

India: The Economic Pathway

May 2023

Global Economy

US FEDERAL RESERVE

- Target rate raised by 25 bps to 5-5.25%. The cumulative rise in rate hikes now stands at 500 bps over the last one year.
- Fed softened language on future rate increases, dropping reference to 'additional policy firming'.
- Chair Jerome Powell pushed back on potential rate cuts as inflation has a 'long way to go' before coming down to the 2% target.
- In contrast, markets are pricing in 50 bps of rate cuts in 2023.

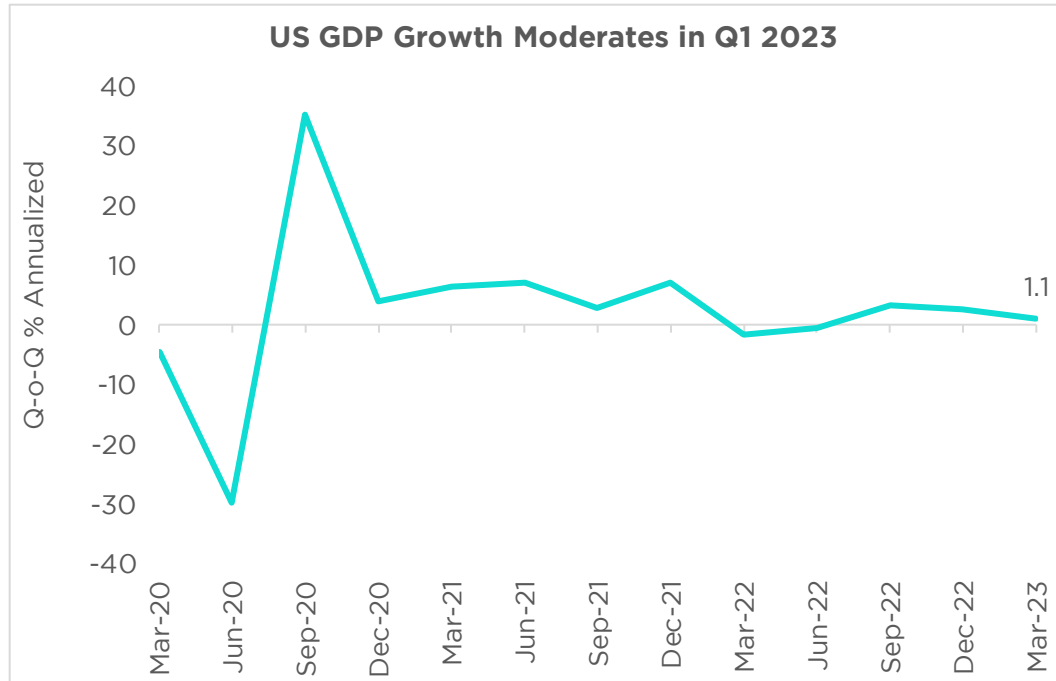
EUROPEAN CENTRAL BANK

- ECB raised the policy rate by a smaller quantum of 25 bps to 3.25%, taking the total quantum of hikes to 375 bps.
- President Christine Lagarde's comments on inflation outlook being too high for too long left door open for future rate increases.
- Governing Council announced discontinuation of reinvestments under the Asset Purchase Program (APP) from July 2023. This will help reduce balance sheet size of the ECB.
- According to President Lagarde, stopping APP reinvestments would amount to a monthly average of €25 billion that will not be reinvested.

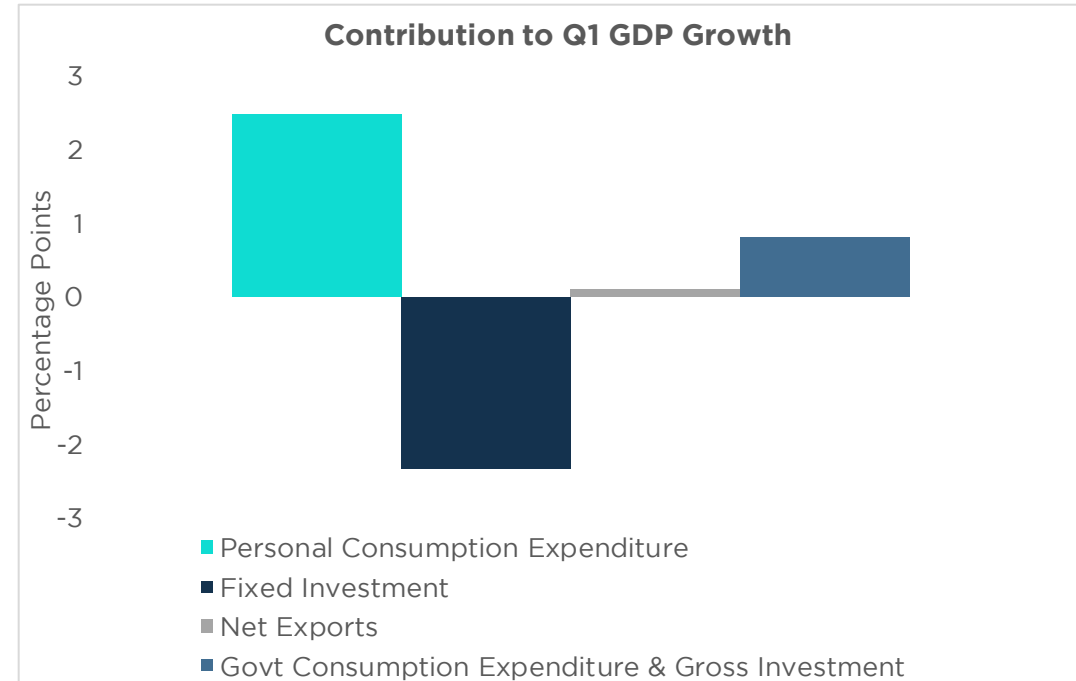
BANK OF ENGLAND

- BOE raised policy rate by 25 bps to 4.5%, taking the total quantum of rate increases to 440 basis points.
- CPI and GDP growth estimates for 2023 were revised higher at 5% and 0.25%, respectively, from 4% and -0.5% projected in February.
- Demand expected to be stronger than estimated in February on account of lower energy prices and fiscal support in the Spring Budget.
- Evidence of persistent wage growth and services price inflation could warrant further tightening in monetary policy.

