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ECONOMY OBSERVER

January 2025

A Delicate Balance: India’s Economy in a Period of Caution Amid Rising Pressures– DUN & BRADSTREET

“India's economy is likely in a cyclical downturn, but the outlook for the second half of FY2024-25 is brighter, supported by government measures to boost investment and consumption. With a projected Rs 1-1.5 lakh crore increase in capital expenditure and enhanced allocations for rural programs, growth momentum is expected to strengthen. Stable bond yields, an improving fiscal deficit, and targeted public spending position India to weather global challenges and sustain economic resilience.”

Dr. Arun Singh
Global Chief Economist

POSITIVES

- *Improved Income Tax Receipts: A notable rise in income tax receipts from October to November indicates improved individual earnings, reflecting better economic conditions at the consumer level..*
- *Strong Performance in Coal, Steel, and Cement: Growth in coal (5.4%), steel (5.8%), and cement (8.2%) highlights robust demand in energy, infrastructure, and construction sectors, indicating key sectors of strength..*
- *The increase in EPFO enrollments, especially among young workers and women, indicates growing employment opportunities and a positive shift in the labor market.*
- *Personal loans and services experienced continued growth, signaling ongoing consumer demand and economic activity, which is vital for sustaining short-term economic momentum.*
- *Retail Inflation in India eased to 5.2%, the lowest in three months*
- *Industrial growth (IIP) rose to 5.2%, the highest in six months, indicating positive momentum in the industrial sector.*
- *Significant growth in infrastructure goods (10.0% y/y) and capital goods (9.0% y/y) suggests strong investment activity and project-driven expansion in critical industries.*

NEGATIVES

- *A decline in corporate tax receipts signals ongoing pressure on corporate profitability, which could affect overall economic growth and recovery.*
- *The decline in crude oil and natural gas production by -1.8% and -1.9% signals struggles in energy production.*
- *Food inflation remained a concern, particularly due to high cereal and pulse prices, continuing to put pressure on households, especially in rural areas.*
- *Industrial weakness in energy-related areas indicating the need for more strategic interventions to support industrial growth in critical sectors like energy.*
- *Cyclical downturn and slower GDP growth impacted by slower mining, manufacturing, and domestic consumption, indicates a slowdown in economic activity and requires targeted fiscal measures.*
- *The Low growth in the fertilizers sector (0.7%) signals ongoing challenges in meeting agricultural input demands, potentially impacting food production.*
- *Core inflation, driven by higher costs in services like healthcare and education.*

D&B's Economy Observer Forecast

Variables	Forecast	Latest Period	Previous period
IIP Growth	4.0% Dec-24	5.2% Nov-24	3.5% Oct-24
Inflation WPI	3.0% Jan-25	2.4% Dec-24	1.9% Nov-24
CPI (Combined)	5.8% Jan-25	5.2% Dec-24	5.5% Nov-24
Exchange Rate (INR/USD)	86.7 Feb-25	86.3 Jan-25	85.0 Dec-24
91-day T-Bills*	6.6% Jan-25	6.6% Dec-24	6.5% Nov-24
10-year G-Sec Yield*	6.9% Jan-25	6.9% Dec-24	6.8% Nov-24
Bank Credit	11.5% Jan-25	11.2% Dec-24	12.1% Nov-24

**Weekly Average ** Dun and Bradstreet Forecasts*

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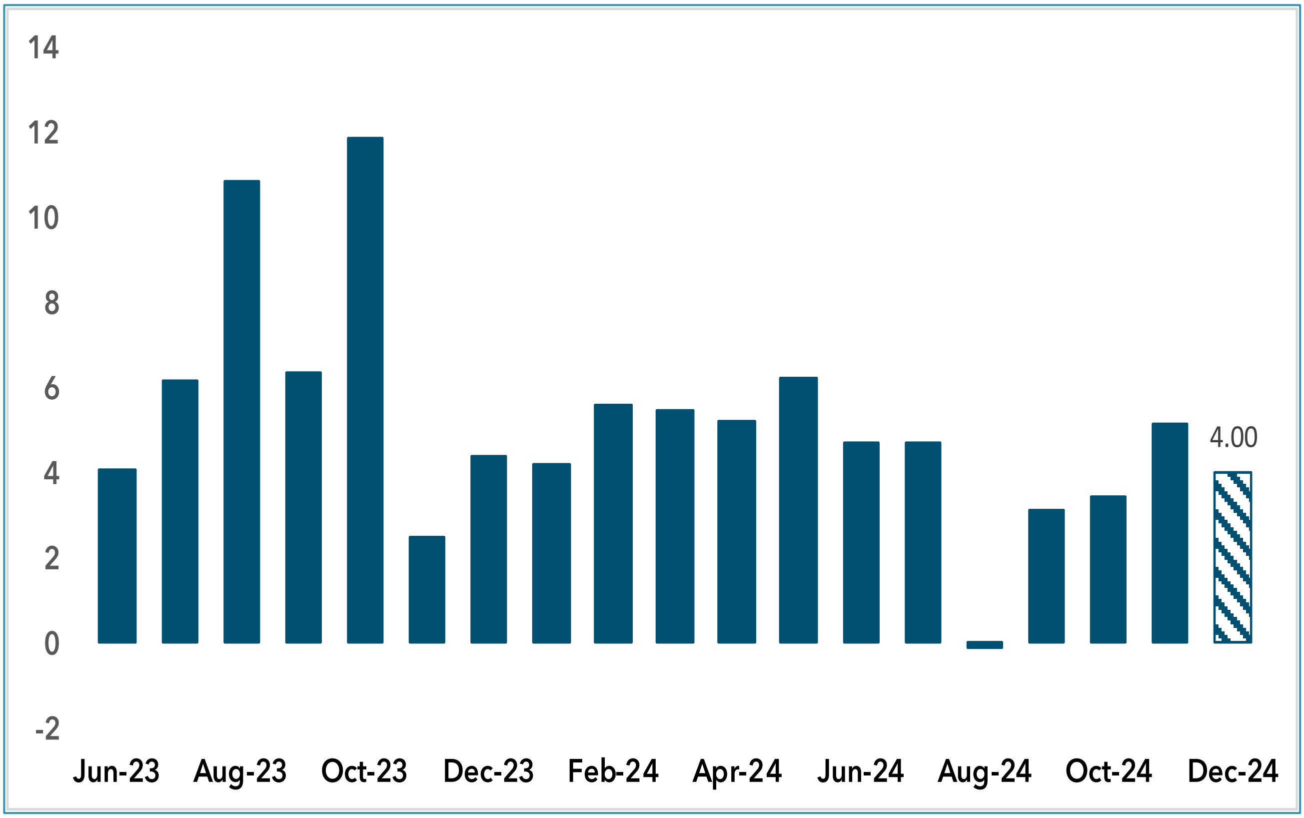
Real Economy

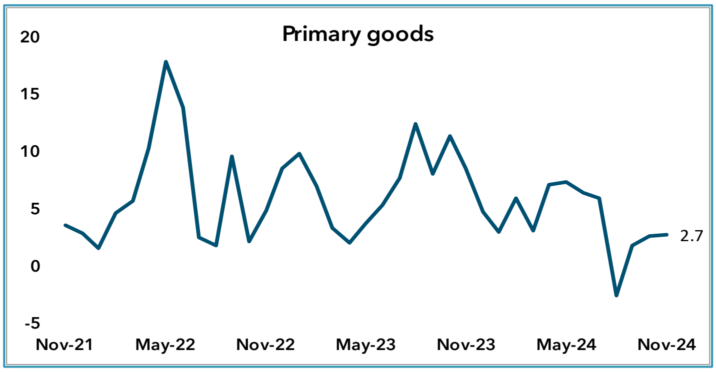
Industrial Production (IIP)

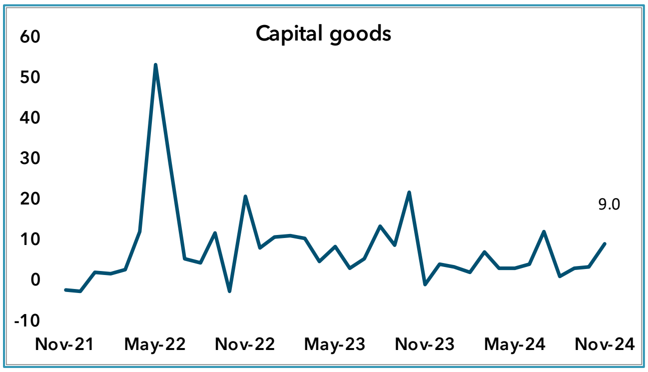


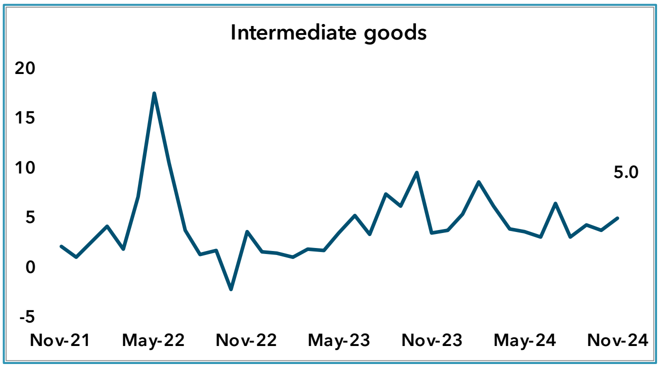
India's economy appears to be in a cyclical downturn, with activity slowing in the first half of FY2024-25. This deceleration has been driven by macroprudential tightening in lending, reduced public expenditure in an election year, and a cyclical slowdown in private consumption and investment, as reflected in high-frequency indicators. The National Statistical Office projects real GDP growth at 6.4% for the fiscal year 2024-25, weighed down by slower mining and manufacturing activities. **Dun & Bradstreet expects IIP growth to moderate to 4.0% in December 2024**, reflecting both global uncertainties and domestic pressures, with industrial production momentum cooling as the base effect normalizes. The February budget will play a crucial role in addressing subdued public spending and stimulating growth. To boost consumption, especially in rural and urban areas, we anticipate enhanced allocations for programs like MGNREGA, PM KISAN, and PMAY, along with potential tax incentives to promote rural and urban spending. At the same time, driving investment growth will remain a key focus, with an expected Rs 1-1.5 lakh crore increase in capital expenditure over FY25's revised estimates. The government's borrowing program is likely to rise only marginally to around Rs 15 lakh crore, ensuring bond yields remain stable.

