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Macro Pulse Report

Jan 2024

From the desk of the Chief Economist

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Dear Readers,

CY2024 has started on an optimistic note with an increased expectation of a reinstatement of the current Government in the upcoming Central elections. Clearly, a stable government at the Centre for another 5 years would imply stability of economic policies, consistent focus on growth and possibly a higher dose of economic reforms.

The growth estimates for FY24 has surprised on the upside with NSO pegging it at 7.3%, materially higher than the consensus estimates. While our forecast is 50 bps lower at 6.8%, we have been persuaded to upgrade our forecasts significantly, given the stronger underlying momentum in the economy. 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 and segment. Having said that, we are cognizant of a likelihood of a moderation in growth from Q4FY24 with the impact of slowdown in rural and agricultural demand getting more visible over the next few quarters. In our opinion, the NSO's own estimate of a 4.4% growth in private consumption in FY24 is a point of concern; this is despite the resilience and strength in urban consumption which therefore reflects the fragility in rural demand.

As we publish this report, the Budget exercise for FY25 will be underway. Although it is an interim budget, the market expects the government to reaffirm its commitment to fiscal consolidation and at the same time, provide higher allocations for those segments of the population who continue face stress namely farmers and unemployed youth in the country. Given the need for fiscal consolidation, we expect a moderation in the frenetic pace of public capital expenditure. The government is likely to commit itself to a fiscal deficit of around 5.3% in FY25 though the task is not going to be that easy unless there is a real upsurge in disinvestment revenues.

On the macro stability front, the current scenario is comforting. Headline retail inflation has subsided to around 5.5% despite the pressures on food inflation induced by El Nino phenomenon in the current year. Importantly, core inflation has dropped below 4.0% and wholesale inflation is nominal; no surprises are expected in the last quarter unless there are fresh geo-political events. Capital inflows have started to improve, and the forex reserves have strengthened further. As regards the timing of the rate cuts, one may have to wait for another 2 quarters. Cheers,

- Suman Chowdhury, Chief Economist and Head – Research

NSO pegs FY24 growth at 7.3%

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Beating all market expectations, National Statistical Organization's (NSO) first advance estimates project India's real GDP and GVA growth for FY24 at 7.3% and 6.9% respectively

- Nominal GDP, which becomes a critical input for Budget arithmetic, is projected at Rs 296.6 Lakh Cr – translating into annualized growth of 8.9% compared to 16.1% in FY23. Against the budgeted growth of 10.5%, this gives Government's fiscal deficit target of 5.9% a statistical upside of 10 bps ceteris paribas.

	FY22	FY23	FY24	H1 FY24	H2 FY24
GVA	**8.8**	**7.0**	**6.9**	**7.6**	**6.2**
Agri and allied	3.5	4.0	1.8	*2.4*	*1.4*
Industry					
Mining and Quarrying	7.1	4.6	8.1	*7.6*	*8.4*
Manufacturing	11.1	1.3	6.5	*9.3*	*3.9*
Electricity, Gas, Water Supply etc.	9.9	9.0	8.3	*6.4*	*10.3*
Construction	14.8	10.0	10.7	*10.5*	*10.9*
Services					
Trade, Hotels, Transport, Communication	13.8	14.0	6.3	*6.6*	*6.1*
Financial, Real Estate & Professional Services	4.7	7.1	8.9	*9.0*	*8.7*
Public Administration, Defence	9.7	7.2	7.7	*7.7*	*7.7*

	FY22	FY23	FY24	H1 FY24	H2 FY24
GDP	**9.1**	**7.2**	**7.3**	**7.7**	**7**
Private Final Consumption Expenditure	11.2	7.5	4.4	*4.5*	*4.4*
Government Final Consumption Expenditure	6.6	0.1	4.1	*5.1*	*3.1*
Investments	14.6	11.4	10.3	*9.5*	*11*
Exports	29.3	13.6	1.4	*-1.7*	*4.3*
Less Imports	21.8	17.1	13.2	*13.5*	*12.8*

Better than FY23 growth of 7.2%, completely defies the anticipated slowdown in growth in FY24

Strength in FY24 growth is expected to be led by robust expansion in manufacturing, mining and construction sectors within Industry (statistical boost owing to negative WPI), and Finance, real estate etc. within Services

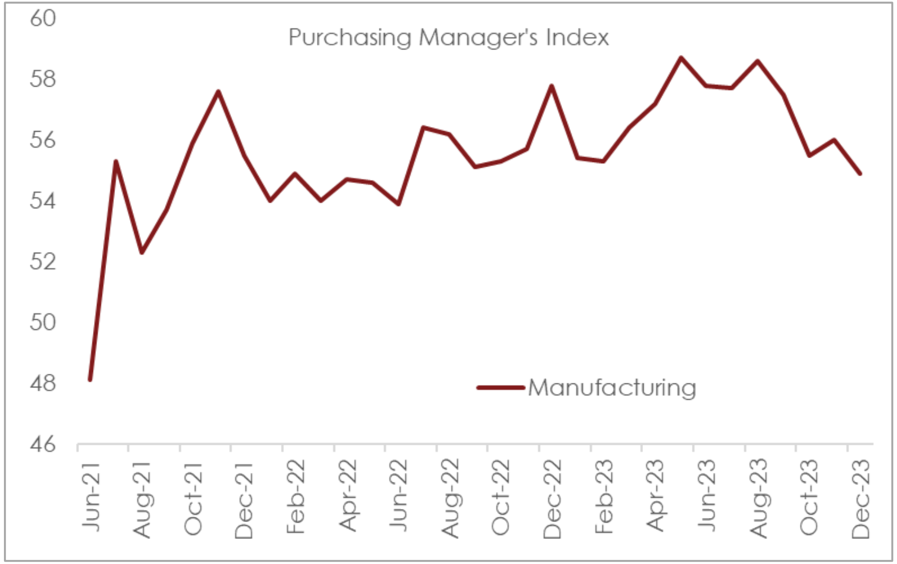
On the demand side, Government consumption and investment are anticipated to lend support; with moderation in imports coming as a relief.

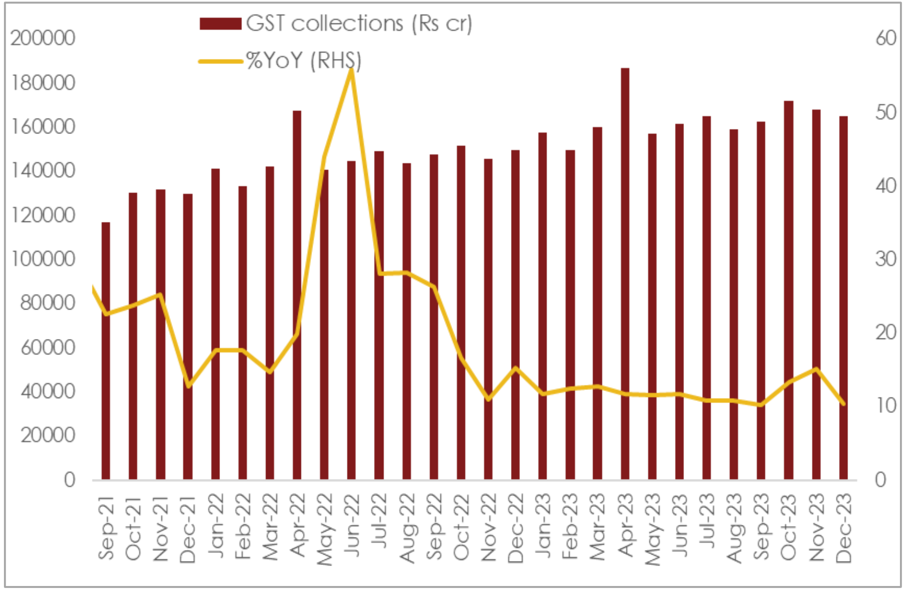
Services, esp. contact-intensive ones of Trade, hotels, transport, communication are expected to undergo a strong normalization, with PFCE growth too estimated to slip to 4.4% in FY24

Growth momentum seen waning in Q3 FY24

Some of the lead indicators have shown signs of post festive fatigue in the months of Nov-Dec-23. PMI manufacturing index slipped to an 18-month low in Dec-23, owing to slower traction in new orders and output.

GST collections for Dec-23 slipped to Rs 1.64 Lakh Cr from Rs 1.68 Lakh Cr in Nov-23. Both the headline number and the growth rate for Dec-23 were the lowest in three months. However, the latest Jan-24 nos show 10.4% YoY growth.

