

INDIA REWIND

India Rewind is a monthly update from DSP's Investment desk. It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2-minute reading time.

India 2024: Resilience, Reforms, and Relative Strength.

As we step into the year 2024, the economic landscape of India stands resilient, projecting consistent growth rates. This unfolding chapter is marked by a dual narrative: an initial phase dominated by pre-election dynamics, where government spending takes centre stage as the engine of growth, followed by the subsequent post-election period, poised for a resurgence in long-awaited private investments.

The central government increased capex by ~33% CAGR over the last three years to ~3.3% of GDP in FY24 (18-year high) from around 1.5% of GDP on average between FY18 to FY20. Despite the continued government focus on capital spending, the rate of growth in capital expenditure is expected to decrease next fiscal year due to fiscal consolidation.

In the past two years, Indian policymakers skilfully navigated challenges posed by simultaneous commodity supply shocks (in food and oil) and a high Fed funds rate. They achieved this through a mix of monetary tightening, leveraging fiscal policy to absorb certain shocks, and prudent utilization of FX reserves to uphold currency stability. Despite fiscal consolidation efforts in FY2023-24, characterized by subsidy cuts to reallocate funds to capital expenditure, India experienced robust growth in services. Services exports and remittances played a crucial role in cushioning the current account deficit.

Despite challenges in the global economy and tightening financial conditions in the West, India's services exports, totalling USD 104.9bn in FY24TD, have contributed to a modest decrease in the overall trade deficit to USD 61.4bn in Apr-Nov FY24. Overall exports reached around USD 500bn, slightly lower than the previous year's USD 506.5bn during Apr-Nov FY23

India's macro-economic resilience secured its entry into the JPM Global Bond Index from June 2024, potentially attracting passive inflows of ~USD 25-30bn. Regional supply chain diversification is set to contribute to sustained direct investment inflows, despite a globally subdued capital influx amid high interest rates. With ~\$600bn in FX reserves, the RBI is well-equipped to intervene swiftly in the FX market, ensuring stability in the USD/INR exchange rate.

India outperformed most global markets this year, barring US and Taiwan, with MSCI India up ~20% in USD. MSCI India ~22.2, 2YF is now trading at ~1.5SD above MSCI EM and DM, slightly above its long-term averages. India's performance was driven primarily by earnings accruals. India's listed equity market cap crossed US\$4tn, up from USD3tn in less than 3 years, the fastest addition of a trillion-US dollar market cap for India. Mid/Small caps rallied ~43%/~47% outperforming the large caps significantly. Within the region, India saw relatively strong foreign inflows of ~USD22bn this year, second to Taiwan. The domestic flows have also remained robust at ~USD23bn. Monthly flows in domestic mutual funds via systematic monthly plans have risen constantly and have remained strong ~ USD1.8bn per month on an average. The structural theme of Make-in-India driven by PLI schemes expected to remain major growth driver for India as the country establishes its mark in the global supply chain. The growth outlook for India is balanced with key near term event to watch out for would be political elections in India by May, rise in crude oil prices (above \$100/barrel) and India's relative valuations.

Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FII - Foreign Institutional Investor, DII - Domestic Institutional Investor, FY - Financial Year, CY - Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, 2YF- Two Year Forward.



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India at a Glance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
Economic Activity and Employment								
GDP, USD bn	2295	2651	2701	2871	2668	3176	3390	3713
GDP per capita, USD	1767	2018	2036	2141	1969	2321	2451	2658
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	7.2	6.2
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.4
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	6.50	6.0
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	7.3	7.0
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	82.3	83.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-9.5	-9.4	-9.0
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-189	-266	-250
Exports, USD bn	280	309	337	320	296	429	456	403
Imports, USD bn	393	469	518	478	398	619	720	668
Current account balance, USD bn	-14	-49	-57	-25	24	-39	-69	-55
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	38.6	35	38
Total FX reserves, USD bn	370	425	413	478	577	607	578	608
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	19.1	18	15
Credit ratings								
Moody's	Baa3	Baa2	Baa2	Baa2	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March, E - Estimates

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