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#THE BIG PERSPECTIVE

Tailored exclusively for NRIs

1 Global

- US growth
- Fed policy
- Dollar view

2 India macro

- Inflation
- India growth
- RBI view

3 Markets

- G-sec
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#THE BIG PERSPECTIVE

Global outlook

Gaura Sen Gupta
gaura.sengupta@idfcfirstbank.com
+91-22-7132 5562

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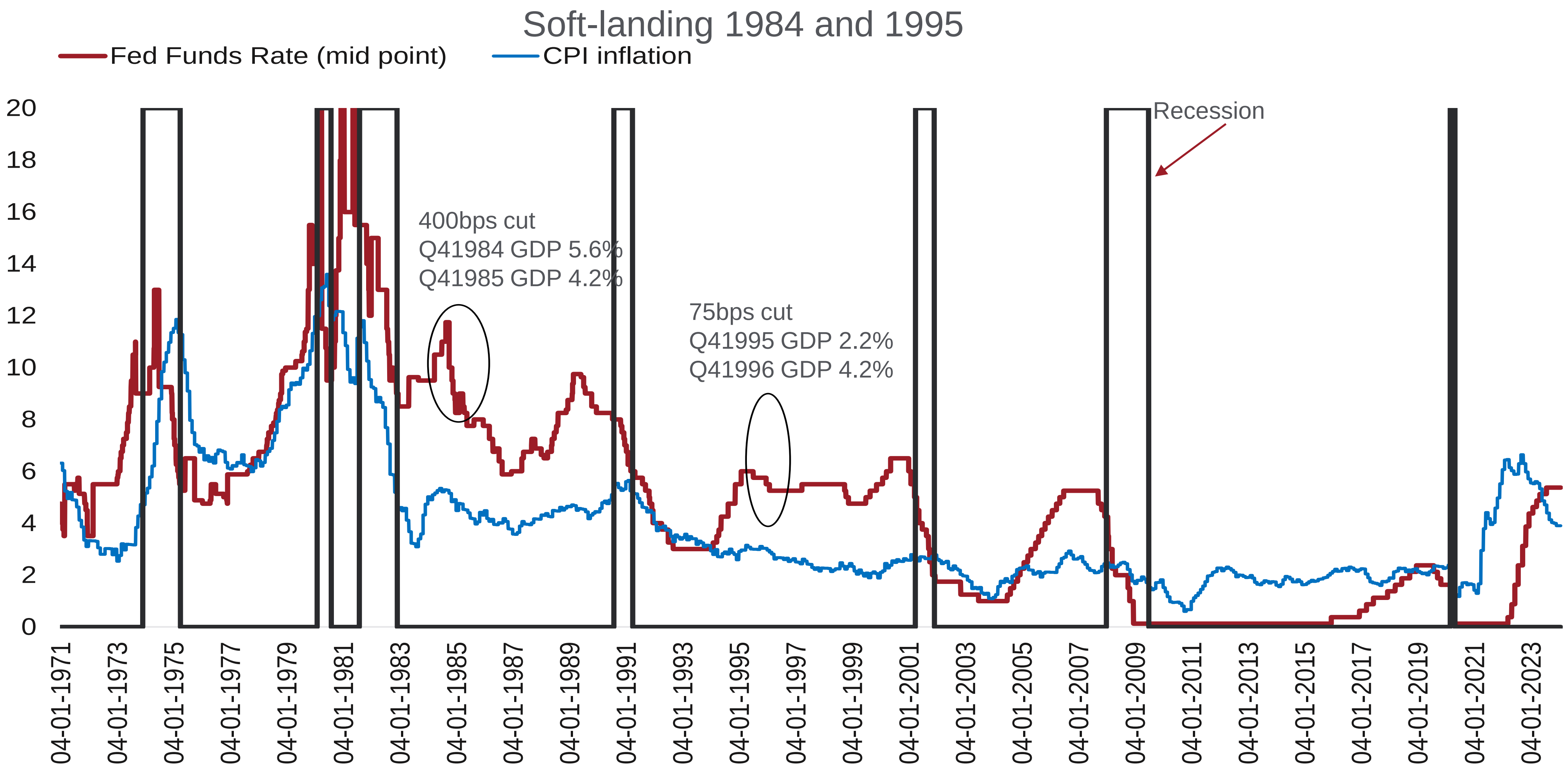
Post Fed Rate hiking cycles, soft landing has been rare



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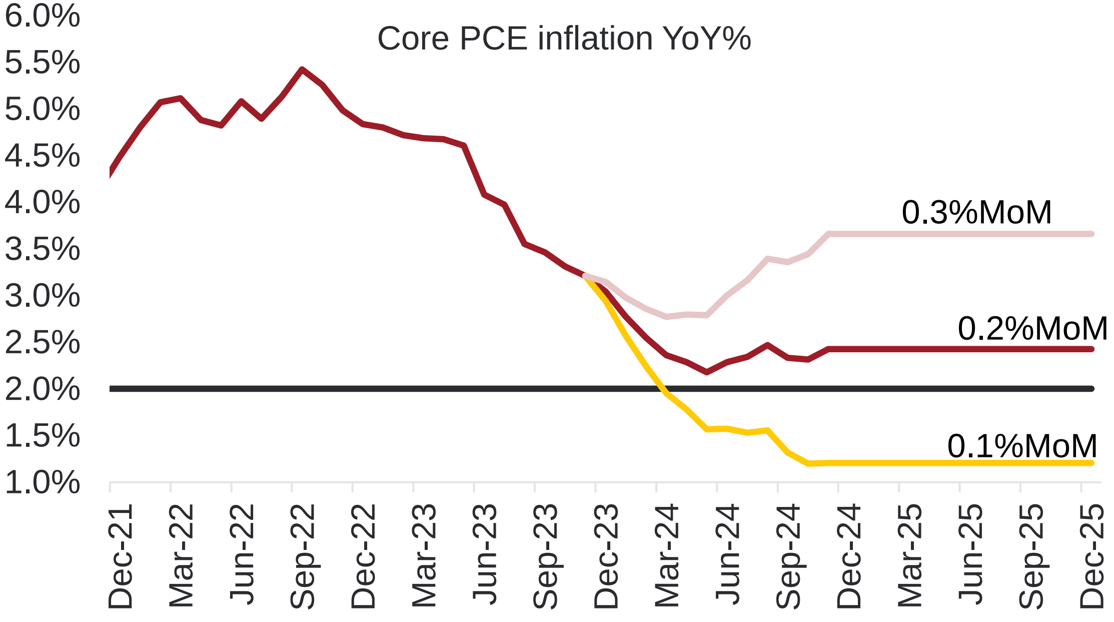
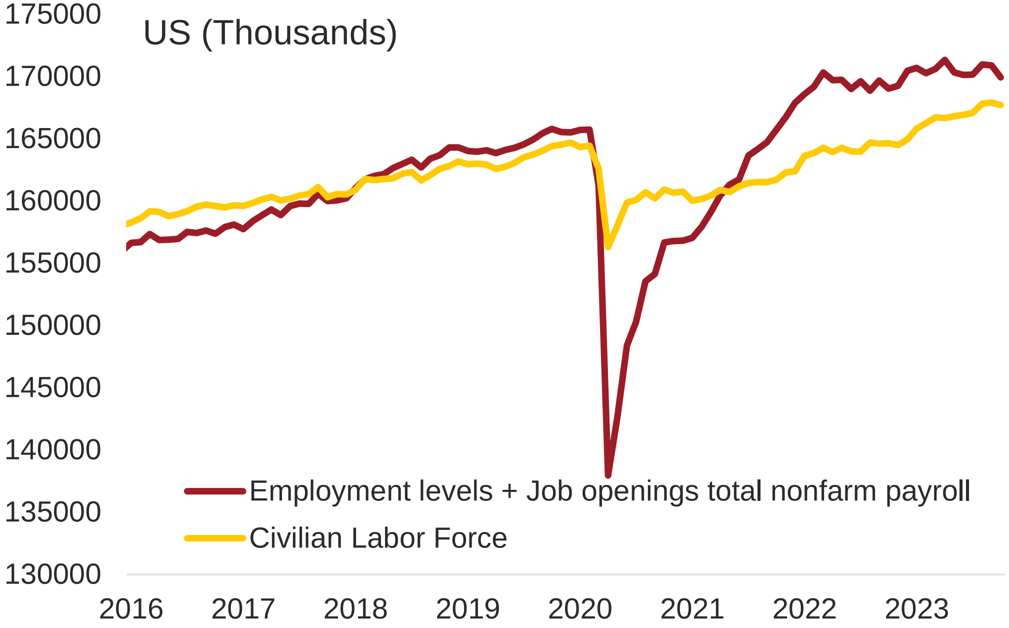
Source: St Louis Fed, IDFC FIRST Bank Economics Research