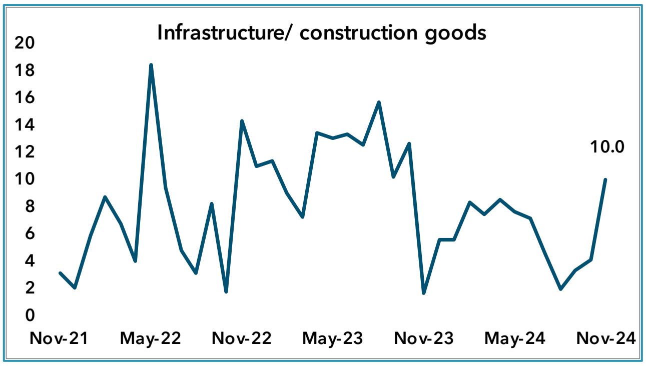
Source: RBI, Dun & Bradstreet

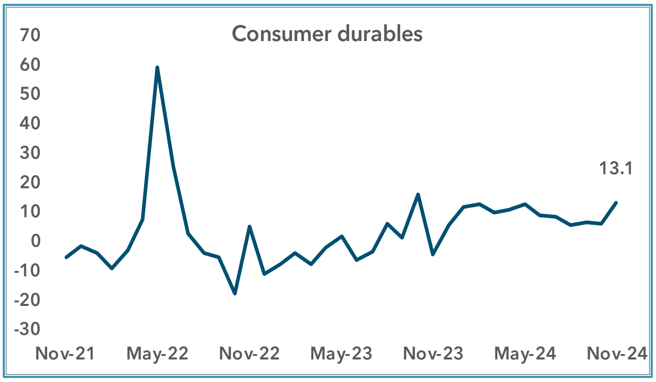
Use-based classification of IIP

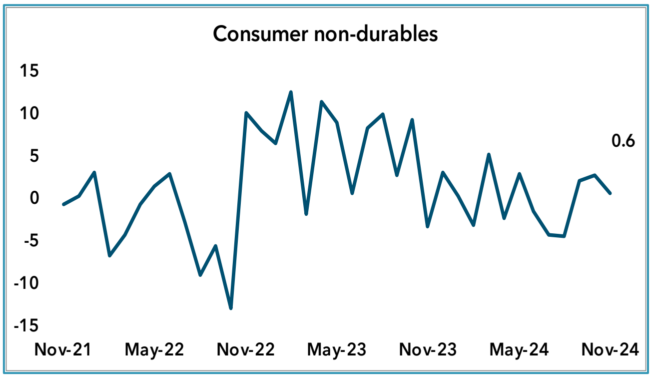








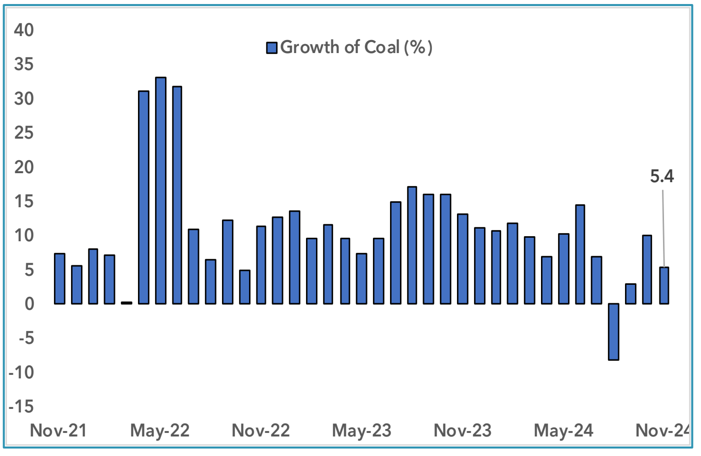


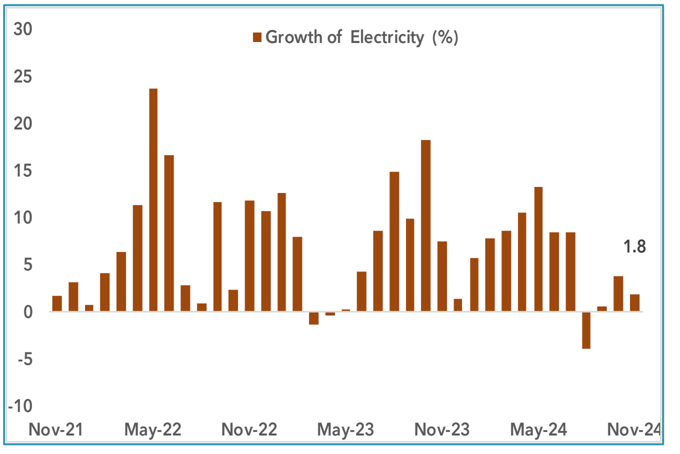


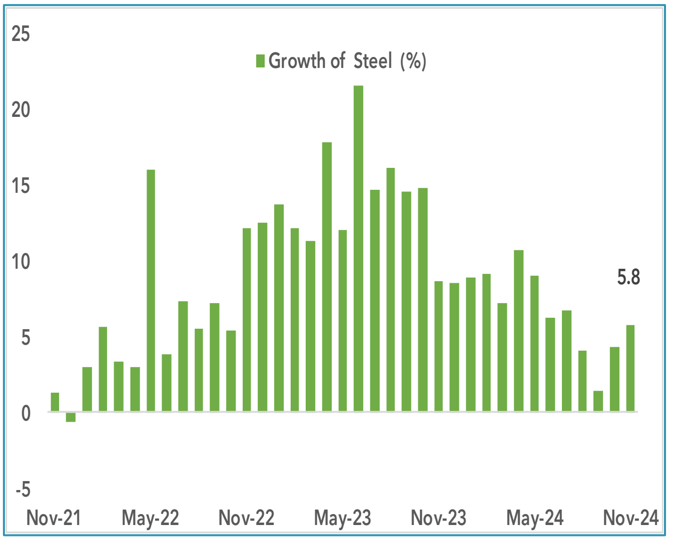
Despite the notable uptick in IIP to 5.2% in November, industrial momentum may face headwinds in December due to several factors. Seasonal adjustments and normalization of activity following festive-driven demand could soften growth. Externally, global economic uncertainties, tighter financial conditions, and slowing export demand are likely to weigh on industrial output. Domestically, the 0.6% y/y decline in consumer non-durables highlights subdued rural demand, which could persist and offset gains in other sectors. While infrastructure/construction goods grew significantly at 10.0% y/y and capital goods surged by 9.0% y/y, their growth is influenced by project timelines and investment cycles, which may not sustain similar momentum.

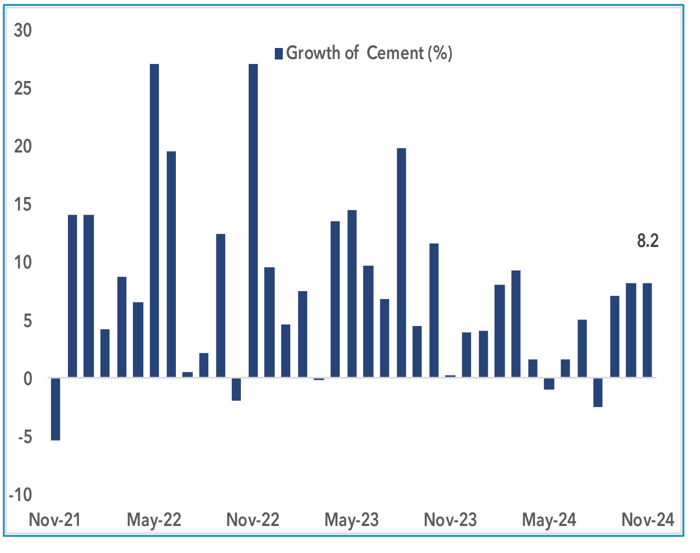
Source: MOSPI

Core Industries





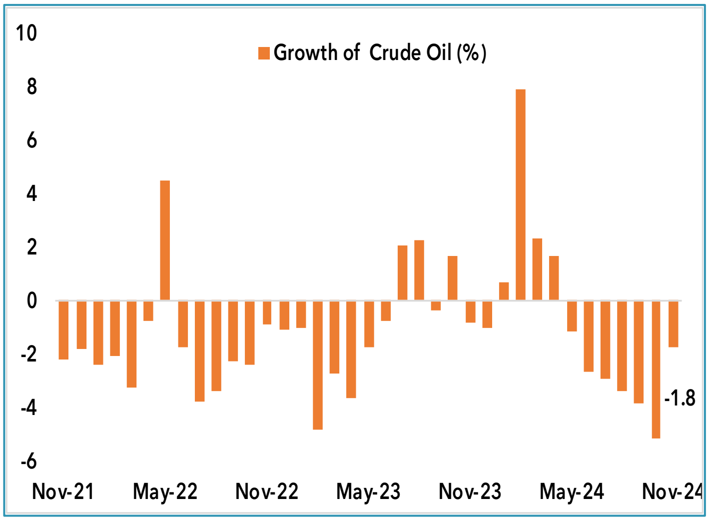


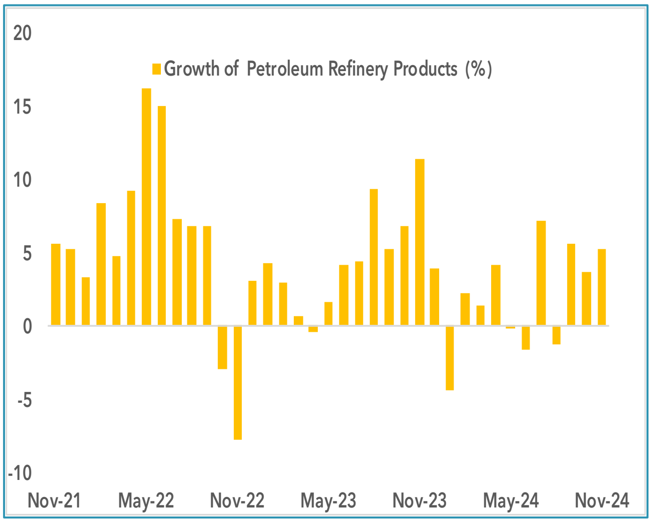


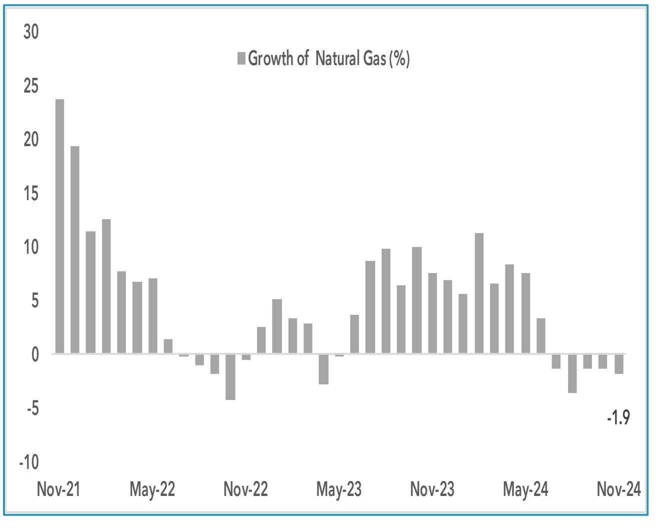
In November 2024, India's industrial output showcased varying trends across sectors, with notable performances in coal, steel, and cement. Coal production grew by 5.4%, driven by steady demand for energy and industrial fuel. The steel and cement sectors maintained their momentum, with growth rates of 5.8% and 8.2%, respectively, underscoring robust activity in the construction and infrastructure domains. However, electricity growth slowed to 1.8%, indicating moderated industrial and consumer demand.. These figures suggest that certain core industries are holding firm, but broader economic growth requires stronger performance across other sectors.

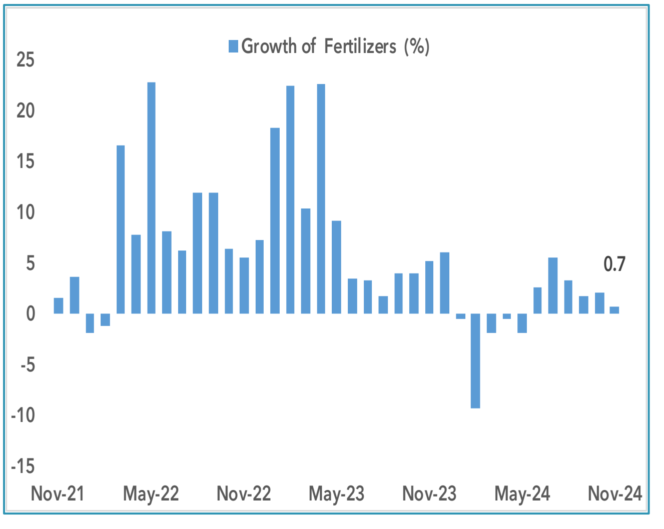
Source: EIA

Core Industries





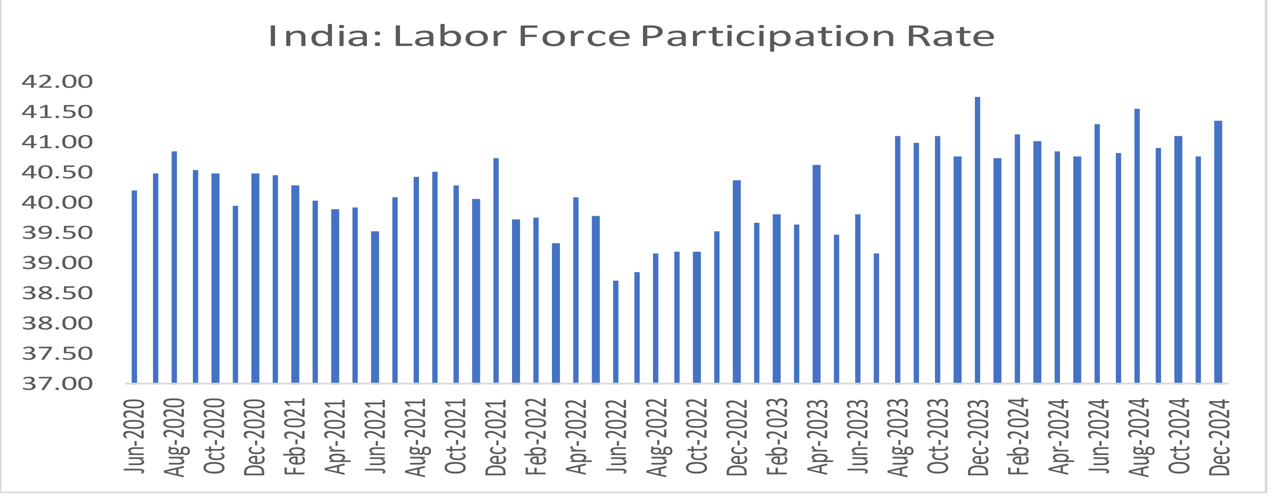


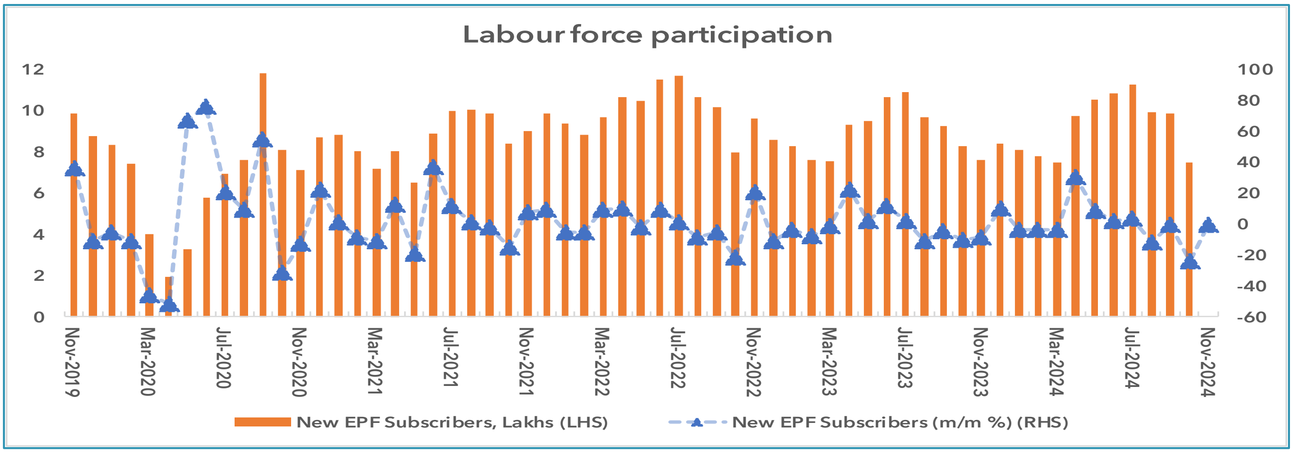


The energy production sectors continued to face difficulties in November. Crude oil and natural gas production declined by -1.8% and -1.9%, respectively, reflecting ongoing struggles with global market dynamics and domestic demand challenges. Petroleum refinery products grew by a moderate 5.2%, suggesting some recovery but not without headwinds such as inflation and supply chain constraints. The fertilizers sector experienced a modest growth of 0.7%, it signals persistent challenges in meeting agricultural input demands . These trends highlight the need for strategic interventions to enhance energy production capabilities and address bottlenecks in refining processes. Despite growth in select sectors, industrial performance in November was tempered by weaknesses in energy-related areas, emphasizing the importance of bolstering these industries to achieve sustained economic progress.

