

dun & bradstreet

# ECONOMY OBSERVER



APRIL 2024

## Escalation of Middle East conflict could delay rate cut: Dun & Bradstreet

“

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The persistent stickiness in food inflation is preventing headline inflation from falling within the RBI's 2-4% tolerance band. Moreover, the escalating tensions in Middle East could delay rate cuts until late 2024. If conflict arises, it may disrupt the vital trade route leading to a surge in global crude oil prices thereby impacting India's imported inflation. The deteriorating global supply chain, as indicated by the 8% negative growth recorded by the Dun & Bradstreet Global supply Chain Index in Q2 2024, has potential to further disrupt trade impacting commodity prices.



### Real Economy

We expect Index of Industrial Activity (IIP) to have registered a robust growth in March 2024 driven by construction-related activities, election-related expenditures, and resiliency in demand, both domestic and exports. Notably, non-oil exports recorded an 8% growth in March 2024, a significant positive amidst the Red Sea crisis. Dun & Bradstreet expects the IIP to have grown by 5.0% in March 2024.



### Price Scenario

Even as the retail inflation has moderated recently driven largely by the moderation in the miscellaneous/services inflation, the escalation of conflict in West Asia poses threat to retail inflation (CPI) in India. Besides, the stickiness in the food inflation would impact a downward threshold to the headline inflation. The wholesale inflation (WPI) is also expected to inch upwards. Dun & Bradstreet expects the Consumer Price Inflation (CPI) to be 4.3% and Wholesale Price Inflation (WPI) to be around 0.5% in April 2024.



## Money & Finance

Even as retail inflation has edged down, the recent upward risk to inflation and receding bets of an early US Fed rate cut to likely further postpone policy rate cut in India. The hardening of the US 10-year US Treasury and heightened geopolitical tensions are expected to keep yields elevated in April 2024 in line with the level witnessed in March 2024. The short-term yield is expected to moderate in April 2024 owing to surplus liquidity in the banking system. Dun & Bradstreet anticipates the 10-year G-Sec yield to be around 7.1% in April 2024, while we expect the 15-91-day Treasury Bills yield to remain at around 6.85%.