Fed: First rate cut expected in June 2024



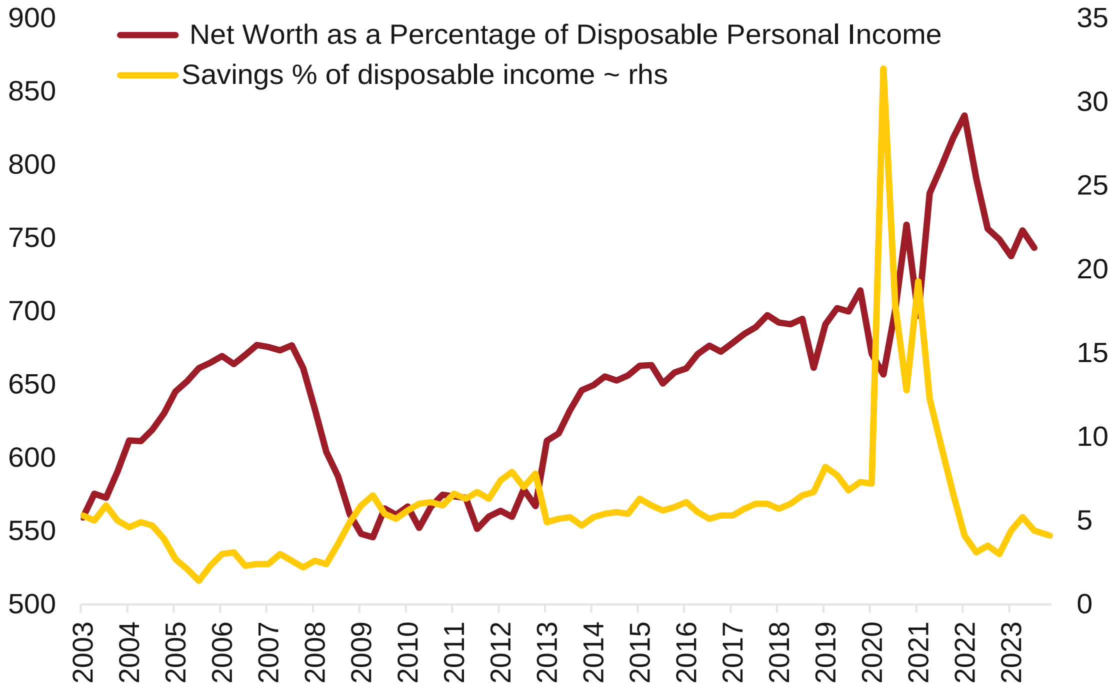


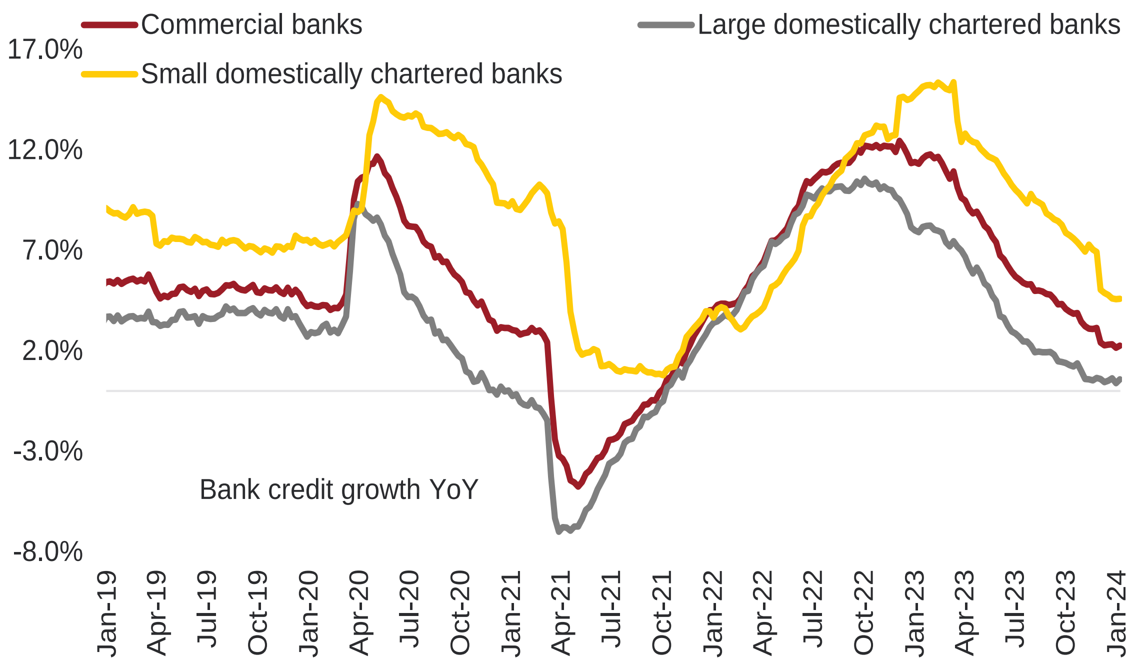
- Core PCE would need to see a MoM momentum of 0.2% or lower to get Year-on-Year towards 2%

- Labour market is moving from extreme tighteness (demand > supply) to balanced

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

US: Growth to weaken gradually



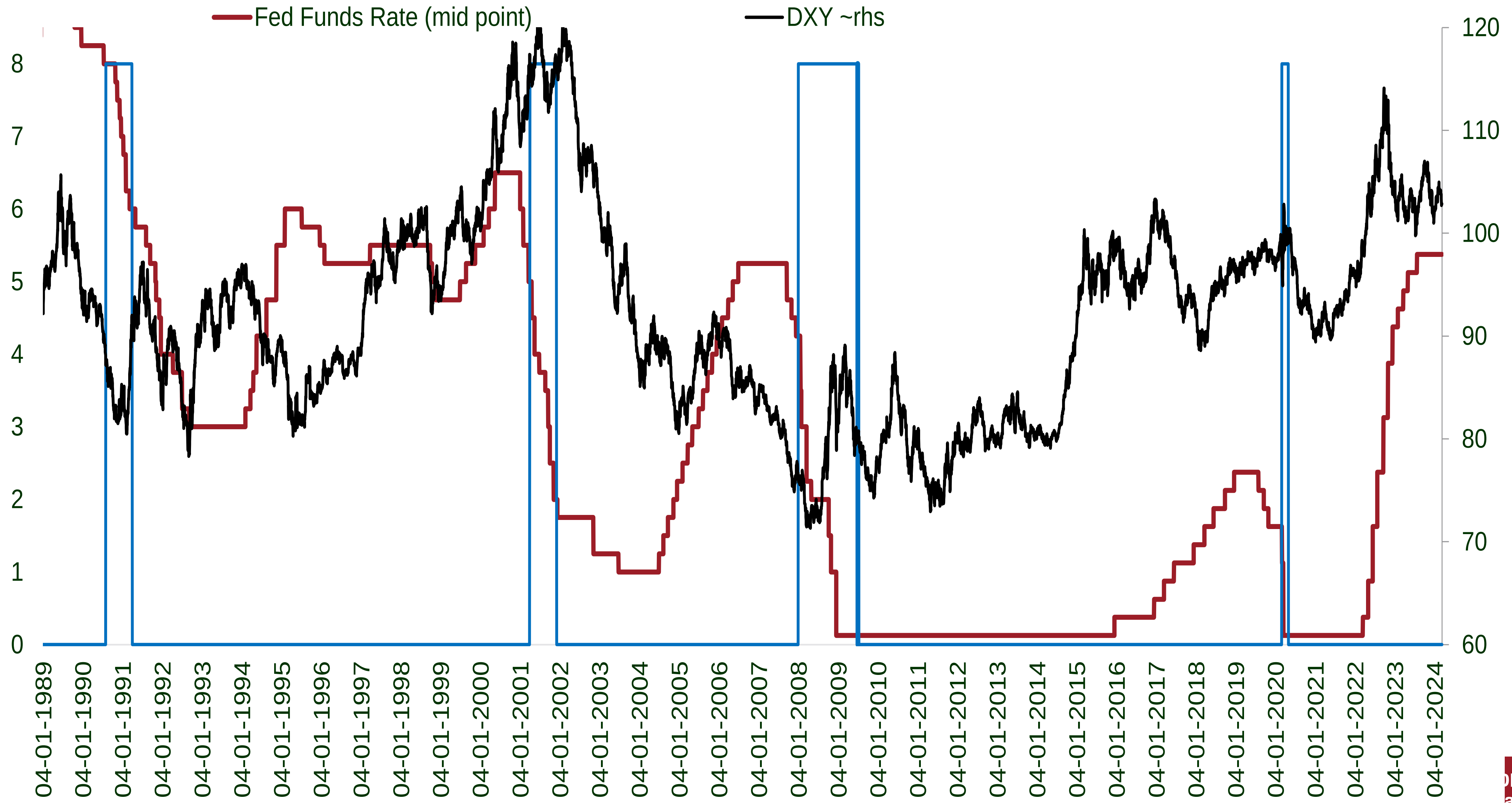


- Consumption demand supported by strong labour market and household net worth remaining higher than pre-pandemic