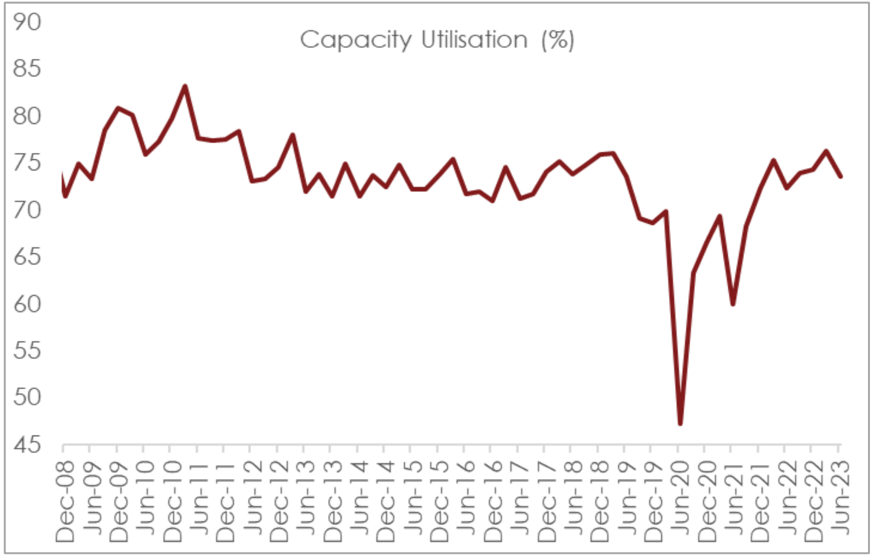


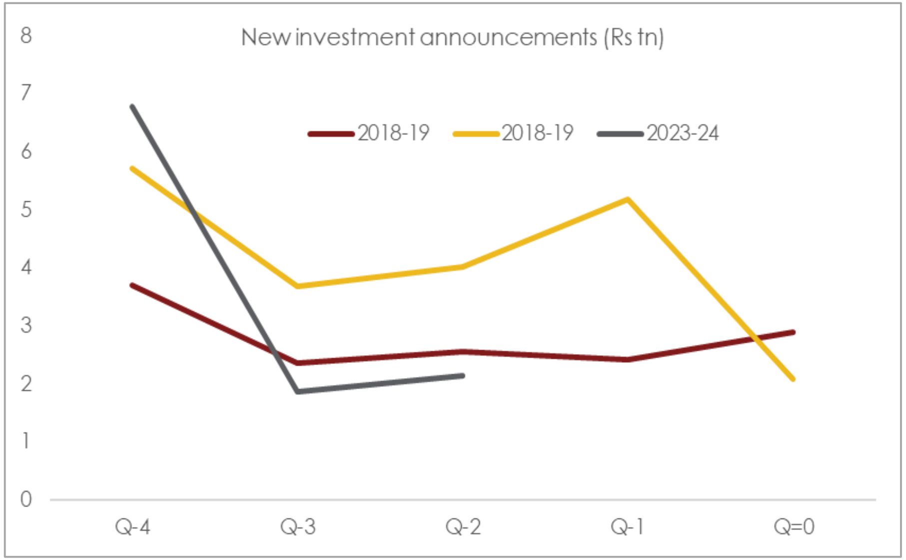


Private capex: Still waiting in the wings

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

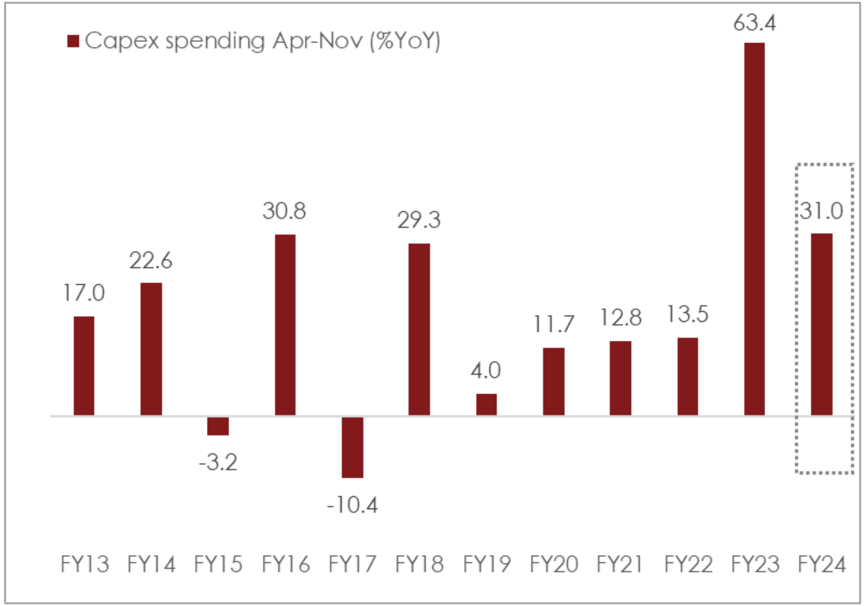
New investments continued to remain lackadaisical in the quarter ending Dec-23, as per CMIE data at Rs 2.1 Lakh Cr compared to Rs 1.9 LaKh Cr in the previous quarter. Historically, we do find evidence of new investments remaining sluggish in 2-3 quarters prior to general elections.





Fiscal spending to continue to offer support

Government capex after expanding at a strong pace in H1 FY24, has seen some pull-back in Oct-Nov-23. To be able to meet the full year BE of Rs 10 Lakh Cr, capex should expand by ~41%YoY over Dec-Apr.



Support from revenue expenditure continues, ahead of general elections early next fiscal. Interim budget may allocate higher subsidy relief. Some of the fiscal measures that have been announced in the last few months:

Extension of free foodgrains scheme for next 5 years

- This could keep the food subsidy elevated

Reduction in LPG cylinder price by Rs 200

- Another Rs 100 reduction for Ujjwala beneficiaries

Hike in DA for government employees

- By 4.0% for central govt. employees, also announced by select states including TN and UP

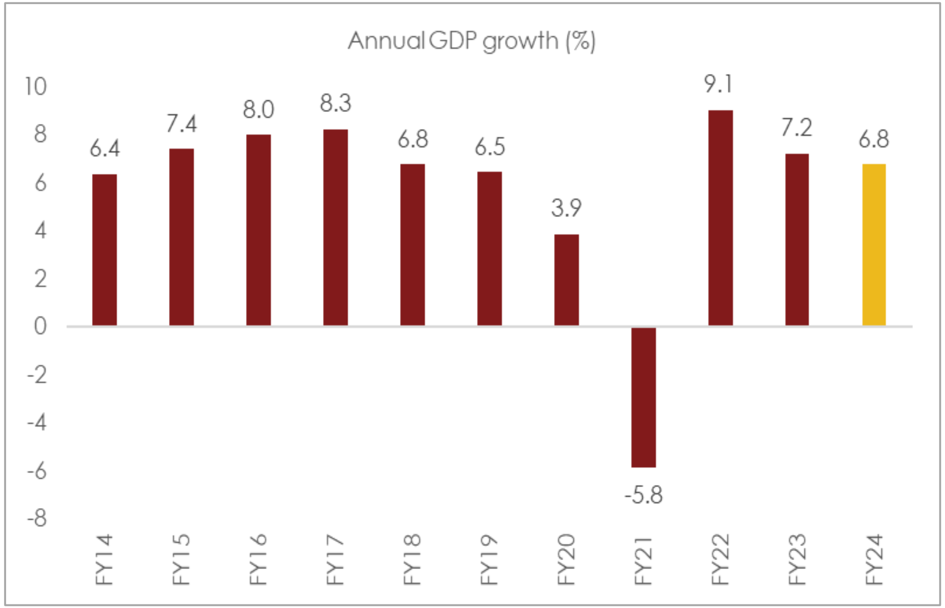
Wheat MSP hiked by 7.0% to support farmers

- The highest increment in over a decade

Still, GDP growth to wane in H2 FY24

With overall momentum exceeding expectations in Q2-Q3 FY24, we hold on to our FY24 GDP growth forecast of 6.8% with a minor upside bias.

There are four key factors that would weigh upon H2 FY24 GDP (expected at 6.0% vs. 7.6% in H1)



Adverse spillover from the anticipated (albeit somewhat delayed) global slowdown.

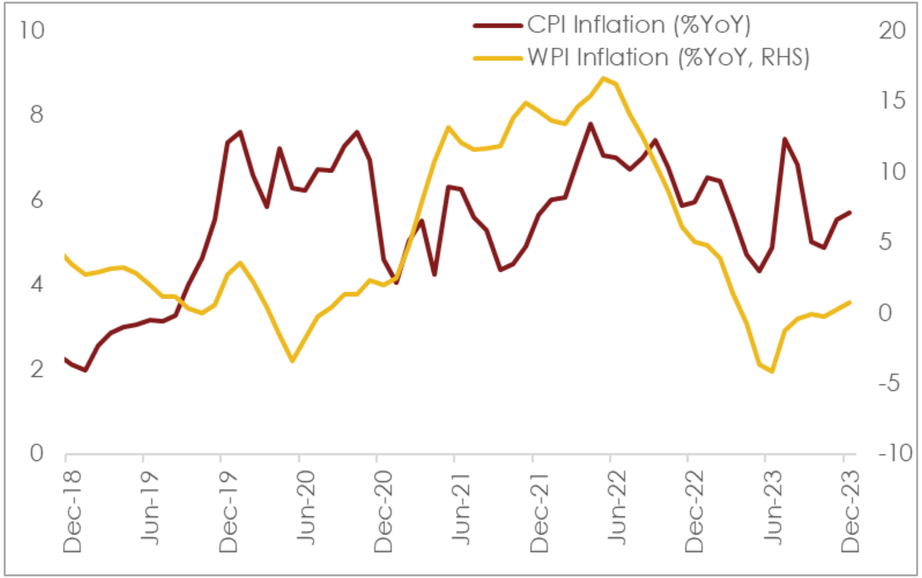
Fading of pent-up demand (esp. services)

Lagged impact of domestic monetary tightening and of RBI measures on uncollateralised retail lending restraining leveraged urban demand

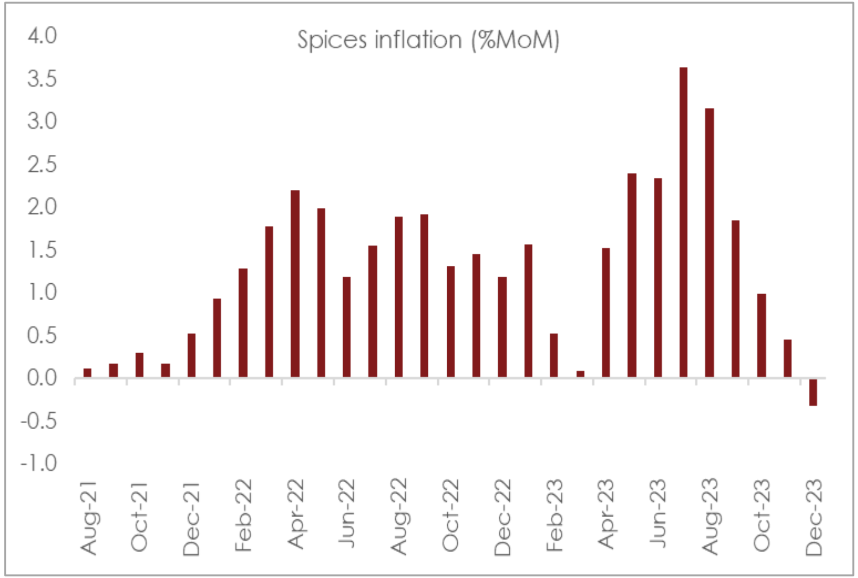
Downside to Kharif production post uneven distribution of Southwest monsoon (to reflect in Q3 FY24) along with concerns on Rabi output, given expectations of El Nino continuing into early part of 2024

Dec-23 CPI offset concerns of a firm up

India's CPI inflation climbed for the second consecutive month to 5.69% YoY in Dec-23 from 5.55% in Nov-23, posting a downside vis-à-vis market expectations pegged higher at 5.8%, thereby offering relief.