Source: EIA

Labor force participation

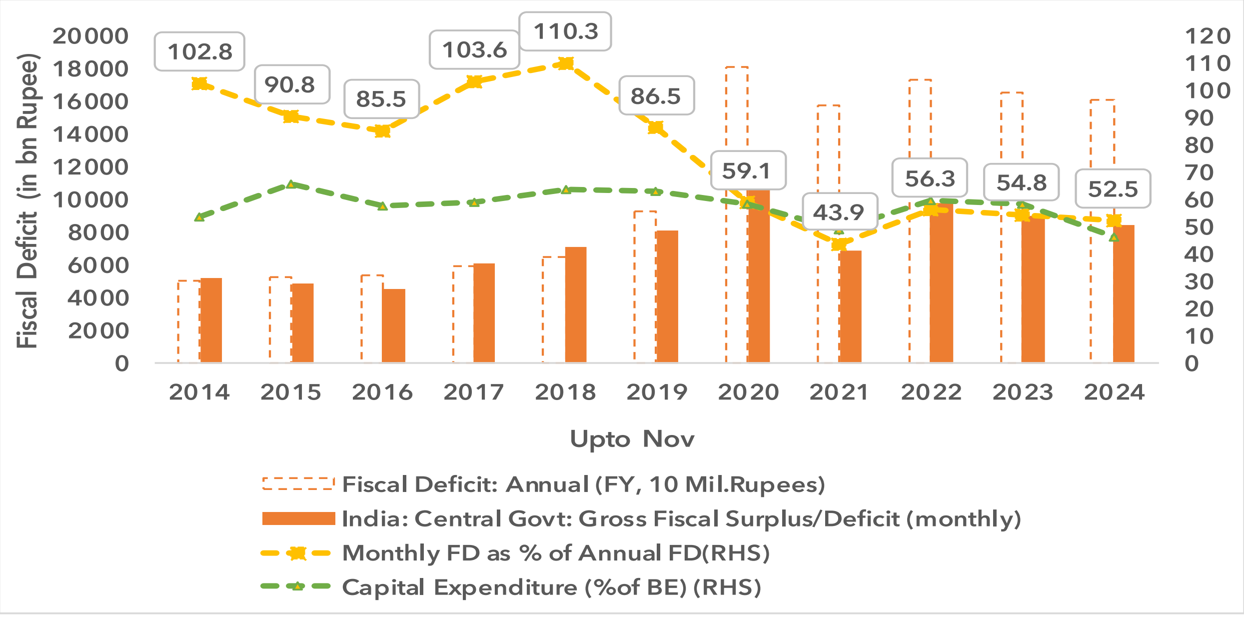


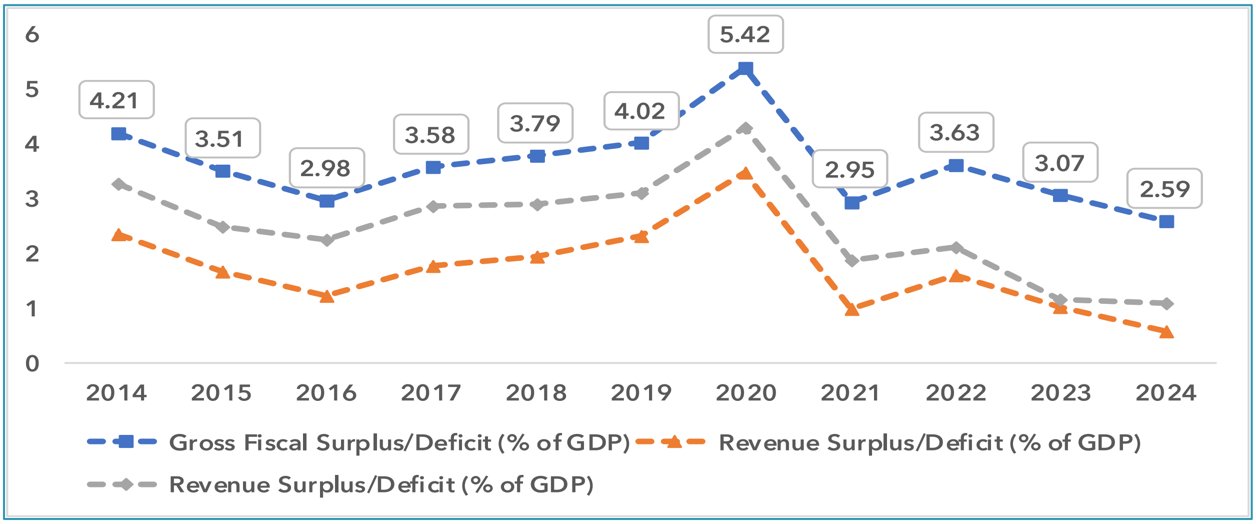


In December 2024, India's labor force participation rate for individuals aged 15 years and above stood at 41.3%.The Employees' Provident Fund Organization (EPFO) enrolled approximately 874,000 new members in November 2024, marking a 16.58% increase from October 2024 and an 18.80% rise compared to November 2023. The net addition of members reached 1.463 million, a 9.07% increase from the previous month. Young workers aged 18-25 dominated new enrollments, constituting 54.97% of the total, while female memberships saw a significant 14.94% rise, with 240,000 new female members added. These trends underscore the positive impact of EPFO's initiatives, growing employment opportunities, and an improving employment landscape in India.

Source: RBI, MOSPI

Economy remains on the path of fiscal consolidation

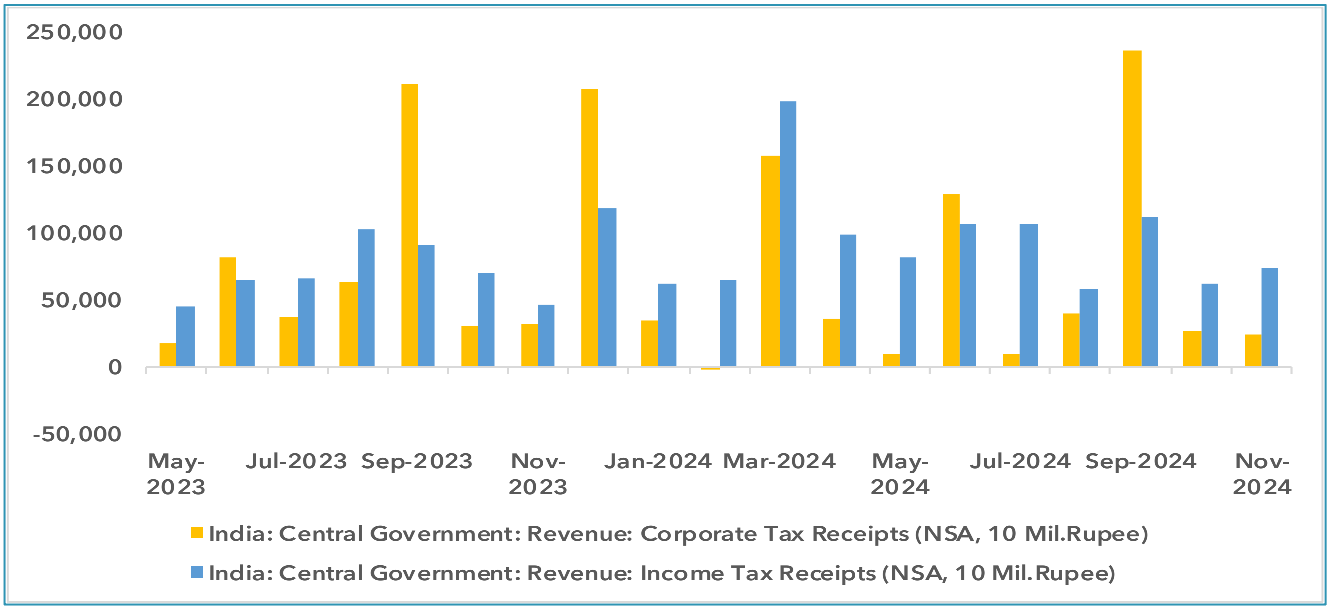




India's fiscal consolidation reflect a delicate balancing act between managing deficits and ensuring sustainable growth. The fiscal deficit is expected to undershoot the 4.9% target for FY25 by ~10 bps, with a further reduction to 4.3-4.4% targeted for FY26BE. The economy is also faced a growing liquidity deficit, which stood at INR 2.43 trillion (US$28.38 billion) as of December 23, 2024. This deficit, driven by factors such as tax outflows and the central bank's foreign exchange interventions, adds another layer of complexity. While the first half of the fiscal year has been challenging, the second half is expected to see gradual improvement, supported by government measures to drive consumption and investment amid a slowing global growth environment.

Source: CGA, Havers

Direct & Indirect Tax Collections

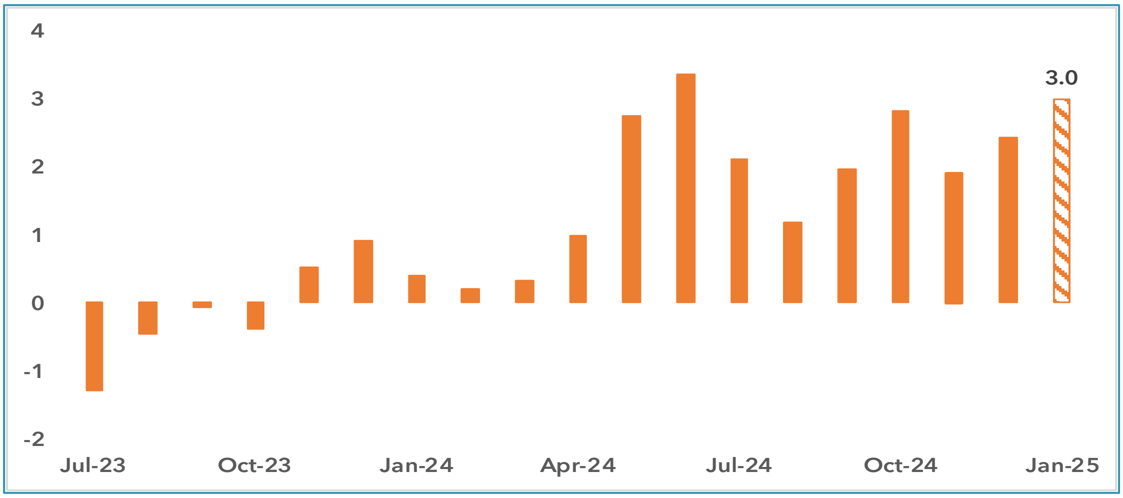


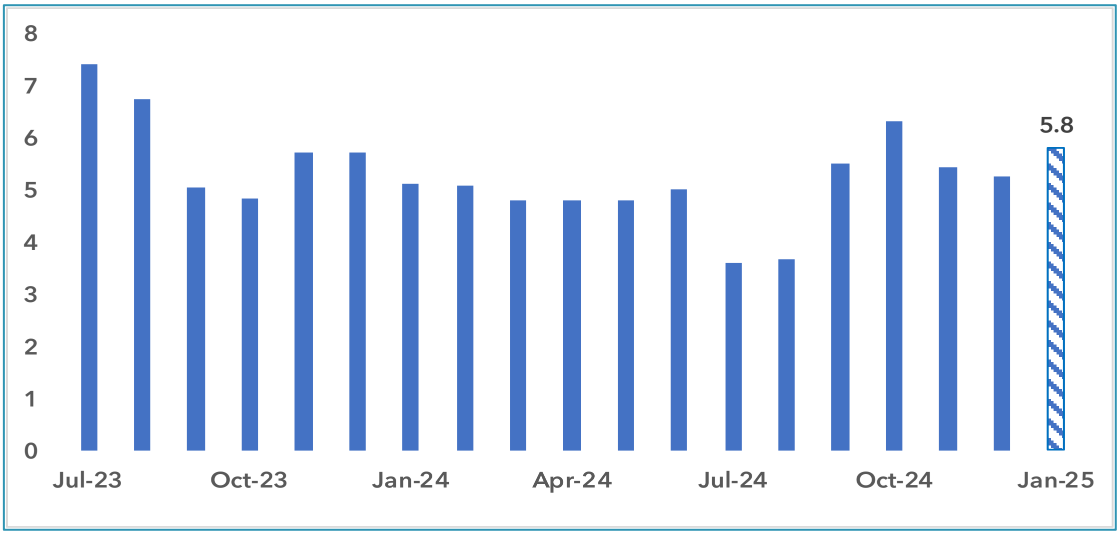
India's fiscal revenue indicators for November and December 2024 reflect a mixed economic scenario. Income tax receipts showed a notable improvement, rising from 61,937 million rupees in October to 74,321 million rupees in November, signaling better individual earnings. However, corporate tax receipts declined further, dropping from 26,356 million rupees in October to 23,774 million rupees in November, highlighting persistent pressure on corporate profitability. Meanwhile, Goods and Services Tax (GST) collections grew by 8.5% year-on-year in November, down from 8.9% in October, and slowed further to 7.3% in December, reflecting a tapering of festive season demand and cautious consumer spending. Despite resilient consumption patterns, the overall fiscal picture underscores the need for measures to boost corporate earnings and address structural challenges to ensure a balanced and sustainable economic recovery.

