India: Full speed ahead

In 2023, India managed to grow 7.7%, not only beating all other major economies but exceeding the forecasting community's expectations and accelerating into the second half of the year as the rest of the world slowed. There is a good chance that India will see a similarly impressive performance in 2024

Kolkota, India by night

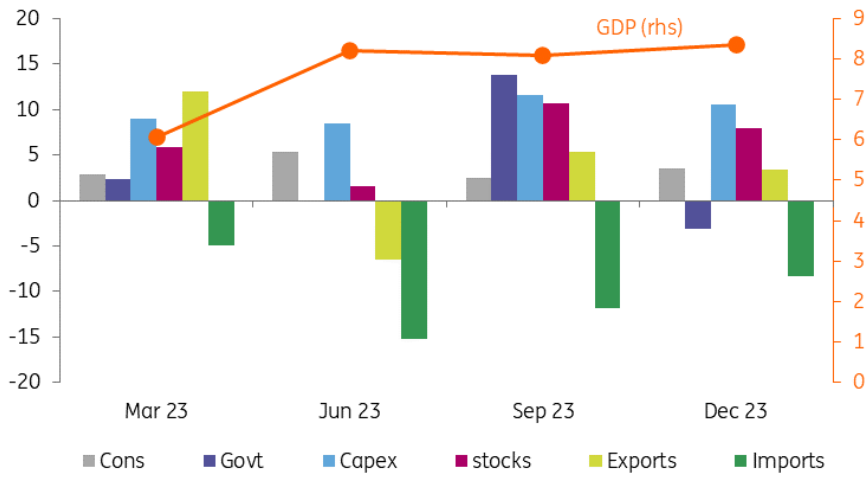
Strong growth should continue

The playbook for strong growth in India in 2023 drove off a supportive Union Budget, with ambitious capital investment and infrastructure plans that, rather than crowding out private investment, have created the conditions for private investment to thrive.

The fourth quarter of 2023 showed the economy growing at an astounding 8.4% year-on-year, leaving full-year growth at 7.7%, beating even our above-consensus forecast for a 7.2% outcome and smashing the consensus call for a slowdown to 6.4%.

Looking at what drove growth in 2023, the most consistent contributor was capital expenditure. And so long as this capital expenditure is adding to the economy's productive capacity, it is neither particularly inflationary nor likely to reverse in the coming quarters.

Contribution to YoY% GDP growth (%)

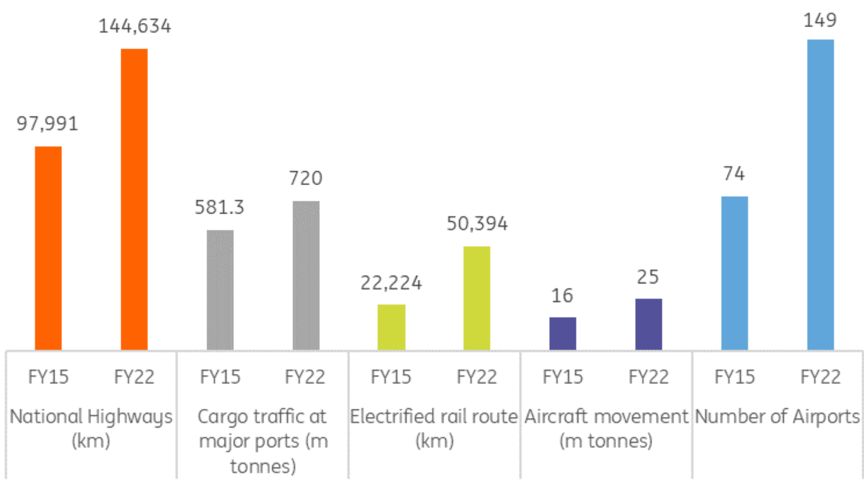


Source: CEIC, ING

Infrastructure spending is creating a virtuous circle

The government's funnelling of resources towards infrastructure in the 2023/24 Union Budget helped. Better transport and logistics are making a big difference to India's growth potential and that, in turn, is having a positive spillover into private investment.