- Slowdown in bank credit growth to add to downward pressure on growth

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

US: Some dollar strength could return



Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

India outlook

Q3FY24 GVA growth slowdown led by industry

(YoY% change)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Agriculture, Forestry and Fishing	**5.2**	**7.6**	**3.5**	**1.6**	**-0.8**
Industry	**0.6**	**3.4**	**6.0**	**13.6**	**10.4**
Mining and Quarrying	1.4	2.9	7.1	11.1	7.5
Manufacturing	-4.8	0.9	5.0	14.4	11.6
Electricity, Gas, Water Supply and Other Utility Services	8.7	7.3	3.2	10.5	9.0
Construction	9.5	7.4	8.5	13.5	9.5
Services	**7.2**	**7.2**	**10.7**	**6.0**	**7.0**
Trade, Hotels, Transport, Communication services	9.2	7.0	9.7	4.5	6.7
Financial, Real Estate and Professional Services	7.7	9.2	12.6	6.2	7.0
Public Administration, Defence and Other Services	3.5	4.7	8.2	7.7	7.5
GVA at basic prices	**4.8**	**6.0**	**8.2**	**7.7**	**6.5**

GDP = GVA + Net taxes

Discrepancy = GDP – C –G- I – NX

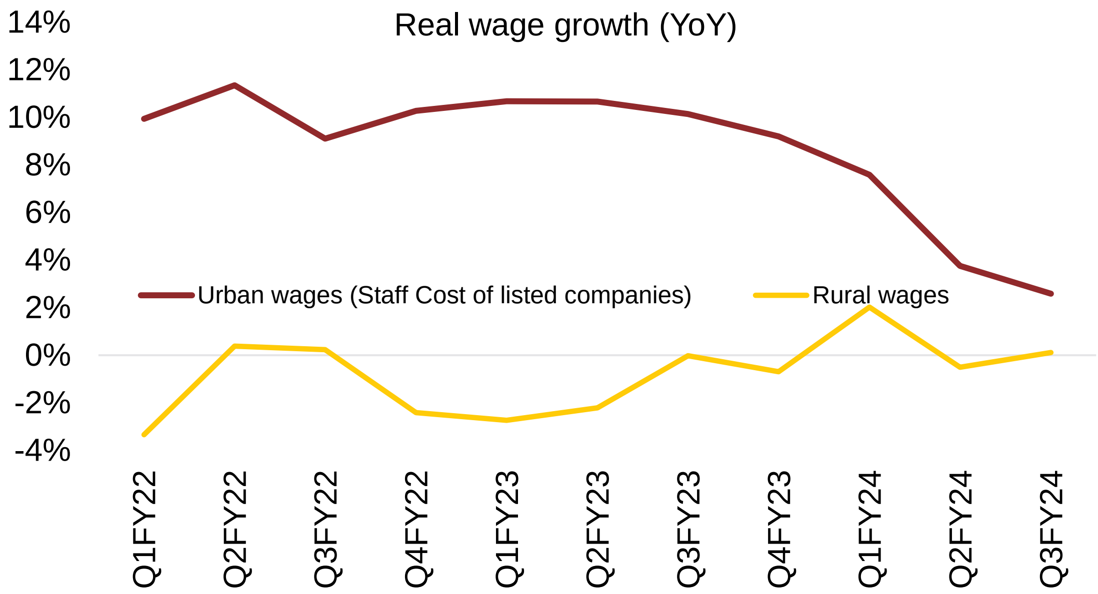
(YoY% change)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Private final consumption expenditure (PFCE)	1.8	1.5	5.3	2.4	3.5
Govt final consumption expenditure (GFCE)	7.1	13.9	-0.1	13.8	-3.2
Gross Fixed Capital Formation (GFCF)	5.0	3.8	8.5	11.6	10.6
Change in Stocks (CIS)	11.5	18.2	1.6	10.7	7.9
Valuables	-38.2	-23.6	-21.2	-1.1	61.8
Exports	10.9	12.4	-6.5	5.3	3.4
Less Imports	4.1	-0.4	15.3	11.9	8.3
Discrepancies	3.9	-6.1	183.0	122.6	105.2
GDP	**4.3**	**6.2**	**8.2**	**8.1**	**8.4**

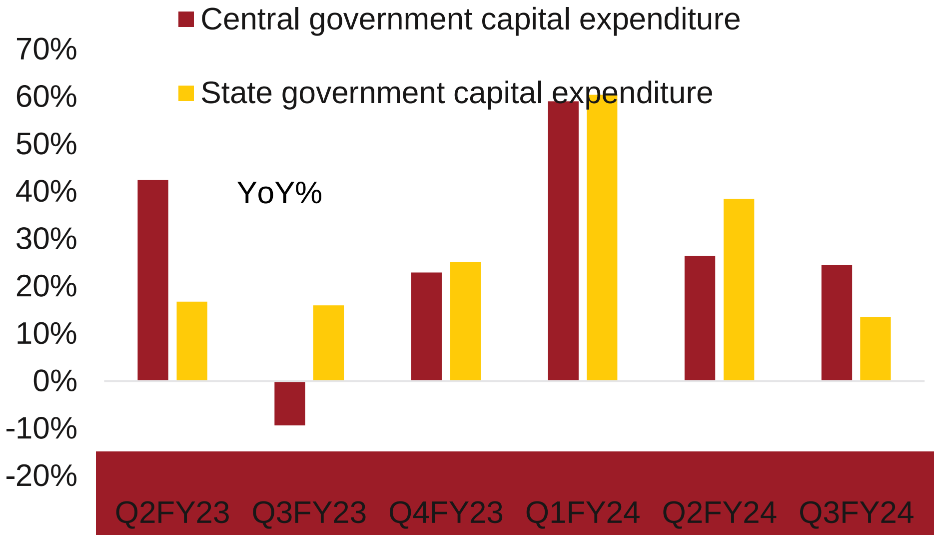
GDP boosted by decline in subsidy payments

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Listed company performance

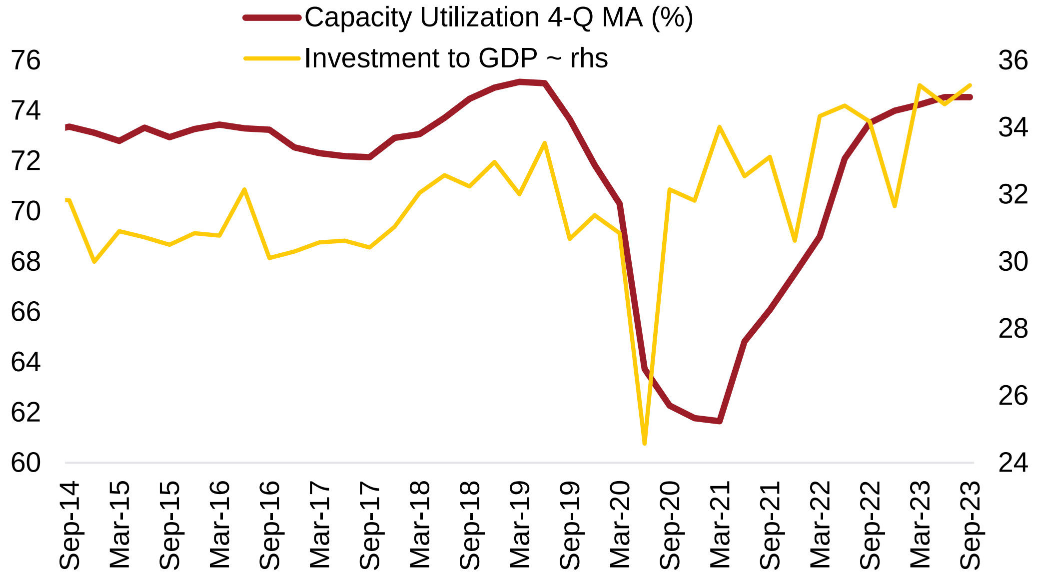
Listed Non-Government Non-Financial Companies					
EBITDA (YoY)	**Q3FY23**	**Q4FY23**	**Q1FY24**	**Q2FY24**	**Q3FY24**
Manufacturing	-4.5	7.4	2.8	25.6	15.6
Services (Non-IT)	8.0	26.8	28.7	19.4	27.4
IT	10.2	0.1	16.4	6.7	5.9
Sales (YoY)	**Q3FY23**	**Q4FY23**	**Q1FY24**	**Q2FY24**	**Q3FY24**
Manufacturing	10.6	5.3	0.1	4.2	3.7
Services (Non-IT)	19.9	20.5	4.5	1.9	12.9
IT	19.4	16	10.9	5.9	3.2
Expenditure (YoY)	**Q3FY23**	**Q4FY23**	**Q1FY24**	**Q2FY24**	**Q3FY24**
Manufacturing	12	4.9	-3.1	1.6	4.1
Services (Non-IT)	20.3	18.6	-7.5	-1.7	11.9
IT	21.9	17.5	10.9	6.0	3.0