Healthy Consumer Spending Supported US Q1 GDP Growth



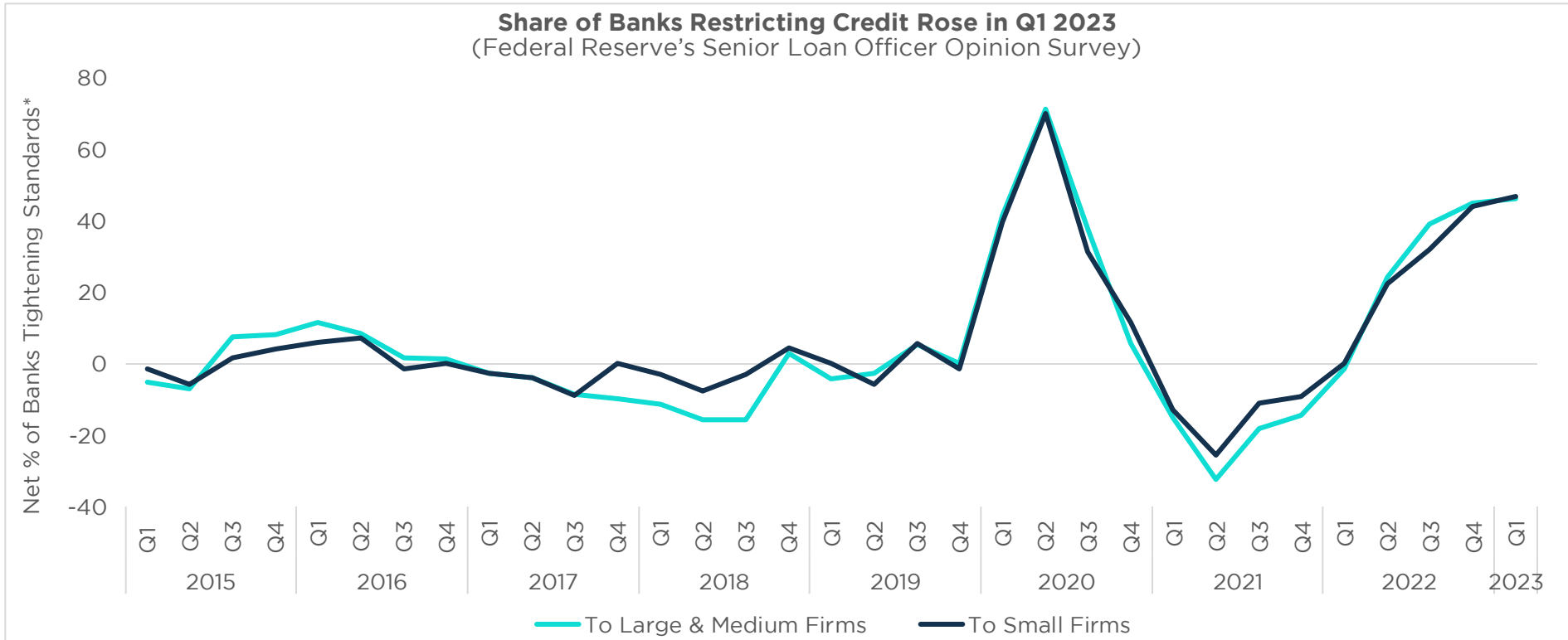
Source: CEIC



Source: CEIC

- US GDP grew 1.1% in Q1 2023 (vs 2.6% in Q4 2022), as robust consumer spending (3.7%) kept the economy from contracting.
- Decline in gross private domestic investment, led by sharp fall in inventories, weighed on GDP growth in Q1.
- Looking ahead, tighter lending conditions could curtail consumption demand in the coming quarters.

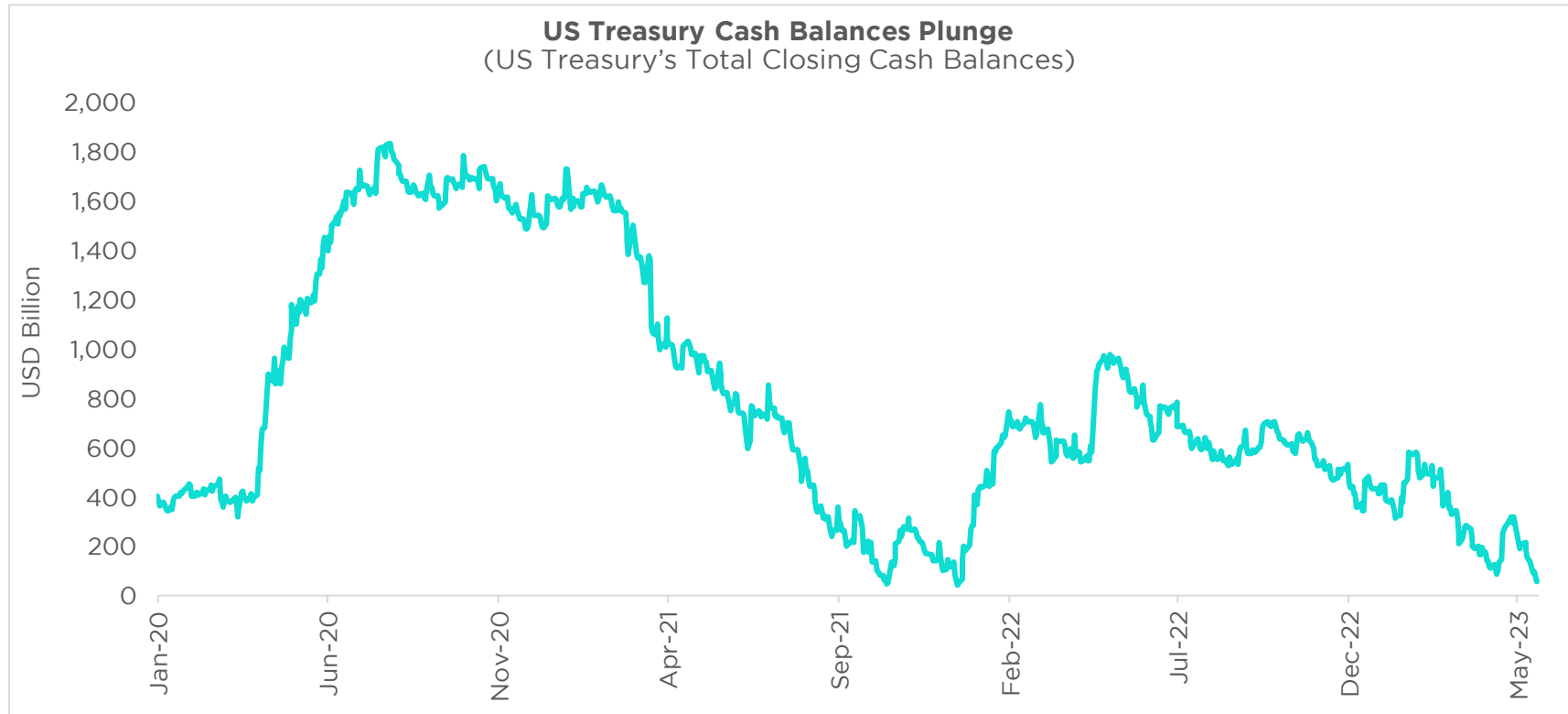
US Banks Expect Lending Conditions to Tighten Further



Source: Refinitiv (*Standards for commercial and industrial loans)

- The survey showed net 46% of banks tightened terms of credit for medium and large businesses, from 44.8% in the prior survey.
- For small firms also the conditions were stringent with a net 46.7% of banks saying credit terms were stiffer.
- For the remainder of 2023, banks expected lending standards to tighten further citing deterioration in the credit quality of their loan portfolios, low risk tolerance, and concerns about bank funding costs, liquidity position, and deposit outflows.

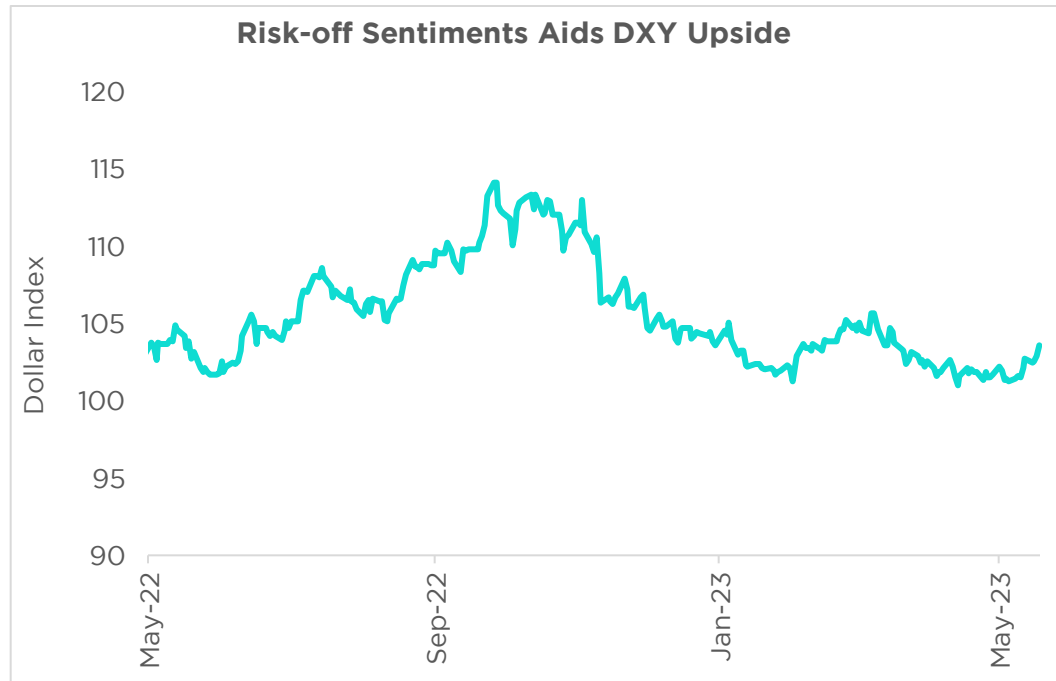
US Treasury Cash Balance Dwindles on Debt Ceiling Standoff



