesting to watch out for. The yen weakened further due to Japan unexpectedly falling into a technical recession in Q4 2023, and as a consequence, the rate hike expectations may be delayed.

In Europe, the economic outlook has notably weakened, but it starts reviving amid slow pace of the wage growth. Nevertheless, the European economy has proven to be resistant to the energy crisis caused by Russia's unprovoked war on Ukraine. Initially, this resilience has been due to a combination of pent-up demand coming out of the pandemic and fiscal supports to aid households and firms, but now the economy faces headwinds from high inflation, wage growth issues and tighter monetary policy. Indeed, credit growth has notably slowed amid tightening credit standards and weakening loan demand. The European economy has largely stagnated over the past year and continue to point to vulnerability ahead. Germany faces recessionary challenges, as reported by the Bundesbank, German economic output contracted in the final quarter of 2023, according to the February2024 Monthly Report.[6] Fourth quarter real gross domestic product (GDP) fell by a seasonally adjusted 0.3% on the quarter according to the Federal Statistical Office's flash estimate, after virtually stagnating in the first three quarters of 2023. Order intake has been weak for some time now and is likely to be a notable factor increasingly impacting on industrial output.

China continues to face headwinds, and the policies to revive the economy don't remain very effective. The People's Bank of China kept the one-year loan prime rate (LPR) unchanged at 3.45% as expected, but startlingly cut the five-year LPR by 25bp to 3.95%, the first time the five-year rate was cut since May 2023, despite such measures, the economy is yet to revive. China 's direct investment liabilities in its balance of payments (BoP) rose by $33 billion last year, 82% down in 2022. Net Flows of Inward Foreign Direct Investments have shown a downward trend, especially inward investments. Investments from Japan and South Korea have shown downward trends. Interest rates have been reduced and fiscal stimulus have been announced to revive local governments. A positive is that China has reported a record upsurge in travel and consumption during a longer-than-usual Lunar New Year holiday, touting the gains as signs that the world's second-largest economy is regaining its footing thanks to the government's supportive policies. Nonetheless, according to CNN calculations based on official data, the average tourism-related spending per trip was below pre-pandemic levels, as consumer confidence remains weak amid deflationary pressure. A total of 474 million trips were made within mainland China during the Year of the Dragon travel season, up 34% compared to the same holiday in 2023 and 19% higher than in 2019, according to data published Sunday by the Ministry of Culture and Tourism.

Indian Economic Developments:

India's GDP at Q3-2023-24 is at 8.4%; a beyond expectation growth, consensus estimate was at 8.1%. As a result, the growth rate of GDP during 2023-24 is revised upwards at 7.6 percent as compared to growth rate of 7.0 percent in 2022-23. Agriculture declined 0.8% in Q3, as compared with 1.6% growth in Q2. Mining grew 7.5%, up from 11.1% in the previous quarter. Manufacturing expanded 11.6%, as against 14.4% in the prior quarter. Electricity and other public utilities expanded by 9% versus 10.5%. Construction

[5] ING market research.

[6] Bundesbank website; https://www.bundesbank.de/en/tasks/topics/period-of-weakness-in-the-german-economy-could-continue--925246

grew 9.5%, compared with 13.5%. Trade, hotels, transport, and communication expanded 6.7% versus 4.5%.[7] However, the gap between gross value added (GVA) and GDP has widened due to higher taxes and lower subsidies. (GDP=GVA+ net indirect taxes ~taxes less subsidies), for instance, net taxes adjusted for subsidies and other payments have shown a substantial growth from Q2(2023-24) to Q3(2023-24) from 12.8 per cent to 32.0 per cent, whereas GVA has slowed from 7.7 per cent to 6.5 per cent during the same period. One caveat is that going forward, if tax collection trends is not sustained (which is less likely), and GVA growth slows, the GDP growth may be slowed compared to its current pace, hence maintaining sustained pace of capex growth is crucial. However, still the GDP growth compared to other countries remain better and resilient.

The progress of the Indian economy is sustained, and the growth prospects remain brightened. Earlier, the National Statistics Office (NSO) estimated India's real GDP to grow at 7.3 per cent in FY24 in its first advance estimates (FAE) released in January. The RBI's Survey of Professional Forecasters (SPF) has upgraded India's real GDP growth from 6.4 per cent to 7.0 per cent. The International Monetary Fund (IMF), in its January 2024 World Economic Outlook (WEO), revised India's growth projections to 6.7 per cent from 6.3 per cent in its October 2023 outlook (WEO).

The RBI's latest survey in FY24 indicates capacity utilisation in the manufacturing sector increasing to 74 per cent in Q2 of FY24 from 73.6 per cent in the previous quarter. Proxy indicators of investment, such as the capital goods index of the Index of Industrial Production (IIP) and capital goods imports, are growing at healthy rates. E-way bills grew by 13.2 per cent in December 2023. Toll collections expanded by 15.5 per cent y-o-y in January 2024, although they sequentially moderated from a record in the previous month. However, the disruption in global trade flows and higher transportation costs due to the ongoing Red Sea conflict has led to the build-up of supply chain pressures in recent months.

The Indian Economy: Encouraging Developments:

MSCI raised India's weight in the Global Standard Index by 18.2% which could lead inflows of $1.2 billion. The gain can be attributed due to sustained rally of the domestic equities and relative underperformance of the other EM markets, especially China. Moreover, with a consistent history of 10-12 per cent USD CAGR over the last 10-20 years, India is now the 5th largest equity market, and its market capitalisation will likely touch $10 trillion by 2030 according to the brokerage house Jefferies.

According to NASSCOM-Arthur D. Little Report,[8] the economic value added by the Digital Public Infrastructures (DPIs) could potentially increase ~3x from the existing 0.9 per cent to 2.9 - 4.2 per cent of GDP by 2030, driven by the following factors:

- Existing digital entities that will evolve to deliver superior user experience, utilizing new age tech of AI, Web 3 and others. Aadhar is expected to continue to be a major contributor as use cases expand to broader range of services.

[7] (P-7 of the link for sectorwise growth-
https://www.mospi.gov.in/sites/default/files/press_release/PressNoteGDP29022024.pdf).
[8] 'India's Digital Public Infrastructure: Accelerating India's Digital Inclusion"(Feb 2024), NASSCOM-Arthur D. Little Report, Link:
https://community.nasscom.in/sites/default/files/publicreport/Digital%20Public%20Infrastructure%2022-2-2024_compressed.pdf

- Enhanced impact of budding DPIs such as ABDM (better healthcare for citizens of the country, resulting in increased labour productivity) and ONDC (incremental growth in retail spending of the country).

However, the report has pointed out certain major challenges, like- lack of interconnectedness among government ministries, lack of real time data availability, limited language expansion for users to access in preferred languages, and future partnerships beyond government services. It has recommended the following to achieve the 2030 DPI potential as follows:

- For Government agencies, imperatives to be cognizant of include proactive policy support & regulatory clarity, promotion on the usage of existing digital ecosystem through offline workshops and awareness campaigns, setting up task force to drive adoption of newer digital entities, and partnering with corporates and start-ups to launch sandbox for fostering innovation. Importance of cybersecurity and data privacy are paramount for success.
- For Startups and SMEs, it includes building business models to capitalize on the full-scale adoption of existing digital infrastructure, building business models to help drive the adoption of existing DPIs, experimenting with the new-age technologies like Gen-AI, NLP, Web 3 to integrate and improve the digital ecosystem.

PMI Trends in Manufacturing and Services:

The headline PMI for the Indian manufacturing sector expanded to a four-month high of 56.5 in January 2024, whereas the PMI for services expanded to a six-month high of 61.8 in January, led by expansion of new business. The global composite PMI rose to 51.8 in January2024, the best reading since June 2023. Asian economies outperformed, led by India, while mainland China, Indonesia, and Korea maintained intensity in their manufacturing activity. The US saw an uptick in both manufacturing and services PMIs, driven by rising demand. Eurozone services sector is still lagging. Construction sector indicators give a mixed picture, with steel consumption growing at a healthy rate of 7.8 per cent in January, while cement production recorded a much lower growth of 1.3 per cent in December 2023.

