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India Business Forecast Report Q1 2015

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Abstracts

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Core Views

We expect the progress of relations between India and Pakistan to remain slow, despite recent efforts to improve them. We believe that the long-standing dispute between India and Pakistan over Kashmir is unlikely to be resolved any time soon, and will continue to strain Indo-Pakistani relations for the foreseeable future. Consequently, security issues will be a greater concern than economic co-operation for India.

We maintain our above consensus forecast for India's real GDP growth to accelerating to 5.6% (consensus expectations of 5.4%) in FY2014/15 (April-March), from 4.7% in FY2013/14. Greater policy certainty and positive regulatory improvements will support an economic growth revival over the coming quarters. While the pace of recovery will also depend on the timing of monetary easing, we have seen optimistic signs from the strong Q1 GDP print.

Although headline inflation has eased somewhat in India, they remain at elevated levels, amongst the highest in the region. That said, we believe that inflationary pressures will ease over the short and medium term. Additionally, the Reserve Bank of India (RBI) maintained its repurchase rate at 8.00% at its September policy meeting. We forecast the central bank to stay determined to contain medium-term price pressures and therefore stand pat on interest rates at its next meeting in December. However, we expect the central bank to ease interest rates by 25 basis points to 7.75% by Q4FY2014/15 as it turns its focus towards supporting economic growth. Over the longer term, we remain constructive on the Indian rupee (INR) but expect a slow appreciation as the RBI seeks stability in the currency. We forecast the Indian rupee to appreciate slowly, averaging INR59.25/USD in 2015 and INR58.50/USD in 2016,

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supported by improved economic growth prospects.

Major Forecast Changes

We have upgraded up our forecasts for consumer price inflation to come in at 7.7% at the end of FY2014/15 (April-March) on the back of a likelihood that low levels of rainfall could persist for longer. That said, we believe that the government will actively employ measures to address the supply in the domestic market, should inflation worsens. We have revised our forecast for the INR to average INR59.25/USD in 2015 and INR58.50/USD in 2016 but remain constructive on the unit. Our revision was predicated on the back of recent weakness in the INR and continued intervention in the open market by the RBI in 2014.

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sectors. We maintain our forecast for real GDP growth to accelerate to 5.6% in FY2014/15 (April-March), from 4.7% in FY2013/14.

Table: Economic Activity

Fiscal Policy

Small Efforts To Rein In Fiscal Expenditure Taking Shape

For the period from April-July, the Indian government fiscal deficit stood at 61.2% of the INR5.31bn budgeted for FY2014/15 (April-March). Our view for the government to take gradual efforts to rein in expenditure rather than increase revenue collection informs our forecast for the central government's fiscal deficit to narrow to 4.5% and 3.9% of GDP in FY2014/15 and FY2015/16, respectively.

Table: Fiscal Policy

Monetary Policy

RBI To Remain Cautious

The Reserve Bank of India maintained its repurchase rate at 8.00% at its September policy meeting. We forecast the central bank to stay determined to contain medium-term price pressures and therefore stand pat on interest rates at its next meeting in December.

That said, we expect the central bank to ease interest rates by 25 basis points to 7.75% by Q4FY2014/15 as it turns its focus towards supporting economic growth.

Table: Monetary Policy

Exchange Rate Policy

INR: Neutral Short-Term, Appreciatory Bias Thereafter

The Indian rupee is likely to trade in a tight range over the coming months and we forecast the unit to average INR60.00/USD in 2014 as the Reserve Bank of India's intervention in the open market should dampen further appreciatory pressures. Over the longer term, we forecast the unit to appreciate slowly, averaging INR59.25/USD in 2015 and INR58.50/USD in 2016, supported by improved economic growth prospects.

Table: CURENCY FORECAST

Table: Current Account

CHAPTER 3: 10-YEAR FORECAST

The Indian Economy To 2023

Will Indian Growth Live Up To Expectations?

Improving demographics, structural reforms and trade liberalisation in India during the

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