Source: CGA, Havers

Price Scenario

As Industrial production moderates, there is pressure on capacity utilization

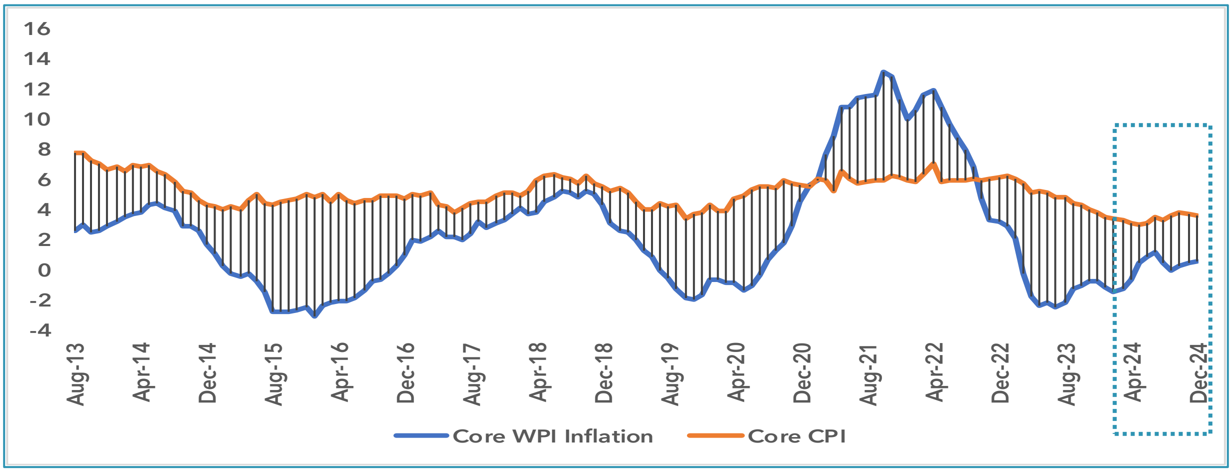


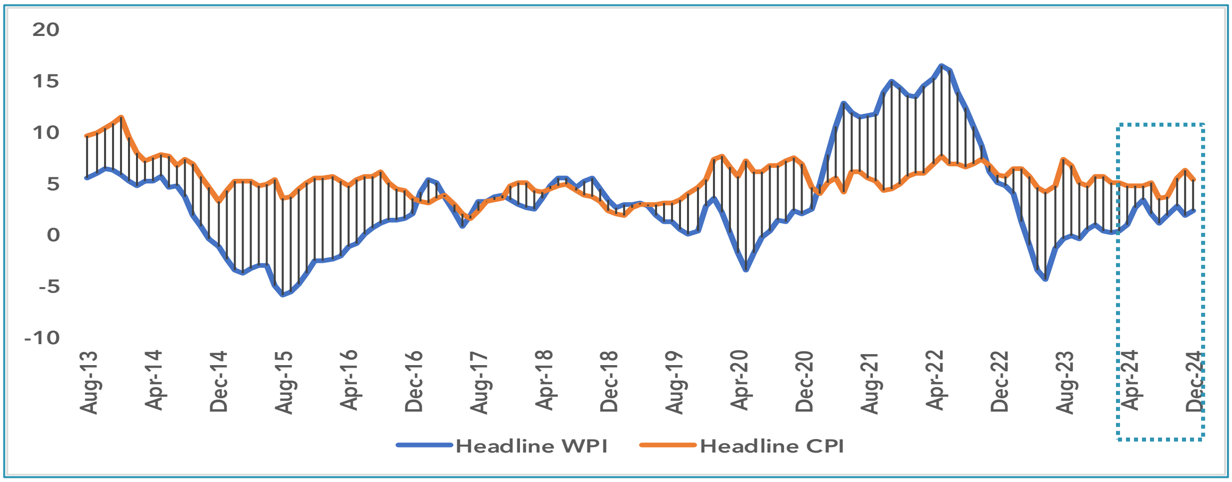


India's price scenario in late 2024 showed easing inflation trends, with the Wholesale Price Index (WPI) moderating to 1.89% y/y in November from 2.36% y/y in October, driven by lower commodity prices. However, **Dun & Bradstreet forecasts WPI inflation to rise to 2.5% y/y in December, indicating potential cost pressures from global price volatility and rising input costs.** Similarly, Consumer Price Index (CPI) inflation dropped to 5.47% y/y in November from 6.21% y/y in October, signaling relief for households, though **Dun & Bradstreet projects the Consumer Price Index (CPI) to rise to 5.8% y/y in December, primarily driven by seasonal demand pressures.** The Food inflation remained elevated at 9.04% y/y in November, highlighting persistent risks in the food category.

Source: MOSPI, Dun & Bradstreet

Core Consumer Price Inflation & Wholesale Price Inflation

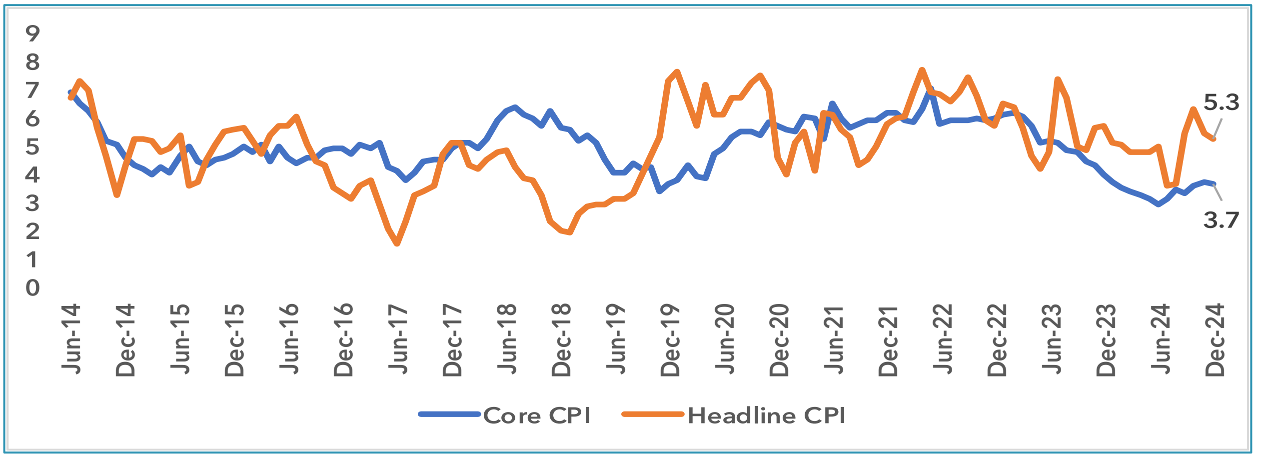


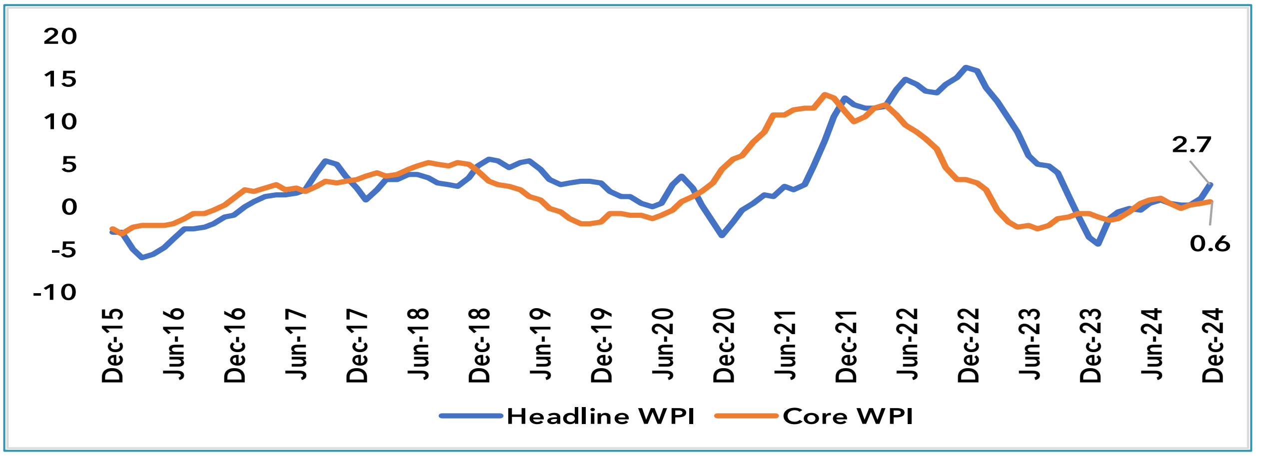


India's inflation trends reflect a complex economic ,the Headline CPI showed continued moderation in December, highlighting easing inflationary pressures at the consumer level. Headline CPI declined to 5.2%, driven by softening food prices and reduced energy costs, reflecting improved supply conditions and global price stabilization. Meanwhile, headline WPI increased to 2.4% in December from 1.9% in November, primarily due to rising prices of food articles, manufactured food products, and other manufacturing. The narrowing gap between CPI and WPI indicates a gradual convergence in inflation trends, signaling alignment in retail and wholesale pricing dynamics. Whereas core WPI and core CPI remained stable in December, reflecting subdued price pressures across non-food sectors. Core WPI held steady, supported by consistent pricing trends in manufacturing goods, while core CPI maintained a measured pace of growth, indicating balanced demand-side dynamics. This stability at the core level highlights the resilience of India's underlying economic structure, despite external shocks and domestic pressures.

Source: MOSPI, EIA

Dissecting Inflation among constituents: Movement of Core & Headline CPI & WPI

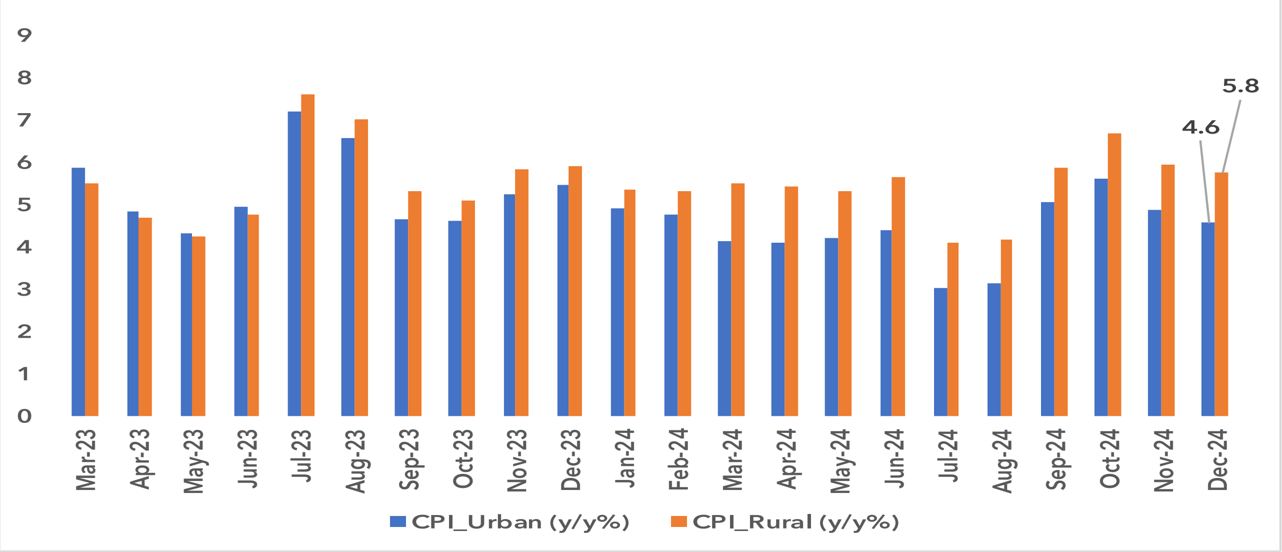


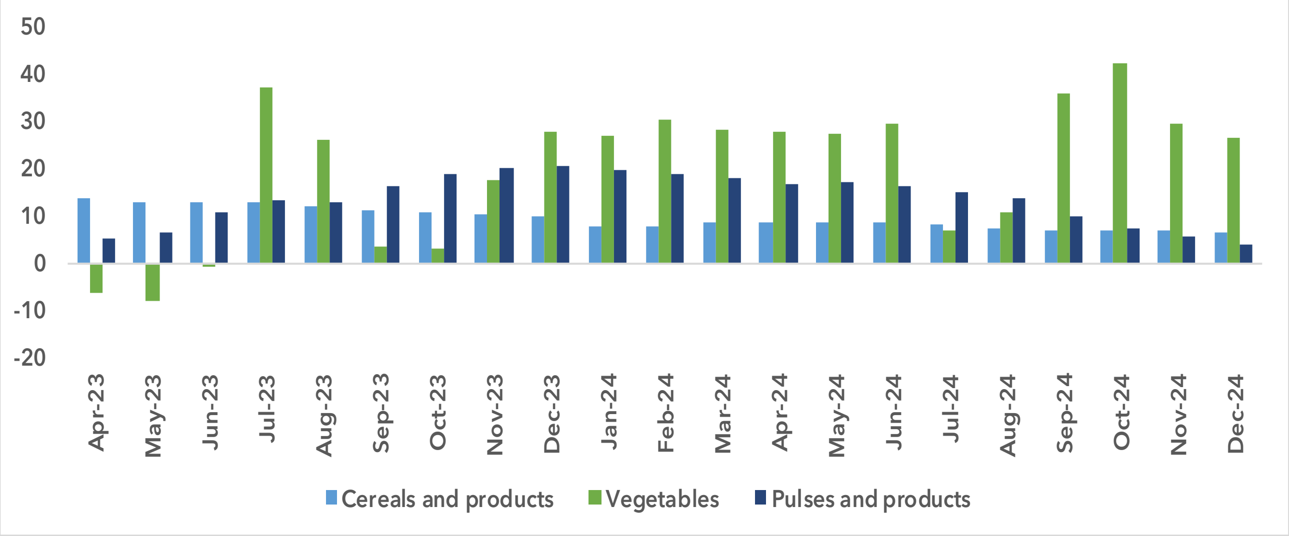


In December, India witnessed a divergence in the movement of Core CPI and Headline CPI, reflecting contrasting inflationary pressures. Headline CPI eased considerably due to a significant drop in vegetable prices and moderation in global crude oil rates. Core CPI remained sticky, driven by sustained increases in the cost of services such as healthcare, education, and personal care, as well as steady housing inflation. In case of Core and Headline WPI, it displayed differing trends, reflecting the varied drivers of wholesale inflation. Headline WPI saw a marked deceleration, primarily due to a drop in global crude oil prices and a seasonal decline in food prices, particularly vegetables. In contrast, Core remained relatively steady, driven by sustained input cost pressures in manufacturing, especially in sectors like chemicals, metals, and textiles. The divergence highlights that while volatile components brought temporary relief to wholesale price inflation, the underlying cost-push factors persisted, underscoring the challenges faced by producers in a constrained demand environment.

