CRISIL GLOBAL RESEARCH & ANALYTICS

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ECONOMY

CRISIL Insights

Through the monthly CRISIL Insights Economy series, we offer incisive analysis of macroeconomic parameters of the country. In the January issue, we discuss the reasons for revising India's GDP growth projection to 6 per cent in 2014-15.

View of the month: Growth to print higher in 2014-15

India's economic growth is likely to accelerate in the next fiscal, aided by the continuation of the reform process, implementation of stalled projects, de-bottlenecking of the mining sector, and recovery in industry due to higher external demand as the global outlook improves. CRISIL Research now believes growth will print at 6 per cent for 2014-15, up from our 4.8 per cent estimate for 2013-14. We also expect some rebound in services growth in 2014-15, led by higher exports as well as a positive rub-off from higher industrial growth. Finally, we assume a normal monsoon, which will cushion growth and keep a tab on food inflation. This, along with lower fuel inflation (due to a decline in global oil prices), will pull overall WPI-based inflation slightly down to 6 per cent. However, there is no saying yet whether we have seen the beginning of a decisive, sustainable recovery. On the downside, we feel growth could remain below 5 per cent yet again, should risks manifest.

Government finances are expected to remain tight. The fiscal deficit will overshoot the government's target of 4.2 per cent and is expected to settle at 4.8 per cent in 2014-15. This will, however, be lower than the 2013-14 forecast of 5.0 per cent of GDP. 10 year G-Sec yields are expected to settle lower at 8.2 -8.4 per cent by March-end 2015 as the RBI unwinds the liquidity tightening measures by H1 2014-15 at the latest.

On the external front, the CAD is expected to rise to 3.0 per cent of GDP as consumption and investment imports pick up due to the improvement in domestic demand and rise in gold imports as curbs are gradually removed in the next fiscal. A higher CAD, along with volatile capital inflows, is expected to weaken the Rupee to 62 per US$ by 2014-15 end.

Monetary Policy	Industrial Production	Inflation
RBI keeps repo rate unchanged	Industrial output slips further in November	Both CPI and WPI inflation fall in December

Monetary Policy

- The Reserve Bank of India (RBI) in its monetary policy review on December 18, 2013, kept the repo rate unchanged at 7.75% after raising policy rates by 25 bps in September and October each.
- The sharp rise in inflation in the recent months has largely been driven by a surge in fruits and vegetables prices, which are expected to decline with better supply. The RBI, therefore, refrained from hiking policy rates further.
- The future course of monetary policy will be decided after the recommendations of the expert committee to revive and strengthen the monetary policy framework are considered.

INDUSTRIAL PRODUCTION

- Industrial output in November fell by 2.1% y-o-y, sharper than the 1.6% fall in October. Mining and electricity output grew by 1% and 6.3% on a y-o-y basis respectively, while the manufacturing output contracted by 3.5% y-o-y.
- The output of eight core infrastructure industries - having nearly 38% weight in IIP- grew by 1.7% in November, led by growth in mining and electricity output, reversing the 0.6% contraction in October.
- Consumer goods output fell by 8.7%, the sharpest decline since 2009. Consumer durable output fell by 21.5% as demand remains weak due to high interest rates and slow income growth.

INFLATION

- WPI inflation fell to 6.2% in December from 7.5% in the previous month, led by a sharp fall in vegetable inflation. High vegetable inflation since July 2013 had driven the rise in overall inflation in the recent months.
- Core inflation - as measured by CRISIL's Core inflation indicator (CCII) remained unchanged in December at 3.2%, suggesting that demand-side pressures remain firm.
- CPI inflation in December fell to 9.9% from 11.2% in November due to a fall in vegetable inflation. Core CPI inflation, however, remained high at above 8%.

Interest Rate	Rupee	Trade
Long- term bond yields fall in December	Return of FII inflows lifts Rupee in December	Trade deficit halves on a y-o-y basis in December

INTEREST RATE

- Average yield on the benchmark 10-year government bond fell to 8.94% in December from 8.97% in November. On a month-end basis too, yields fell.
- The decline in yield was led by the repo rate remaining unchanged at 7.75%, lower government borrowings and net FII inflows into Indian debt markets for the first time since May.
- During December, the government raised Rs.443 billion via dated securities, lower than the Rs.928 billion raised in November.

RUPEE

- On a monthly average basis, the Indian rupee appreciated by 1.1 per cent in December. It ended the month at 61.9 per US$ compared to 62.6 per US$ in November.
- Return of FII inflows both into the debt (US$0.8 billion) and equity market in December (US$2.6 billion) lifted the Rupee. Net FII inflows in December rose to US$3.5 billion in December from US$343 million in November.
- Despite the recent strengthening, during April to December 2013, rupee has averaged 60.1 per US$ which is 10.1 per cent weaker y-o-y.

TRADE

- India's merchandise trade deficit fell by 42% y-o-y to US$ 10.1 billion in December. The trade deficit was recorded at US$ 9.2 billion in November.
- Export growth slowed for the second consecutive month to 3.5% y-o-y in December as compared to 5.9% y-o-y in November.
- Imports fell by 15.2% y-o-y in December as weak domestic demand and restrictions on gold imports lowered non-oil imports by nearly 23% y-o-y. Oil imports rose by 1.0% reversing the fall in last month.

Source: CRISIL Research

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