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Macro Pulse Report

February 2024

From the desk of the Chief Economist

Dear Readers,

The optimism on the domestic economy seems to be improving by the month! NSO took the markets and the economists by surprise by revising its GDP growth estimate to 7.6% for FY24 and pegging Q3 growth at 8.4%. Although GVA growth remained at 6.5% in the previous quarter, GDP growth has been sharply higher due to higher tax collections net of subsidies.

RBI has forecast a growth of 7.0% for the Indian economy in FY25. There is an expectation of higher economic reforms after the national elections with a high possibility of the current government reinstated to power. Private capital expenditure seems to have started jogging after a long and slow walk. States seem to be competing with each other to attract large private sector investments. There is a significant likelihood that the GDP growth for Indian will average between 6.5%-7.0% over the next 3 years. The step in public investments has been a huge growth driver for the economy and has led to robust growth in core sectors such as steel, cement and power. Headline retail inflation has subsided to around 5.0% despite the pressures on food inflation induced by El Nino phenomenon; core inflation has dropped well below 4.0% and wholesale inflation is nominal. Capital flows are set to improve given the growth momentum in the economy, India’s inclusion in global bond indices and the impending rate cuts by Feds and other large central banks. India’s financial sector remains healthy with a strong regulatory oversight.

As a rating agency, we are trained to be mindful of the downside risks and not ignore them. While urban demand for goods and services have been strong, there is still a fragility in rural demand. Despite the robust GDP figures, the private consumption growth has been sluggish at 3.5% in Q3FY24 and remains an area of concern. Hopefully, we will see an improvement in rural demand after the current rabi season. Higher interest rates (with a lower prospect of a rate cut in the next few quarters) and the increased focus on fiscal consolidation may slow down the growth momentum to some extent. The spectre of an escalation of geo-political risks seem to be hanging over us anyway. So, as they say, let us be “cautiously optimistic”. Cheers,

- Suman Chowdhury, Chief Economist and Head – Research

Growth momentum remains resilient in early 2024

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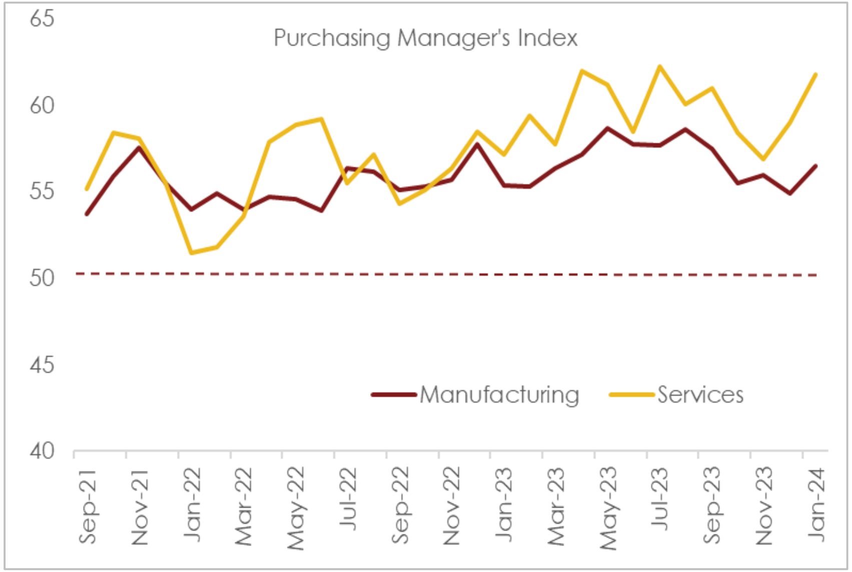
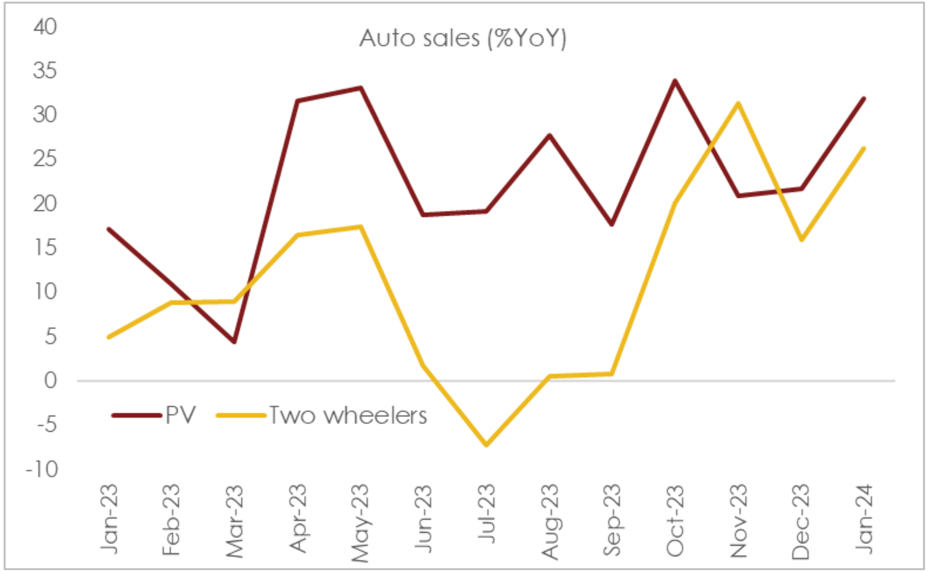
Some of the domestic lead indicators started in 2024 on a strong note. PMI manufacturing too strengthened to a 4-month high, driven by a sharp uptick in new orders and improved further in Feb-24. PMI services index rose to a 6-month high in Jan-24 at 61.8 led by expansion in new business although some correction seen in Feb-24.

Auto sales remained resilient in Jan-24 and Feb-24, with growth in two-wheeler sales clocking a double-digit growth– the best run in the post COVID phase.

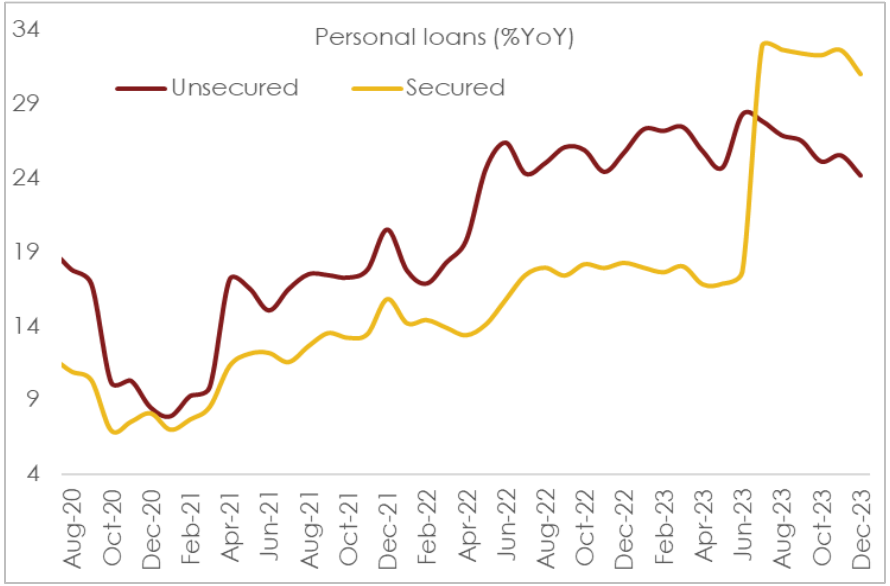


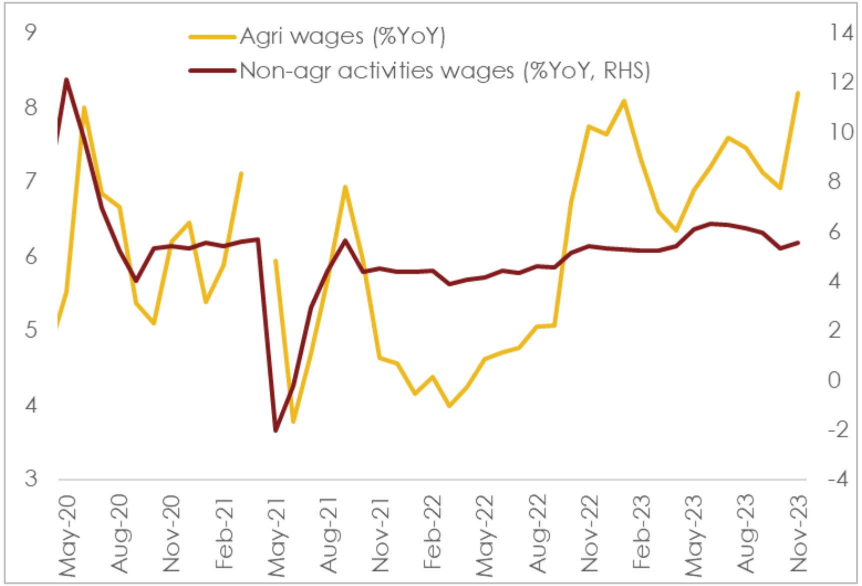


Urban consumption may slow down, rural on recovery path

While urban consumption has held up well so far in FY24, impact of lagged monetary policy tightening as well as regulatory measures to curb the pace of unsecured lending, are expected to weigh on the pace of urban consumption in FY25.

In contrast, rural consumption could continue to recover aided by rise in agriculture wages, upward adjustment in MSPs, moderation in retail inflation along with indirect measures of income support such as reduction in LPG cylinder price and extension of free foodgrain program.

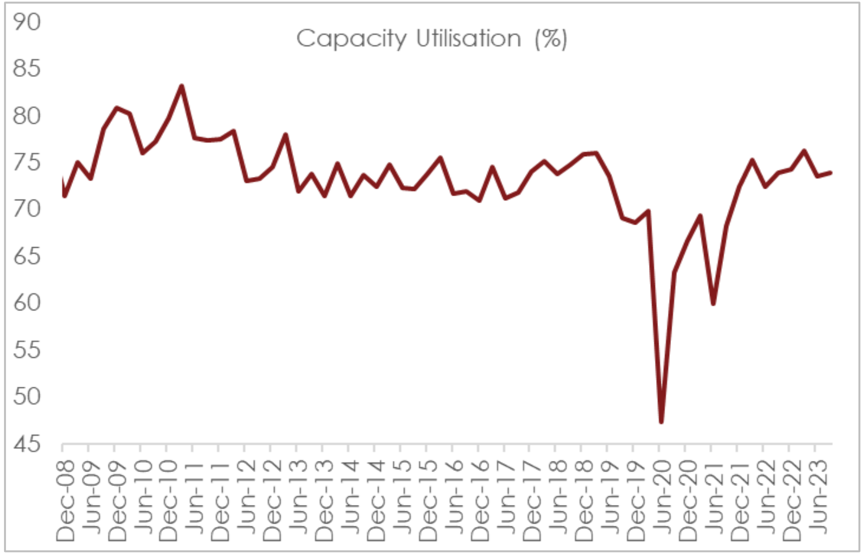


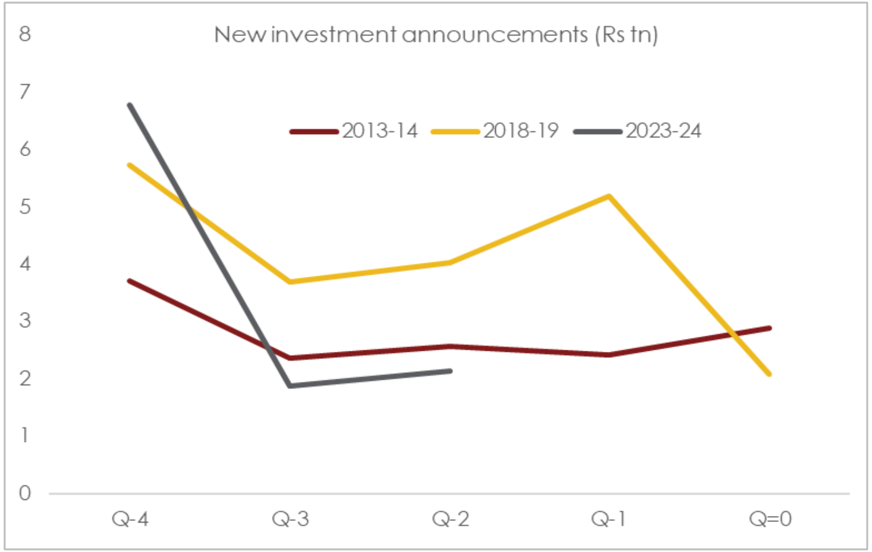


Private capex still waiting in the wings

Capacity utilisation levels have improved to ~74% on trend basis, over the last 4 quarters as per RBI's OBICUS survey. Despite healthier corporate balance sheets and comfort from global commodity cycle, private capex recovery continues to wait in the wings; expected to pick-up more materially post general elections in FY25

New investments continued to remain lackadaisical in the quarter ending Dec-23, as per CMIE data at Rs 2.1 tn compared to Rs 1.9 tn in the previous quarter. Historically, we do find evidence of new investments remaining sluggish in 2-3 quarters prior to general elections.