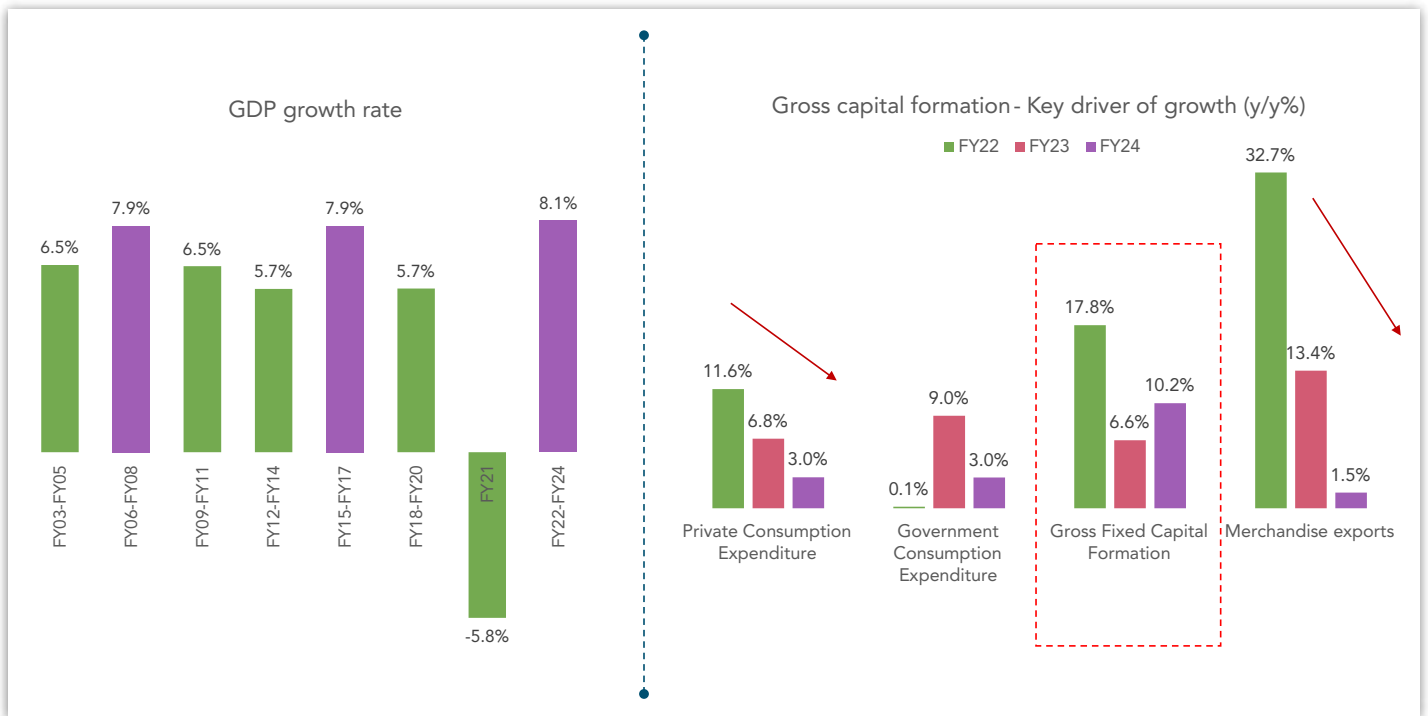
## External Sector

Rupee is expected to turn bearish and depreciate during April and May 2024 due to concerns regarding surge in oil prices stemming from heightened instability in the Middle East. Another key risk to rupee lies in the potential postponement of the Fed's rate-cutting trajectory. Given the uptick in inflation in the US and resilient growth, the Fed might delay its rate-cutting measures, consequently bolstering the dollar in the short term. Dun & Bradstreet expects the rupee to depreciate to 83.4 per US\$ in April 2024 and further depreciate to 83.6 per US\$ in May 2024.

### D&B's Economy Observer Forecast

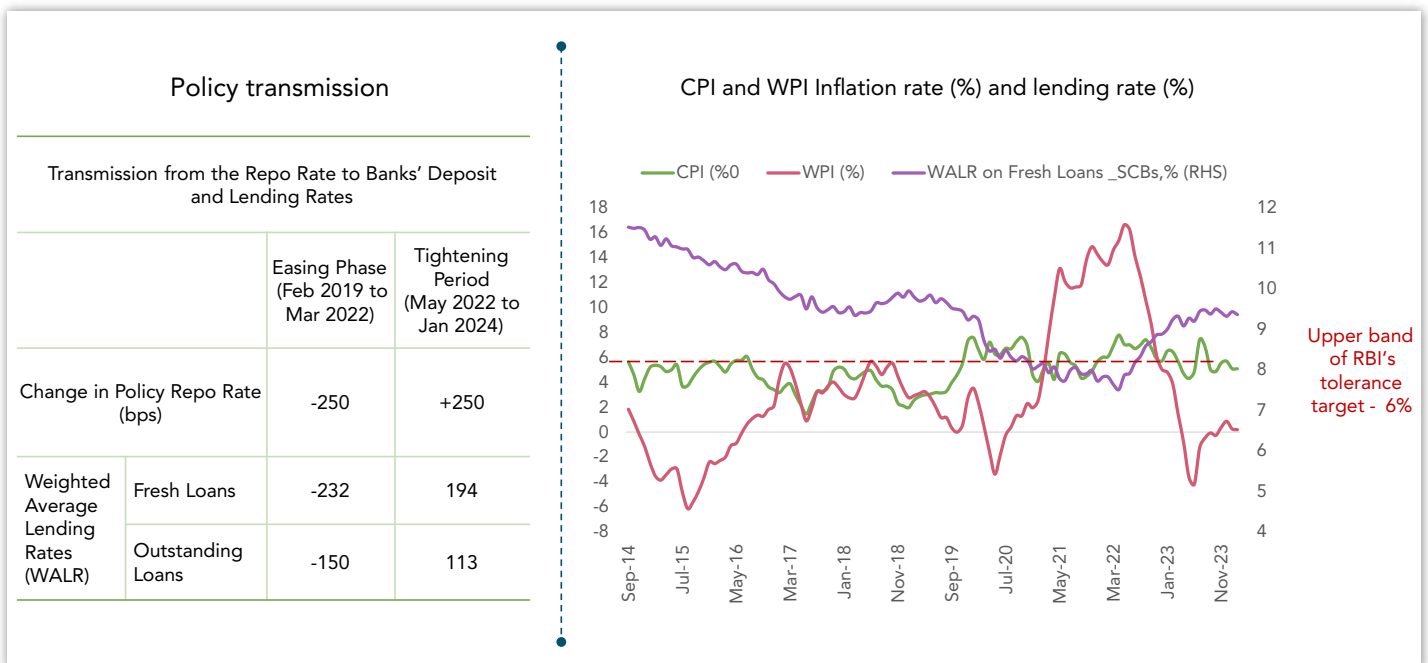
Variables	Forecast	Latest Period	Previous period
IIP Growth	5.0% March-24	5.7% February-24	4.1% January-24
Inflation WPI	0.5% April-24	0.53% March-24	0.2% February-24
CPI (Combined)	4.3% April-24	4.85% March-24	5.09% February-24
Exchange Rate (INR/US\$)	83.6 May-24	83.4 April-24	83.0 March-24
15-91 day's T-Bills	6.85% April-24	6.93% March-24	7.03% February-24
10 year G-Sec yield	7.1% April-24	7.07% March-24	7.09% February-24
Bank Credit	20.4% April-24	20.2% March-24	20.5% February-24

