India: The Economic Pathway

June 2023

Global Economy

Highlights of Key Monetary Policy Meetings in June

US FEDERAL RESERVE

- US Federal Reserve voted unanimously to keep the target rate unchanged at 5-5.25%.
- Median projection for the fed funds rate by end-2023 seen higher at 5.6% from March projection of 5.1%.
- Real GDP growth forecast for 2023 revised higher to 1% from estimate of 0.4% in March.
- PCE inflation and unemployment rate forecasts revised lower to 3.2% (from 3.3% in March) and 4.1% (from 4.5% in March), respectively, by end-2023.
- Core PCE forecasts revised higher to 3.9% in 2023, from 3.6% estimated in March.

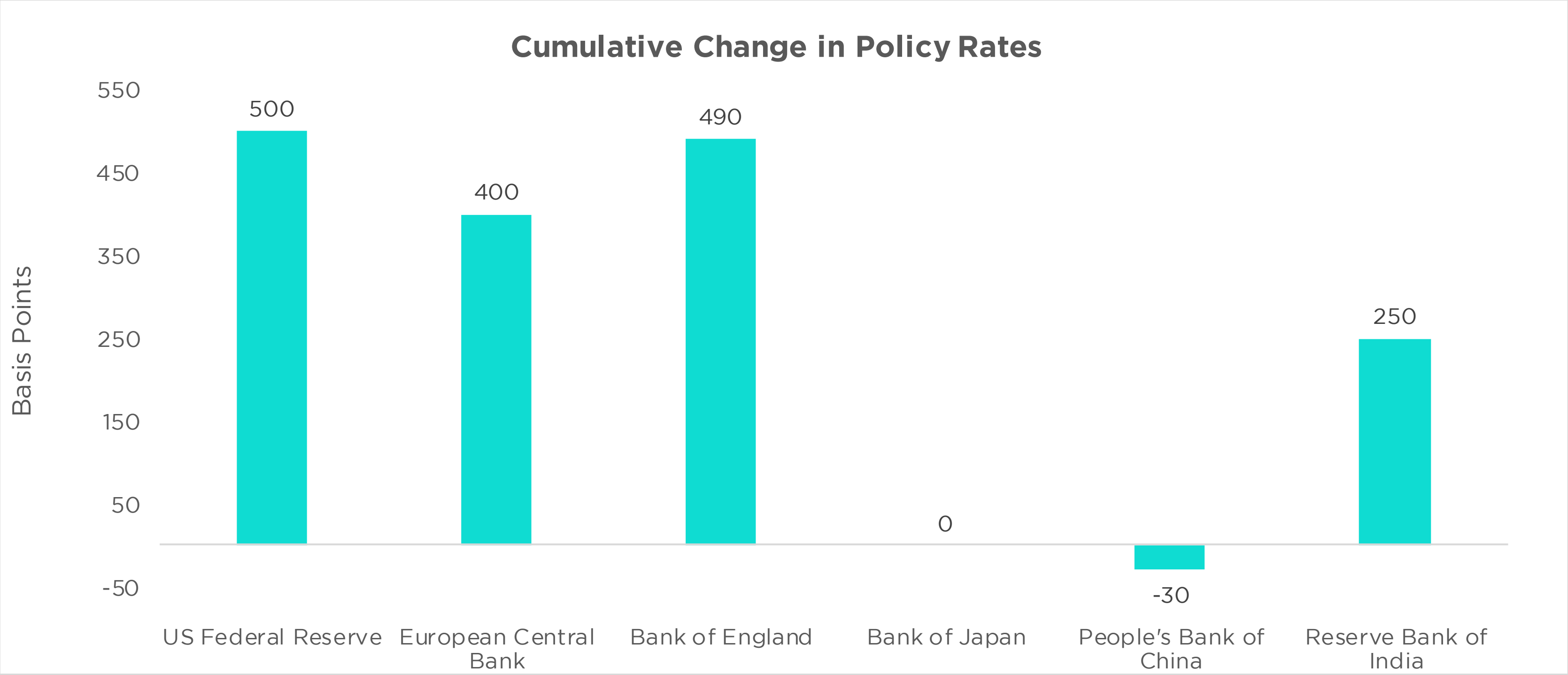
EUROPEAN CENTRAL BANK

- ECB raised the key policy rate by 25 bps to 3.5%.
- Staff revised 2023 headline and core inflation estimates higher to 5.4% and 5.1%, respectively, from 5.1% and 4.6% projectedin March.
- Strong labour market and wage growth seen as significant drivers of inflation.
- GDP growth revised slightly lower to 0.9% in 2023, from 1% estimated in March.
- ECB to adopt a data-dependent approach to determine the appropriate level and duration of policy restriction.

BANK OF ENGLAND

- MPC voted by a majority of 7–2 to increase the bank rate by 50 bps to 5%.
- Bank staff expects headline GDP to remain flat in Q2, in line with the projection in the May Report.
- CPI inflation expected to fall to 5.1% by Q4 2023 (from 8.7% in Q2) on the back of lower food and energy prices.
- Continued pass-through of service providers' costs, including labour costs, could keep services inflation elevated.
- Evidence of more persistent pressures in services inflation could warrant further tightening in monetary policy.

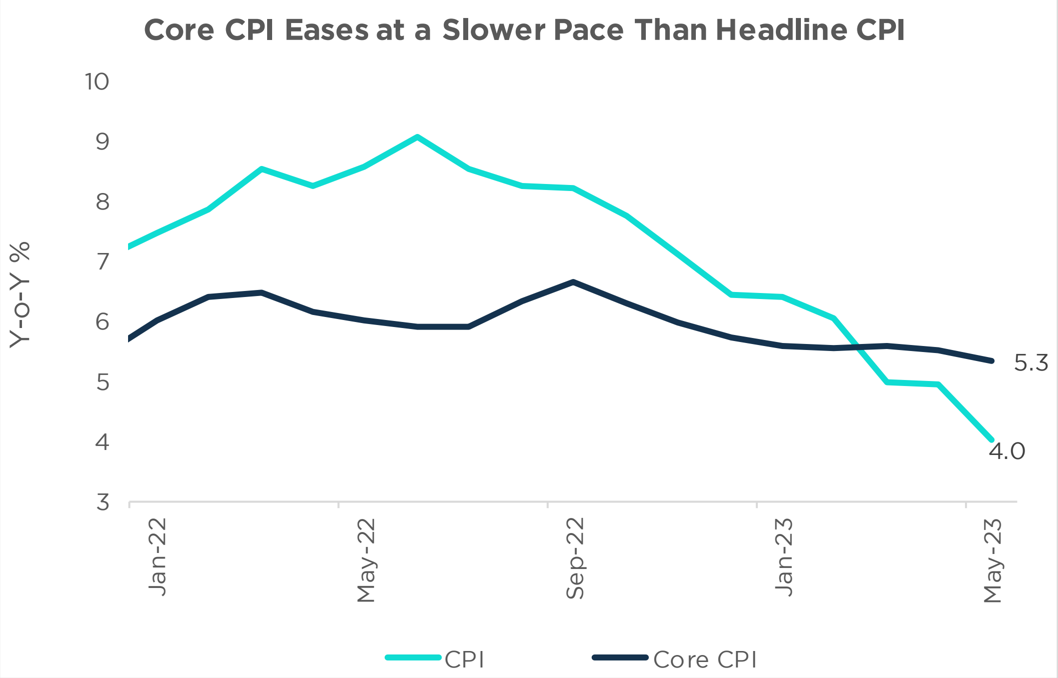
Major Central Banks Signal More Rate Hikes; PBoC an Outlier



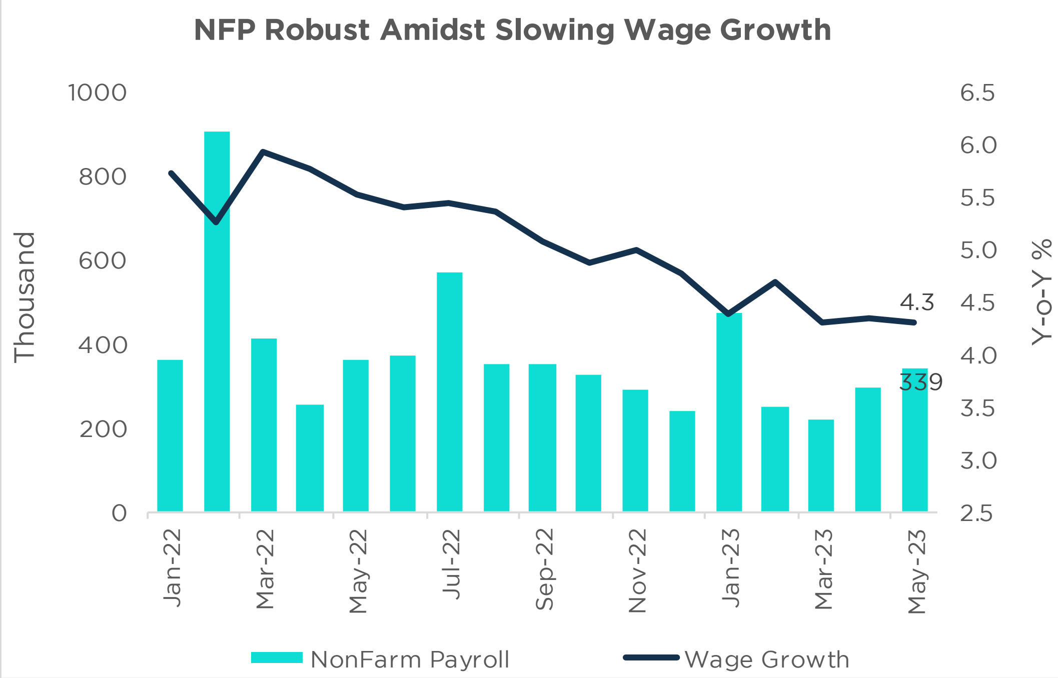
Source: Refinitiv

- Further rate hikes by central banks in the West expected on account of still-elevated inflation and a strong labour market.
- Fed and ECB seen hiking rates further in 2023; Terminal rate expectations for BoE significantly higher at 6% by end-2023.
- Waning recovery in China led to rate cuts by People’s Bank of China, with more stimulus expected to follow.
- RBI expected to maintain an extended pause in the remainder of 2023.