Source: MOSPI, EIA

Rural & Urban Inflation

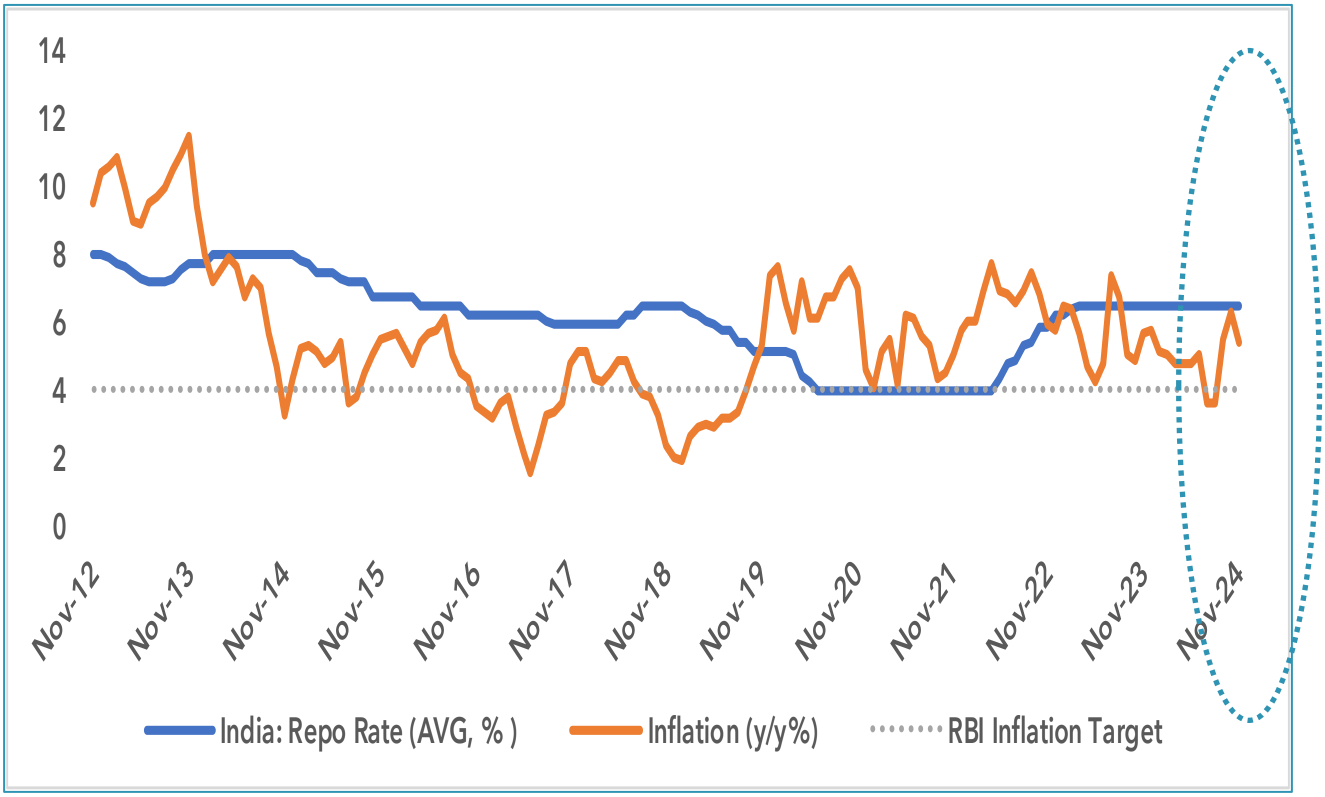




In December 2024, India's inflation dynamics showcased a complex interplay between easing overall pressures and persistent regional disparities. Overall, headline CPI declined to 5.22%, driven by softening food prices and reduced energy costs. However, the rural economy continued to face higher inflation at 5.76%, compared to 4.58% in urban areas. This disparity underscores the uneven impact on households, with rural areas experiencing more pronounced inflationary pressures. Food inflation, though slightly tempered by a decline in vegetable prices, remained a concern due to sustained pressures in cereals and pulses—staples for most Indian households. This trend highlights the structural challenges in the agricultural sector, exacerbated by unpredictable weather and rising input costs. Addressing these issues will be crucial for ensuring price stability, especially in rural regions where inflation disproportionately affects consumption patterns and economic resilience.

Source: MOSPI

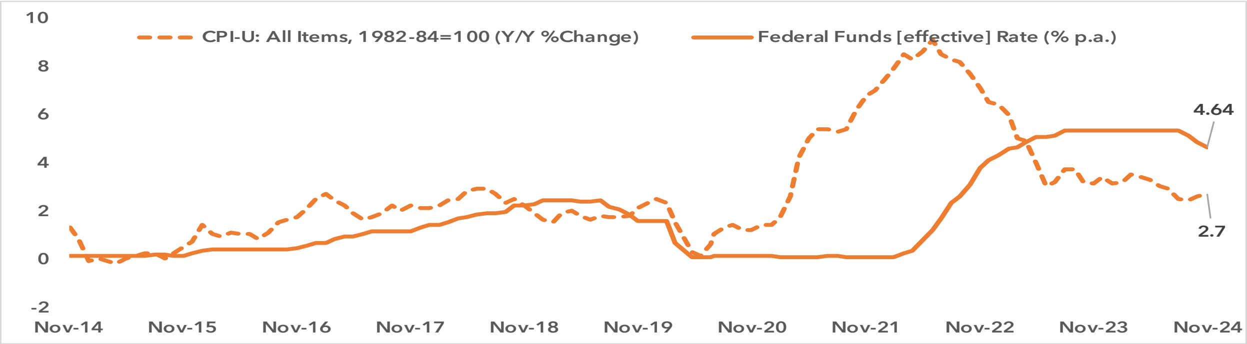
Price Control and Growth Optimization with Inflation and Monetary Policy

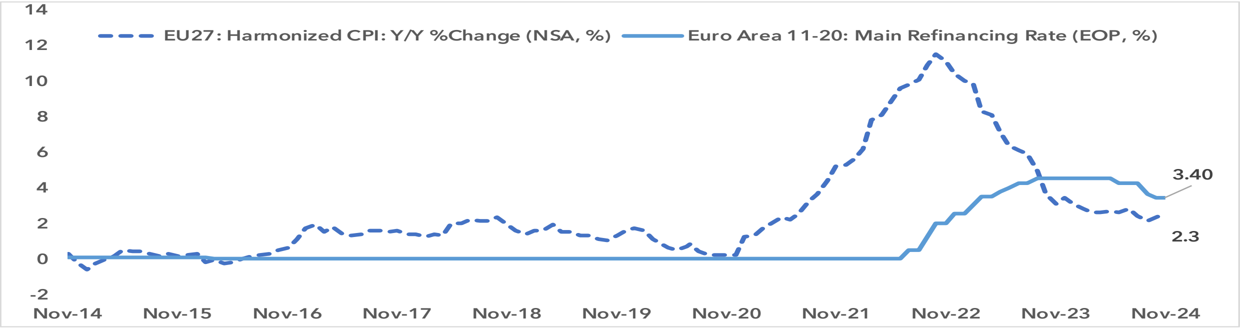


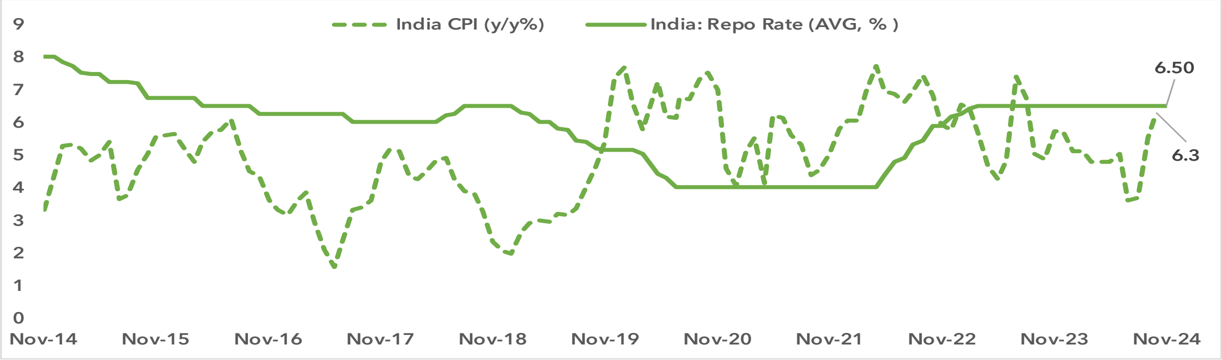
In December, India's monetary policy underscored the ongoing challenge of managing inflation and supporting growth, with inflation easing to 5.2% in December from 5.5% in November. Despite this moderation, inflation remains above the Reserve Bank of India's (RBI) target of 4%, driven by stubbornly high food prices and external uncertainties. The RBI maintained the repo rate at 6.5%, reflecting a cautious approach to sustaining growth while tackling price pressures. With core inflation staying relatively stable and global risks persisting, policymakers face the complex task of anchoring inflation expectations and addressing supply-side constraints without derailing the broader recovery momentum

Source: MOSPI, RBI

Easing Pressures in Developed Economies, Stability in India





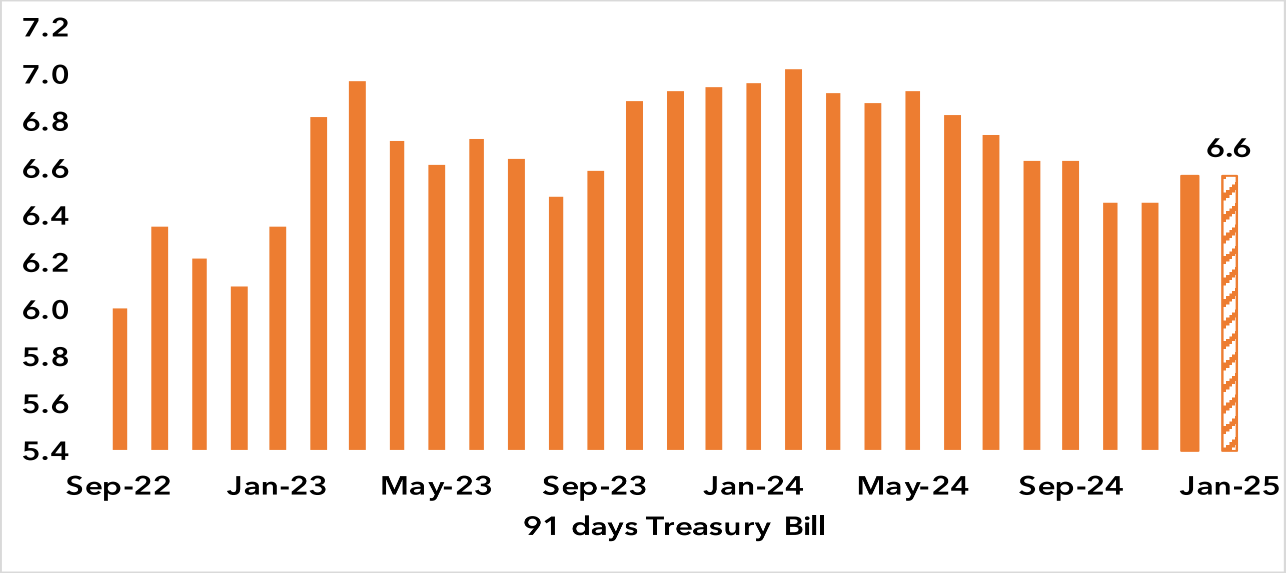


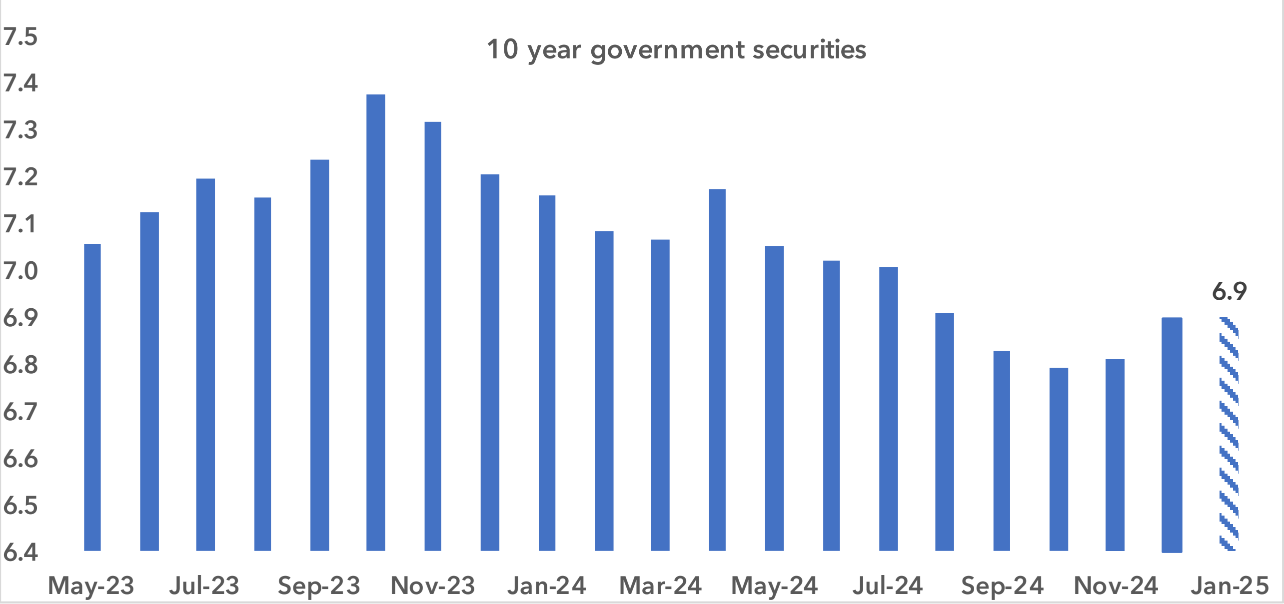
Inflation in the US and EU continued its downward trajectory reflecting a promising path toward long-term price stability. The Federal Reserve maintained the Federal Funds Rate at 5.3%, signaling a cautious approach to avoid undermining economic recovery, while the Euro Area adjusted its Main Refinancing Rate slightly to 4.48%, suggesting a measured stance on tightening. In contrast, India's inflation remained relatively steady at 6.5%, driven by a balance of domestic food prices and external commodity factors. The Reserve Bank of India kept its repo rate unchanged at 6.50%, underscoring its focus on managing inflation while avoiding any abrupt tightening that could impact growth. As developed economies see inflationary pressures subside, India faces a nuanced challenge: controlling inflation without stifling growth, particularly in sectors still recovering from earlier global disruptions.