Table 2: Snapshot of Manufacturing and Services PMIs

	Manufacturing PMI				Services PMI		
	Nov-23	Dec-23	Jan-24		Nov-23	Dec-23	Jan-24
World	49.3	49.0	50.0		50.6	51.6	52.3
US	49.4	47.9	50.7		50.8	51.4	52.5
Mainland China	50.7	50.8	50.8		51.5	52.9	52.7
Eurozone	44.2	44.4	46.6		48.7	48.8	48.4
Japan	48.3	47.9	48.0		50.8	51.5	53.1
UK	47.2	46.2	47.0		50.9	53.4	54.3
India	**56.0**	**54.9**	**56.5**		**56.9**	**59.0**	**61.8**
Brazil	49.4	48.4	52.8		51.2	50.5	53.1

Heatmap Key	Below 50 and rising	Above 50 and rising
	Below 50 and falling	Above 50 and falling

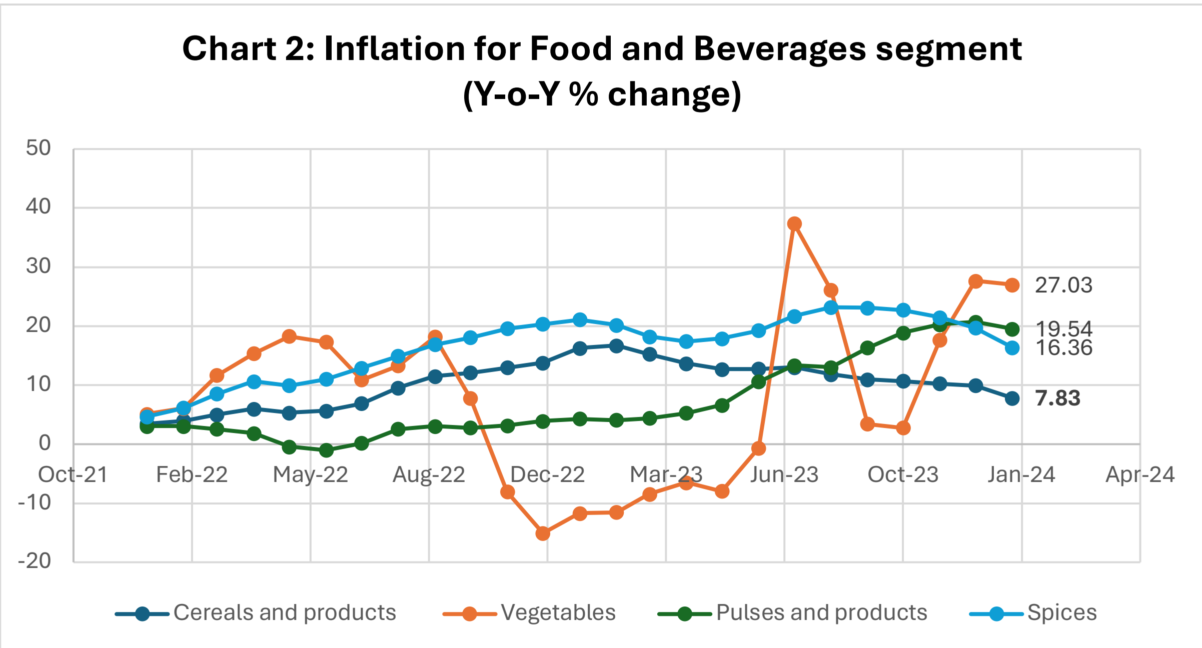
Source: Disappointment for doves, Global PMI wrap-up (January), HSBC Global Research.

The RBI's quarterly enterprise surveys conducted during the third quarter of 2023-24 reflects that the Capacity utilisation (CU) in the manufacturing sector increased to 74.0 per cent in the second quarter of 2023- 24 from 73.6 per cent in the first quarter of 2023-24, with manufacturers remaining optimistic about capacity utilisation in the ensuing quarters. Seasonally adjusted CU, however, declined to 74.5 per cent in Q2 from 75.4 per cent in the previous quarter. Input cost pressures were assessed to have recorded some moderation in the third quarter of 2023-24 for manufacturing; however, cost pressures are likely to remain elevated in manufacturing services, and infrastructure sectors till the first half of 2024- 25. Growth in selling prices is expected to move in tandem.

CPI Inflation Trends:

The Headline inflation has softened at 5.1 per cent in Jan'24 from the 5.69 per cent in Dec'23. Core inflation has eased from 3.9% in December to 3.6% in January, staying below the 4% threshold for two consecutive months. The fall in overall inflation came after two consecutive months of rise. At the all-India level, inflation in the food & beverages group fell to 7.58% cent in January 2024 from 8.7 per cent in December 2023.[9] Under the sub-group level of Food and Beverages segment, Inflation for Cereals and products marked the sixth consecutive month of decline, dropping to 7.83% cent in January after remaining in double digits for 15 consecutive months from September 2022 to November 2023.

Vegetables inflation inched lower to 27.03 % in January from 27.64% in December, while pulses inflation rate eased to 19.54 % from 20.73 per cent. The food and beverage inflation has eased from 8.7% in December to 7.6% in January on the back of a favourable base and sequential easing of prices of pulses, vegetables and fruits. *Nevertheless, inflation of non-perishables like spices and pulses remain firm, warranting close monitoring due to their inherent stickiness*.



Source: CMIE, MOSPI.

[9] (https://pib.gov.in/PressReleasePage.aspx?PRID=2005313).

In India, the RBI has announced its monetary policy on 8 Feb 2024, and kept the policy repo rate unchanged. The RBI has highlighted that, large and repetitive food price shocks are interrupting the pace of disinflation that is led by the moderation of core inflation, and possibility for a rate cut would arise when RBI would be sure about the 4% durable disinflation. For India, a positive trend is that CPI has softened at 5.1% in Jan'24, declined from 5.7% from Dec'23. Further, core inflation has shown downward trend. Nevertheless, we have to wait for a rate cut initiation unless the RBI is confident that the inflation is declining at a sustainable basis towards 4 per cent or less than that. The big expectation is that the RBI would probably change stance towards neutral in its Apr~June'24 policy before any policy rate reduction.[10]

Interestingly, the Ministry of Statistics and Programme Implementation released data from the Household Consumption Expenditure Survey (HCES) that was conducted in 2022-23, shows that the average monthly per capita consumption expenditure (MPCE) of both urban and rural households doubled in the eleven-year period with both spending lesser on food items.

The MPCE for rural households[11] has increased to Rs 3,773 in HCES 2022-23 from Rs 1,430 in 2011-12. The MPCE for urban households increased to Rs 6,459 in 2022-23 from Rs 2,630 in the previous round. The bottom 5% of India's rural population, ranked by MPCE, has an average MPCE of Rs. 1,373 while it is Rs. 2,001 for the same category of population in the urban areas.

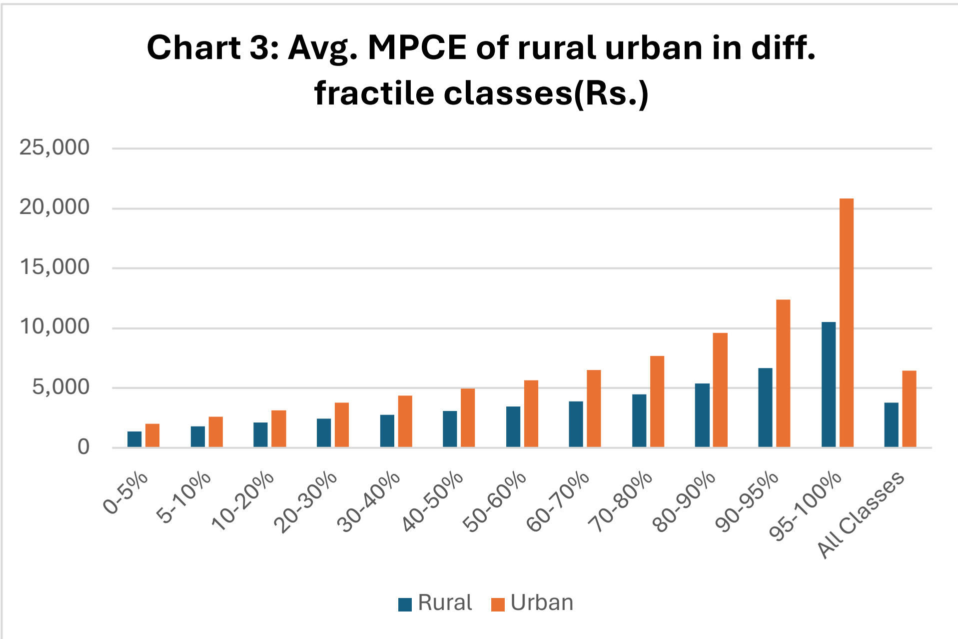
The top 5% of India's rural and urban population, ranked by MPCE, has an average MPCE of Rs. 10,501 and Rs. 20,824, respectively. Among the states, MPCE is the highest in Sikkim for both rural and urban areas (Rural – Rs. 7,731 and Urban – Rs. 12,105). It is the lowest in Chhattisgarh (Rural – Rs. 2,466 and Urban – Rs. 4,483). The rural-urban difference in average MPCE, among the states is the highest in Meghalaya (83%) followed by Chhattisgarh (82%). Among the UTs, MPCE is the highest in Chandigarh (Rural – Rs. 7,467 and Urban – Rs. 12,575), whereas it is the lowest in Ladakh (Rs. 4,035) and Lakshadweep (Rs. 5,475) for rural and urban areas respectively. The government might revise the CPI baskets using this data, but this is probably too early to judge. New CPI series is likely to have lower weight for food and beverage, higher for core goods and services. The view might be clearer by July-August 2024.