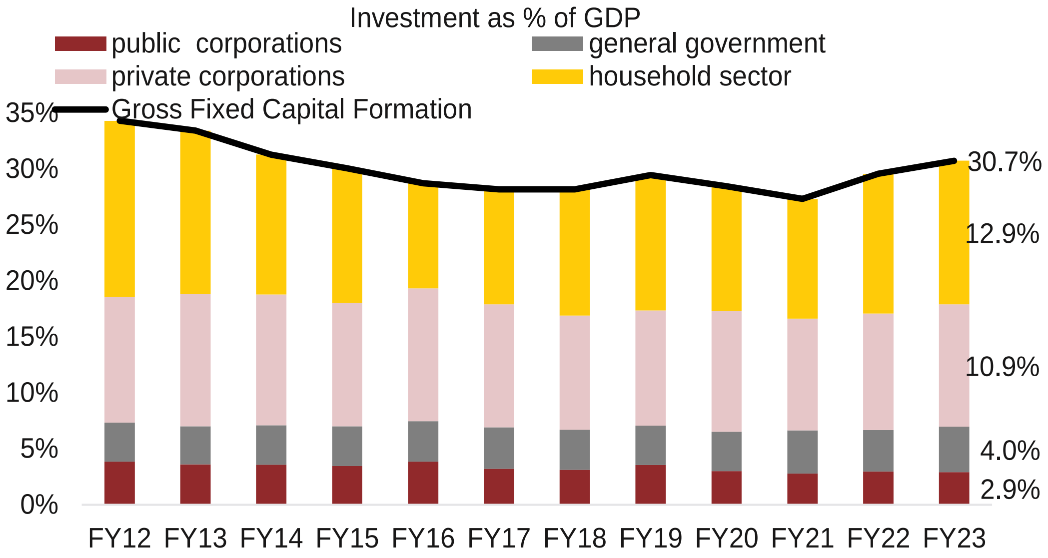




Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Private sector capex to be key in FY25





- Pick-up in private capex will be key for growth recovery as government capex (Centre and States) is expected to moderate
- Private capex will be supported by rising capacity utilization and relatively stronger domestic demand.
- In FY24, the recovery seen in real estate (household sector investment) will need to continue into FY25

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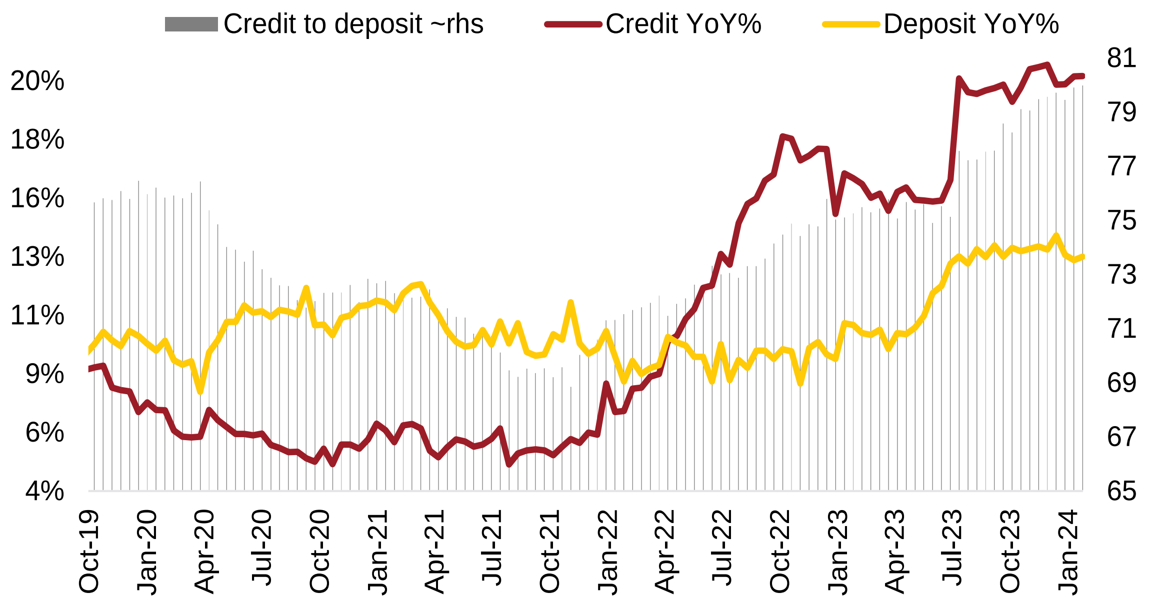
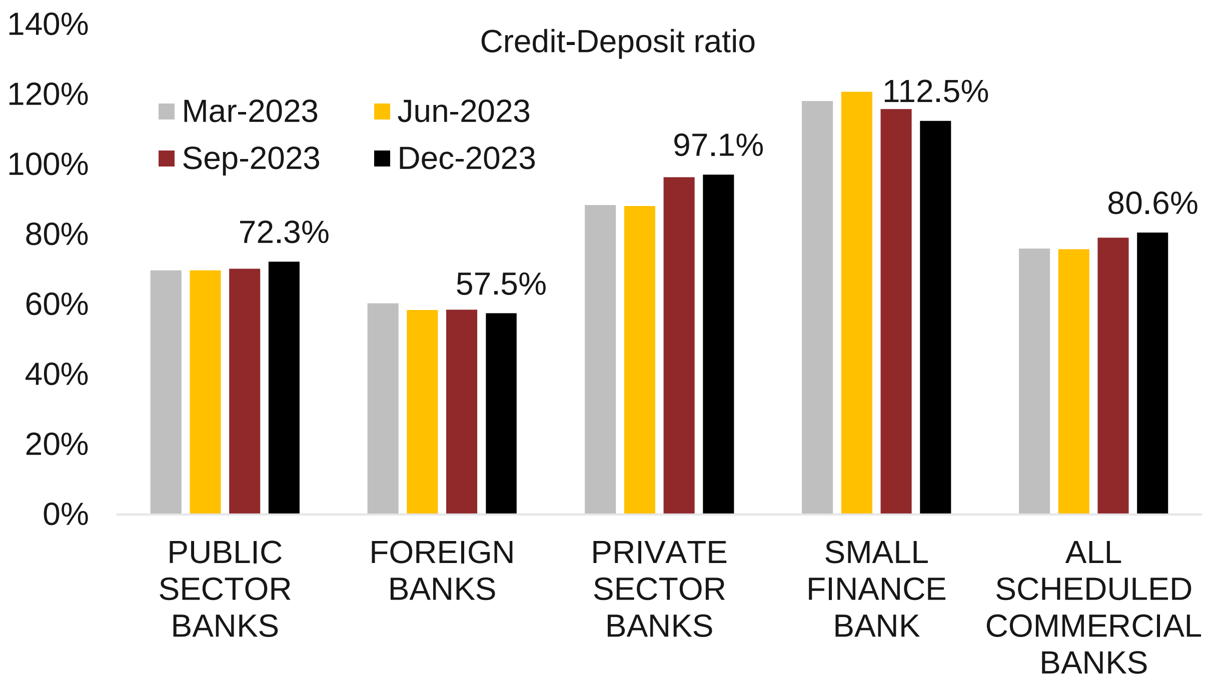
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Bank credit growth remains strong at 20%