## India recorded average growth over 8% in the past three years



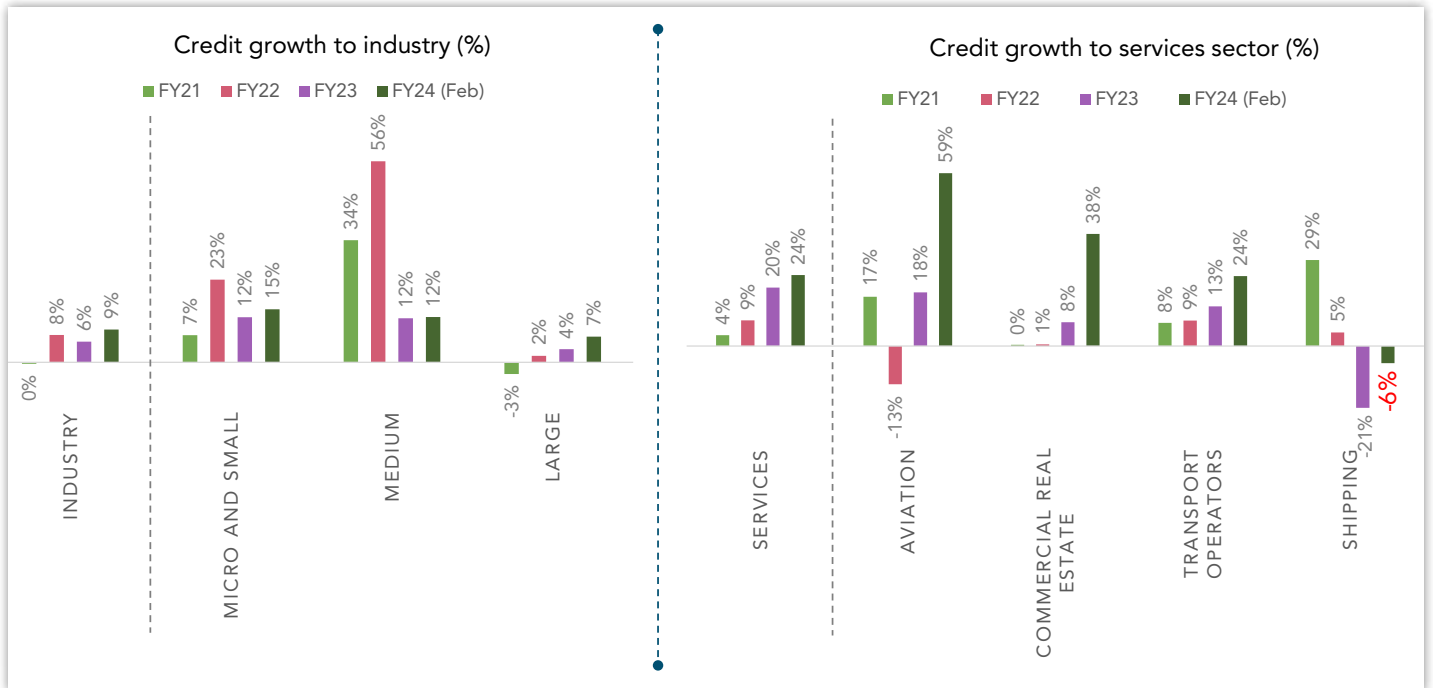
Source: MOSPI, RBI

Policy rate likely to remain unchanged in 1st half of 2024 amid high retail inflation; but lending rate to rise due to incomplete transmission of previous policy changes.



