Asia Economic Weekly

India Year Ahead 2024: Slower growth, inflation, and cuts

Stable growth, steady disinflation and slow rate easing

In 2024 (FY25), we see India's growth slowing to 5.8% yoy and CPI inflation softening to 4.6% yoy. While inflation moderates, but stays above the 4% target, we expect RBI MPC to cut rates by 50bp only in 2HFY25. A key event next year will be the general elections in May'24. The recently concluded state poll results suggest political continuity at the Centre.

Key forecasts

Real GDP growth: We expect real GDP growth to soften to 5.8% yoy in FY25 from an estimated 6.5% yoy in FY24. Sequential growth to remain strong. Agriculture & Industry to drive growth, service sector growth to fizzle.

CPI inflation: We expect CPI inflation to moderate to 4.6% yoy in FY25 from an estimated 5.4% yoy in FY24 on lower food inflation.

Fiscal Deficit: Despite poll pressures, we expect fiscal consolidation to continue in FY25. We forecast Centre's fiscal deficit to narrow to 5.3% of GDP in FY25 from an estimated 5.9% of GDP in FY24.

Current Account Deficit (CAD): We expect the CAD to widen modestly to US$65bn (1.6% of GDP) in FY25 from an expected US$40bn (1.2% of GDP) in FY24. Bond index inclusion led FII debt flows to support capital account.

RBI monetary policy: We expect the RBI MPC to ease rates by 50bp in 2HFY25.

\- A. Gudwani

15 December 2023

GEM Fixed Income Strategy & Economics
Asia

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MPC: Monetary Policy Committee

GVA: Gross Value Add

MSP: Minimum Support Price

India in Focus

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BofAS India

Real GDP growth to slow to 5.8% yoy in FY25

We forecast India's real GDP growth to moderate further to 5.8% yoy in FY25 (Apr'24 to Mar'25, Exhibit 2) from an estimated 6.5% yoy in FY24. This is below trend in year-on-year terms due to base effect normalization. Sequentially, we expect the recovery to stay strong. That said, slower global growth in 2024 vs 2023 (Exhibit 1) is expected to weigh on India's growth trajectory too. As for drivers, we expect agriculture and manufacturing growth to drive overall GDP growth in FY25 even as services growth slows at the margin. Agriculture growth is estimated to go back to trend in FY25, given favorable base and expectation of a normal monsoon. Easy monetary policy and conducive investment environment created by the government's capex push should crowd in private investment and that is expected to drive growth in manufacturing GVA. We expect services sector growth to slow as latent demand diminishes and construction activity moderates in an election year.

Real GDP surprised on the upside, growing by 7.6% yoy in Sep'23. This reversed the big miss vs estimate that we saw in Jun'23 quarter. Despite slower agriculture growth, sharp increase in manufacturing GVA and robust services sector growth (led by construction) drove the higher-than-expected GVA outcome in 2QFY24. We forecast FY24 real GDP growth to average at 6.5% yoy (vs 7% yoy, RBIe). For 1HFY24, private consumption, public expenditure and capital formation have grown by 4.5%, 5.1% and 9.5% yoy respectively. In FY25, we expect private consumption growth to soften at the margin, capital formation to stay strong but moderate in yoy terms and growth in public expenditure to improve vs FY24.

Exhibit 1: Global growth: Heterogenous and weak
Soft landing is the theme, but situation remains fragile

Real GDP growth yoy	2022E	2023E	2024E
Global	3.6	3.0	2.8
US	1.9	2.4	1.4
Euro Area	3.4	0.5	0.5
China	3.0	5.3	4.8
Japan	1.5	1.2	0.8
India*	7.2	6.5	5.8

Source: BofA Global Research estimates, India are FY numbers

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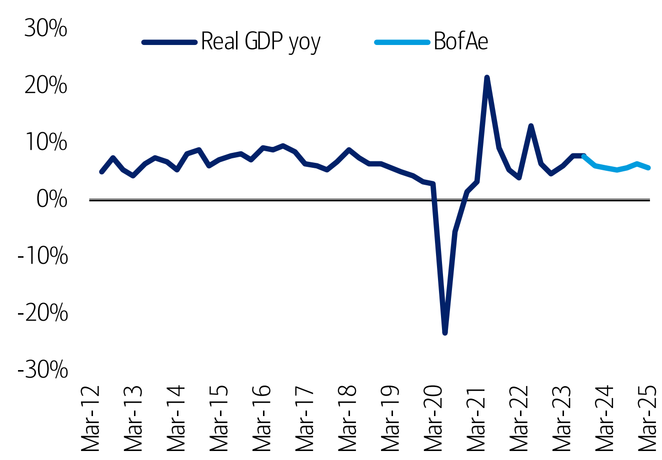
Exhibit 2: Real GDP growth to soften as base effects fade
Expect real GDP growth to soften to 5.8% yoy in FY25 from 6.5% yoy in FY24



Source: MOSPI

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In Exhibits 4-6, we take stock of components of GVA growth. Advance estimates of kharif production suggest lower output this year vs last, rabi sowing so far is not encouraging either. We accordingly see agriculture growth slowing sizably in FY24 but expect it to go back to trend in FY25 (Exhibits 3, 4).

An interesting divergence between Industry GVA growth and IIP growth was the key driver of higher-than-expected GVA growth outcome in Sep'23 quarter. Exhibit 5 shows that this divergence is rare, and we expect it to mean revert soon. Accordingly, we have a lower than consensus FY24 real GDP/GVA growth estimate. As for FY25, we forecast Industry GVA to grow by 6% yoy (slower vs FY24, but still strong).