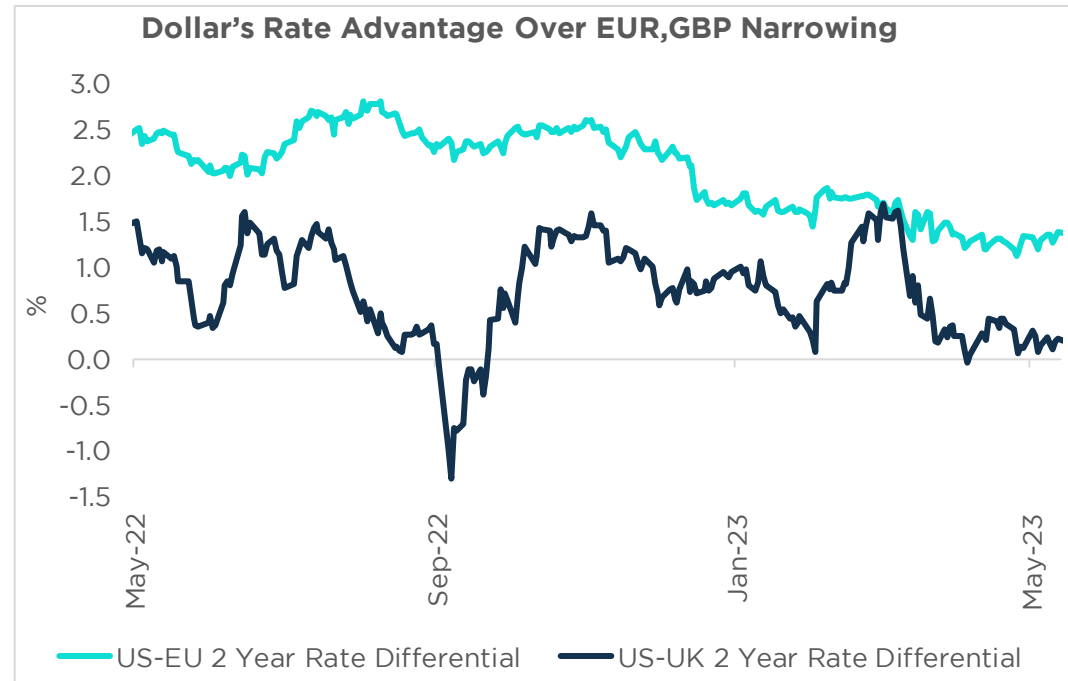
Source: Refinitiv

- Cash balances of the US Treasury plunged to USD 57.3 billion as on May 18.
- Treasury has USD 92 billion in borrowing capacity remaining under currently available extraordinary cash management.
- Dwindling cash balances underscore the narrowing window for resolving the debt ceiling deadlock.

Risk Aversion Favours Dollar; Rate Advantage Narrowing



Source: CEIC

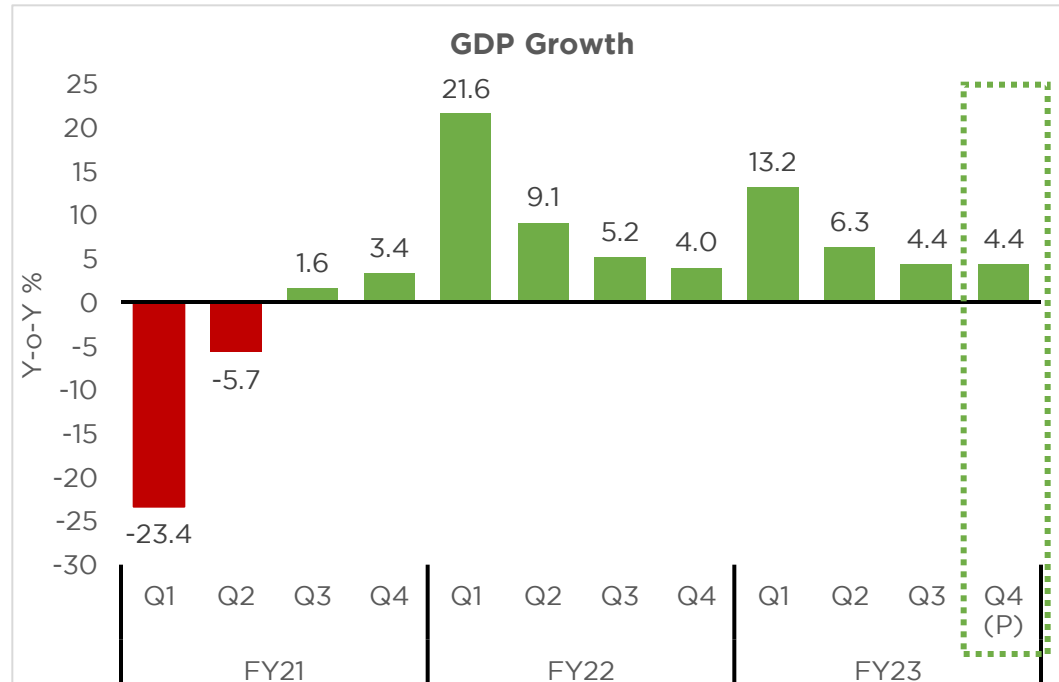


Source: Refinitiv

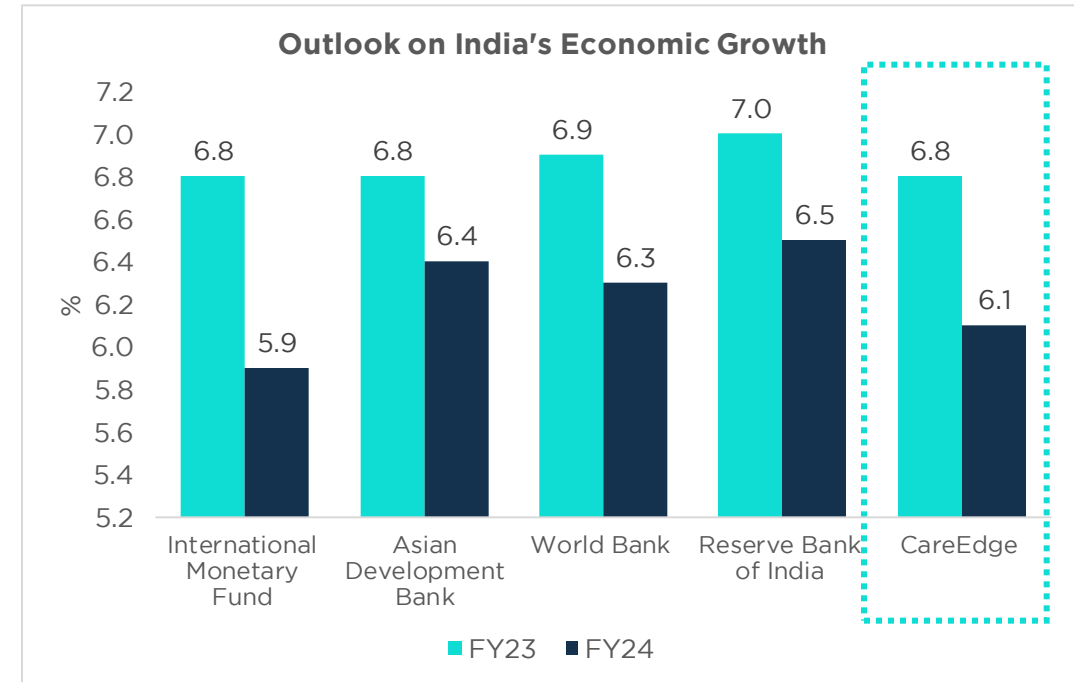
- Risk aversion in midst of uncertainties around debt ceiling revision, supported the dollar in the last one month.
- Hawkish European central banks have however narrowed dollars rate advantage over EUR and GBP.
- With chances of future Fed rate hikes unlikely, there would be weakening pressure on USD in the coming months