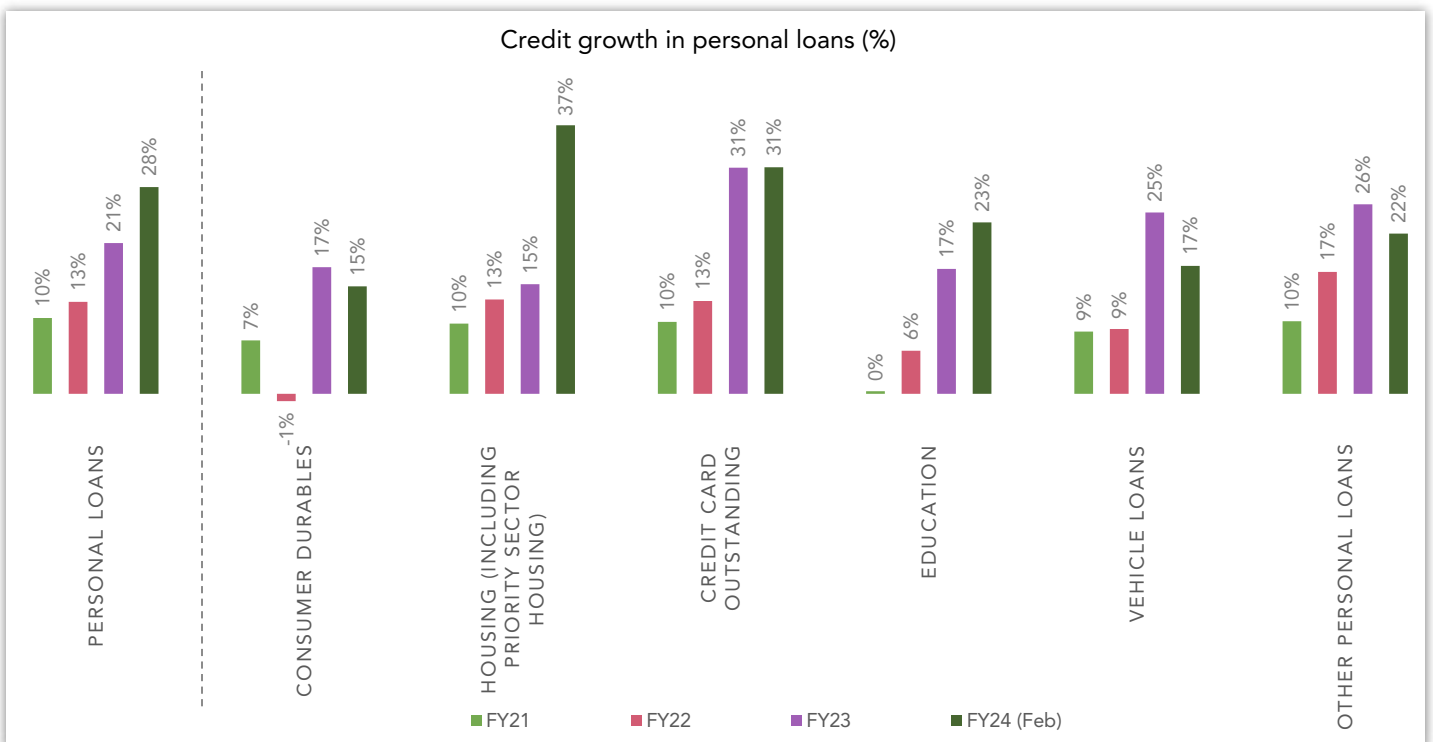
Source: RBI

Small and micro sector credit growth remains resilient; medium-scale industries see moderation. Within services aviation, real estate, and transport thrive; shipping credit declines.