Exhibit 3: We see real GDP growth slow to 5.8% yoy in FY25 from an estimated 6.5% in FY24 as services growth fizzles out
While agriculture & manufacturing growth are expected to stay robust in FY25, services sector growth is expected to moderate

	Wts.	FY22	Sep'22	Dec'22	Mar'23	FY23	Jun'23	Sep'23	FY24 BofAe	FY25 BofAe
Real GVA		8.8%	5.4%	4.7%	6.5%	7.%	7.8%	7.4%	6.5%	5.9%
Agriculture, forestry & fishing	16%	3.5%	2.5%	4.7%	5.5%	4.%	3.5%	1.2%	2.5%	3.0%
Industry	23%	1.5%	-2.5%	.1%	4.7%	2.4%	4.6%	13.2%	7.0%	6.0%
Mining & Quarrying	*3%*	*7.1%*	*-.1%*	*4.1%*	*4.3%*	*4.6%*	*5.8%*	*1.%*	*6.5%*	*7.0%*
Manufacturing	*18%*	*11.1%*	*-3.8%*	*-1.4%*	*4.5%*	*1.3%*	*4.7%*	*13.9%*	*7.0%*	*6.5%*
Electricity, Gas, Water Supply	*2%*	*9.9%*	*6.%*	*8.2%*	*6.9%*	*9.%*	*2.9%*	*1.1%*	*8.0%*	*7.5%*
Services	61%	9.6%	8.9%	6.4%	7.4%	9.5%	1.%	6.7%	7.5%	6.5%
Construction	*8%*	*14.8%*	*5.7%*	*8.3%*	*1.4%*	*1.%*	*7.9%*	*13.3%*	*5.0%*	*7.0%*
Trade, Hotels, Transport, Communication serv	*19%*	*13.8%*	*15.6%*	*9.6%*	*9.1%*	*14.%*	*9.2%*	*4.3%*	*6.5%*	*6.0%*
Financial, Real Estate and Professional Serv	*22%*	*4.7%*	*7.1%*	*5.7%*	*7.1%*	*7.1%*	*12.2%*	*6.%*	*8.5%*	*5.5%*
Public Administration, Defence & Other Services	*13%*	*9.7%*	*5.6%*	*2.%*	*3.1%*	*7.2%*	*7.9%*	*7.6%*	*8.%*	*8.0%*

Source: MOSPI, BofA Global Research estimates

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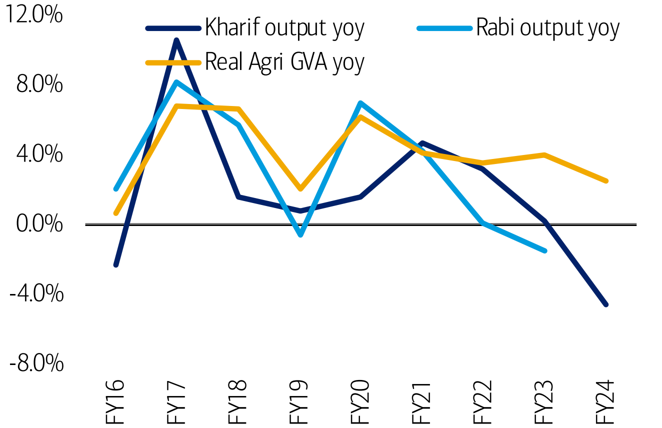
Exhibit 4: Impact of rabi & kharif harvest on Agriculture GVA growth
Decline in kharif output and underwhelming rabi sowing to exert pressure on agri growth in FY24, expected to improve closer to trend in FY25



Source: Ministry of Agriculture, MOSPI

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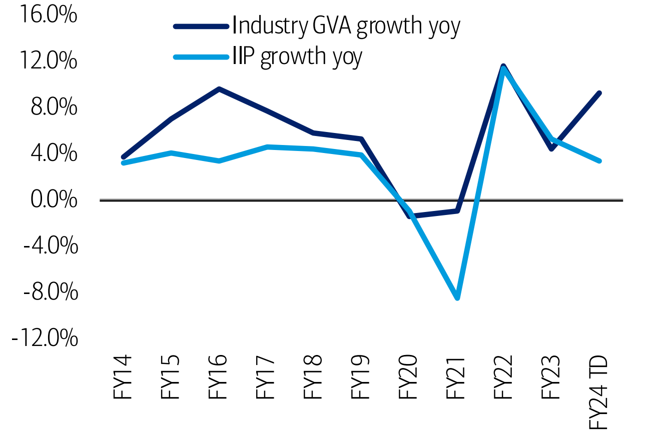
Exhibit 5: Strong correlation b/w IIP growth & Industry GVA growth
Typically, IIP growth & Industry GVA growth move in tandem, FY24 TD this changed adding gains to headline GVA growth, which we opine is a one-off



Source: MOSPI

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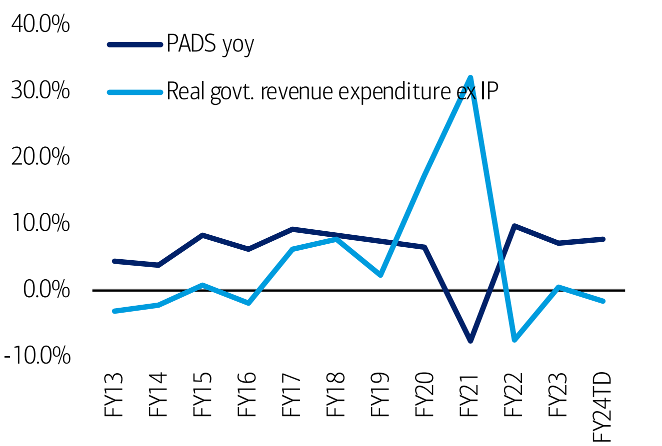
Exhibit 6: The weakening correlation b/w PADS & govt. expenditure
Pre-pandemic, govt revenue expenditure net of interest payments used to be a good proxy for public administration & defense services component of GVA. But this correlation seems to have weakened now



Source: MOSPI, CGA

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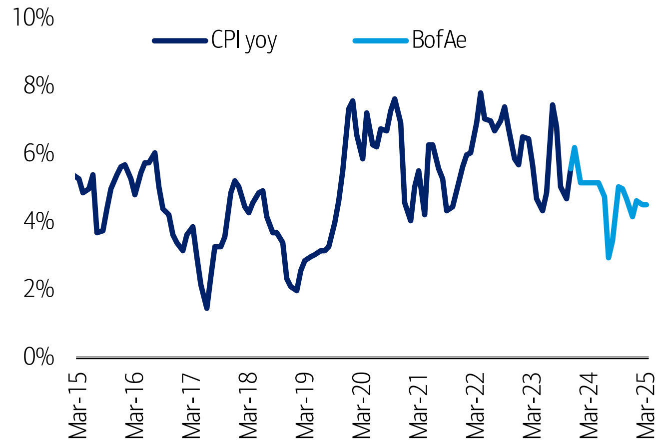
Exhibit 7: CPI inflation yoy: Path ahead (%, monthly)
We expect headline inflation to moderate to 4.6% yoy in FY25 from an estimated 5.4% yoy in FY24, still higher than RBI's 4% target