Domestic Economy

GDP Growth Projected at 4.4% in Q4 FY23



Source: CEIC; CareEdge Projection



Source: IMF, ADB, WB, RBI & CareEdge; FY24 Projections

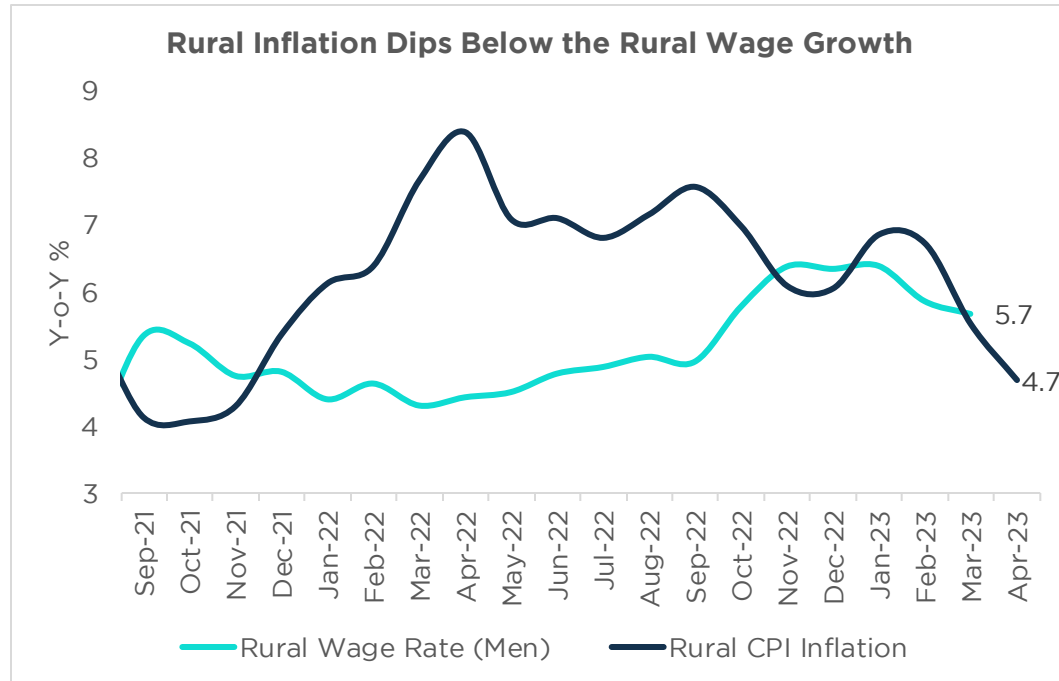
- We project GDP growth in FY23 at 6.8% with economic growth in Q4 projected at 4.4%.
- Growth is expected to be led by the services sector while net exports and the manufacturing sector are expected to weigh on growth.
- Economic growth is projected to moderate to 6.1% in FY24 amid global economic uncertainties and likely spillovers from the external sector.

Economic Activity Scorecard

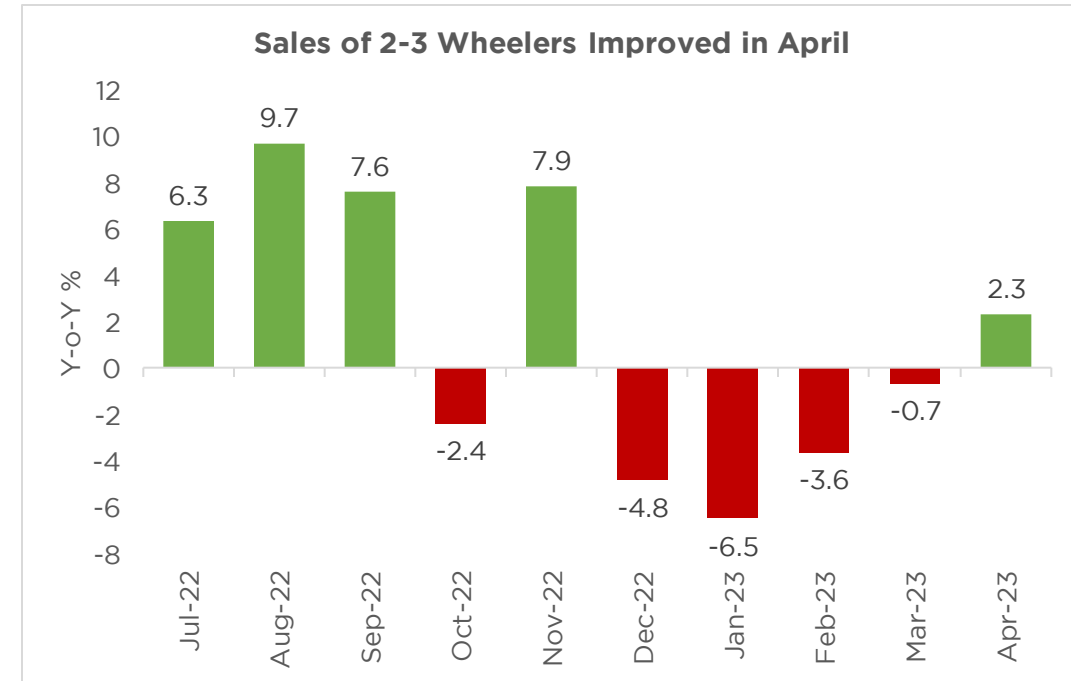
Select Indicators of Economic Activity	Unit	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
PMI-Manufacturing	Unit	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2
PMI-Services	Unit	54.3	55.1	56.4	58.5	57.2	59.4	57.8	62.0
GST Collections	Rs lakh crore	1.5	1.5	1.5	1.5	1.6	1.5	1.6	1.9
E-Way Bills Generation	Crore	8.4	7.7	8.1	8.4	8.2	8.2	9.1	8.4
Air Passenger Traffic	Crore	2.5	2.7	2.8	3.1	3.1	2.9	3.1	
Railways Passenger Traffic	Crore	54.8	55.2	57.0	56.3	57.5	53.7	58.3	54.8
Sales of Passenger Vehicles	Lakh	3.6	3.4	3.3	3.0	3.5	3.4	3.6	3.3
Industrial Output-IIP	y-o-y%	3.3	-4.1	7.6	5.1	5.5	5.8	1.1	
Core Sector Output	y-o-y%	8.3	0.7	5.7	8.3	8.9	7.2	3.6	
Merchandise Exports	y-o-y%	4.7	-11.6	9.8	-3.1	1.6	-0.5	-7.2	-12.7
Receipts from Services Exports	y-o-y%	29.7	24.6	30.7	20.4	29.6	28.8	13.1	26.2
Non-Oil & Non-Gold/Silver Merchandise Imports	y-o-y%	20.9	5.4	8.6	4.3	-4.5	-3.6	-5.3	-13.0
Capital Goods Import	y-o-y%	17.8	3.9	14.5	9.9	-3.6	5.0	-2.2	0.3

Source: CEIC, CMIE & CareEdge

- April PMIs stayed upbeat with the manufacturing PMI climbing to a 4-month high while the services PMI scaled to the highest level in nearly 13 years.
- Latest data on GST collections, e-way bills generation, sales of passenger vehicles, air and railway passenger traffic continued to exhibit resilience.
- IIP recorded a dismal performance with growth of 1.1% in March; Growth in core sector output (40% weight in IIP) eased to a 5-month low of 3.6% in March.
- Merchandise exports stayed under pressure contracting for the 3rd month in a row; services exports were the bright spot growing by a healthy 26.2% in April 2023.
- Merchandise imports (Non-Oil & Non-Gold/Silver) flagged concern with a contraction witnessed for the 4th straight month.



