



## KEY TAKEAWAYS FROM RBI BULLETIN- NOVEMBER 2024

- Q2 2024-25 Economic Slowdown is Behind and Private Consumption Driving Domestic Demand
- India's Gross FDI increased by 25.7% in H1FY25, while Net FDI moderated; RBI Data
- RBI's LRS Outward Remittances Fell 15% in H1 FY25

**BRICKWORK RESEARCH**  
November 2024



# Economic Slowdown is Behind and Private Consumption Driving Domestic Demand: RBI

## Private Consumption as a Driver

- The Reserve Bank of India's (RBI) November 2024 bulletin shows private consumption has regained its primary role as domestic demand driver, with festival spending boosting real activity in the third quarter
- According to RBI, private consumption is expected to improve due to favorable agricultural outlook and increased rural demand, while sustained buoyancy in services is expected to support urban demand
- The RBI notes that the slowdown observed in the second quarter of FY2024-25 is behind, with expectations of continued growth driven by increased consumer activity

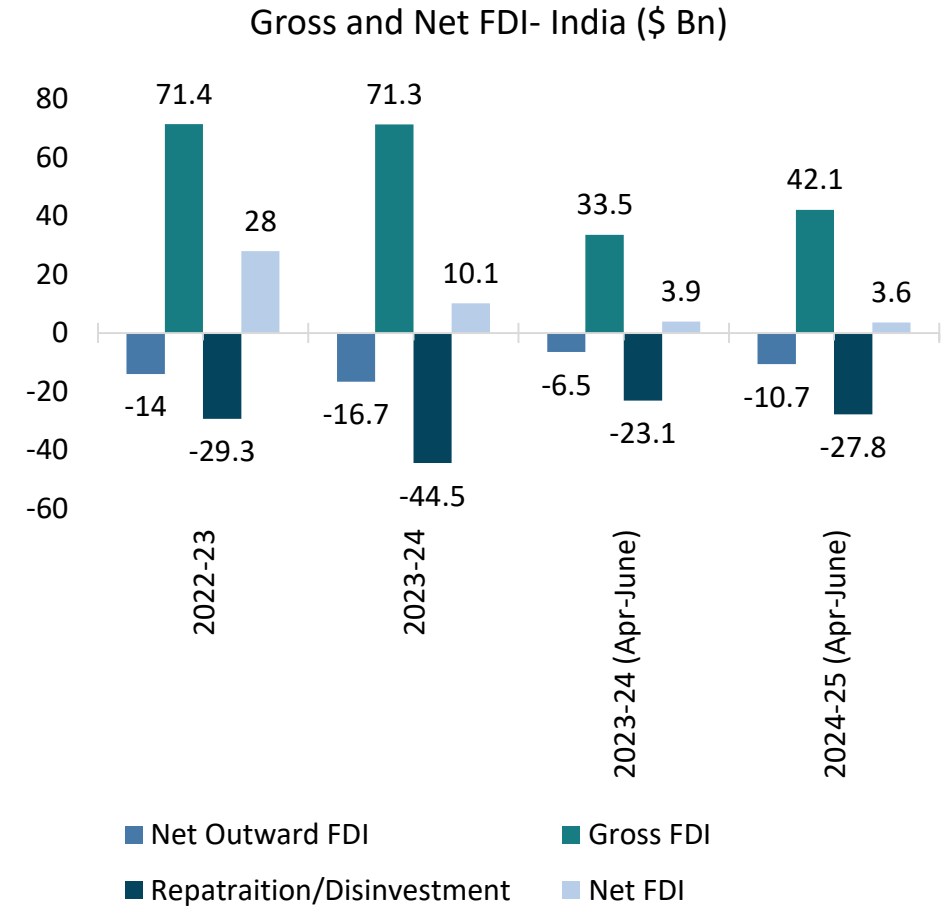
## Mixed Performance in Private Investment

- Despite positive private consumption signals, private investment remains subdued, as evidenced by lower sequential investments in fixed assets during the July-September 2024 period
- Private investment in fixed and non-current assets declined sequentially from July-September 2024 due to subdued corporate earnings
- India's macro-fundamentals are strong, with domestic consumption and investment driving growth. The government's capex push and healthy bank and corporate balance sheets are expected to support private investment, RBI bulletin stated

