India: The Economic Pathway

April 2023

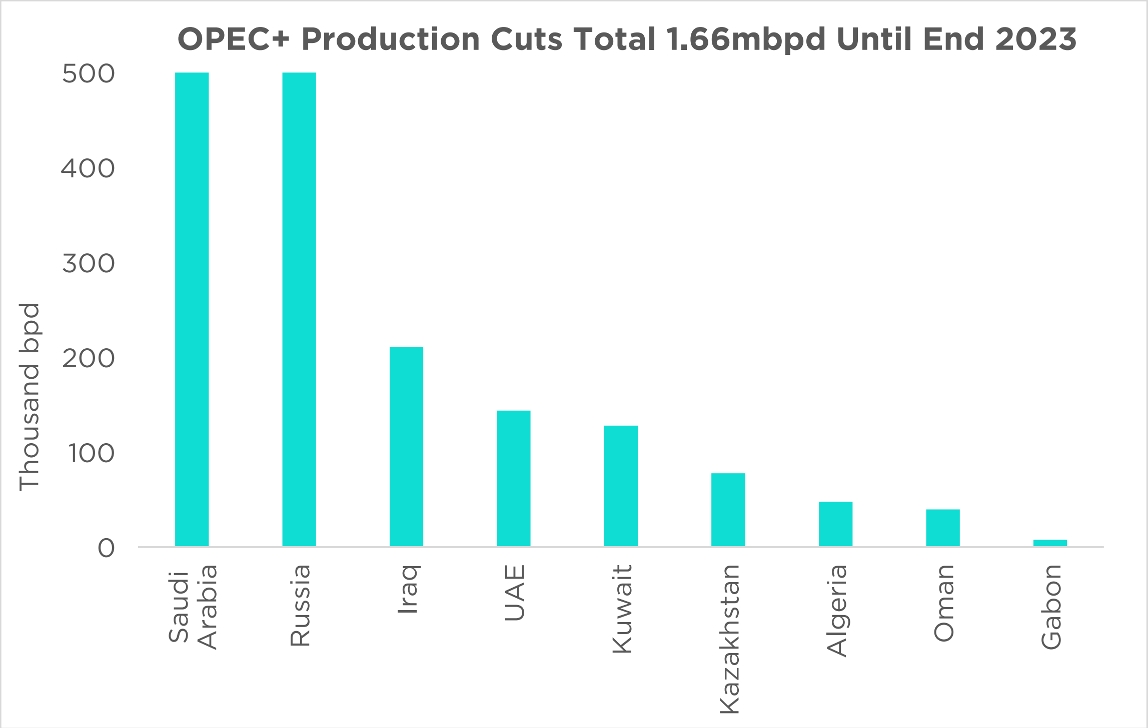
Global Economy

IMF Lowers Global Growth Projections

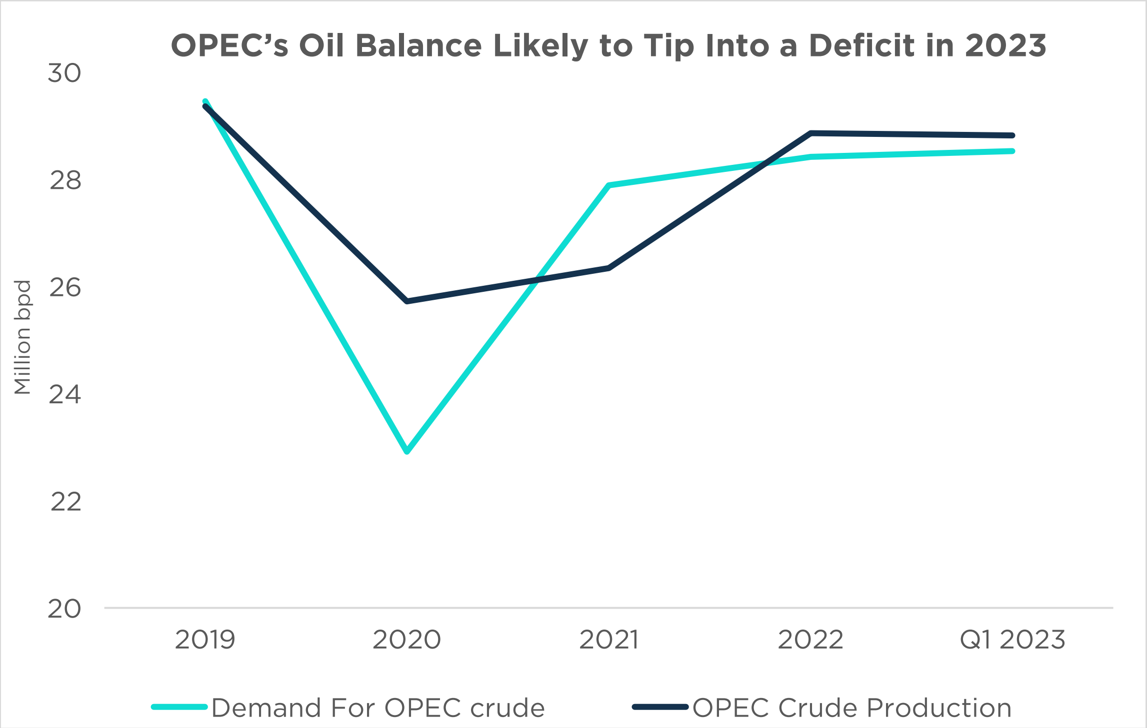
Source: IMF

- IMF lowered the 2023 global growth forecast to 2.7% from 2.8% estimated in January.
- Advanced economies to see an 'especially pronounced' growth slowdown with GDP at 1.3% in 2023, from 2.7% in 2022.
- Emerging and developing economies to grow 3.9% in 2023 from 4% in 2022, with major contributions from India and China.
- India's growth in 2023 projected at 5.9%, lower than RBI's projection of 6.5%.

OPEC Production Cuts to Weigh on Oil Balance in 2023



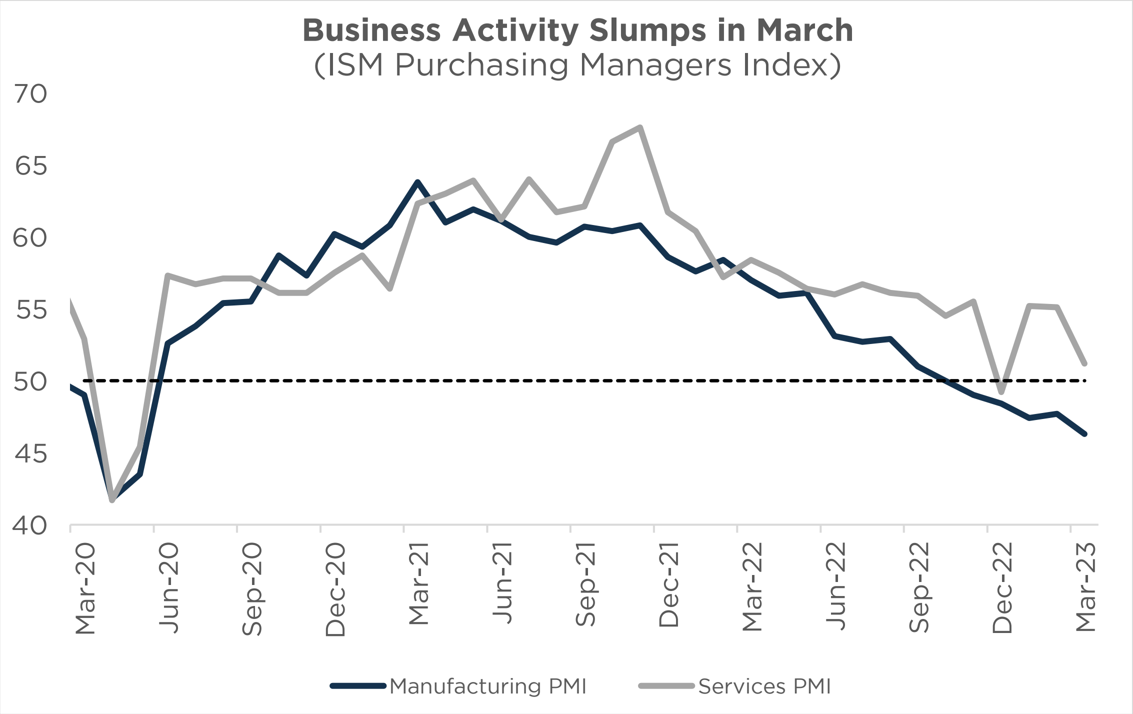
Source: OPEC



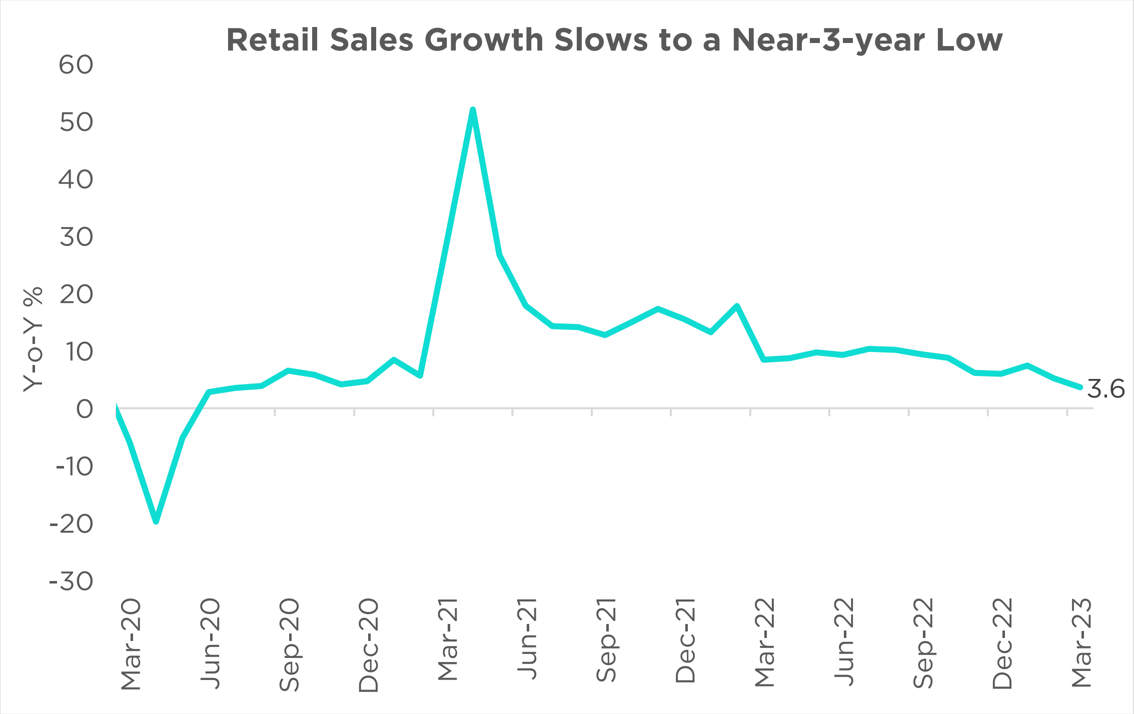
Source: OPEC (Full-year figures are quarterly averages)

- OPEC along with Russia announced voluntary production cuts amounting to 1.66 mbpd starting May until end-2023.
- OPEC's oil balance is likely to slip into a deficit in 2023, with global oil production shifting to non-OPEC countries.
- US Strategic Petroleum Reserves (SPR) are currently at 368 million barrels—the lowest since 1983, concerning for oil prices.