US Inflation and Labour Market Data Paint a Mixed Picture



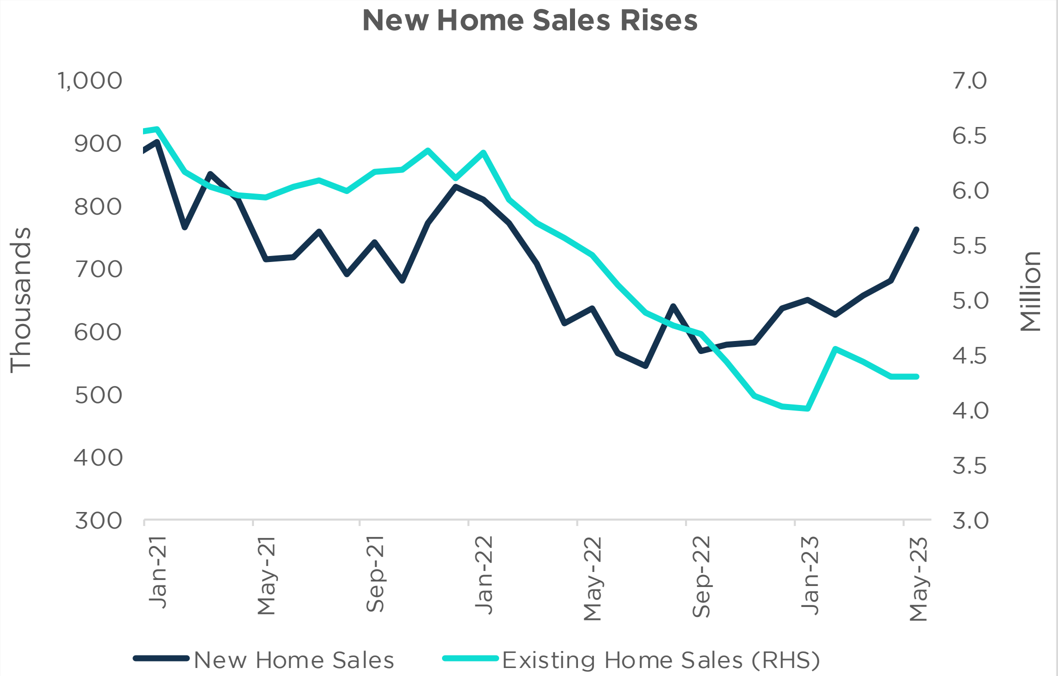
Source: Refinitiv



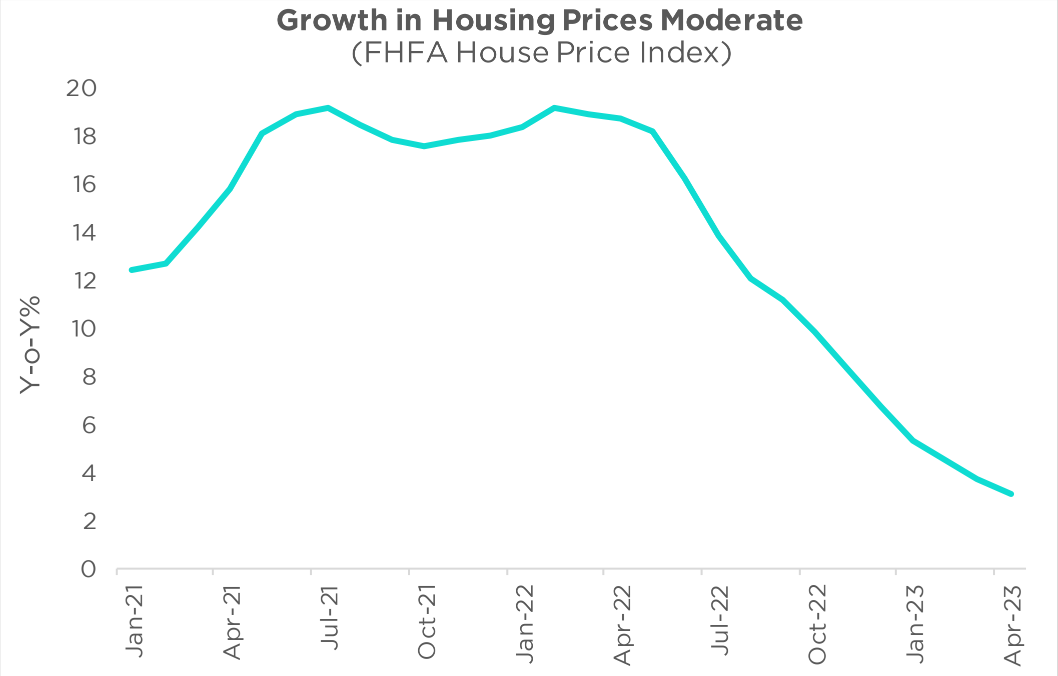
Source: Refinitiv (NFP=Nonfarm Payroll)

- While headline CPI has eased to its slowest pace in 2 years (4% y-o-y in May), core inflation points to sticky underlying price pressures.
- Labour market painted a mixed picture with a sharp rise in payroll additions, slowing wage growth and rising unemployment rate (3.7% in May vs 3.5% in April).
- Despite Fed's dot plot indicating further 50 bps rate hikes in 2023, markets are pricing in one 25 bps rate hike in July followed by a pause for the remainder of 2023.

Lack of Resale Inventory Drives New Home Sales in the US



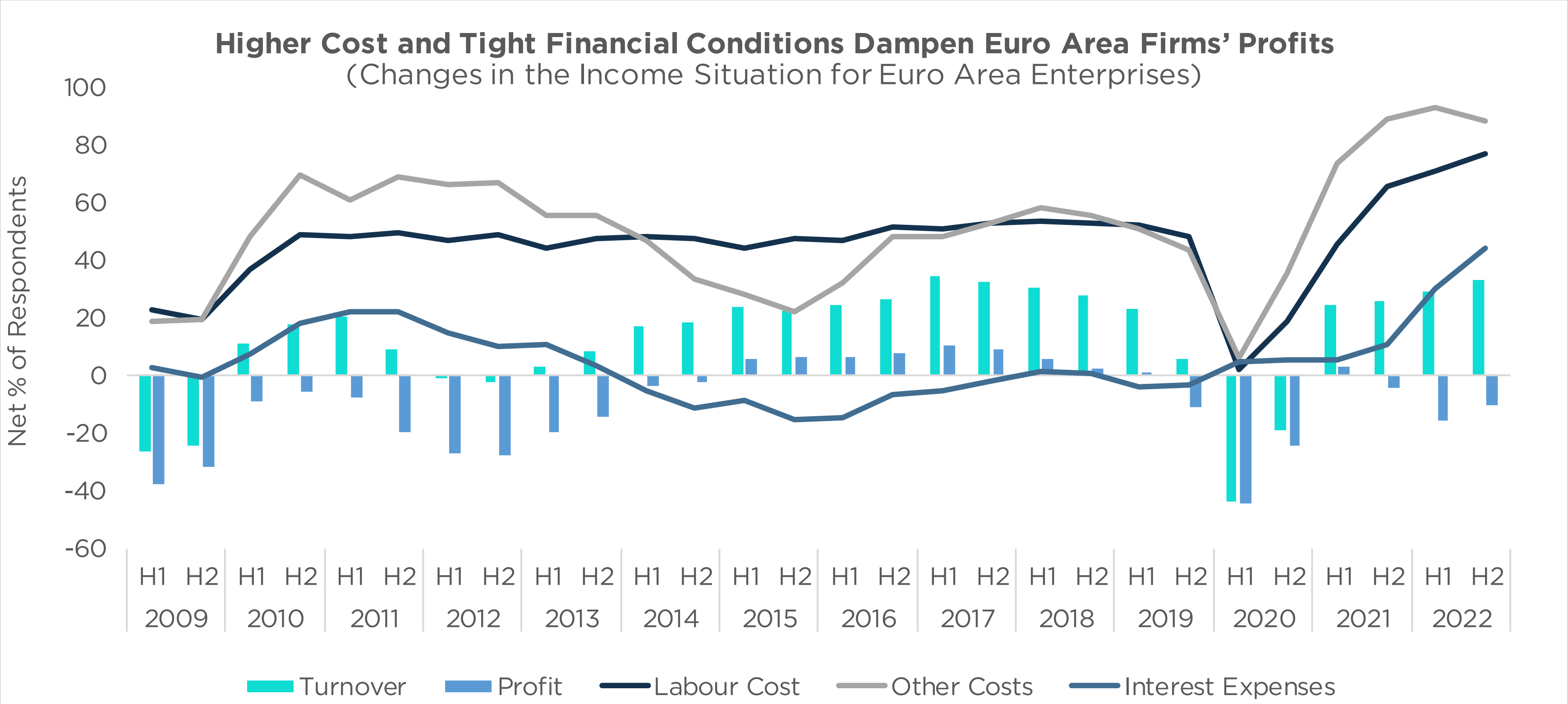
Source: Refinitiv



Source: Refinitiv

- New home sales grew 12% (m-o-m) to 763K in May amidst lack of inventory for resale of Existing Homes and a strong labour market.
- While the Home Price Index rose for the fourth straight month in April, the year-on-year growth eased, pointing to challenges posed by high mortgage rates.

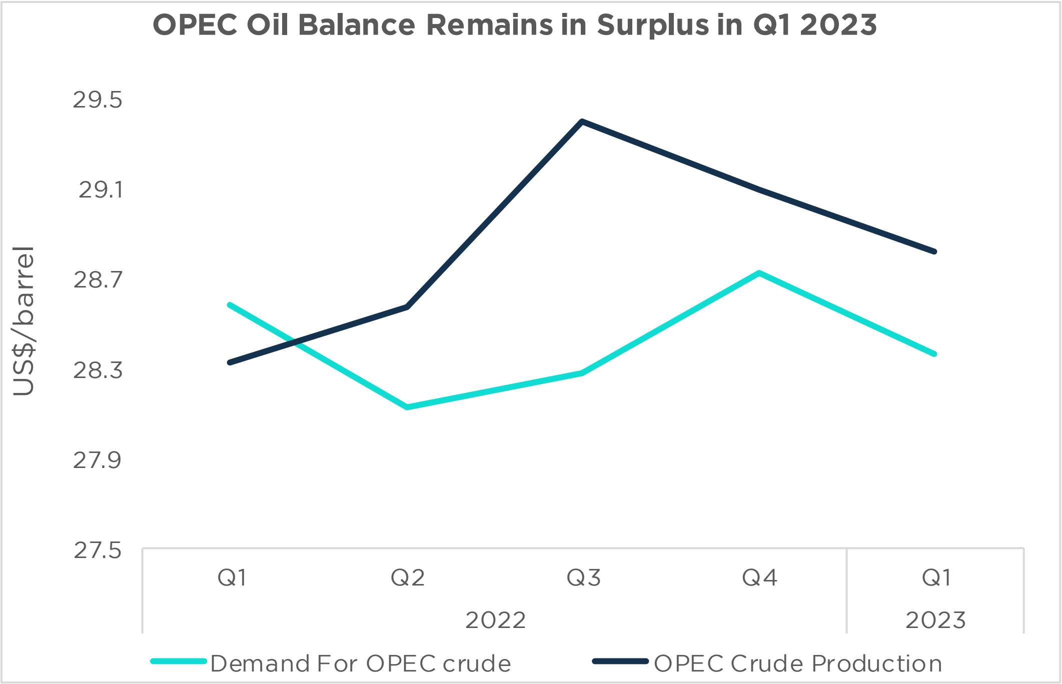
Higher Expenditure and Interest Cost Weigh on Euro Area Firms' Profitability