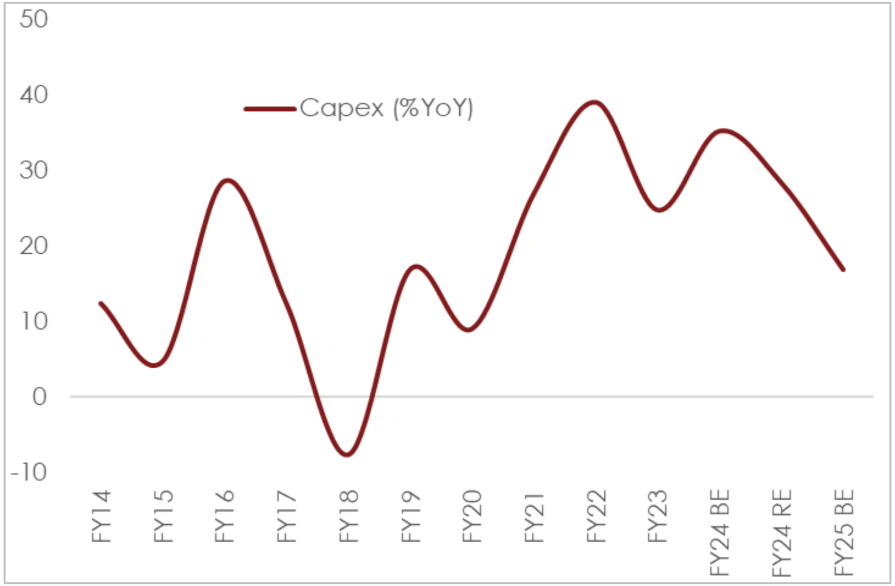


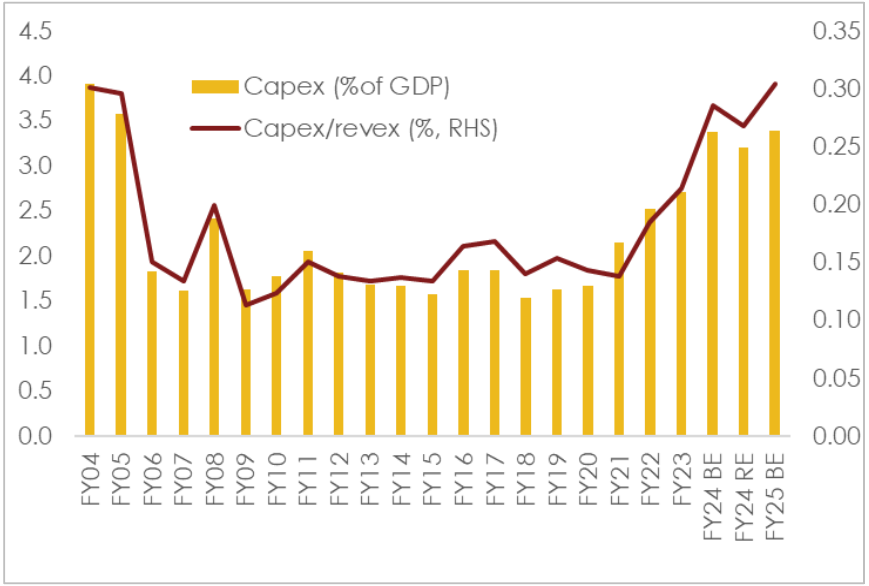


Interim Budget FY25: Growth supportive

The interim budget, keeping in mind the aim to consolidate materially on fiscal deficit, had to take the pedal off somewhat on capex spending. In annualized terms, capex is budgeted to grow by ~17% in FY25, compared to >30% growth on average in the last 4 years.

The slowdown in pace of capex spending notwithstanding, capex as a % of GDP is expected to improve to 3.4% in FY25 from 3.2% in FY24, along with an improvement in quality of spending (ratio of capex/revex) – underscoring that the capex thrust of the Government remaining intact.





Global growth forecast improves, but clouded by ongoing geopolitical tensions

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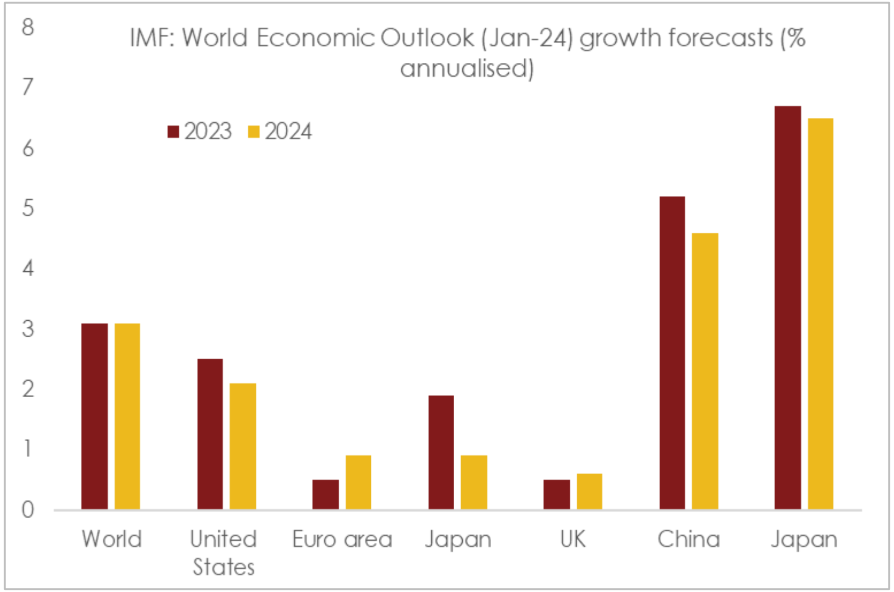
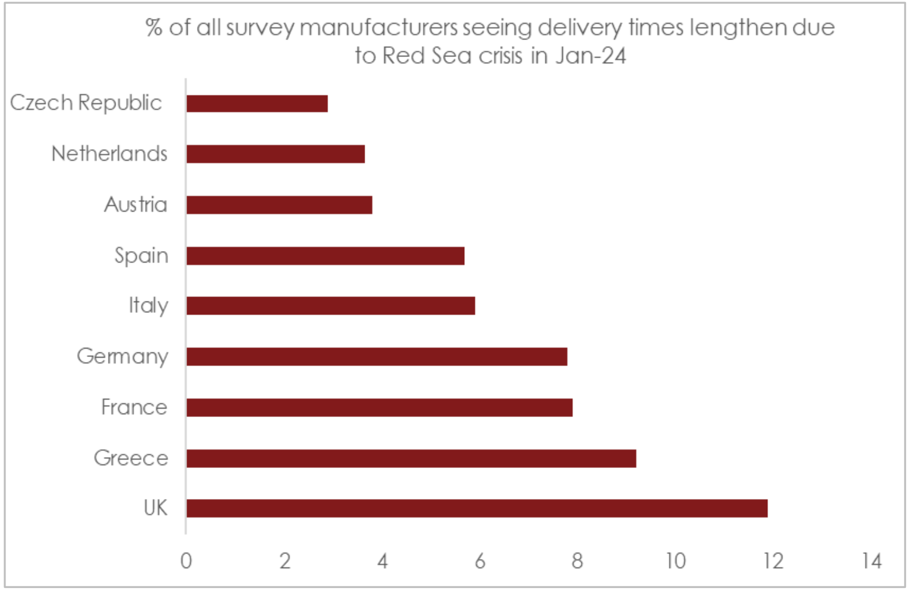
IMF, in its Jan-24 update to World Economic Outlook, upgraded 2024 global growth forecast by 20 bps to 3.1% - to match 2023's pace of expansion. Amidst stronger than anticipated strength in US economy along with some other EMDEs, as well as fiscal support in China, the risk of a global hard landing in 2024 has receded materially

Having said so, continued attacks in the Red Sea and the ongoing war in Ukraine risk generating fresh adverse supply shocks to the global recovery, with spikes in food, energy, and transportation costs (IMF, World Economic Outlook). Global PMI surveys indicate a lengthening of delivery times already in Jan-24, especially for Eurozone economies





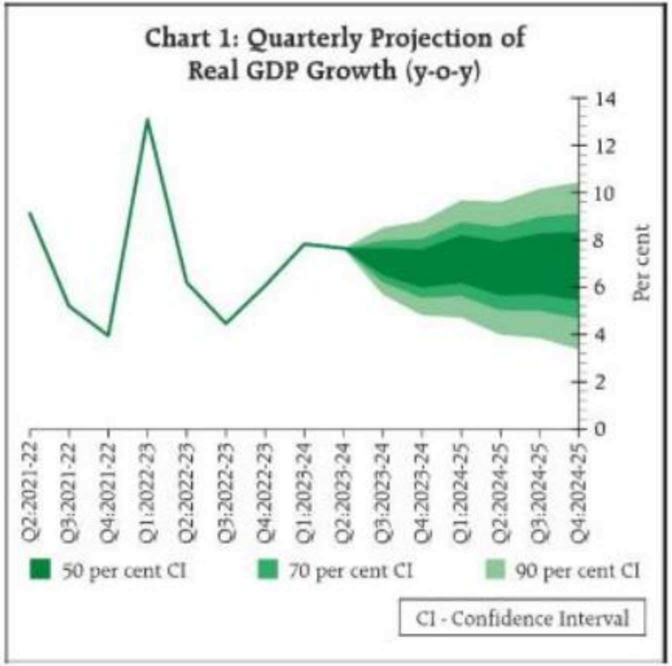
NSO upgrades FY24 growth to 7.6%, RBI @7.0% for FY25

NSO has upgraded the growth estimates for FY24 and Q3FY24 at 7.6% and 8.4% respectively after significant adjustments to the past data.

RBI in its Feb-24 monetary policy, pegged FY25 GDP growth estimate at 7.0%. Market expectations are however placed lower, premised on normalization in demand for services and waning of support of price deflator to manufacturing sector in FY25.

FY25 quarterly GDP growth forecast	
Q1	7.2
Q2	6.8
Q3	7.0
Q4	6.9

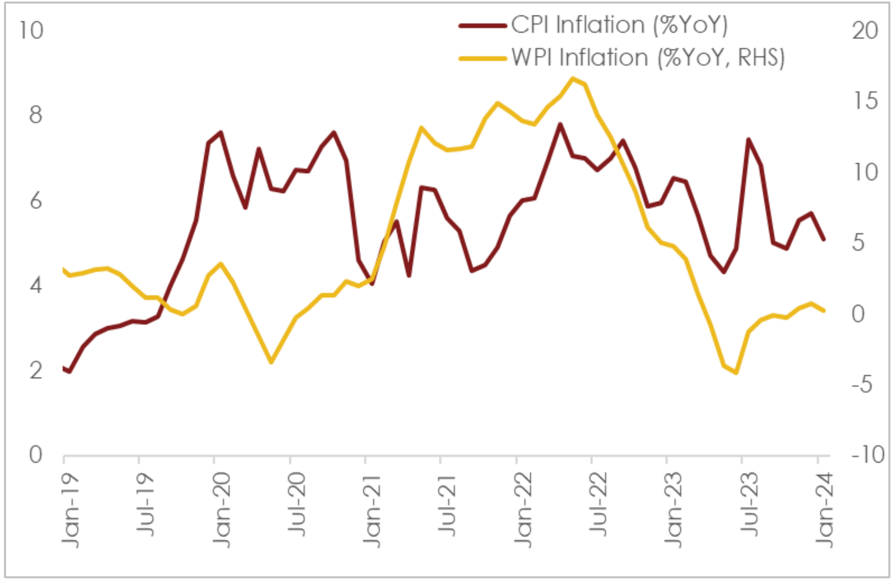
Growth as per RBI estimates, is expected to remain in a tight range of 40 bps in FY25, between 6.8-7.2% in FY25 NSO