Source: MOSPI

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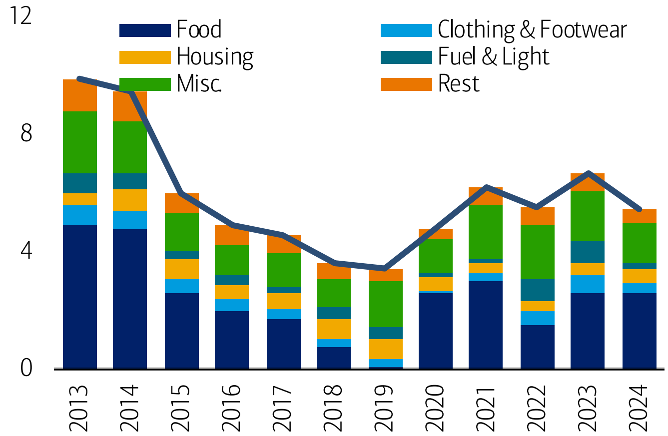
CPI inflation to soften to 4.6% yoy in FY25

We expect CPI inflation to soften further to 4.6% yoy (Exhibit 7), largely driven by food disinflation and marginal moderation in core. Oil price spike amidst geo-political tensions is a well-known risk, however the retail price of petrol and diesel in India are insulated by excise duty. The government still has sizable excise duty on the pump price of petrol and diesel (20% and 17.6% respectively), and these can be reduced, should pressures from higher global crude price arise. Apart from oil, in the case of food, India is mostly a price maker in the global markets and has shown resolve to keep domestic prices in check and rather export food inflation through protectionist measures such as export ban on rice, sugar etc.

For Apr-Nov FY24 headline CPI inflation has averaged at 5.4% yoy and core (headline minus food & fuel) averaged at 4.8% yoy. This is lower than the 6.7% yoy and 6.1% yoy respectively seen in FY23. Despite two almost consecutive food price shocks emanating from perishables, we think the outlook for FY24 CPI inflation is relatively benign at 5.4% yoy (same as RBIe). The highlight of inflation outcome in FY24 was the unexpected and steady softening of core CPI which arguably gave the RBI MPC the comfort to look through food price spikes. Exhibit 8 shows the share of non-food items in driving inflation slowed in FY24 TD vs FY23.

In Exhibit 9 we take stock of CPI goods vs services inflation. Up until the pandemic, services were a bigger driver of overall CPI inflation, but that reversed post COVID. Between FY20-FY24 TD, while services CPI inflation has averaged at 4.9% yoy, goods CPI inflation remained high at 6.4% yoy. Some welcome convergence between the two is visible in FY24, with softening of goods CPI. Some market observers opine that services CPI inflation could surprise on the higher side as services sector real GVA growth stays strong. As Exhibit 11 shows, there is hardly any correlation between the two. We look at headline minus food & fuel CPI inflation and core GVA (headline minus agriculture and public, administration & defense services) growth, even as core GVA growth swung between 6.3% yoy in FY19 to 10.8% yoy in FY24 (TD), core CPI inflation has remained range-bound between 4.5-5.5%. The reason behind this weak correlation is the composition of these two variables. While core CPI is dominated by services such as healthcare, education, housing, personal care etc., core GVA has construction, trade, hotels, transport, communication, industry as heavyweights. We expect services sector growth to moderate in FY25 vs FY24, but despite that, we do not expect core CPI inflation to soften further in a durable manner.

Exhibit 8: % point contribution to headline CPI
Food disinflation in FY25 is expected to drive overall softening, core CPI to remain closer to 4%



Source: MOSPI

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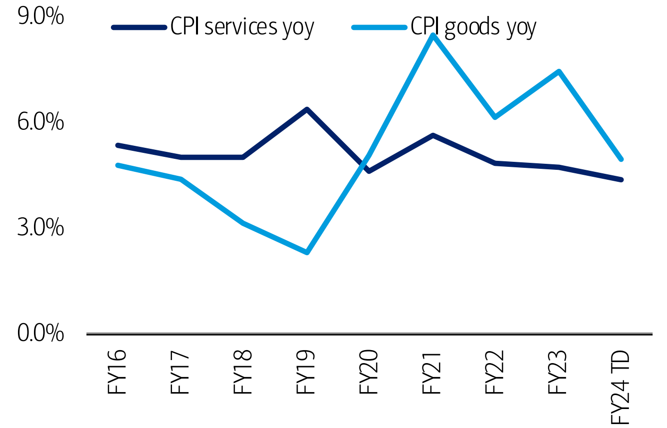
Exhibit 9: CPI inflation yoy: Goods vs Services (in %, annual)
CPI goods inflation has been higher than that for services since the pandemic, but slowly converging at palatable levels



Source: MOSPI

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Moving on to food inflation, barring shocks to perishables, which are fleeting and tend to correct over a relatively short time span, more structural drivers of food inflation are subject to pulls and pressures on both sides. Exhibit 10 shows that Rabi MSP increase is unlikely to be inflationary in nature as current mandi prices are trading higher than revised MSP, making that practically redundant for major crops. Rabi sowing on the other hand is underwhelming. As of Dec 7, 80% of normal area under rabi crop is sown already and that is down 2.7% yoy. While wheat acreage is down 0.9% yoy, pulses acreage down 8.4% yoy poses upside risks to already high pulses inflation. Despite potentially lower rice output and still low wheat sowing, cereal inflation may not rise much, taking comfort from buffer stocks of rice and wheat which may be offloaded in the market to contain domestic prices, should a supply shock arise.

Exhibit 10: Minimum support price for rabi crops, 2023-24
MSP increases for rabi marketing season were quite modest, hardly any impact on CPI as mandi prices already trading higher than MSP in many cases

in Rs/qntl	2022-23	2023-24	Current mandi/wholesale price	MSP yoy	Mandi price vs MSP
Wheat	2125	2275	2505	7.1%	230
Barley	1735	1850	2136	6.6%	286
Gram	5335	5440	6258	2.0%	818
Masur	6000	6425	7100	7.1%	675
Rapeseed/Mustard	5450	5650	5400	3.7%	-250
Safflower	5650	5800	4145	2.7%	-1655
Jute	4750	5050	5050	6.3%	0
Sugarcane	305	315	310	3.3%	-5