[10] CPI inflation was projected at 4.5 per cent for the year 2024-25. Although lower by 90 basis points than the estimated average for 2023-24, the MPC noted with concern that large and repetitive food price shocks are impeding the disinflation engendered by the steady easing of core inflation, with geopolitical events and their impact on supply chains, and volatility in international financial markets and commodity prices posing upside risks. The MPC decided that monetary policy must remain disinflationary to ensure anchoring of inflation expectations and the progressive alignment of inflation outcomes with the target, while supporting growth.

[11] (without considering imputed values of items received free of cost through various social welfare programmes).

Table 3: Trend in share of consumption of cereals and food items since 1999-'00: All-India				
Period	Rural		Urban	
	% share of cereals in avg. MPCE.	% share of food in avg. MPCE	% share of cereals in avg. MPCE	% share of food in avg. MPCE
1999-00	22.23	59.40	12.39	48.06
2004-05	17.45	53.11	9.63	40.51
2009-10	13.77	56.98	8.16	44.39
2011-12	10.75	52.90	6.66	42.62
2022-23	4.91	46.38	3.64	39.17
Note: For the years 1999-00 & 2004-05, the percentage shares are based on MRP estimates and for the years 2009-10, 2011-12 and 2022-23, these are based on MMRP estimates.				

Source: Household Consumption Expenditure Survey 2022-23:Fact Sheet (Aug2022-July2023)



Source: Household Consumption Expenditure Survey 2022-23:Fact Sheet (Aug2022-July2023)

Trends in the Index of Industrial Production (IIP)

The combined Index of Eight Core Industries (ICI) increased modestly by 3.6 per cent (provisional) in January 2024 as compared to the Index of January 2023, but slowed down compared to Dec'23. The production of Coal, Steel, Cement, Natural Gas, Electricity and Crude Oil recorded positive growth in January 2024. A comparison of growth during (Apr-Jan)2024 provisional data with (Apr-Jan)2023 have shown that it declines to 7.7 per cent compared to 8.3 per cent.

Table 4: Eight Core Industry Growth Trends up to Jan'24 (YOY growth%)

Growth Rates (on Y-o-Y basis in per cent)

Sector	Coal	Crude Oil	Natural Gas	Refinery Products	Fertilizers	Steel	Cement	Electricity	Overall Growth
Weight	**10.33**	**8.98**	**6.88**	**28.04**	**2.63**	**17.92**	**5.37**	**19.85**	**100.00**
Jan-23	13.6	-1.1	5.2	4.5	17.9	14.3	4.7	12.7	**9.7**
Feb-23	9.0	-4.9	3.1	3.3	22.2	12.4	7.4	8.2	**7.4**
Mar-23	11.7	-2.8	2.7	1.5	9.7	12.1	-0.2	-1.6	**4.2**
Apr-23	9.1	-3.5	-2.9	-1.5	23.5	16.6	12.4	-1.1	**4.6**
May-23	7.2	-1.9	-0.3	2.8	9.7	12.0	15.9	0.8	**5.2**
Jun-23	9.8	-0.6	3.5	4.6	3.4	21.3	9.9	4.2	**8.4**
Jul-23	14.9	2.1	8.9	3.6	3.3	14.9	6.9	8.0	**8.5**
Aug-23	17.9	2.1	9.9	9.5	1.8	16.3	19.7	15.3	**13.4**
Sep-23	16.0	-0.4	6.6	5.5	4.2	14.8	4.7	9.9	**9.4**
Oct-23	18.4	1.3	9.9	4.2	5.3	13.6	17.0	20.3	**12.7**
Nov-23*	10.9	-0.4	7.6	12.4	3.4	9.4	-4.0	5.7	**7.9**
Dec-23*	10.7	-1.0	6.6	4.0	5.8	7.6	3.8	1.2	**4.9**
Jan-24*	10.2	0.7	5.5	-4.3	-0.6	7.0	5.6	5.2	**3.6**

*Provisional.
Y-o-Y is calculated over the corresponding month of previous year.

Industrial output, measured by the index of industrial production (IIP), increased by 3.8 per cent on a year-on-year (YOY) basis in December 2023. The growth was higher than the 2.4 per cent growth registered in the preceding month. Output of mined products grew by 5.1 per cent, while electricity generation increased by 1.2 per cent. The manufacturing sector reported a 3.9 per cent growth in production in December 2023. Output of 11 reported a fall. The fall was led by a few sub-sectors.[12]

Among the use-based classification of IIP, output of primary goods rose by 4.6 per cent and that of intermediate goods rose by 3.4 per cent. Production of capital goods grew by 3.2 per cent and that of infrastructure/construction goods grew by 4.1 per cent. Among consumer goods, production of durables rose by 4.8 per cent and that of non-durables rose by 2.1 per cent. Cumulative IIP during April-December 2023 rose by 6.1 per cent, as compared to a 5.5 per cent growth recorded during the same period a year ago.