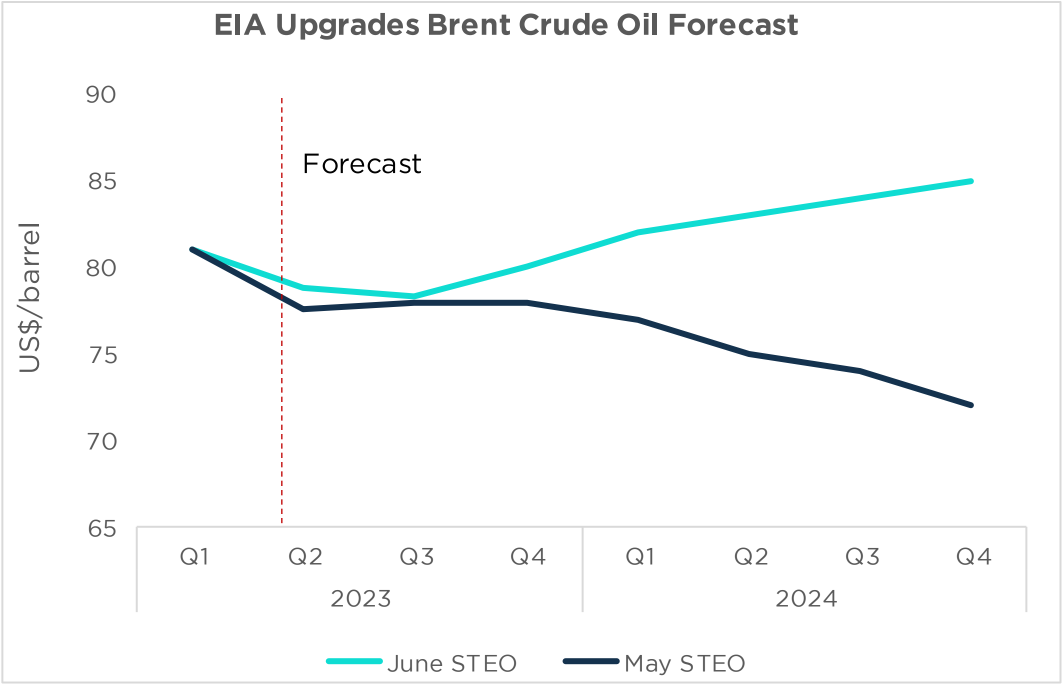
Source: European Central Bank, Survey for Access of Finance for Enterprises (Note: Net percentages are the difference between the percentage of enterprises reporting an increase for a given factor and the percentage reporting a decrease; Data for all firms; H1=April to September, H2=October to March of the next year; Other Costs includes raw materials, energy etc)

- Net percentage of firms reporting an increase in labour costs (77%) touched a new historical peak in the Oct 2022-Mar 2023 period.
- Easing supply bottlenecks and falling energy prices saw the net % of firms indicating a rise in costs for materials and energy drop marginally in H2.
- Euro area firms expect a further deterioration in the availability of bank loans and credit lines in the coming six months.

OPEC+ Extension of Cuts Prompts Upward Revision of Oil Forecast



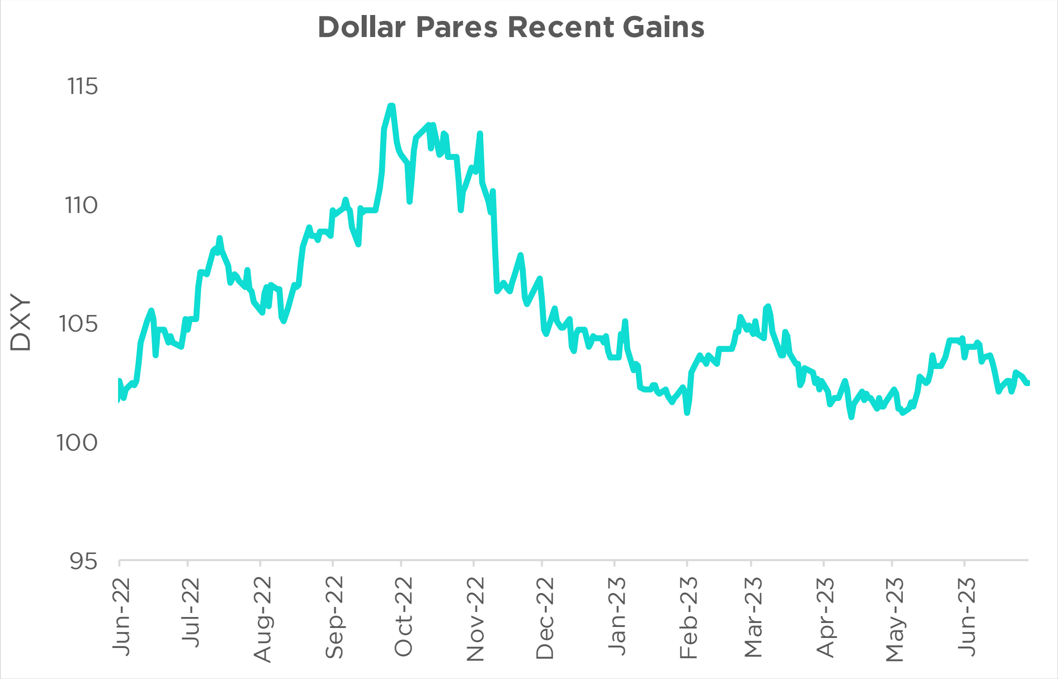
Source: OPEC



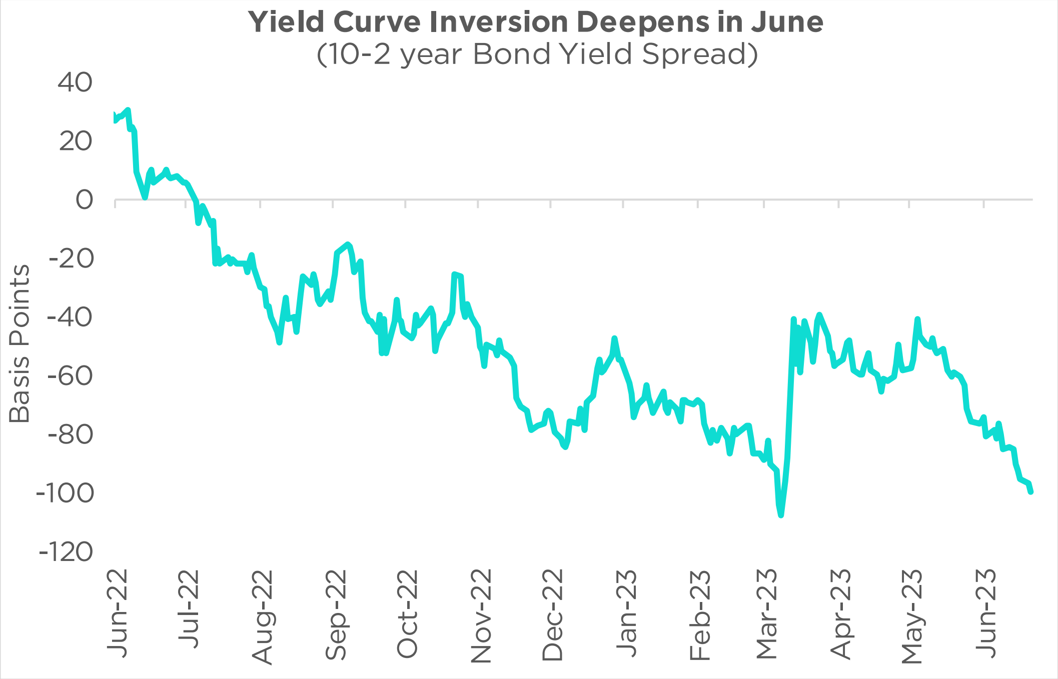
Source: EIA (STEO=Short Term Economic Outlook)

- OPEC+ production cuts of a total 3.66 million barrel per day (bpd) valid till the end of 2023 were extended until the end of 2024.
- Saudi Arabia announced a new voluntary oil production cut of 1 million bpd for July 2023 taking its output to 9 million bpd.
- EIA revised 2023 Brent crude oil forecast only slightly higher; Inventory draw expected to trigger higher crude oil prices mainly in 2024.
- 2024 Brent crude oil price forecast revised by EIA to 83.5/bbl from their earlier forecast of 74.5/bbl