Improvement in infrastructure 2015-2022

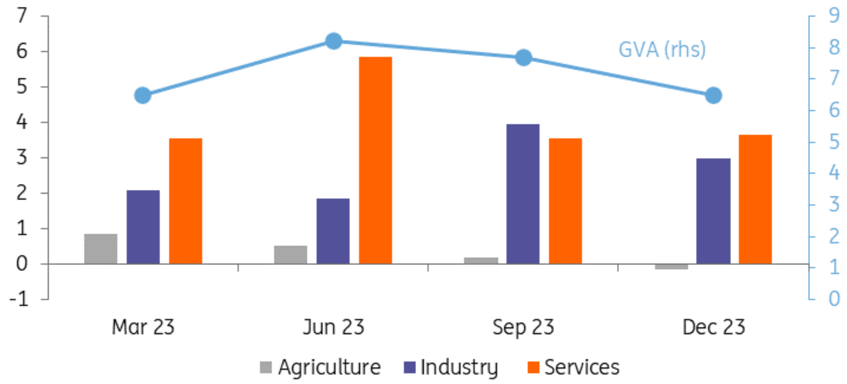


Source: Indian Ministry of Finance

That infrastructure push continued in the 2024/25 Union Budget passed in February, with another double-digit increase in government capex, so it looks a decent bet that this virtuous circle keeps rolling in 2024/25. And while we have trimmed our forecast for growth in 2024 to 6.7% from 7.7% in 2023, this will still be a solid growth performance if achieved.

There is one small caveat that bears watching. Alongside the GDP release, the sectoral output measure of GDP (or more precisely GVA - gross value added) did indeed show a decline in 4Q23 as the consensus had expected for GDP. Even then, full-year GVA for India clocked up a 7.2% growth rate for the full year. The difference between the two series may be a reflection of the strong stock-building that we saw in the second half of the year, and it wouldn't be too surprising to see this unwind in 2024 and bring the two series back in line.

Contributions to gross value added (GVA) YoY% (PP)



Source: CEIC, ING

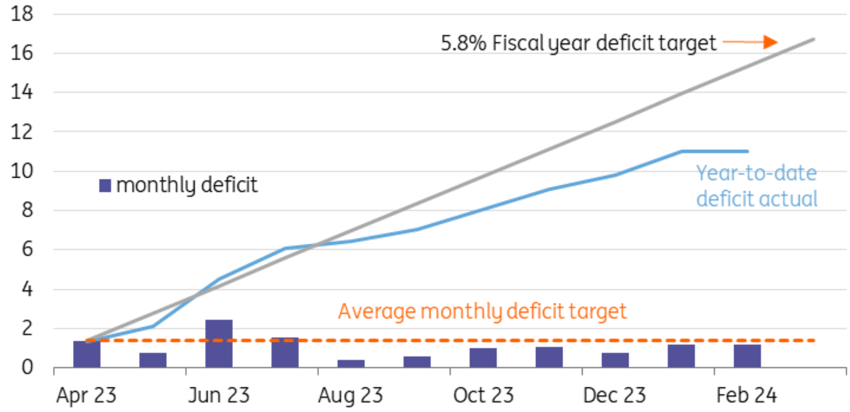
Government finances on an improving path

As well as putting support behind further capital expenditure, the latest Union Budget also continued the process of bringing the fiscal deficit lower. The 2023/24 deficit target was 6.4% (% GDP equivalent), which we believe will be beaten subject to the outcome of the last month of the fiscal year, as outturns have generally been better than needed to achieve that target. So even with an even lower target deficit of 5.9% in 2024/25, we think this should be achievable, if not beatable.

If so, we will see another year in which the debt-to-GDP ratio declines. At the mid-80% level, India's debt-to-GDP ratio is high, and perhaps too high for an economy at its stage of development. Steady improvements in this ratio will free up resources for more productive purposes, as debt service is still the single largest item on the budget each year, roughly equivalent to the sum of defence and transport spending combined.

It is probably too early to start talking about sovereign rating upgrades for India from the current BBB- (S&P and Fitch) and Baa3 (Moody's), all with stable outlooks, but further improvements, and this may well become a more serious discussion.