While we did see a lower than seasonal decline in vegetable prices in Dec-23, it was however offset by broadened easing of price pressures seen across pulses, sugar and spices. Spices, in fact saw the first sequential correction in prices in last 28-months



Food price pressures could linger on

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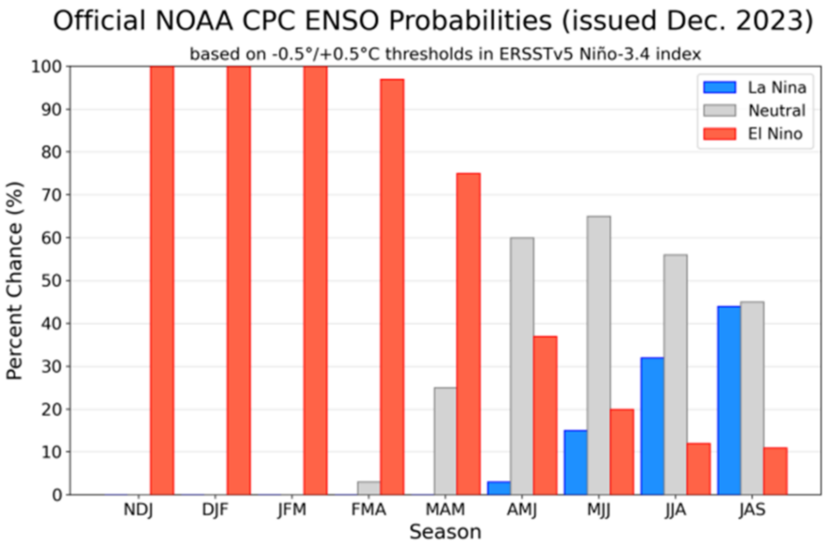
The outlook on food inflation remains somewhat clouded and worrying amidst the expected downside to Kharif yields, especially pulses and oilseeds as per Government's first advance estimates

Last few weeks have seen an increase in area sown under Rabi crops. As of 15th Jan-24, rabi sowing is lower by 0.7% vs. 2023. Having said so, the continuation of El Nino strength into early 2024 could exert downside pressure to Rabi output.

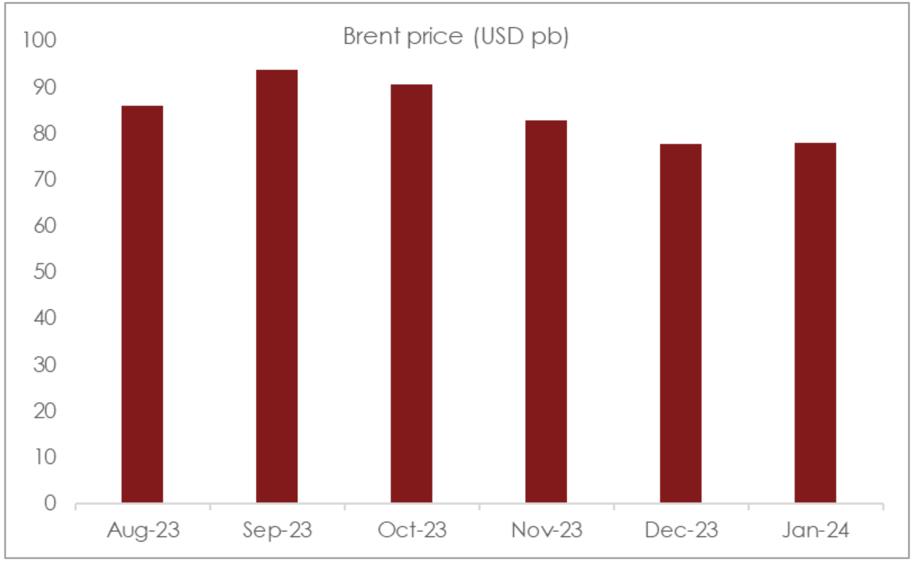
Crop	% Change vs. 2022	
	Area Sown	1st advance estimate: output
Rice	1.9	1.3
Maize	3.8	-2.7
Tur	-4.9	-12.1
Moong	-6.0	-19.7
Urad	-1.3	-18.2
Oilseeds	-1.6	-8.6
Groundnut	*-3.6*	*-6.5*
Soybean	*0.7*	*-10.6*
Sugarcane	7.6	-6.5

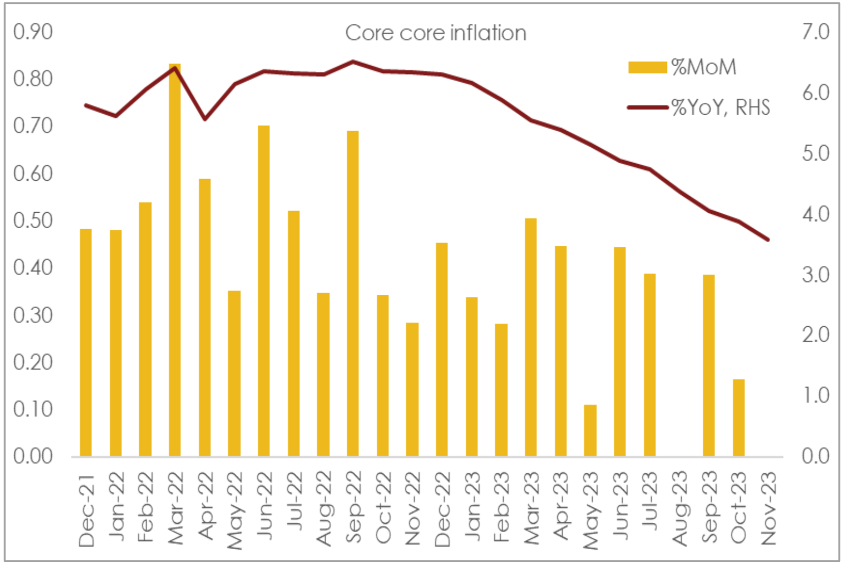


But fuel and core inflation offer comfort

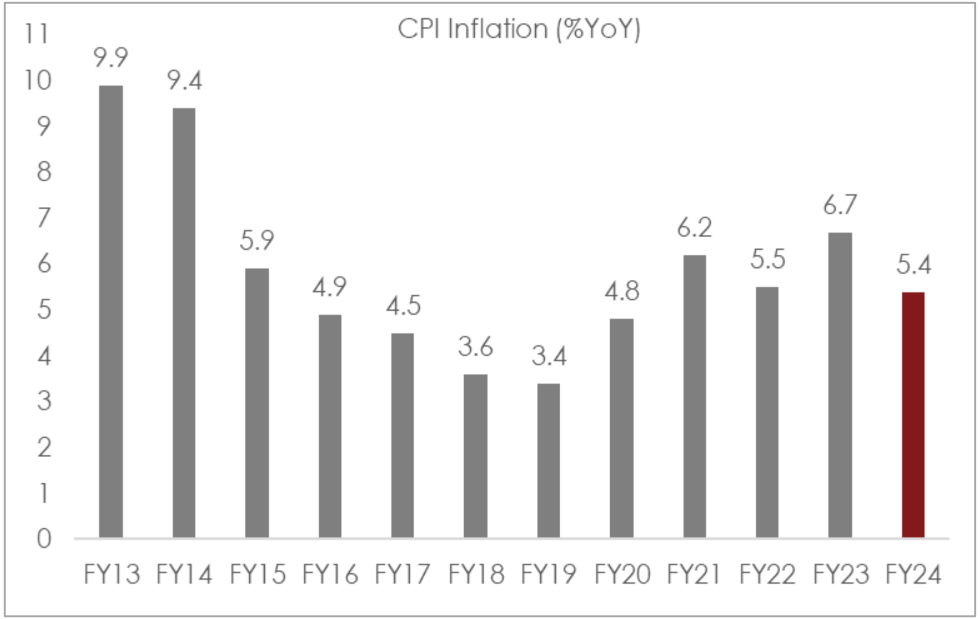
At a granular level, fuel and core within CPI inflation continue to provide comfort. After peaking in Sep-23, Brent crude oil price continues to trend lower on monthly average basis, despite heightened geopolitical tensions

Core CPI (CPI ex indices of Food & Beverages, Fuel & Light, and petrol and diesel items within Miscellaneous basket) inflation is estimated to have slipped to new post pandemic low of 3.6% YoY in Dec-23.