Source: CACP

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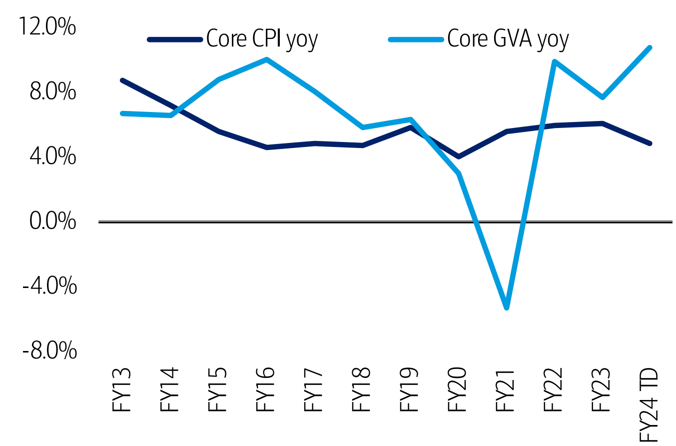
Exhibit 11: Does lower growth aid core CPI disinflation?
Core CPI inflation has softened despite improved growth in core GVA. Difference in composition of the two partly explains this divergent behavior



Source: MOSPI, CGVA minus agriculture & PADS

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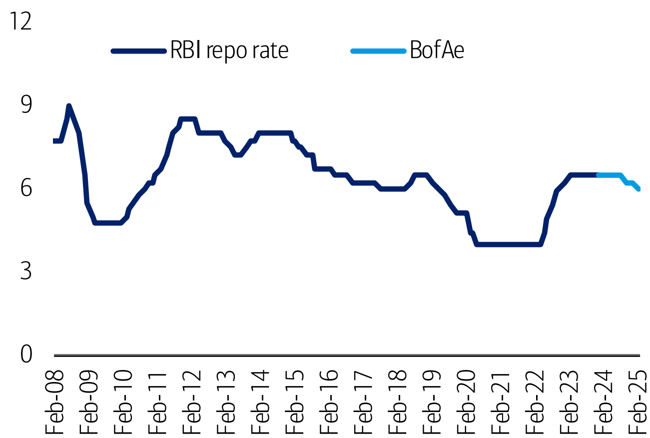
RBI MPC to cut rates in FY25, albeit slowly

While we were expecting the RBI MPC to deliver one last hike on Dec 8 to seal the deal on 4% inflation target and turn neutral alongside, the outcome differed. RBI MPC unanimously chose to stay on hold, keeping repo rate unchanged at 6.5%. Stance was retained as withdrawal of accommodation in a 5 to 6 vote. After two reasonably hawkish monetary policies in Aug and Oct, the Dec MPC meeting was seen to be moving away from hawkishness. That said, we do not see RBI MPC cutting rates anytime soon.

RBI MPC sees CPI inflation averaging at 4.6% yoy between Apr-Dec 2024 (higher than the 4% target) and despite that persisted with a pause, possibly indicating that further tightening is not needed to bring down CPI inflation closer to target. The stance as withdrawal of accommodation signifies that inflation at 5.4% (Apr-Oct 2023) is still higher than the 4% target, so monetary policy is still accommodative and would turn neutral once the target is secured. In the post policy conference call, the RBI cautioned about the risk of over-tightening but was quick to clarify that they will follow a balanced approach and not get carried away by last few months of data (where CPI fell from 7.4% to 4.9%) and thus loosening of monetary policy is not round the corner as there is still room to achieve the 4% CPI target.

We had highlighted that financial conditions in India (see India Watch) despite 250bp of tightening are still below mean and four consecutive pauses have led to further softening of the financial conditions index (FCI). RBI is concerned about incomplete policy rate transmission and tightening financial conditions could potentially accelerate that process. As CPI inflation softens further in FY25, we expect the RBI MPC to take some comfort and start cutting rates in 2HFY25 (Sep'24 to Mar'25). We do not see the RBI MPC tracking the Fed one-to-one in this easing cycle and expect 50bp policy repo rate cut in FY25 (Exhibit 12). In Exhibit 13, we plot change in RBI repo rate vs Fed funds rate, annually – it shows the RBI has seldom traced the Fed in magnitude of rate cuts and is mostly guided by domestic growth-inflation conditions while deciding monetary policy.

Exhibit 12: RBI policy repo rate: Path ahead
In Dec, RBI MPC has delivered a dovish hold; we no longer see any hike in this cycle. We expect cuts beginning 2HFY25



Source - RBI

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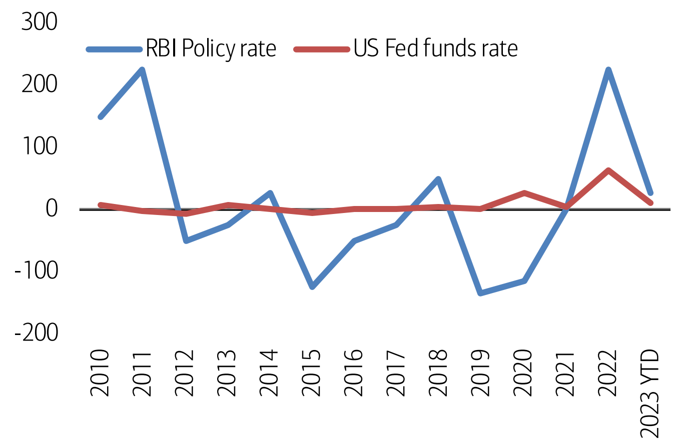
Exhibit 13: Change in RBI repo rate & US Fed funds rate (in bp, annual)
RBI has seldom traced the Fed moves in magnitude; we expect that to continue in 2024



Source: RBI, Bloomberg

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Fiscal consolidation to continue, despite poll pressures

Concerns surrounding fiscal slippage in an election year are understandable. However, we expect the Centre to meet their fiscal deficit target of 5.9% of GDP in FY24, despite slippage concerns brewing. For FY25, we see Centre's fiscal deficit to consolidate further to 5.3% of GDP in FY25, despite poll pressure. We have previously argued that the current government's intent is to consolidate fiscal deficit through capital expenditure driven growth instead of expenditure compression (see India Viewpoint). Digitization-led formalization of the economy is a blessing in disguise, aiding tax buoyancy on one side and reducing wasteful expenditure on the other (such as subsidy leakages).