Fiscal deficit evolution 2023/24 (INR tr)



Source: CEIC, ING

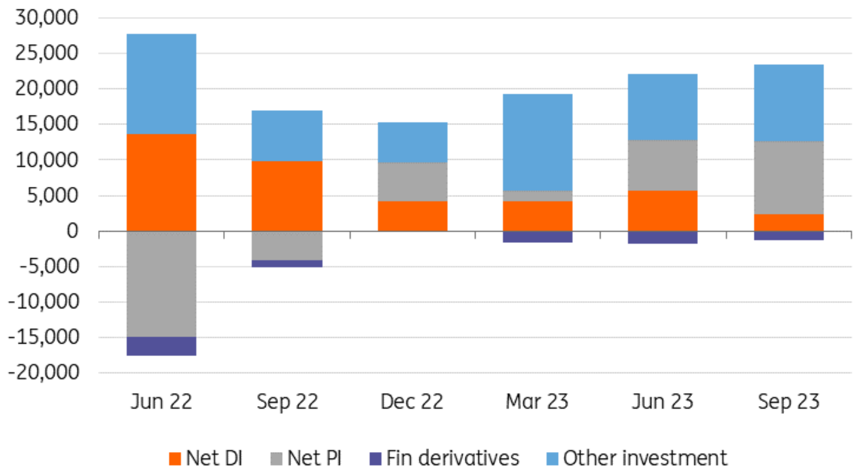
What does bond inclusion mean for the economy and financial markets

The other big story for the year ahead will be the inclusion of Indian government debt into the JP Morgan Global bond index in June.

Estimates of what this would mean in terms of capital inflows to India average around $25bn, and we might expect to see some evidence of this already in the financial account of the balance of payments.

In the following chart, we show the main components of India's financial account, smoothed over two quarters to lessen the volatility. What we can see is that inflows of portfolio investment (PI) did indeed increase over the second half of the year, as expectations of the bond inclusion grew and were then confirmed. Net portfolio investment for the full year was just under USD24bn – pretty close to the estimates of what analysts estimates of the capital inflows would be. Net inward direct investment (DI) remained very modest.

India's financial account (2Qma - USDm)



Source: CEIC

A more detailed look at these inflows, however, shows that most of the portfolio investment increase was due to equity investments, not debt securities, and that may suggest that there is still a pipeline of inward debt security investment yet to come ahead of the June data for index inclusion, which could help pressure the rupee stronger.

In previous years, India's equity market has been buoyed by a strong pipeline of IPOs, some of which are listed overseas, and which dominate the "other investment" part of the financial account which is predominantly American and global depositary receipts.

This has led to a buoyant stock market which in turn, may have driven further equity capital raising and more inflows. The last quarter of 2023 saw 23 IPOs in India, more than at any time in the last decade. Many of these have achieved hefty premiums compared to the list price and most were heavily oversubscribed.

The stock market continues to run hot, and in 2023, rose 18% and is slightly up for the year so far. This is a much stronger performance than Chinese stocks, which fell during 2023, though have rallied a little more recently. The market has fewer qualms about buying Indian stocks. The Sensex index has a PE ratio of 24 and a price-to-book ratio of 3.7 compared with the Hang Seng index which has a PE ratio of 8.7 and a price-to-book ratio of 0.94. Expensive stocks do not necessarily mean a sell-off is coming, at least so long as the positive macro story continues, but the high valuations suggest that we ought to be mindful of things that could change this situation.

Will the Reserve Bank continue to shield the INR?

Since October last year, the Reserve Bank of India (RBI) has maintained a very tight grip on the Indian rupee (INR), keeping it close to USD/INR 83.0. The RBI has not provided any justification for this approach, though it started at a time when the US dollar was confounding expectations for some weakening, and instead putting emerging market currencies under weakening pressure.

More recently, the RBI has seemed to allow a little asymmetric flexibility into its currency management, letting the INR appreciate very slightly when the USD showed some signs of weakness, but providing support at times when the USD rallied and put the INR under depreciation pressure.

This currency stabilisation will have a cost in terms of FX reserves, which will have to be expended to prevent INR depreciation. At the moment, there seems to be no issue with this policy continuing, as India's FX reserves, measured in terms of months of import cover, are not only ample but increasing slightly. For the time being, we anticipate the policy continuing until at least after the June bond inclusion has passed without incident. That might also take us closer to a point where the Federal Reserve is easing, or looking closer to doing so, which may provide the INR with some natural support anyway and reduce the need for such tight FX management.