12

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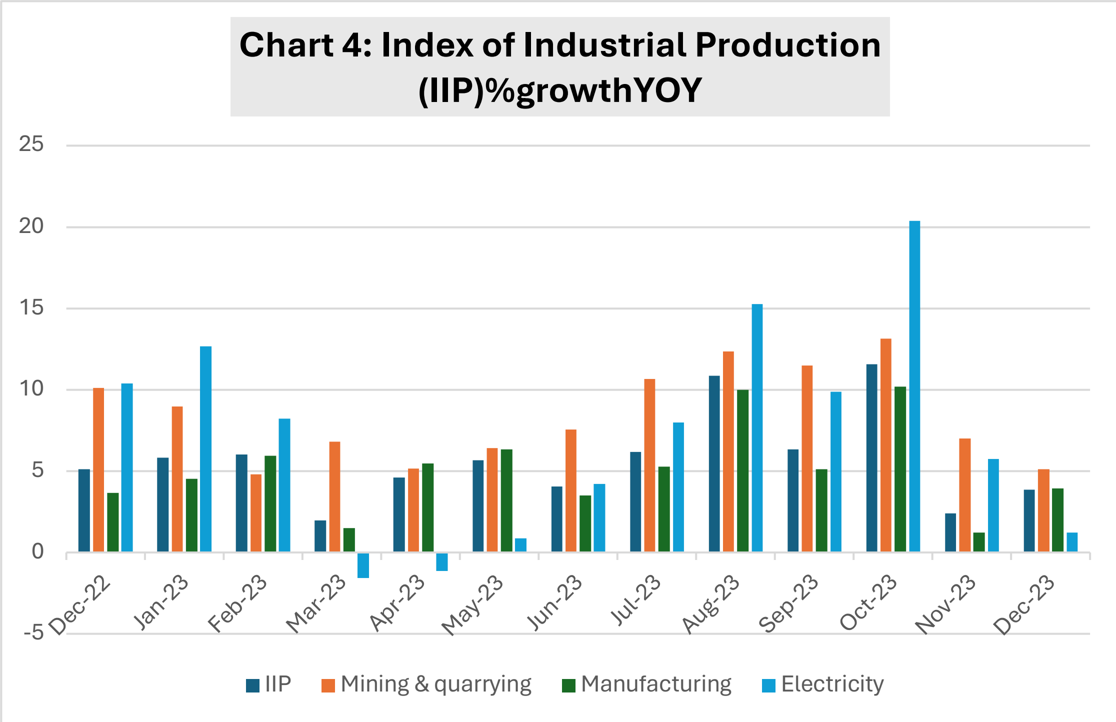
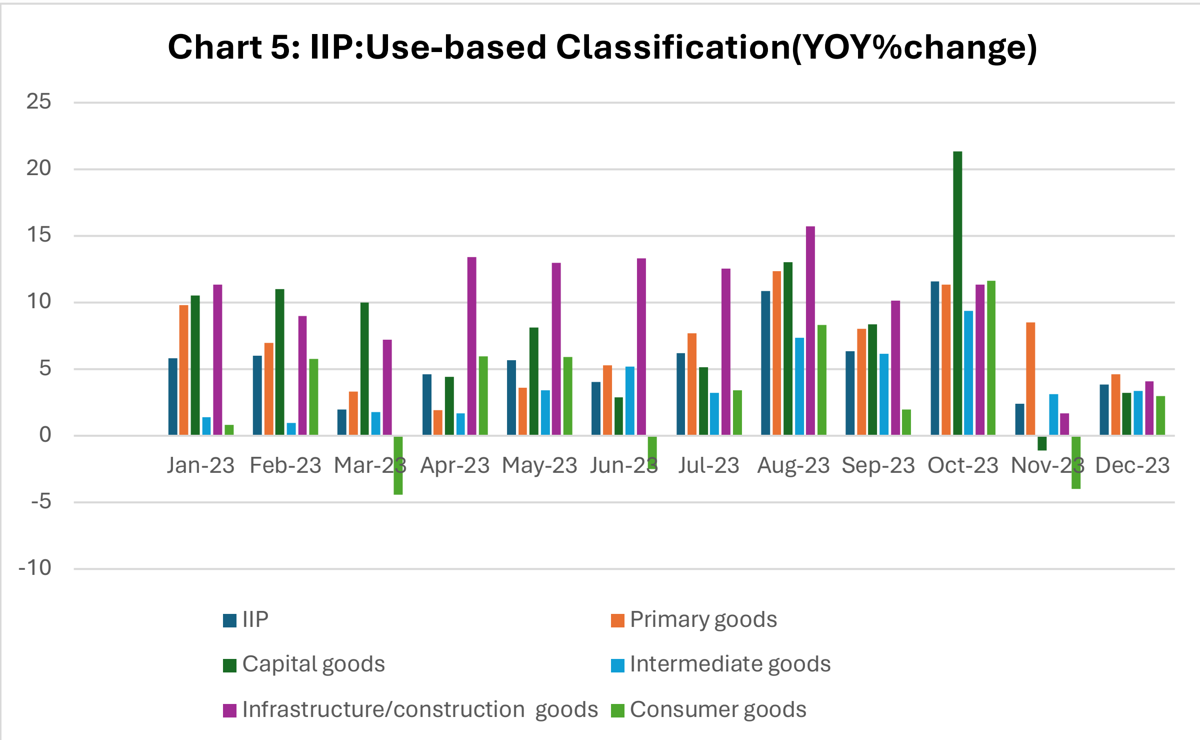


Source: CMIE, MOSPI, Infomerics Research.



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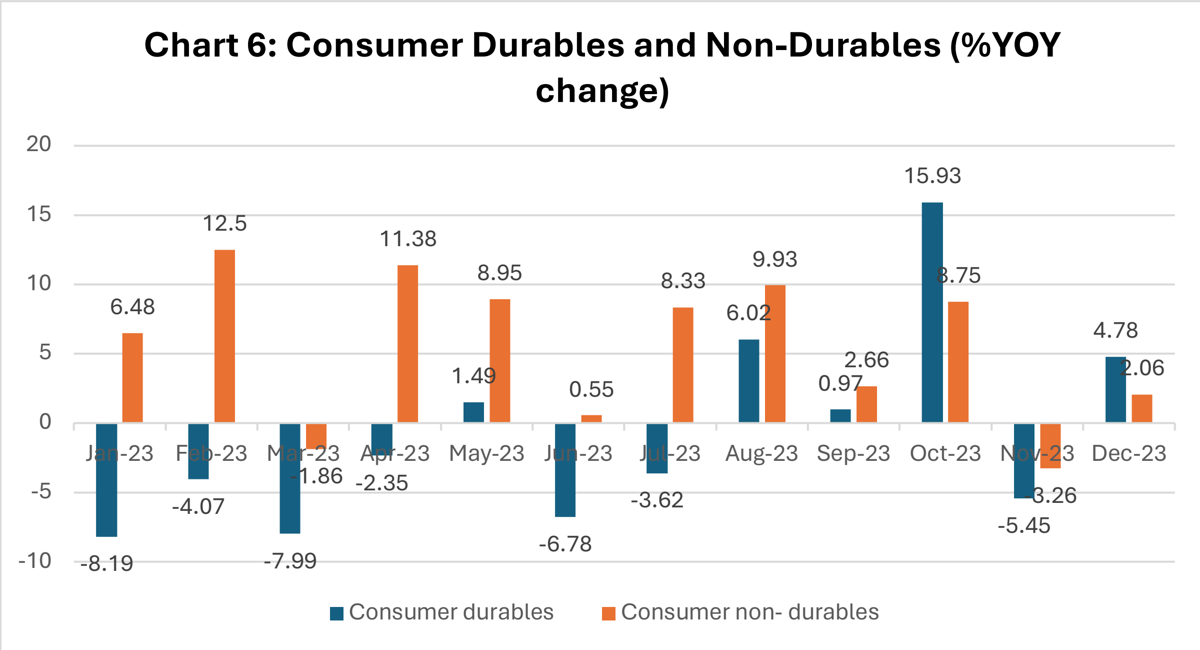


Source: CMIE, MOSPI, Infomerics Research.

External Sector trends:

India's trade deficit narrowed to USD 17.5 billion in Jan-24 from USD 19.8 billion in Dec-23 due to a relatively sharper sequential decline in imports than exports. On a Year on Year(y-o-y) basis, both export and import growth were positive, supported by base effects. The subsequent decline in Jan'24 is partly due to the usual seasonal moderation witnessed post the festive season (in December) in exports. In addition, the Red Sea disruptions seem to have weighed on non-oil exports (which fell by 9% m-o-m) while oil exports rose with brent crude prices rising in January (versus December).

Merchandise exports grew by 3.1% y-o-y to USD 36.9 bn in Jan-24. Electronics (9.3% YoY), Petroleum (6.6% YoY), and Engineering goods (4.2% YoY) were the major segments driving overall export growth. While 18 of the 30 key sectors exhibited growth, rice, and readymade textiles experienced contraction on a y-o-y basis. The sequential contraction in non-oil non-gold imports could be in part due to slowing consumption growth and raises concerns on future trajectory.

Notably, In December 2023, services exports rose by 1.3 per cent (y-o-y) to US$ 31.6 billion, driven by robust software, business, and travel services exports. Services imports declined by 1.2 per cent (y-o-y) to US$ 15.6 billion, mainly due to a decrease in transportation services.