## Inflation Concerns

- The Reserve Bank of India (RBI) warns against unchecked inflation, which could potentially impede economic growth, especially in the areas of industry and exports
- The RBI is addressing inflation concerns, particularly food prices, which are contributing to rising core inflation, emphasizing the need for vigilance to mitigate spillover effects

## Foreign Direct Investment Flows (US\$ Billion)



Source: RBI

# RBI Retains GDP Growth Forecasts

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## GDP Growth Forecasts

- The RBI maintains 7.2% GDP growth for FY25, boosted by improved rural consumption and income levels, and optimism about a revival in private sector investment and productivity enhancements
- The bulletin emphasizes the necessity of effective inflation control measures to maintain this growth trajectory
- The RBI's analysis raises concern about global growth dynamics, trade policies, and financial market volatility, which could potentially impact India's economic recovery trajectory

## Rising Inflation Concerns

- India's retail inflation surged to 6.21% in October 2024, primarily due to a 42.18% increase in vegetable prices. The Reserve Bank of India (RBI) has labeled this a "sticker shock" and warned that unchecked inflation could undermine economic prospects, especially for industry and exports
- Core inflation reached a 10-month high in October 2024, raising concerns about potential spillover effects from rising food prices into other sectors like processed food and household services.
- The increase in household service prices, particularly domestic help and cooks, is a result of rising living costs due to increased food prices
- RBI projection suggests that price pressures will persist in November 2024 before headline inflation aligns with the target from December 2024 and remains aligned in 2025-26

## Positive Export Outlook

- The RBI predicts a positive outlook for India's exports, with the country gaining market share in key manufacturing sectors, but warns of potential rupee overvaluation impacting competitiveness

## Business Confidence

- The business confidence index has shown a noticeable improvement, indicating that firms are anticipating favorable economic conditions, which may further encourage private sector investment

# Retail Sector Performance and Global Economic Context

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## Retail Sector Performance

- The retail sector experienced a recovery in sales growth, particularly in premium segments like luxury cars and e-two-wheelers during the festive season

## Impact on Consumption and Corporate Earnings

- The RBI has emphasized the need to control inflation to prevent economic recovery from being negatively impacted by it

## Agricultural Outlook

- The optimism is heightened regarding agricultural output, with strong expectations for kharif and rabi crop production, which is anticipated to boost rural demand and overall economic growth

## Global Economic Context

- The bulletin highlights global economic conditions, highlighting that while inflation is easing in advanced economies, emerging markets are facing external pressures that could affect their monetary policies
- RBI noted despite the opening of monetary easing space in the advanced economies, emerging market economies central banks face external challenges, resulting in varying policy responses