US Dollar and Yield Performance



Source: Refinitiv; Note: Data as on 22 June 2023

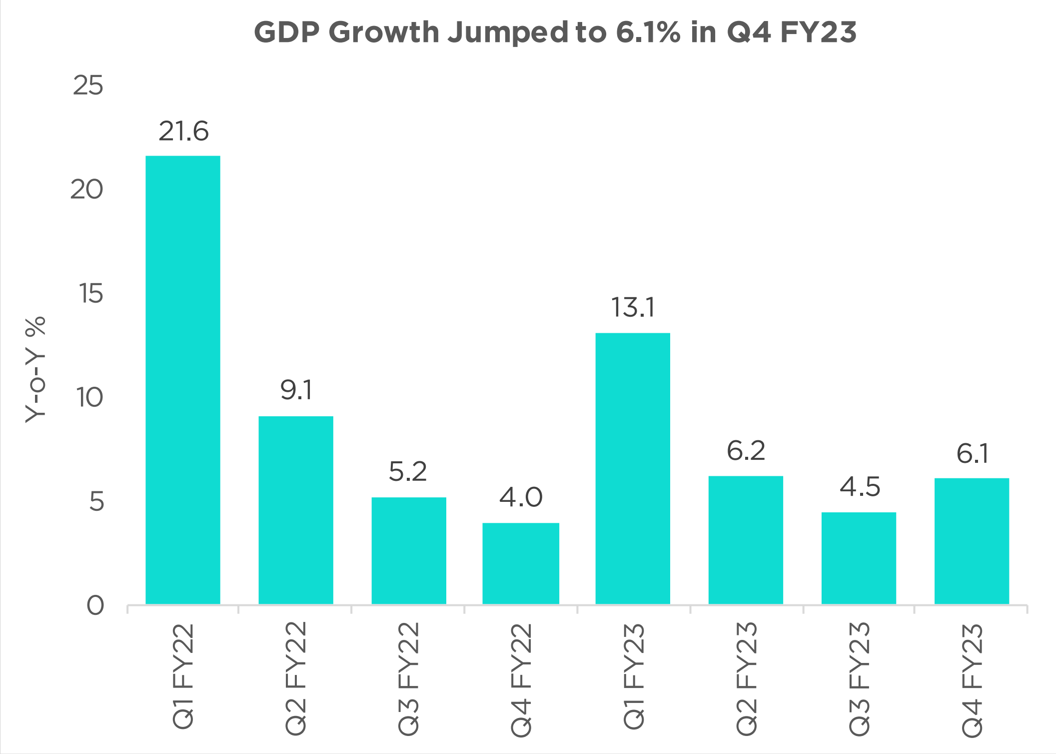


Source: Refinitiv; Note: Data up to 22 June 2023

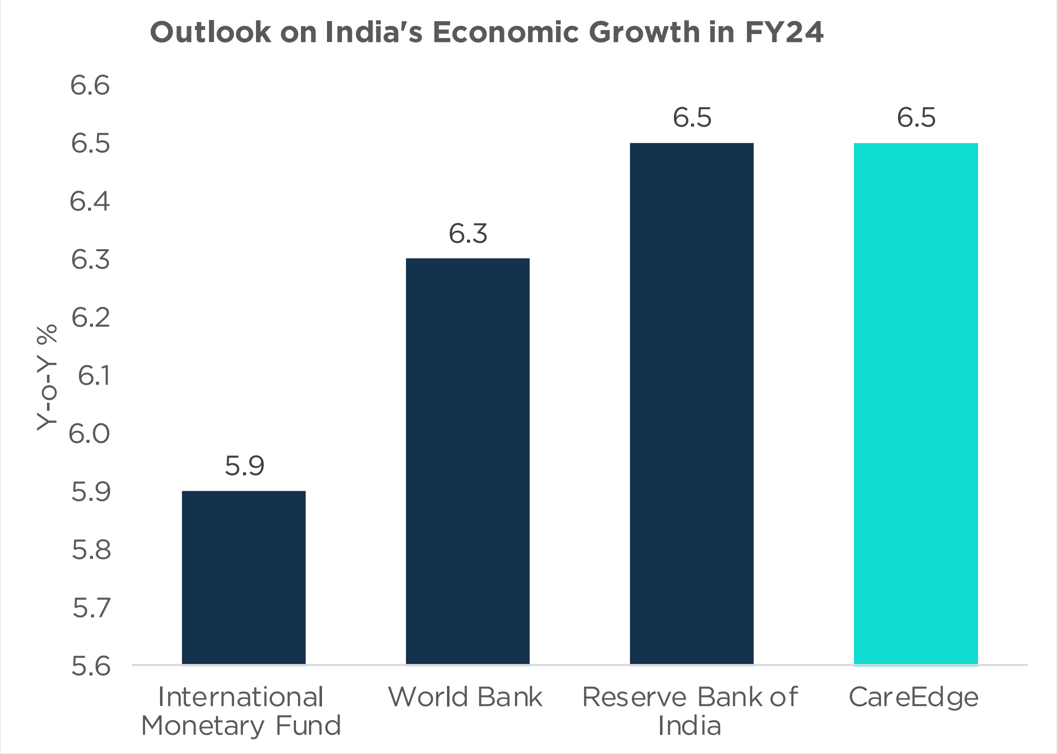
- Dollar pared gains seen in May, declining over 1% in the last month on market's repricing of one more rate hike in 2023 (instead of two as priced earlier).
- Higher quantum of rate hike by BoE (50 bps in June) and 25 bps rate ECB hike also weighed on the dollar index.
- Pricing in of rate hikes led to a rise in short-term yields, deepening the yield curve inversion to levels last seen during the banking crisis in March.
- Dollar weakness likely to persist if incoming macro data points to weakness in the economy.

Domestic Economy

GDP Growth Better than Expected



Source: MOSPI



Source: IMF; WB, RBI & CareEdge

- Manufacturing sector picked up in Q4 FY23 after contracting (annually) in the previous two quarters.
- Services sector growth was supported by trade, hotel and transportation on the back of robust discretionary demand.

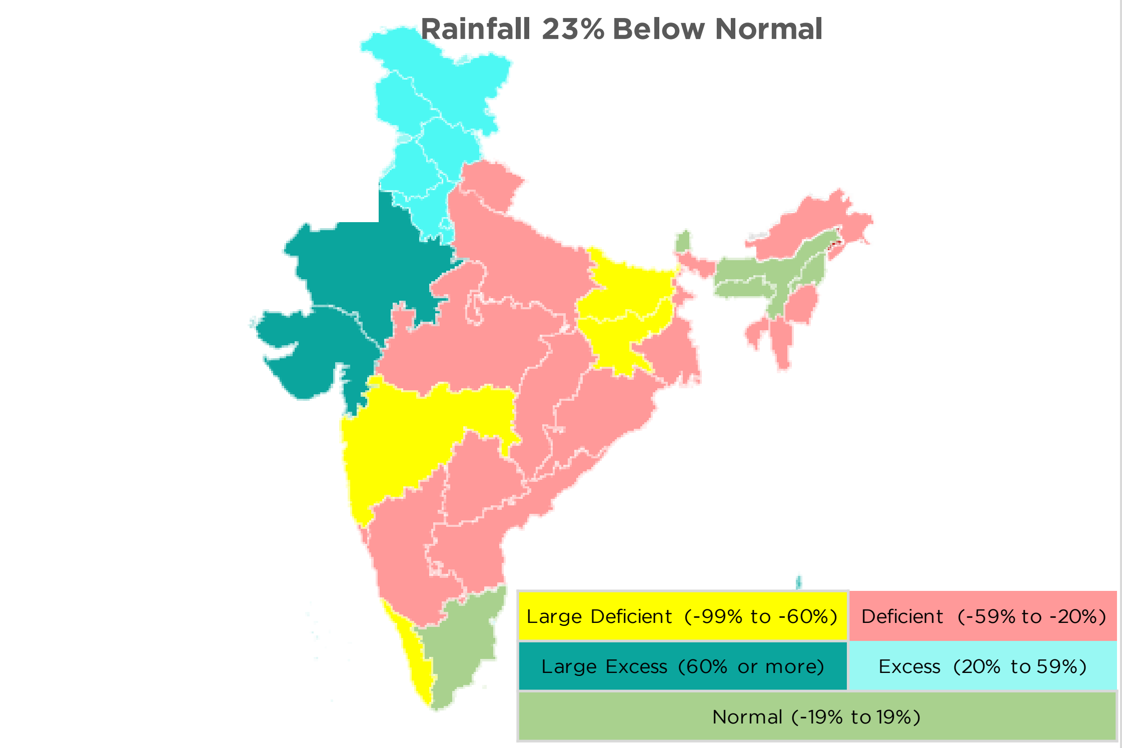
Demand Scorecard

		Unit	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Automobile Sales	PV Sales	Lakh	3.6	3.4	3.3	3.0	3.5	3.4	3.6	3.3	3.4
	2-3 Wheelers Sales	Lakh	21.1	19.5	16.0	13.8	14.8	14.3	16.1	16.6	18.1
	Tractor Sales	Lakh	1.3	1.3	0.8	0.7	0.7	0.7	0.9	0.9	0.9
Industrial Output (Consumer Goods)	Durable Goods	Y-o-Y %	-5.5	-18.1	5.0	-11.2	-8.2	-4.1	-8.1	-3.5	
	Non-Durable Goods	Y-o-Y %	-5.7	-13.0	10.0	7.9	6.5	12.1	-2.7	10.7	
Travel	Air Passenger Traffic	Crore	2.5	2.7	2.8	3.1	3.1	2.9	3.1	3.1	
	Railway Passenger Traffic	Crore	54.8	55.2	57.0	56.3	57.5	53.7	58.3	54.8	58.9
Domestic Trade	GST Revenue	Rs Lakh Crore	1.5	1.5	1.5	1.5	1.6	1.5	1.6	1.9	1.6
	E-Way Bills Generation	Crore	8.4	7.7	8.1	8.4	8.2	8.2	9.1	8.4	8.8

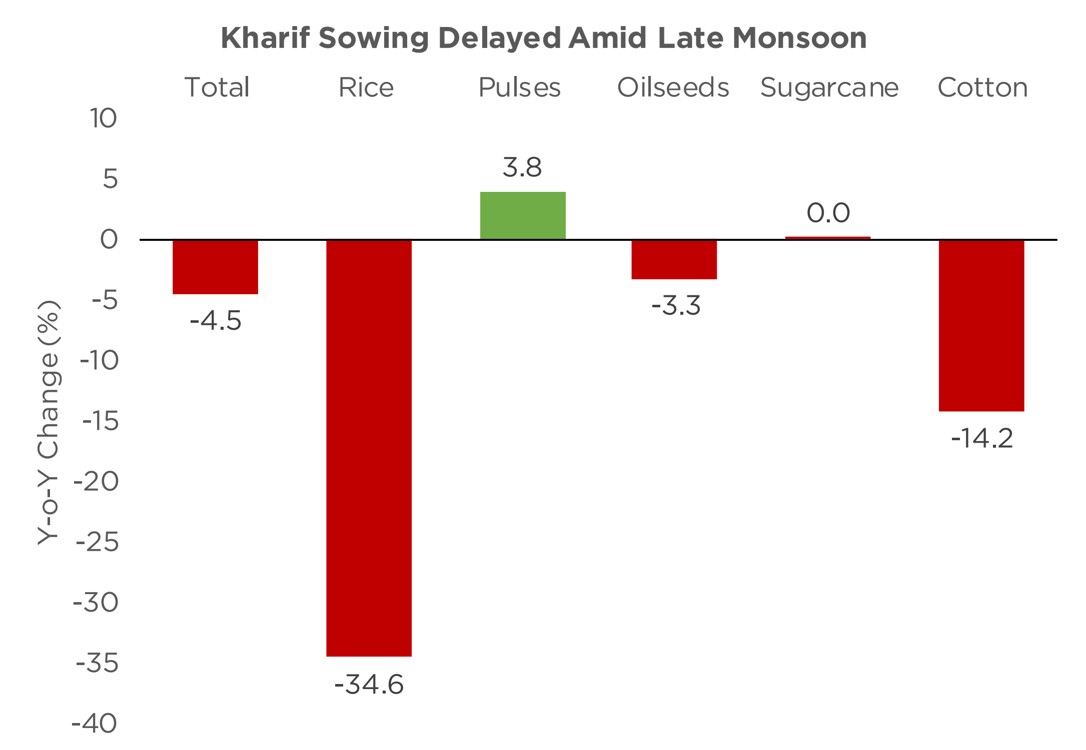
Source: CEIC & CMIE

- Rural demand is showing signs of recovery, however, El Nino possibility and uncertainty over agricultural output pose risks.
- Travel demand has been recording a healthy performance as seen in the passenger traffic data.
- Discretionary demand, though improving continues to stay muted reflected in the weak performance of consumer durable goods output.