Table 5: Export-Import Growth and trade balance (US$ billion)

	Nov-23	Dec-23	Jan-24
Trade Balance($bn)	20.7	-19.9	-17.5
Export($bn)	33.8	38.4	36.9
Imports($bn)	54.5	58.2	54.4
Export(YOY)Growth%	-3.1	0.8	3.1
Import(YOY)Growth%	-4.3	-4.9	3.0

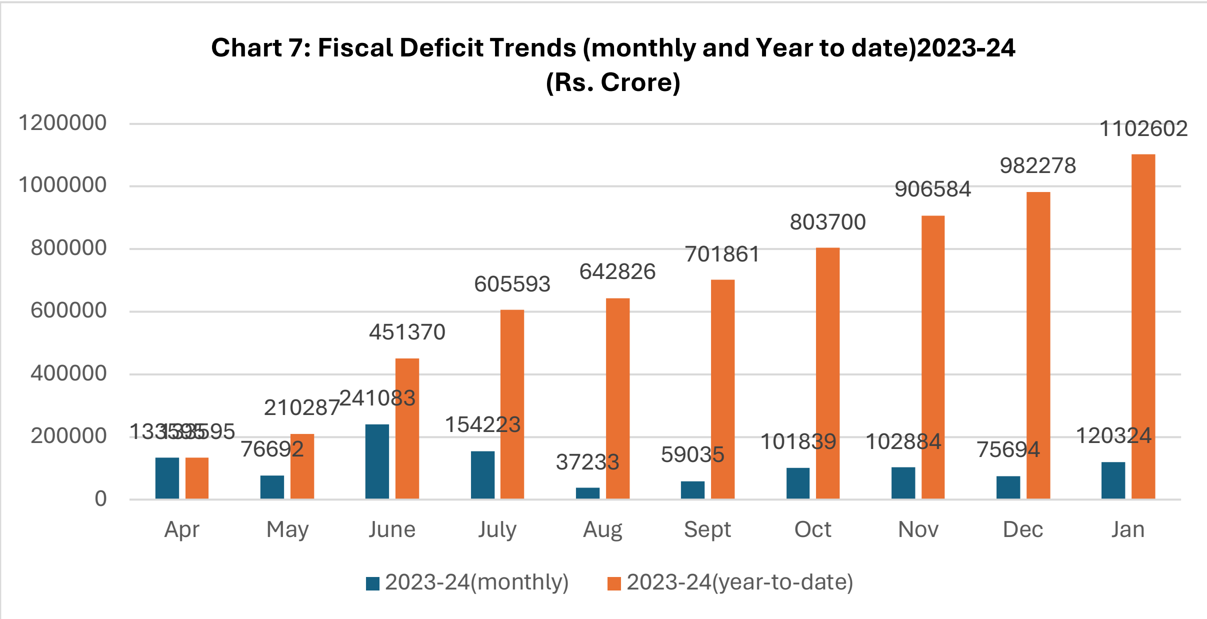
Source: Ministry of Commerce & Industry, RBI,CMIE.

Implications of the Red Sea Crisis:

India's 80 per cent export to Europe passes through the red sea, while 25 per cent of foreign trade of India uses this route. Freight rates of many Indian companies have increased manifold along with insurance costs. Textiles, leather, engineering goods, gems & jewellery are affected adversely.

India's Fiscal Scenario:

The fiscal deficit for the (Apr-Jan) FY24 remains at ₹1102602 crore that is 63.6 per cent of the Revised Estimate (RE) of the current financial year compared to the 67.8 per cent of the corresponding period of last year (COPPY).



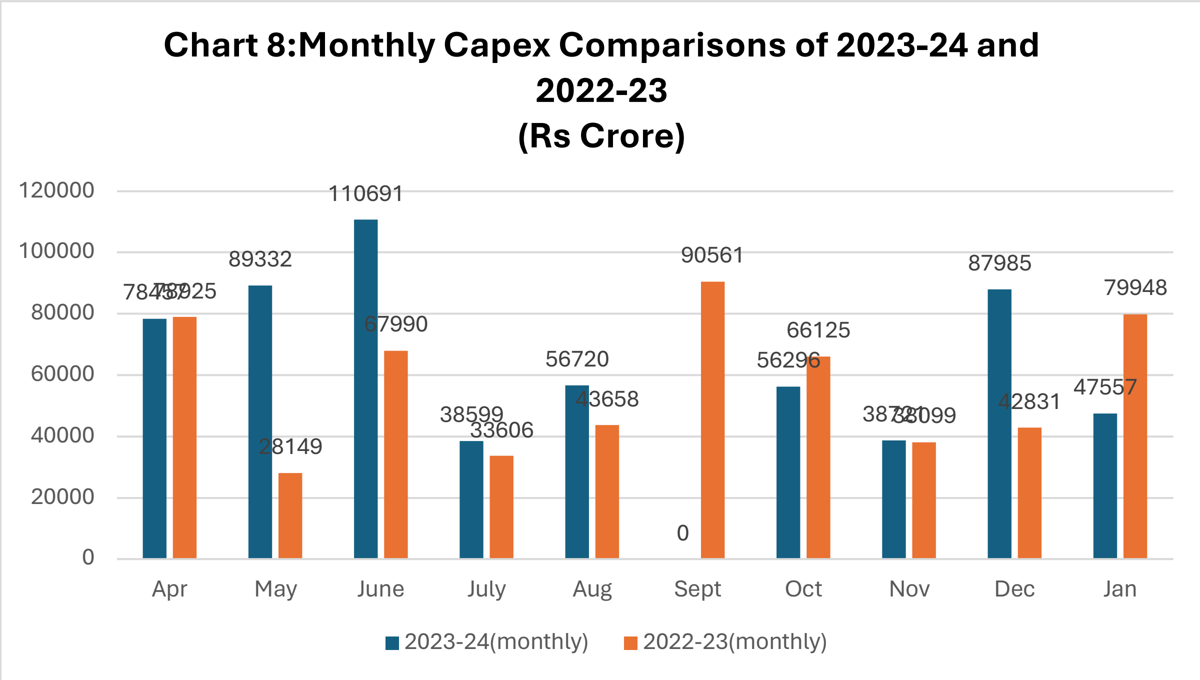
Source: Controller General of Accounts (CGA), Dept. of Expenditure, Ministry of Finance, GOI.

The interim budget focuses both on fiscal consolidation and sustained capex with an objective of attaining inclusive growth. During 2023-24, capital expenditure excluding loans and advances, recorded an increase of 29.2 per cent. On the receipts side, direct tax collections grew by 17.2 per cent while indirect taxes increased by 7.0 per cent (y-o-y) in 2023-24(RE). Non-tax revenue recorded an increase of 31.7 per cent (y-o-y) on back of higher than budgeted surplus transfer by the RBI and public sector enterprises.

During 2023-24, the Gross Fiscal Deficit to GDP ratio is placed at 5.8 per cent (RE), marginally below the budgeted 5.9 per cent. The nominal GDP remains at lower than expected,[13] however, this was partly compensated by a higher non-tax revenue and relatively lower capex. Revenue expenditure surpassed budget estimates (BE) by ₹38,103 crore while capital expenditure fell short by ₹50,715 crore resulting in a reduction in total expenditure by ₹12,611 crore. There is a bit slowdown in capex at ₹47557 crore during Jan'2024 compared to ₹79948 crore in Jan'23 a year ago.[14]

[13] Nominal GDP for 2024-25 (BE) has been projected at ₹3,27,71,808 crore assuming 10.5 per cent growth over the preceding year (viz., ₹2,96,57,745 crore as per the first advance estimates for 2023-24.

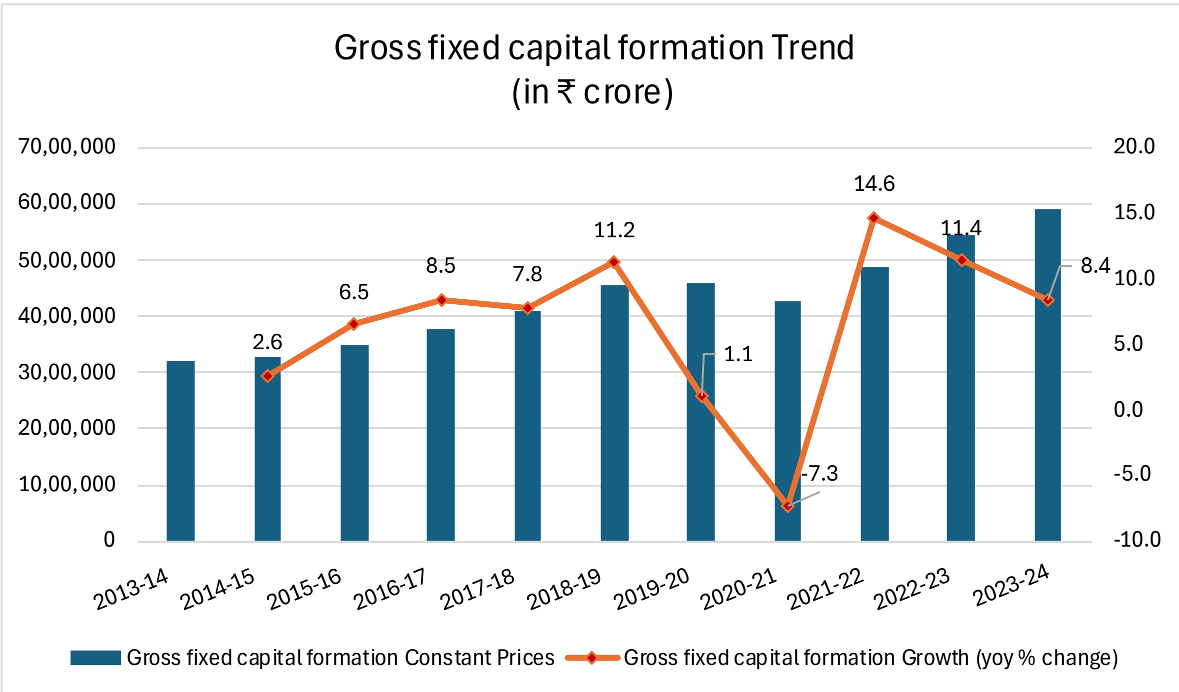
[14] CAPITAL EXPENDITURE, (refer to item No.10 of At A Glance)
(Rs. in Crore), CGA.