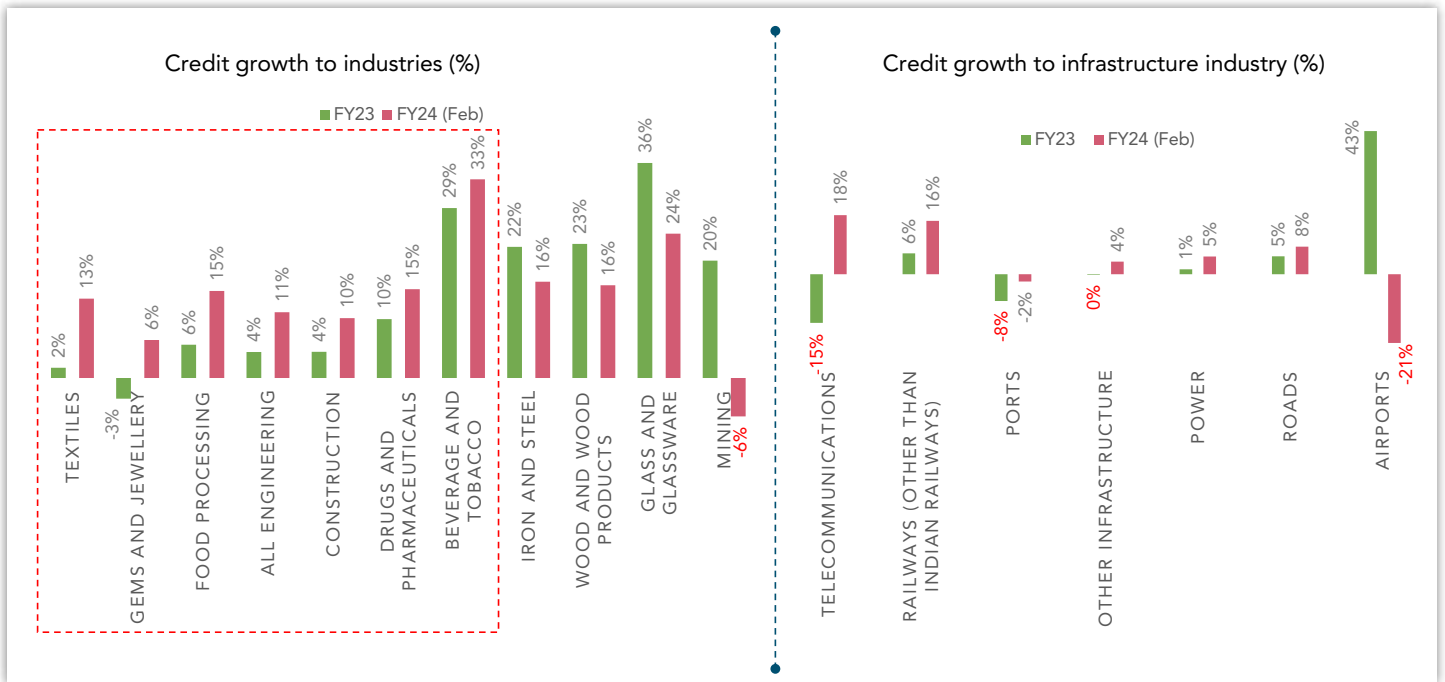
Source: RBI

All segments under the personal loans witness robust growth post pandemic. Despite tightening of capital norms for unsecured loans in Nov 2023, credit growth in consumer durables and credit card continue to remain high.



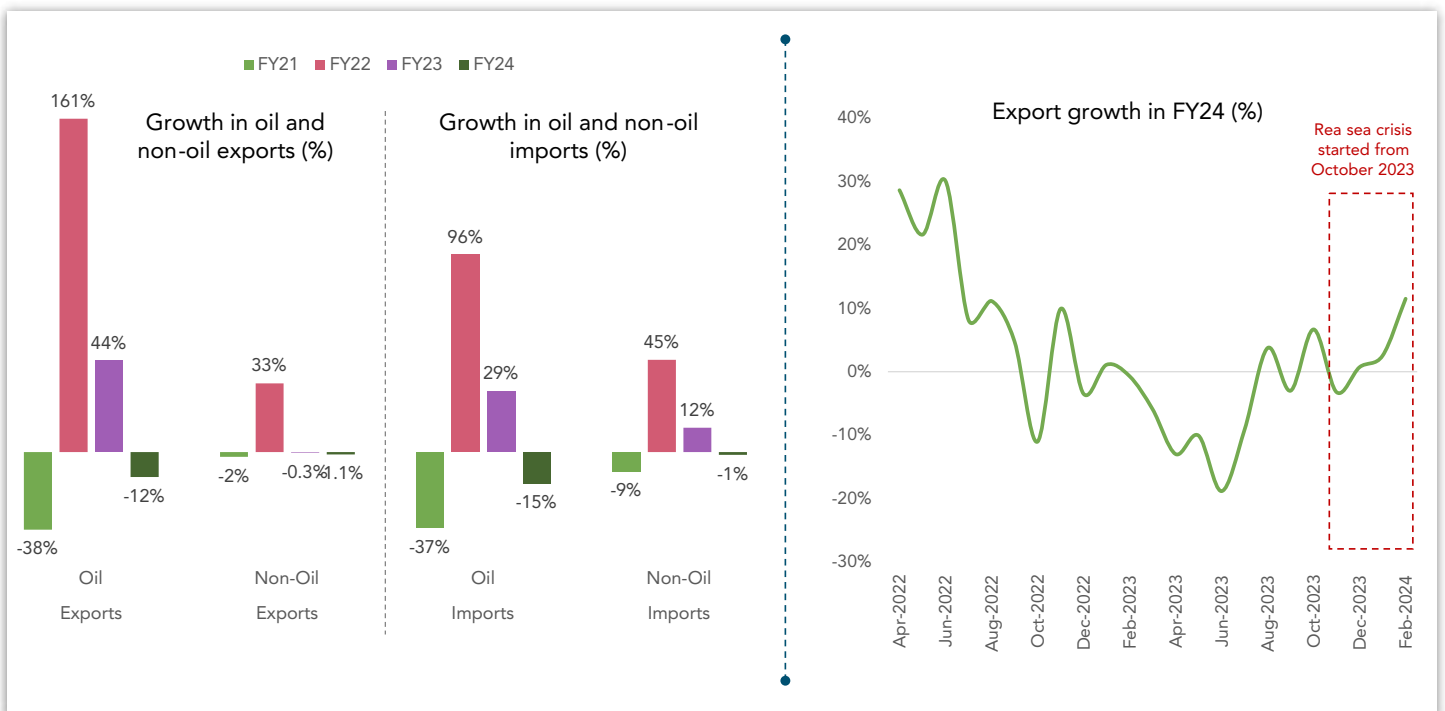
Source: RBI

Some industries witness a turnaround in credit growth in FY24, while credit growth to infrastructure remains subdued. Mining, petroleum, airports and ports witness a decline in credit growth.