Delayed Monsoon Hits Sowing



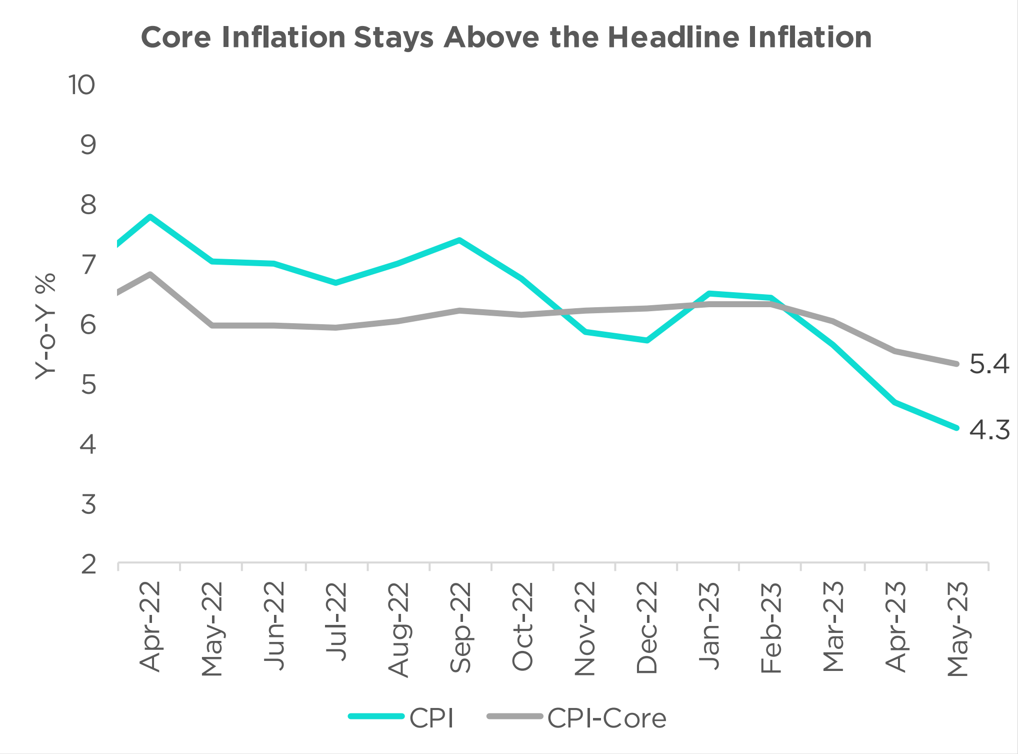
Source: IMD; Note: Data is cumulative from June 1, 2023, to June 26, 2023



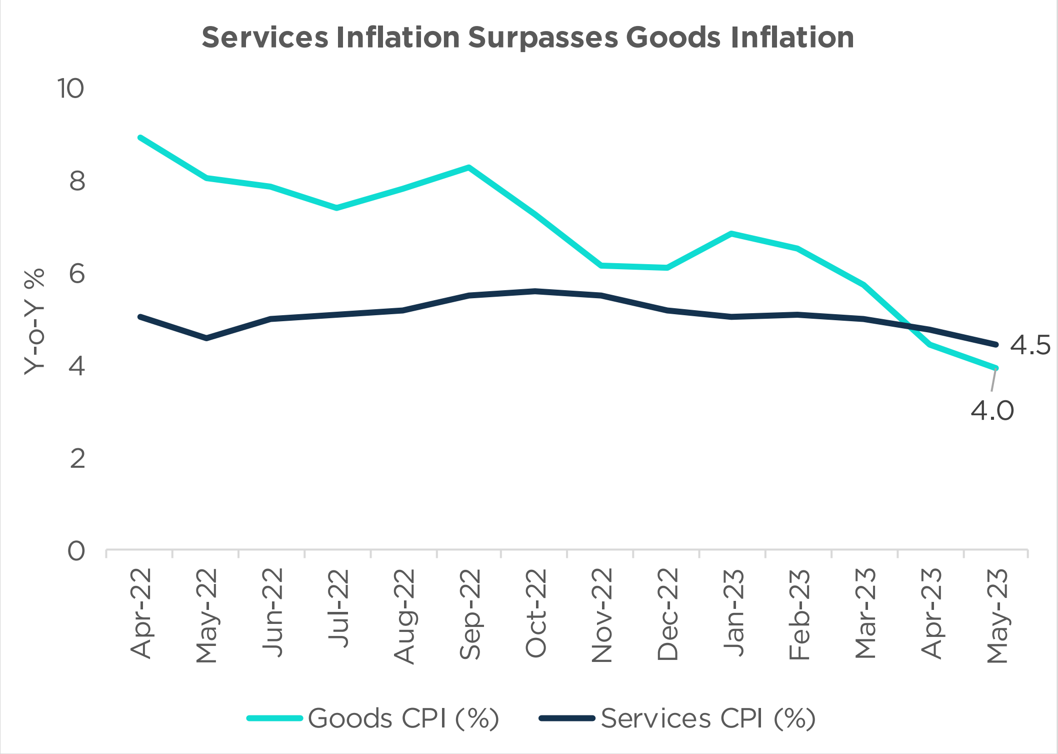
Source: CEIC; Note: Data as on June 23, 2023

- Sowing of major crops remains low compared to a year ago period with most states facing a deficit in rainfall so far in June.
- El Nino prediction coupled with deficient rainfall in June raises concerns about lower crop yields which could pose a threat to rural economic recovery.
- Revival of monsoon in July remains critical for sowing of kharif crops.

Retail Inflation Trends Lower; Core Inflation Elevated



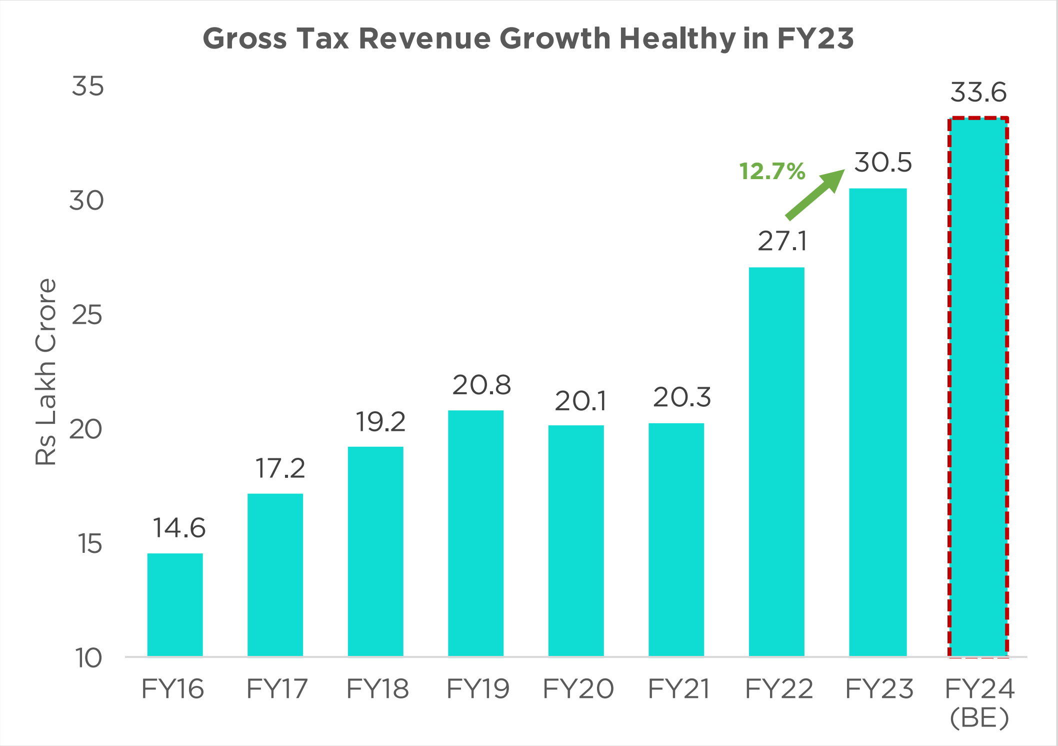
Source: CEIC & CareEdge



Source: CEIC & CareEdge

- Despite the easing in food prices, the elevated inflation in select items such as cereals and milk remain key monitorable.
- While inflation in goods is easing, services-driven inflation is slow to moderate amid strength in discretionary services demand.
- We expect retail inflation to pick up marginally in H2 and average 5.1% in FY24.

Centre Meets FY23 Fiscal Deficit Target of 6.4%



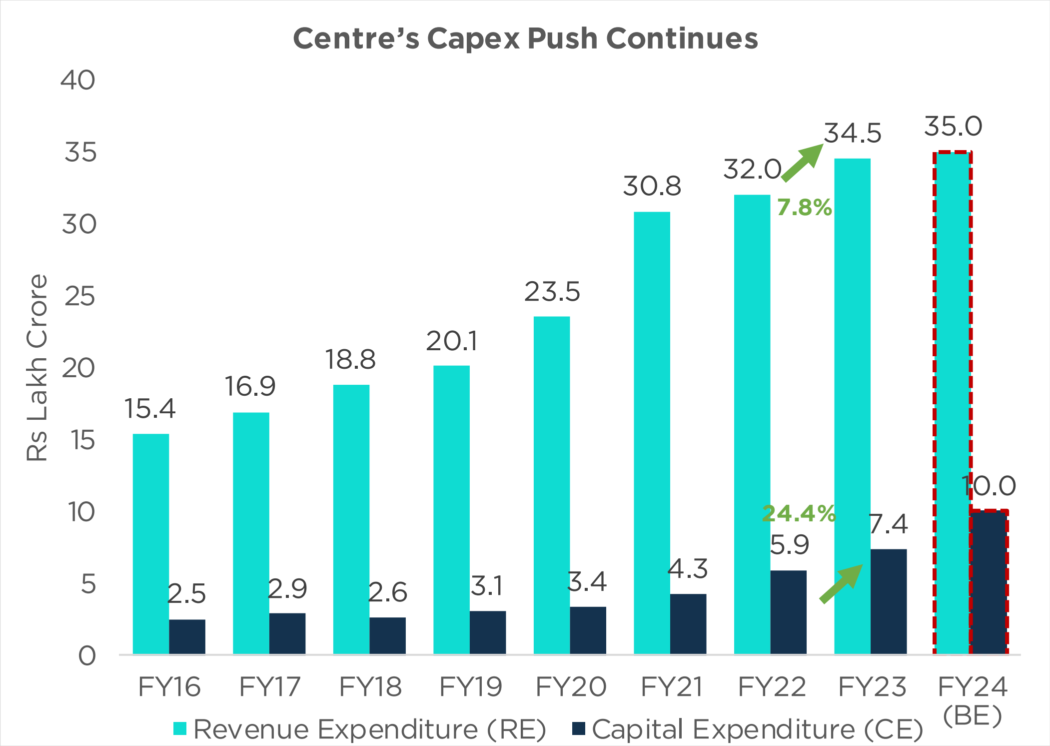
Source: CEIC & CGA

Revenue Receipts (Rs Lakh Crore)	FY22	FY23	% Change
Tax Revenue (Net)	**18.0**	**21.0**	**16.2**
Income Tax	6.7	8.1	20.0
Corporate Tax	7.1	8.3	16.0
Customs Duties	2.0	2.1	6.8
Excise Duties	3.9	3.2	-18.4
CGST	5.9	7.2	21.5
GST Compensation Cess	1.0	1.3	20.1
Non-Tax Revenue	**3.7**	**2.9**	**-21.6**
Interest Receipts	0.2	0.3	26.1
Dividends & Profits	1.6	1.0	-37.8
Total Revenue Receipts	**21.7**	**23.8**	**9.8**