US Economy Loses Steam



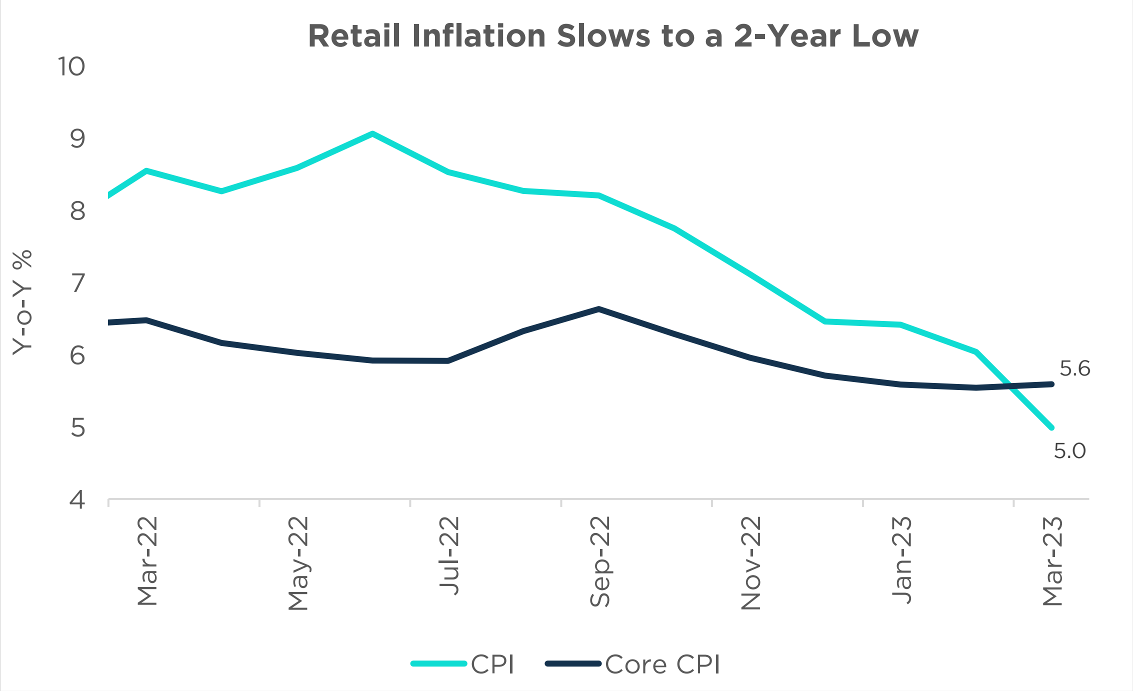
Source: CEIC



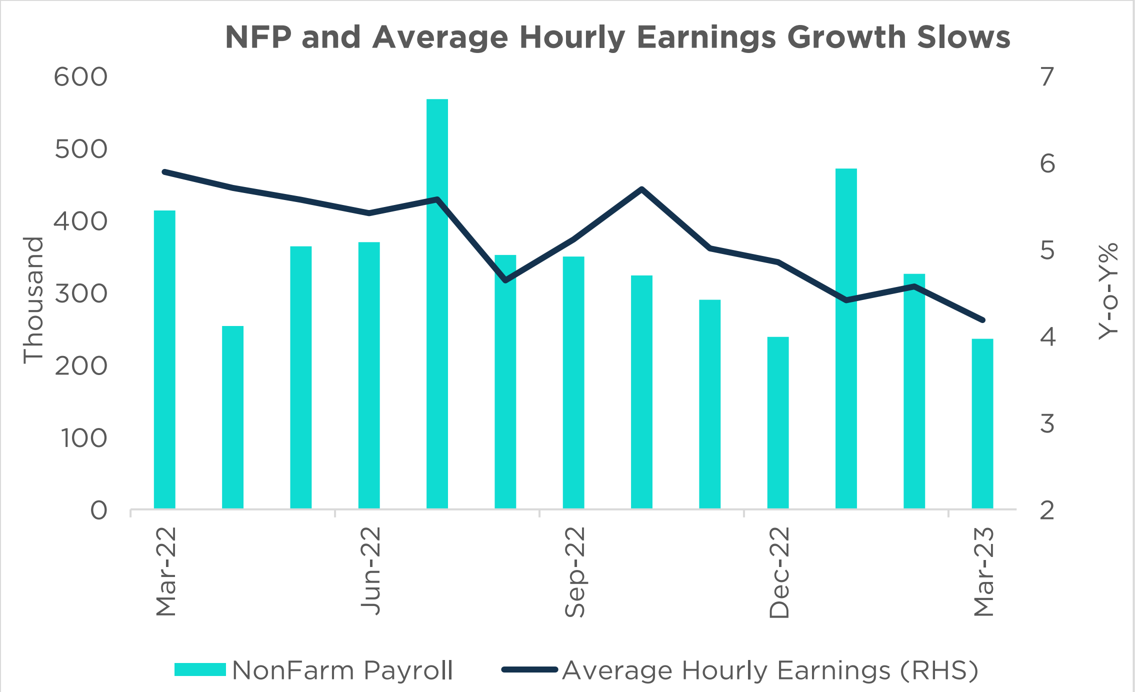
Source: CEIC

- US PMI—both manufacturing and services eased in March, with the former remaining below the 50-mark for the fifth straight month.
- Retail sales growth slowed to 3.6% y-o-y in March, the smallest gain since July 2020, as consumers scaled back purchases of big-ticket items.
- Weak consumer demand and slowing manufacturing output point to a slowing US economy.

US Inflation and Wage Growth Cools



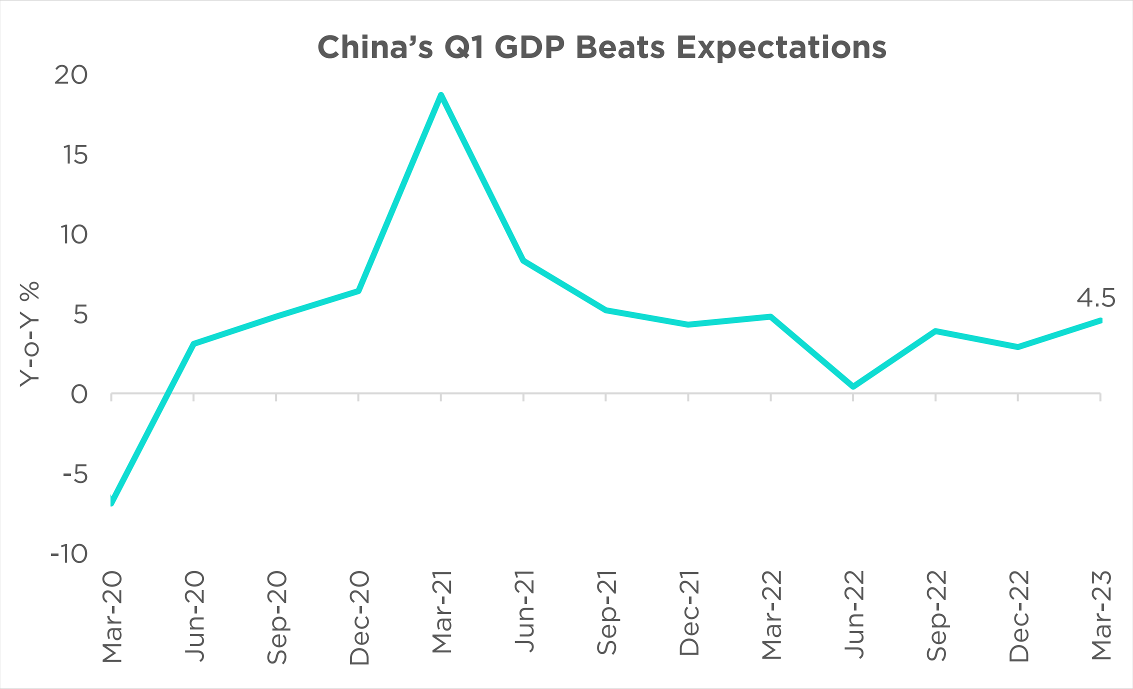
Source: CEIC



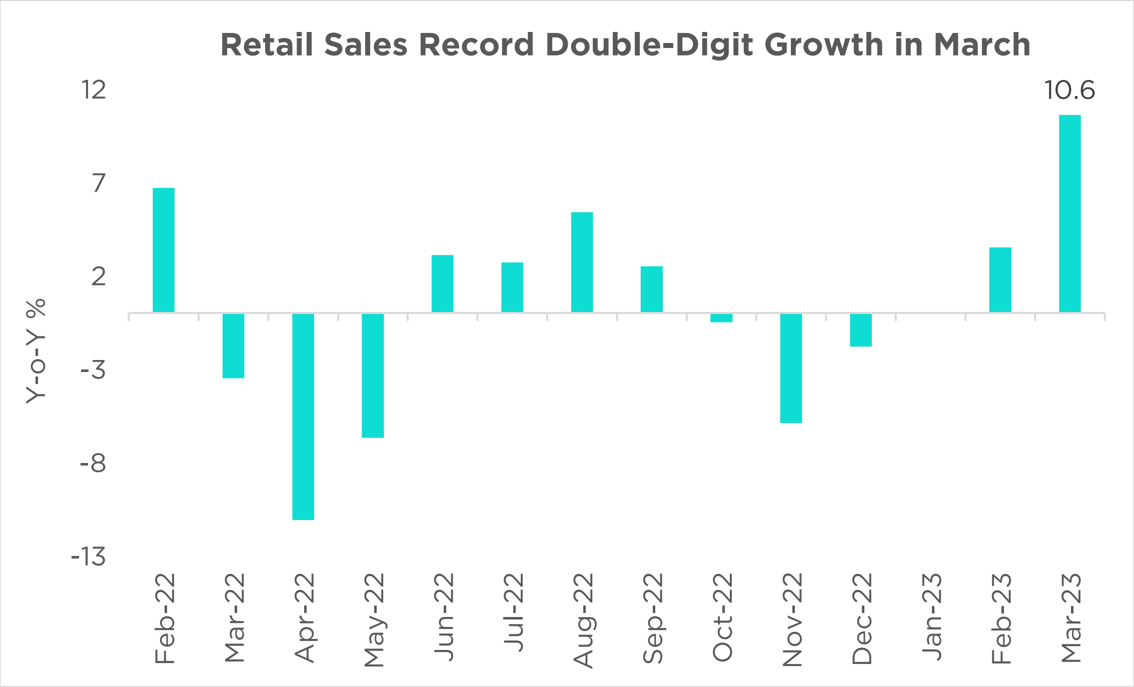
Source: CEIC

- US CPI eased to 5% y-o-y in March, its slowest pace since April 2021, while core CPI rose marginally to 5.6%.
- Private payrolls rose 236K in March, the smallest gain since December 2020, while wage growth slowed to a 2-year low of 4.2%.
- Receding concerns over inflation and a still tight labour market favoured bets of a Fed pause post a 25-bps rate hike in May.