Source: RBI

India's non-oil exports failed to recover during FY23 and FY24. Non-oil imports too moderated. Notably, despite the Red Sea crisis, India's export growth picked up from Dec 2023.



Note: Data for FY24 is for April 2023 to Feb 2024

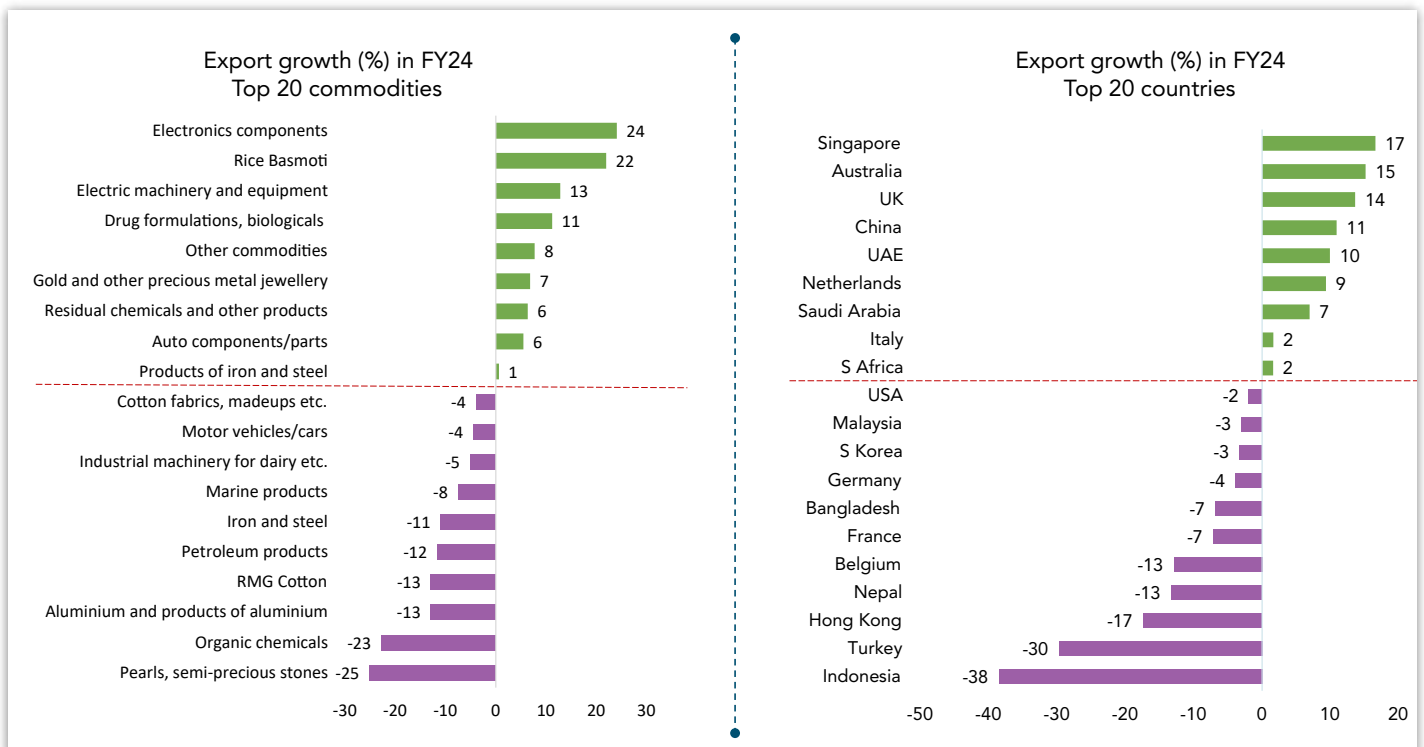
Source: RBI

While the Global Business Supply Chain Continuity Index (SCI) continues to deteriorate as geopolitical tensions are causing supply chain disruptions; India's supply chain continues to remain resilient



Source: Dun & Bradstreet

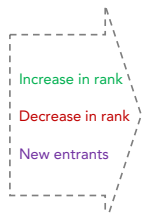
Export growth declined for half of top 20 commodities and destination countries during FY24.