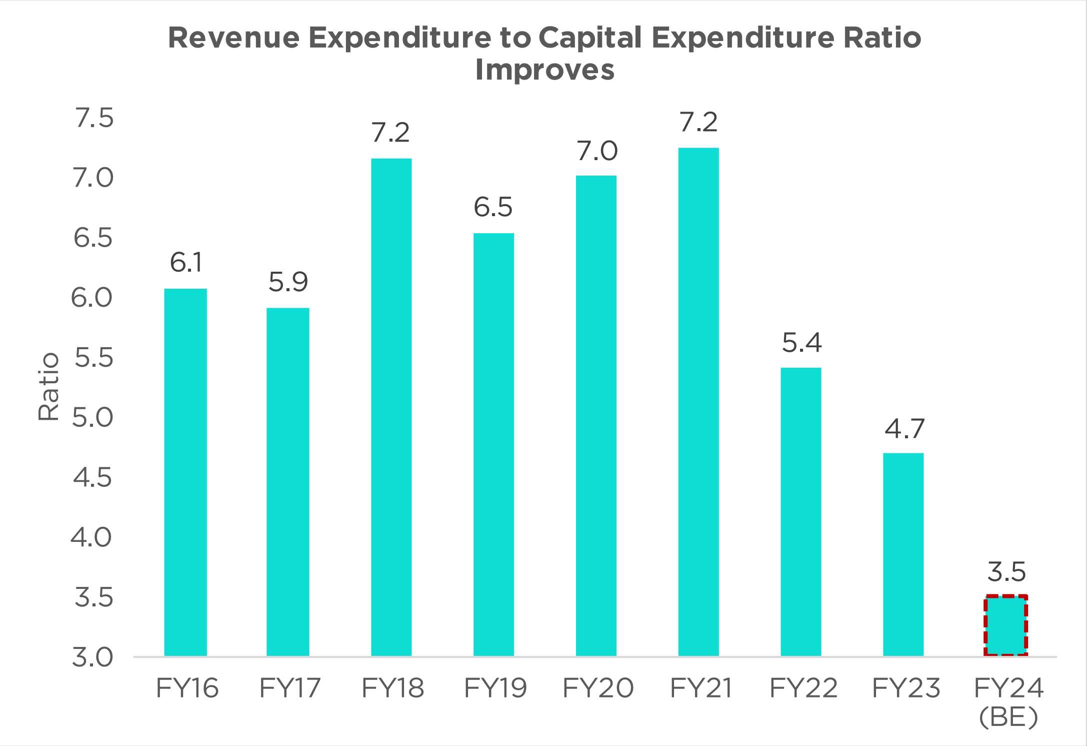
Source: CEIC & CGA

- Healthy growth in both direct (18% growth) and indirect tax (7.2% growth) collections supported gross tax revenue in FY23.
- RBI's lower transfer weighed on non-tax revenue, however, dividends from public sector enterprises, interest receipts, and spectrum revenues restricted the downside.
- Going ahead, we expect gross tax collections to moderate amid a lower nominal GDP growth.
- Upbeat dividend transfer from RBI could support revenue amid slow disinvestment receipts.

Centre's Quality of Expenditure Improves



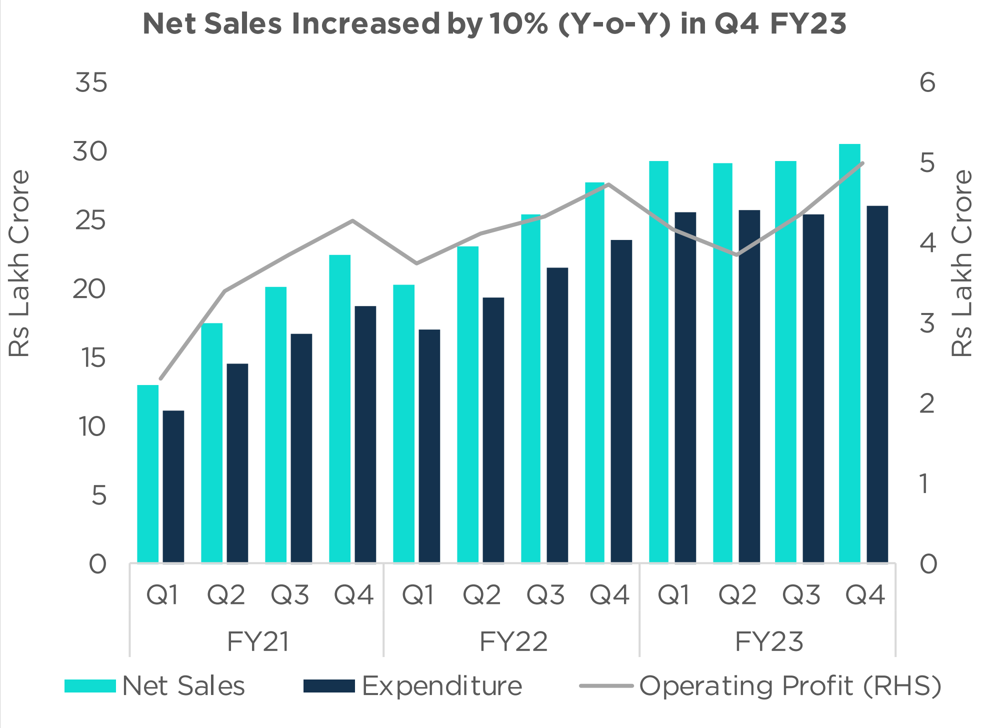
Source: CEIC & CGA



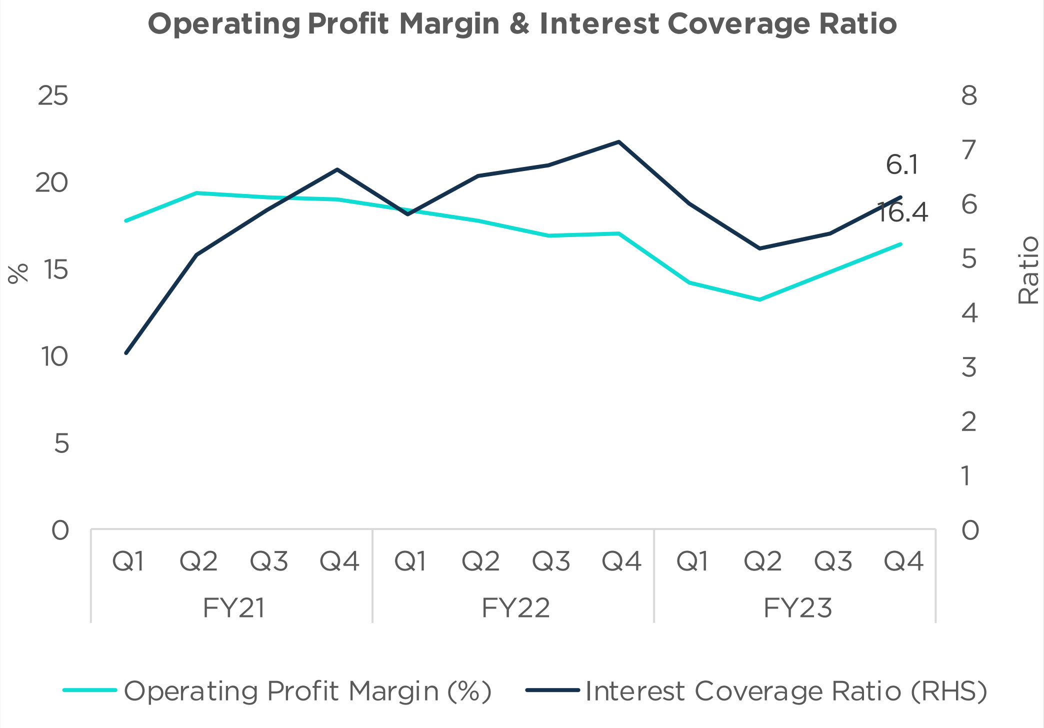
Source: CEIC & CGA

- Total subsidy allocation spiked 19% (y-o-y) in FY23 owing to record-high outgo towards fertiliser subsidy.
- Capital expenditure was recorded at Rs 7.4 lakh crore in FY23 with a focus on infrastructure-intensive sectors such as roads and railways (close to 50% share).
- Centre's quality of expenditure is budgeted to improve further in FY24 on the back of a sustained capex push.

Profit Margins of Corporates Improve in Q4 FY23



Source: Ace Equity & CareEdge;
Note: Results based on a sample of 1,789 listed non-finance companies



Source: Ace Equity & CareEdge;
Note: Results based on a sample of 1,789 listed non-finance companies

- Net sales of corporates recorded healthy growth of 10% (y-o-y) in Q4 FY23 (but moderated from 15.2% growth in Q3 FY23).
- Total expenditure of corporates rose by 10.8% (y-o-y) in Q4 FY23. However, the pace of increase witnessed sustained moderation since Q2 FY23.
- Easing raw material prices supported the improvement in operating profit margin to a 4-quarter high of 16.4% in Q4 FY23.
- Despite the rise in financing costs, the interest coverage ratio improved to 6.1 in Q4 FY23 from 5.4 in the previous quarter.

Sectoral Performance Mixed in Q4 FY23

Growth in Net Sales–Select Sectors (Y-o-Y %)		
Less than 10	**10 to 20**	**Above 20**
FMCG	IT	Aviation
Telecom	Power	Hospitality
Media & Entertainment	Realty	Automobile & Ancillaries
Chemicals	Cement & Construction Materials	Retailing
Crude Oil	Infrastructure	
Logistics	Pharmaceuticals & Drugs	
Iron & Steel	White Goods	
Non - Ferrous Metals	Capital Goods	
Textile		

Source: Ace Equity & CareEdge;
Note: Results based on a sample of 1,789 listed non-finance companies

Growth in Operating Profit – Select Sectors (Y-o-Y %)		
Less than 0	**0 to 20**	**Above 20**
Power	FMCG	Aviation
Realty	Crude Oil	Hospitality
Non - Ferrous Metals	IT	Automobile & Ancillaries
Media & Entertainment	White Goods	Pharmaceuticals & Drugs
Iron & Steel	Telecom	Capital Goods
Textile	Retailing	Logistics
	Infrastructure	
	Cement & Construction Materials	
	Chemicals	

Source: Ace Equity & CareEdge;
Note: Results based on a sample of 1,789 listed non-finance companies

- Strong sales growth in sectors such as aviation and hospitality can be attributed to the post-pandemic rebound in travel-related services.
- Sectors such as iron & steel, non-ferrous metals, and crude oil saw muted sales as they felt the pinch of lower global commodity prices.
- Slowing external demand weighed on the performance of the textile sector.