Consumption Demand Drives China's Q1 GDP Growth



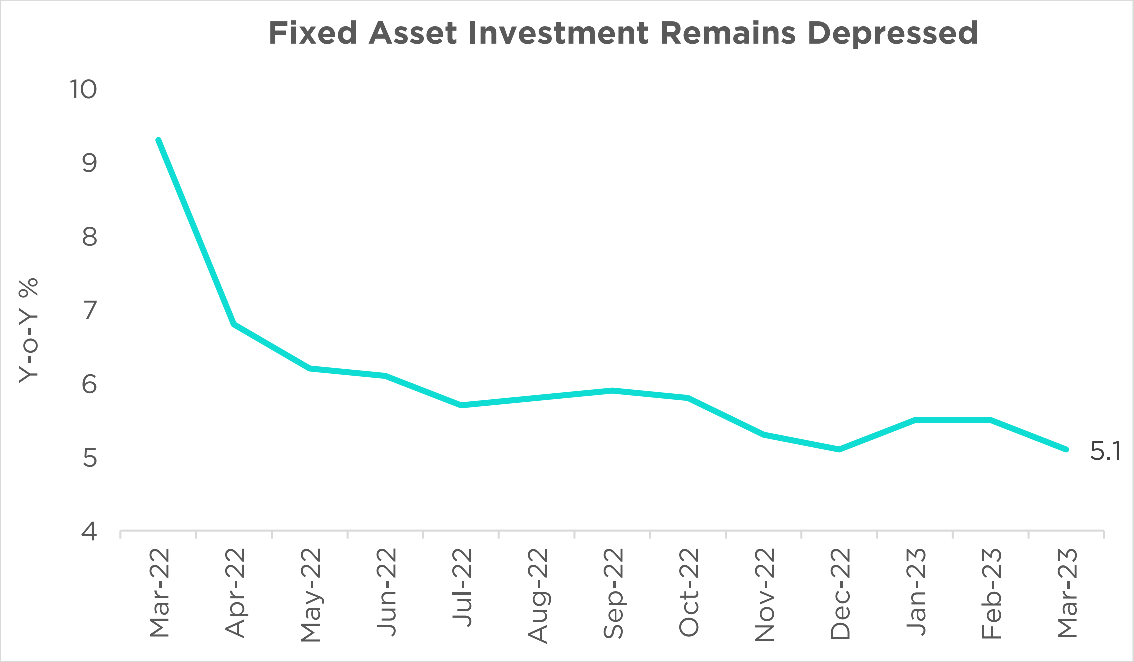
Source: CEIC



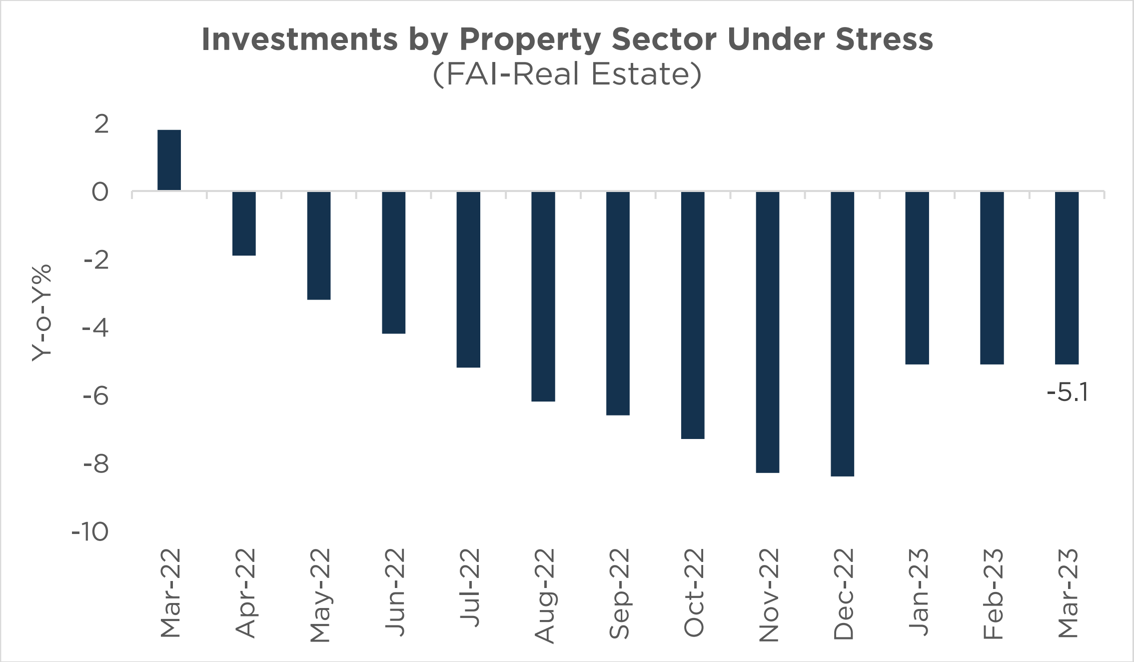
Source: CEIC

- Q1 2023 GDP growth rose 4.5% beating market expectations of a 4% rise, with consumption, particularly of services, being the main driver.
- Retail sales reported double-digit growth in March on a rebound in consumer demand and a favourable base.
- Sharp export growth in March (14.8% y-o-y) can be attributed to the release of backlog orders and a low base in the previous year.

China’s Property Sector Remains a Pain Point



Source: CEIC

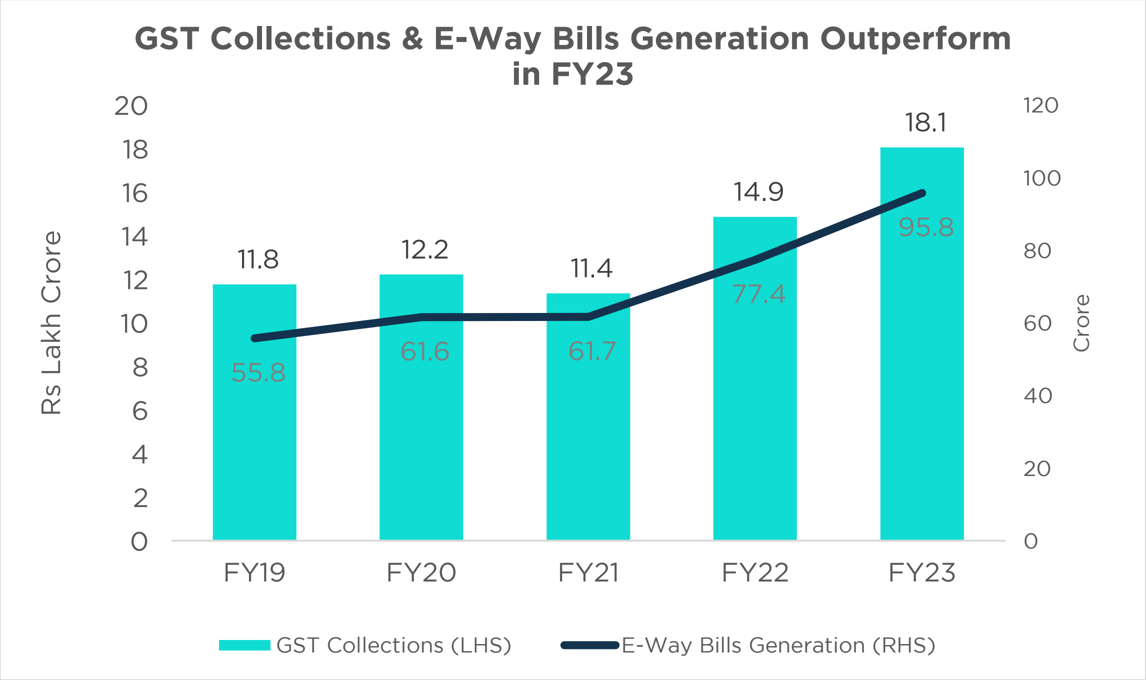


Source: CEIC

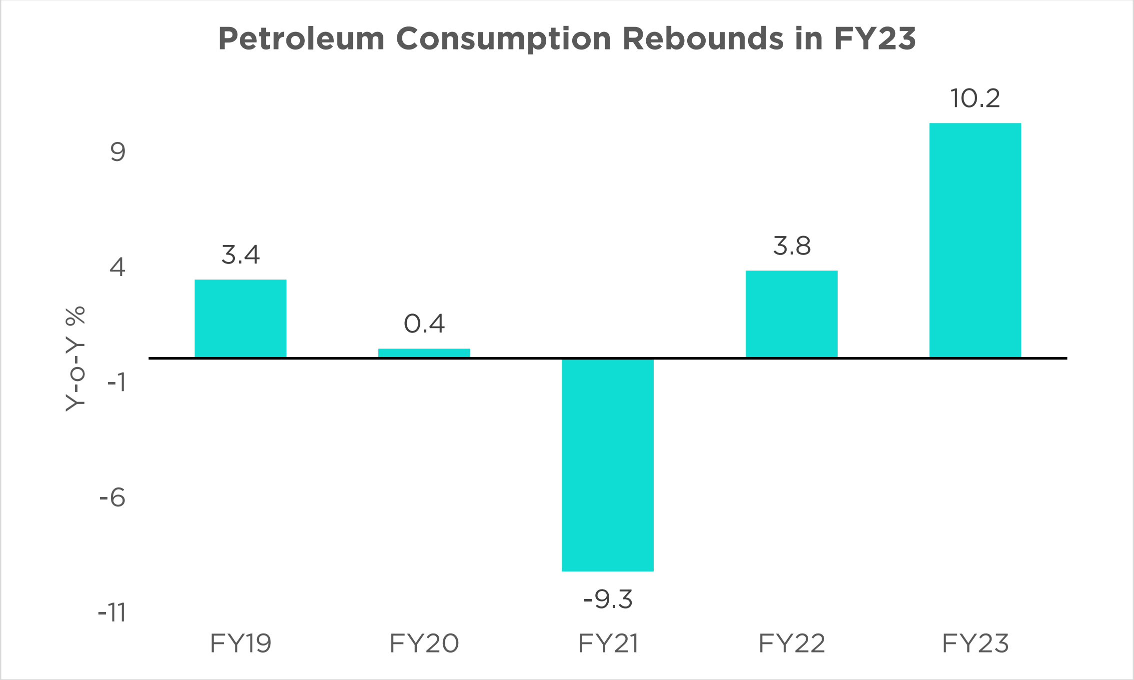
- Fixed asset investment (FAI) growth eased to 5.1% in March, amidst a continued decline in investments by the property sector.
- FAI in the real estate sector contracted 5.1% in March, lower than the consensus estimate of 5.7%.

Domestic Economy

Consumption Indicators Healthy



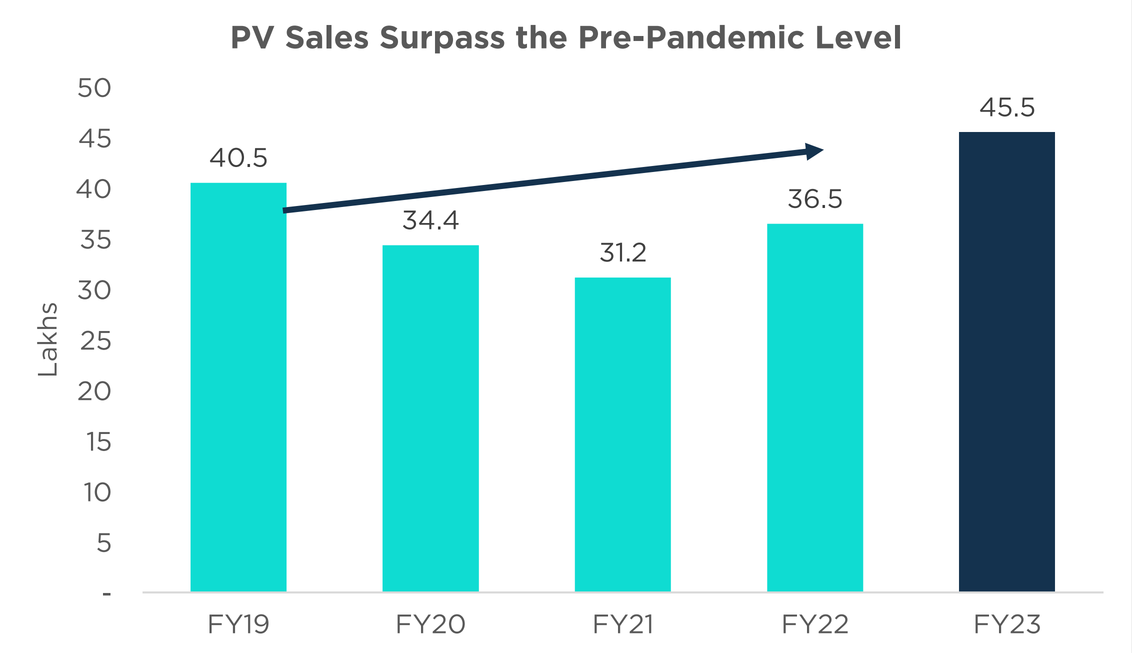
Source: CEIC



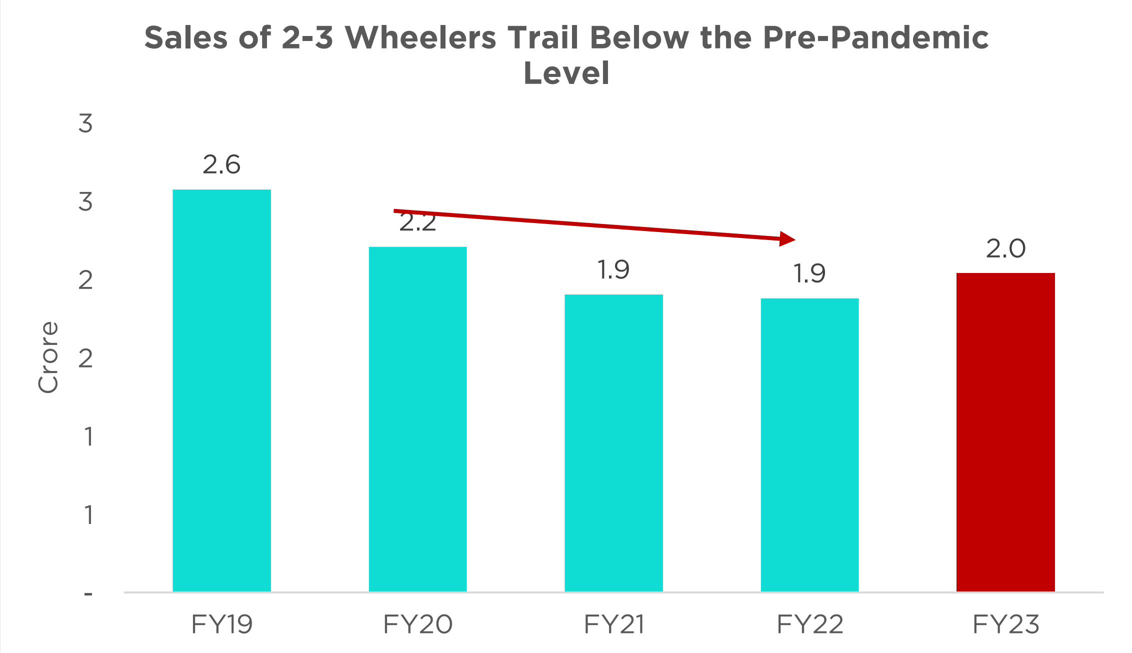
Source: CEIC

- Consumption indicators such as GST collections, E-way bills generation, and petroleum consumption exhibited a healthy performance in FY23.
- Going ahead, consumption could see some moderation amid waning pent-up demand.