Source: Havers, Dun & Bradstreet

Money Market

91 days Treasury bills & 10-year yield





The 91-day Treasury Bill yield remained stable at 6.6% in December 2024, up from 6.5% in November**. Dun & Bradstreet forecasts the rate to remain at 6.6% in January 2025, reflecting expectations of continued cautious monetary policy**. Similarly, the 10-year G-Sec yield increased to 6.9% in December 2024, from 6.8% in November 2024, **with Dun & Bradstreet expects 10-year G-sec to stay at 6.9% in January 2025 due to ongoing inflation concerns and fiscal challenges**. Bank credit growth moderated to 11.2% in December, down from 12.1% in November, as high-interest rates, and economic uncertainty curbed lending activity**.**

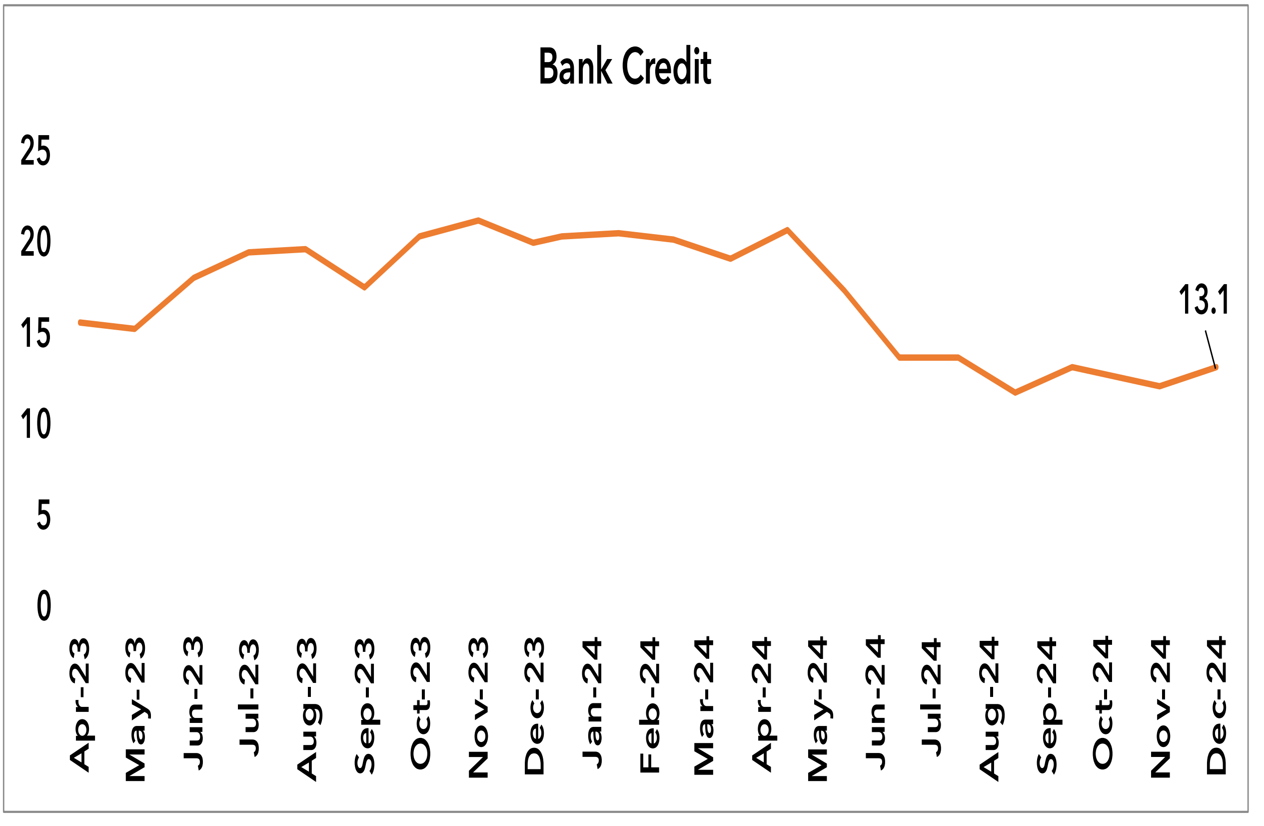
Source: RBI, Dun & Bradstreet

Policy Rates

India's 1-Year Government Bond Yield remained steady at 6.7%, while the 10-Year Government Bond Yield increased slightly to 6.9%. This marginal rise in the long-term yield, alongside the stable short-term yield, reflects a cautious but optimistic outlook among investors for India's future economic prospects. The narrowing gap between short- and long-term yields suggests that market participants have confidence in India's sustained growth, bolstered by its resilient macroeconomic fundamentals. The modest increase in the 10-year yield signals that investors are factoring in expectations for long-term stability, while the consistency of short-term rates indicates the Reserve Bank of India's careful balancing of inflation control and liquidity management. Together, these trends point to a maturing financial landscape where short- and long-term growth expectations align, underscoring the country's capacity to navigate both domestic and global economic challenges.

Source: Havers, RBI

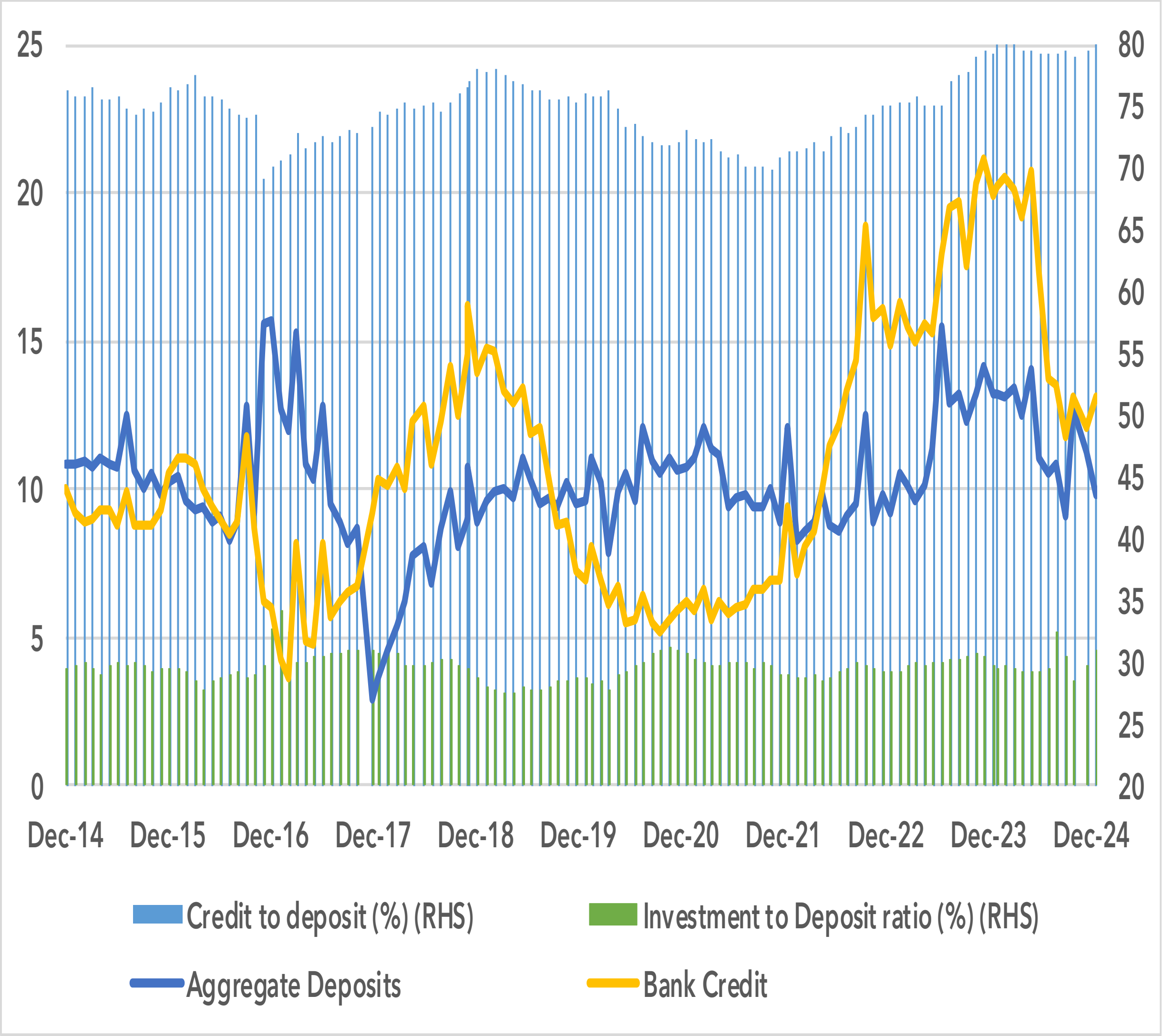
Bank Credit



Bank credit growth moderated to 11.2% in December, down from 12.1% in November, as high-interest rates, and economic uncertainty curbed lending activity. **Dun & Bradstreet expects bank credit growth to stabilize at 11.5% in January 2025, reflecting cautious optimism and a focus on managing credit risk.** Deposit growth also moderated to 9.8% in December, likely influenced by shifting consumer spending and saving patterns amid a tighter monetary environment.

Source: RBI, Dun & Bradstreet

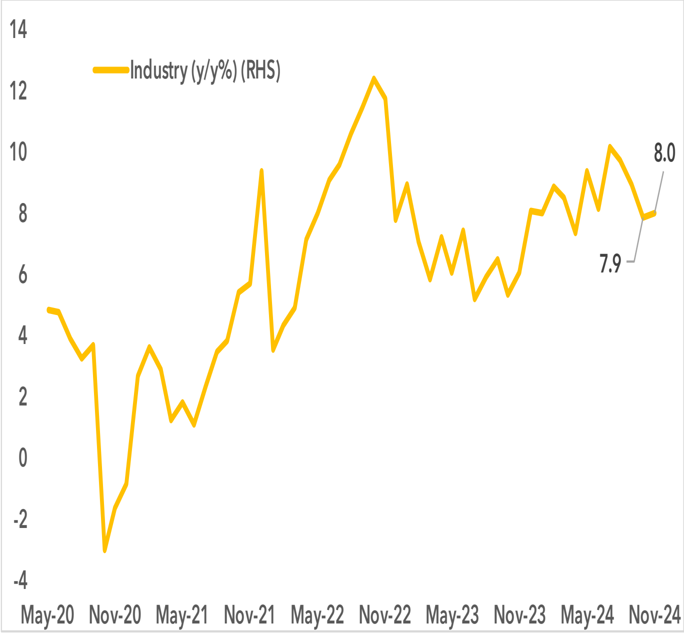
Tracking Banking sector resilience

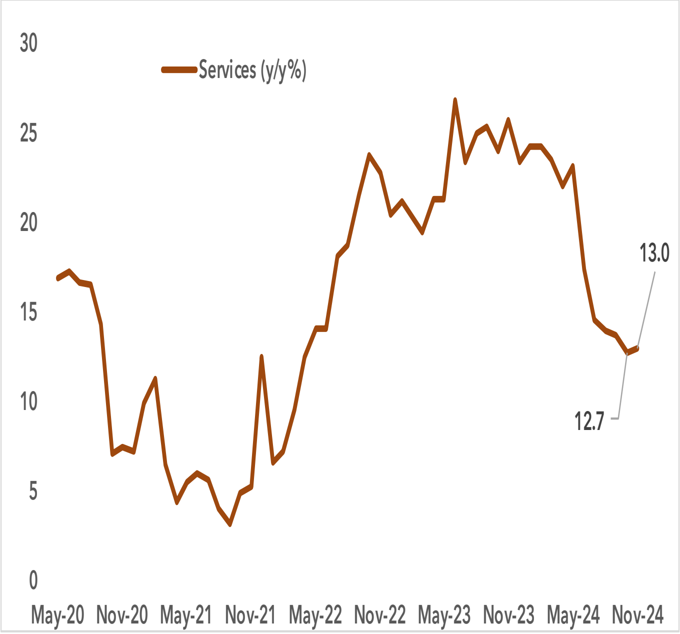


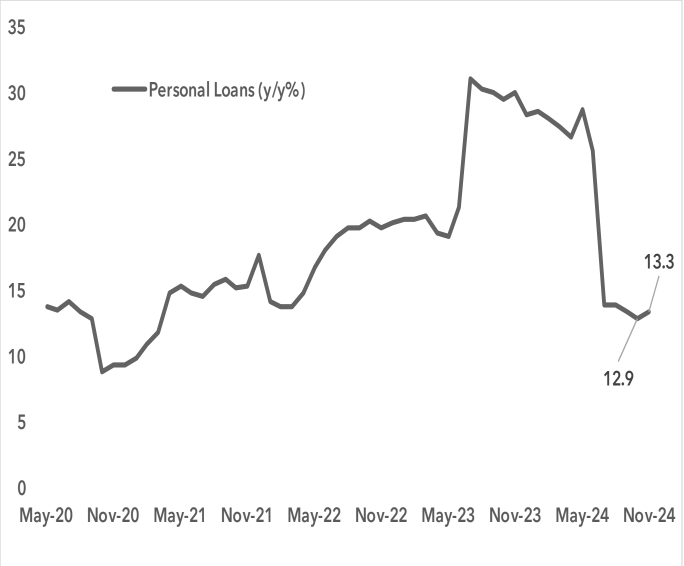
the banking sector demonstrated a balanced approach between supporting economic growth and maintaining financial stability. While deposit growth slowed slightly, reflecting potential shifts in saving behaviors or adjustments in liquidity, credit expansion remained steady, with a particular emphasis on food credit, signaling continued strength in agricultural financing. At the same time, non-food credit growth moderated, pointing to a more measured demand in other sectors. The banking sector's ability to maintain a higher credit-to-deposit ratio suggests efficient deployment of resources, while the increase in the investment-to-deposit ratio reflects a cautious stance on liquidity management. These trends underscore the sector's role in nurturing economic activity while ensuring stability amidst evolving market conditions.

