dun & bradstreet

ECONOMY OBSERVER

JANUARY 2024

Supply chain risks emanating from the Red Sea crisis: Dun & Bradstreet

> *"The Red Sea crisis looms over India's export growth, impacting around 23% of exports to Europe, 80% of which are routed through the Red Sea. Container shipment costs to Europe have ..."*

> “The Red Sea crisis looms over India's export growth, impacting around 23% of exports to Europe, 80% of which are routed through the Red Sea. Container shipment costs to Europe have surged 3-4 times, causing extended transit times. The spike in costs and uncertainty is felt by exporters and importers alike. Notably, 15% of India's imports are from Europe. Reflecting the ongoing concerns, Dun & Bradstreet’s global business supply chain continuity index for Q1 2024 fell sharply by 6.3%. The unfolding situation poses a potential threat to headline inflation, edging towards the RBI's upper limit of 6%”

Real Economy

Index for Industrial Production (IIP) is expected to grow at a lower single digit number in December 2023. High base of last year, weak external demand and slowdown in consumption post the festive season would contribute to a lower print of the IIP in the month of December 2023. Dun & Bradstreet, expects the Index of Industrial Production (IIP) to have grown by 3.0% in December 2023.

Price Scenario

Despite the winter season, there is a noticeable upward trend in food prices, particularly for fruits, vegetables, and pulses. Urban areas have witnessed food inflation surpassing 10%, while rural areas are close to 9% as of December 2023. Anticipated increases in both retail and wholesale inflation are attributed to elevated domestic food prices and global inflation concerns arising from the Red Sea attacks, causing disruptions in supply chains. It is expected that retail inflation will gradually rise to 6% in January 2024, thereby establishing the likelihood of interest rates remaining high for an extended period. Dun & Bradstreet expects the Consumer Price Inflation (CPI) to be 5.8% and Wholesale Price Inflation (WPI) to be around 0.85% for January 2024.

Money & Finance

Inching up of retail inflation suggests a further postponement of policy rate cut by the Central Bank to keep yields elevated. Besides, the rise 10 Year US treasury yields, from the low level witnessed during end of Dec and FII outflows to elevate pressure on domestic yields. Dun & Bradstreet anticipates the 15-91-day Treasury Bills yield to reach 6.94%, with the 10-year G-Sec yield projected at 7.23% in January 2024.

External Sector

The rupee is anticipated to moderately appreciate due to the support from foreign capital inflows and robust domestic economic data. Moreover, expected stronger GDP data coupled with no change in the policy rate by the Central Bank to impact investor sentiment positively. Dun & Bradstreet expects the rupee to remain unchanged at 83.0 per US$ in January 2024 compared to last month and to moderately appreciate to 82.7 per US$ in February 2024.

D&B's Economy Observer Forecast

Variables	Forecast	Latest Period	Previous period
IIP Growth	3.0% December-23	2.4% November-23	11.7% October-23
Inflation WPI	0.85% January-24	0.73% December-23	0.26% November-23
CPI (Combined)	5.80% January-24	5.69% December-23	5.55% November-23
Exchange Rate (INR/US$)	82.7 February-24	83.00 January-24	83.3 December-23
15-91 day T-Bills	6.94% January-24	6.95% December-23	6.94% November-23
10 year G-Sec yield	7.23% January-24	7.22% December-23	7.27% November-23
Bank Credit	21.3% January-24	20.0% December-23	20.6% November-23

Expectations for Interim Union Budget 2024-25

The Indian economy is poised to grow by more than 7.0% in FY24 amidst a weak global economy and troubled geo-political landscape. Despite the resilience in growth, India does not remain completely decoupled from the global economic and political eventualities as evidenced in the recent supply chain turmoil emanating from the Red Sea. It is at this backdrop that the government is expected to announce the interim Union Budget. As the government prepares the Budget as a vote-on account, it is expected to set the direction and build framework for its initiatives for the year ahead and refrain from any major announcements/incentives ahead of the election. We anticipate that the government is likely to build the framework around fiscal consolidation, formalization of MSMEs and enabling them to scale up, focus on infrastructure especially the logistic sector, and reiterate its thrust on energy transition and sustainability.

Prioritizing fiscal glide path and aim to reduce general government debt.

Expect the Central Government to target a 5.2% fiscal deficit in FY25, aiming for the FRBM target of 4.5% by FY26. To achieve this, strategic measures include faster GDP growth, broadening the tax base, and improving compliance. Buoyancy in tax collection, evidenced by a 14-year high gross tax to GDP ratio at 11.5% in FY22 and 11.2% in FY23, is crucial. With India's tax to GDP ratio much lower than OECD countries (34% average in 2022), there's room for improvement. To boost tax collections, the government should intensify efforts to formalize MSMEs, expanding the tax base for higher revenue growth.

Formalization of MSMEs and helping MSMEs to scale up

The government aims to formalize the economy through digitization, encouraging MSME registration on the UDYAM portal. Formalization grants MSMEs access to credit and targeted policy benefits, enhancing competitiveness and market access.

Addressing high loan rejection rates (28% in India), a Public-Private Partnership (PPP) venture like Japan's Credit Risk Database can anonymize financial information, easing credit history issues for MSMEs. Expanding credit guarantee schemes, including factoring and leasing, mimicking Hungary's approach, is crucial for mid-sized companies. A marketplace financing platform connecting mid-sized companies with investors should be established for the debt/hybrid capital market.