Auto Sales A Mixed Bag in FY23



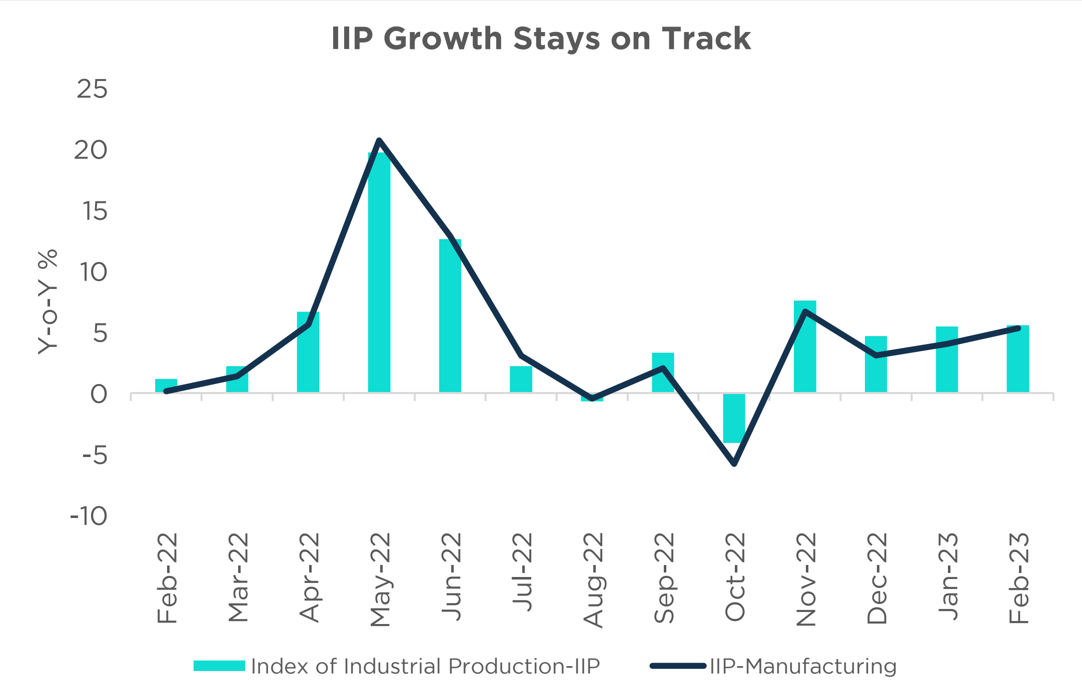
Source: CMIE



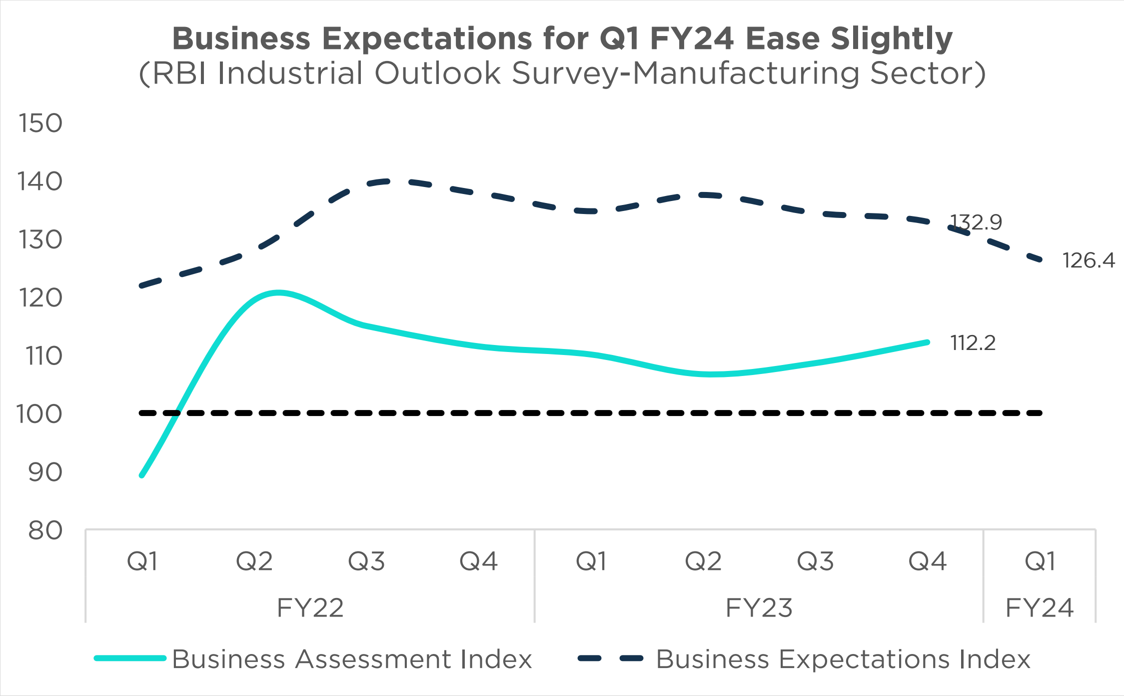
Source: CMIE

- Auto sales showed a mixed performance in FY23 with PVs and tractor sales surpassing the pre-pandemic level (FY20) by 32.5% and 37% respectively.
- Sales of 2-3 wheelers lagged by 7.7% compared to the pre-pandemic year reflective of weakness in rural consumption demand.
- While easing rural inflation is likely to aid the recovery in rural demand, risks from unfavourable weather conditions could pose a headwind.

Industrial Activity Resilient; Business Expectations Ease



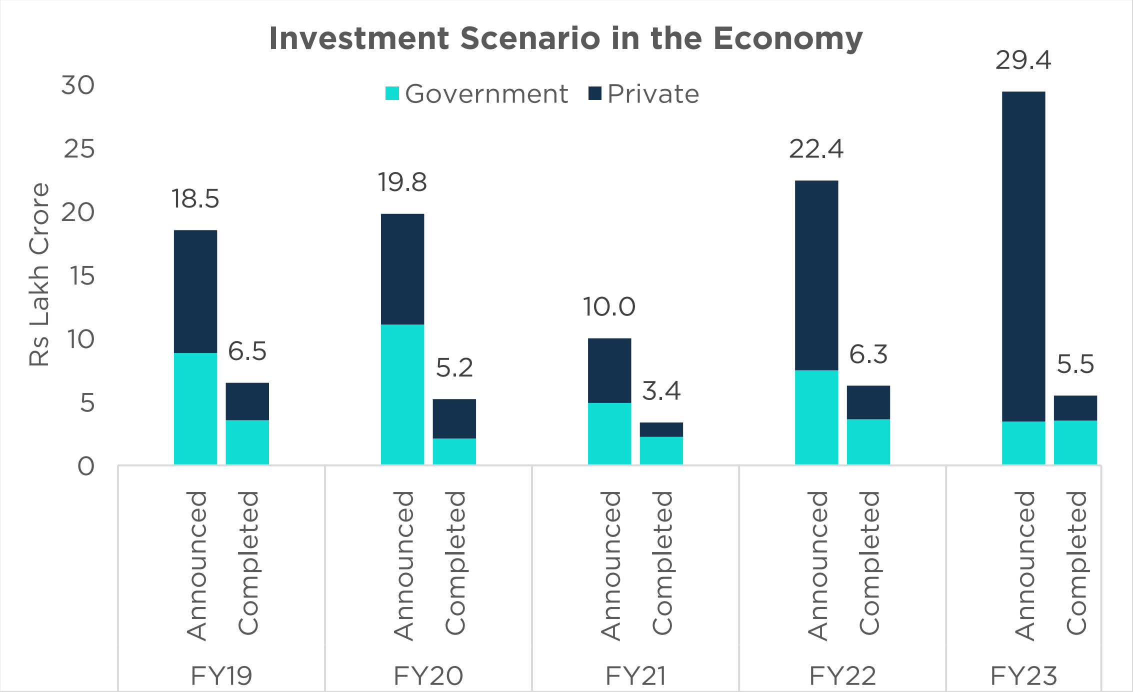
Source: CEIC; Note: Figures for May & June are high due to base-effect



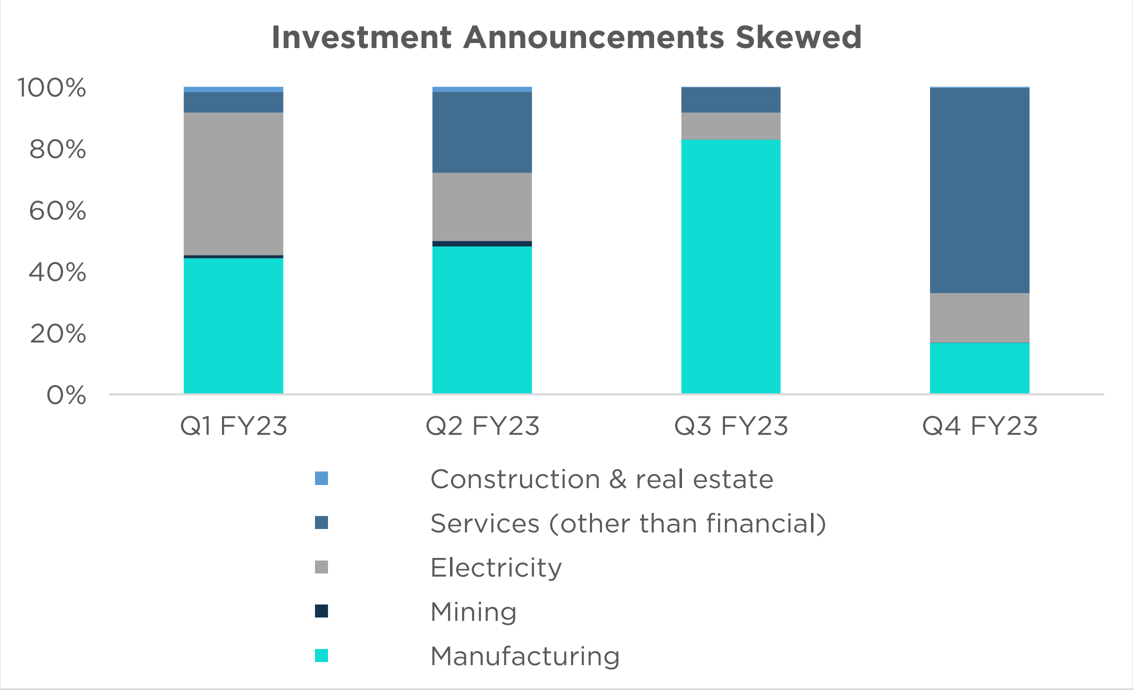
Source: CEIC

- Industrial output recorded year-on-year growth for the fourth straight month rising 5.6% in February from 5.5% in the previous month.
- March PMIs for manufacturing (at 56.4) and services sectors (at 57.8) stayed in the expansion zone.
- Though PMIs signalled resilience, hiring activity was muted as payroll numbers remained unchanged.
- RBI industrial outlook survey showed while business assessment has improved for Q4 FY23, there is lower optimism among manufacturers for Q1 FY24.