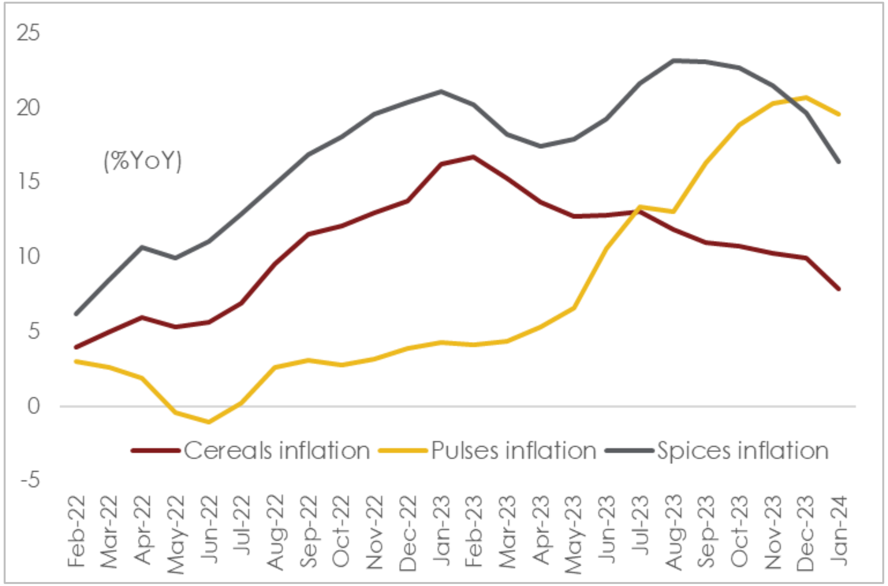


Jan-23 CPI moderates, food price moderation turning broad-based

India's CPI inflation moderated to a 3-month low of 5.10% YoY in Jan-24 vis-à-vis 5.69% in Dec-23. With favorable winter seasonality exerting its influence, food inflation has started showing initial signs of softening despite few lingering concerns.

In addition to perishables (veggies), price pressures for some of the other categories such as spices, cereals, sugar and pulses have either eased/corrected over the last 1-2 months.





Rabi sowing surpasses historical norms, El Nino on watch

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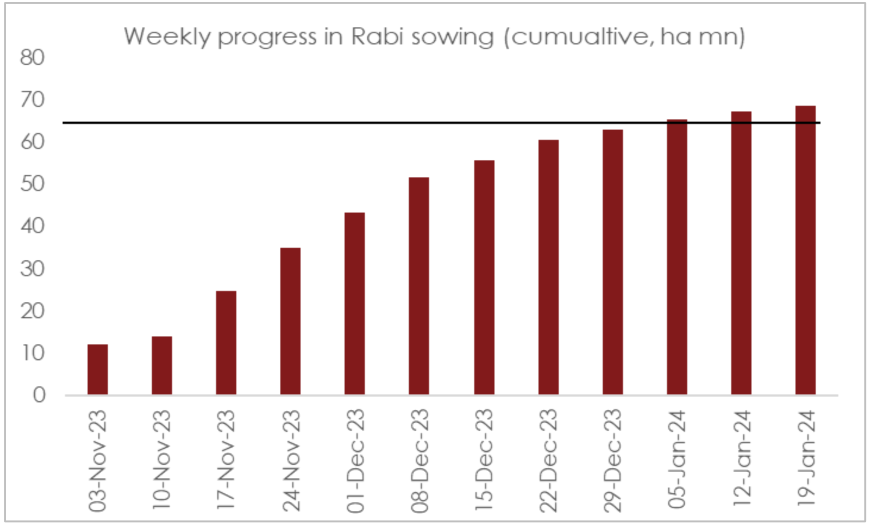
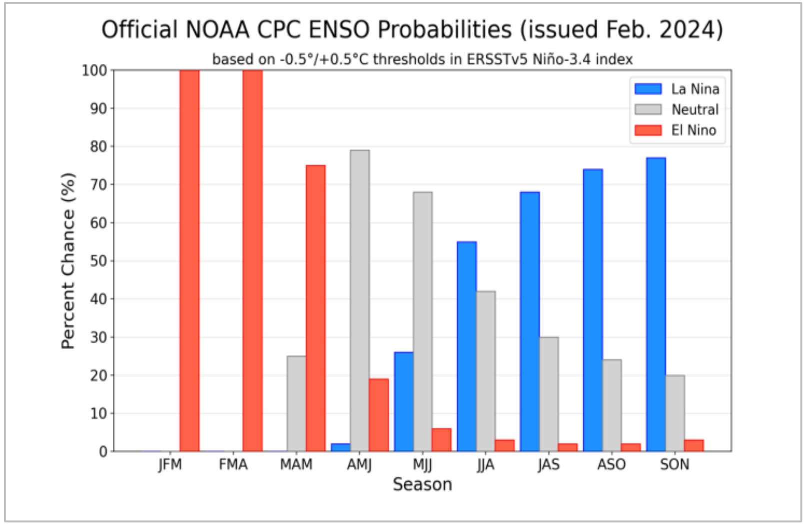
Area sown under Rabi crops, after a slow start, ended the season a tad above historical norms. However, area sown under Pulses lagged last year's level sizeably (-4.6%).

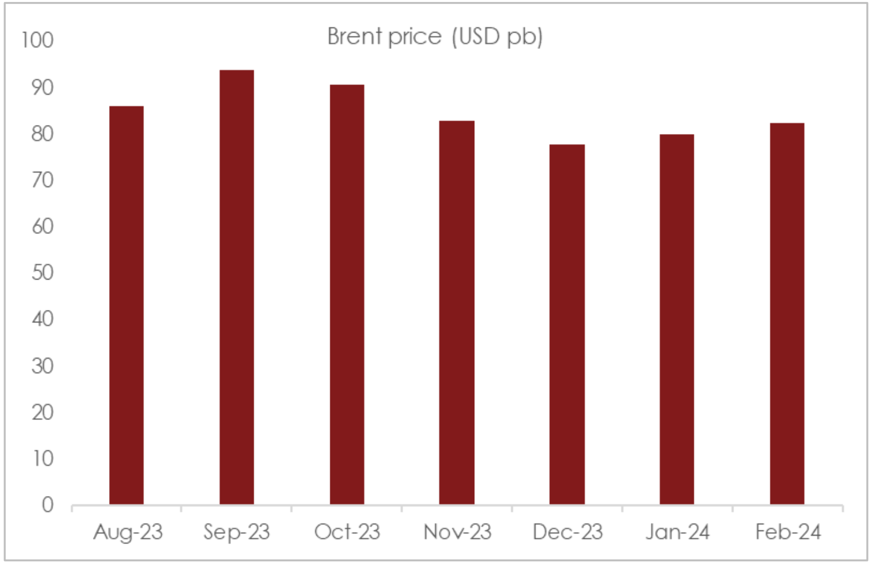
Global agencies anticipate El Nino conditions turning 'Neutral' by Apr-24, which may augur well for 2024 Southwest monsoon.



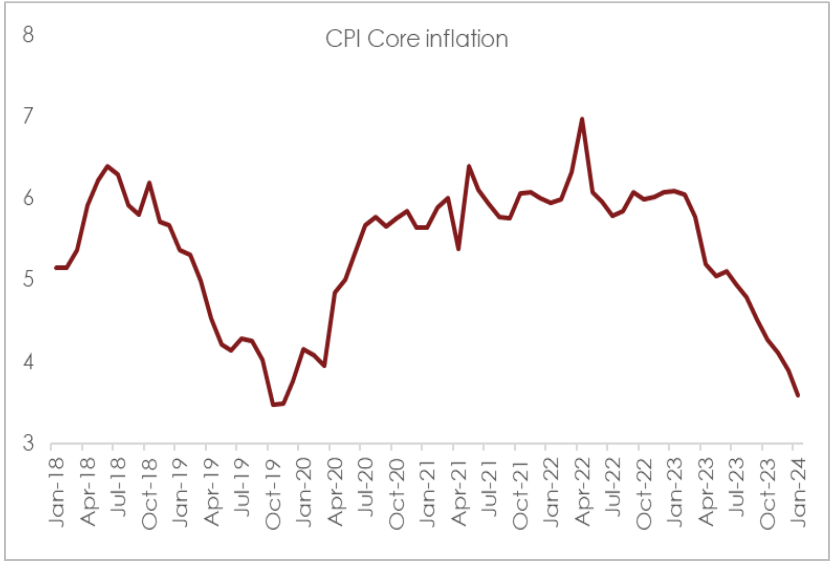


Fuel and core inflation offer comfort

Crude oil price has remained largely comforting, despite tensions in the Red Sea region. In its latest update, IEA's expects global oil demand to lose momentum, prompting the agency to trim its 2024 growth forecast to 1.22 mbpd from 1.24 mbpd earlier.

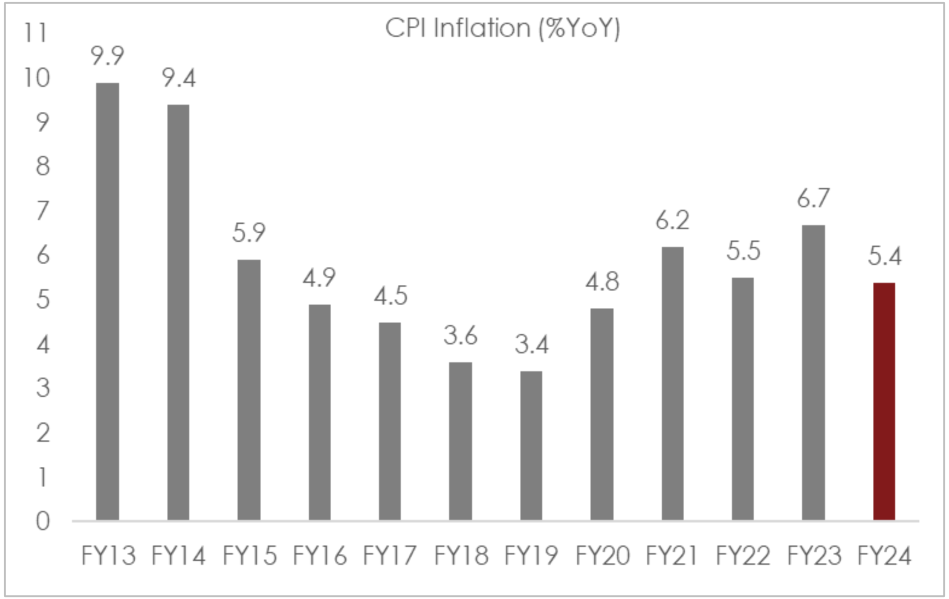


Domestic core inflation continues to moderate, slipping to a fresh record low of 3.7%YoY in Jan-24.



CPI inflation: To average 5.4% in FY24; align closer to target in FY25

We have revised our FY24 average CPI inflation down to 5.4%.
RBI has pegged FY25 CPI inflation forecast at 4.5%.



Upside risks to watch on inflation
Impact of Israel-Hamas tensions Tensions in Red Sea is a developing story on-watch
Impact of El Nino on global food production in the coming months. NOAA expects El Nino to remain strong at least until through spring of 2024. This could have downside risks to domestic Rabi output
Durability of price pressures seen in cereals, and pulses, despite administrative measures
2024 Southwest monsoon

Snapshot of Apr-Dec FY24 fiscal performance

The FYTD accretion to fiscal deficit stood at 56.6% of revised estimates (RE) for FY24, lower than 57.3% of actuals, as seen in the corresponding period in FY23. While both receipts and expenses registered a higher accrual/disbursal in FYTD24 vs. FYTD23, the relatively faster pace of receipt collection this year has pushed the fiscal deficit moderately lower on FYTD basis.