Exhibit 14: Despite poll pressure, we see the central govt. meeting FY24's target of 5.9% of GDP & consolidate further to 5.3% of GDP in FY25
Higher than budgeted revenue receipts to pave way for additional expenditure that may be required in the run up to general elections

in INR bn	FY23 Actuals	FY24 BE	FY24 (Apr-Oct)	FY24 (Apr-Oct) as % of full year BE
1.Revenue receipts	2383519	2632281	1567722	60%
Tax revenue	2097368	2330631	1301957	56%
Non-tax revenue	286151	301650	265765	88%
2. Non-Debt Capital receipts	72187	84000	22990	27%
2.1 Recovery of loans	26152	23000	14990	65%
2.2 Other receipts	46035	61000	8000	13%
3. Total receipts (1+2)	2455706	2716281	1590712	59%
4. Revenue expenditure	3452518	3502724	1847488	53%
of which, interest payments	928424	1079971	545086	51%
of which, subsidy	530959	374707	231694	62%
& residual				
5. Capital expenditure	736319	1000373	546924	55%
of which, loans & advances	115268	163834	77842	48%
6. Total expenditure (4+5)	4188837	4503097	2394412	53%
Fiscal deficit	1733131	1786816	803700	45%
as % of GDP	6.4	5.9		

Source: CGA, FinMin

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Between Apr-Oct 2023, we used up 45% of full year's fiscal deficit target. This compares better than 45.6% seen during same period last year and much lower than 62.9% which is typical of this period. Revenue receipts have shown sharp outperformance vs median run rate, paving way for higher than usual capital outlay, without disturbing the fiscal math. Accordingly, even as total expenditure run rate between Apr-Oct FY24 is a shade higher than median, overall fiscal deficit looks comfortably placed, in our view.

Current account deficit to modestly widen to 1.6% of GDP

We expect the current account deficit to widen modestly to 1.6% of GDP in FY25 from an estimated 1.2% of GDP in FY24 (Exhibit 15). Merchandise trade deficit is expected to stay elevated on account of oil imports. As the western world sees a soft landing, services net exports may find it difficult to rise further and that may limit its offsetting role in overall current account dynamics.

Below are our key assumptions:

Net oil imports: Net oil import bill is set to rise further in FY25 basis both volume growth (4% yoy) and price increase (7%). Our commodity strategist sees Brent crude averaging at US$90/bbl in 2024, up 8% from CY23. Volume growth in FY24 so far is at a healthy 4.5% yoy. We expect it to soften a shade in FY25 amidst overall slower growth.

Gold imports: Gold prices are expected to rise by 3% yoy to US$1975/oz in 2024. Even though volume wise gold imports are set to fall in 2023, we expect it to go back to 2022 levels of 775 MT and accordingly see a modest increase in gold import bill in FY25.

Non-oil, non-gold imports: Slow domestic growth is expected to keep a lid on NONG import growth too. We forecast NONG imports to rise by 2% yoy in FY25.

Non-oil exports: Despite slower global growth estimates (which we see impacting services net exports more), we expect non-oil exports to grow by 4% yoy in FY25.

Services net exports: Slower growth especially in the developed world is expected to take a toll on services net exports, we thus expect a US$10bn fall in services net exports in FY25 vs FY24.

On capital account, the key thing to watch is FII debt inflows. Post India's inclusion in the JP Morgan Emerging Market Bond Index (to start from Jun'24), we expect US$20-25bn of FII debt inflows in FY25 on account of this. Overall, we forecast a capital account surplus of US$105bn, yielding a BoP surplus of US$40bn in FY25. This should pave the way for reluctant appreciation of INR. Our FX strategists see INR at 82/USD by Dec'24.

Exhibit 15: Expect CAD to modestly widen to US$65bn in FY25 (1.6% of GDP) from an estimated US$4bn (1.2% of GDP) in FY23

Despite higher oil & gold imports, see well managed current account deficit in FY25, focus on FPI debt inflows as bond index inclusion materializes

	FY2	FY21	FY22	FY23	FY24BofAe	FY25 BofAe
Current Account Balance (CAB)	**-24656**	**23912**	**-38766**	**-66,984**	**-45000**	**-65000**
% of GDP	**-0.9**	**0.9**	**-1.2**	**-2**	**-1.2**	**-1.6**
Trade balance	-157506	-102152	-189459	-265,291	-250000	-260000
Exports	313296	291619	422004	450963	400000	445000
Imports	474702	392013	613052	714041	650000	705000
Net oil imports	101123	101262	94339	112004	105000	110000
Gold & silver Imports	30956	35394	49442	40307	55000	59000
Invisibles balance	132850	126065	150694	198,236	205000	195000
Services	84922	88565	107516	143,283	155000	145000
Transfers	75208	73460	80447	100,877	95000	100000
Income balance	-27281	-35960	-37269	-45,923	-45000	-50000
Capital Account	**83180**	**63721**	**85807**	**58,943**	**80000**	**105000**
Foreign Investment	44417	80092	21809	22,834	45000	60000
Net FDI	43013	43955	38587	27,986	15000	20000
Net FPI	1403	36137	-16777	-5,152	30000	40000
Loans	25686	6903	33605	8,269	10000	35000
External assistance	3751	11167	5366	5,521	5000	10000
ECBs	22960	-134	8135	-3,790	9000	10000
Short term credit	-1026	-4130	20105	6,539	1000	15000
Banking capital	-5315	-21067	6669	20,980	20000	10000
Rupee debt service	-69	-64	-71	-68	-75	
Other capital*	18462	-2143	23794	6,928	-4925	
Errors & omission	974	-347	459	-1,024		
Overall balance	**59498**	**87286**	**47501**	**-9,135**	**30000**	**40000**

Source: RBI, CEIC, Bloomberg, BofA Global Research estimates

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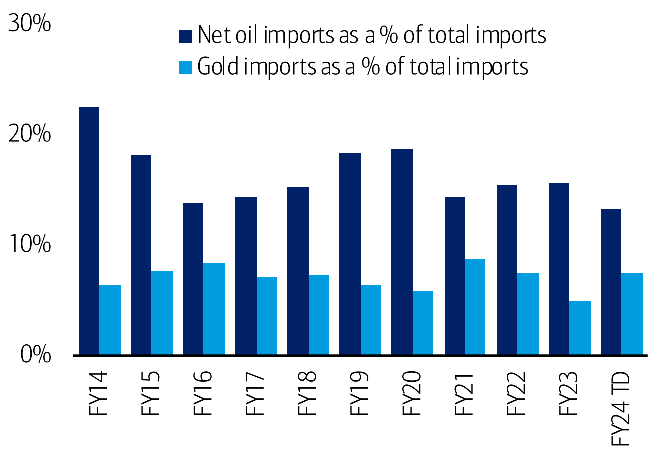
Exhibit 16: Sticky imports: Share of oil & gold in total import bill

Share of net oil imports in total imports has fallen steadily from 23% in FY14 to 13% in FY24 TD. Gold imports on the other hand have been sticky at 8%