CPI inflation: To average at 5.4%



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

Impact of deficient monsoon on Kharif crop production

Snapshot of Apr-Nov FY24 fiscal performance

The FYTD accretion to fiscal deficit stood at 50.7% of budget estimates (BE) for FY24, lower than 56.4% 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 driven the fiscal deficit moderately lower on FYTD basis.

Key Fiscal Variables (Cumulative position, Apr-Nov)				
	% of FY Actual/Target		%YoY	
	FY23	FY24	FY23	FY24
Revenue Receipts	59.7	65.3	4.8	20.9
Net Tax	58.4	61.6	7.9	17.2
Non-Tax	69.3	94.3	-11.1	43.4
Non-Debt Capital Receipts	57.5	30.3	100.4	-38.6
Total Receipts	**59.6**	**64.3**	**6.2**	**19.2**
Revenue Expenditure	57.8	59.0	10.8	3.6
of which, Interest Payments	58.7	56.3	18.1	11.5
of which, Major Subsidies	57.7	64.8	30.6	-19.4
Capital Expenditure	60.7	58.5	63.4	31.0
Total Expenditure	**58.3**	**58.9**	**17.7**	**8.6**
Fiscal Deficit	**56.4**	**50.7**	**-**	**-**

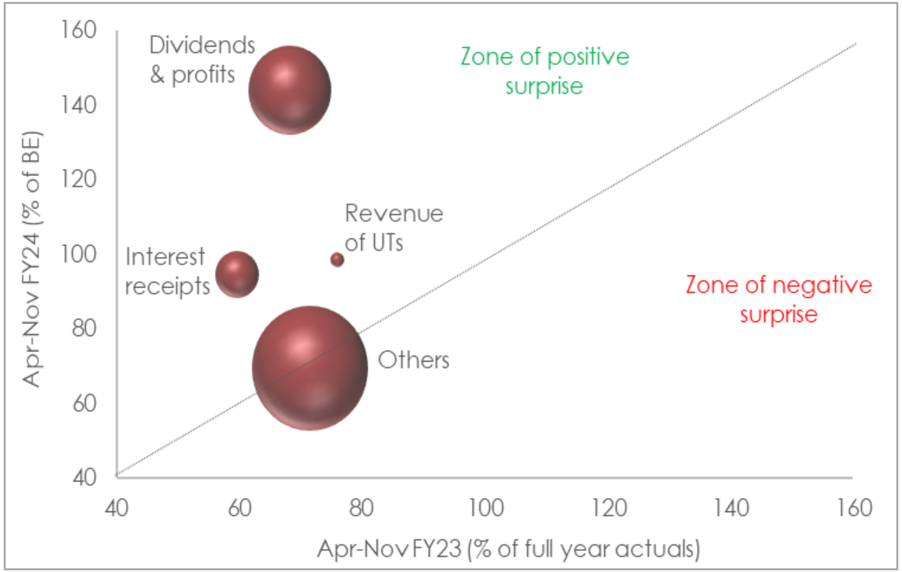
Despite shortfall in indirect taxes, revenue collection could see an upside

Direct tax collection is running at a healthy pace, while indirect tax collection momentum has slowed down. Despite lower than budgeted Nominal GDP growth, gross tax collection could spring a positive surprise on account of deflation in input prices supporting corporate profitability, ongoing formalization, and improvement in tax compliance. .

Growth in key tax categories	Apr-Nov FY23 (% YoY)	Apr-Nov FY24 (% YoY)	FY24 BE (% change*)
Gross Tax	**15.5**	**14.7**	**10.1**
Corporate Tax	21.1	**20.1**	11.7
Income Tax	26.7	**29.4**	11.4
Customs	12.4	**0.3**	9.2
Excise	-20.9	**-7.9**	6.3
GST	23.3	**10.3**	12.1

* Implied growth over FY23 actuals

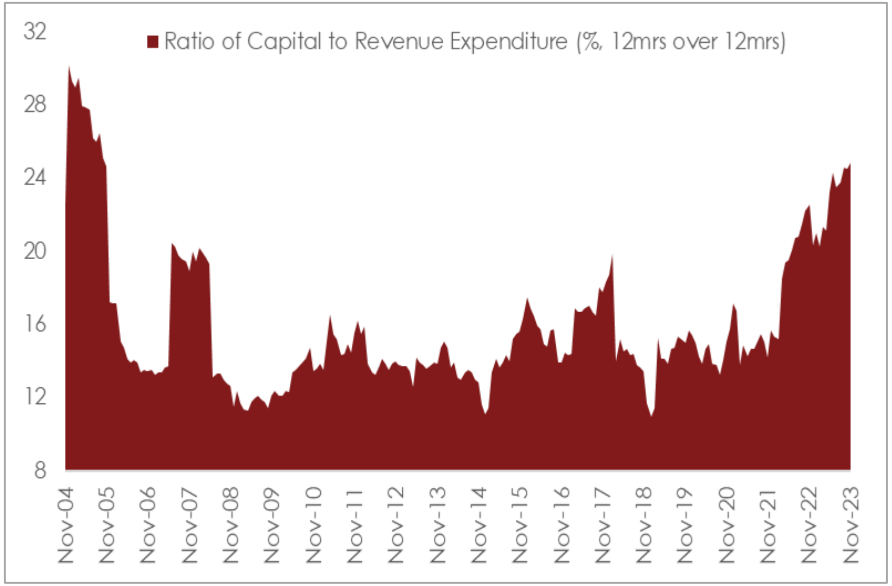
Non-tax revenue has not just benefitted from the higher than budgeted surplus transfer from the RBI but continues to find support from strong dividend payout from PSUs and spectrum income. However, cumulative divestment activity is slow (Rs 89 bn until Nov-23 vs. Rs 284 bn until Nov-22), thereby raising the likelihood of a slippage.



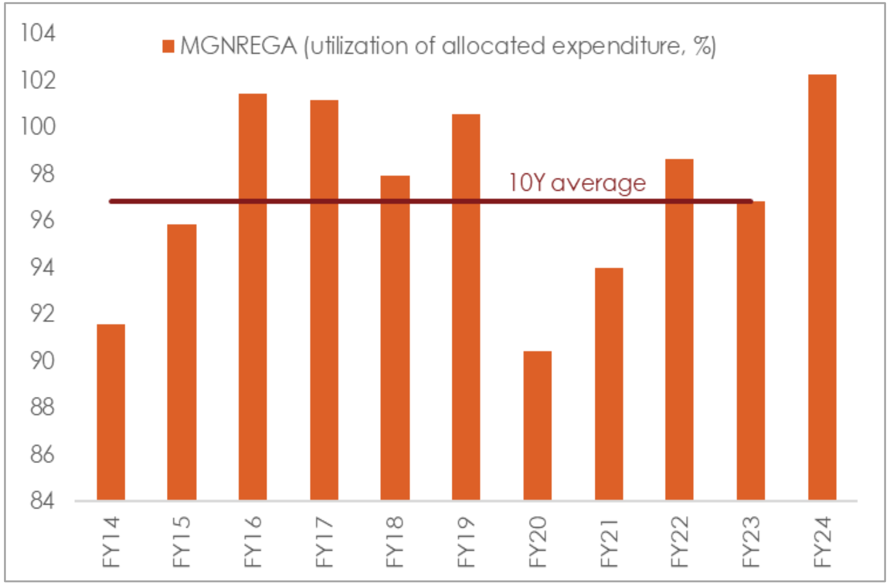
Note: Size of bubble denotes the FY24 (BE) share in non-tax revenue

Focus on expenditure quality; fiscal risks neutral

Capex continues to receive priority over revex; upcoming elections might be driving the front-loaded disbursals



Downsizing rural spending would be challenging amidst an erratic monsoon and upcoming elections



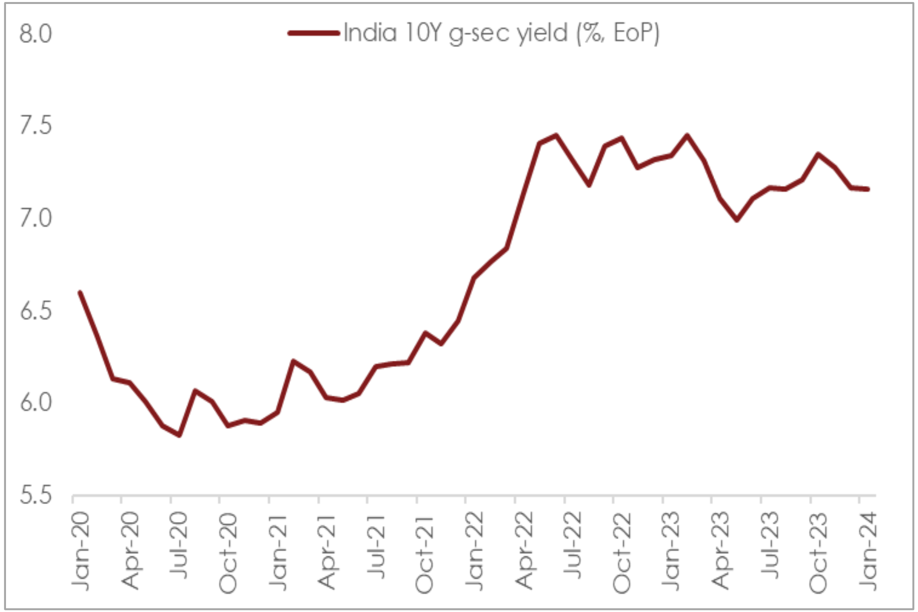
Note: MGNREGA spend has touched 102.3% of FY24 BE as of Jan 3rd