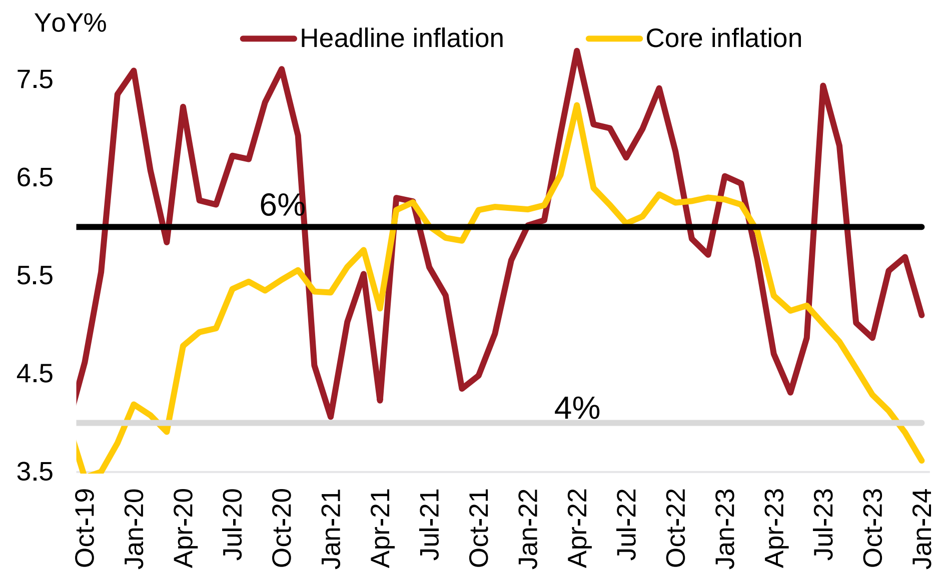


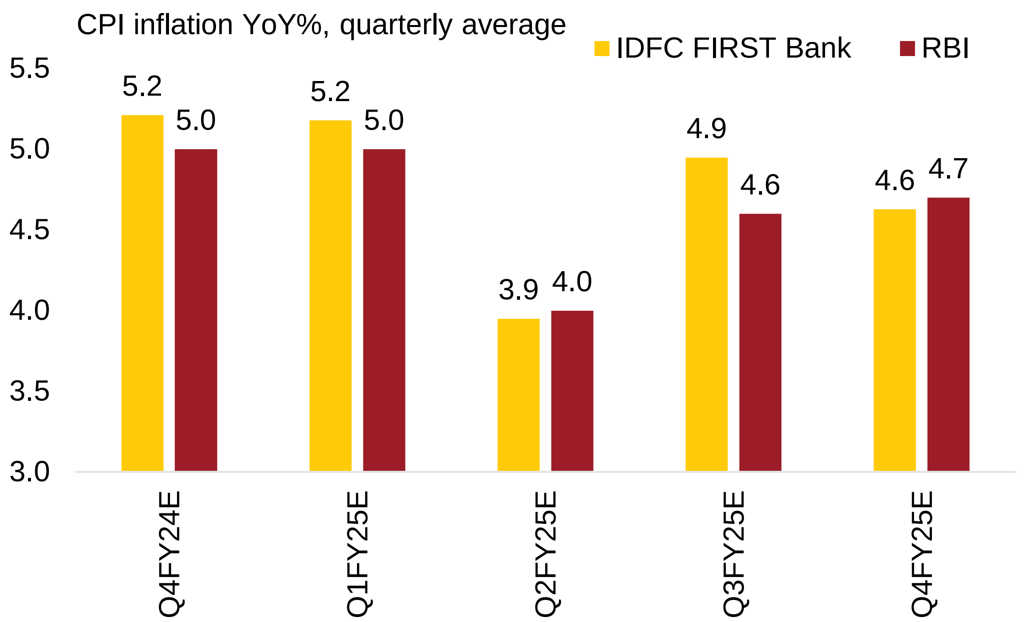
- Credit deposit ratio higher than pre-pandemic levels at 80% as of Feb 2024 v/s 76.5% pre-Covid-19

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

FY25 CPI inflation expected at 4.5% v/s 5.4% in FY24

RBI rate cut cycle to start from June / August 2024





- FY25 inflation expected to average at 5.4%, assuming normal monsoon and Crude oil prices remaining moderate
- Core CPI inflation has shown broad-based moderation, spread across goods and services
- RBI likely to lag the Fed in terms of timing and quantum of rate cuts

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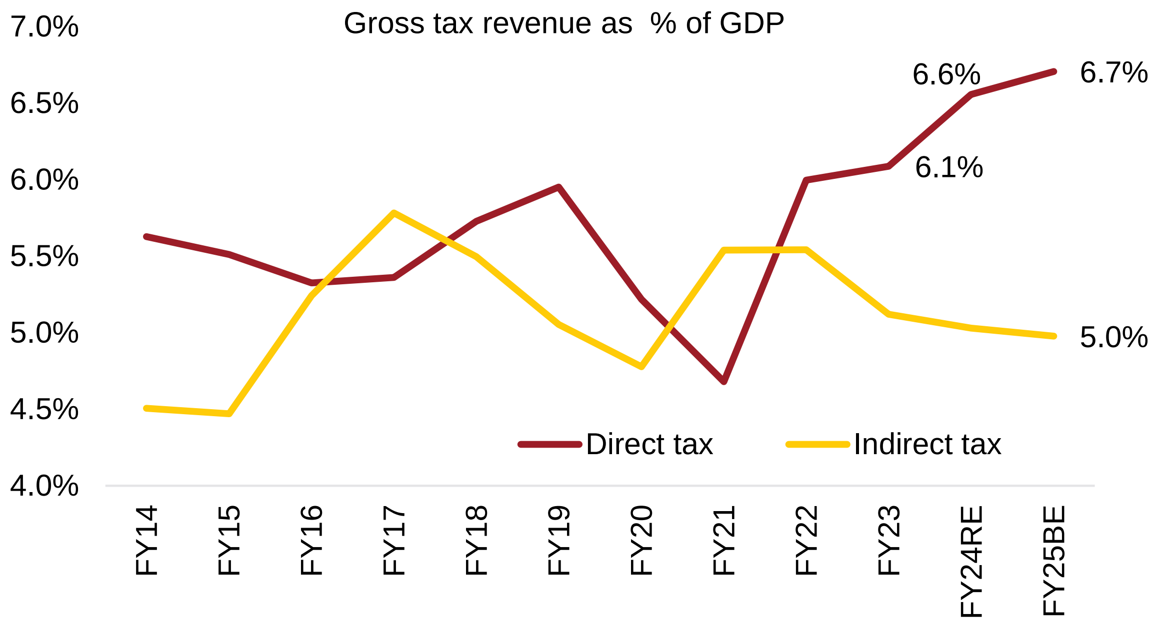
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

FY25 Union Budget – fiscal consolidation while remaining growth supportive

Fiscal consolidation led by moderation in revenue expenditure



	capital expenditure as % of GDP						
	FY19	FY20	FY21	FY22	FY23	FY24RE	FY25BE
Roads	0.4%	0.3%	0.4%	0.5%	0.8%	0.9%	0.8%
Railways	0.3%	0.3%	0.6%	0.5%	0.6%	0.8%	0.8%
Defence	0.5%	0.6%	0.7%	0.6%	0.5%	0.5%	0.5%
Transfers to states	0.0%	0.0%	0.1%	0.1%	0.3%	0.4%	0.4%
Telecom	0.0%	0.0%	0.0%	0.0%	0.2%	0.2%	0.3%
Housing and Urban Affairs	0.2%	0.2%	0.2%	0.5%	0.3%	0.2%	0.2%
Total capital expenditure	**1.6%**	**1.7%**	**2.1%**	**2.5%**	**2.7%**	**3.2%**	**3.4%**

- The improvement in tax buoyancy in FY24 led by direct tax collections. In FY25 gross tax revenues as % of GDP estimated to rise to 11.7% from 11.6%
- Fiscal consolidation in FY25 led by revenue expenditure moderation - subsidies, transfers to states and pensions
- Growth supportive with capital expenditure as % of GDP rising to 3.4% in FY25 v/s 3.2% in FY24

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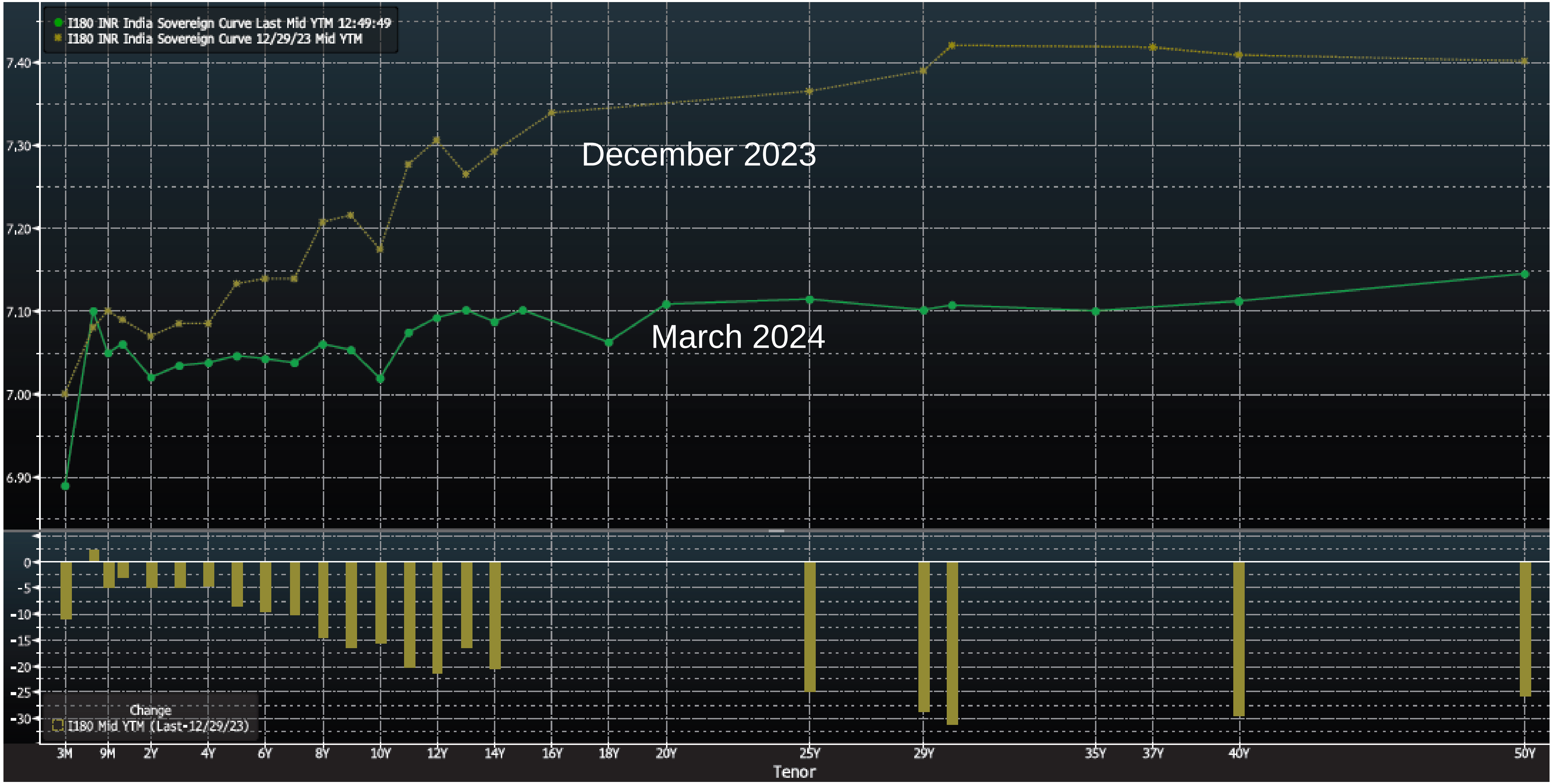
Source: CEIC, RBI, IDFC FIRST Bank Economics Research.