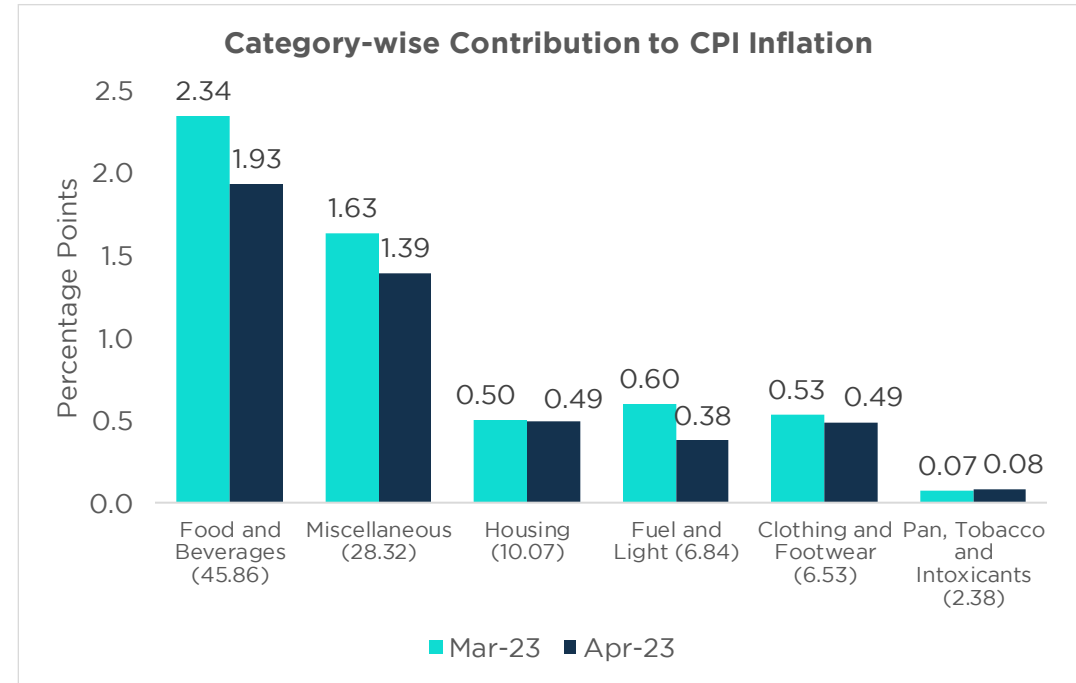
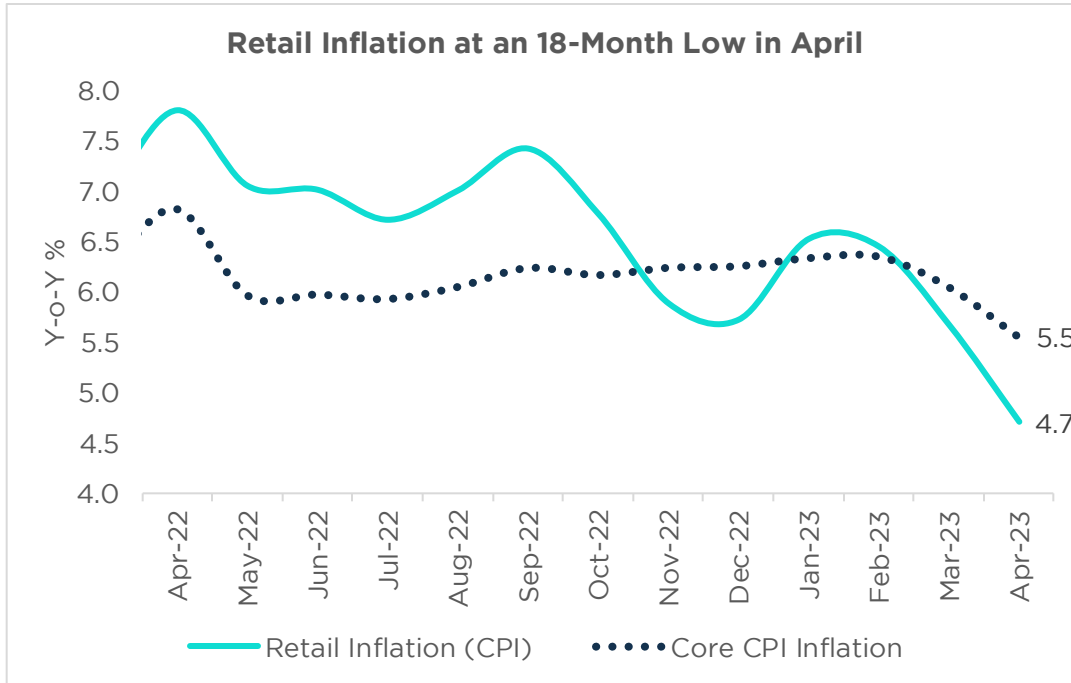
Source: CEIC



Source: CMIE

- Rural inflation dipping below the rural wage growth comes as a positive for the rural economy which is struggling to witness a durable pick-up.
- Growth in sales of 2-3 wheelers sprung into the positive territory after a gap of four months signaling optimism for rural demand.
- Going ahead, uncertainty around the agricultural output given the El Nino possibility poses risks for the fragile recovery in rural demand.

Retail Inflation Stays Below 6%



Source: CEIC

Source: CEIC; Figures in brackets indicate share in the Index

- Retail inflation in April continued to moderate for the third month in a row; Core inflation eased to the lowest level in nearly two years.
- Inflation eased across most categories of the retail price basket.
- Going ahead, retail inflation is expected to moderate further supported by a favourable base and some cooling in pent-up demand.
- We expect the RBI to maintain an extended pause in the policy rates in 2023.

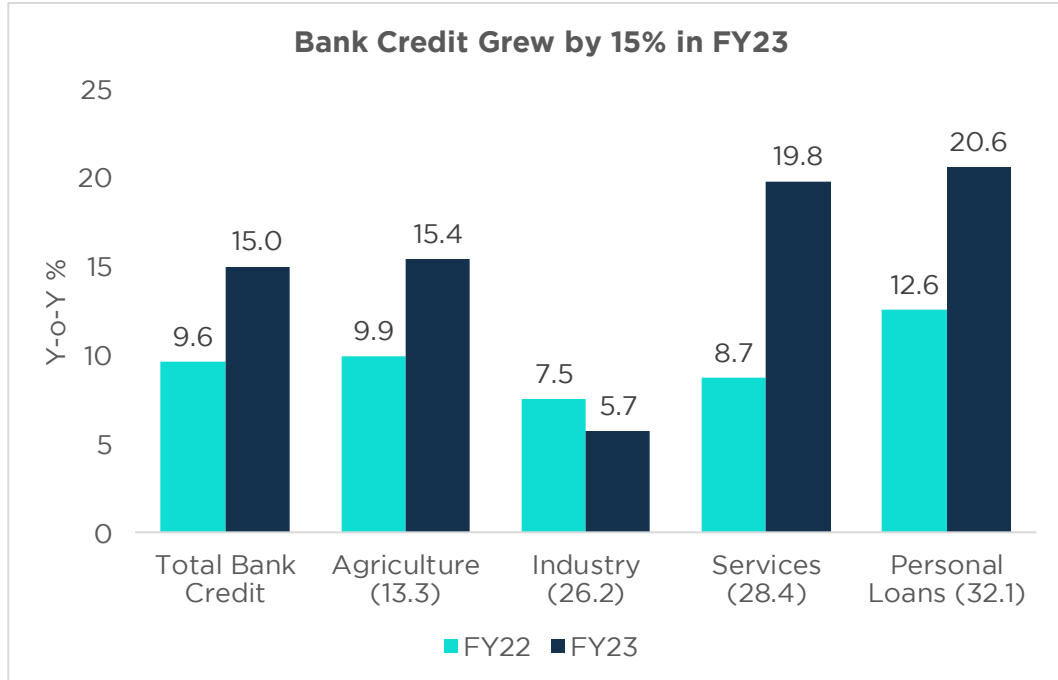
Food Basket Cools; Cereals & Milk Inflation Elevated

Y-o-Y %	Weights	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Food & Beverages	45.86	8.1	7.8	7.6	6.7	7.6	8.4	7.1	5.1	4.6	6.2	6.3	5.1	4.2
Cereals and Products	9.67	6.0	5.3	5.7	6.9	9.6	11.5	12.1	13.0	13.8	16.3	16.7	15.3	13.7
Milk and Products	6.61	5.5	5.6	6.1	5.8	6.4	7.1	7.7	8.2	8.6	8.8	9.6	9.3	8.8
Vegetables	6.04	15.3	18.3	17.3	10.9	13.3	18.2	7.8	-8.1	-15.1	-11.7	-11.5	-8.4	-6.5
Prepared Meals, Snacks, Sweets, etc	5.55	7.1	7.1	6.7	7.5	7.8	7.8	7.8	8.0	7.8	7.8	8.0	7.6	7.0
Meat and Fish	3.61	7.0	8.2	8.6	3.0	1.0	2.5	3.1	3.9	5.1	6.0	3.3	-1.4	-1.2
Oils and Fats	3.56	17.3	13.3	9.4	7.5	4.6	0.4	-2.2	-0.6	0.5	1.4	-0.5	-7.9	-12.3
Fruits	2.89	5.0	2.3	3.1	6.3	7.4	5.7	5.2	2.7	2.0	3.0	6.4	7.6	2.1
Spices	2.50	10.6	9.9	11.0	12.9	14.9	16.9	18.1	19.6	20.4	21.1	20.2	18.2	17.4
Pulses and Products	2.38	1.9	-0.4	-1.0	0.2	2.6	3.0	2.8	3.1	3.9	4.3	4.1	4.4	5.3
Sugar and Confectionery	1.36	5.2	4.3	4.2	4.8	4.5	1.6	0.0	-0.2	0.7	0.9	1.3	1.0	1.9
Non-alcoholic Beverages	1.26	5.5	4.9	4.9	4.7	4.3	4.1	4.1	4.1	4.1	4.3	4.4	4.2	4.1
Egg	0.43	-0.1	-4.6	-5.5	-3.8	-4.6	-1.8	-0.2	4.9	6.9	8.8	4.3	4.4	3.1