Source: CGA.

On the receipts side, non-tax revenue exceeded the BE by ₹74,145 crore while non-debt capital receipts witnessed a shortfall of ₹28,000 crore in 2023-24 (RE). Further, while gross tax revenue exceeded BE, net tax revenue fell short by ₹6,713 crore due to higher than budgeted devolution to States. The Gross Fiscal deficit to GDP ratio for 2024-25 is pegged at 5.1 per cent which is 71 bps lower than the 2023-24 Revised Estimate (RE), which is sought to be achieved through containment of the revenue expenditure (RE) to 11.2 per cent of GDP even as capital expenditure is budgeted to rise to 3.4 per cent of GDP.

Chart 9: GFCF Trends (in Rs Crore) [2013-14 ~ 2023-24]



Source: RBI, MOSPI, Infomerics Research.

Banking, Liquidity and Financial Sector developments:

Due to the revised estimates of government cash balances projected for 2023-24, banks drew down their excess reserves significantly which alleviated the liquidity stress in the banking system and eased the pressure on short-term rates. However, Liquidity conditions tightened again in line with build-up of government cash balance in the second week of Feb2024.[15] Going ahead, rising government expenditure is expected to ease liquidity conditions.

During this period, the RBI conducted two main variable rate repo (VRR) operations and eight fine-tuning VRR auctions (up to February 15) to alleviate pressure on liquidity conditions. The demand for funds is reflected in high bid-cover ratio for fine-tuning VRR auctions conducted on 12th Feb'24 and 14Feb'24. Banks also took recourse to the marginal standing facility (MSF) and borrowed, on an average, nearly ₹ 0.31 lakh crore (up to February 15, 2024). The placement of funds under the standing deposit facility (SDF) averaged ₹ 0.61 lakh crore. The weighted average call rate (WACR); i.e. the operating target of monetary policy came lower than the policy repo rate from 5th Feb'24, before firming up again from 8th Feb'24. The spread of the WACR over the policy repo rate averaged 20 bps during January 15 – February 15, 2024.

Rates in the collateralised segment (the triparty and market repo rates) also moved in tandem with WACR. In the term money segment, however, the yield on 3-month commercial paper (CP) for nonbanking financial companies (NBFCs) and certificates of deposit (CDs) stayed elevated. In the primary market, fund mobilisation through issuance of CDs at ₹6.2 lakh crore during 2023-24 (up to January 2024) was higher than ₹5.4 lakh crore a year ago. Banks' reliance on the issuance of CDs has increased this year amidst robust credit growth without commensurate growth in deposits CP issuances at ₹10.8 lakh crore (up to January 2024) were also robust, largely like ₹11.4 lakh crore during the same period a year ago.

The yield on the 10-year G-sec benchmark softened to 7.09 per cent on February 15 from 7.15; per cent on 15th January2024. Bond yields have softened after the government borrowing programme announced in the interim Budget. Scheduled Commercial Bank's (SCBs') deposit growth (excluding the impact of the merger), which registered an increase in the wake of the withdrawal of ₹2000 banknotes, remained in double digits in January 2024.

According to the RBI's Feb 2024 bulletin, in response to the cumulative 250 bps hike in the policy repo rate since May 2022, banks have revised their repo-linked external benchmark-based lending rates (EBLRs) upward by the same magnitude. The one-year median marginal cost of funds-based lending rate (MCLR) increased by 155 bps during May 2022 to January 2024.

Consequently, the weighted average lending rate (WALR) on fresh rupee and outstanding rupee loans increased by 181 bps and 113 bps, respectively, during May 2022 to December 2023. Tight liquidity conditions, coupled with robust credit demand, prompted banks to increase their term deposit rates in recent months. The weighted average domestic term deposit rate (WADTDR) on fresh and outstanding deposits increased by 246 bps on and 180 bps, respectively, during May 2022 to December 2023.

There is a marked improvement in terms of stressed assets for most of the banks. Among PSBs, SBI has reduced NPAs substantially as per cent of Gross Advances. Most of the banks, including Private and public have shown substantial improvement in terms of streamlining Net NPAs after adjusting for provisioning as well.