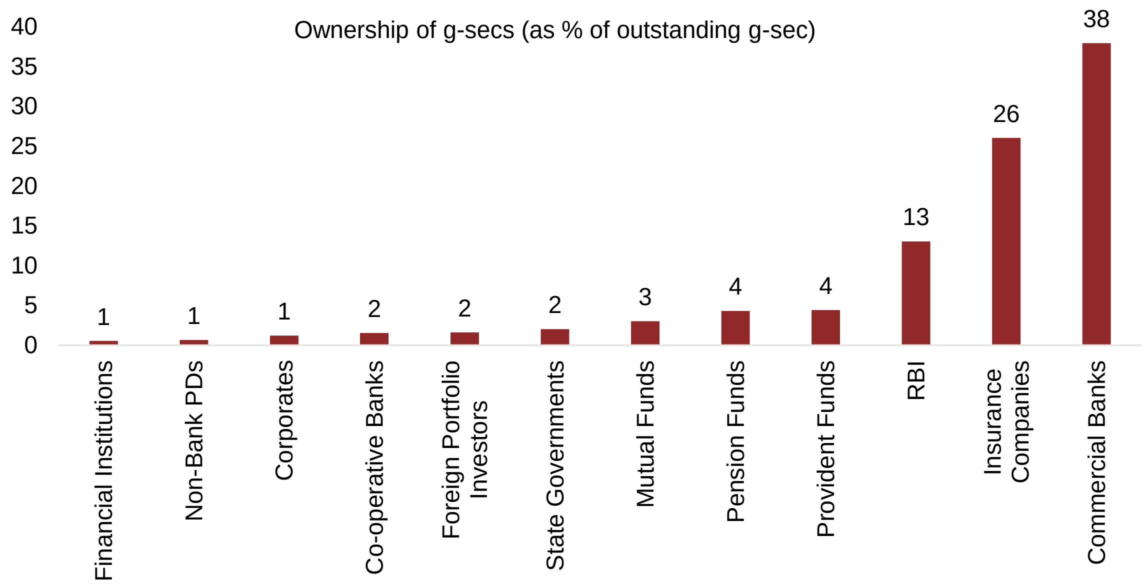
10-yr G-sec yield to reduce to 6.8%



Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

10-yr G-sec yield to reduce to 6.8%

G-sec demand supply to be supportive in FY25



	As a % of total household Financial asset								
INR bn	Financial Assets	Bank Deposits	Other Financial Institutions	Life Insurance Funds	Currency	Mutual funds	Public Provident Fund (PPF)	Pension Funds	Small Savings (excluding PPF)
FY21 Q4	100%	47.6%	0.8%	20.6%	11.4%	7.6%	3.2%	2.5%	6.0%
FY22 Q4	100%	45.9%	0.8%	20.8%	11.3%	8.5%	3.3%	2.9%	6.2%
FY23 Q4	100%	45.2%	0.8%	**21.5%**	11.1%	8.4%	**3.3%**	**3.2%**	6.4%

Demand –Supply: Remains favourable for g-sec

- Net g-sec supply of INR10.5tn in FY25 lower than expected
- Demand for g-secs will be supported by FPI (index inclusion), investor demand (Insurance, PFs and Pensions) as formal sector widens

Reduction in g-sec yields in FY25 driven by:

- Favourable demand and supply dynamics for g-sec
- RBI rate cuts- 50bps reduction rate cut. Additionally overnight rates are expected to move towards repo rate
- Moderation in CPI inflation to 4.5% in FY25

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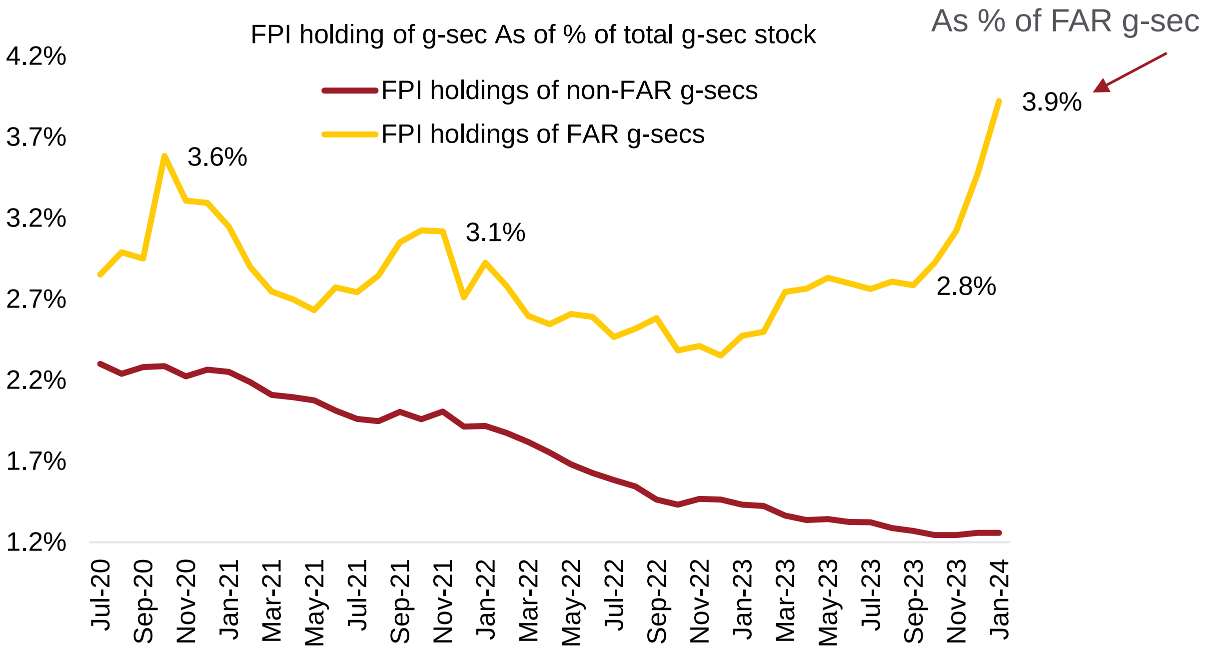
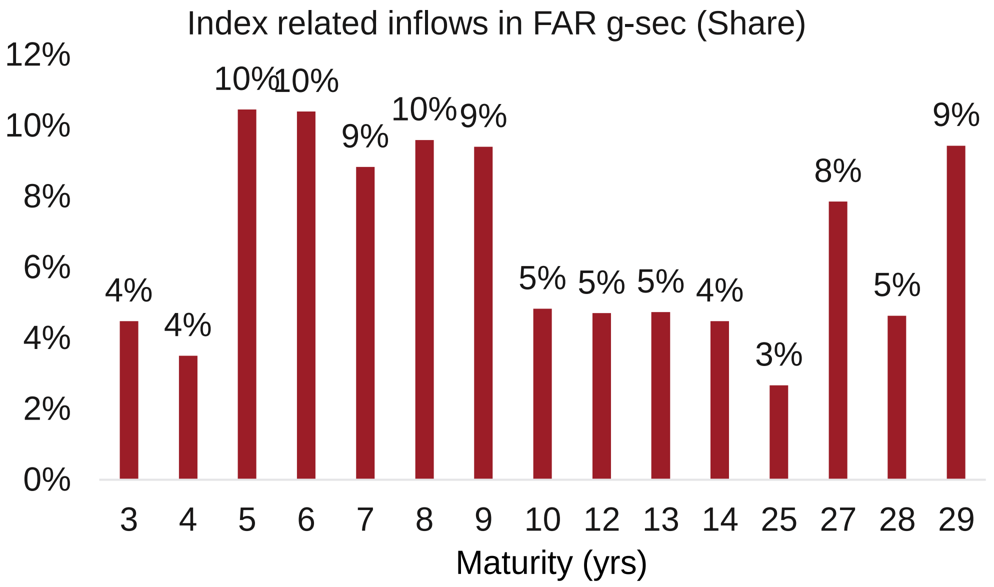
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

10-yr G-sec yield to reduce to 6.8%

Led by inflows from India's inclusion into JP Morgan Bond index





- The JP Morgan EM Bond Index inclusion which will start from June / July 2024 onwards, which could result in inflows of US$30bn into FAR g-secs, spread-over a 10-month period
- FPI holdings of outstanding g-sec (FAR + Non-FAR) could rise to 3.8% by FY25 v/s 2.2% in Janurary 2024.
- Around 61% of the index related inflows will be in the 10-yr and below segment
- RBI is expected to absorb the bond index related inflows (addition to FX reserves).

