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INDIAN ECONOMY

CRISIL Insights

March 2024

Through the monthly CRISIL Insights Indian Economy series, we delve into how India's growth dynamics are expected to change for the remainder of this fiscal.

Shifting gears of growth in sync

India's economic growth has soared beyond expectations after the Covid-19 pandemic. The upside surprise to India's growth continues. At 7.6% for fiscal 2024, gross domestic product (GDP) growth estimates from the National Statistical Office (NSO) beat expectations of analysts and policy makers.

Provisional estimates to be released in May will provide a more reliable estimate with a longer shelf life. The Reserve Bank of India (RBI) Governor hinted that growth in fiscal 2024 could touch 8%.

And this is happening in an environment of uneven global growth which offers limited stimulus to exports.

Interestingly, United States (US) growth, too, has beaten street estimates. S&P Global recently revised US growth outlook for 2024 to 2.4% from 1.5% projected in November 2023. This could help India's goods and services exports to the US as it is our largest trading partner.

Although real GDP is still below where it would have been without the pandemic, domestic strengths and policy focus have pulled the economy closer to the 7% growth path. For the coming fiscal, we expect growth to moderate to 6.8% as high interest rates and lower fiscal impulse from reduction in fiscal deficit/GDP will temper demand.

The big monitorable for fiscal 2025 and beyond will be the momentum in private corporate investment as the government has started scaling down its budget-funded 'fast and furious' investments in the infrastructure sector.

For fiscal 2023, public and household investments emerged as the faster growing components of investment. Private corporate investment did not show any definitive sign of revival till the last fiscal as its share in total investments was stagnant, reveals the recently released NSO data.

Private investment momentum picked up a bit in the current fiscal and is expected to become broad-based in the next few quarters. For more on this, please refer to our recent report on the Indian economy, titled 'Growth Marathon: Emerging sectors, investments, efficiency gains priming India's medium-term pace'.

Another focus point will be private consumption growth which is estimated to have grown at an anemic 3% for fiscal 2024. There has been a break in synchronicity between private consumption and growth in the current fiscal.

With a share of 57% in GDP, private consumption is the bulwark of the Indian economy. If rains are normal and inflation (particularly food inflation) edges down as predicted, private consumption is likely to strengthen over the next few quarters.

In the current economic setting, where growth is strong and inflation is above the RBI's target, the upcoming monetary policy will keep rates and stance unchanged.

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Money and banking	Industrial production	Inflation
Liquidity deficit shrinks	Mild retraction	Food offsets core descent

MONEY AND BANKING

- While systemic liquidity remained in the deficit zone for the sixth consecutive month in February, the deficit narrowed a tad on-month
- A mild pick-up in government spending, as indicated by a decrease in the government's cash balances with the RBI, was the primary reason behind the narrower deficit
- However, credit growth (16.5% on-year) outpaced deposit growth (12.5%), and hence, the deficit remained high
- The weighted average call money rate eased on-month, while other money-market rates hardened marginally
- Growth in bank credit accelerated on-year in February
- The RBI conducted variable-rate repo auctions to inject liquidity into the system
- The RBI has held rates steady through fiscal 2024 and maintained its stance. The central bank has leaned on liquidity management to speed up transmission of past rate hikes to lending rates

INDUSTRIAL PRODUCTION

- Index of Industrial Production (IIP) decreased to 3.8% on-year in January from 4.2% in December (revised up from the previous estimate of 3.8%), driven by mixed performance in both consumption and industrial sectors
- Growth in manufacturing IIP slowed down, while that in electricity and mining IIP picked up
- Moderation in industrial activity is likely to continue in the next fiscal as support from government capital expenditure wanes, while increased borrowing costs and regulatory measures against risky lending weigh on domestic demand
- A normal monsoon and easing inflation could support rural demand next fiscal. However, transmission of the past rate hikes of the RBI to lending rates, along with its regulatory measures to clamp risky consumer credit are expected to drag domestic demand next fiscal

INFLATION

- Consumer Price Index (CPI) inflation stayed put at 5.1% in February as the food gauge surged higher. Core inflation—down to a 52-month low of 3.4%—could not entirely offset the pressure from food
- Food inflation accelerated to 8.7% from 8.3% in January. While the kharif harvest has been helpful in softening foodgrain inflation, vegetables continue to play the spoilsport
- Core inflation inched down to 3.4% from 3.5% as inflation eased in all major core inflation categories
- Wholesale Price Index (WPI) inflation eased to 0.2% from 0.3%, owing to softer non-food inflation. Food inflation, though, picked up
- We expect the RBI to closely monitor inflation as it remains above the Monetary Policy Committee's long-term target of 4%
- CRISIL expects CPI inflation to continue to soften next fiscal to 4.5% from an estimated 5.5% this fiscal, supported by the assumption of a normal monsoon, softer domestic demand, and benign global oil prices. The distribution of the southwest monsoon and rabi output will be key monitorables for food inflation in the coming months

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Interest rate	Rupee	Trade
Yielding ground	Still ascending	Exports winging up

INTEREST RATE

- Yield on the 10-year benchmark government security (G-sec) averaged 7.08% in February, down 10 basis points on-month. Yields dropped sharply as the interim union budget announced lower fiscal deficit and gross market borrowings
- Rising crude oil prices and hardening US Treasury yields kept domestic yields from easing further. Domestic liquidity remained in deficit, which also limited the decline in yields
- The gap between Indian and US government bond yields narrowed with US Treasury yields hardening since data released in February sparked concerns that the Federal Reserve would keep rates higher for longer
- Fiscal consolidation by the central government and reduction in gross market borrowings will help temper yields
- CRISIL expects yield on the 10-year benchmark G-sec to decline to an average 6.8% in March 2025, compared with our estimate of ~7% for March 2024

RUPEE

- The rupee-dollar exchange rate slightly appreciated to 82.96/$ on average in February from 83.12/$ in January
- Strong capital inflows kept the rupee resilient, despite the dollar index gaining strength and a widening trade deficit
- Foreign portfolio investors recorded net inflows in February, driven by the debt component
- The rupee remained one of the better-performing emerging market currencies in the first two months of 2024, appreciating against the dollar by 0.2% on average on-month
- The on-year rate of depreciation was also lower at 0.4% on-average during January and February
- CRISIL expects the rupee to average to 83.5/$ by March 2025 compared with ~83/$ this fiscal. While a narrower current account deficit is expected to support the local currency, volatile external financing conditions could exert some pressure

TRADE

- Merchandise exports surged 11.9% on-year in February to $41.4 billion - the fastest growth since June 2022 - after growing 3.1% in January
- Merchandise imports grew faster than exports, surging 12.2% on-year to $60.1 billion compared with 1% the previous month
- Merchandise trade deficit widened to $18.71 billion in February from $16.57 billion a year ago and $16.46 billion the previous month
- Merchandise imports, too, recorded a decline of 4.3% on-year in November, falling to $54.48 billion from $63.45 billion last month
- The near-term challenge to India's exports due to the geopolitical uncertainties in the Middle East has been limited so far. How the crisis impacts prices when export contracts are renewed will be a key monitorable
- Barring this hiccup, the recent healthy export momentum and forecasts by major multilateral organizations of better trade growth this year over last year are encouraging
- The current account remains in safe zone with robust services trade surplus and healthy remittances

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