Key Fiscal Variables (Cumulative position, Apr-Dec)				
	% of FY Actual/Target		%YoY	
	FY23	FY24	FY23	FY24
Revenue Receipts	74.3	75.6	2.1	15.4
Net Tax	74.2	74.4	5.6	11.2
Non-Tax	74.9	83.1	-17.4	45.8
Non-Debt Capital Receipts	76.3	52.9	93.6	-46.2
Total Receipts	**74.3**	**75.5**	**3.6**	**13.5**
Revenue Expenditure	67.4	67.2	9.3	2.3
of which, Interest Payments	73.3	70.9	20.3	9.9
of which, Major Subsidies	67.2	66.9	29.2	-21.0
Capital Expenditure	66.5	70.9	25.1	37.5
Total Expenditure	**67.3**	**68.0**	**11.8**	**8.4**
Fiscal Deficit	**57.3**	**56.6**	**-**	**-**

Tax collection expected to moderate in Q4 FY24; capex continues its strong run

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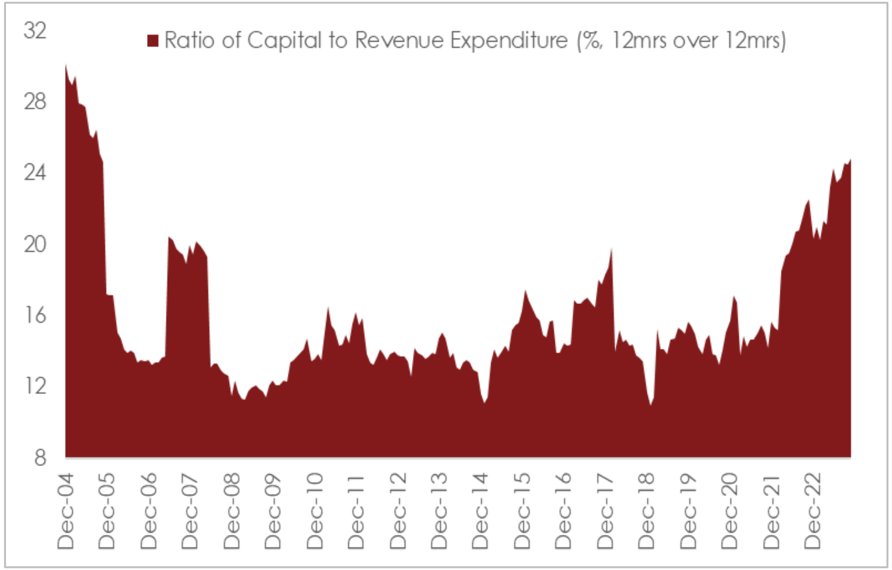
After a strong run, pace of direct tax collection is expected to moderate in Q4 FY24. In contrast, indirect tax collection is budgeted for a moderate improvement in Q4 FY24.

Growth in key tax categories	FY24 RE (% change)	Apr-Dec FY24 (% YoY)	Jan-Mar FY24 (% YoY)
Gross Tax	**12.5**	**14.4**	**8.1**
Corporate Tax	11.7	18.7	-7.7
Income Tax	22.7	28.4	22.8
Customs	2.5	-0.2	10.2
Excise	-4.8	-7.0	0.0
GST	12.7	9.3	19.9

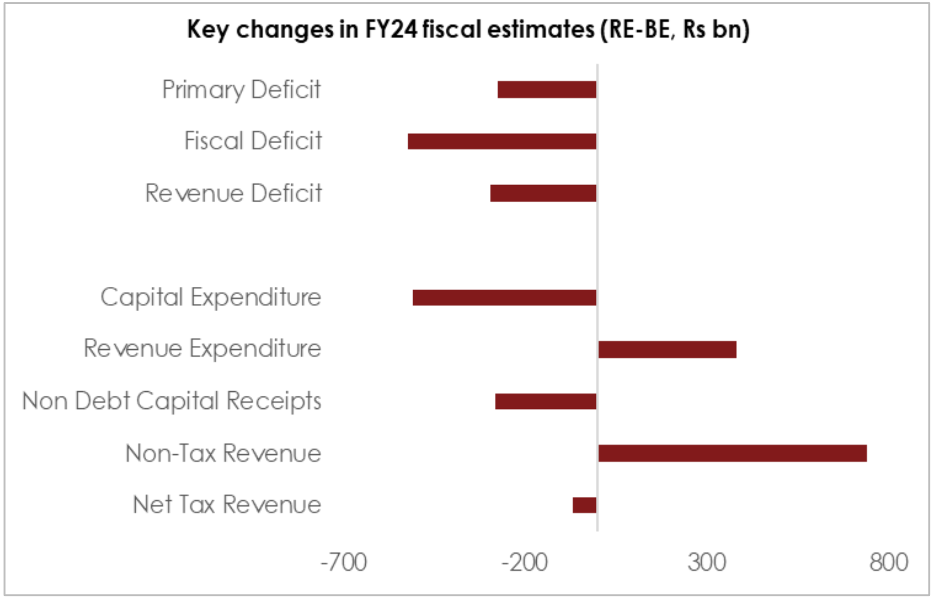
Note: Annualized change for Apr-Dec FY24 is on provisional basis while that for Jan-Mar FY24 is implied from the revised estimates.

Capex disbursal until the end of Q3 FY24 has grown at a robust pace. Given, the pruning of full year capex budget, the momentum could see a let up in Q4 FY24.



FY24 fiscal deficit target revised marginally lower

Notwithstanding the pressure from a lower than anticipated Nominal GDP growth, the government revised lower its fiscal deficit target for FY24 by 10 bps to 5.8% of GDP. Higher than budgeted non-tax revenue and some pruning of capital expenditure vis-à-vis BE helped in this consolidation.



Key deficit indicators (% of GDP)	FY24 BE	FY24 RE
Revenue Deficit	2.9	2.8
Fiscal Deficit	**5.9**	**5.8**
Primary Deficit	2.3	2.3

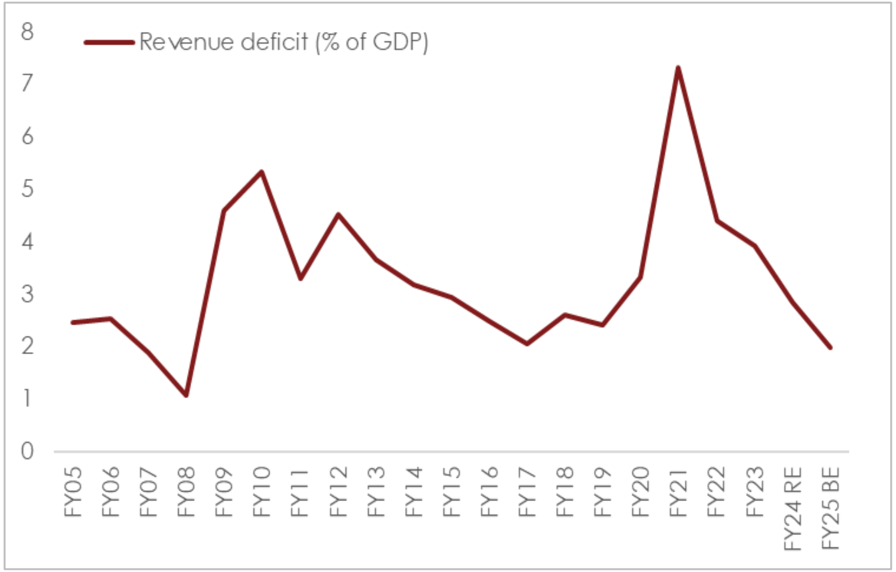
FY25 Interim Budget: At a glance

The government has shown its commitment to fiscal consolidation by targeting a fiscal deficit of 5.1% in FY25. Continuing revenue buoyancy and healthy non-tax revenues from disinvestment will be necessary for achieve the target.

	In Rs bn			As % of GDP		
	FY23	FY24 RE	FY25 BE	FY23	FY24 RE	FY25 BE
Revenue Receipts	23,835	26,997	30,013	8.7	9.1	9.2
Gross Tax Revenue	30,538	34,372	38,308	11.2	11.6	11.7
Net Tax Revenue	**20,974**	**23,239**	**26,016**	**7.7**	**7.8**	**7.9**
Non-Tax Revenue	**2,862**	**3,758**	**3,997**	**1.0**	**1.3**	**1.2**
Dividends & Profits	999	1,544	1,500	0.4	0.5	0.5
Non-Debt Capital Receipts	**722**	**560**	**790**	**0.3**	**0.2**	**0.2**
Disinvestments	460	300	500	0.2	0.1	0.2
Total Expenditure	41,932	44,905	47,658	15.4	15.1	14.5
Revenue Expenditure	**34,531**	**35,402**	**36,547**	**12.7**	**11.9**	**11.2**
Interest Payment	9,285	10,554	11,904	3.4	3.6	3.6
Subsidy	5,779	4,405	4,097	0.9	0.8	0.7
Capital Expenditure	**7,400**	**9,502**	**11,111**	**2.7**	**3.2**	**3.4**
Revenue Deficit	10,699	8,405	6,534	3.9	2.8	2.0
Fiscal Deficit	**17,378**	**17,348**	**16,855**	**6.4**	**5.8**	**5.1**
Primary Deficit	8,092	6,793	4,951	3.0	2.3	1.5

Revenue deficit has normalized; FY25 funding math appears comforting

Revenue deficit is budgeted to moderate to a 17-year low of 2.0% of GDP in FY25



Even as net g-sec borrowing is set to be steady at around Rs 11.8 tn in FY25, gross borrowing is set to moderate to a 3-year low of Rs 14.1 tn (this is on account of using Rs 1.2 tn from the GST Compensation Fund to meet scheduled redemptions in FY25).

Key Sources of Financing Fiscal Deficit (Rs bn)

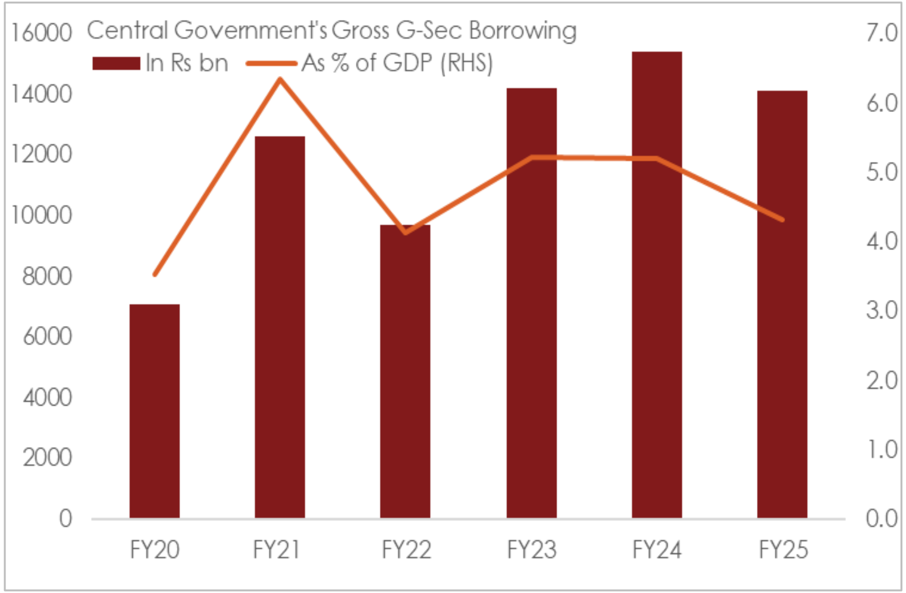
	FY23	FY24 RE	FY25 BE
External Debt	371	248	160
Net Market Borrowing	12,203	11,818	12,252
G-Sec	**11,083**	**11,805**	**11,752**
T-Bill	1,120	13	500
Small Savings	3,959	4,713	4,662
State Provident Funds	509	52	52
Others*	352	516	-271
Cash Drawdown	-16	-267	35
Total	17,378	17,348	16,855

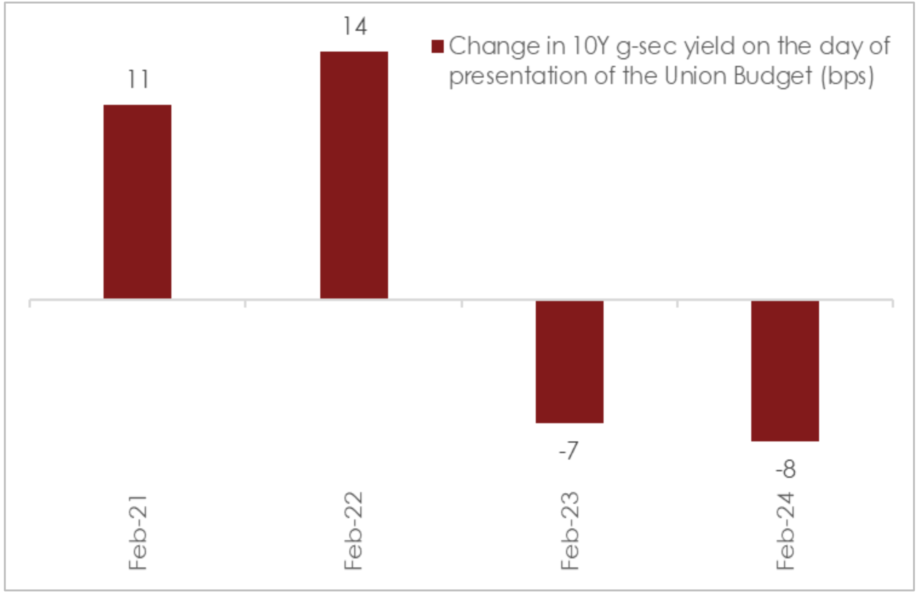
We believe FY25 fiscal deficit target to be met with risks appearing neutral. This hopefully will set the stage for touching 4.5% fiscal deficit ratio in FY26.