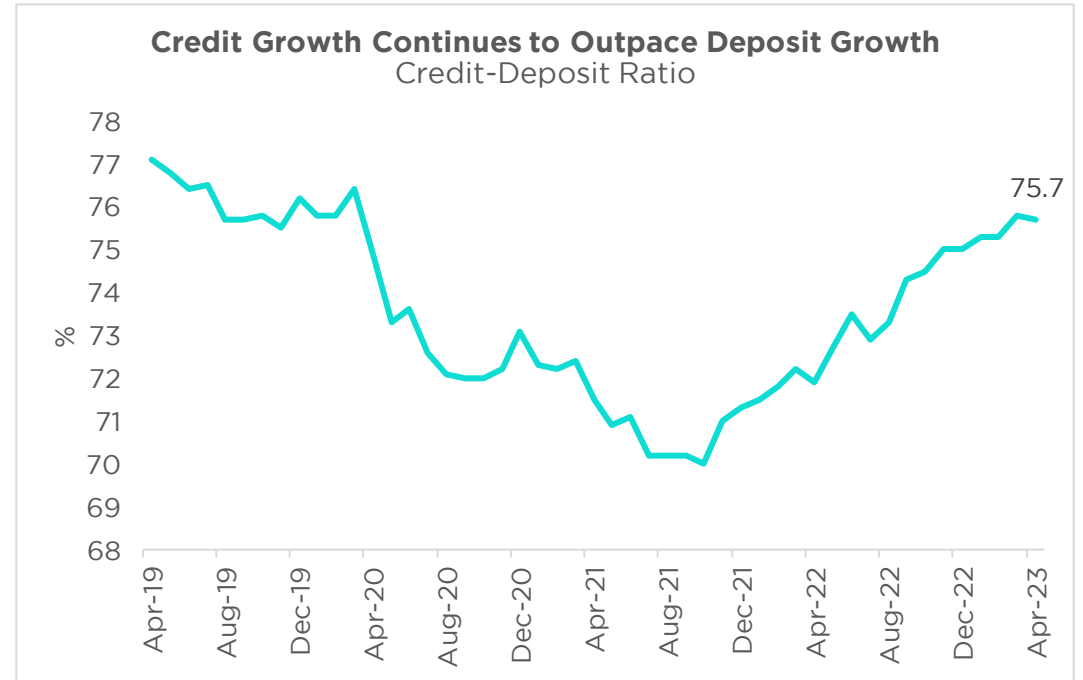
Source: CEIC

- Inflation in food & beverages in April cooled to 4.2%, the lowest level in 17 months.
- Deflation was witnessed in vegetables and the edible oils component whereas prices of cereals and protein items softened.
- Cereals inflation moderated in April, but still remains at a high of 13.7%.
- Milk prices stayed elevated amid higher fodder costs and lumpy skin disease among cattle affecting supply.
- Seasonal pick-up in prices of fruits and vegetables, the impact of heatwaves and El Nino-related uncertainties pose upside risks to food inflation.

Bank Credit Growth Upbeat in FY23



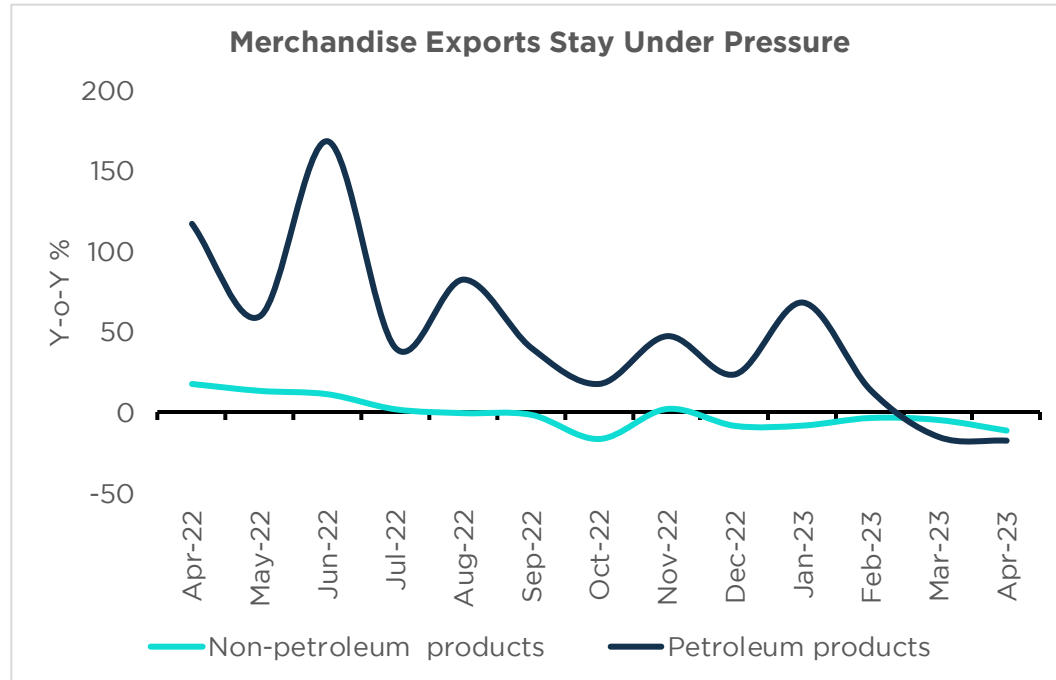
Source: RBI; Note: Figures in brackets represent % share in total bank credit



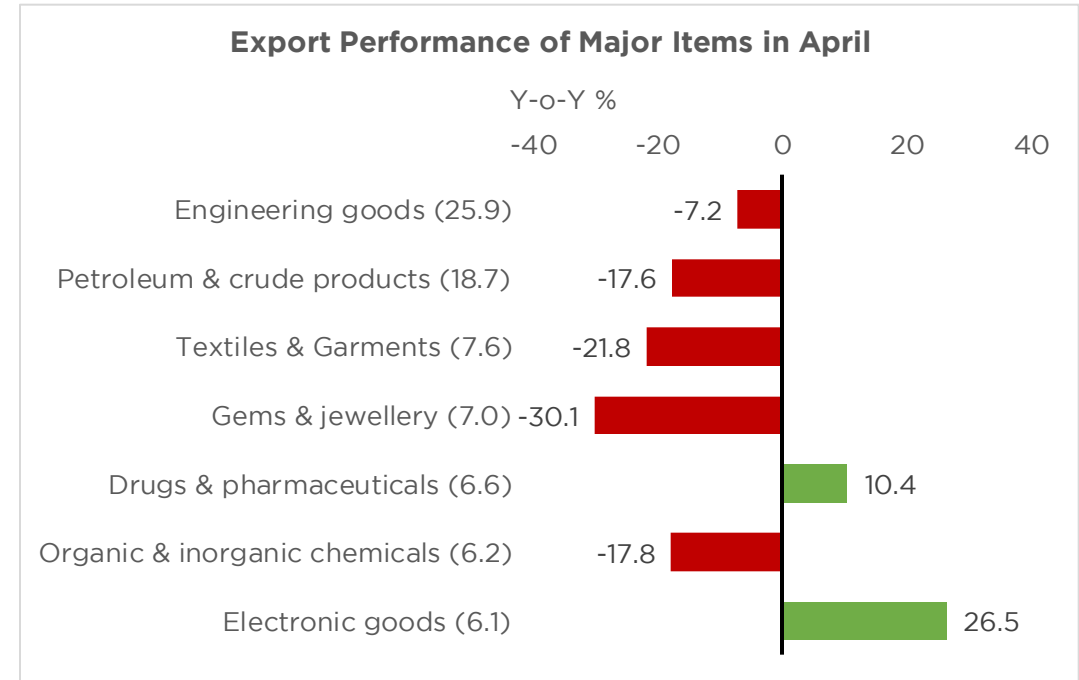
Source: CEIC

- Personal loans and services were the main drivers of bank credit growth in FY23.
- Industrial credit grew by 5.7% in FY23; credit to large enterprises (accounting for 75% share in total industrial credit) was even more muted at 3% Vs 2% last year.
- Credit growth in the services sector was driven by a healthy credit offtake in trade and the NBFC sector.
- Retail credit growth was supported by demand in the housing, vehicle, and other personal loans segment.
- We project credit growth to moderate to 12% in FY24 amid moderation in growth.