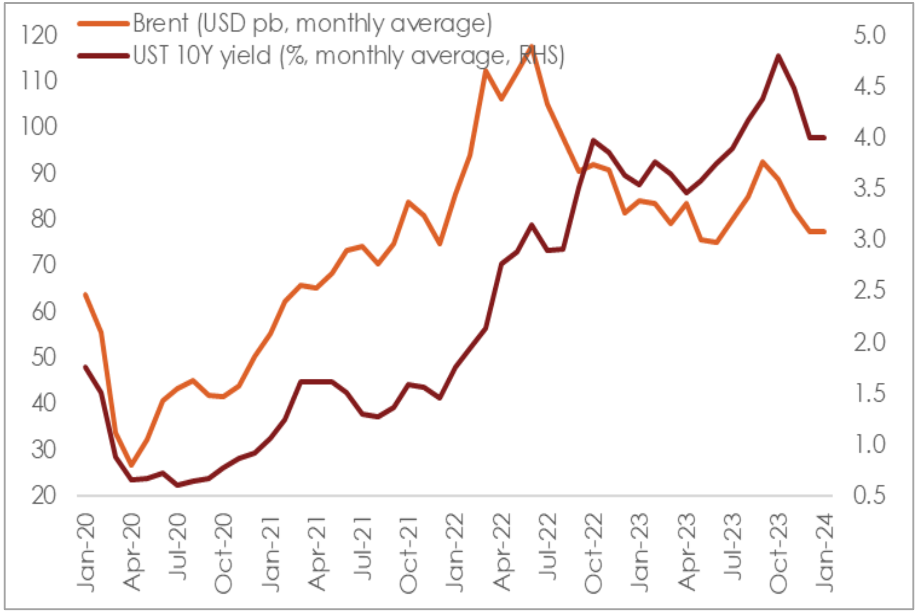
We continue to expect FY24 fiscal deficit target of 5.9% of GDP to be met. For FY25, the Vote-on-Account in Feb-24 is likely to stick to fiscal consolidation by lowering the fiscal deficit target to 5.3% of GDP.

Moderation in g-sec yield continues for third month

From its recent monthly high of 7.35% in Oct-23, India's 10Y g-sec yield has moderated to 7.16% currently. The 11 bps drop in yield in Dec-23 was the largest monthly decline seen in last 7-months.

Despite some volatility, both UST yields and crude oil price are trading at their respective 6-7 month low levels.



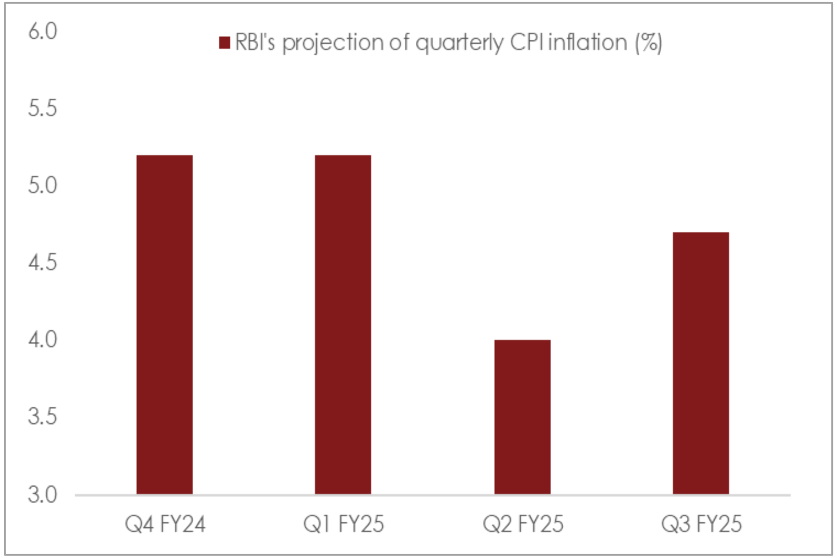


Support from global, domestic factors getting aligned

Notwithstanding the difference (in magnitude and timing of rate cuts) in market expectations and Fed commentary with respect to a turn in monetary policy cycle, the overall sentiment is geared towards a global monetary policy pivot in 2024.

India's Q3 FY24 CPI inflation undershot RBI's forecast of 5.6% by 20 bps. Going forward, CPI inflation is projected to remain comfortable in the 4.0-5.2% range over the next 4-quarters.

Expected rate action by the US Fed in 2024 (bps)		
	Fed Dot Plot	Futures Market
Jan-24	0	0
Mar-24	0	-14
May-24	0	-20
Jun-24	-25	-25
Jul-24	0	-22
Sep-24	-25	-24
Nov-24	0	-18
Dec-24	-25	-16



Although g-sec supply could remain elevated in FY25, there is comfort on demand

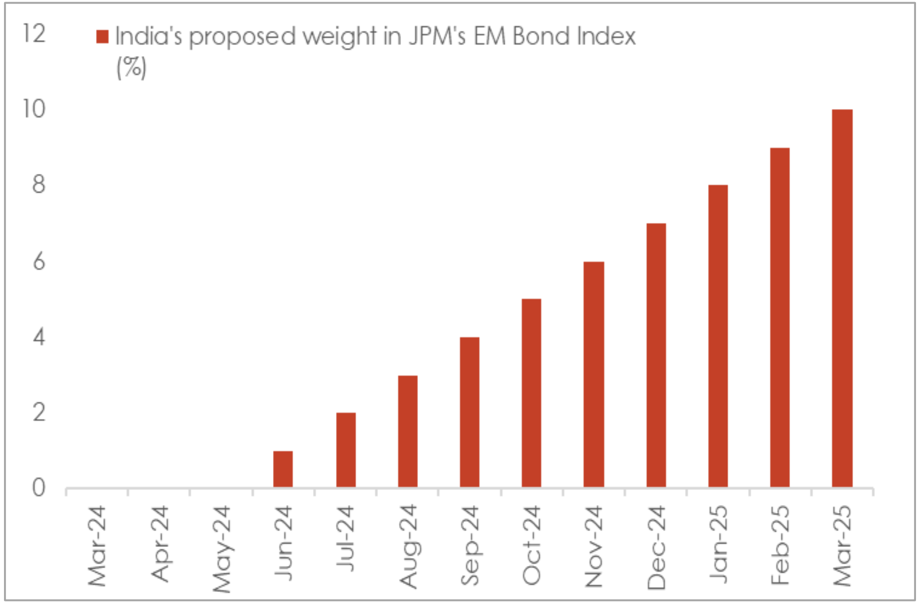
The FM had indicated a fiscal deficit goalpost of 4.5% of GDP by FY26. Alignment with that objective would require the FY25 Interim Budget to tighten fiscal deficit from the existing target of 5.9% in FY24. A statistical scenario of fiscal deficit ratio of 5.2-5.4% range with 61-63% g-sec funding indicates net g-sec borrowing requirement of Rs 10.4-11.1 trillion in FY25 vs. Rs 11.0 trillion in FY24.

Net g-sec borrowing under different scenarios in FY25 (Rs bn)

FY25 Fiscal Deficit Ratio	Share of G-Sec Funding in FY25 Fiscal Deficit				
	60%	61%	62%	63%	64%
5.1%	10,028	10,195	10,362	10,530	10,697
5.2%	10,225	10,395	10,566	10,736	10,906
5.3%	10,421	10,595	10,769	10,943	11,116
5.4%	10,618	10,795	10,972	11,149	11,326
5.5%	10,815	10,995	11,175	11,355	11,536

Note: The above analysis assumes Nominal GDP growth of 10.5% in FY25

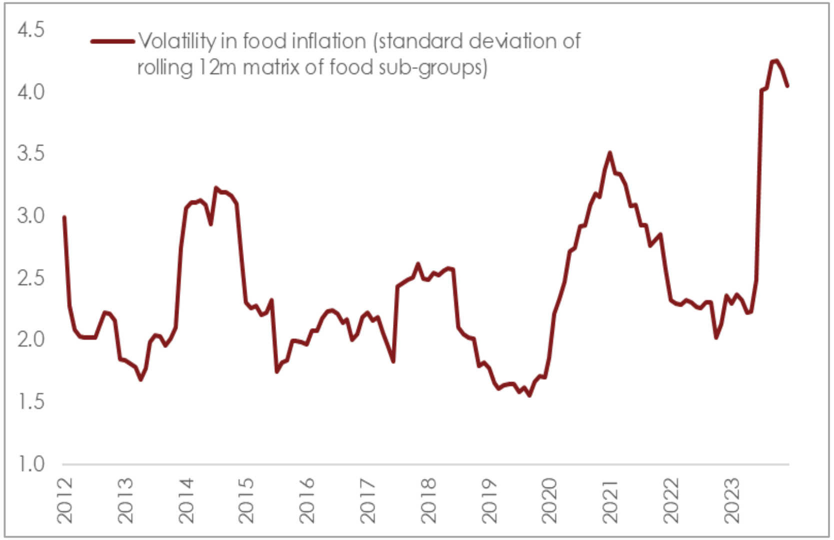
However, with India's inclusion in JP Morgan's EM Bond Index, there is a possibility of USD 20-21 bn passive inflows by Mar-25 – this would ease the pressure of g-sec supply to some extent.