While g-secs gained post the presentation of the FY25 Interim Budget…

The 3-year low gross g-sec borrowing of Rs 14.13 tn budgeted for FY25 turned out to be much lower than market expectation of Rs 15-16 tn.

This resulted in day-on-day decline in 10Y g-sec yield of 8 bps – the best among the post COVID budget day presentations

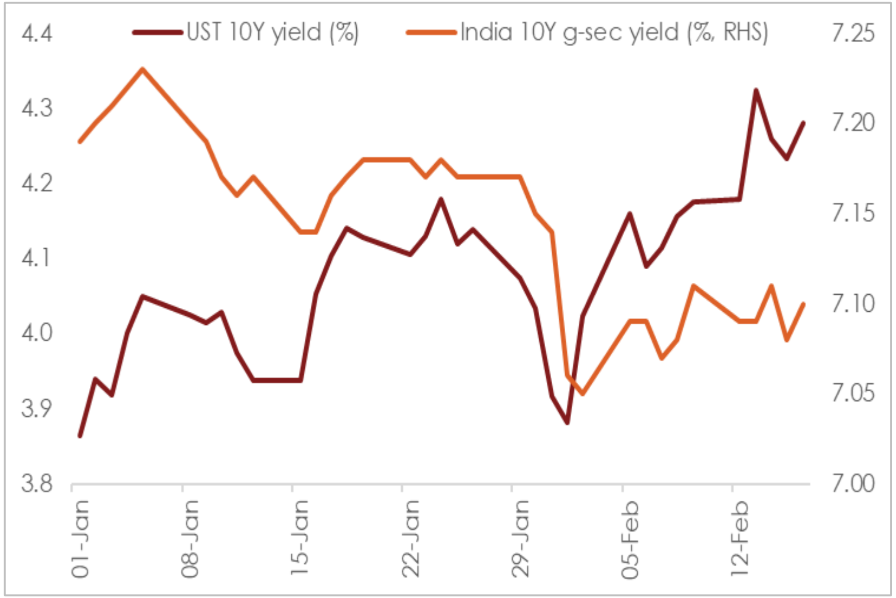


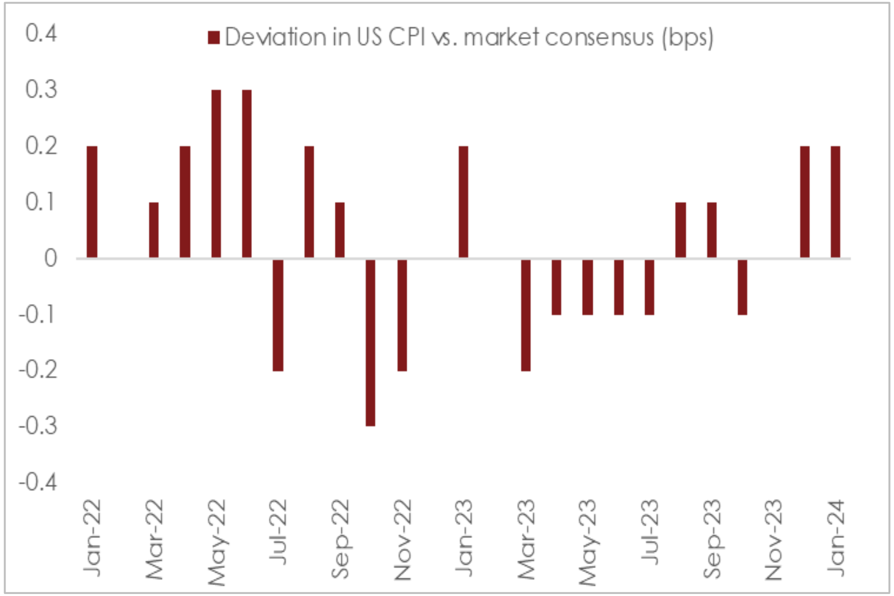


...it gave up some of its gains amidst concerns over sticky US inflation

However, with 10Y UST yield rising by 42 bps since its 2024 lows, Indian g-sec yields gave up all the post budget gains in an empathetic move.

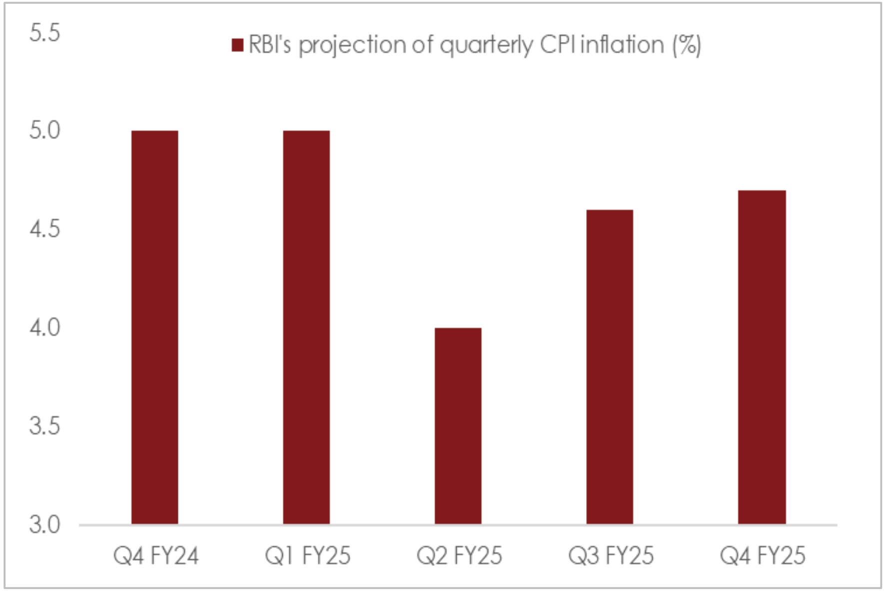
Post two higher than expected inflation prints in the US, futures market has revised its expectation of cumulative - rate cut from the Fed to 75-100 bps from 125-150 bps earlier.



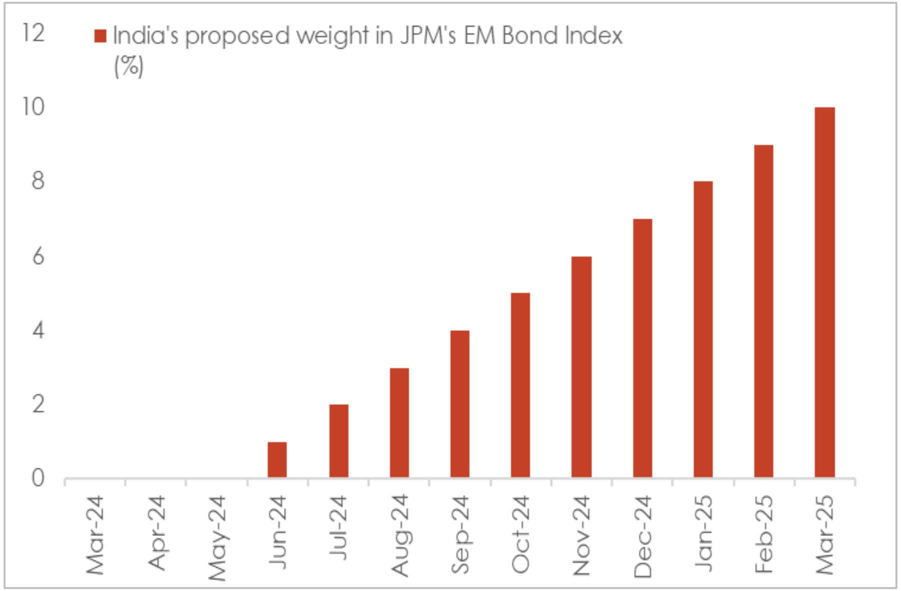


Expectations with respect to domestic inflation and demand remain supportive

As per the RBI, CPI inflation is projected to moderate to 4.5% in FY25 from 5.4% in FY24.

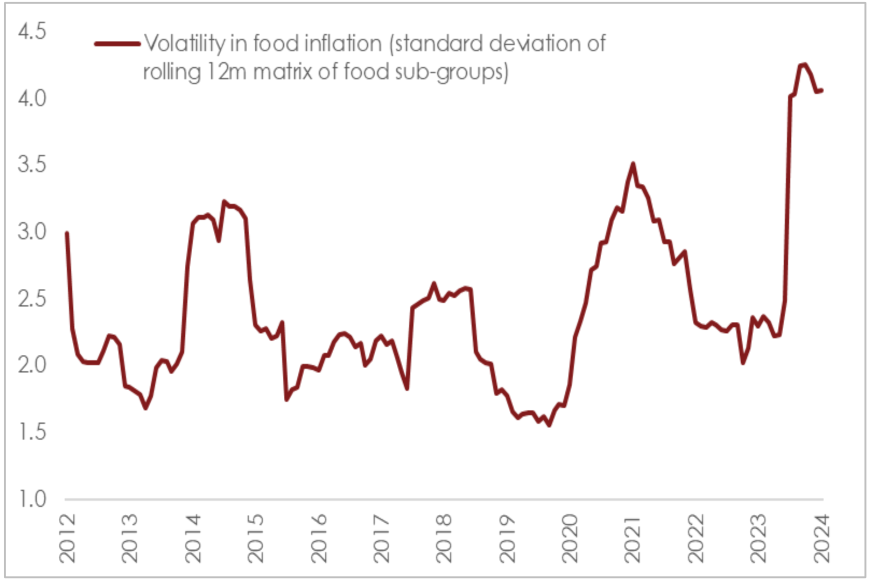


With India's inclusion in JP Morgan's EM Bond Index, there is a possibility of USD 20-21 bn passive inflows by Mar-25.

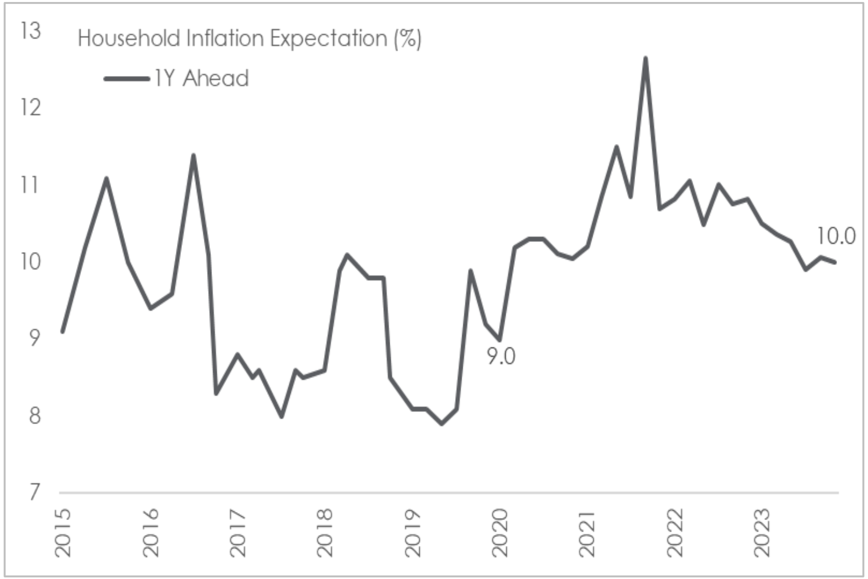


MPC expected to maintain caution

Below normal and erratic monsoon has kept key food items (within staples) at elevated levels. In addition, extreme volatility and El Nino uncertainty has made forecasting food inflation challenging.



Long term inflation expectations of households are yet to get back to their pre pandemic levels despite record monetary tightening by the MPC.



We expect MPC to maintain pause in Apr-24 policy review – this will result in repo rate remaining unchanged after the last move in Feb-23.

