RBI report sees signs of economic recovery in Q3

Cites strong festival season, rural demand pickup; FPI flows positive

MANOJIT SAHA
Mumbai, 24 December

India's gross domestic product (GDP) growth, which plunged to 5.4 per cent in the July–September quarter, is making a comeback in the October–December period, according to high-frequency indicators cited in the State of the Economy report by the Reserve Bank of India (RBI).

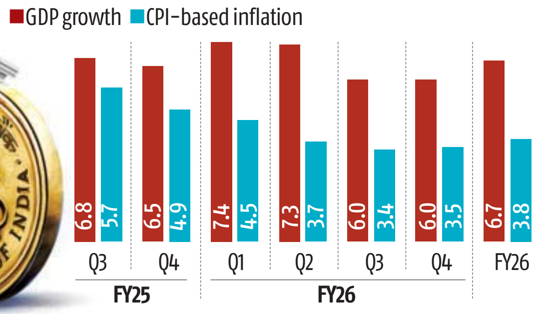
"High-frequency indicators (HFIs) for the third quarter of 2024–25 indicate that the Indian economy is recovering from the slowdown in momentum witnessed in Q2, driven by strong festival activity and a sustained upswing in rural demand," the report, authored by RBI staff, including Deputy Governor Michael Patra, said.

The views expressed in the report are those of the authors and not the RBI.

The report said India's growth trajectory is poised to lift in the second half of 2024-25, driven mainly by resilient domestic private consumption demand. Turn to Page 9

SWING IN MOMENTUM

Growth and inflation forecast (in %)



Source: RBI bi-monthly bulletin

PAGE 4

RBI net sold $9.2 bn in October

The Reserve Bank of India (RBI) net sold $9.2 billion in October, the highest monthly sale in more than two years, since September 2022, when the RBI had net sold $10.3 billion worth of the greenback. According to the central bank's monthly bulletin, the RBI bought $27.5 billion and sold $36.7 billion of foreign currency in October.

₹ hits fresh low for 6th session in a row

The rupee hit a new low for the sixth consecutive trade due to the month-end demand for dollars among importers coupled with the rise in US Treasury yields. The local currency settled at ₹85.20 per dollar on Tuesday, against ₹85.12 on Monday.

RUPEE VOLATILITY SHOWS LITTLE SIGNS OF SUBSIDING

NRI DEPOSITS SEE $12 BN INFLOWS

OUTWARD REMITTANCES UNDER LRS RISE 10.6%

NET FDI SLOWS TO $2.2 BN

EDIT PROGRESS REPORT P7

Global headwinds pose risks to growth outlook: RBI Bulletin

"Supported by record-level foodgrain production, rural demand, in particular, is gaining momentum. Sustained government spending on infrastructure is expected to further stimulate economic activity and investment," it said.

GDP growth is estimated at 6.8 per cent in Q3 and 6.5 per cent in Q4 of the current financial year. The RBI, in the December review of monetary policy, lowered the FY24 growth projection to 6.8 per cent from 7.2 per cent.

Global headwinds, however, pose risks to the evolving outlook for growth and inflation, the report noted.

"The time to act is now to excoriate inflation and revive investment strongly, especially as the usual winter easing of food prices is setting in and the prospects of private consumption and exports accelerating are getting brighter," it said. Additionally, the prospects for agriculture and, hence, rural consumption are "certainly looking up" with a large part of the kharif harvest likely to be reflected in the GDP estimates for the third quarter.

Based on the economic activity index, which indicates a pick-up in momentum in November on a seasonally adjusted basis, the nowcast for Q3 GDP growth in 2024–25 is placed at 6.8 per cent.

"High-frequency indicators suggest that aggregate demand continued to expand in October/November 2024. E-way bills increased by 16.3 per cent (year-on-year) in volume terms in November. Toll collections recorded double-digit growth in November 2024, both in value and volume terms," the report said.

Noting that headline inflation grew at a slower pace in November (5.5 per cent) compared to October (6.2 per cent), the report said high-frequency food price data for December (as of December 19) showed a fall in rice prices, though wheat and atta prices continued to

rise. "Edible oil prices, too, continued exhibiting upside pressures. Pulses prices, however, registered a broad-based decline. Among key vegetables, onion and tomato prices fell, while potato prices remained range-bound," it said.

The report also noted that foreign portfolio flows to domestic debt instruments turned positive in December 2024 after outflows in October and November.

Net FPI outflows stood at \$2.4 billion in November 2024, with net equity outflows of \$2.7 billion and net debt inflows of \$0.3 billion.

"However, FPI flows turned positive during December (as of December 18) with net inflows of \$3.6 billion," the report said.

Within sectors, oil, gas, and consumable fuels, and automobile and auto components recorded the highest equity outflows, while information technology and financial services received the largest inflows during November.

"Rising global economic and financial uncertainties during November resulted in equity outflows from other EMEs as well," it added.