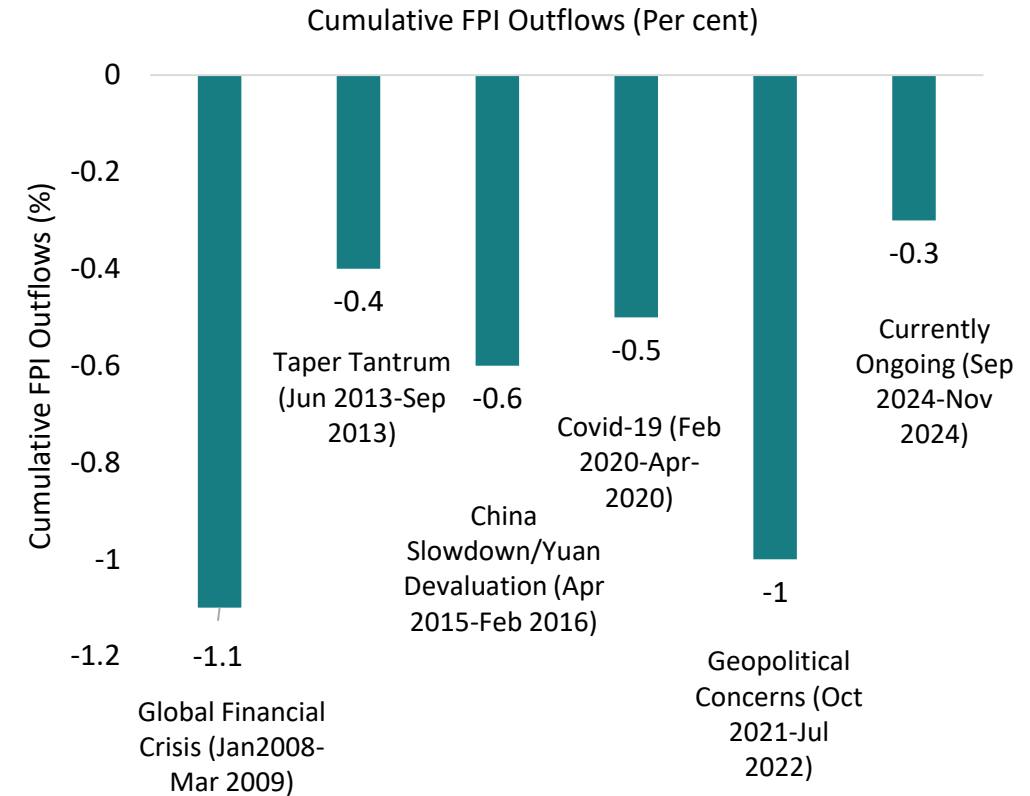
# Gross FDI increased by 26% in H1FY25, while Net FDI moderated

- **Gross FDI Surge:** India's gross inward foreign direct investment (FDI) increased 25.7% in H1FY25, reaching \$42.1 billion from \$33.5 billion a year ago period, primarily due to substantial investments in manufacturing, financial services, electricity, and communication sectors
- **Net FDI Moderated:** Despite a rise in gross FDI, net FDI inflows decreased to \$3.6 billion in H1FY25 from \$3.9 billion a year ago, primarily due to increased repatriation and outward investments
- Manufacturing, financial services, electricity, and communication services accounted for two-thirds of gross FDI inflows, while Singapore, Mauritius, the Netherlands, UAE, and the US contributed three-fourths
- **Repatriation and Outward FDI:** Repatriation or disinvestment increased to \$27.8 billion in the first six months of FY25, up from \$23.1 billion in April-September 2023 period. The trend suggests an increasing number of foreign investors withdrawing their investments or profits from India
  - The rise in outward FDI indicates that Indian companies are also investing more abroad, impacting net FDI figures as these outflows counterbalance incoming investments
- India's medium-term prospects for foreign investment remain optimistic due to ongoing reforms and infrastructure development initiatives, despite recent challenges in the wake off uncertain global economic conditions

## RBI's Dollar Purchase in First Half of Financial Year

- The RBI made a net dollar purchase of \$8.5 billion in the first half of the current financial year (during April-September 2024), compared to \$17.7 billion in the previous year
- In September 2024, the RBI bought foreign currency worth \$9.6 billion net while it had recorded a net sale of \$6.5 billion in August 2024