Rates outlook

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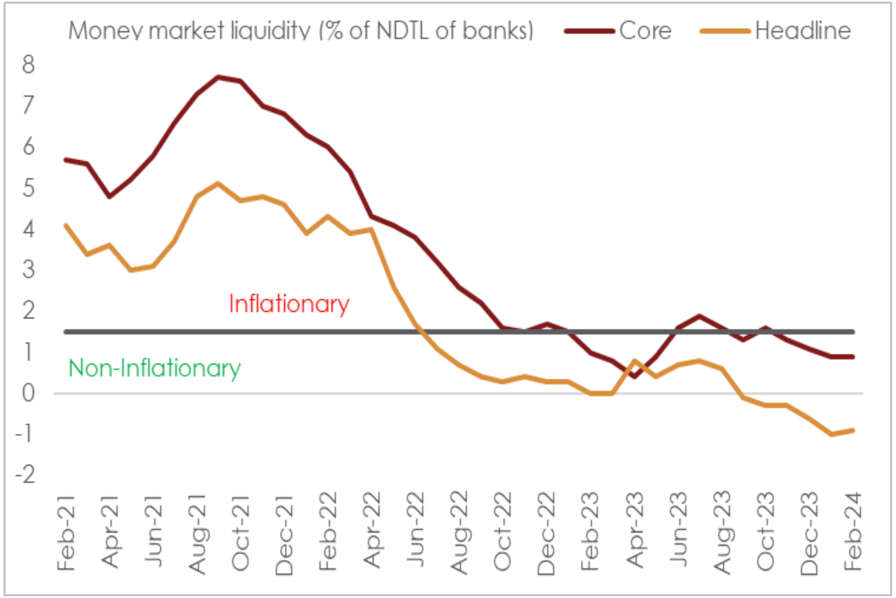
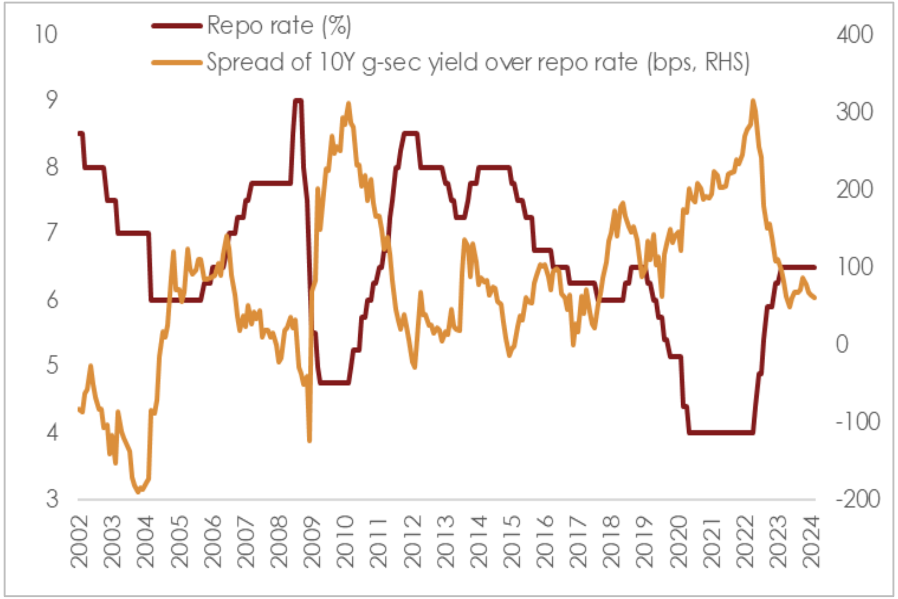
We expect RBI to moderate core liquidity surplus from Rs 2.1 tn (1.0% of NDTL) in end Q3 FY24 to Rs 1.6 tn (0.8% of NDTL) by end Q4 FY24 to boost monetary policy transmission.



Comfort on inflation and expectation of a turn in global monetary policy cycle has helped to compress g-sec term premium.

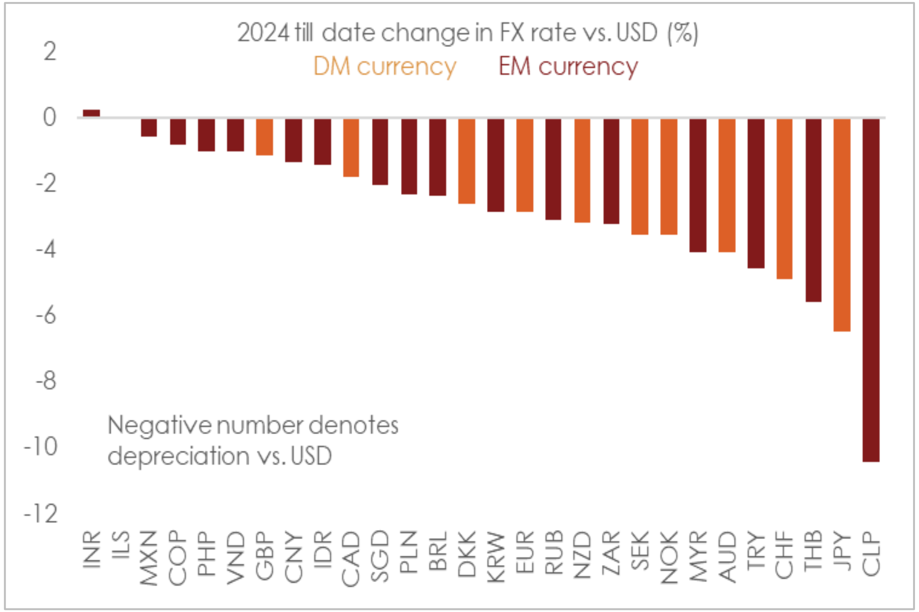


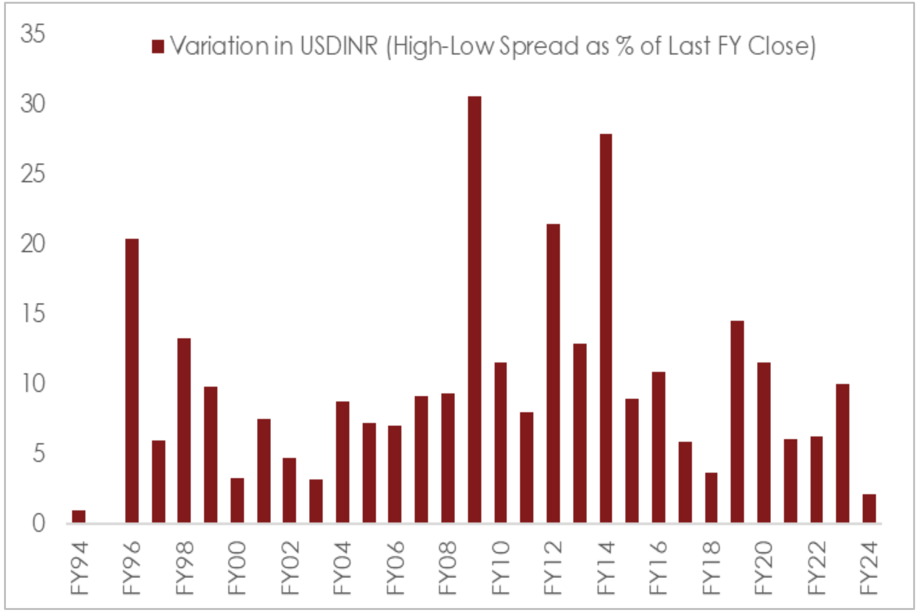
With domestic inflation projected to moderate and index inclusion becoming a reality **we expect 10Y g-sec yield to moderate towards 7.00% by Mar-24**. However, El Nino and geopolitical factors could potentially provide an upside risk.

INR has been the most stable currency in 2024 so far…

Although INR is trading close to its record low levels, it has emerged as the one of the strongest currencies in 2024 so far…

…accompanied by extremely subdued volatility (lowest in nearly three decades).





…amidst improvement in trade deficit and healthy momentum in capital flows

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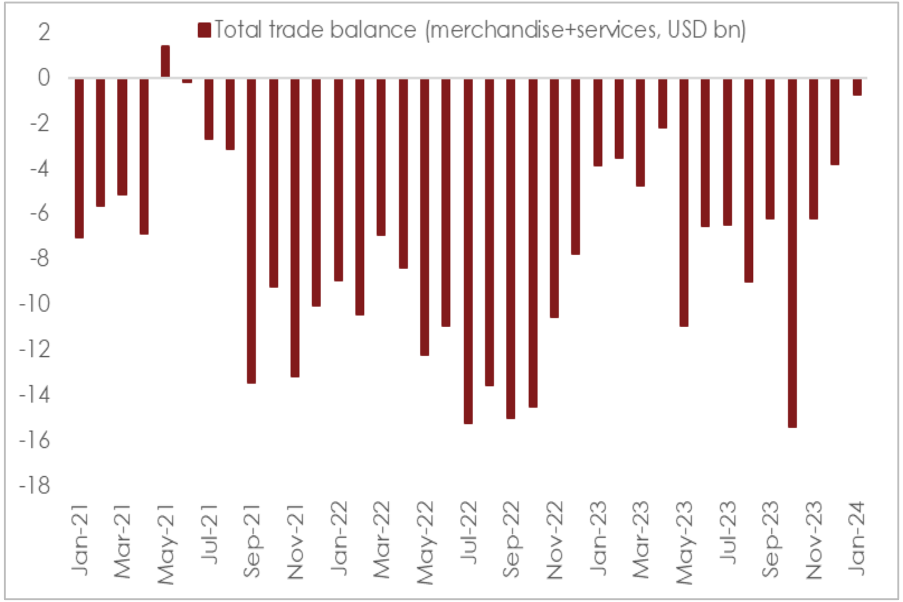
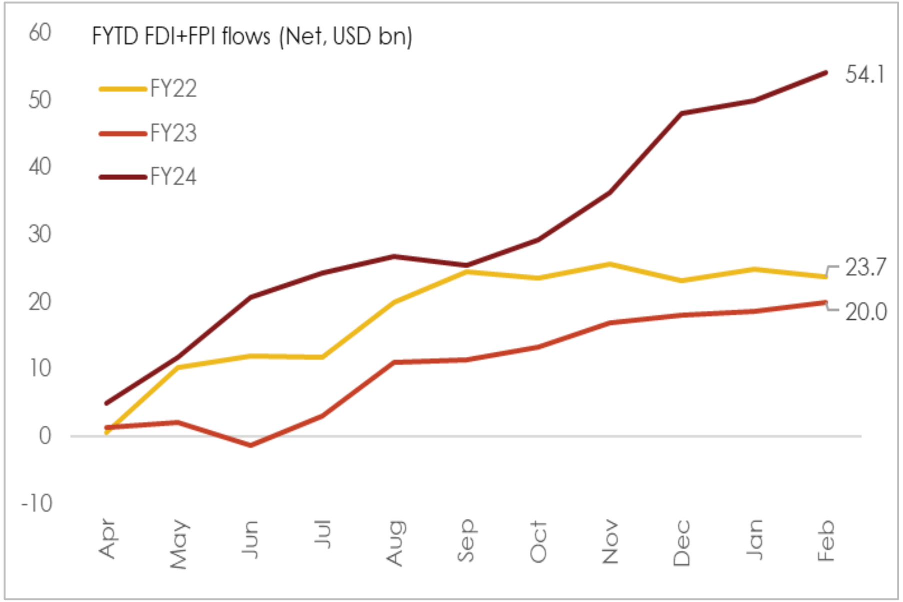
India's monthly total trade (goods + services) deficit has corrected sharply from USD 15.4 bn in Oct-23 to just USD 0.7 bn in Jan-24 amidst moderation in commodity prices and domestic demand along with improvement in exports.