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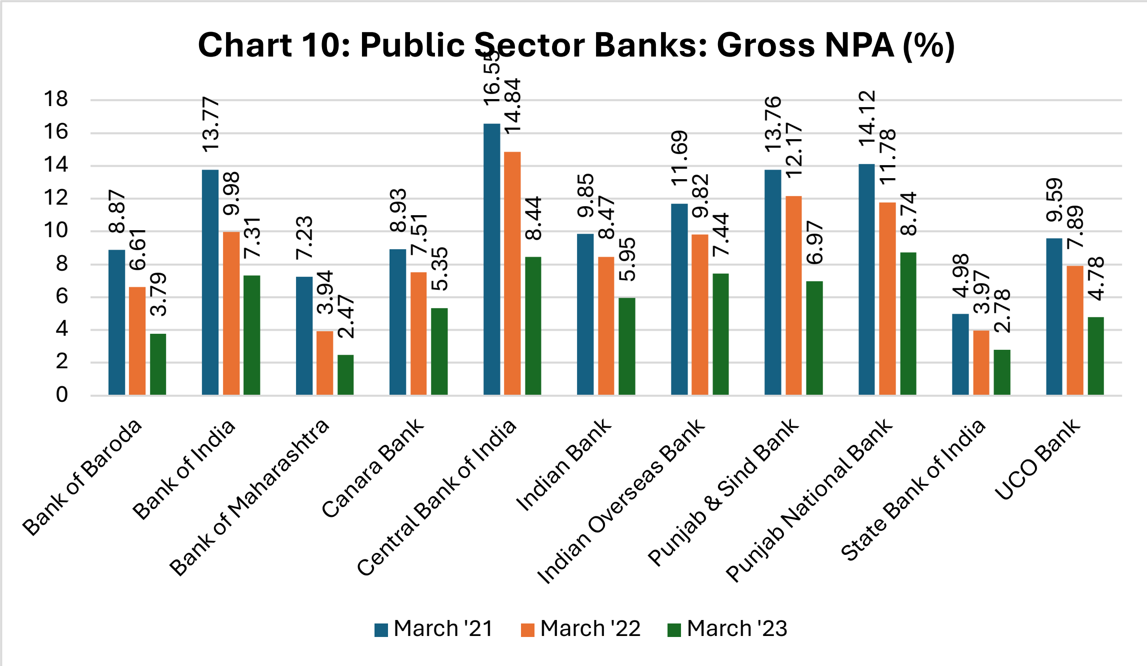
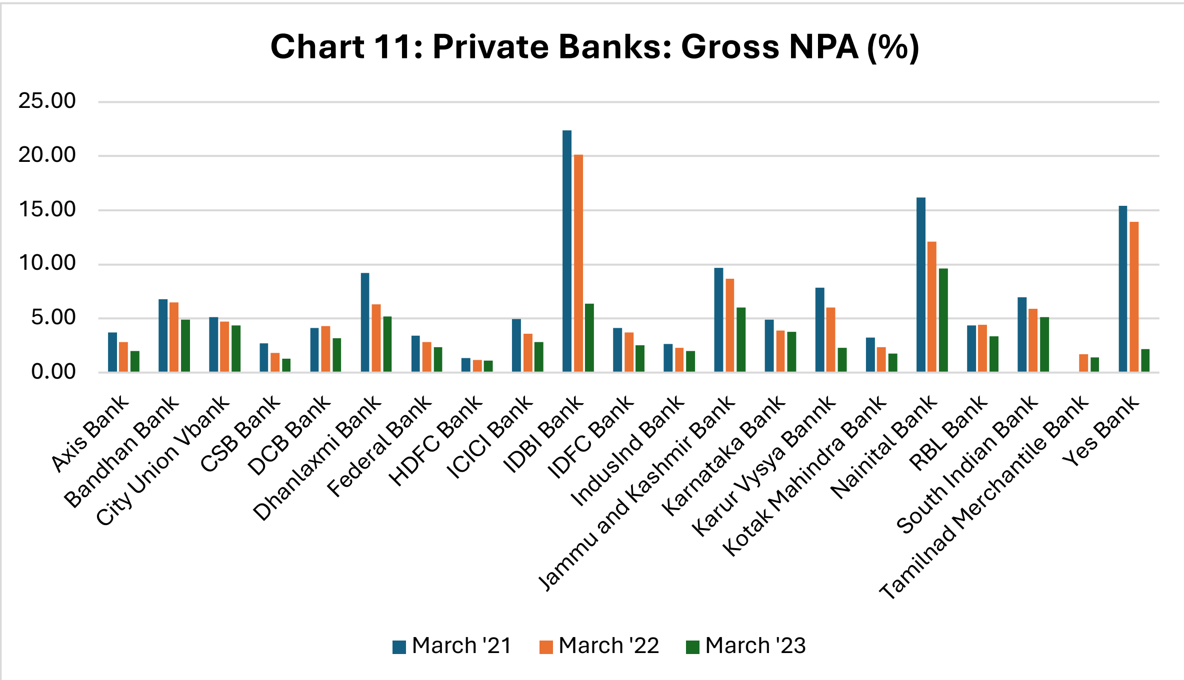
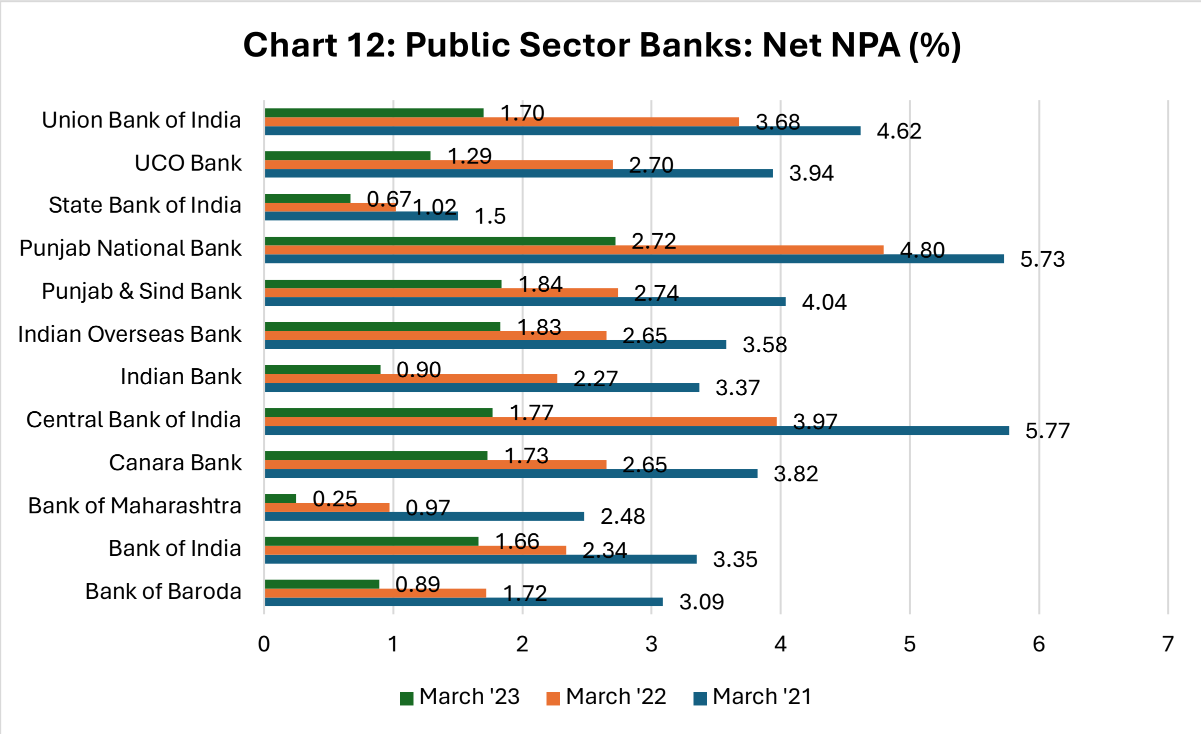
[15] RBI Bulletin (Feb 2024).



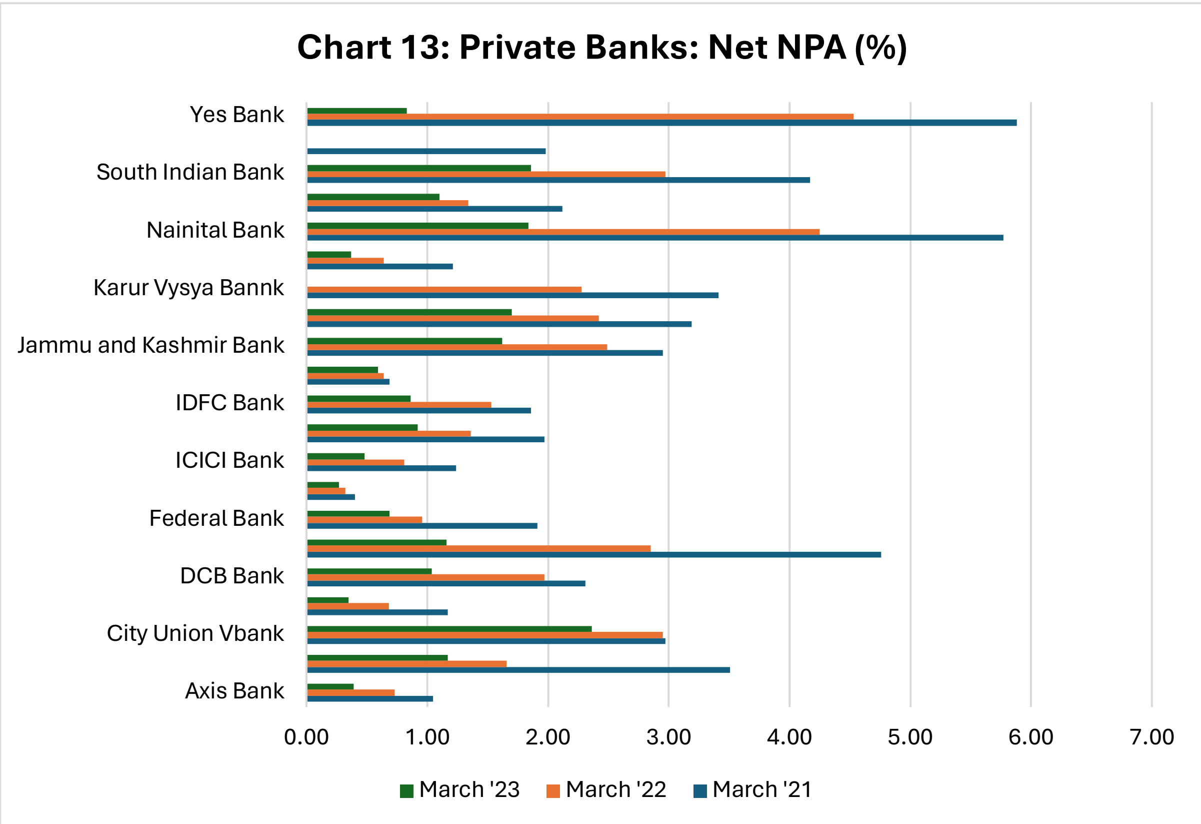
Source: RBI, BS Banking Annual 2024, Bank filing of quarterly reports, Infomerics Research.



