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1. Global Economic Outlook

UK Economy: British inflation plunged in November 2023 to its lowest rate in over two years, prompting investors to pile further into bets that the Bank of England (BoE) will cut interest rates in the first half of next year. As reported by the Office for National Statistics, the annual rate of increase in consumer prices dropped to 3.9% from 4.6% in October, pushed down in part by cheaper petrol, for its lowest reading since September 2021. The headline Consumer Prices Index (CPI) inflation reading was below all forecasts in a Reuters poll of economists which had pointed to a figure of 4.4%. Core and services measures of inflation - closely watched by the BoE also dropped. Investors expect for a rate cut by May 2024.

Chinese Economy: China's consumer prices fell the fastest in three years in November 2023, while factory-gate deflation deepened, suggesting heightening deflationary pressure as weak domestic demand casts doubts over the economic recovery. Data from the National Bureau of Statistics (NBS) showed that the consumer price index (CPI) dropped 0.5% both from a year earlier and compared with October 2023,. The decline was deeper than the median 0.1% declines, both year-on-year month-on-month, forecast in a Reuters poll. The year-on-year CPI decline was the steepest since November 2020. Year-on-year core inflation, excluding food and fuel prices, was 0.6%, the same as October 2023, pointing to a daunting task faced by Chinese authorities to revive demand as deflationary forces persist. The producer price index (PPI) fell 3.0% year-on-year against a 2.6% drop in October, marking the 14th straight month of decline and the quickest since August. Economists had predicted a 2.8% fall in November. China's economy has grappled with multiple headwinds this year - including mounting local government debt, an ailing housing market and tepid demand at home and abroad - with consumers tightening their purse strings, wary of uncertainties amid an elusive economic recovery.

2. Domestic Economic Outlook

Rabi sowing area is 2.5% lower: Area under rabi crops, such as wheat, pulses, oilseeds and coarse cereals, was down 2.5% as on 30 December 2023, even as 97% of the sowing was complete. A 7% fall in sowing of pulses, late harvesting of paddy and diversion to other crops are seen to be the reasons for the overall decline in winter crop area. According to data from the agriculture ministry, wheat, the main rabi crop, is sown in 32.05 million million ha., a drop by 1.2% from last year. The total area under all winter-sown crops was 62.9 million ha. , a drop by 2.5% as compared to the previous year. The five-year average rabi crop area is 64.8 million ha. The pulses — gram, masoor and urad, which are sown mostly in States like, Madhya Pradesh, Maharashtra, Rajasthan, Karnataka and Uttar Pradesh has so far lagged by 7% at 14.24 million ha. In some states, less area coverage in pulses is due to factors including late harvesting of kharif crops, diversion to other crops, deficit soil moisture and delayed harvesting of paddy, etc. However, area under oilseeds is marginally up at 10.49 million ha.

Key infra sectors growth up at 7.8% in November: The output of eight key infrastructure sectors increased by 7.8% in November 2023 against a 5.7% expansion in the year-ago period, according to the official data. The growth rate in last month is the lowest in six months and sharply down from the 12.1% recorded in October 2023. All sectors except crude oil and cement recorded healthy production growth in the month. The core sector (coal, crude oil, natural gas, refinery products, fertiliser, steel, cement and electricity) growth in October was 12%. Coal and refinery products output recorded double-digit growth. The output growth of eight sectors was 8.6% in April-November 2023-24 against 8.1% in the year-ago period.

Fiscal deficit at 51% of BE in Apr-Nov, spending curbed: The Centre's fiscal deficit in the first eight months of the current financial year stood at 50.7% of the Budget Estimate (BE) for FY24, compared with 58.9% of the respective annual target in the year-ago period. The containment of the deficit was enabled by an expenditure squeeze in recent months, particularly in October (-14%) and November (-13.8%), even as tax receipts remained buoyant. With this, fiscal deficit, the gap between government spending and revenue that is met through borrowing, for the full fiscal looks set to remain in line with the ₹17.9 trillion estimated at the beginning of the year. Revenue expenditure contracted 16.1% on year in November, the second sharpest pace so far in FY24.

