

RESEARCH
BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Fiscal consolidation to hold key

Daily macro indicators

Indicator	05-Jan	08-Jan	Chg (%)
US 10Y yield (%)	4.05	4.03	(2bps)
India 10Y yield (%)	7.24	7.20	(3bps)
USD/INR	83.16	83.14	0.0
Brent Crude (US\$/bbl)	78.8	76.1	(3.4)
Dow	37,466	37,683	0.6
Hang Seng	16,535	16,224	(1.9)
Sensex	72,026	71,355	(0.9)
India FII (US\$ mn)	04-Jan	05-Jan	Chg (\$ mn)
FII-D	87.6	200.2	112.6
FII-E	166.8	212.7	45.9

Source: Bank of Baroda Economics Research

SUMMARY
INDIA ECONOMICS: MONTHLY CHARTBOOK

India's high frequency growth indicators painted a mixed picture. While electricity demand and non-oil-non-gold imports showed some degree of moderation; consumer goods output and consumer confidence remained buoyant. Rabi sowing remains a cause of concern for agriculture output and inflation, going ahead. The coming month holds the key to major fiscal numbers. Overall, we expect consolidation on fiscal space with lower emphasis on government borrowings which will keep a lid on inflation. Recently, Bloomberg also proposed to include Indian bonds (FAR) in its EM local currency index from Sep'24. All this, will concomitantly put downward bias on yields. On external front, RBI's intervention and resumption of foreign inflows, along with the undertone of easing financial conditions globally, will keep INR range-bound.

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Early signs of softening in domestic demand: Some high frequency indicators such as electricity demand, non-oil-non-gold imports and electronic imports have registered moderation in Nov'23, thereby signalling weakness in domestic demand. On the other hand, steady pace of growth in digital payments and consumer goods output have also been noticed. RBI's consumer confidence remained stable at 92.2 (unchanged from last round) with respondents remaining fairly optimistic. On rural front, as per the advance estimate, agriculture growth is expected to be lower in FY24 due to uneven distribution of rainfall. Currently, even Rabi sowing is trailing behind last year levels and needs to be monitored closely as sowing season is drawing to a close.

Health of centre's finances: Centre's fiscal deficit ratio (% of GDP, 12MMA) settled at 5.8% as of Nov'23 compared with 6.2% as of Oct'23, on account of further slowdown in spending. In FYTD24 (Apr-Nov'23), centre's overall

spending momentum eased to 8.6% versus 11.7% as of Oct'23. This was mainly driven by slowdown in revenue spending (3.6% versus 6.5%). Capex also moderated (31% versus 33.7%). On the income side, centre's net revenue receipts rose by 20.9%, compared with 16.1% growth seen as of Oct'23. This was driven by jump in both direct (24.8% versus 24.1%) and indirect tax collections (5.1% versus 3.7%). Within direct taxes, income tax collections moderated, while corporate receipts improved. Government's deficit ratio may come under pressure on account of lower than expected nominal GDP.

India's 10Y yield remained rangebound: In Dec'23, India's 10Y yield fell in line with global yields. Anticipation of easing financial conditions in the US have led to a buying rally in g-sec market. In CY23, India's 10Y yield closed lower by 15bps, and the year has seen a flatter yield curve with tight liquidity conditions impacting yields across short tenor. Long-end securities however, got buying support. With RBI's VRR, some easiness on liquidity front has been observed. We do not expect much volatility in India's long part of the curve, especially in a calendar-light month.

INR ends CY23 only marginally lower: INR appreciated by 0.2% in Dec'23, to end the year lower by 0.6%. This is quite remarkable given that it depreciated by over 10% in 2022. Factors which favoured INR are: a weaker dollar, lower oil prices, strong FPI inflows and range-bound external. Apart from this, INR also found support from timely intervention by RBI which helped in curbing excessive volatility. In the near-term, we expect INR to trade in the range of 83-83.5/\$. India's inclusion in Bloomberg index is likely to draw more inflows from FPIs, and hence we expect INR to trade with an appreciating bias in 2024.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

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