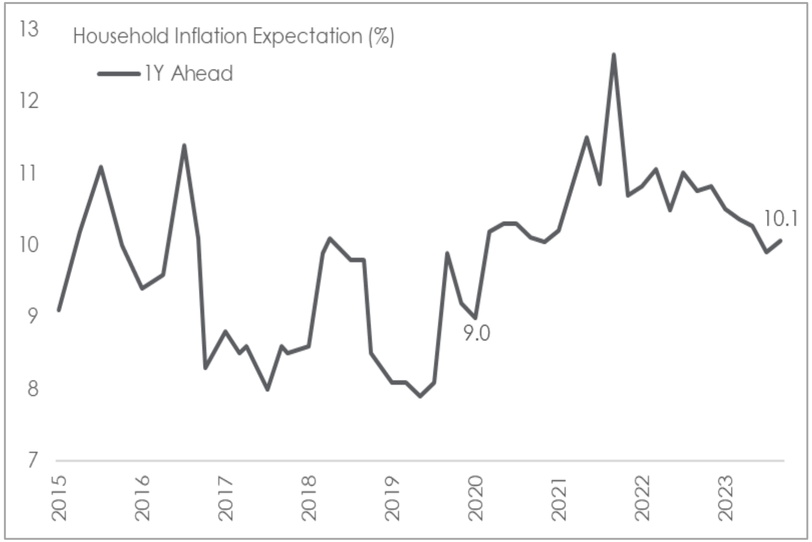


MPC needs to maintain caution

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. Food inflation volatility could further impart stickiness to inflation expectations.

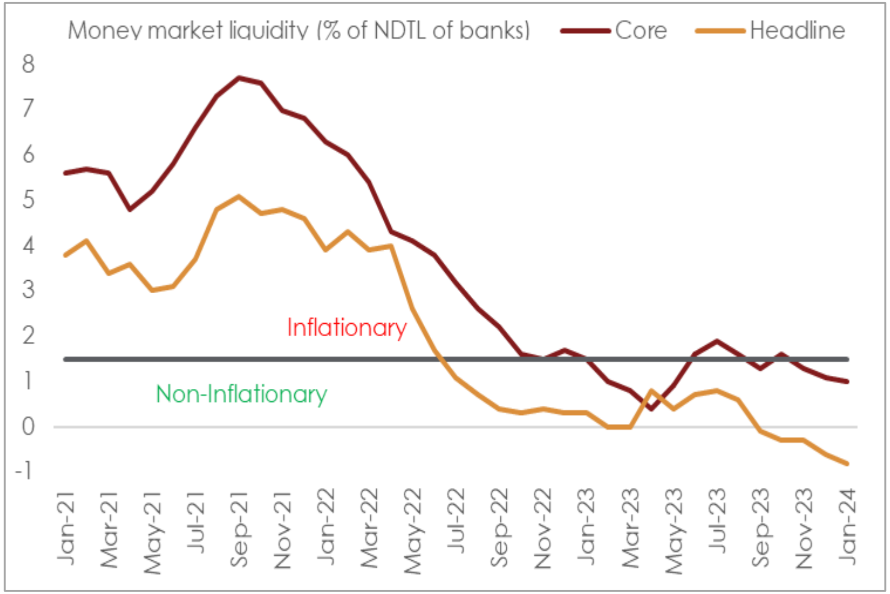




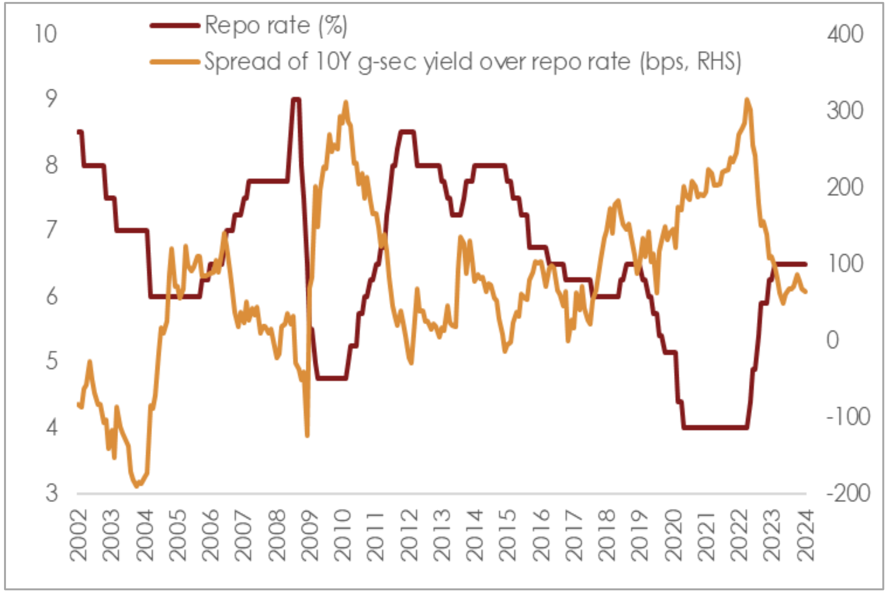
We expect MPC to maintain pause in Feb-24 policy review – this will allow repo rate to remain unchanged at 6.50% for a period of 12-months.

Rates outlook

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.

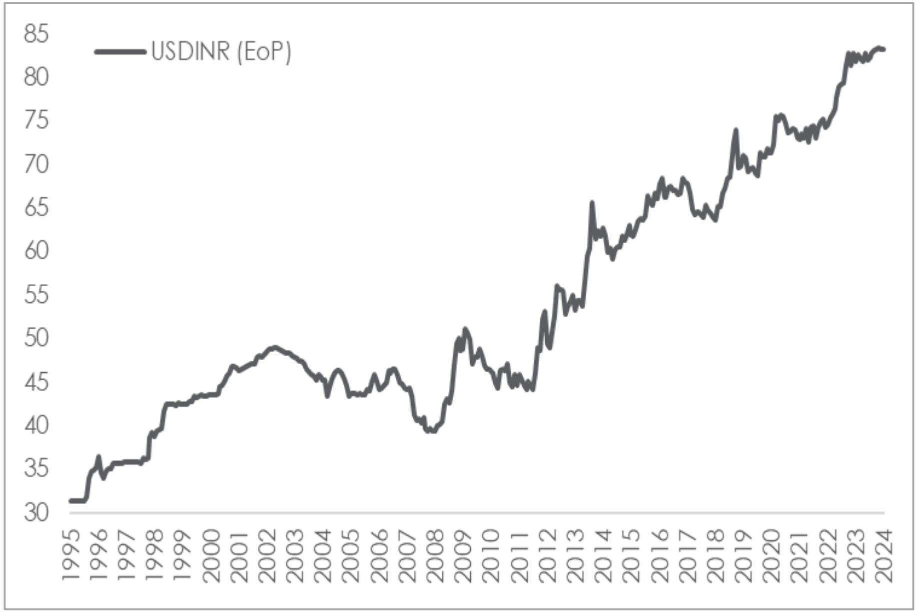


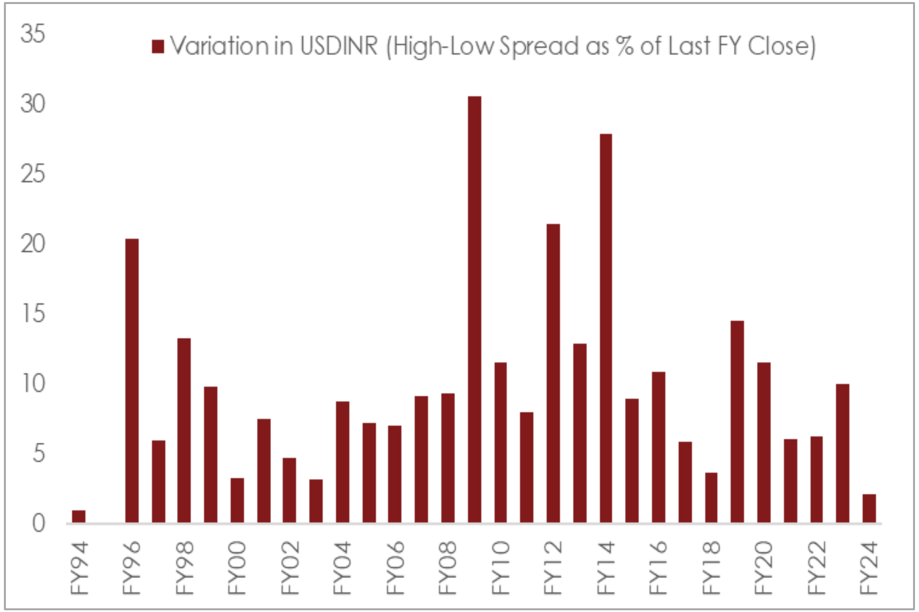
With domestic inflation projected to moderate and index inclusion becoming a reality we expect 10Y g-sec yield to moderate towards 7.00% by Mar-24. However, El Nino and geopolitical factors could potentially provide an upside risk.

INR trades close to its record low levels

Although the Indian rupee continues to trade in a narrow range, close to its record low levels…

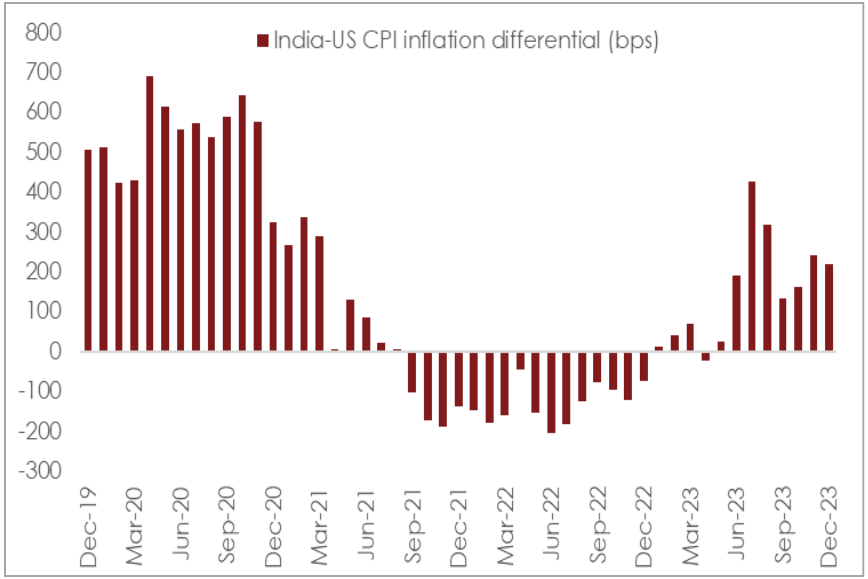
…it has displayed remarkably low volatility amidst relatively stable and healthy macro balance compared to most peers.