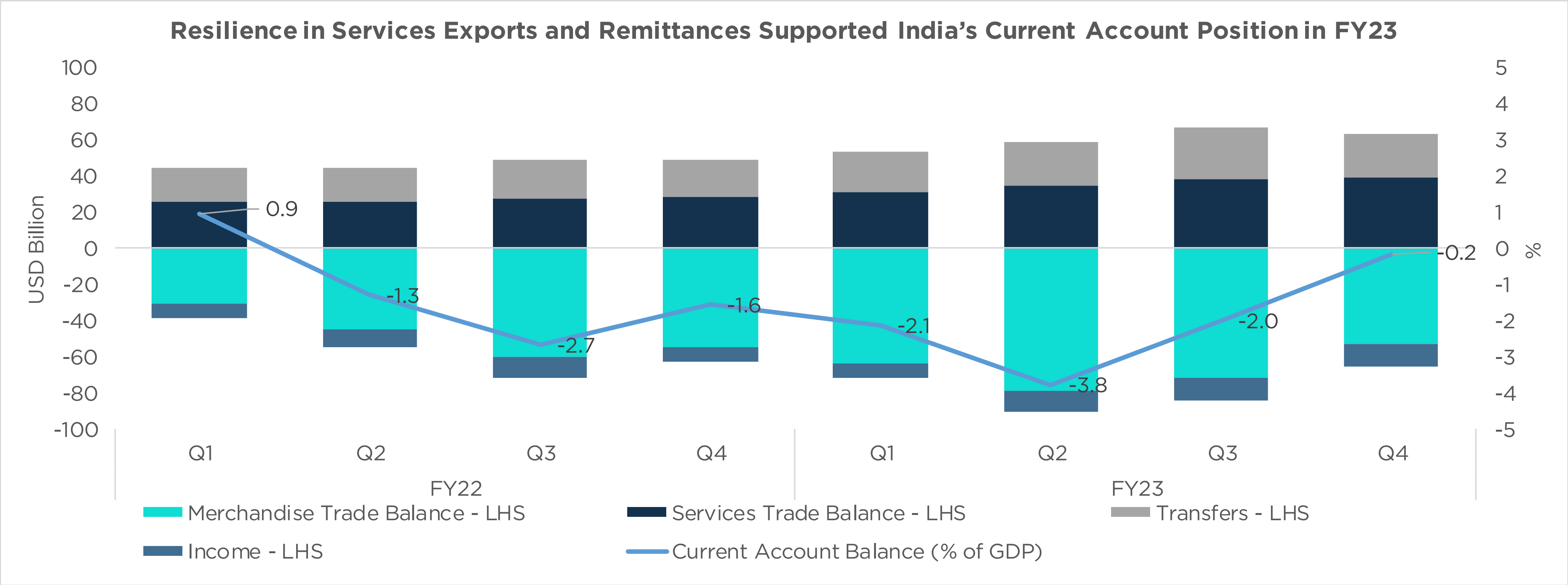
Retail & Services Segment Steers Credit Growth

Y-o-Y Growth (%)	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
Total Outstanding Credit	**10.1**	**12.1**	**13.2**	**14.5**	**14.3**	**15.3**	**16.7**	**16.0**	**14.9**	**16.3**	**15.5**	**15.0**	**15.9**
Agriculture & Allied (13.4)	**10.6**	**11.8**	**13.0**	**13.2**	**13.4**	**13.4**	**13.6**	**13.8**	**11.5**	**14.4**	**15.0**	**15.4**	**16.7**
Industry (26.2)	**8.0**	**8.7**	**9.5**	**10.5**	**11.4**	**12.6**	**13.6**	**13.1**	**8.7**	**8.8**	**7.0**	**5.7**	**7.0**
Infrastructure (9.5)	9.7	9.5	9.5	11.1	11.0	10.9	10.9	10.5	5.3	2.3	0.6	-0.7	1.7
Basic Metals & Products (2.7)	-4.4	-2.3	0.6	5.6	5.7	10.6	14.1	15.3	19.1	22.1	19.7	19.1	19.2
Textiles (1.8)	7.1	5.1	5.3	3.8	4.0	4.9	4.4	3.0	0.4	0.8	0.3	1.7	4.3
Chemicals & Products (1.7)	10.4	15.6	15.1	20.2	23.5	22.5	25.1	19.1	15.8	17.6	15.2	10.3	4.8
Food processing (1.4)	10.7	11.7	14.0	9.8	9.5	8.0	6.9	7.4	4.1	4.7	5.8	5.6	2.7
Engineering (1.4)	9.7	9.0	11.1	11.3	11.3	13.8	13.8	11.1	8.4	6.2	6.7	4.3	6.0
Services (28.4)	**11.2**	**12.9**	**12.8**	**16.5**	**17.2**	**20.0**	**22.5**	**21.3**	**19.6**	**21.5**	**20.7**	**19.8**	**21.6**
NBFC (10.4)	14.8	20.6	21.1	27.4	27.8	30.6	38.0	33.0	35.5	31.0	32.4	30.2	29.2
Trade (6.5)	13.2	13.4	16.7	14.2	16.9	21.3	17.0	16.0	13.7	16.9	16.7	17.8	18.2
Personal Loans (32.0)	**14.4**	**16.4**	**18.1**	**18.8**	**19.5**	**19.6**	**20.2**	**19.7**	**20.2**	**20.4**	**20.4**	**20.6**	**19.4**
Housing* (15.1)	13.7	13.7	15.1	16.2	16.4	16.0	16.2	16.2	16.1	15.4	15.0	15.0	14.4
Vehicle Loans (4.0)	11.4	14.1	17.7	19.2	19.5	19.9	22.1	22.5	24.7	25.5	23.4	24.9	23.1

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

- Moderation in industrial credit in recent months, partially attributable to the base effect.
- Credit to large enterprises (75% share in total industrial credit) picked up to 5.3% as against 1.3% last year.
- We project credit growth to ease to 12% in FY24 from 15% in FY23 amid moderation in growth and due to a higher base.

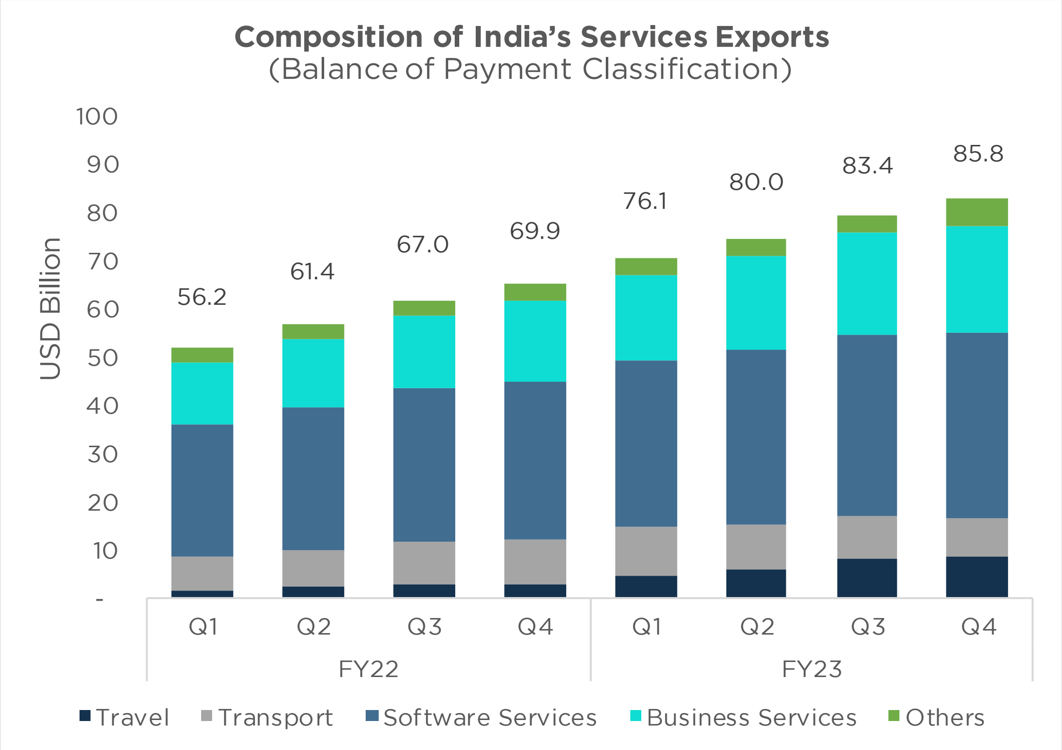
CAD Moderates to 0.2% of GDP in Q4 FY23



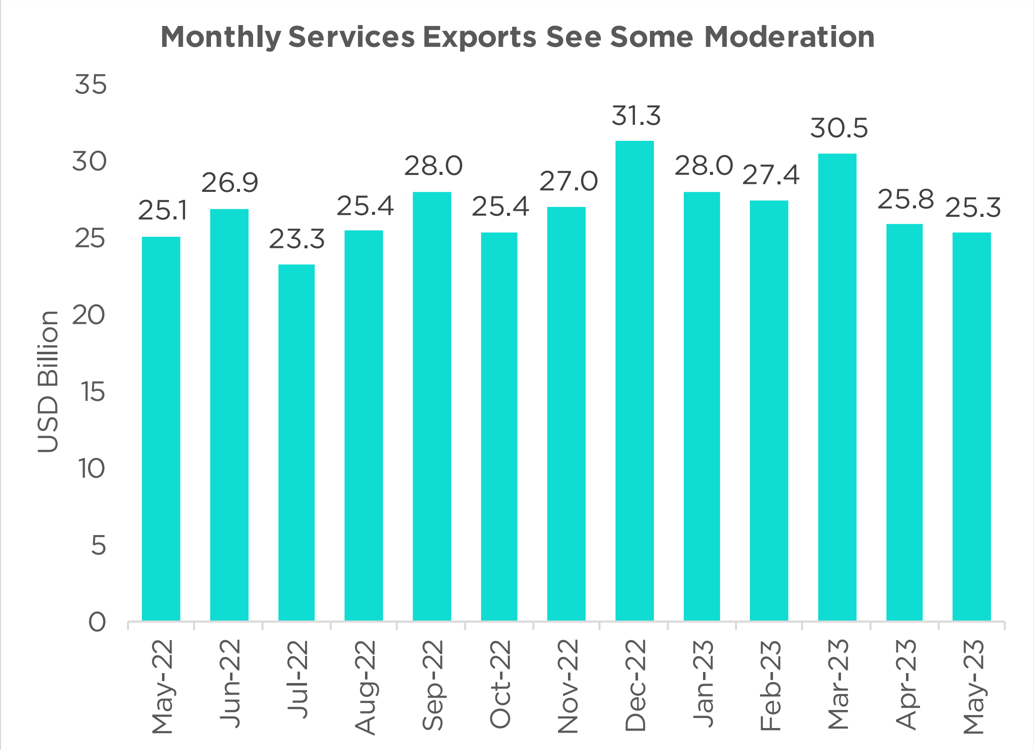
Source: CEIC

- India's CAD moderated in Q4 FY23 supported by an improvement in the merchandise trade gap and sustained buoyancy in services exports and remittances.
- In FY23, net inflows from remittances surged to a record high exceeding USD 100 billion mark; receipts from services exports jumped nearly 28%.

