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ECONOMY OBSERVER



MAY 2024

Inflation is not out of woods yet; The RBI is likely to maintain a wait-and-watch approach on interest rates in June 2024: Dun & Bradstreet

“Retail inflation is still not out of the woods and extreme weather events and prolonged geopolitical tensions continue to pose a risk to the headline inflation. The RBI is...

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Retail inflation is still not out of the woods and extreme weather events and prolonged geopolitical tensions continue to pose a risk to the headline inflation. The RBI is thus likely to adopt a wait-and-watch stance in the upcoming monetary policy meeting in June 2024. Given that monetary policy transmission remains incomplete, we expect interest rates to rise further exerting pressures on small businesses who run on thin cash margins.



Real Economy

Dun & Bradstreet expects the Index of Industrial Activity (IIP) to have continued to grow steadily during April 2024 as election-related spending and positive export growth continue to support industrial activity. Fall in inflationary pressures compared to last year is also expected to support consumption. Dun & Bradstreet expects the IIP to have grown by 5.1% in April 2024.



Price Scenario

Even with a further easing of retail inflation in April 2024, persistent high food prices remain a concern. The trajectory of food price inflation in the coming months hinges on the performance of the monsoon. Additionally, deflation in manufactured products is waning away, and certain components within the fuel oil and power segment of the Wholesale Price Index (WPI) are showing signs of increase, warranting close monitoring. We expect the WPI inflation to rise further. Extreme weather events and prolonged geopolitical tensions continue to pose a risk to the headline inflation. Dun & Bradstreet expects the Consumer Price Inflation (CPI) to be 4.5% and Wholesale Price Inflation (WPI) to be around 2.8% in May 2024.



Money & Finance

We expect the RBI to adopt a wait-and-watch stance in the upcoming monetary policy meeting in June 2024 as volatility in food prices is expected to keep retail inflation above the RBI's target of 4%. The delay in the US Fed rate cut also weighs upon the decision. The yield on the high end of the curve is expected to moderate slightly in May 2024. However, outflows in the debt market are expected to put upward pressure on bond yields. Short terms yields are likely to edge up as liquidity conditions remain tight owing to excise, TDS and GST collections. Dun & Bradstreet anticipates the 10-year G-Sec yield to be around 7.10% in May 2024, while we expect the 15-91-day Treasury Bills yield to remain at around 6.92%.



External Sector

FII outflows widening of trade deficit and strong dollar are expected to further contribute to depreciation pressures on the rupee. Dun & Bradstreet expects the rupee to depreciate to 83.6 per US\$ in May 2024 and further depreciate to 83.7 per US\$ in June 2024.

D&B's Economy Observer Forecast

| Variables | Forecast | Latest Period | Previous period |
|--------------------------|---------------|----------------|------------------|
| IIP Growth | 5.1% April-24 | 4.9% March-24 | 5.7% February-24 |
| Inflation WPI | 2.8% May-24 | 1.26% April-24 | 0.53% March-24 |
| CPI (Combined) | 4.5% May-24 | 4.83% April-24 | 4.85% March-24 |
| Exchange Rate (INR/US\$) | 83.7 June-24 | 83.6 May-24 | 83.41 April-24 |
| 15-91 day's T-Bills | 6.92% May-24 | 6.89% April-24 | 6.93% March-24 |
| 10 year G-Sec yield | 7.10% May-24 | 7.15% April-24 | 7.07% March-24 |
| Bank Credit | 19.5% May-24 | 19% April-24 | 20.2% March-24 |

Monetary Policy Meeting

Watch out for the Monetary Policy Committee's decision on policy repo rate and its forecast on inflation when it meets in June, after it decided to pause the rate hike for the 7th consecutive time in its April policy meeting.

Consumer Price Index (CPI)

Watch out for Consumer Price Index (CPI) to be released for the month of May 2024 as the retail inflation dropped below 5% RBI for two consecutive months of March and April of 2024.

RBI Consumer Confidence Survey

Watch out for RBI's bi-monthly Consumer Confidence survey scheduled to release in June which will provide an assessment of how consumers current perceptions (vis-à-vis a year ago) and one year ahead expectations on general economic situation, employment scenario, overall price situation and own income and spending. According to the previous release in April, the current situation index (CSI) rose to 98.5 – its highest level since mid-2019, future expectations index (FEI) also rose to 125.2 – also its highest level since mid-2019.

Financial Stability Report

The bi-annual Financial Stability Report reflects the collective assessment of the Sub-Committee of the Financial Stability and Development Council (FSDC) on risks to financial stability and the resilience of the financial system. Given the stress in the global banking system, the results of the stress tests conducted by the committee on the various financial segments in India is much awaited. As per the last report:

- The capital to risk-weighted assets ratio (CRAR) and the common equity tier 1 (CET1) ratio of scheduled commercial banks (SCBs) stood at 16.8 per cent and 13.7 per cent, respectively, in September 2023.
- SCBs' gross non-performing assets (GNPA) ratio continued to decline to a multi-year low of 3.2 per cent and the net non-performing assets (NNPA) ratio to 0.8 per cent in September 2023.
- Macro stress tests for credit risk reveal that SCBs would be able to comply with minimum capital requirements, with the system-level CRAR in September 2024 projected at 14.8 per cent, 13.5 per cent and 12.2 per cent, respectively, under baseline, medium and severe stress scenarios.
- The resilience of the non-banking financial companies (NBFCs) sector improved with CRAR at 27.6 per cent, GNPA ratio at 4.6 per cent and return on assets (RoA) at 2.9 per cent, respectively, in September 2023.

Analysis - Economic Research Team

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