FTAs can integrate MSMEs into global value chains. The upcoming Trade Connect e-platform (2024) is a step in this direction, but MSME awareness, guidance, and utilization need attention. The government should focus on addressing information gaps, providing affordable finance, capacity building, and sustainable sourcing guidance for MSMEs to leverage bilateral ties and opportunities.

Logistic sector development along with first and last mile connectivity to remain a key priority area

Despite a commendable climb from 44th to 38th in the World Bank's Logistic Performance Index (LPI) by 2023, India, as the fifth-largest economy, needs to aim higher, especially with aspirations to become a global manufacturing hub.

To boost the Gati Shakti initiative, the government is expected to outline measures to enhance the logistics sector, focusing on bridging gaps in first and last-mile connectivity. Investments in integrated logistics infrastructure are crucial to make rail movement competitive with roads, and we anticipate continued heavy investment in infrastructure projects.

Efficient urban management is vital, given cities' role in digital transformation. A renewed focus on completing ongoing smart city initiatives and identifying the next 100 cities is imperative. As of January 2023, 68 Smart Cities have yet to meet their physical targets under the Mission.

Continued thrust on energy transition and sustainability.

India faces numerous challenges on its path to development, with energy transition and clean practices among them. Addressing the adoption gap in sustainability measures, especially for different-sized businesses, is crucial. To overcome these challenges, significant investment and resources are needed, with a focus on providing accessible green financing for MSMEs. The government is expected to continue efforts to decarbonize the transport sector.

Surveys reveal that MSMEs struggle with clean technology adoption due to limited capital and technical expertise. Low awareness about green financing adds to the complexity. Handholding and cluster-based interventions, initiated by SIDBI, need wider adoption across India.

In the budget, an extension of the FAME scheme (Part III) could incentivize mass transportation electrification, especially for buses and trucks.

Expectation for other sectors

Healthcare: The Indian pharmaceutical industry, positioned as the world's third-largest production hub, is poised for expansion. Recognizing this potential, there is an anticipation that the government will implement enhanced incentives to attract foreign investments in advanced pharmaceutical research and increase funding for R&D. We anticipate the government revealing a strategic plan to transition from a focus on 'Volume' to 'Value,' aiming to enhance India's global presence. Additionally, we expect the government to extend the Remission of Duty and Taxes on Exported Products (RoDTEP) scheme for pharma exports until 2024.

Agriculture: We expect the government to set up a guideline to ensure consistency and effective communication in the agriculture export policy. In this regard, addressing the gaps in the market linkages in the agriculture sector assumes importance. Strengthening the access to finance for Farmer Producer Organizations (FPOs) and Value Chain Operators (VCOs) and emphasizing the digitization of these entities can be considered. Priority to be given for capacity development and financial support for FPOs and VCOs that are owned or led by women.

RBI monetary Policy

Watch out for the Monetary Policy announcement where it will be worthwhile to look at the growth and inflation forecast. The RBI is likely to keep the interest rate unchanged and continue to adopt a 'wait and watch' approach.

Second Advanced Estimates of National Income

With the economy estimated to grow by 7.3% in FY24, as per the first advanced estimates, the National Statistical Office is expected to release second Advanced Estimates of National Income on 28 February that will state the performance of Indian economy.

IMF World Economic Outlook (WEO)

Watch out for the IMF WEO to understand which economies are likely to be in recession, which economies will continue to experience protracted slowdown and which economies will grow strongly amidst the various economic headwinds/

Research Team

Dr. Arun Singh | Dipshikha Biswas | Raj Kiran

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

Dun & Bradstreet Information Services India Pvt. Ltd., 7th Floor, Godrej BKC, Bandra (East), Mumbai – 400051 | CIN - U74140MH1997PTC107813

Tel: 91-22-4941 6666 | Email: SinghArun@DNB.com | www.dnb.co.in

About Dun & Bradstreet:

Dun & Bradstreet, a leading global provider of business decisioning data and analytics, enables companies around the world to improve their business performance. Dun & Bradstreet's Data Cloud fuels solutions and delivers insights that empower customers to accelerate revenue, lower cost, mitigate risk and transform their businesses. Since 1841, companies of every size have relied on Dun & Bradstreet to help them manage risk and reveal opportunity. For more information on Dun & Bradstreet, please visit www.dnb.com.

Dun & Bradstreet Information Services India Private Limited is headquartered in Mumbai and provides clients with data-driven products and technology-driven platforms to help them take faster and more accurate decisions across finance, risk, compliance, information technology and marketing. Working towards Government of India's vision of creating an Atmanirbhar Bharat (Self-Reliant India) by supporting the Make in India initiative, Dun & Bradstreet India has a special focus on helping entrepreneurs enhance their visibility, increase their credibility, expand access to global markets, and identify potential customers & suppliers, while managing risk and opportunity.

India is also the home to **Dun & Bradstreet Technology & Corporate Services LLP,** which is the Global Capabilities Center (GCC) of Dun & Bradstreet supporting global technology delivery using cutting-edge technology. Located at Hyderabad, the GCC has a highly skilled workforce of over 500 employees, and focuses on enhanced productivity, economies of scale, consistent delivery processes and lower operating expenses.

Visit www.dnb.co.in for more information.