Source: Ministry of Commerce, CEIC

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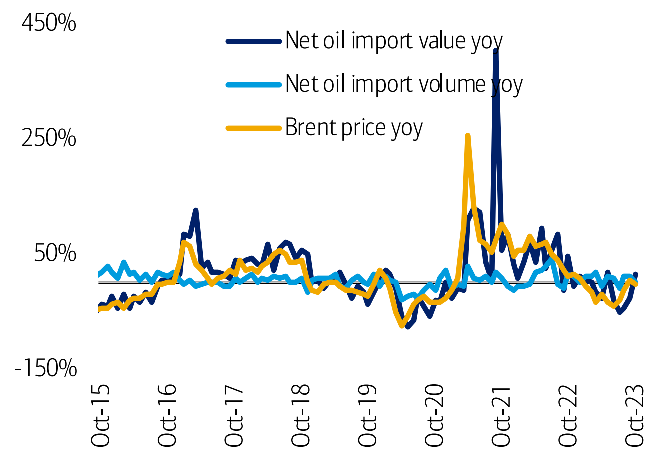
Exhibit 17: Net oil imports: Volume vs Price effect

Net oil imports in FY24 TD have fallen by 20% yoy, owing to a 19% decline in Brent price, even as volume growth stood at 4.2% yoy during Apr-Oct 2023



Source: PPAC, CEIC, Bloomberg

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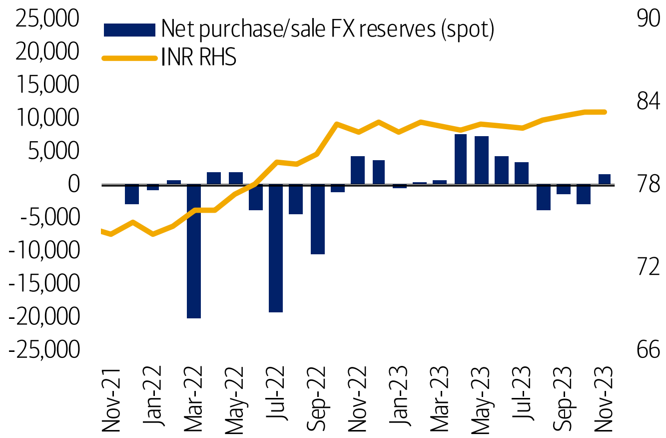
Oil and gold together account for 21% of the total import bill. While the share of oil in total imports has fallen steadily from 23% in FY14 to 13% in FY24 TD, gold imports have been relatively sticky at 7% of total imports (Exhibit 16). Together these two components are expected to keep the import bill elevated in FY25 too. A welcome development is the rise of oil exports (exports of refined products) which now make up 42% of total oil imports vs long term average of 33%. In Exhibit 17, we try to isolate the price vs volume effect in net oil imports. In FY24 TD, net oil imports have declined by 20.2% yoy despite a 4.2% yoy increase in volume growth during the same period. An

18.9% yoy decline in oil prices has been the driver of falling net oil imports, which has been the prime reason for keeping the current account deficit in check.

Exhibit 18: RBI's FX purchase/sale & INR

RBI has bought US$100bn of FX in FY24 TD but run down their forward book from US$20bn in Apr'23 to US$4.5bn by Sep'23



Source: RBI, Bloomberg

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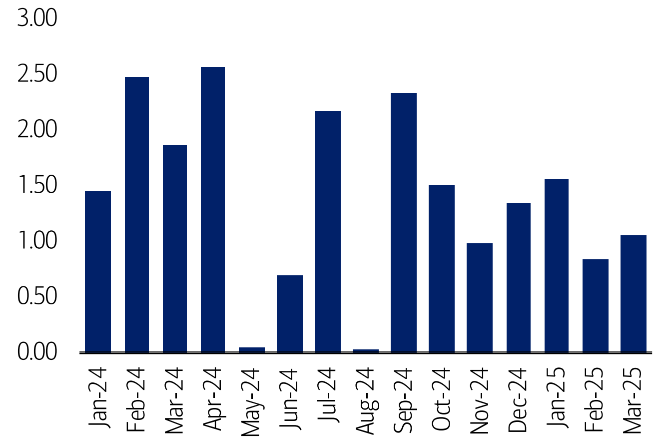
Exhibit 19: Maturity profile of external commercial borrowing (in US$ bn)

We see US$21bn worth of ECB maturities between Jan'24 to Mar'25. Mostly bunched up in 1QCY24



Source: Bloomberg

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A key reason why INR has been one of the least volatile currencies globally in 2023 was the active intervention by the RBI in the FX market. Between Apr-Nov 2023, the RBI is estimated to have bought US$16.2bn of FX reserves on one hand and rolled down their forward book from US$20bn in Apr'23 to US$4.5bn in Sep'23 on the other. This has allowed INR to stay in a close range of between 81.76 to 83.40 during Apr-Nov FY24.

In Exhibit 19, we look at external commercial borrowings maturing between Jan 2024 to Mar 2025. The total number at US$21bn looks manageable to us. Jan-Mar 24024 will see some bunching up of maturities.

Bracing up for national elections: Looking for continuity

The results for five states which held elections in Nov'23 indicated an overwhelming victory for Mr. Modi's Bharatiya Janata Party (BJP). PM Modi's Bharatiya Janata Party won three out of five states, namely Rajasthan, Madhya Pradesh and contrary to exit polls, even Chhattisgarh. Congress won in Telangana, taking the state away from a regional party. The margin of victory for BJP in these three states was quite encouraging, especially the performance in Chhattisgarh. Congress on the other hand saw a further fall in political footprint. In Mizoram, regional party Zoram People's Movement (ZPM) won, unseating the Mizo National Front. The better than expected outcome for BJP in these state polls reinforces policy continuity at the Centre in 2024, in our view.

While the government has announced a few populist measures – eg. LPG cylinder price cut (costing ~INR185 bn), extension of free food grain program for five years (costing ~INR250bn) and potentially some more could follow in the run up to May – we don't see it impacting fiscal consolidation. Better than expected tax revenues should offer additional resources, allowing the fiscal deficit to stay on course to achieve the targeted 5.9% of GDP in FY24.

In Exhibit 20, we look at how, historically, macro variables have behaved in the run-up to general elections, in the year of election and one year post election. Contrary to popular belief, inflation does not generally fall in a pre-election year, fiscal deficit does not always rise (vs election year), the RBI has raised rates in the run-up to general elections and INR has moved both ways.