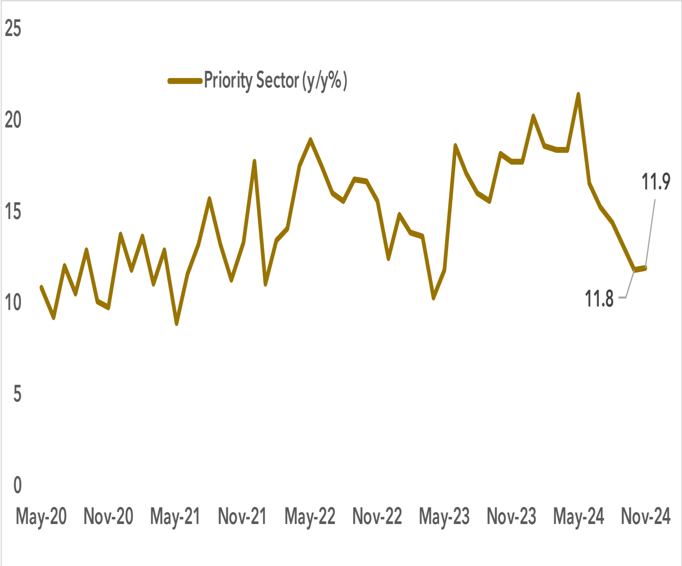
Source: RBI, Dun & Bradstreet

Sectoral Deployment of Credit





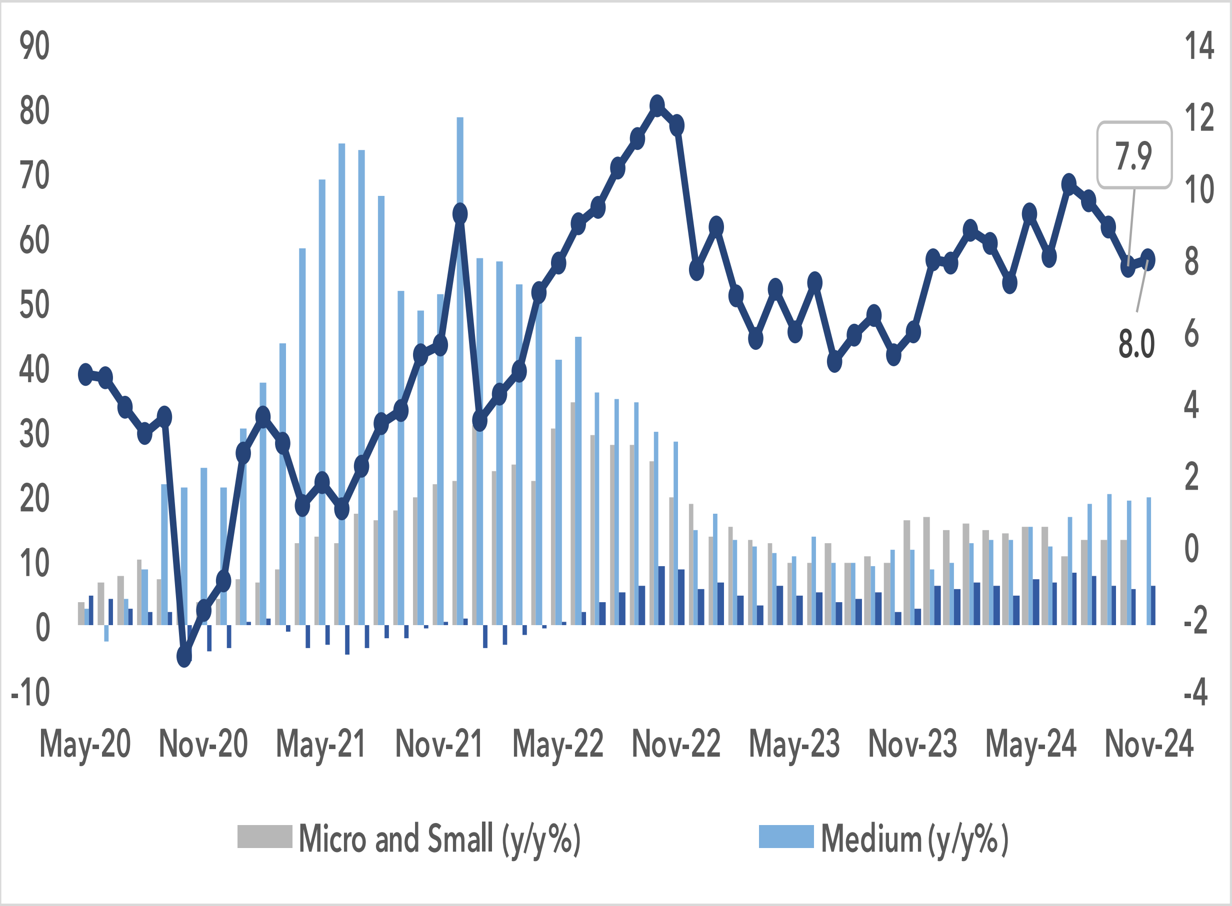




Credit growth across key sectors showed a subtle shift, with a slight moderation in overall lending. While personal loans and services continued to experience healthy growth, reflecting ongoing consumer demand and economic activity, the pace of expansion in industry credit remained steady. This suggests a more balanced approach to lending, with banks maintaining support for key sectors but also exercising caution in the face of evolving market conditions. The priority sector saw a slight uptick, reflecting continued focus on sectors that contribute to inclusive growth, though the overall moderation in credit growth could signal a natural recalibration following strong demand in previous months. This more tempered credit environment reflects a strategic effort to ensure sustainable economic growth, balancing the need for continued expansion with the risks of overheating, positioning India for stable and long-term development.

Source: RBI, Dun & Bradstreet

Micro, Small, Medium and Large lending (%y/y)

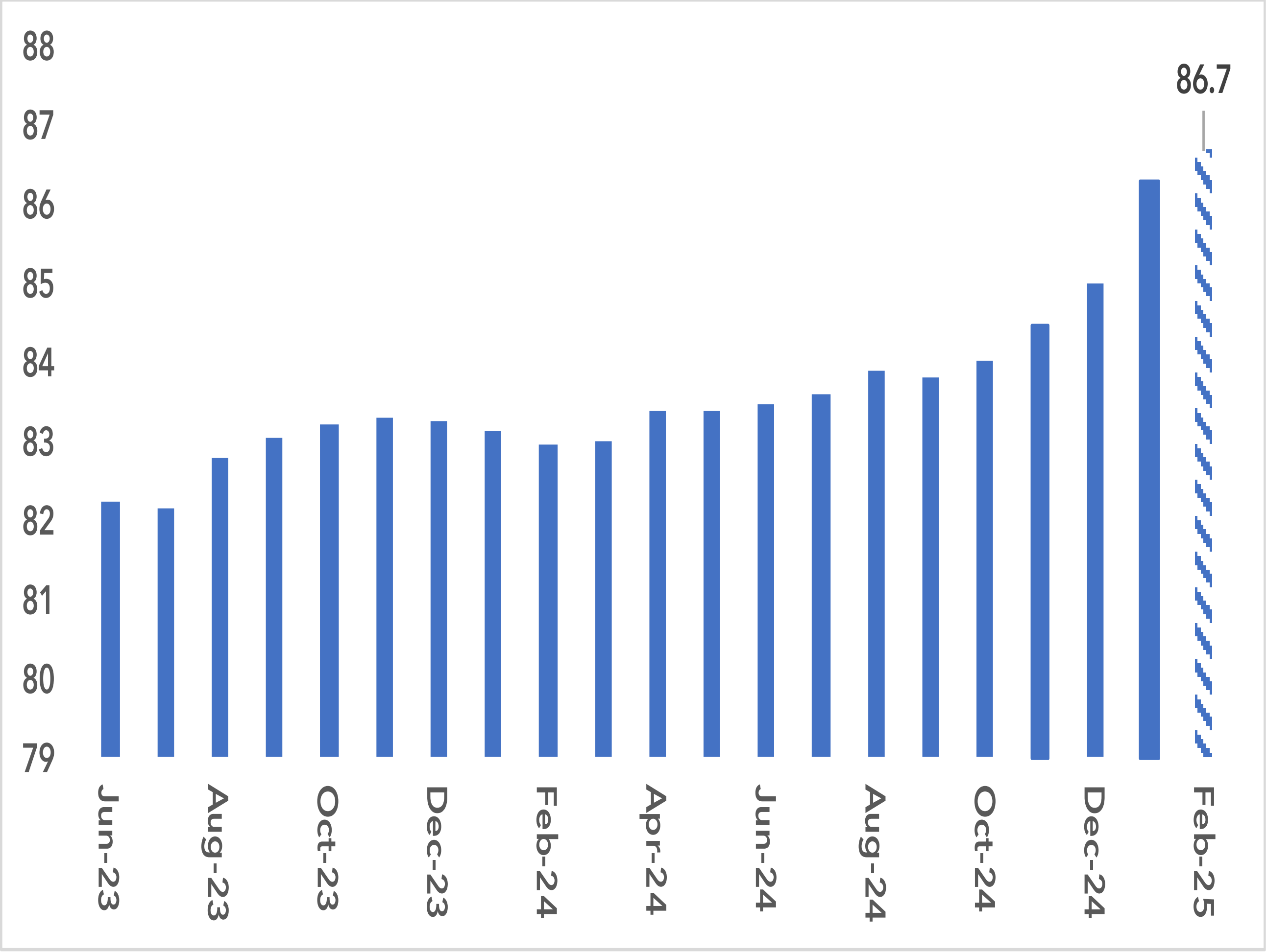


Industrial lending continued to show a steady, albeit cautious, trajectory across various business sizes. While micro and small enterprises maintained a relatively stable growth rate, the expansion in credit for these smaller businesses remained subdued compared to earlier periods. Growth in medium-sized enterprises also showed slight moderation, suggesting that while there is still demand for credit, businesses are facing a more selective lending environment. Large enterprises, on the other hand, continued to experience stable, though modest, growth, reflecting their relatively stronger financial positions. This overall moderation in credit growth points to a tightening of financial conditions, with rising borrowing costs and more prudent lending practices likely playing a role. For micro and small businesses, this slower pace of credit expansion could limit their ability to invest in innovation and growth, potentially impacting their contributions to employment and broader economic recovery. As such, this shift in lending dynamics highlights the need for targeted support to ensure that smaller enterprises continue to thrive in a challenging economic landscape, aligning with India's long-term growth ambitions.

Source: RBI, Dun & Bradstreet

External Situation

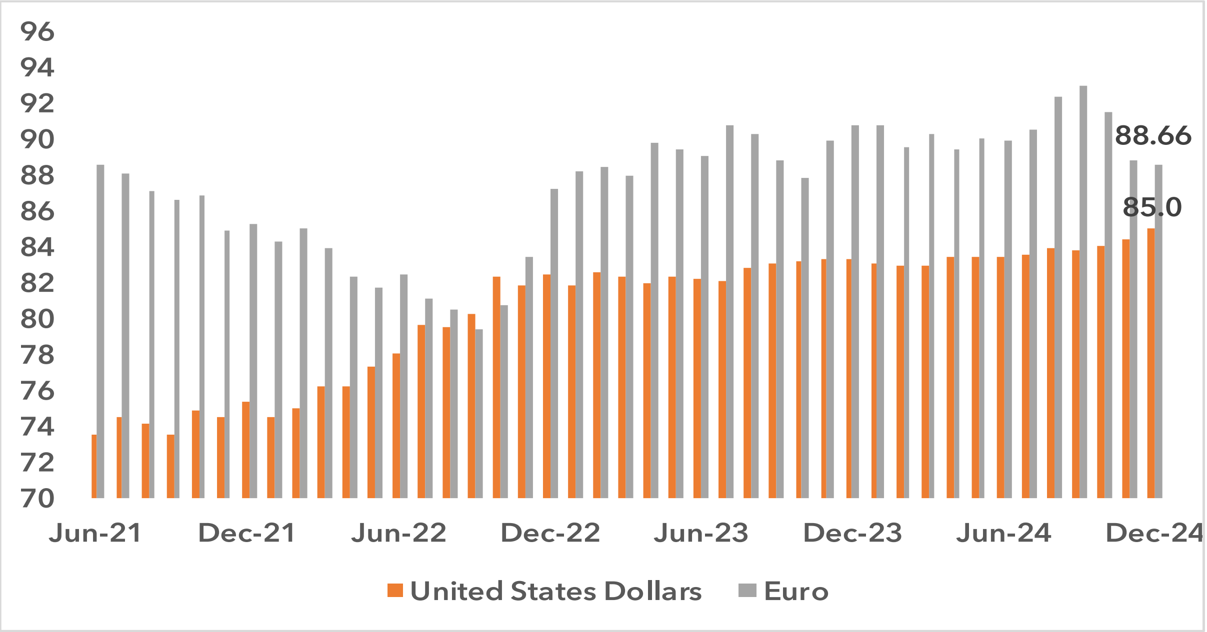
Exchange Rate

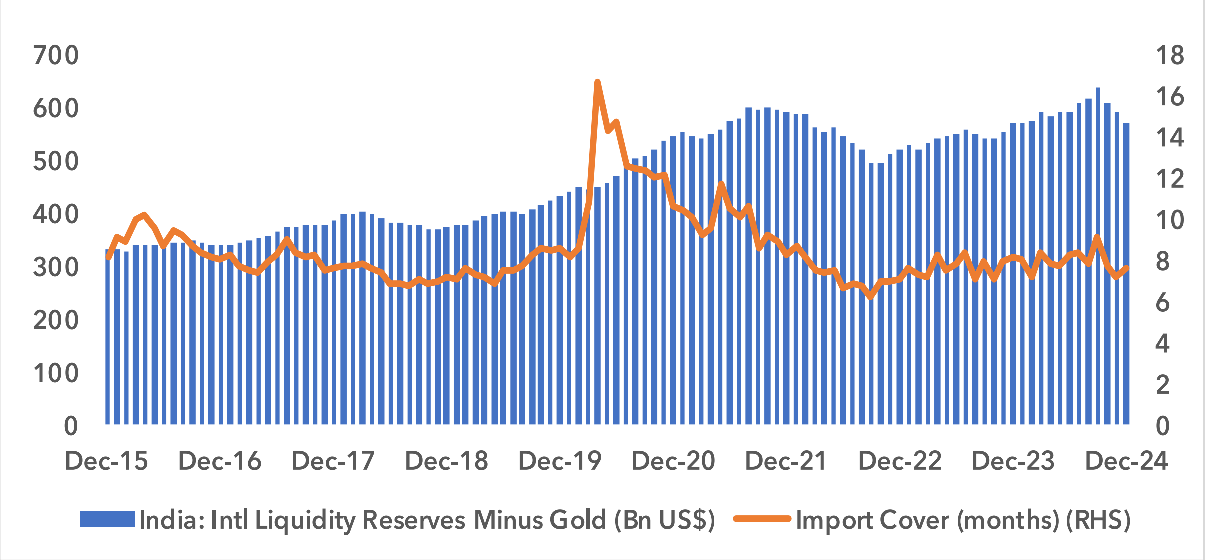


India's external sector is facing significant pressure, with the Indian Rupee (INR) depreciating sharply amid a slowdown in foreign portfolio investor (FPI) activity. In December 2024, the INR/USD exchange rate stood at 85.0, and it is expected to weaken further to 86.3 by January 2025. Dun & Bradstreet is forecasting further depreciation, with the exchange rate potentially reaching 86.7 in February 2025. Driven by a stronger US dollar, global economic uncertainties, higher oil prices, and capital outflows.