Note: Data for FY24 is for April 2023 to Feb 2024  
Source: Department of Commerce

## Change in India's top exports: FY24 vs FY15

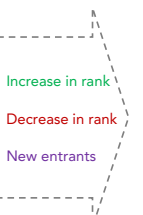
Rank	Commodity	FY15 (% share)	Rank	Commodity	FY24 (% share)
Rank 1	Petroleum products	18.3	Rank 1	Petroleum products	19.9
Rank 2	Pearls, semi-precious stones	8.0	Rank 2	Drug formulations, biologicals	4.9
Rank 3	Gold and other precious metal jewellery	4.3	Rank 3	Pearls, semi-precious stones	4.4
Rank 4	Drug formulations, biologicals	3.6	Rank 4	Telecom instruments	3.8
Rank 5	RMG Cotton	3.0	Rank 5	Gold and other precious metal jewellery	3.1
Rank 6	Iron and steel	2.8	Rank 6	Electric machinery and equipment	2.8
Rank 7	Products of iron and steel	2.4	Rank 7	Iron and steel	2.7
Rank 8	Motor vehicles/cars	2.2	Rank 8	Products of iron and steel	2.3
Rank 9	Aircraft, spacecraft and parts	2.0	Rank 9	Residual chemicals and other products	1.9
Rank 10	Cotton fabrics, madeups etc.	1.8	Rank 10	Motor vehicles/cars	1.9
Rank 11	Marine products	1.8	Rank 11	RMG Cotton	1.9
Rank 12	Organic chemicals	1.7	Rank 12	Industrial machinery for dairy etc.	1.9
Rank 13	Ship, boat and floating structures	1.7	Rank 13	Aluminium and products of aluminium	1.8
Rank 14	Manmade yarn, fabrics, madeups	1.7	Rank 14	Auto components/parts	1.8
Rank 15	Buffalo meat	1.5	Rank 15	Marine products	1.7
Rank 16	Industrial machinery for dairy etc.	1.5	Rank 16	Organic chemicals	1.7
Rank 17	Rice Basmati	1.5	Rank 17	Cotton fabrics, madeups etc.	1.5
Rank 18	Auto components/parts	1.4	Rank 18	Other commodities	1.3
Rank 19	RMG manmade fibres	1.3	Rank 19	Rice Basmati	1.3
Rank 20	Electric machinery and equipment	1.3	Rank 20	Electronics components	1.2



Source: Department of Commerce

## Change in India's top imports: FY24 vs FY15

Rank	Commodity	FY15 (% share)	Rank	Commodity	FY24 (% share)
Rank 1	Crude petroleum	26.0	Rank 1	Crude petroleum	20.4
Rank 2	Gold	7.7	Rank 2	Gold	7.1
Rank 3	Pearls, semi-precious stones	5.0	Rank 3	Petroleum products	5.8
Rank 4	Petroleum products	4.9	Rank 4	Coal, coke and briquettes etc.	5.8
Rank 5	Coal, coke and briquettes etc.	4.0	Rank 5	Electronics components	5.3
Rank 6	Telecom instruments	3.3	Rank 6	Pearls, semi-precious stones	3.4
Rank 7	Iron and steel	2.8	Rank 7	Iron and steel	2.8
Rank 8	Organic chemicals	2.5	Rank 8	Telecom instruments	2.7
Rank 9	Vegetable oils	2.4	Rank 9	Plastic raw materials	2.4
Rank 10	Other commodities	2.4	Rank 10	Industrial machinery for dairy etc.	2.4
Rank 11	Plastic raw materials	2.1	Rank 11	Computer hardware, peripherals	2.2
Rank 12	Industrial machinery for dairy etc.	2.1	Rank 12	Vegetable oils	2.2
Rank 13	Computer hardware, peripherals	1.6	Rank 13	Organic chemicals	2.2
Rank 14	Bulk minerals and ores	1.5	Rank 14	Residual chemicals and other products	1.9
Rank 15	Fertilizers manufactured	1.4	Rank 15	Electric machinery and equipment	1.8
Rank 16	Electric machinery and equipment	1.4	Rank 16	Electronics instruments	1.7
Rank 17	Electronics instruments	1.2	Rank 17	Fertilizers manufactured	1.4
Rank 18	Electronics components	1.2	Rank 18	Copper and products made of copper	1.4
Rank 19	Residual chemicals and other products	1.2	Rank 19	Aircraft, spacecraft and parts	1.3
Rank 20	Ship, boat and floating structure	1.1	Rank 20	Aluminium and products of aluminium	1.0