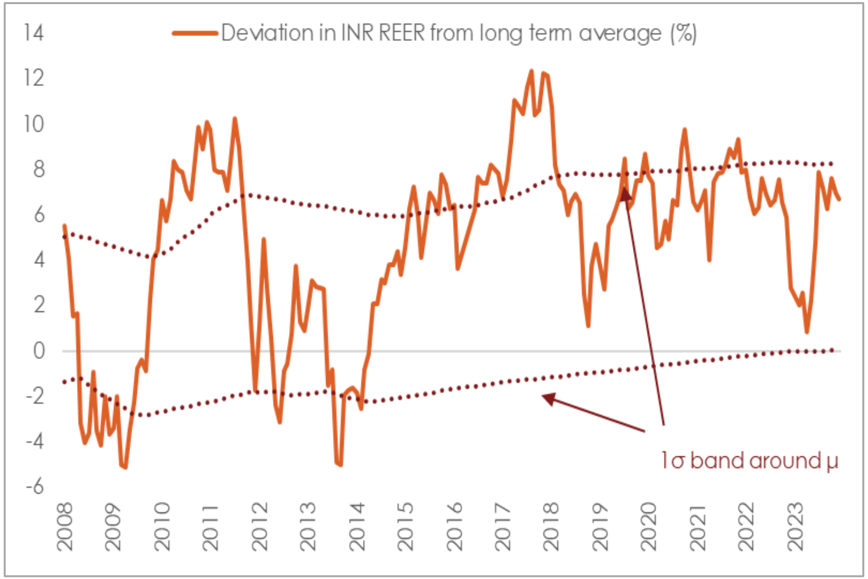


Fundamentals favour a mild weakness in INR

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



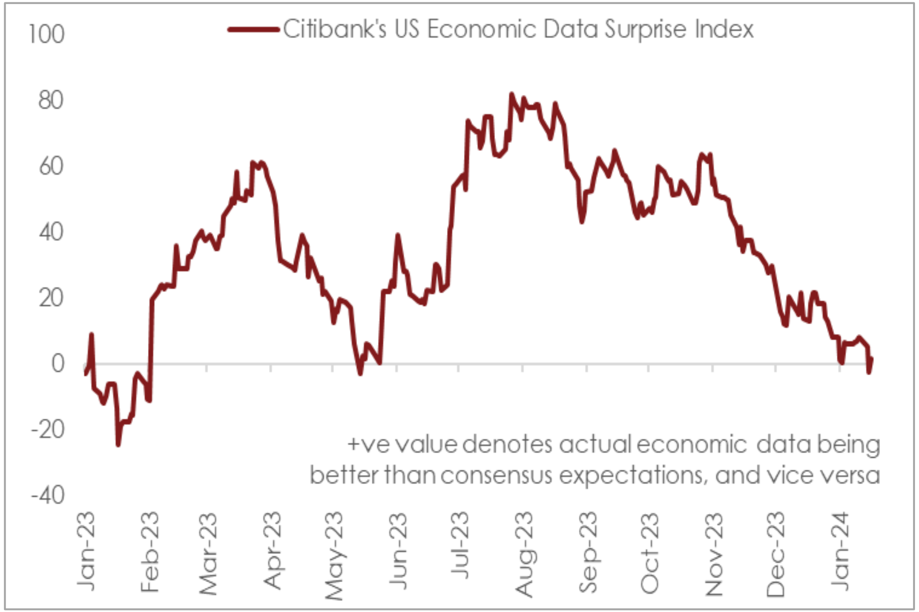
…thereby keeping INR overvaluation (~7% vis-à-vis the long-term trend) somewhat elevated.

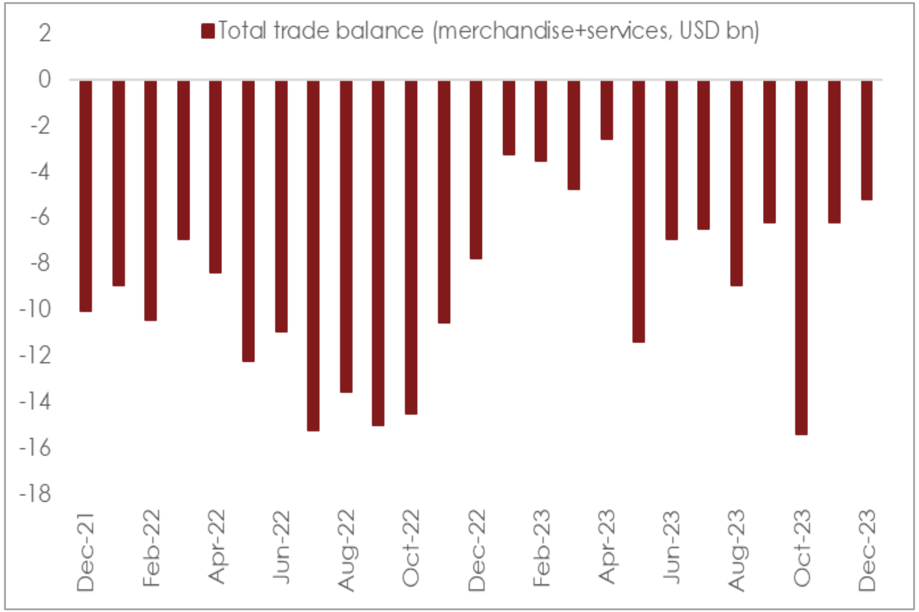


However, adversity of global factors has waned

Over last 2-months, momentum of positive data surprises in US has been reducing (and expectation of slowdown in CY2024 is strengthening), thereby strengthening the case for an early 'Fed pivot' in CY2024.

International commodity prices have softened in last 3-4-months. This has helped in moderating India's total trade deficit (after a brief spike in Oct-23).





RBI could continue its bias for reserve build-up

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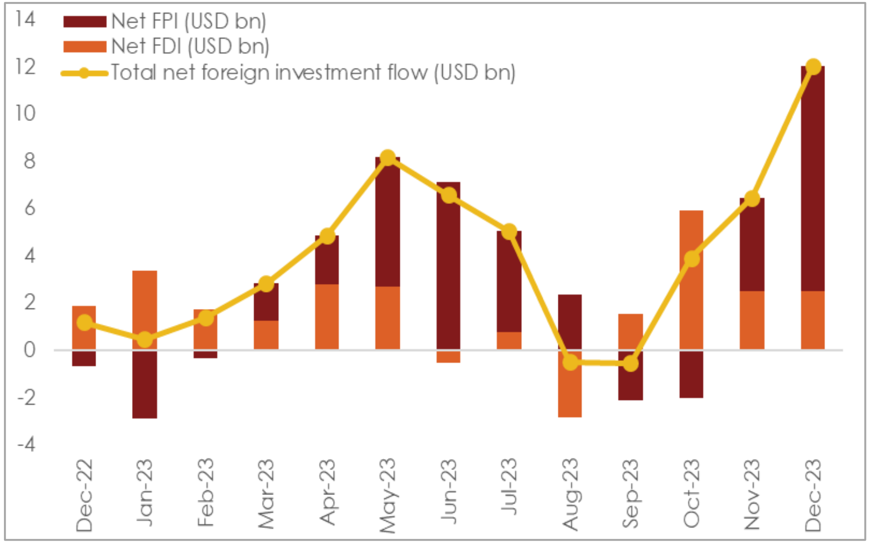
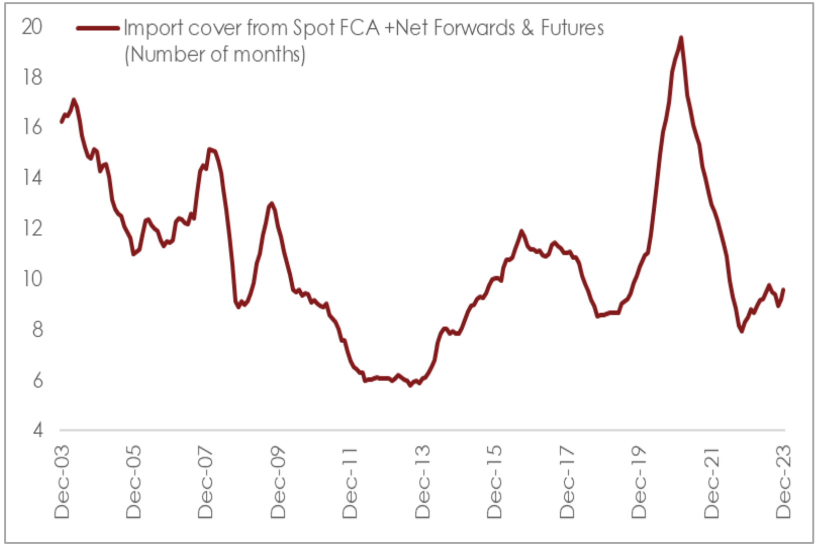
Geopolitical risk and uncertainty ahead of national elections has kept FDI flows subdued. In contrast, FPI flows have recovered sharply since Nov-23 as (i) recent state elections have favoured the BJP govt at the centre, and (ii) markets have started pricing in an early 'Fed pivot'.