Merchandise Exports Continue to Disappoint



Source: CMIE



Source: CMIE; Note: Figures in brackets represent % share in total

- India's exports of petroleum products recorded a contraction for the second month in a row in April.
- More concerning is the weakness in non-petroleum exports which have been contracting since August 2022 (except in November).
- Labour-intensive exports of textiles & garments, gems & jewellery recorded sharp contraction in April, while Electronic goods recorded strong growth.
- Given the continued weakness in India's merchandise exports, we project exports to contract by 5% in FY24 as against 6.5% growth in FY23.
- Services exports continued to be the bright spot recording a healthy growth of 26.2% in April 2023.

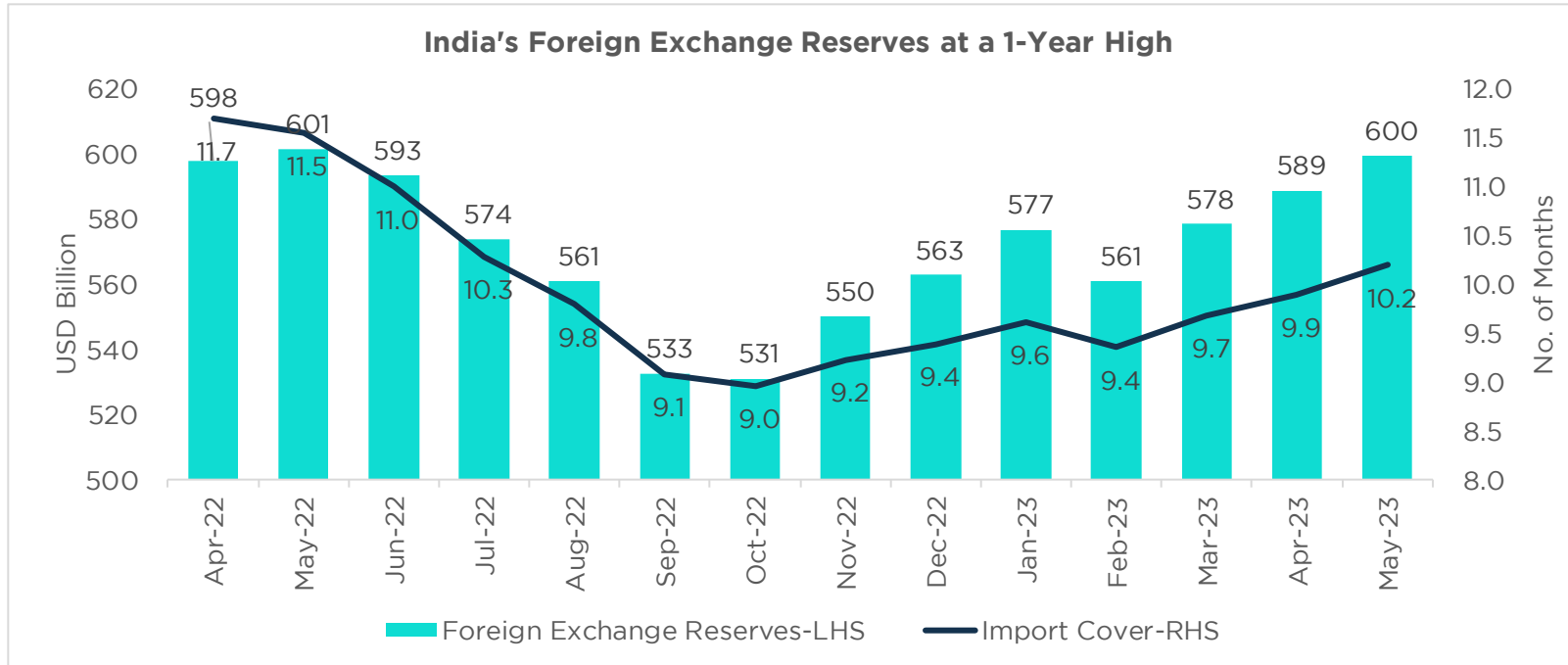
India's Exports Witness a Broad-Based Slowdown

Destination of India's Exports												
Y-o-Y %	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
World	29.1	20.8	30.1	8.0	10.9	4.7	-11.6	9.8	-3.1	1.6	-0.5	-7.2
USA (17.4)	31.3	32.3	28.5	0.4	4.6	0.3	-21.3	4.7	-4.0	-9.7	-4.7	-7.6
UAE (7.0)	59.8	9.7	24.9	12.8	37.9	8.5	-10.1	22.8	-2.6	11.0	10.2	-8.0
Netherlands (4.8)	112.8	161.8	157.6	56.9	73.7	37.0	54.0	52.8	51.1	94.6	50.6	67.0
China (3.4)	-36.5	-25.1	-31.6	-40.8	-46.4	-39.7	-44.1	-31.0	-25.4	-9.4	1.7	17.2
Singapore (2.7)	19.4	-21.6	2.0	-8.1	1.8	63.2	34.7	7.8	2.0	7.9	4.2	7.8
Bangladesh (2.6)	24.8	31.8	12.3	-0.5	-22.7	-29.4	-48.9	-44.1	-58.3	-57.7	-41.1	-32.9
UK (2.5)	33.0	31.8	2.4	14.3	-2.9	13.0	-22.1	6.8	24.2	8.1	0.5	11.8
Saudi Arabia (2.4)	40.2	-2.1	30.4	38.0	-11.5	68.5	-6.8	33.2	12.1	77.2	13.8	19.9
Germany (2.3)	27.8	31.3	15.7	10.9	-4.4	-0.1	-6.9	13.0	-3.3	-10.6	-12.9	-10.6

Source: CMIE; Note: Figures in brackets represent % share in total exports for FY23

- Amid a slowing US economy, India's exports to the country contracted for the fourth straight month in March.
- India's exports to Germany, the largest economy in Europe continued to record double-digit contraction consistently in the last three months.
- India's exports to China witnessed some improvement in recent months following the opening of the Chinese economy.
- We expect India's merchandise exports to remain pressured amid an uncertain global economic outlook.

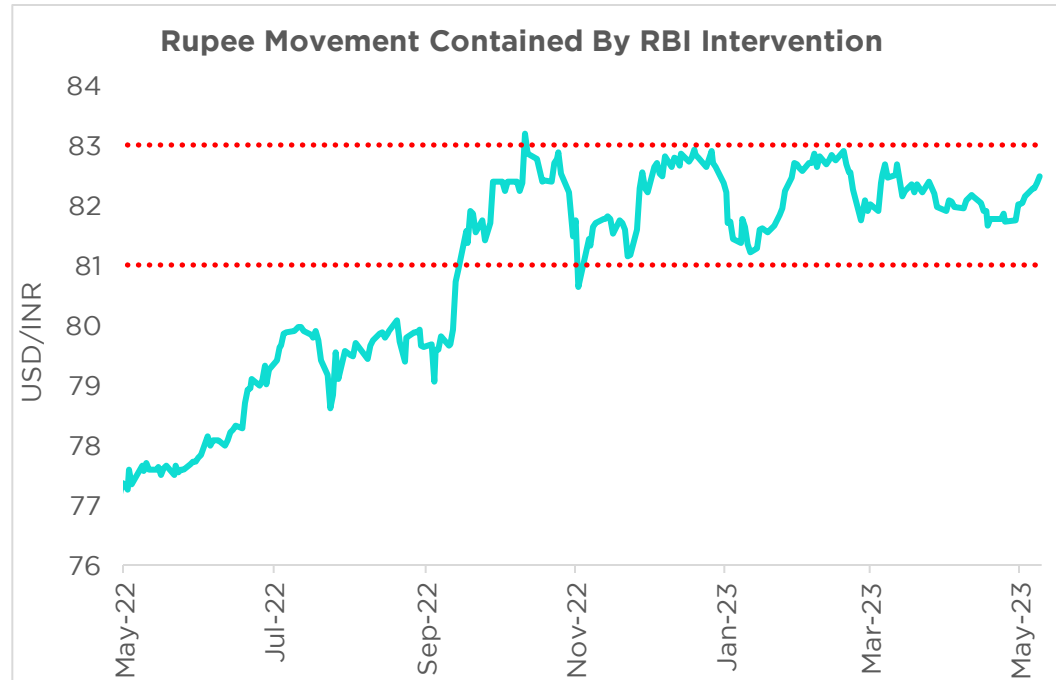
Foreign Exchange Reserves Touch USD 600 Billion