Source: Department of Commerce



## India's export destinations: FY24 vs FY15

Rank	Countries	FY15 (% share)	Rank	Countries	FY24 (% share)	State of trade agreements with top exporting partners	
Rank 1	USA	13.7	Rank 1	USA	17.7		
Rank 2	UAE	10.6	Rank 2	UAE	8.0	Yes	India - United Arab Emirates BIT (2024)
Rank 3	Hong Kong	4.4	Rank 3	Netherlands	5.1		
Rank 4	China	3.9	Rank 4	China	3.8		
Rank 5	Saudi Arabia	3.6	Rank 5	Singapore	3.2	Yes	ASEAN - India Investment Agreement (2014)
Rank 6	Singapore	3.2	Rank 6	UK	3.0	Ongoing	
Rank 7	UK	3.0	Rank 7	Saudi Arabia	2.6	Ongoing	
Rank 8	Germany	2.4	Rank 8	Bangladesh	2.5	Yes	Bangladesh - India BIT (2009)
Rank 9	Sri Lanka	2.2	Rank 9	Germany	2.2		
Rank 10	Bangladesh	2.1	Rank 10	S Africa	2.0		
Rank 11	Netherlands	2.0	Rank 11	Italy	2.0		
Rank 12	Vietnam	2.0	Rank 12	Hong Kong	2.0		
Rank 13	Brazil	1.9	Rank 13	Australia	1.9	Yes	India Australia - CECA
Rank 14	Malaysia	1.9	Rank 14	Belgium	1.8		
Rank 15	Belgium	1.8	Rank 15	France	1.6		
Rank 16	Japan	1.7	Rank 16	Malaysia	1.6	Yes	ASEAN - India Investment Agreement (2014)
Rank 17	Turkey	1.7	Rank 17	Nepal	1.6	Yes	India - Korea, Republic of CEPA (2009)
Rank 18	Vietnam	1.7	Rank 18	Turkey	1.6		
Rank 19	Italy	1.6	Rank 19	S Korea	1.5		
Rank 20	France	1.6	Rank 20	Indonesia	1.4	Yes	ASEAN - India Investment Agreement (2014)

Source: Department of Commerce

India's recent trade agreements: The thrust being placed on forging new trade agreements to support India's aim of achieving its export (goods and services) target of USD 2 trillion by 2030.

In the past decade 2010-2019, India had entered into trade agreements with 7 countries and terminated 3.

Trade agreements 2020 -2024	Countries	Status	Year of signature
1 Gulf Cooperation Council -FTA	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE	Ongoing	
2 India Oman - FTA	Oman	Ongoing	
4 India UK- FTA	UK	Ongoing	
5 India Canada -CEPA	Canada	Ongoing	
6 India Australia - CECA	Australia	Ongoing	
7 India - United Arab Emirates BIT (2024)	UAE	Signed	2024
8 EFTA - India TEPA (2024)	Iceland, Liechtenstein, Norway and Switzerland	Signed	2024
9 Australia - India ECTA (2022)	Australia	In force	2022
10 India - United Arab Emirates CEPA (2022)	UAE	In force	2022
11 Mauritius - India CECTA (2021)	Mauritius	In force	2021
12 Brazil - India BIT (2020)	Brazil	Signed	2020

Source: PIB, others

## All-India House Price Index (HPI) for Q4:2023-24

Watch out for the trend in the housing price data released by the RBI. The Reserve Bank of India will release its quarterly house price index (HPI)<sup>1</sup> (base: 2010-11=100) for Q4:2023-24, based on transaction-level data received from the registration authorities in ten major cities (viz., Ahmedabad, Bengaluru, Chennai, Delhi, Jaipur, Kanpur, Kochi, Kolkata, Lucknow, and Mumbai)

## Half Yearly Report on Management of Foreign Exchange Reserves: October-March 2023-2024

The Reserve Bank of India will release the 41st half-yearly report on management of foreign exchange reserves with reference to end-March 2024. The report will disseminate information regarding movement of foreign exchange reserves, external liabilities vis-à-vis the reserves, adequacy of reserves, etc., during the half-year under review. Objectives of statutory provisions, risk management practices, information on transparency and disclosure practices followed by the RBI etc. with regard to reserve management will be covered.

## Consumer Price Index (CPI)

Watch out for the retail inflation for the month of April 2024. India's retail inflation is moderating towards the RBI's target rate. The movement in consumer price inflation will be critical for RBI to take a call on the policy repo rate.

## Report on Currency and Finance (RCF)

Look out for the annual publication of RBI which covers various aspects of the Indian economy and financial system. The theme of Report on Currency and Finance 2022-23 was 'Towards a Greener Cleaner India' while in 2021-22 the theme was "Revive and Reconstruct" in the context of nurturing a durable recovery post-COVID and raising trend growth in the medium-term.

Analysis - Economic Research Team

Please send your feedback to Dr Arun Singh, Global Chief Economist.

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