Source: RBI, BS Banking Annual 2024, Bank filing of quarterly reports, Infomerics Research.



Source: RBI, BS Banking Annual 2024, Bank filing of quarterly reports, Infomerics Research.



Source: RBI, BS Banking Annual 2024, Bank filing of quarterly reports, Infomerics Research.

Payment Systems remain robust in the commencing of 2024:

The onset of 2024 was marked by a sharp growth (y-o-y) across major digital payment modes. The Unified Payments Interface (UPI) continued its upward run, buoyed by the initiative to enhance its domestic and international adoption. Recently, the NPCI International Payments Limited (NIPL) partnered with Lyra, a leader in securing e-commerce and proximity payments, to introduce UPI payments in France, the first European country to accept UPI.[16] In the interim budget for 2024-25, Digital Public Infrastructure (DPI) is designated as a crucial factor of production for the 21st century, aimed at formalising the economy. A one lakh crore rupees corpus, with a fifty-year interest-free loan, is established to support technological advancements and foster innovations through long-term financing. Tax benefits for start- ups and investment extensions have been proposed to encourage entrepreneurship and economic growth.

Table 6: Payment System Indicators (Rs Crore)

Payment System Indicators	Transaction Volume				Transaction Value			
	Dec-22	Dec-23	Jan-23	Jan-24	Dec-22	Dec-23	Jan-23	Jan-24
RTGS	11.5	7.1	12.6	13.1	5.9	15.7	20.1	17.1
NEFT	29.0	37.5	32.2	43.4	9.4	13.0	15.0	19.8
UPI	71.4	53.5	74.1	51.8	55.0	42.2	56.1	41.7
IMPS	9.7	2.7	7.8	7.2	22.7	17.2	23.4	18.6
NACH	10.5	10.9	-10.5	22.8	34.5	4.6	13.1	21.5
NETC	27.2	13.0	30.2	10.2	34.3	18.6	33.6	15.5
BBPS	60.4	25.7	59.8	24.6	63.6	77.4	66.6	75.4

Source: RBI Bulletin Feb 2024.

Foreign Portfolio Investments Trends

Foreign Portfolio Investors (FPI) became net buyers in Indian markets during FY24 (up to 16th February 2024), compared to their net selling in FY22 and FY23. FPI inflows during FY24 (April 23- February 24) stood at USD 33.3 billion, compared to an outflow of USD (-)5.5 billion the previous year. Rising economic growth, strong macroeconomic fundamentals, positive business sentiments and low volatility in the Indian rupee have played a pivotal role in boosting India's portfolio inflows. However, the FPI have been net sellers of Indian equities so far in 2024. A cursory look at the NSDL data reflects that in Feb'24 there are certain outflows in the equity, whereas debt inflow remains resilient.

Table 7: FPI inflows trends during Feb 2024

FEB2024	Equity	Debt	Debt-VRR	Hybrid	Total
22 Feb '24	47.5	-59.93	-31.15	0.57	-43.01
23 Feb'24	-22.67	59.91	-4.2	-0.09	32.95
26 Feb'24	187.23	148.79	12.82	2.33	351.17
27 Feb'24	-30.93	69.05	15.64	3.33	57.09
28 Feb'24	248.03	142.38	56.13	1.48	448.02
29 Feb'24	-167.49	101.81	3.19	1.37	-61.12

Source: NSDL, Daily trends in FPI, Feb 2024.

[16] NPCI Circular Feb 2024 and RBI Bulletin Feb 2024.

Foreign Direct Investments (FDI) Trends:

Gross inward foreign direct investment (FDI) moderated to US$ 51.5 billion during April- December 2023 from US$ 55.5 billion during the corresponding period a year ago. Net FDI at US$ 9.7 billion during April-December 2023 were lower than US$ 21.6 billion a year ago, mainly due to a rise in repatriation of equity capital. About 65 per cent of the FDI equity inflows were received in manufacturing, electricity and other energy sectors, transport, financial services, and retail and wholesale trade sectors. Singapore, Mauritius, the US, Japan, the UAE and the Netherlands accounted for more than three- fourths of the equity flows during the same period. The number of globally announced greenfield FDI projects increased from 156 in 2022 to 174 in 2023. The most popular FDI sectors in 2023 were associated with green energy and digitisation, reflecting an undergoing structural shift in the world economy.

According to the RBI's OFDI data, the overall equity has declined towards US$ 760.98 million in Jan'24 from US$834.78 million, though it has increased from Jan'23. Interestingly, the equity component has increased substantially towards Israel at US$ 11.3189 million as well as guarantee issued at US$ 385.1482 million.

Table 8: Summary of OFDI (USD Million)

Summary of Outward Foreign Direct Investment (OFDI) based on Reporting Date – January 2024

(USD million)

Sl. No.	Financial Commitment	January 2024	December 2023	January 2023
1	Equity	760.98	834.78	597.47
2	Loan	306.23	687.99	215.64
3	Guarantee issued	1,029.19	988.46	854.12
4	Total Financial Commitment (1+2+3)	2,096.41	2511.23	1667.23

Notes:
1. The data is provisional and subject to change based on online reporting by AD banks.
2. Components may not add up to the total due to rounding off.
3. Subject data is based on reporting done by AD Bank in OID portal as on February 12, 2024

Source: RBI

FDI equity inflows have declined by 13 per cent in terms of USD million during (Apr- Dec)'23 from (Apr-Dec)'22. Regarding foreign direct investment as per cent of total FDI, the lowest share is in DRUGS & PHARMACEUTICALS (3%), CHEMICALS (OTHER THAN FERTILIZEINR) (3%) and power (3%).

Table 9: FDI EQUITY INFLOW (MONTH-WISE) DURING THE FINANCIAL YEAR 2023-24

(Apr-Dec)2023	Rs Crore	US$ million
Apr	41,877	5,106
May	22,055	2,678
June	25,999	3,162
July	20,917	2,546
Aug	24,071	2,908
Sept	33,957	4,089
Oct	52,755	6,338
Nov	23,628	2,837
Dec	19,771	2,374
2023-24 (from Apr'23 to Dec'23)	2,65,030	32,037
2022-23 (from Apr'22 to Dec'22)	2,91,073	36,746
%age growth over last year	(-) 9%	(-)13%

Source: DPIIT, GOI.

Concluding Remarks:

The market is eagerly waiting for a first rate cut, both from the US and RBI, and it seems there is a shorter wait, nevertheless, the ongoing war, the red sea crisis, geopolitical tensions are biggest roadblocks for a cheer. The US CPI indicates certain slowdown as the personal consumption expenditure (PCE) price index for January increased 2.4 percent, slower than Dec'23's print of 2.6 per cent. The European economy is also reviving slowly despite its struggle, whereas Germany faces recessionary challenges. The UK economy is also not out of the woods.

Despite the ongoing challenges in China, a positive is that China has reported a record upsurge in travel and consumption during a longer-than-usual Lunar New Year holiday, touting the gains as signs that the world's second-largest economy is regaining its footing thanks to the government's supportive policies, whereas its tourism sector has shown some revival. The major challenge is the ongoing geopolitical tensions, which poses immense uncertainty for the market as well as for the global economies. On the other hand, India's GDP at Q3-2023-24 is at 8.4%; a beyond expectation growth, consensus estimate was at 8.1%. As a result, the growth rate of GDP during 2023-24 is revised upwards at 7.6 percent as compared to growth rate of 7.0 percent in 2022-23.

Nevertheless, one caution is that going forward, if tax collection trends is not sustained (which is less likely), and GVA growth slows, the GDP growth may be slowed compared to its current pace, hence maintaining sustained pace of capex growth is crucial (since gap between GVA and GDP is increasing, and part of the GDP increase is due to higher net indirect taxes, adjusted for subsidy outgo). However, still the GDP growth compared to other countries remain better and resilient. MSCI raised India's weight in the Global Standard Index by 18.2% which could lead inflows of $1.2 billion. India's macro fundamentals remain robust, it needs to manage its fiscal deficit and public borrowing programme well, and to maintain its capex growth. Moreover, welfare programme designed especially for the rural sector and lower-strata population needs to be sustained.