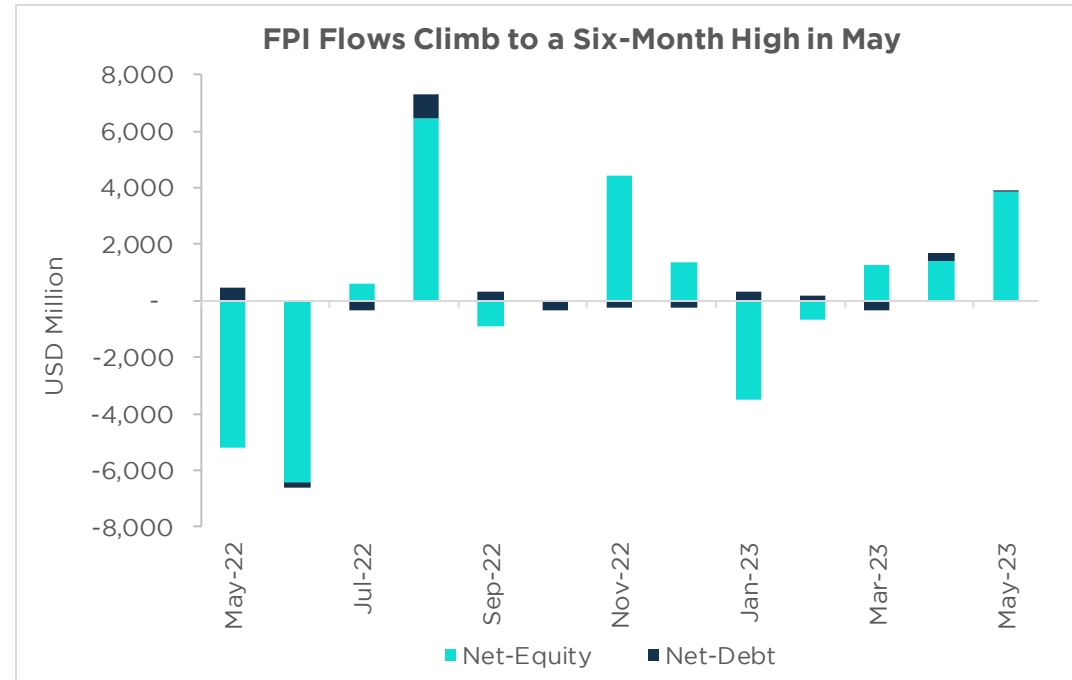
Source: CEIC & CareEdge

- India's foreign exchange reserves touched USD 600 billion as of May 12th, the highest level since early June 2022.
- Import cover improved to a ten-month high of 10.2 months on the back of a shrinking merchandise trade deficit and rising foreign exchange reserves.

Rupee Trades Rangebound; FPI Flows Supportive

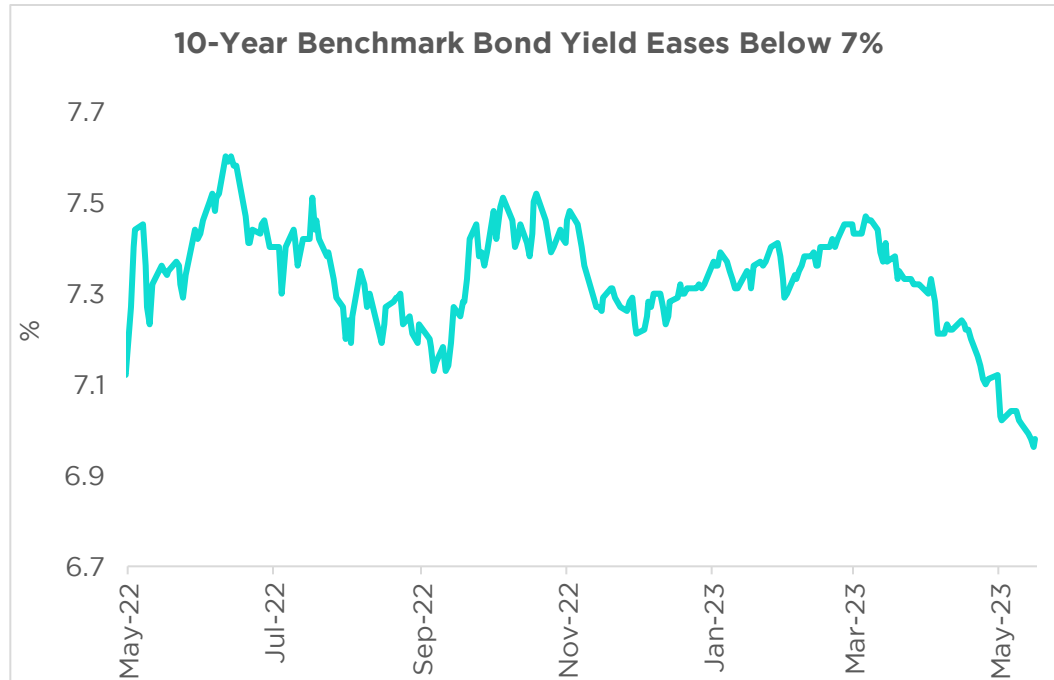


Source: CEIC

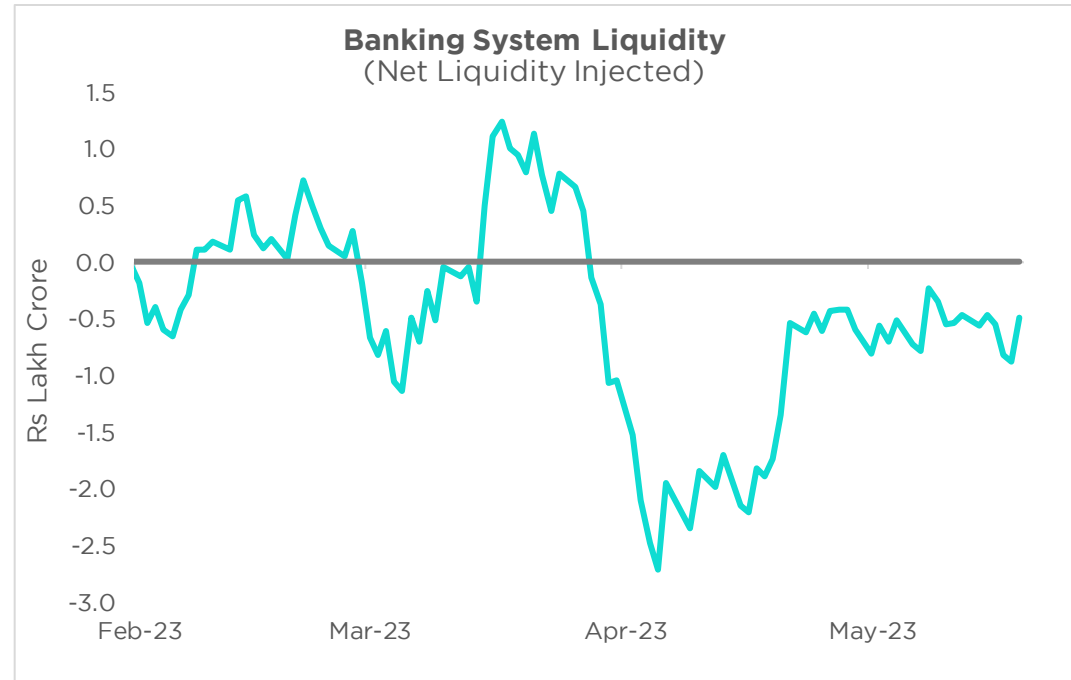


Source: CEIC (Note: Data for May up to May 22)

- Rupee weakened by nearly 1% in the last month, in spite of strong portfolio inflows, due to RBI forex intervention.
- Rupee movement contained largely within 81-83 levels since September 2022 on two-way RBI FX intervention.
- Overseas capital inflows, lower oil prices and favourable external sector dynamics support the INR outlook.
- We foresee INR at 81-83 levels by end-FY24.



Source: CEIC



Source: CEIC

- 10-year benchmark bond yield eased below 7%, for the first time in over a year, on market expectations of no more rate hikes by RBI and US Fed.
- Withdrawal of Rs 2000 notes could see an infusion of Rs 1-1.8 lakh crore of liquidity over the Jun-Sep period.
- Comfortable liquidity conditions could ease short-term rates going ahead.
- We foresee the 10-year benchmark bond yield in the range of 7-7.2% levels by end-FY24.



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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