Prospects

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2023-2024 SCENARIO

India: marching forward, but the old demons are never far behind

The tomato shortage that spread across India in July was yet another reminder that the country is extremely vulnerable to climate change and any resulting spike in food prices. As a large share of tomato crops were destroyed by heavy rain and pest attacks, the consumer price index, half of which consists of food, surged from 4.9% YoY in June to 7.4% in July.

In August, calm was restored to the tomato market, but fears persist over other crops, eg, onions, wheat and rice. Therein lies the paradox of India, host to the G20 summit in September; for the occasion Delhi was emptied and cleared of its most visible signs of poverty.

Strong growth still driven by demand

India's growth is on track to continue. After 6.7% in 2022, it is expected to ease to around 6% in 2023. Come what may, in the numbers comparison game with China, India is expected to hold on to its lead. However, inflationary pressures will hamper Q3 growth despite the government's measures to freeze certain prices, and inflation is forecast to end the year at around 5.8%. Nonetheless, consumer spending will remain the biggest source of growth. For example, car and motorcycle sales, which are a bellwether for Indian demand, continue to post double-digit growth.

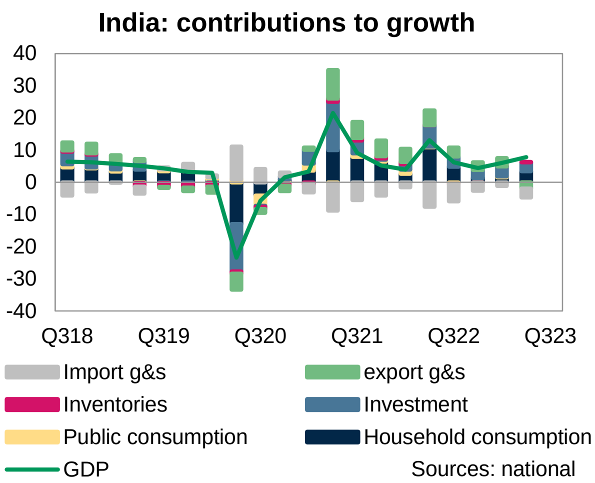
In foreign trade, like most Asian countries, India is seeing an adjustment in its trade balance connected with the slowdown in global demand. Exports, which rang up at USD405bn over twelve months in August, remain higher than pre-pandemic levels (averaging USD325bn over twelve months), as are imports (USD660bn over twelve months vs USD400bn pre-Covid), boosted by energy prices. This is keeping India's trade deficit above USD250bn, although it has narrowed slightly in recent months due to declining oil prices.

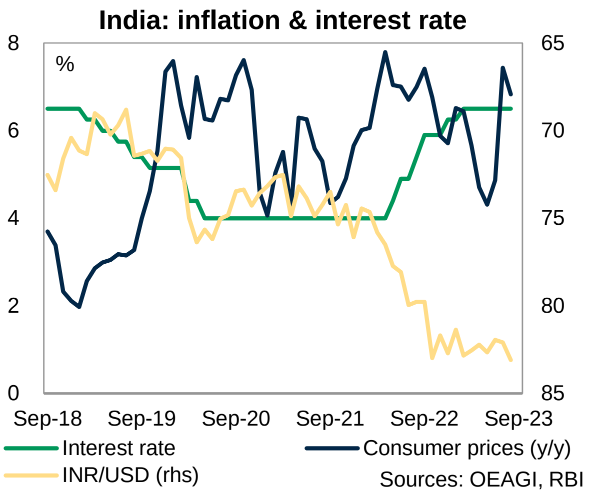
What can we expect from the policy mix?

After a period of depreciation in 2021 and 2022, due primarily to the USD's appreciation against all other currencies, USD/INR stabilised at around 83 – despite rising inflation this summer. To keep from penalising activity in the face of essentially cyclical inflation that had no impact on the exchange rate, **the Reserve Bank of India decided to hold its key interest rate at 6.5%.** We do not expect a return to a more accommodative monetary policy before end-Q124.

Meanwhile, the target 2023-24 budget has a deficit of 5.9% of GDP, slightly lower than the previous fiscal year's 6.4%. With defence and transport growth as focal points, it is not time to cut spending just yet: the next round of legislative elections is slated for the spring of 2024.

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr





Article published on October 6, 2023 in our quarterly
World – Macro-economic Scenario 2023-2024: a delicate balance

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Crédit Agricole S.A. — Group Economic Research
12 place des États-Unis – 92127 Montrouge Cedex

Publication manager: Isabelle Job-Bazille
Chief Editor: Armelle Sarda
Information centre: Elisabeth Serreau – **Statistics:** Datalab ECO
Editor: Fabienne Pesty

Contact: *publication.eco@credit-agricole-sa.fr*

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