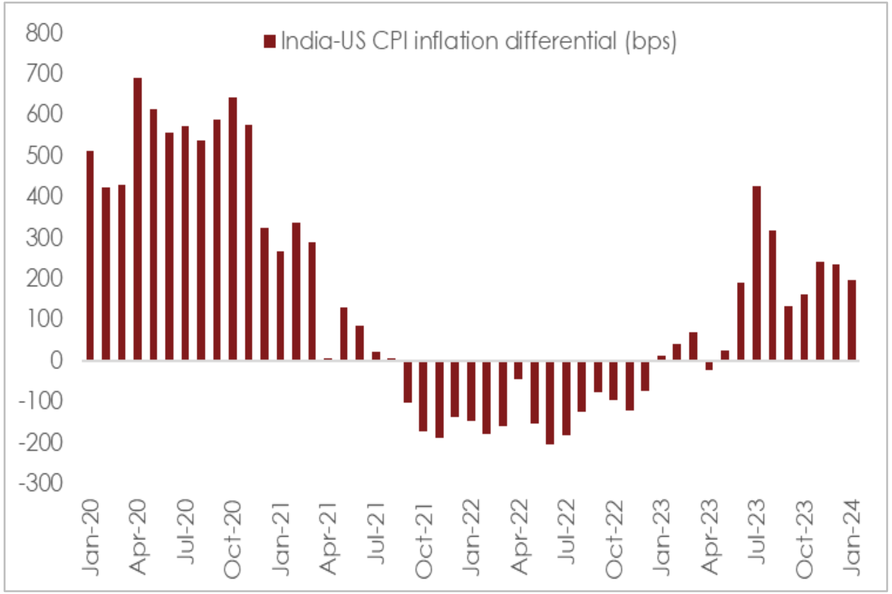
Foreign investment flows have been strong, primarily supported by portfolio inflows in FY24 so far.



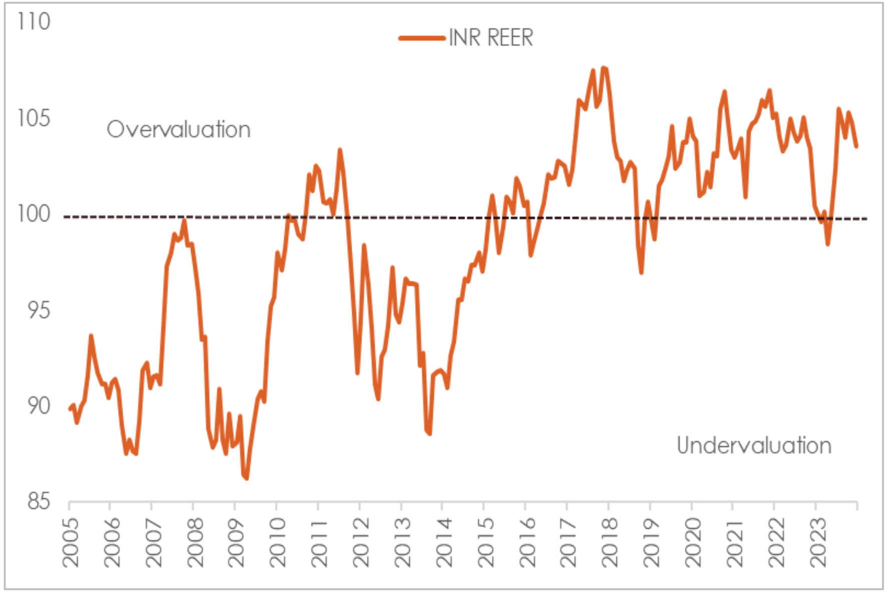
Note: (i) FDI figures after Nov-23 is an extrapolation basis last 24-m trend, and (ii) FPI figure for Feb-24 is until 16th

However, inflation differential continues to point towards scope for a mild weakness in INR

Inflation differentials continue to remain in favor of the US over India…



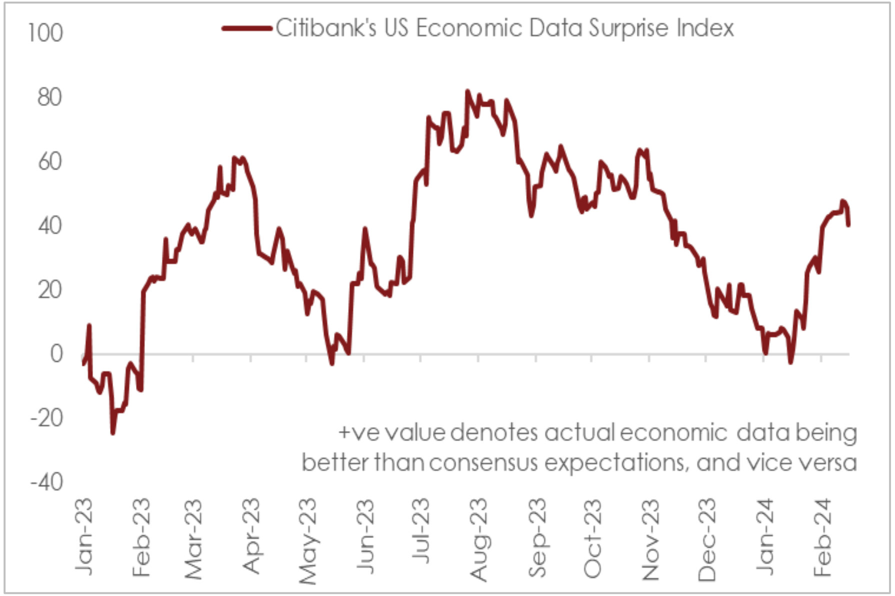
…thereby keeping INR in the overvaluation (5-6% vis-à-vis the long-term trend) territory.

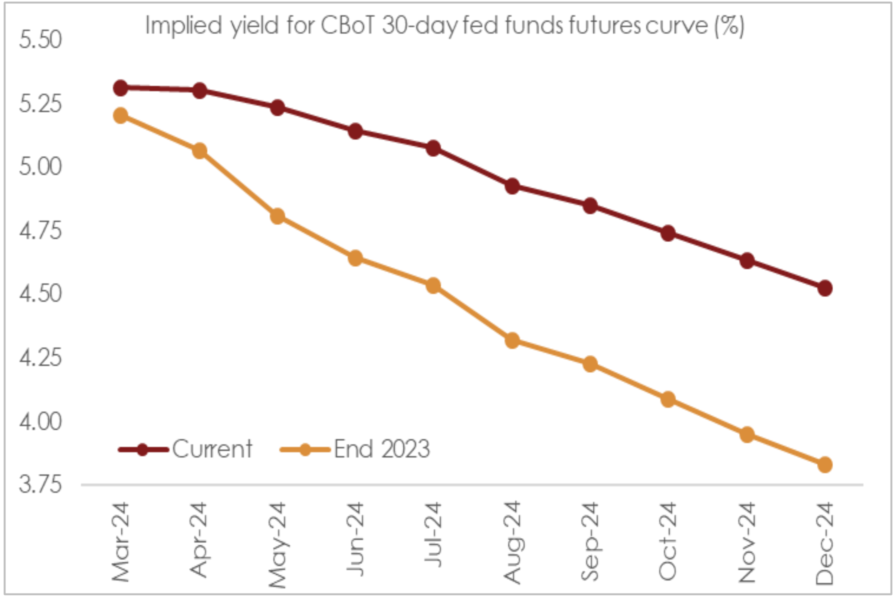


Strength in US data pushing back rate cut expectations

Recent economic data from the US has surprised on the upside. This has not just pushed back consensus expectation of an early pivot, but it has also moderated the extent of monetary easing priced in by market participants.

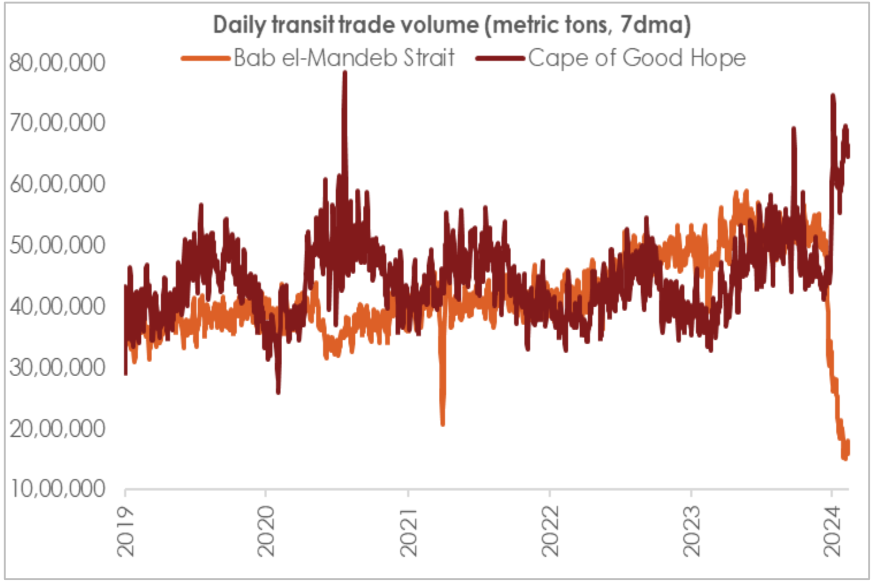
Currently, market participants expect the Fed to pivot in May/Jun 2024 with cumulative rate cut expectation of 75-100 bps for CY24, down from 125-150 bps that stood towards the end of CY23.



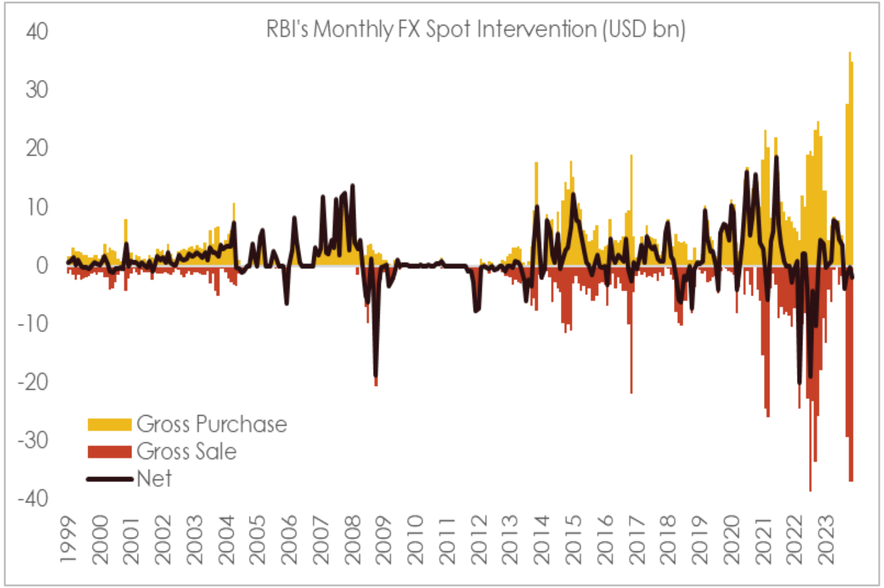


Rupee outlook

Although the initial impact of the ongoing geopolitical disturbance in the Red Sea region appears minimal, it needs to be monitored closely.



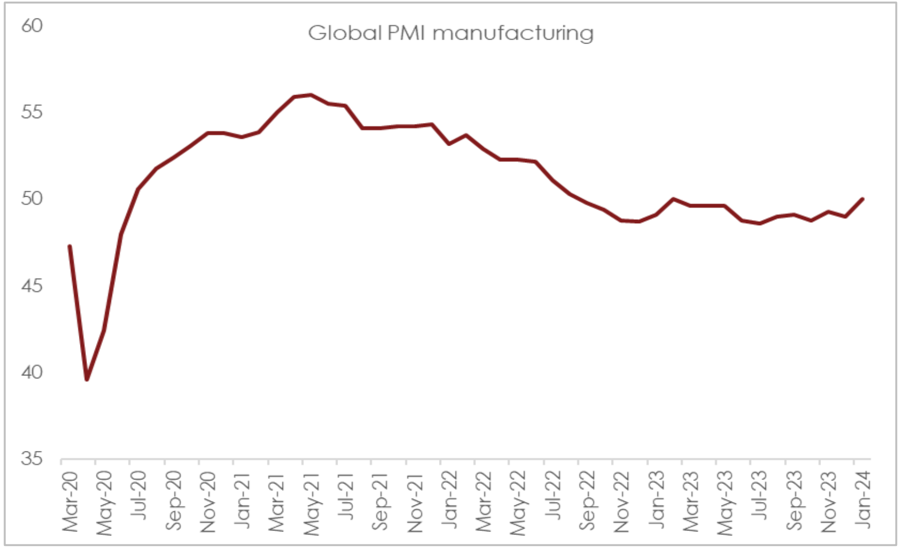
The RBI has upped its two-sided intervention to curb volatility. This is likely to continue amidst prevailing geopolitical uncertainty.