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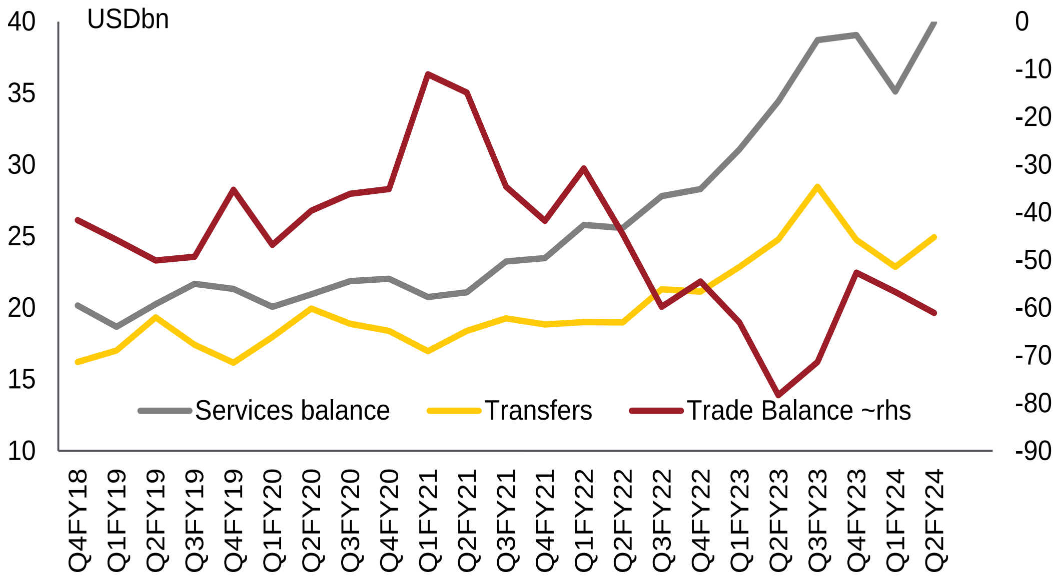
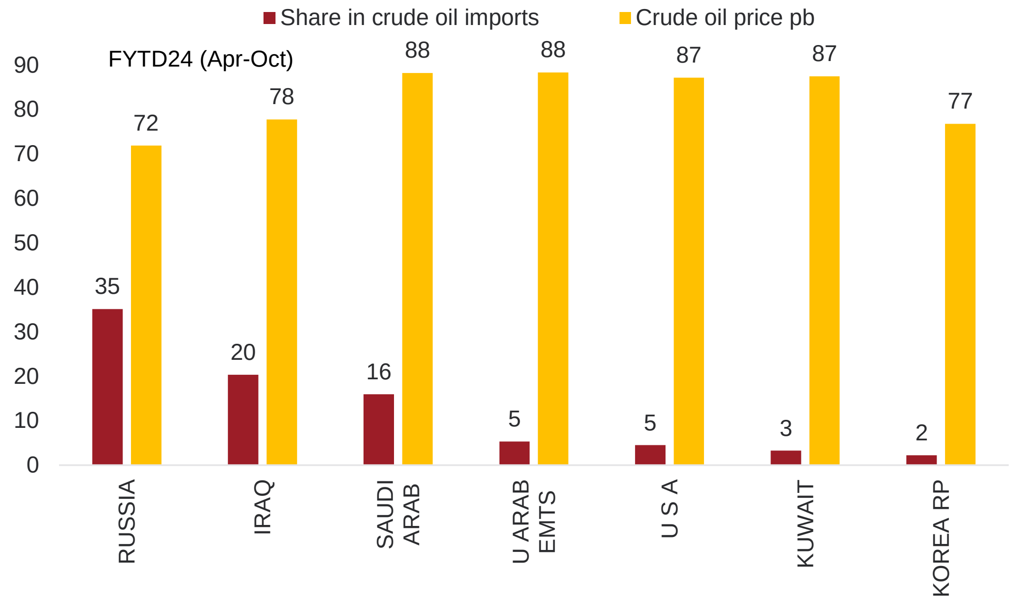
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

FY24 CAD estimated at 1.0% of GDP





Reduction in CAD led by:

- Decline in trade deficit with decline in global commodity prices
- Invisible surplus (services and transfers) has been stronger than expected, reflecting strength of US growth

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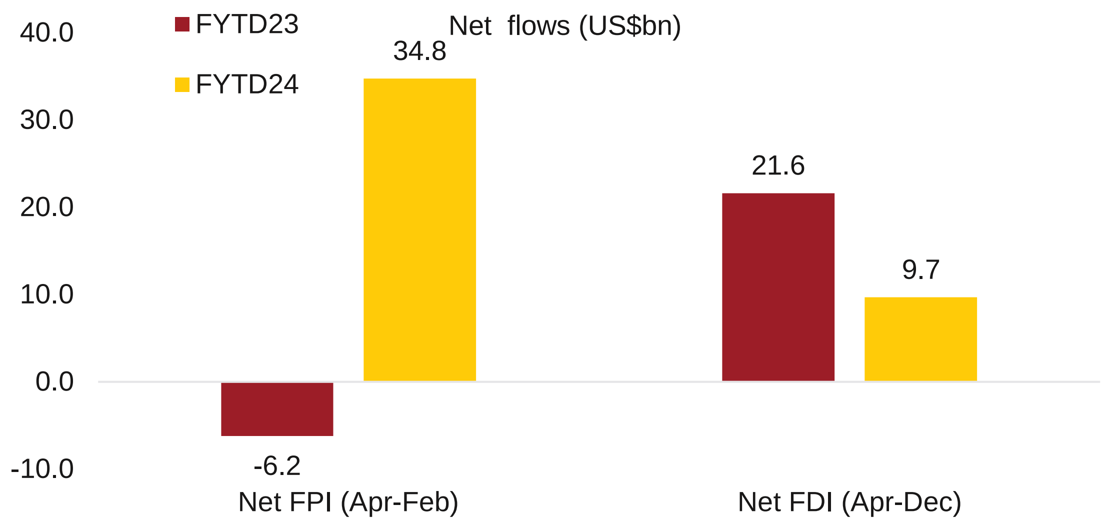
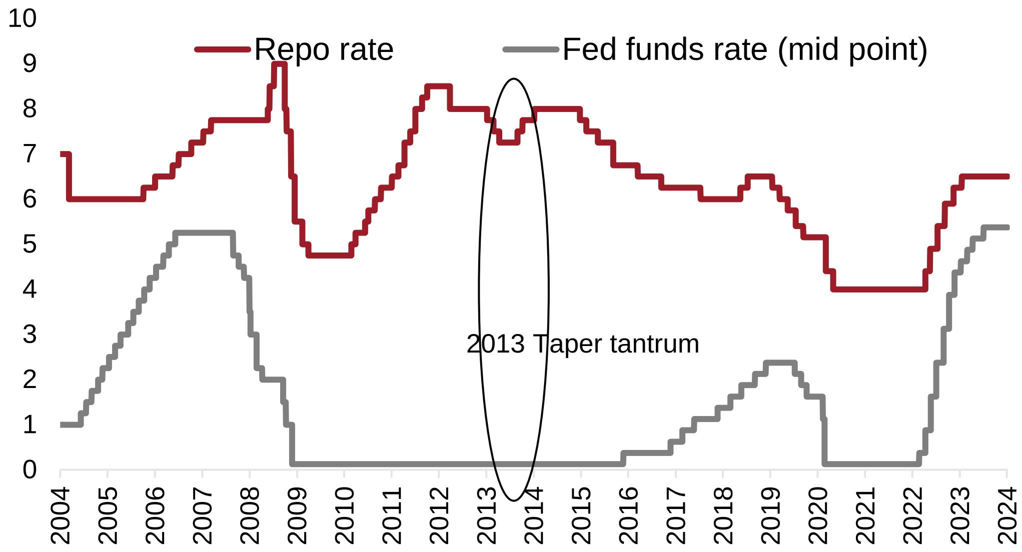
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