With India's annualized import cover (from the context of RBI's foreign currency assets) remains under 10-months and is yet to regain its pre pandemic high of around 11-months. With portfolio flows improving, RBI could use this opportunity to rebuild lost reserves.





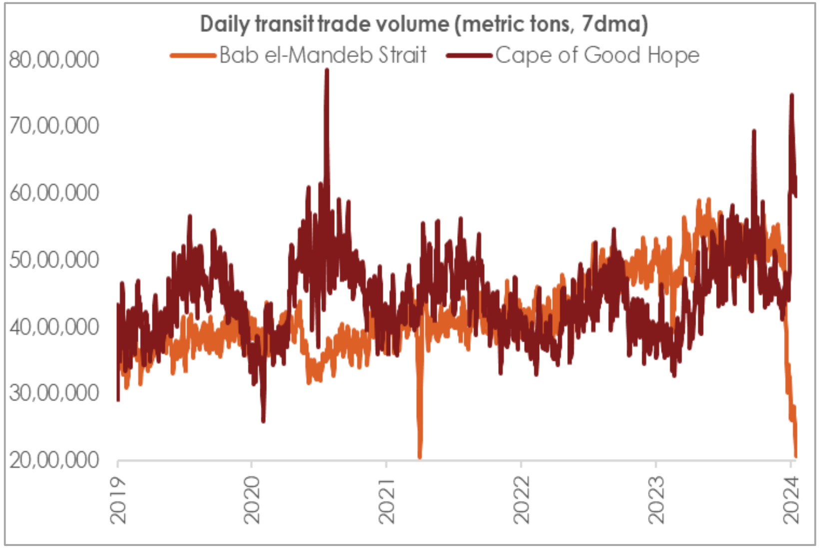
Note: FDI figures for Dec 2023 is an extrapolation basis last 24-m trend

Rupee outlook

Markets now expect the Fed and the ECB to deliver similar quantum of rate cuts in 2024.

Central Bank	First rate cut	Cumulative rate cuts in CY24 (bps)
Federal Reserve	Mar-24	-143
ECB	Apr-24	-135
BoE	Jun-24	-102
SNB	Jun-24	-63
BoC	Apr-24	-105
RBA	Sep-24	-35
RBNZ	May-24	-89

If the recent geopolitical disturbance in Red Sea region persists, then India's maritime trade activity could be adversely impacted.



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. Uncertainty on Fed pivot (few members have started giving a pushback to early rate cut expectations after the Dec-23 FOMC review) and worsening of geopolitical risks could put INR under pressure.

Global growth led by Services and EMs

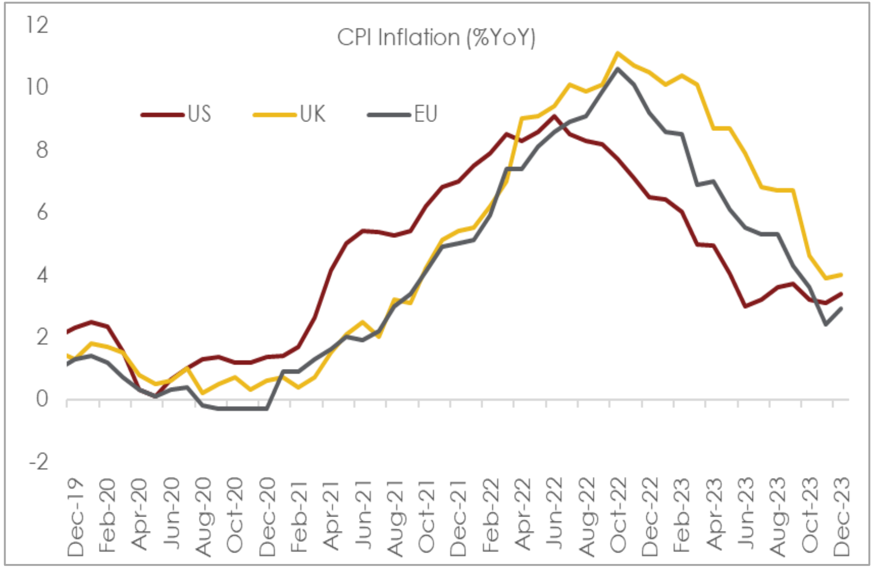
Global PMI Composite Output Index - produced by S&P Global - rose to 51.0 in Dec-23, up from 50.5 in Nov-23. This marked a second consecutive month of growth, with the pace of expansion the 'fastest' since July 2023. Growth in activity remained exclusive to the service sector, as manufacturing output contracted for a seventh straight month.

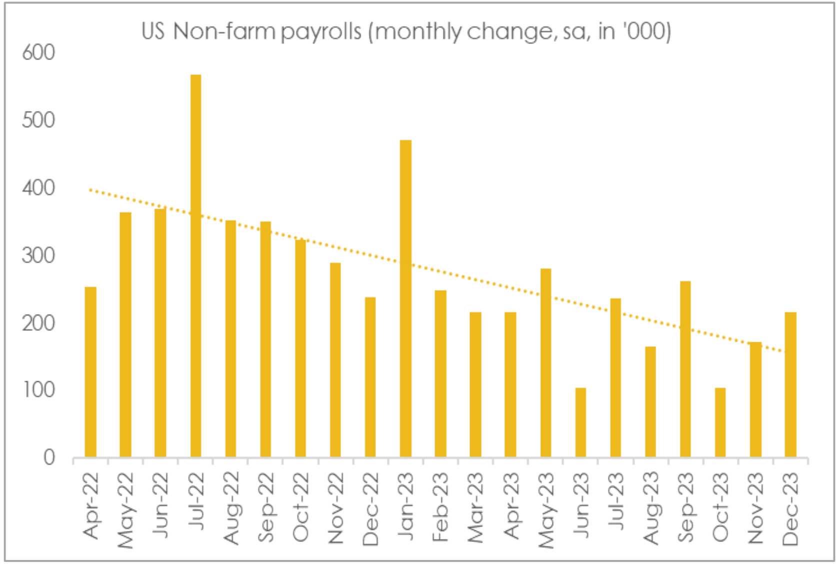
Growth in global PMI was led by Emerging Markets, as Developed Markets remained in contraction for a fifth consecutive month in Dec-23.

Inflation turning to be a mixed bag, when will the Fed pivot?

Headline inflation moved up in Dec-23 across G3 economies, owing to a pick-up in energy costs. Core inflation, i.e., headline minus food and fuel costs, continued to offer comfort.

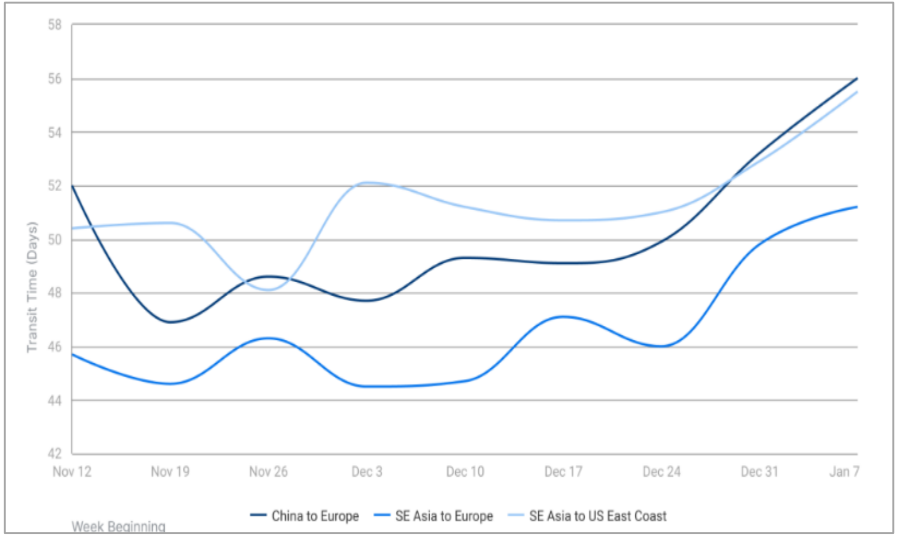
US labour markets continue to display resilience with economy adding 216k jobs in Dec-23 vs. consensus expectation of 175k. Having said so, job gains continue to trend lower. Expectations for Federal rate cuts in early 2024 continue to remain strong, with market participants attaching a 60% probability to a cut by Mar-24





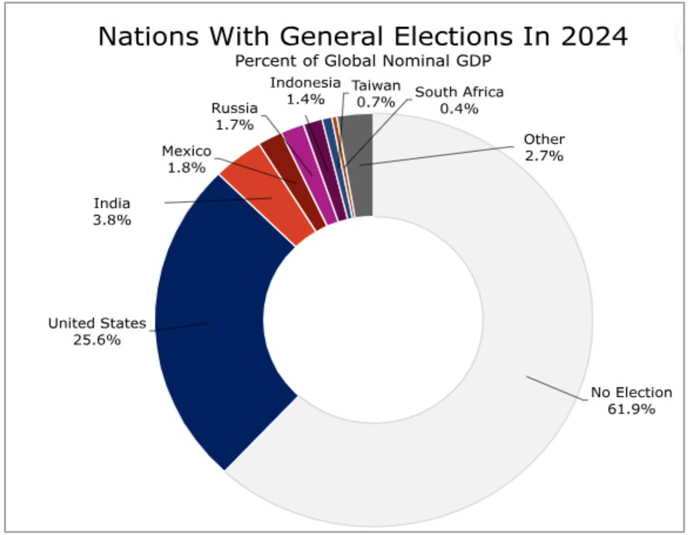
2024: Developments on watch

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, longer transit times and delays.



Source: Project44

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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