Investment Completions Dipped in FY23



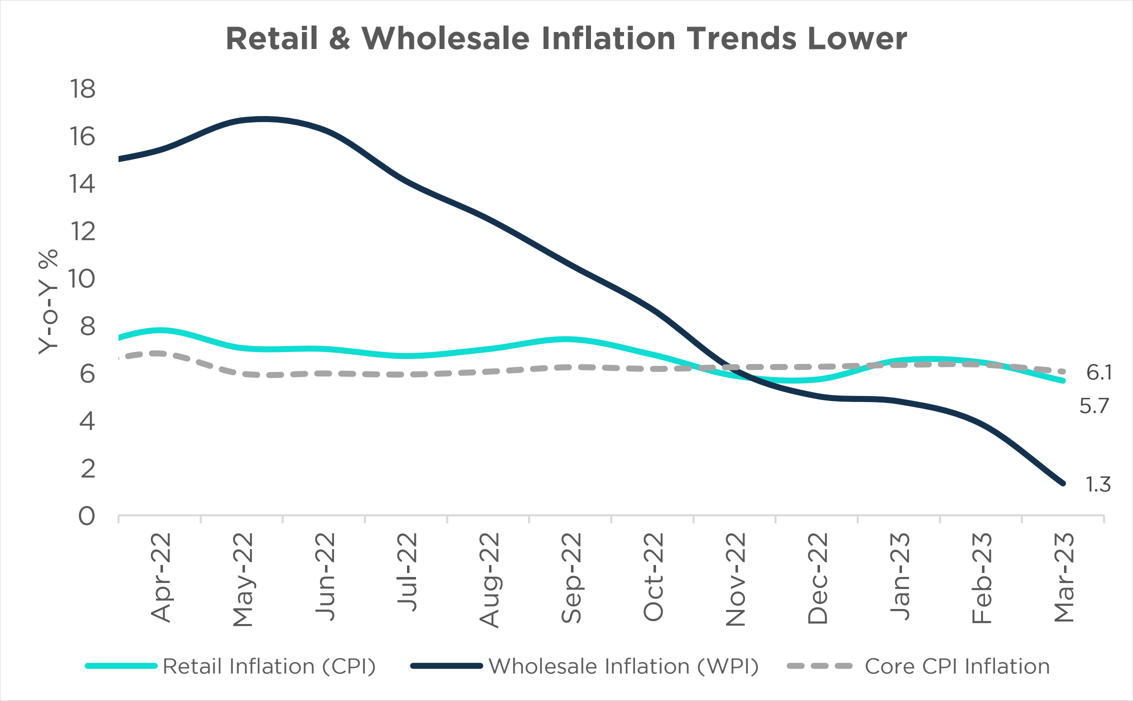
Source: CMIE



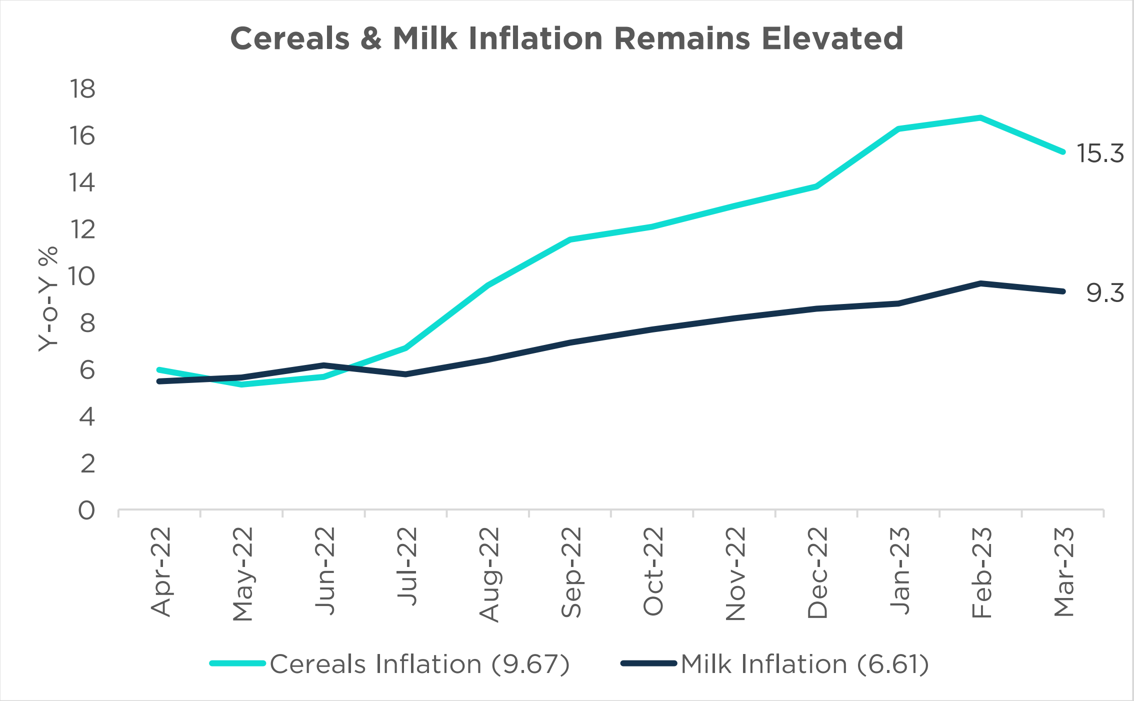
Source: CMIE

- New investment proposals jumped in FY23 with announcements worth a record high of Rs 12.4 lakh crore in Q4.
- In Q4 FY23, 90% of investments announced in services were skewed toward transport services while chemicals led the manufacturing segment.
- Despite the high investment announcements, the value of projects completed in FY23 dipped to Rs 5.5 lakh crore from Rs 6.3 lakh crore in FY22.
- In FY23, the government sector led the investments completed with a share of 64% while the private sector led the fresh proposals with an 88% share.

Inflationary Pressures Ease



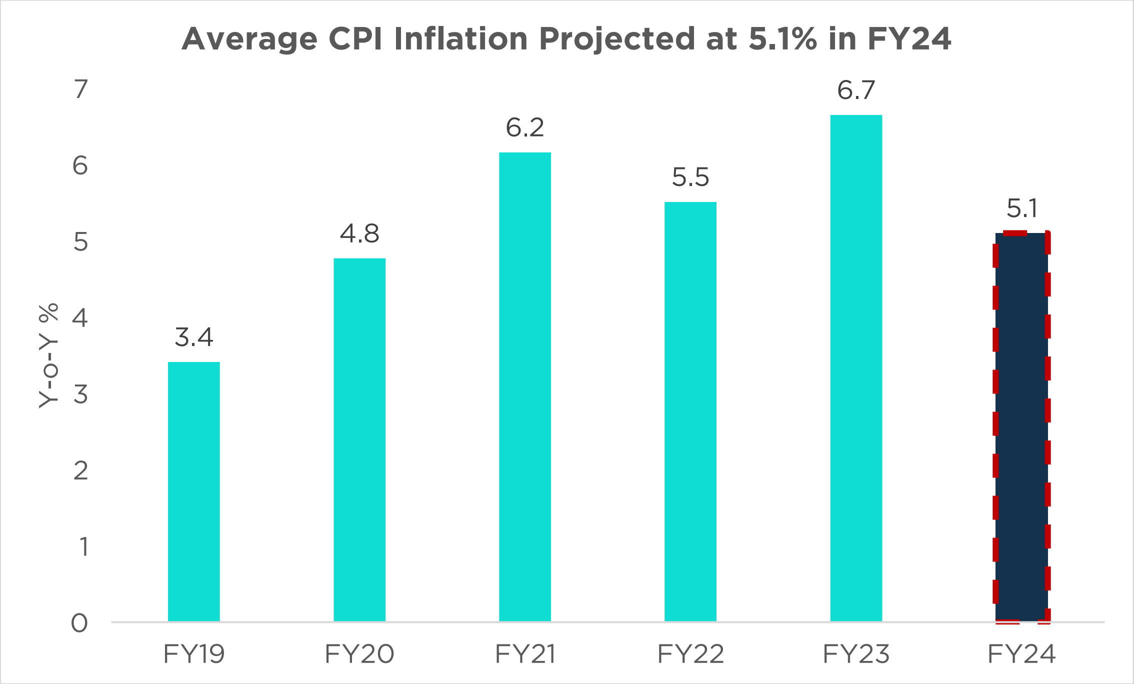
Source: CEIC & CareEdge



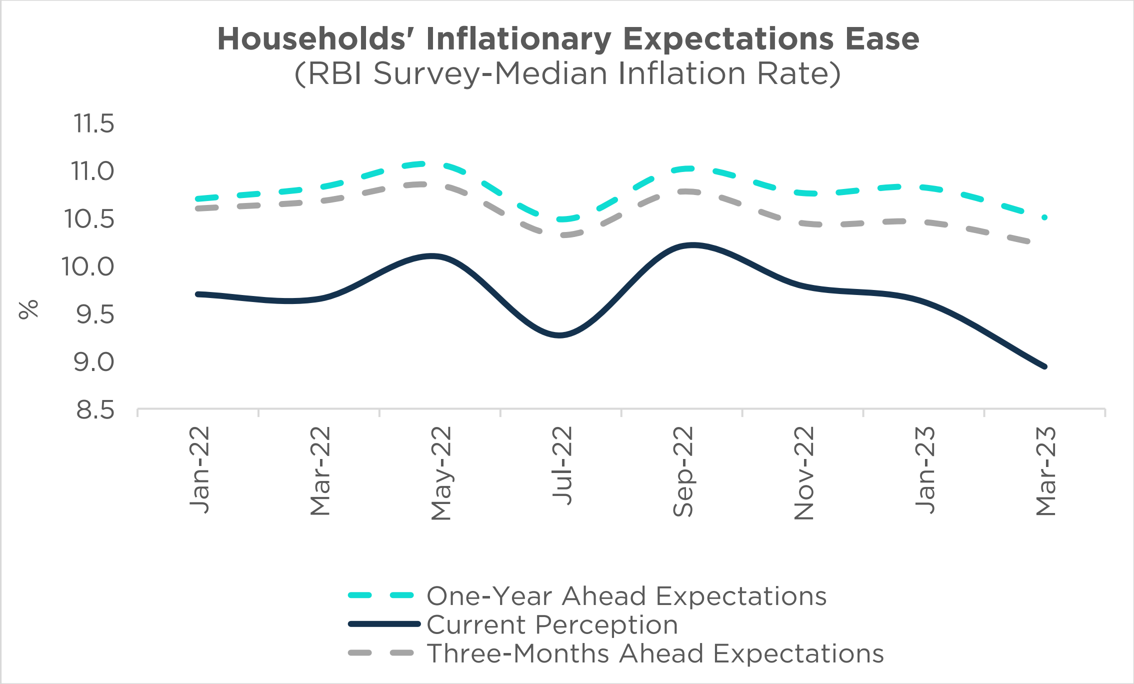
Source: CEIC; Note: Figures in brackets represent weight in the overall CPI index

- March CPI inflation eased due to moderation in food inflation (its share in overall inflation moderated to 41.3% in March from 49.3% last year).
- Cereals inflation stayed in double-digits for the 7th straight month but witnessed some moderation due to supply-side measures to ease wheat prices.
- Milk inflation remained elevated at 9.3% due to high fodder and transport costs and lower milk supply due to the lumpy skin disease in cattle.
- Core inflation though moderating, remained elevated above 6%, on firming prices in the housing and healthcare categories.