FY25 USDINR trading range 83.00-81.50





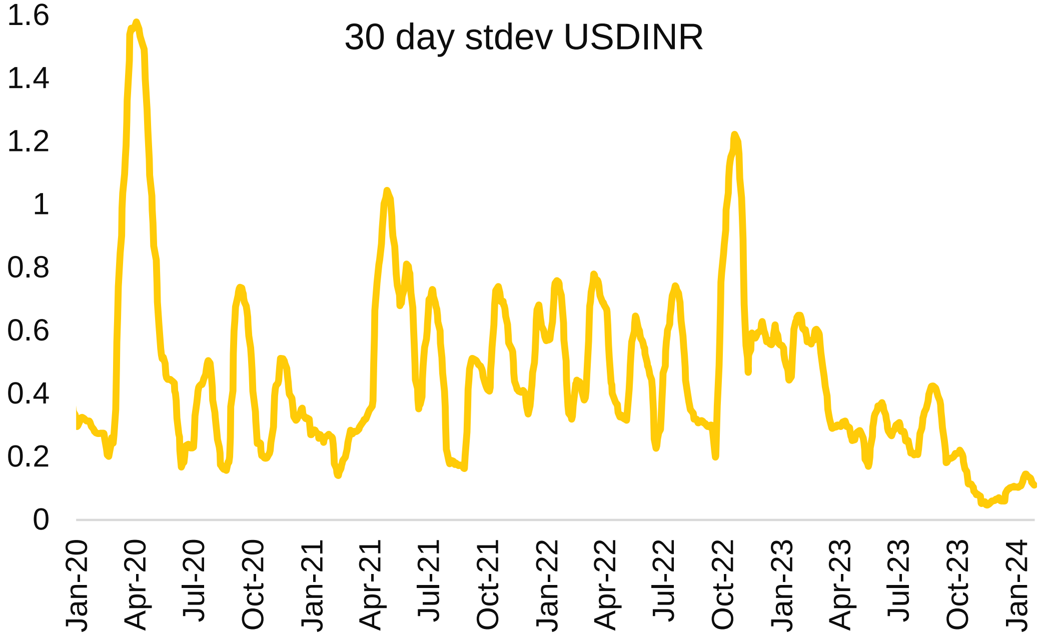
INR appreciation led by

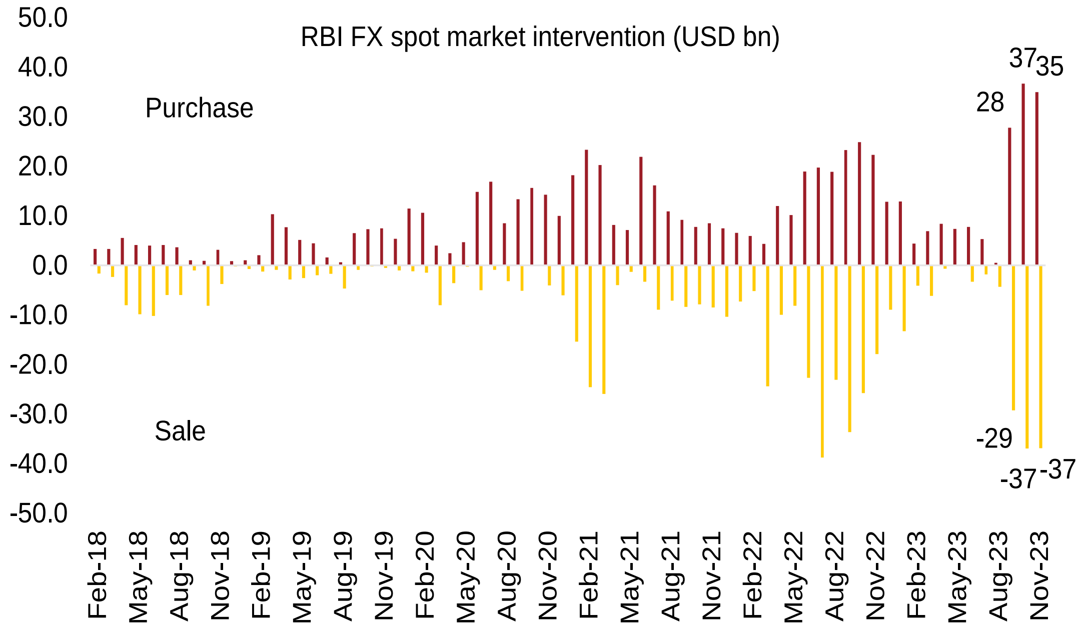
- FY25 is expected to be a strong year for capital inflows. FPI and FDI inflows are expected to be on the stronger side – supported by relatively stable macros and India's inclusion into bond index. ECB inflows are likely to pick-up with Fed expected to cut policy rates

RBI FX intervention to limit USDINR volatility. Bond index related FPI inflows likely to be absorbed by RBI.

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

RBI intervention focused on limiting USDINR volatility





- RBI intervention has been on both sides to limit USDINR volatility
- RBI forward book has turned net dollar long in December 2023 from net dollar short position in November, led by reduction in net-dollar shorts in the up to 1 month bucket

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Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

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Annex: FY25 fiscal deficit target at 5.1% of GDP

Focus on fiscal consolidation and remaining growth supportive

	Rs bn				% GDP			
	FY23	FY24BE	FY24RE	FY25BE	FY23	FY24BE	FY24RE	FY25BE
Revenue Receipts	**23832**	**26323**	**26997**	**30013**	**8.7%**	**8.7%**	**9.1%**	**9.2%**
Gross tax revenue	**30542**	**33609**	**34372.1**	**38308.0**	**11.2%**	**11.1%**	**11.6%**	**11.7%**
Corporate tax	8258.3	9226.8	9226.8	10428.3	3.0%	3.1%	3.1%	3.2%
Income tax	8332.3	9005.8	10223.3	11560.0	3.1%	3.0%	3.4%	3.5%
CGST	7185.2	8118.0	8116.0	9176.5	2.6%	2.7%	2.7%	2.8%
IGST	47.5	0.0	0.0	0.0	0.0%	0.0%	0.0%	0.0%
Compensation cess	1258.6	1450.0	1450.0	1500.0	0.5%	0.5%	0.5%	0.5%
Customs	2133.7	2331.0	2186.8	2313.1	0.8%	0.8%	0.7%	0.7%
Excise	3190.0	3390.0	3036.0	3187.8	1.2%	1.1%	1.0%	1.0%
Tax Revenue (Net)	**20978**	**23306**	**23239**	**26016**	**7.7%**	**7.7%**	**7.8%**	**7.9%**
Non-Tax Revenue	**2854**	**3017**	**3758**	**3997**	**1.0%**	**1.0%**	**1.3%**	**1.2%**
--Dividends from PSE	600	430	500	480	0.2%	0.1%	0.2%	0.1%
--Dividend RBI & PSB	400	480	1044	1020	0.1%	0.2%	0.4%	0.3%
Non-Debt Capital Receipts	**722**	**840**	**560**	**790**	**0.3%**	**0.3%**	**0.2%**	**0.2%**
-Recovery of Loans	259	230	260	290	0.1%	0.1%	0.1%	0.1%
-Disinvestment + others	460	610	300	500	0.2%	0.2%	0.1%	0.2%
Total Receipts(1+4)	**24554**	**27163**	**27557**	**30803**	**9.0%**	**9.0%**	**9.3%**	**9.4%**
Revenue Expenditure	**34531**	**35021**	**35402**	**36547**	**12.7%**	**11.6%**	**11.9%**	**11.2%**
-Interest Payments	9285	10800	10554	11904	3.4%	3.6%	3.6%	3.6%
-Subsidy	5779	4031	4405	4097	2.1%	1.3%	1.5%	1.3%
--Food subsidy	2728	1974	2123	2053	1.0%	0.7%	0.7%	0.6%
--Fertilizer subsidy	2513	1751	1889	1640	0.9%	0.6%	0.6%	0.5%
Capital Expenditure	**7400**	**10010**	**9502**	**11111**	**2.7%**	**3.3%**	**3.2%**	**3.4%**
Total Expenditure (8+10)	**41932**	**45031**	**44905**	**47658**	**15.4%**	**14.9%**	**15.1%**	**14.5%**
Fiscal Deficit (12-7)	**17377**	**17868**	**17348**	**16855**	**6.4%**	**5.9%**	**5.8%**	**5.1%**
Nominal GDP	272407	301751	296577	327718				
Nominal GDP - growth	16.1%	10.8%	8.9%	10.5%				

- FY25 Nominal GDP growth estimate lower than expected at 10.5%
- RBI dividend estimate at INR800bn similar to last year
- Normalization in subsidy expenditure in FY25
- Downside risk to FY24 disinvestment target

Source: CEIC, RBI, IDFC FIRST Bank Economics Research.

Annex: FY25 CAD at 1.3% of GDP

USD bn	FY23	FY24E	FY25E
A. CURRENT ACCOUNT (I+II)	**-67.1**	**-35.1**	**-52.0**
AS % of GDP	-2.0	-1.0	-1.3
I. MERCHANDISE	**-265.3**	**-246.6**	**-252.6**
Total exports	456.1	438.4	416.6
Total imports	721.4	685.0	669.3
II. INVISIBLES (a+b+c)	**198.2**	**211.5**	**200.6**
a) Services	143.3	162.7	158.8
b) Transfers	100.9	98.6	93.6
c) Income	-45.9	-49.8	-51.8
B Total Capital Account	**58.9**	**90.7**	**104.6**
a) Foreign Direct Investment	28.0	21.5	30.0
b) Portfolio Investment	-5.2	36.5	44.6
2.Loans	8.3	7.6	20.0
3. Banking Capital	21.0	24.3	10.0
D. Overall Balance	**-9.1**	**55.8**	**52.6**

FY25 CAD to remain moderate

- FY25 crude oil prices average US$85pb
- Rise in trade deficit reflects further external demand weakness

	10% increase in crude oil prices
CPI inflation	0.3%
CAD as % of GDP	0.2%

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Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

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THANK YOU