Capital spending increased marginally at 1.6% during the month. So far, the Centre has spent Rs. 5.86

Prepared by Anson A Athikalam, Assistant Manager
Editorial Team: Dr. K.C. Badatya (CGM), Dr. Vinod Kumar (GM) and Smt. Balwinder Kaur (DGM)
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trillion in capital expenditure, accounting for 58.5% of the BE as against 59.6% last year.

India's current account deficit narrows to 1% of GDP at $8.3 bn in Q2 FY24: India's current account deficit (CAD) declined to 1% of gross domestic product (GDP) in the second quarter, down from 1.1% in the preceding quarter, and 3.8% a year ago. The CAD decreased to $8.3 billion in the September quarter of 2023-24 against a deficit of $9.2 billion in the preceding three months, according to the Reserve Bank of India (RBI). In the second quarter of 2022-23, the current account balance recorded a deficit of $30.9 billion. The decline is largely due to a narrowing of the merchandise trade deficit from $78.3 billion in Q2FY23 to $61 billion in Q2FY24. In the financial account, net FDI (foreign direct investment) in Q2FY24 saw an outflow of $0.3 billion, compared to an inflow of $6.2 billion a year ago, while foreign portfolio investments (FPI) recorded net inflows of $4.9 billion, lower than $6.5 billion recorded in Q2FY23.

Fitch Ratings expects India's resilient economic growth to boost demand of corporates: Leading credit rating firm Fitch Ratings expects that India's resilient economic growth will boost demand of the corporates. In its latest research report on 'India Corporates: Sector Trends 2024', Fitch said that this is a sequel to the robust performance of the corporates in 2023 and will offset weakness from slowing growth in the key overseas markets. Sectors like cement, electricity and petroleum products are expected to witness a strong demand with high-frequency data in 2023 sustained well above pre-COVID pandemic levels. Fitch said that India's improving infrastructure will also boost steel demand. Slowing down in the US and the Eurozone is likely to moderate growth of the IT services. Fitch said rising domestic auto sales volume should drive revenues of the auto suppliers, while travel and tourism conditions also improved in 2023.

CPI-AL, CPI-RL and CPI-IW rose marginally: The rate of inflation based on the CPI-AL (Consumer Price Index Number for Agricultural Labourers) and CPI-RL (Consumer Price Index Number for Rural Labourers rose slightly in November 2023 to 7.37% and 7.12%, respectively, due to higher prices of certain food items, the ministry of labour and employment reported. An increase in prices of food items like rice, wheat, atta, pulses, onion, turmeric whole, garlic, and mixed spices led to a rise in the general index of agricultural workers and rural labourers. Retail inflation for farm workers and rural labourers stood at 7.08% and 6.92%, respectively in October 2023. CPI-AL and CPI-RL was at 6.87% and 6.99%, respectively, during November 2022.

Retail inflation for industrial workers year-on-year stood at 4.98% in November compared to 4.45% for the previous month (October 2023) and 5.41% during the corresponding month (November 2022) a year before. It is mainly due to higher prices of certain food items. Food inflation stood at 7.95% against 6.27% in the previous month (October 2023) and 4.30% during the corresponding month (November 2022) a year ago.

3. Interest Rate Outlook

Foreign investments into Indian bonds reached six-year high in 2023: Foreign investment in Indian government bonds saw a remarkable jump in the last three months of 2023, with JPMorgan's decision to add the debt to its indexes boosting inflows to a six-year high. Overseas investors net bought government bonds worth 350 billion rupees ($4.2 billion) in October-December, pushing the full-year tally to Rs.598 billion, the highest since 2017.. Now, the Fed has indicated it is ready to cut interest rates in 2024 and many expect the RBI to follow suit. It is expected that the Fed might cut rates by 100-150 basis points in 2024 and the RBI to lower rates by at least 50 basis points.

Date	13 Dec	15 Dec	19 Dec	22 Dec	26 Dec	29 Dec
USA 10 yr	4.02	3.91	3.93	3.90	3.89	3.89
Ind 10 yr	7.26	7.16	7.17	7.19	7.18	7.18
Ind 5 yr	7.22	7.07	7.09	7.15	7.09	7.07
Ind 3 M	6.97	6.94	6.93	6.93	6.93	6.89

Source: worldgovernmentbonds.com, CMIE