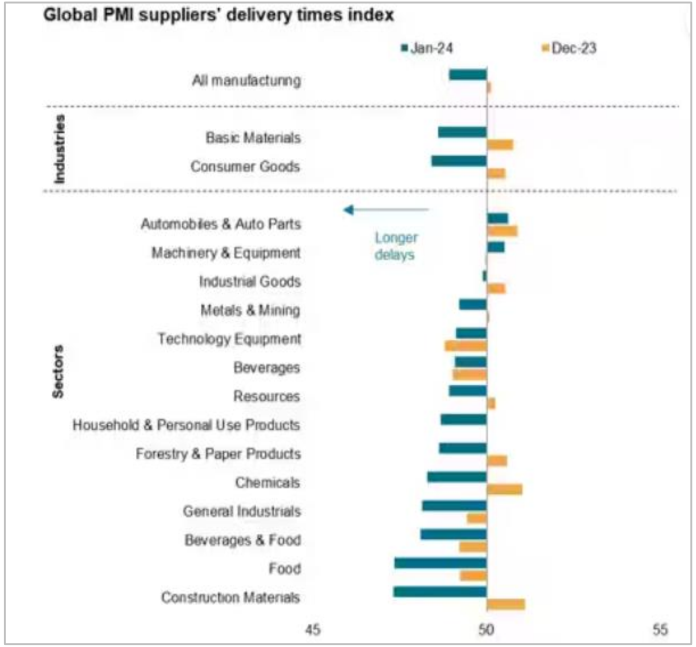
A constructive growth outlook vs. peers would support INR in the medium term. We maintain our mild constructive view on INR, with a move towards 82.5 by Mar-24. Push back in case of Fed pivot and worsening of geopolitical risks could however put INR under some pressure.

Global manufacturing PMI: Moves above 50 in Jan-24

In Jan-24, global manufacturing PMI rose above the threshold of 50 for the first time since Aug-22. Most economies indicated an improvement, driven by the "new orders" and "production" components, including Canada, US, Greece, Italy, Netherlands, Spain, India and Brazil. Having said so, both UK and Japan slumped into a recession, at the end of 2023.



The improvement in Jan-24 PMI was despite escalation of tensions in the Red Sea region, which has lengthened delivery timelines for sectors such as Food and Construction materials.



Inflation and labour markets: Still not offering comfort to Fed

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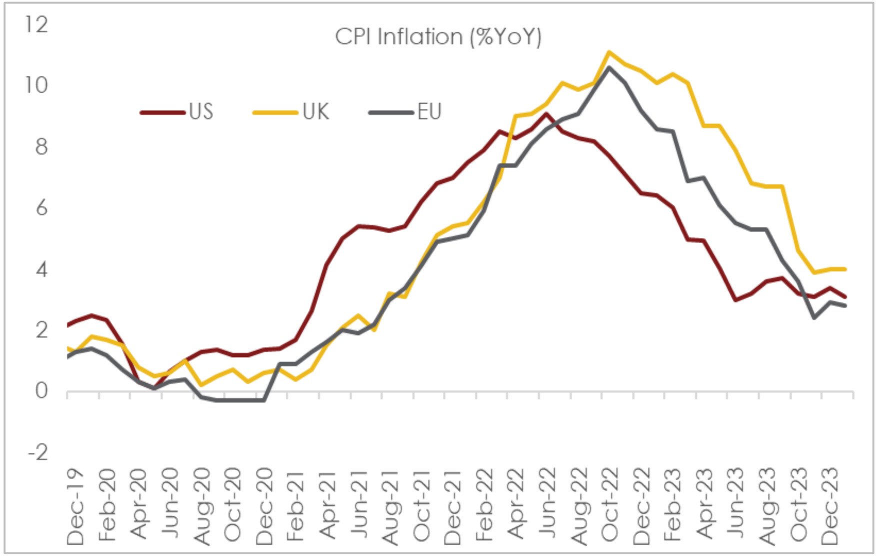
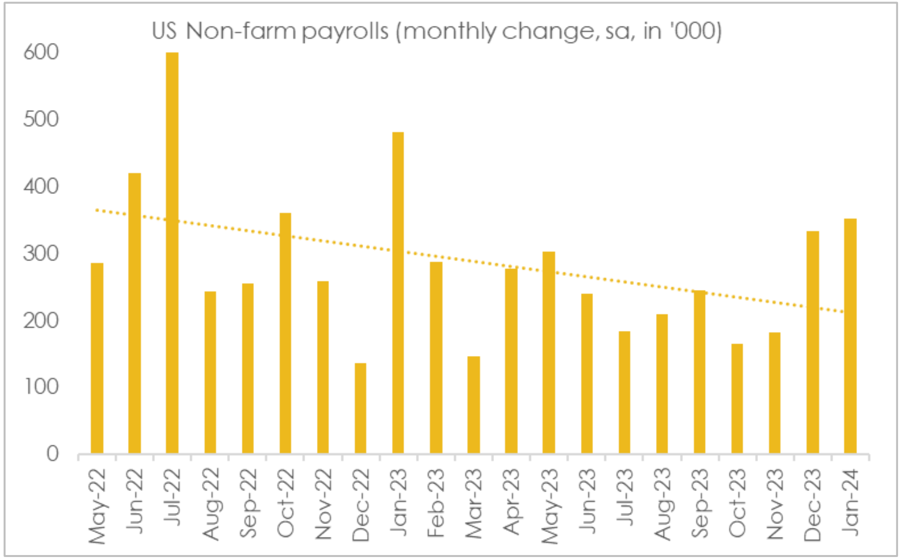
CPI in US rose more than expected in Jan-24, coming in at 3.1% (vs. 2.9% projected). Excluding volatile food and energy prices, core CPI accelerated 0.4% in Jan-24 and was up 3.9%YoY, unchanged from Dec-24 vs. forecast of 0.3% and 3.7%, respectively.

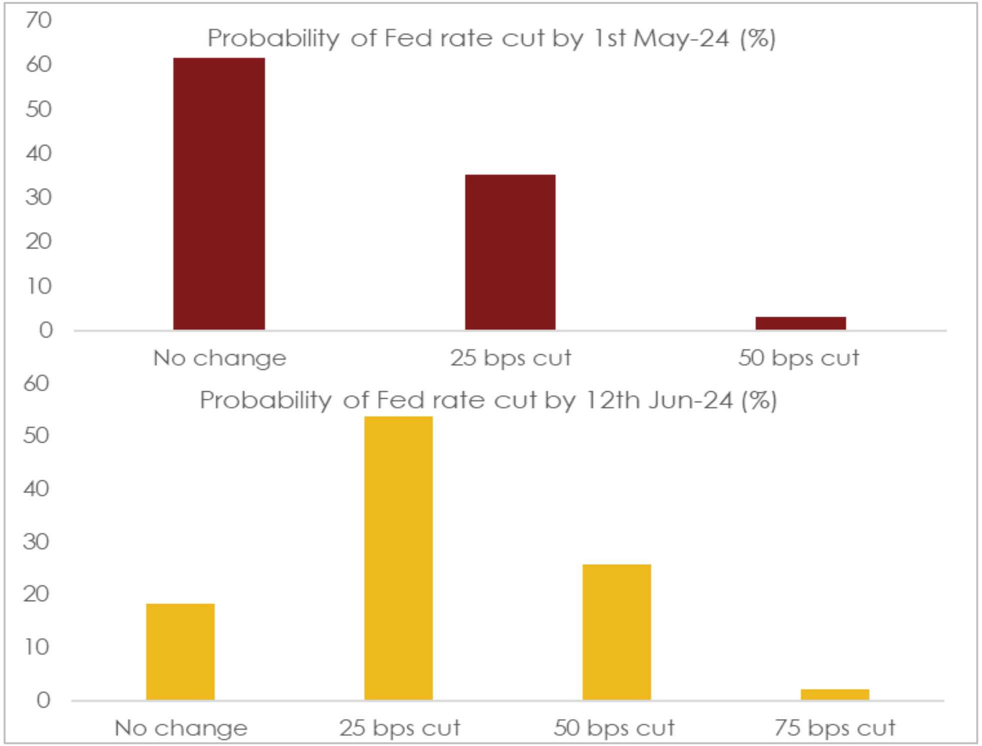
US labour markets continue to display resilience with economy adding 353k jobs in Jan-24 (vs. 185k expected) – posting yet another month of strong payrolls increase. In addition, average hourly earnings rose 0.6%MoM (4.5% YoY), beating market expectation of 0.3% sequential increase.





Rate cut by Fed to commence in Jun-24?

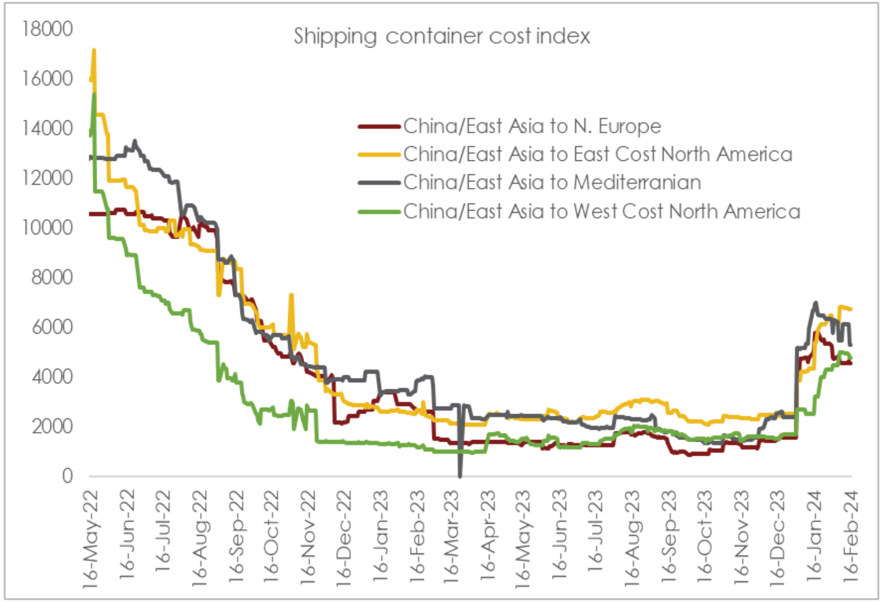
Post the higher-than-expected CPI and NFP data, markets have rolled over rate cut expectations to May/Jun-24

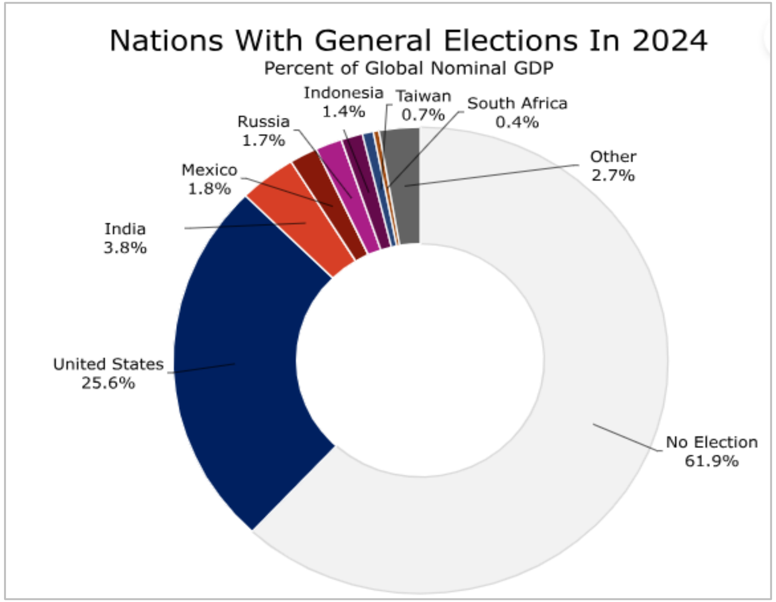


2024: Developments on watch

Tensions in Red Sea area have led to Suez Canal becoming a less viable route to move goods. This has led to increase in shipping rates and longer transit times, which are yet to reflect in output costs so far.

2024 is a year packed with elections in many countries. Economies that go into in an election this year account for nearly 40% of the world's nominal GDP.





Source: IMF

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Media Contact:

Sahban Kohari
Ph: + 91-9890318722
sahban@eminencestrategy.com

Analytical Contacts:

Suman Chowdhury Chief Economist & Head of Research Ph: + 91-9930831560 suman.chowdhury@acuite.in	Prosenjit Ghosh Group Chief Business Officer Ph: +91-9920656299 prosenjit.ghosh@acuite.in

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+91 22 4929 4000 info@acuite.in +91 99698 98000

708, Lodha Supremus, Lodha iThink Techno Campus, Kanjurmarg (E), Mumbai 400 042