Exhibit 20: Macro variables in pre-election, election, and post-election year

No solid conclusions, contrary to popular belief

	CPI yoy	GDP yoy	CAD as a % of GDP	Centre's FD as a % of GDP	INR	RBI policy rate
1998	13.17	4.0%	-1.4%	5.8%	37.30	
1999	4.84	6.2%	-0.9%	6.4%	42.19	
2000	4.02	8.8%	-1.0%	5.3%	43.39	
2003	3.81	3.8%	1.2%	5.8%	48.34	7.00
2004	3.77	7.9%	2.3%	4.4%	45.79	6.00
2005	4.25	7.9%	-0.4%	3.9%	44.95	6.00
2008	8.32	7.7%	-1.3%	2.6%	40.12	7.80
2009	10.83	3.1%	-2.3%	6.1%	46.55	4.90
2010	12.11	7.9%	-2.8%	6.6%	47.26	5.00
2013	10.01	5.5%	-4.8%	4.9%	54.45	7.52
2014	6.73	6.4%	-1.7%	4.5%	60.70	8.00
2015	4.91	7.4%	-1.3%	4.1%	61.26	7.50
2018	3.96	6.8%	-1.8%	3.5%	64.48	6.00
2019	3.72	6.5%	-2.1%	3.4%	69.90	6.30
2020	6.63	3.9%	-0.9%	4.6%	71.04	4.40
2023 TD	5.45	7.7%	-1.1%	5.9%	82.67	6.50

Source: RBI, Bloomberg

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Key risks: National elections, higher for longer global rates

The most important event in 2024 is the national election scheduled to take place in May'24. Currently, Mr. Modi's BJP appears likely to be re-elected for a third consecutive term according to recent state poll results. However, the strength of majority and vote share are important parameters to ascertain how smoothly future reforms can be undertaken. The other key risk is the higher for longer rates globally that could weigh in on the potential easing cycle by the RBI, which is expected to be slow and shallow.

Data Preview

Exhibit 1: Week of 17 December to 6 January

Data calendar for next week with BofA estimates and Bloomberg consensus

	Local time	Country	Data/Event	BofAe	Cons.†	Previous	Comments
Monday, December 18, 2023							
**	8:30	Singapore	Non-oil Domestic Exports (Nov, yoy)		--	-3.4%	--
Tuesday, December 19, 2023							
**	10:45	New Zealand	Trade Balance NZD (Nov)		--	-1709m	--
**	12:00	Malaysia	Exports (Nov, yoy)		--	-4.4%	--
*	13:00	New Zealand	ANZ Activity Outlook (Dec)		--	26.3	--
*	13:00	New Zealand	ANZ Business Confidence (Dec)		--	30.8	--
***		Japan	BOJ Policy Balance Rate	-0.10%	--	-0.10%	--
***		Japan	BOJ 10-Yr Yield Target	0.00%	--	0.00%	--
Wednesday, December 20, 2023							
**	8:50	Japan	Exports (Nov, yoy)	0.5%	--	1.6%	We expect YoY growth in nominal merchandise exports to further slow to +0.5% YoY in November, following just +1.6% YoY increase in October. In addition to the rapid recovery of auto exports due to the eased supply-side constraints running its course, IT-related exports will likely remain weak, making overall exports being subdued.
*	10:00	New Zealand	ANZ Consumer Confidence Index (Dec)		--	91.9	--
**	16:00	Taiwan	Export Orders (Nov, yoy)		--	-4.6%	--
Thursday, December 21, 2023							
***	14:20	Indonesia	Bank Indonesia 7D Reverse Repo		--	6.00%	--
**	16:30	Hong Kong	CPI Composite (Nov, yoy)		--	2.7%	--
Friday, December 22, 2023							
***	8:30	Japan	Natl CPI Ex Fresh Food (Nov, yoy)	2.4%	--	2.9%	In the November nationwide CPI, we expect Japan-style core CPI (ex-fresh food) and BoJ-style core CPI (ex-fresh food and energy) to sharply decline to +2.4% YoY and +3.7% YoY, respectively, from +2.9% YoY and +4.0% YoY in October. As foreshadowed by the leading Tokyo CPI, negative base effects in goods, especially in non-perishable foods, will likely slow core inflation measures while services inflation will likely pick up further on the month.
**	12:00	Malaysia	CPI (Nov, yoy)		--	1.8%	--
Saturday, December 23 to Thursday, December 28, 2023							
**		Thailand	Customs Exports (Nov, yoy)		--	8.0%	--
Monday, December 25, 2023							
**	16:00	Taiwan	Industrial Production (Nov, yoy)		--	-2.3%	--
Tuesday, December 26, 2023							
**	8:30	Japan	Jobless Rate (Nov)	2.5%	--	2.5%	We expect jobless rate to remain unchanged at 2.5% SA in November. Japan's jobless rate is approaching the record low of 2.2%, but we expect the recovery of labor market to continue as a whole given services industry accelerates the hiring activity due to the labor shortages.
Tuesday, December 26 to Friday, December 29, 2023							
**		South Korea	Retail Sales (Nov, yoy)		--	6.4%	--
Tuesday, December 26, 2023							
***	13:00	Singapore	CPI Core (Nov, yoy)		--	3.3%	--
**	13:00	Singapore	Industrial Production (Nov, yoy)		--	7.4%	--
**	13:00	Singapore	CPI (Nov, yoy)		--	4.7%	--
Thursday, December 28, 2023							
**	8:00	South Korea	Industrial Production (Nov, yoy)		--	1.1%	--
***	8:50	Japan	Retail Sales (Nov, yoy)		--	4.2%	--
**	8:50	Japan	Industrial Production P SA (Nov, mom)	-1.8%	--	1.0%	We expect IP to sharply contract by 1.8% MoM SA in November, following the two consecutive months of MoM production recovery. As a result, the level of production will likely remain at around the bottom of this cycle. We expect production to gradually recover in 2024, but it will take at least few more months before we see a material recovery in IP data.
Friday, December 29, 2023							
**	8:00	South Korea	CPI (Dec, yoy)		--	3.3%	--
**	11:30	Australia	Private Sector Credit (Nov, yoy)		--	4.8%	--
Saturday, December 30, 2023							
**		India	BoP Current Account Balance (3Q)	-$9.0b	--	-$9.2b	Higher trade deficit to be offset by higher services net exports, keeping overall current account deficit unchanged.
Sunday, December 31, 2023							
***	9:30	China	Manufacturing PMI (Dec)	49.5	--	49.4	We expect the NBS manufacturing PMI to stay sluggish at 49.5 in Dec (vs. 49.4 in Nov), as overall industrial momentum was still weak, based on the trend of some high-frequency indictors we track.
Monday, January 1, 2024							
**	9:00	South Korea	Exports (Dec, yoy)		--	7.8%	--