Foreign exchange reserve import cover (months)

Source: CEIC

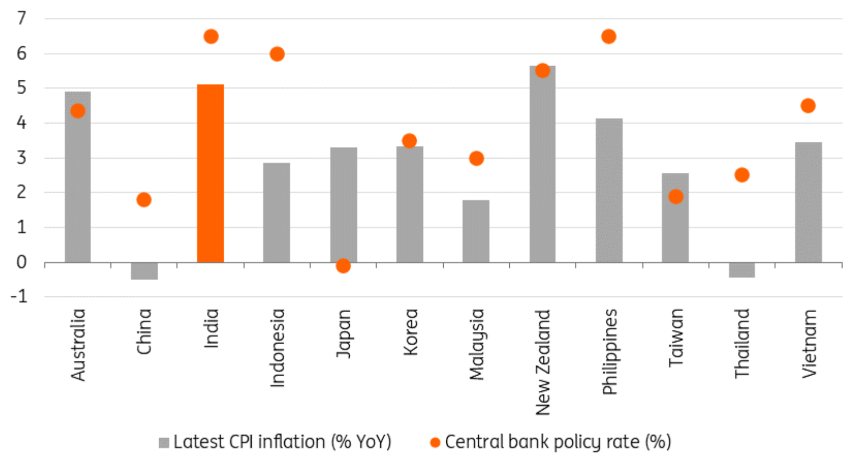
What can we expect in terms of rate policy from the RBI?

Like most of the region's central banks, we don't believe there is any prospect of unilateral policy easing by the RBI ahead of the US Federal Reserve's first cut. But of all the central banks in the region, the RBI has some of the most room to move once the Fed eventually does decide to start cutting.

At 6.5%, the RBI's policy rate is one of the highest in the region, together with the central banks of the Philippines and Indonesia. Inflation in India is a little higher than in those countries but we expect it to stay in the 4-5% range for most of the year subject to the usual volatility in seasonal food prices. That means that it has around a 150bp real policy rate, measured as the gap between nominal policy rates and current inflation. There is certainly room to lower this gap, and we can see 50bp of easing this year, with a further 50bp of easing in 2025 if inflation remains well-behaved.

Such easing should have a modest impact on local currency bond yields, though probably not much more than 40-50bp plus maybe a little more in 2025 before yields begin to move higher again.

Real policy rates



Source: CEIC, ING

Political cycle should not cause much disruption

In conclusion, it would be remiss of us not to note that this is an election year and therefore subject to more potential distortions than a normal year and that could result in a greater than usual prospect for forecasting error.

However, most political pundits suggest a continuation of the Modi BJP government, and if that is correct, then we will likely see greater continuity in terms of policies than we would with a government change.

Our forecasts for growth remain very positive, and we are not particularly worried about the inflation backdrop and are still constructive on financial markets and the currency. Given the global backdrop is rather lacklustre right now, India is likely to remain one of the few bright spots.

Forecast summary table

	4Q23	1Q24	2Q24	3Q24	2023	2024	2025
GDP (YoY%)	7.2	6.6	3.3	7.7	7.0	6.6	7.5
CPI (YoY%)	6.6	4.7	5.0	4.9	5.5	4.7	4.8
Residential real estate YoY%	3.8	4.0	2.1	4.1	4.3	3.4	4.0
Fiscal Balance %GDP (fiscal year ending +1)					-5.8	-5.1	-4.5
Gross debt/GDP (%) (fiscal year ending +1)					83.8	81.5	79.5
Current a/c balance (% GDP)					-1.5	-1.0	-2.0
7-day repo rate (eop)	6.5	6.5	6.5	6.3	6.5	6.0	5.5
10Y yields (eop)	7.2	7.0	6.7	6.6	7.2	6.8	7.0
USD/INR (eop)	83.0	83.0	82.5	83.0	83.0	83.0	84.0

Source: ING

Author

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz
Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole

FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist

+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance

+44 20 7767 5306
carlo.cocuzzo@ing.com