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ECONOMY OBSERVER

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Supply disruptions amid risk aversion and high interest rates tilt the scale against SMEs: Dun & Bradstreet

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> India is set to achieve over 7% growth for the fourth consecutive year in FY25 – due to significant boost in capital expenditure - the highest in 21 years. However, external factors, such as challenges in global trade and finance, could impact India's growth. Demand slowdown from key export destinations like UK and EU, is a concern. Even more so for smaller businesses who are grappling with disruptions in key shipping routes. Additionally, risk aversion of financial institutions amid high interest rate environment is making funds expensive, particularly, for smaller businesses.

Real Economy

We expect Index of Industrial production (IIP) to have registered a moderate growth in January 2024 owing to factors such as waning of demand post the festive season, pre-election apprehension amongst businesses and likely impact of high interest rate regime on small businesses. The slowdown in the manufacturing sector is a concern. However, the significant allocation to the capital expenditure in the Union Budget for 2024-25 is expected to drive activity particularly in the capital goods and infrastructure segment going ahead.
Dun & Bradstreet expects the IIP to have grown by 3.2% in January 2024.

Price Scenario

Rise in global oil prices is imparting an upward pressure to the inflation. Besides, stickiness in the domestic price for certain food products such as pulses, spices and vegetables along with frequent disruptions in the global supply chain is likely to keep retail inflation above the RBI's target of 4% in the near term. Dun & Bradstreet expects the Consumer Price Inflation (CPI) to be 5.3% and Wholesale Price Inflation (WPI) to be around 0.1% for February 2024.

Money & Finance

The government's projection of 5.8% fiscal deficit for FY24 compared to the budgeted estimates of 5.9% and estimates of a 70 basis points cut in the fiscal deficit target for FY25, is expected to support investor sentiment. Government bond supply will remain low owing to lower budgeted borrowings and demand is expected to remain high on account on global bond (index) inclusion supporting the bond market going ahead. Dun & Bradstreet anticipates the 10-year G-Sec yield to moderate to around 7.1% in February 2024. While we expect the 15-91-day Treasury Bills yield to increase to around 7.0%, primarily owing to continued liquidity deficit.

External Sector

Several factors such as narrowing of trade deficit, buoyancy in the stock markets, build-up of forex reserves and positive investor sentiment on robust economic data are likely to support rupee which is expected to continue to appreciate in February and March 2024 as well. Dun & Bradstreet expects the rupee to appreciate to 83.0 per US$ in February 2024 and to 82.7 per US$ in March 2024 compared to last month.

D&B's Economy Observer Forecast			
Variables	Forecast	Latest Period	Previous period
IIP Growth	3.2% January-24	3.8% December-23	2.4% November-23
Inflation WPI	0.1% February-24	0.27% January-24	0.73% December-23
CPI (Combined)	5.3% February-24	5.1% January-24	5.69% December-23
Exchange Rate (INR/US$)	82.7 March-24	83.0 February-24	83.12 January-24
15-91 day's T-Bills	7.03% February-24	6.97% January-24	6.95% December-23
10 year G-Sec yield	7.08% February-24	7.20% January-24	7.22% December-23
Bank Credit	21.5% February-24	20.3% January-24	20.0% December-23

Consumer Price Index (Rural, Urban and Combined)

Following the lower than expected retail inflation in January, watch out Consumer Price Inflation (CPI) for the month of February to be released on 14th March.

US FOMC meeting (Federal Open Market Committee Schedule)

Watch out the US FOMC meeting to be held in March 2024 for Fed to hint at the timing of the rate cut. In its January meeting the Federal Reserve officials indicated that they were in no hurry to cut interest rates unless have "greater confidence" that inflation was receding.

Balance of Payments

India's current account deficit moderated to 1.0% of GDP in H1:2023-24 from 2.9% of GDP in H1:2022-23 on the back of a lower merchandise trade deficit. With trade deficit further narrowing down and FDI inflows moderating, watch out for the release of Balance of Payments (BoP) statement for Q3 2023-24.

Industrial Outlook Survey

The RBI is expected to release Industrial Outlook Survey by March 2024 that assesses the business sentiment of Indian manufacturing industries for Q4 FY24 and their expectations for Q1 FY25 as well as outlook for the two subsequent quarters which can provide insights on the manufacturing sector activity.

Analysis - Economic Research Team

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