Retail Inflation Projected to Moderate in FY24



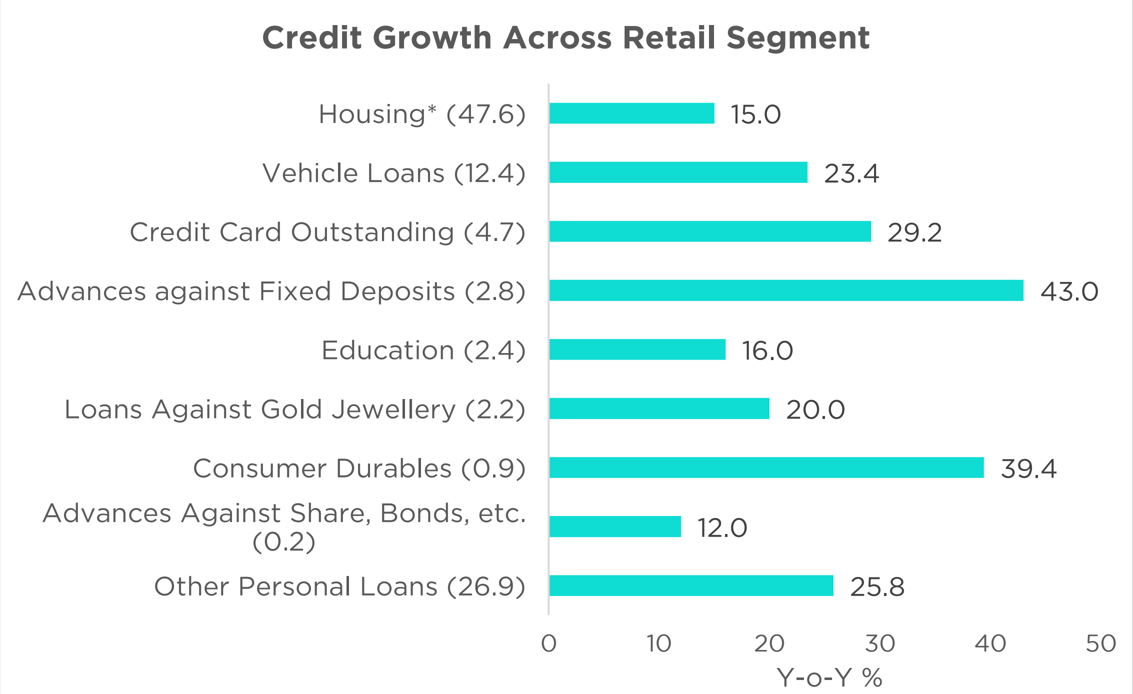
Source: CMIE & CareEdge Projections



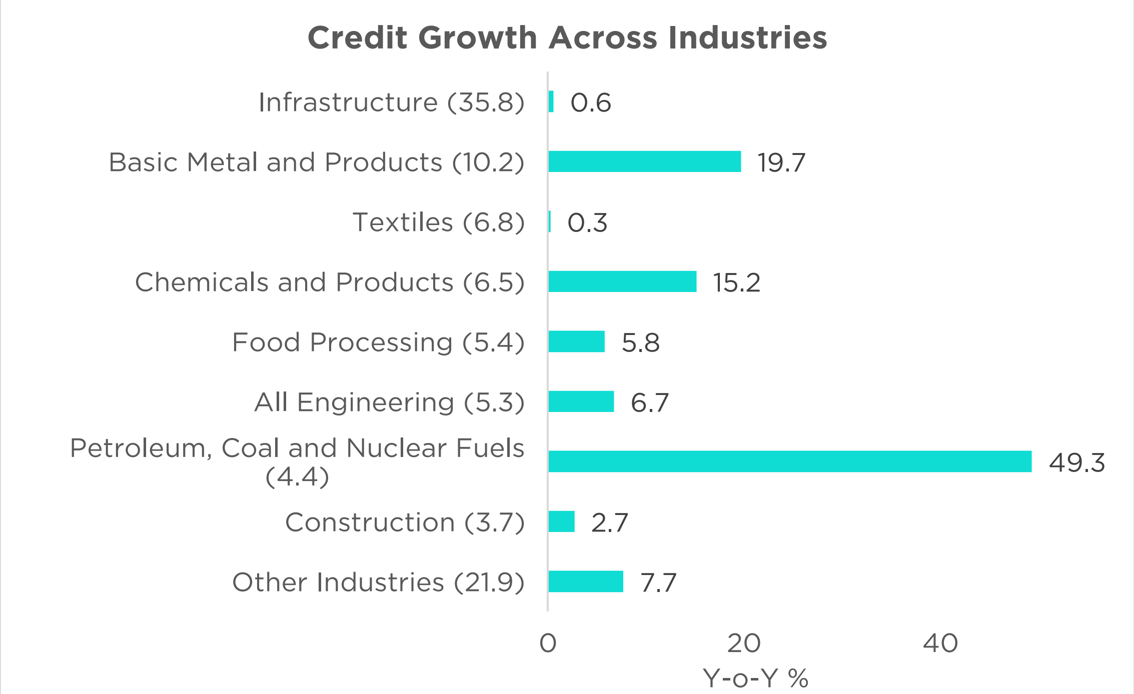
Source: CEIC

- Impact of past rate hikes, favourable base, some easing in pent-up demand, and lower commodity prices are likely to aid the moderation in retail inflation.
- Average retail inflation is projected to moderate to 5.1% in FY24 with inflation in Q1 pegged at 4.8%.
- Monsoon related uncertainties pose upside risk to retail inflation.

Bank Credit Growth Healthy



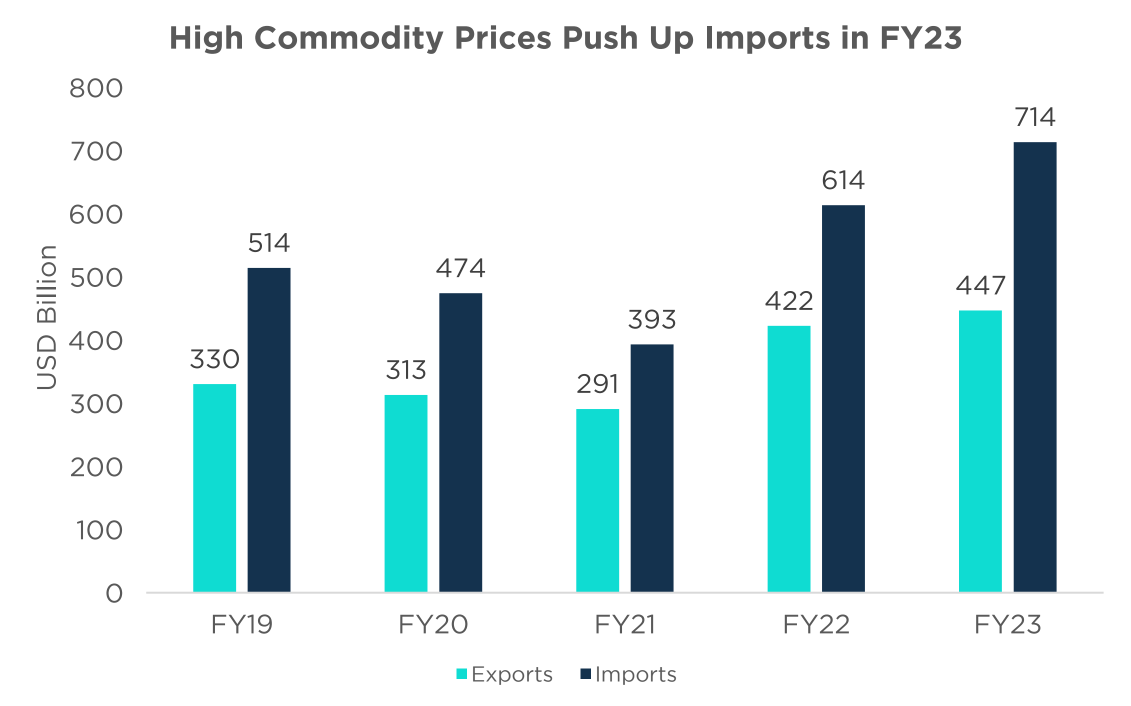
Source: RBI, Note: Figures in bracket represent share in total retail credit;
*Includes Priority Sector Housing



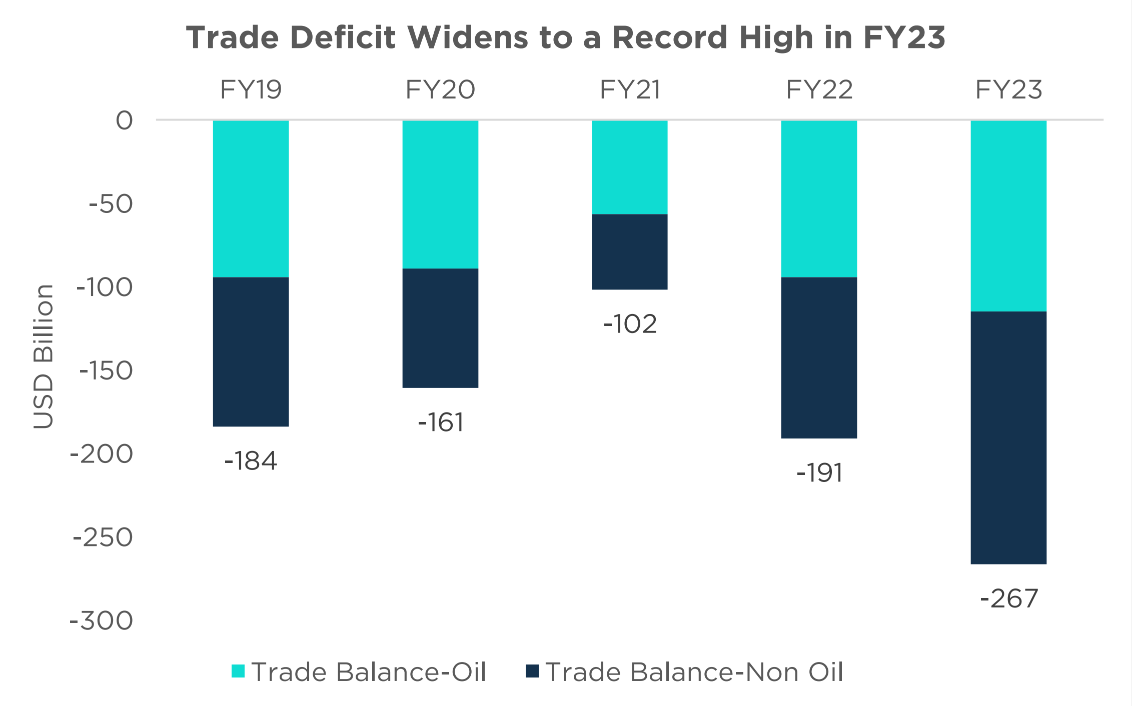
Source: RBI; Note: Figures in bracket represent share in total industrial credit.

- Gross bank credit grew by a healthy 15.5% y-o-y as of end-February 2023.
- Bank credit growth was driven by the retail segment (20.4% growth) followed by services (20.7%) and industry (7%).
- Credit growth is likely to moderate to 12% in FY24 from estimated growth of 15% in FY23.