## FPI Outflows from Indian Equity Market



**Note:** FPI outflows are represented as the per cent of total market capitalization of companies listed on the BSE

Source: RBI

# Foreign Portfolio Investment Flows Turned Negative in October 2024

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- In October 2024, India's foreign portfolio investment (FPI) flows turned negative for the first time in four months, marking a significant shift in investor sentiment due to global uncertainty, geopolitical tensions, and rebalancing by global portfolio managers
- Net FPI outflows reached a record \$11 billion, marking the highest level since the start of the COVID-19 pandemic, according to the Reserve Bank of India (RBI).
- Foreign investors are shifting their focus to Chinese equities due to attractive valuations and recent stimulus measures, leading to substantial sell-offs in the equity segment
- Equity sell-offs look widespread among emerging market economies (EMEs) as foreign investors shift capital towards Chinese equity and away from other EMEs.
- In October 2024, the debt segment experienced a break in its five-month inflow streak, despite net outflows remaining relatively contained
- Among sectors, Financial services, oil, gas, consumable fuels, and fast-moving consumer goods experienced the highest outflows in October 2024, reaching a net FPI outflow of \$3.4 billion in November 2024 (up to November 14, 2024)
- This indicates Indian markets are facing challenges due to a complex global economic landscape, geopolitical developments, and investor preferences affecting capital flows
- Chinese stimulus measures announced in October 2024 significantly impacted Foreign Portfolio Investment (FPI) flows into India, leading to unprecedented capital outflows from Indian equity markets.
- China introduced a \$1 trillion stimulus package in October 2024 to revitalize its economy, aiming to stabilize the domestic market and attract foreign investment by enhancing Chinese equities appeal
- There was a shift in investor sentiments as global investors adopted strategy to capitalize on China's stimulus measures, lower valuations, and concerns over slowing corporate earnings in India
- China's economic stimulus has led to significant FPI outflows from India, causing volatility in Indian markets. However, India's long-term growth potential could eventually draw back foreign investments

# RBI's Liberalised Remittance Scheme Outward Remittances Fell

- The Reserve Bank of India's Liberalised Remittance Scheme (LRS) experienced a significant decrease in outward remittances in September 2024 as well as during the first half of the fiscal year 2025
- In September 2024, outward remittances decreased from \$3.50 billion in September 2023 to \$2.76 billion, with significant declines in funds for relatives' maintenance and deposits
- The maintenance remittances for close relatives decreased by nearly 50% to \$281.24 million in September 2024 from \$559.79 million in September 2023. Further, Gift segment fell by 42% y-o-y to \$221.67 million in September 2024 from \$383.70 million
- RBI data showed a 14.88% year-on-year decrease in remittances, amounting to \$15.61 billion in H1 FY25, down from \$18.34 billion in H1 FY24
- Remittances for relatives' maintenance and overseas education funds decreased by 37.17% y-o-y to \$1.92 billion and \$1.60 billion, respectively, from \$3.05 billion to \$1.84 billion in the same period
- International travel, accounting for 57% of total outward remittances under LRS, saw a slight 1% y-o-y decrease to \$9.20 billion in H1 FY25 compared to \$9.30 billion in H1 FY24
- The purchase of immovable property remittances decreased by 9.38% to \$136 million during April-September 2024, while equity and debt market investments decreased by 19.09% y-o-y to \$699.26 million

## Outward Remittances under the Liberalised Remittance Scheme (LRS) for Resident Individuals (\$ Million)

	2023-24	2023	2024		
		Sep	July	Aug	Sep
Outward Remittances under the LRS	31735.74	3492.91	2754.05	3211.54	2758.25
Deposit	916.45	118.56	41.68	45.56	43
Purchase of immovable property	242.51	29.13	24.54	22.49	25.47
Investment in equity/debt	1510.89	208.45	120.86	125.3	135.08
Gift	3580.27	383.7	275.26	244.41	221.67
Donations	11.31	0.91	0.68	0.67	0.87
Travel	17006.27	1765.07	1662.13	2013.3	1713.06
Maintenance of close relatives	4611.53	559.79	337.4	315.4	281.24
Medical Treatment	79.62	4.85	8.62	7.65	7.89
Studies Abroad	3478.65	396.08	272.16	416.39	320.1
Others	298.24	26.37	10.72	20.36	9.88

**Note:** Figures are in (US \$ Million)

Source: RBI

## BWR VIEW

- The RBI Bulletin for November 2024 indicates a recovery phase in the Indian economy, driven by private consumption and strong agricultural performance, but warns of potential inflationary pressures
- Inflation risks could hinder growth, but private consumption recovery and positive agricultural forecasts counterbalance these risks
- China's economic stimulus has led to significant FPI outflows from India, causing volatility in Indian markets
- India's foreign investment landscape is promising, with increasing gross inflows and supportive economic policies despite a downturn in net FDI flows due to external factors.
- The medium-term outlook is cautiously optimistic, relying on addressing inflationary pressures and promoting private investment. However, India's long-term growth potential could eventually draw back foreign investments

*\* Views are personal*

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