Exhibit 1: Week of 17 December to 6 January

Data calendar for next week with BofA estimates and Bloomberg consensus

	Local time	Country	Data/Event	BofAe	Cons.†	Previous	Comments
Friday, January 5, 2024							
**	10:30	Thailand	CPI (Dec, yoy)		--	-0.4%	--
**	13:00	Singapore	Retail Sales (Nov, yoy)		--	-0.1%	--
**	13:00	Singapore	Retail Sales Ex Auto (Nov, yoy)		--	-1.0%	--
**	16:00	Taiwan	CPI (Dec, yoy)		--	2.9%	--
***	17:30	India	GDP Annual Estimate A (2024, yoy)		--	7.2%	--

Notes: †Bloomberg consensus; * = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; saar = seasonally adjusted annualized rate; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year, Central banks * denotes previous month

Source: BofA Global Research, Bloomberg

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Exhibit 2: Auction calendar for the week of 17 to 30 December

Government bond auction calendar

	Country	Event	Comments
Monday, 18 Dec			
	Korea	Korea to sell 5y KTB worth KRW 0.6 tn	
Tuesday, 19 Dec			
	Korea	Korea to sell 20y KTB worth KRW 0.2 tn	
Wednesday, 20 Dec			
	China	China to sell 1y and 10y CGBs	
	Thailand	Thailand to sell 4y govt bond worth THB 28 bn	
	Thailand	Thailand to sell 21y govt bond worth THB 13 bn	
Friday, 22 Dec			
	India	India to sell INR 300bn worth of 3y,14y and 40y govt bonds	
	China	China to sell 7y CGB	
Friday, 29 Dec			
	India	India to sell INR 330bn worth of 5y,10y and 30y govt bonds	

Source: BofA Global Research, Bloomberg, RBI, Korea MoEF, MoF China, Thai BMA

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Macro Forecasts

Exhibit 3: Key Macroeconomic Indicators
BofA estimates for important indicators

14 December, 2023	BofA Global Research Forecasts		
	2023	2024	2025
GDP Growth (yoy)	F'cst	F'cst	F'cst
Asia	**4.6**	**4.3**	**4.3**
China	5.3	4.8	4.6
Hong Kong	3.4	2.1	2.4
India	6.3	5.8	6.0
Indonesia	5.0	5.1	5.2
Korea	1.4	2.3	2.5
Malaysia	4.0	4.6	4.8
Philippines	5.4	5.4	5.5
Singapore	0.7	2.3	2.6
Taiwan	1.1	3.2	2.3
Thailand	2.8	3.7	2.7
Vietnam	5.0	6.2	6.8
Australia	1.8	1.4	2.0
Japan	1.7	0.8	1.0

Note: FY22/23, FY23/24, FY24/25 for India

		BofA Global Research Forecasts	
		Dec-24	Dec-25
Exchange rate (vs USD, eop)	Current	F'cst	F'cst
Asia	-	-	
China	7.13	6.90	6.70
Hong Kong	7.81	7.78	7.75
India	83.32	82.00	81.00
Indonesia	15520	15200	15000
Korea	1297	1230	1150
Malaysia	4.66	4.50	4.10
Philippines	55.75	55.00	53.00
Singapore	1.33	1.26	1.22
Taiwan	31.29	31.15	30.15
Thailand	35.15	34.00	32.00
Vietnam	24220	24800	24500
Australia	0.67	0.71	0.71
Japan	141.78	142.00	136.00

	2023	2024	2025
CPI inflation (yoy, avg)	F'cst	F'cst	F'cst
Asia	**3.6**	**2.7**	**2.4**
China	0.4	1.4	1.6
Hong Kong	1.8	1.0	1.7
India	5.4	4.6	4.5
Indonesia	3.6	3.0	3.0
Korea	3.6	2.3	2.0
Malaysia	2.6	2.3	2.5
Philippines	6.0	3.3	3.1
Singapore	4.8	2.6	2.3
Taiwan	2.5	2.0	1.5
Thailand	1.6	1.7	1.0
Vietnam	3.4	3.8	4.1
Australia	5.7	3.4	2.9
Japan	3.2	3.2	1.6

Note: FY22/23, FY23/24, FY24/25 for India

	2023	2024	2025
Fiscal balance (% of GDP)	F'cst	F'cst	F'cst
Asia	-	-	-
China	-3.8	-3.5	-3.3
Hong Kong	-3.5	-1.5	1.2
India	-5.9	-5.3	-4.5
Indonesia	-1.8	-2.3	-2.6
Korea	-0.6	-1.9	-0.9
Malaysia	-5.0	-4.3	-3.5
Philippines	-6.1	-5.3	-4.8
Singapore	0.4	-1.0	-0.4
Taiwan	-2.1	-2.0	-2.1
Thailand	-3.7	-5.7	-4.3
Vietnam	-4.0	-3.6	-3.5
Australia	-	-	-
Japan	-	-	-

Note: FY22/23, FY23/24, FY24/25 for India

	2023	2024	2025
Policy rate (%, eop)	F'cst	F'cst	F'cst
Asia	-	-	-
China	3.45	3.45	3.35
Hong Kong	5.40	4.60	3.85
India	6.50	6.25	5.50
Indonesia	6.00	5.25	4.25
Korea	3.50	2.75	2.50
Malaysia	3.00	3.00	3.00
Philippines	6.50	5.50	4.50
Singapore	-	-	-
Taiwan	2.00	2.00	2.00
Thailand	2.50	2.50	2.00
Vietnam	4.50	4.50	5.00
Australia	4.35	4.35	3.50
Japan	-0.10	0.25	0.50

Note: FY22/23, FY23/24, FY24/25 for India. 3M interbank rate forecast for Singapore

	2023	2024	2025
CA balance (% of GDP)	F'cst	F'cst	F'cst
Asia	-	-	-
China	1.5	1.2	1.4
Hong Kong	5.2	4.0	4.4
India	-	-	-
Indonesia	-0.3	-0.7	-0.5
Korea	1.7	2.1	1.9
Malaysia	1.7	2.1	2.4
Philippines	-3.4	-3.4	-3.6
Singapore	18.0	17.4	16.9
Taiwan	12.6	13.5	13.4
Thailand	1.5	2.1	3.8
Vietnam	3.6	3.8	3.9
Australia	2.1	1.5	1.1
Japan	0.2	0.2	-

Note: FY22/23, FY23/24, FY24/25 for India

Source: BofA Global Research, Bloomberg

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