Trade Deficit Widens to a Record High in FY23



Source: CMIE

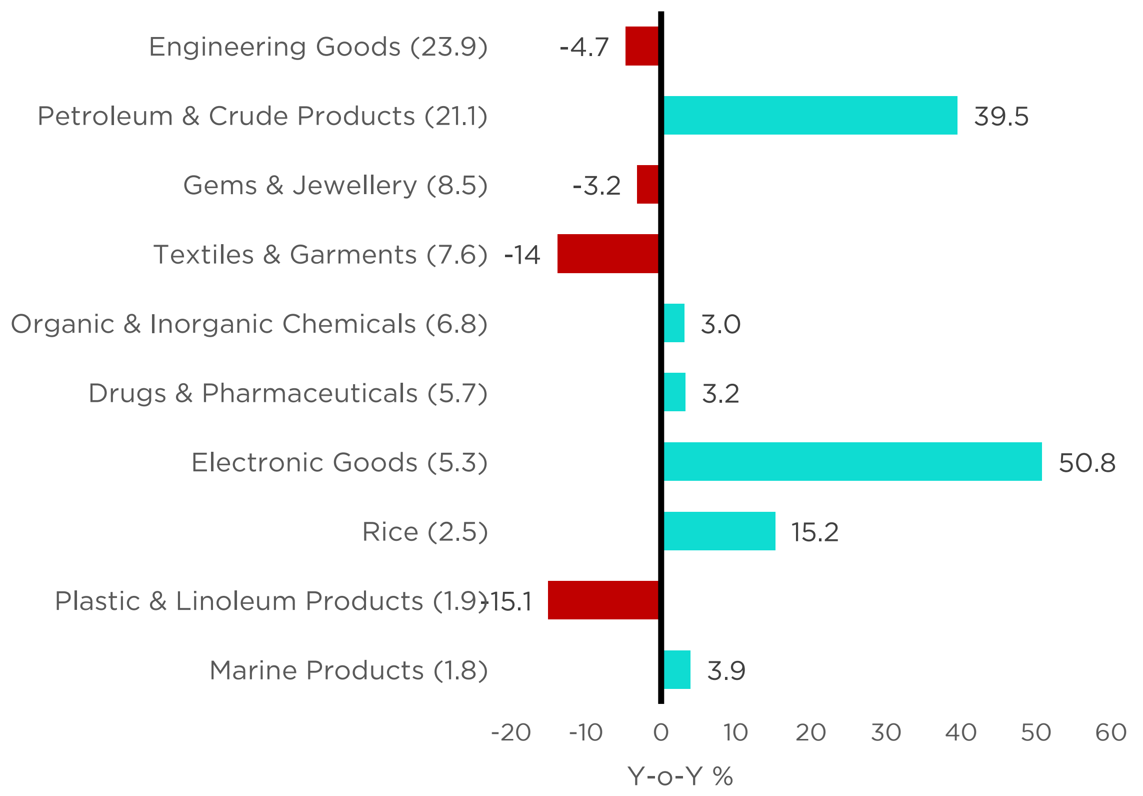


Source: CMIE

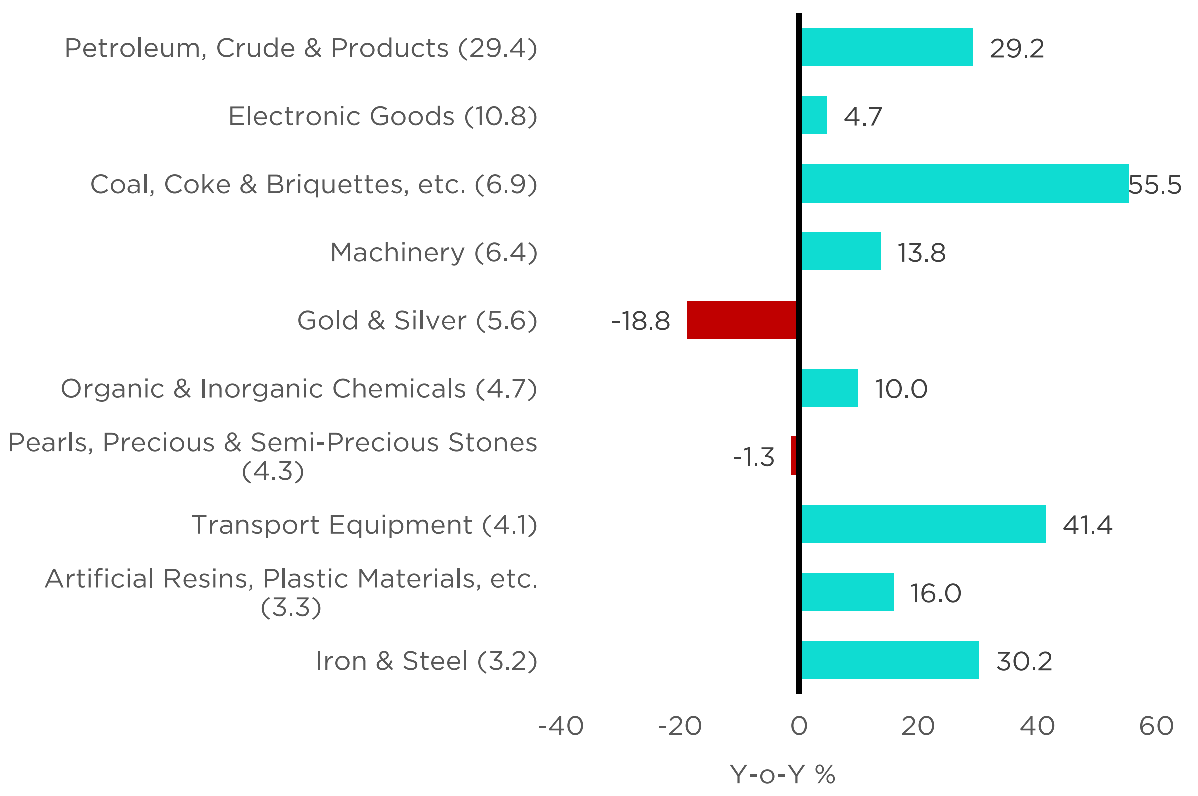
- India's FY23 merchandise trade deficit surged to a record high due to a sharp increase in imports (by 16%) outweighing the rise in exports (by 5.8%).
- Export growth in FY23 was led by petroleum exports (39.5% growth) while non-petroleum exports were marginally lower by 0.6%.
- Elevated commodity prices pushed up the value of imports with both oil and non-oil imports recording a growth of 29.2% and 11.6% respectively in FY23.
- Amid continued weakness in global demand, we project merchandise exports to contract by 5% in FY24.
- However, we estimate moderation in trade deficit in FY24 owing to lower imports and healthy services exports.

Trade Performance of Key Items in FY23

Top Ten Export Items in FY23



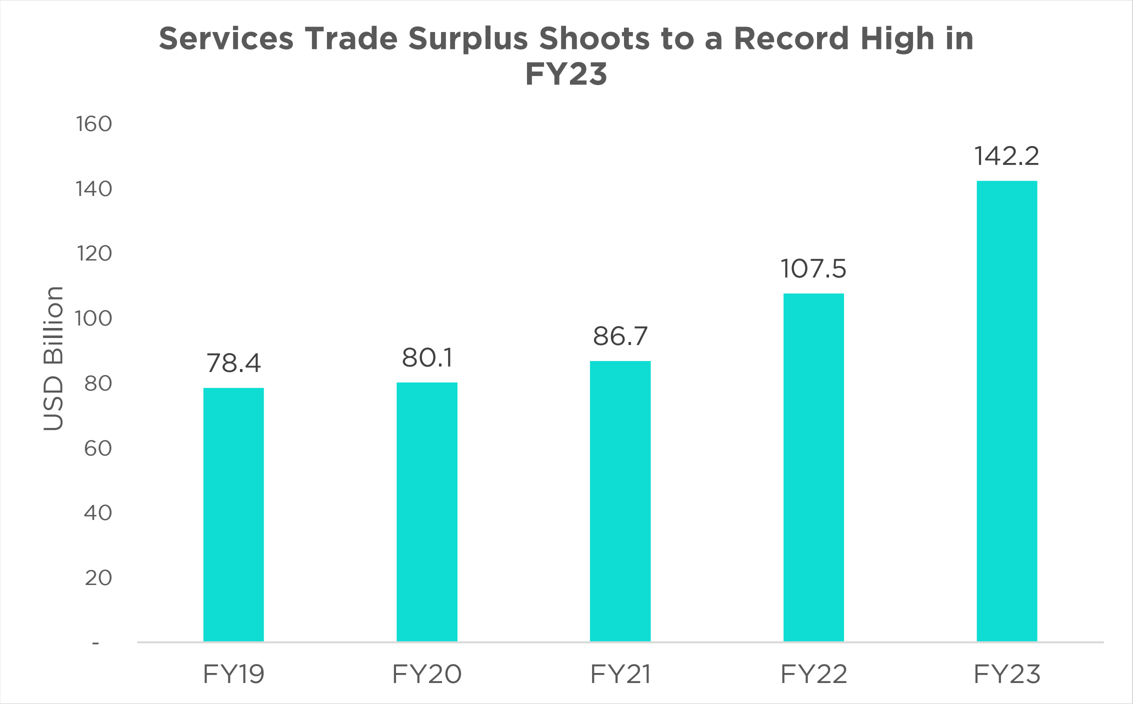
Top Ten Import Items in FY23



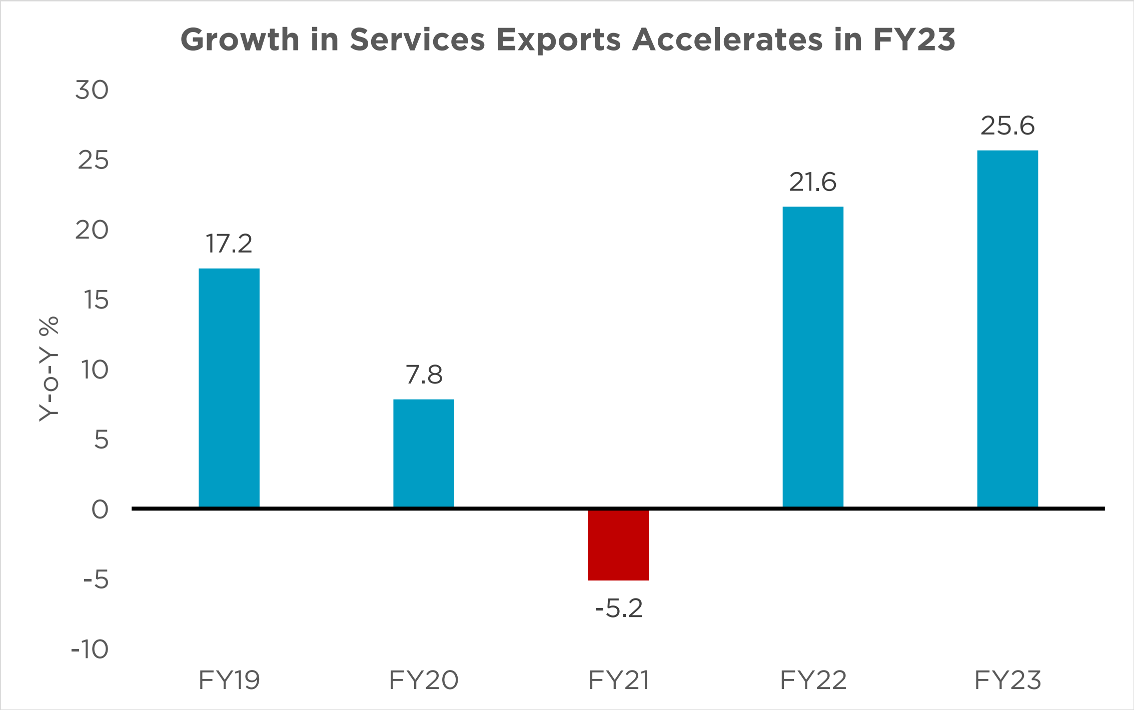
Source: CMIE; Note: Figures in bracket represent the share in overall exports/imports
Textiles & Garments include ready-made garments, cotton yarn/fabrics/made-ups, handloom products, man-made yarn/fabrics/made-ups, jute manufacturing including floor covering, carpet etc.
Machinery includes electrical & non-electrical