Source: RBI, Dun & Bradstreet

Indian currency movement viz a viz Dollar & Euro

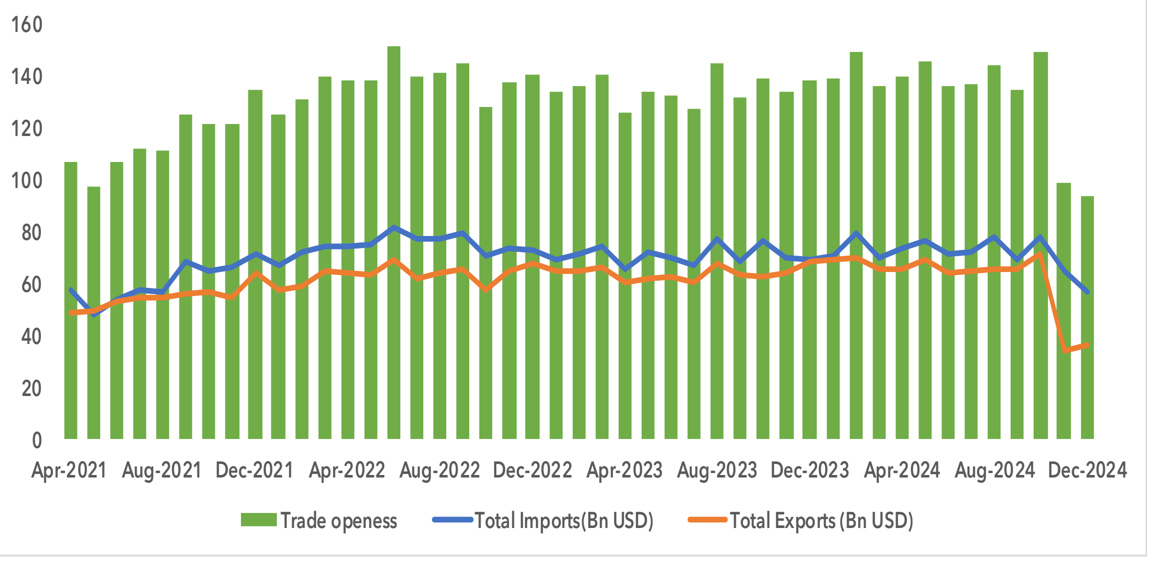


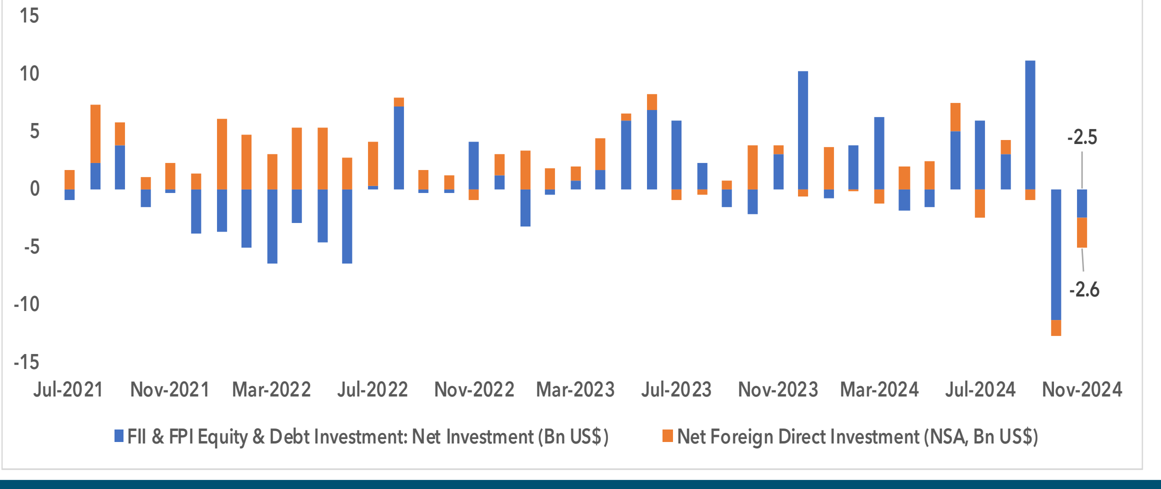


A depreciation of the rupee is observed against both the US dollar and the euro. The rupee's exchange rate against the US dollar edged higher, indicating growing challenges in maintaining currency stability. The euro exchange rate also showed a notable dip, further signaling strain in India's foreign exchange position. These developments could point to pressures on India's external reserves, which may be increasingly vulnerable to global economic uncertainties, including shifts in global monetary policies and inflationary pressures. While the country remains relatively insulated, the widening exchange rate fluctuations underscore the importance of continued strategic foreign exchange management to safeguard stability.

Source: RBI, Dun & Bradstreet

India’s Trade position and dynamics of capital flows

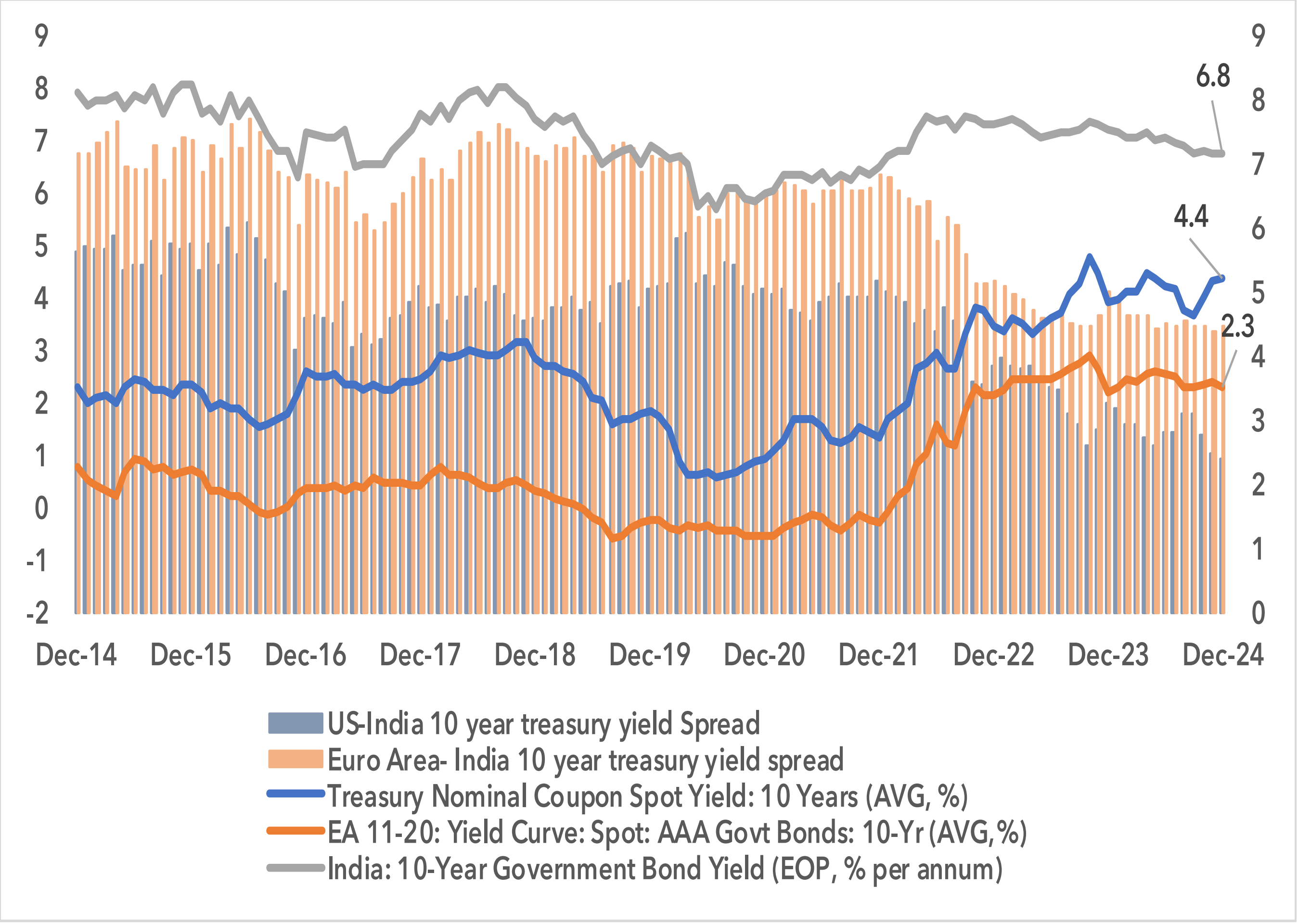




India’s external trade dynamics showed signs of strain, with imports outpacing exports, contributing to a widening trade deficit. The increase in imports was driven by strong domestic demand and rising global commodity prices, highlighting the continued vulnerability of India’s trade balance to external shocks. At the same time, key export sectors such as petroleum products, gems and jewellery, and chemicals registered negative growth, further exacerbating the trade deficit. This indicates that while domestic consumption is robust, India’s export performance is facing headwinds, particularly amid fluctuating global demand and price volatility. Concurrently, foreign investment flows remained subdued, with both Foreign Institutional Investments (FII) and Foreign Direct Investment (FDI) experiencing declines. This downturn in capital inflows reflects a more cautious global investment sentiment, shaped by tightening financial conditions and global economic uncertainties.

Source: Havers, Dun & Bradstreet

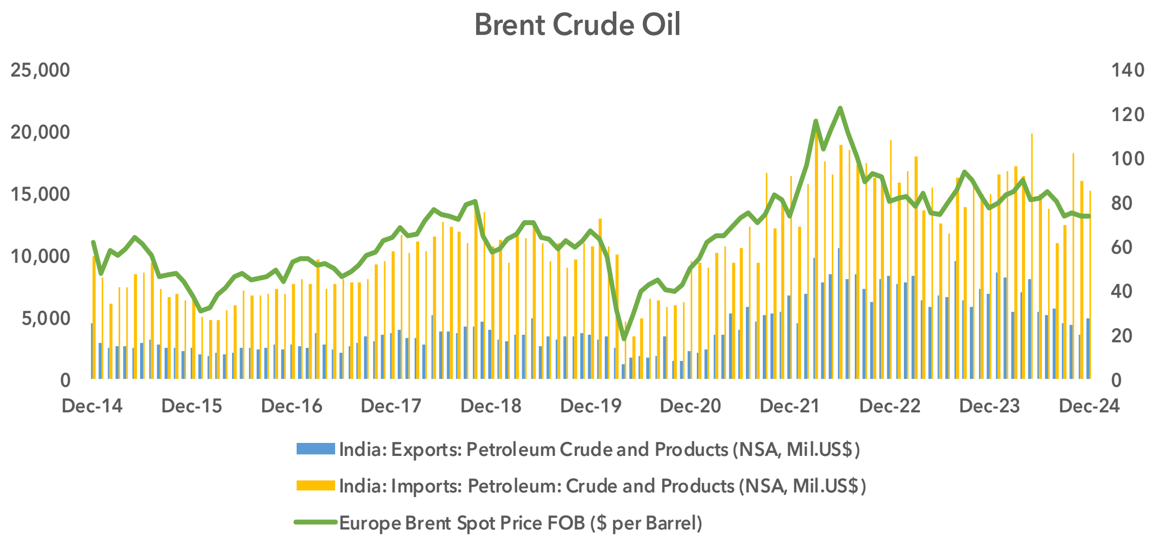
Yield Spread

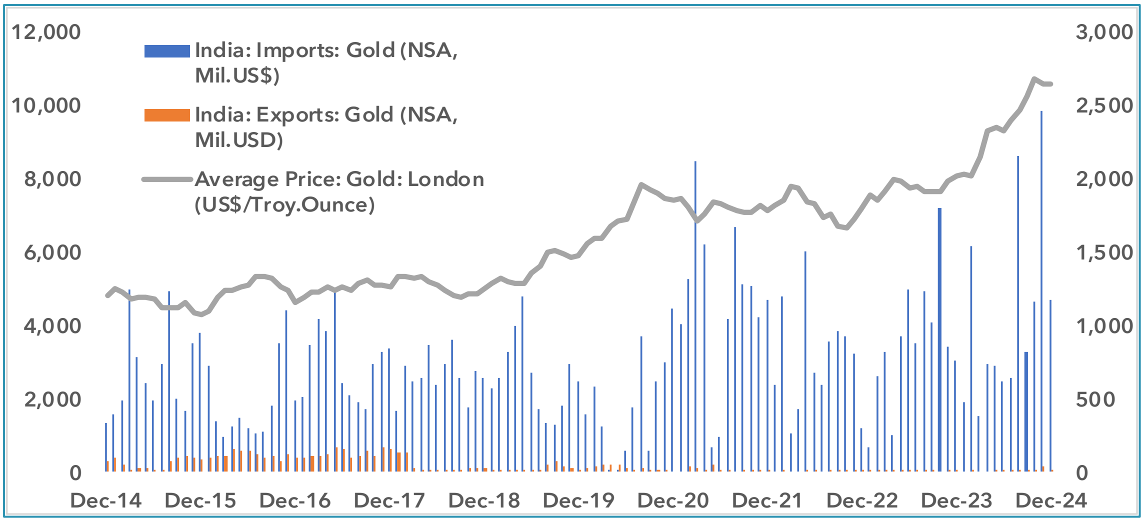


India's external sector faced increasing pressures, marked by a slight depreciation of the rupee against the US Dollar, while it appreciated against the Euro. This mixed performance signals growing vulnerabilities in the currency, reflecting broader global economic uncertainties. The country's international liquidity reserves also saw a decrease, falling from $652.87 billion in November 2024 to $644.39 billion in December 2024, pointing to a reduction in foreign exchange buffers. This drop in reserves, coupled with a decline in import cover, signals potential risks to India's external stability. Although reserves remain at a comfortable level, the reduction highlights the challenges in sustaining adequate foreign exchange reserves amid ongoing global volatility. With the global economic landscape remaining unpredictable, India's ability to effectively manage external risks and support the rupee will be crucial in ensuring its continued economic resilience and long-term growth.

Source: Havers, Dun & Bradstreet

Crude Oil





India's trade dynamics were influenced by a mix of trends in key commodity sectors, particularly petroleum and gold. While the price of Brent crude oil remained relatively stable, averaging around $73.94 per barrel, India's petroleum imports experienced a 6.3% rise compared to the same month the previous year. This increase was largely driven by higher imports of liquefied petroleum gas (LPG) and pet coke. However, India's petroleum exports continued to underperform, contributing to persistent trade imbalance concerns. On the other hand, gold imports surged significantly to $4.7 billion, driven by strong domestic demand in anticipation of the festive season, despite global gold prices showing only a slight decline. The rise in gold imports, combined with high crude oil import costs, further strained India's trade balance. This dual pressure of increasing import costs for key commodities and weaker export performance highlights the ongoing challenges India faces in managing external sector pressures, particularly as global market conditions remain volatile.

Source: Havers, Dun & Bradstreet

Economy Observer is a monthly report that shares an in-depth analysis on key macroeconomic developments in India and provides a monthly forecast of key economic indicators, providing insight into the expected direction of the Indian economy.

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Dun & Bradstreet Contact:
Silvia Dsouza
Email: dsouzasi@dnb.com