Services Trade Bags the Sweet Spot in FY23

CareEdge RATINGS



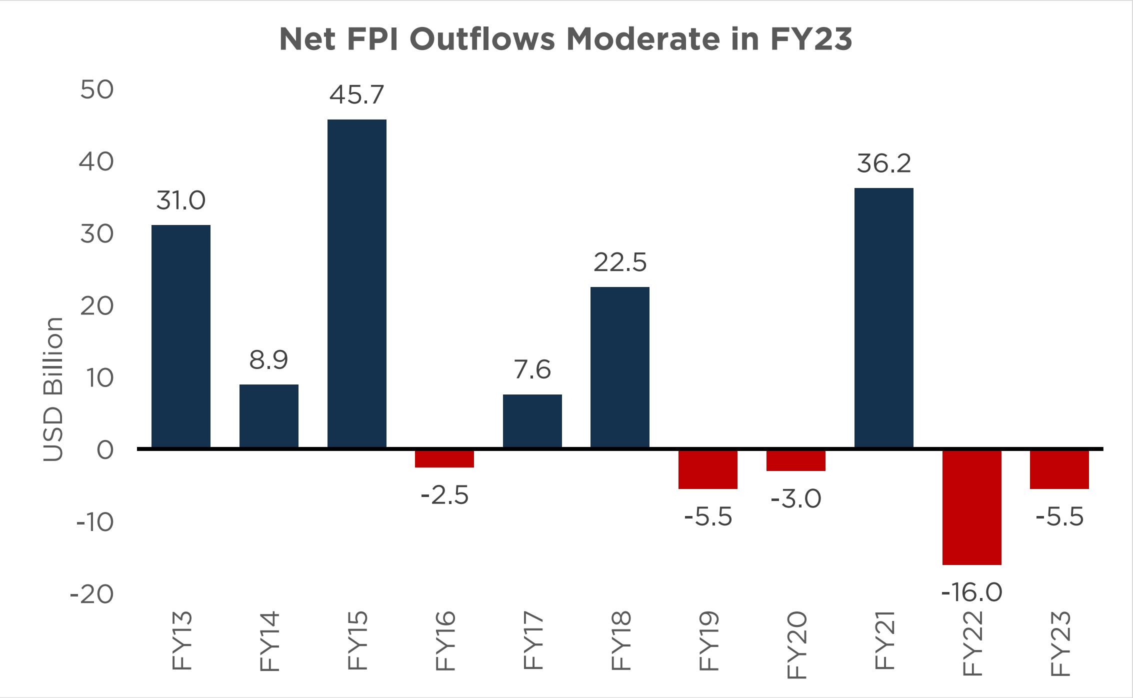
Source: CEIC



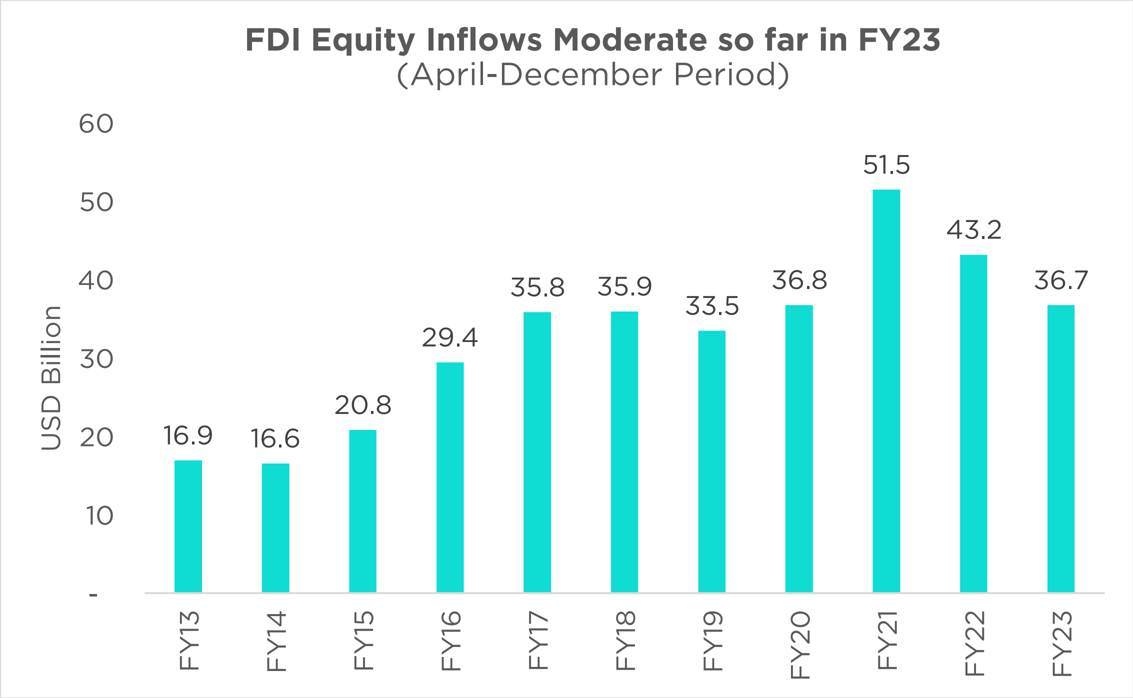
Source: CEIC

- Services exports have stayed resilient in the face of global economic headwinds, rising by 25.6% in FY23.
- Strong services exports translated into a record-high services trade surplus of USD 142 billion in FY23.
- Services exports are likely to remain upbeat in FY24, however, growth momentum could see some moderation.

Foreign Investment Flows Moderate



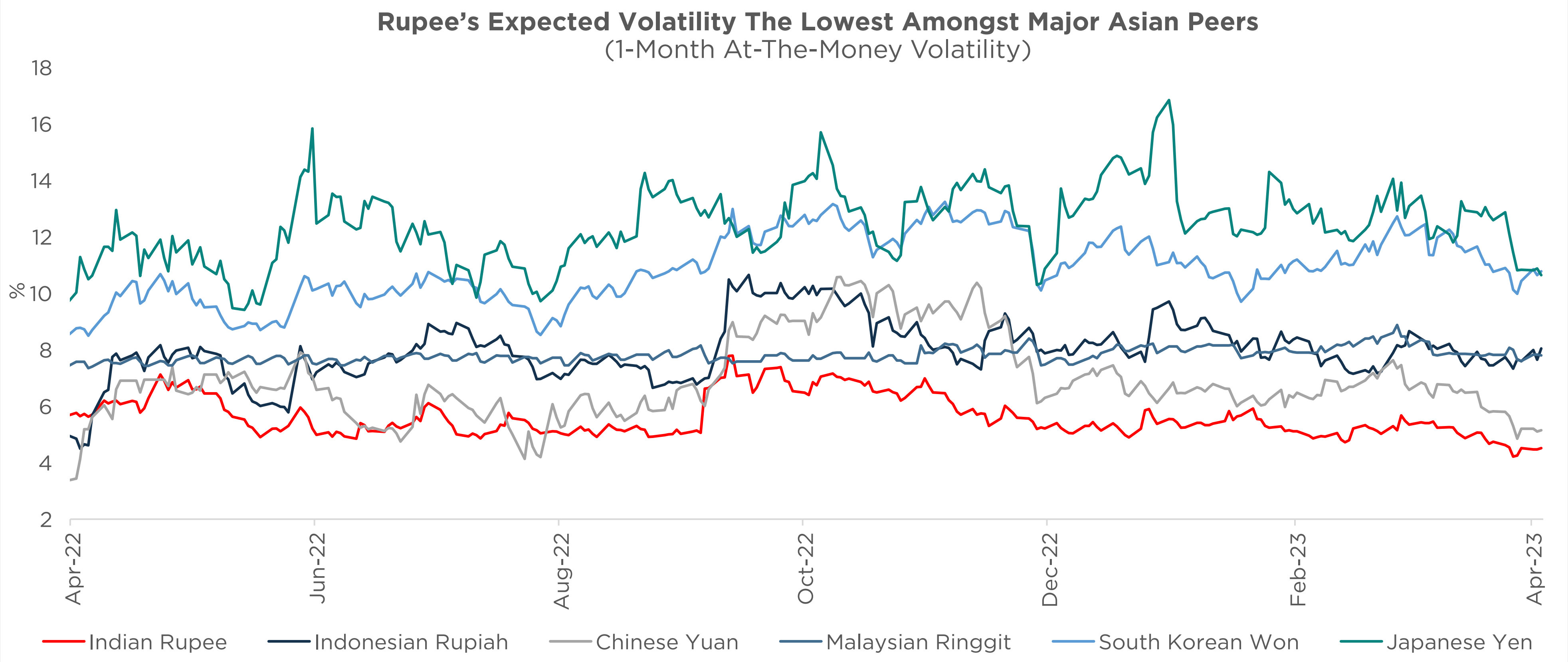
Source: NSDL



Source: CEIC

- FPI inflows improved to USD 0.7 billion in March as against outflows of USD 0.5 billion in February. However, overall net FPI outflows were at USD 5.5 billion in FY23.
- Net FPI inflows have stood at USD 0.8 billion so far in April.
- Amid slowing global growth, FDI equity inflows during the April-December period of FY23 have been lower by nearly 15% compared to a year ago.

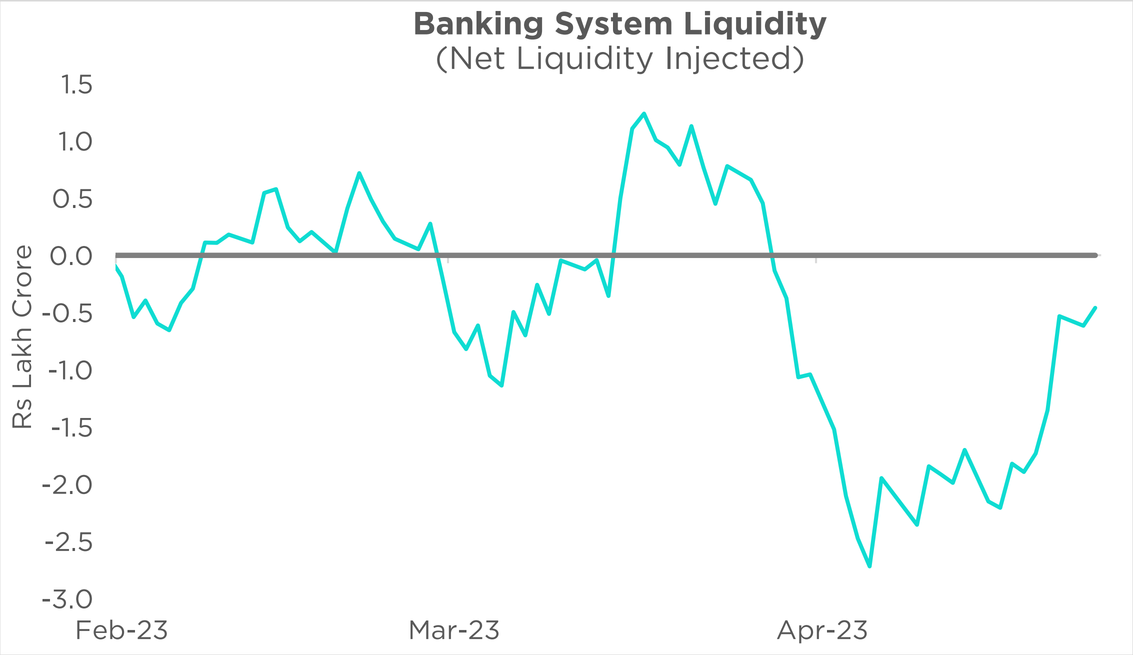
Low INR Volatility Presents Carry Trade Opportunity



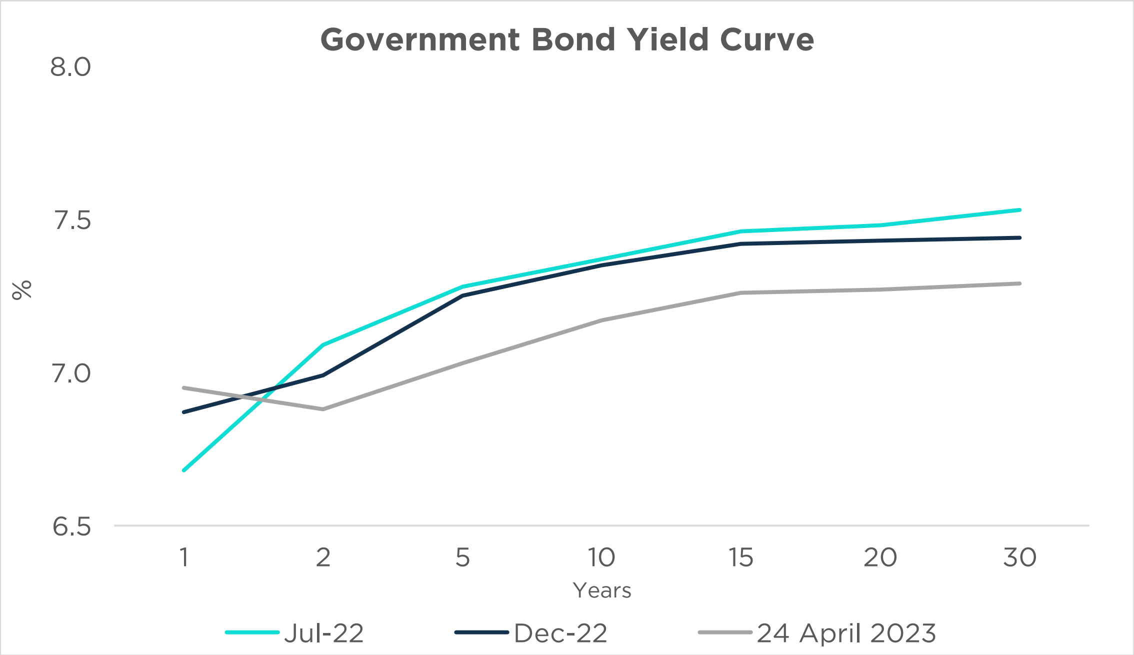
Source: Refinitiv

- Low volatility and interest rate differential to benefit INR via attractive carry trades in FY24.
- We expect rupee to appreciate towards 81 levels by end-FY24 on dollar weakness and narrowing CAD.

Banking System Liquidity Turns to Surplus



Source: CEIC; (+) denotes deficit, (-) denotes surplus



Source: CEIC

- Banking system liquidity turned to surplus in April on account of government spending and RBI FX intervention.
- Liquidity infusion was somewhat offset by LTRO/TLTRO redemptions.
- To keep liquidity near neutral, RBI could continue conducting VRRR auctions.
- 10-year benchmark bond yield eased 19 bps to 7.03% in the month after RBI left policy rates unchanged at the April meeting.

CareEdge Economy Outlook

Economic Growth

GDP growth projected at **6.8%** for FY23 and **6.1%** for FY24

Inflation

Average inflation projected at **5.1%** for FY24

Current Account Deficit

CAD (as % of GDP) projected at **2.1%** in FY23 and **1.6%** in FY24

Fiscal Deficit

Fiscal deficit (as % of GDP) pegged at **5.9%** in FY24

Interest Rates

10-Year G-Sec Yields to range between **7-7.2%** by end-FY24

Currency

USD/INR projected to be at **81-83** by end of FY24

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