Software and Business Services Steer Growth in Services Exports



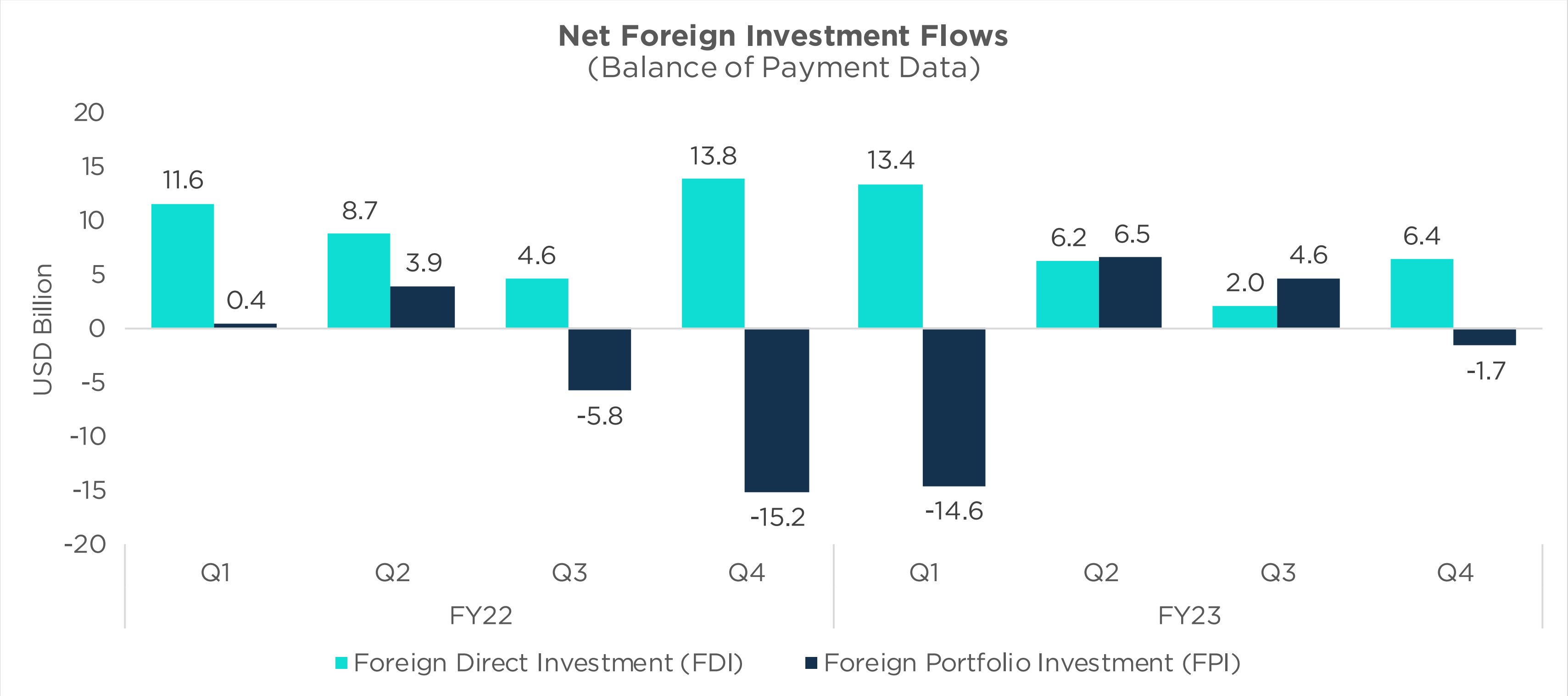
Source: CEIC



Source: CEIC

- Growth in services exports was steered by software exports (45% share) which rose by 20.2% in FY23.
- Encouraging performance was seen in the exports of business services (24.7% share) which logged a growth of 36.3% in FY23.
- Service exports witnessed some moderation in the first two months of the current fiscal, this trend will have to be monitored in the coming months.

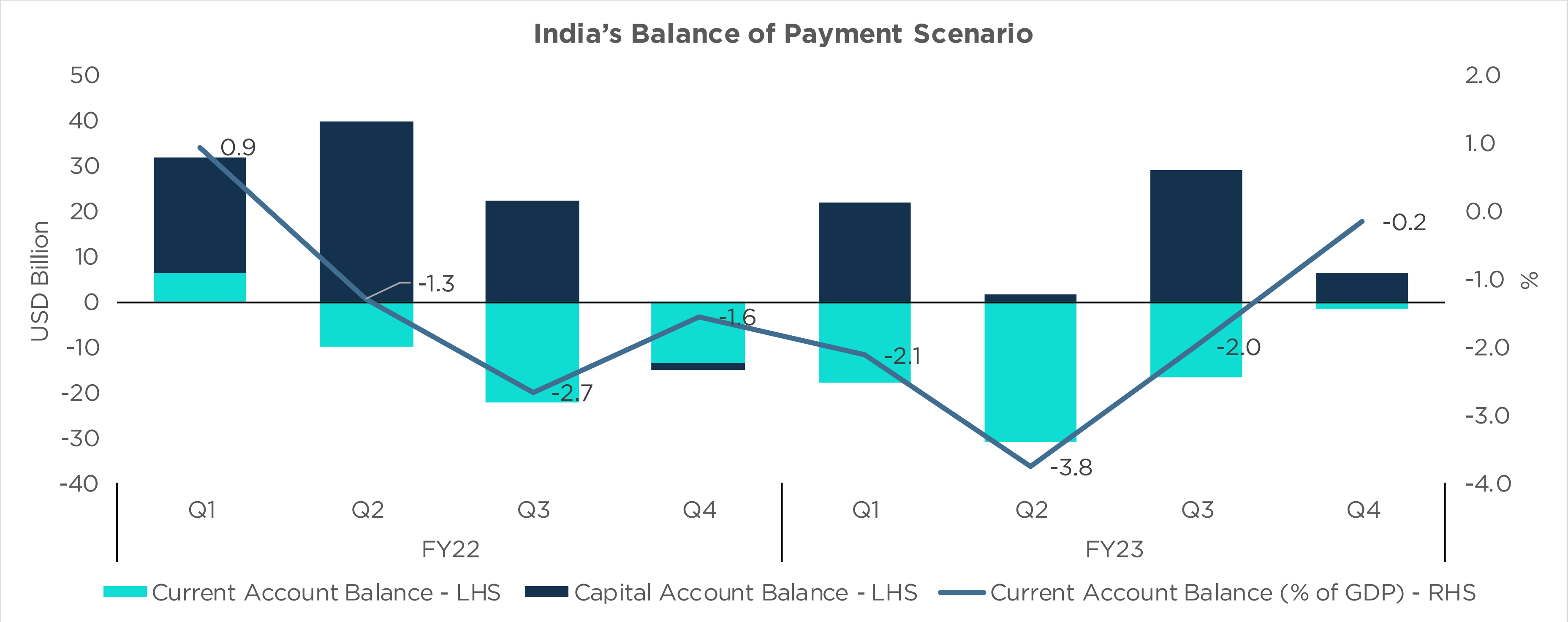
Foreign Investment Inflows Subdued



Source: CEIC

- Net FDI inflows moderated to USD 28 billion in FY23, 27% lower compared to FY22 amid a slowing global growth scenario.
- Net FPI inflows recorded outflows of USD 5.2 billion as against outflows of USD 16.8 billion in the previous year.
- Portfolio investments witnessed some improvement with net FPI inflows rising to USD 11 billion so far in FY24.

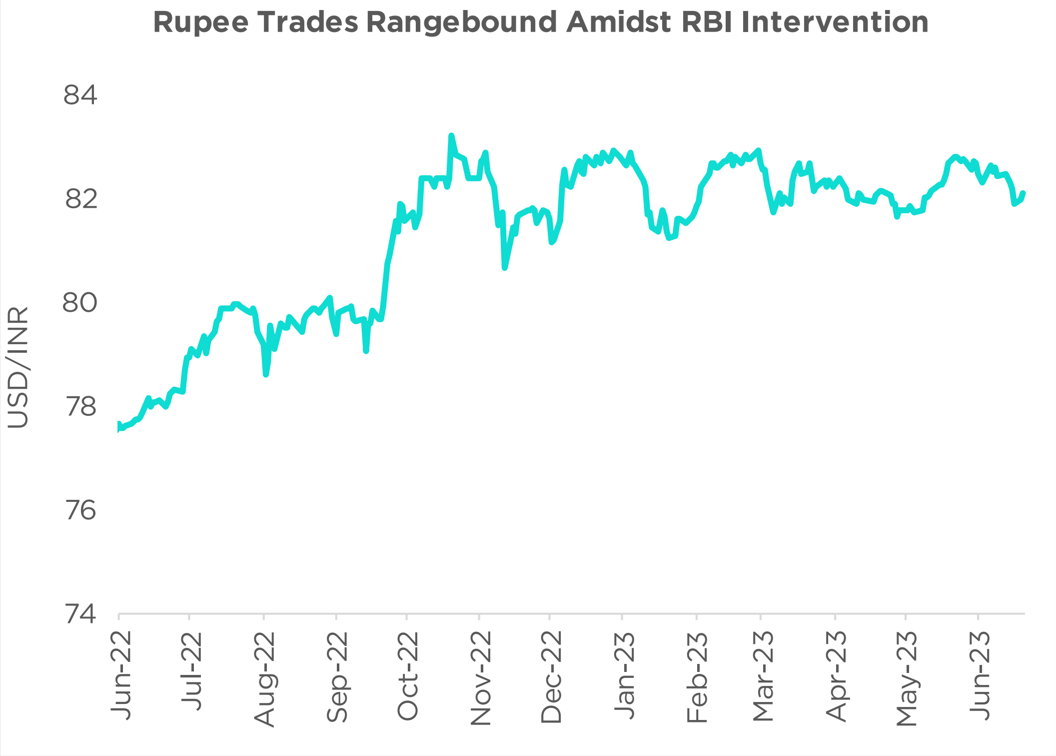
CAD Projected to Moderate to 1.6% of GDP in FY24



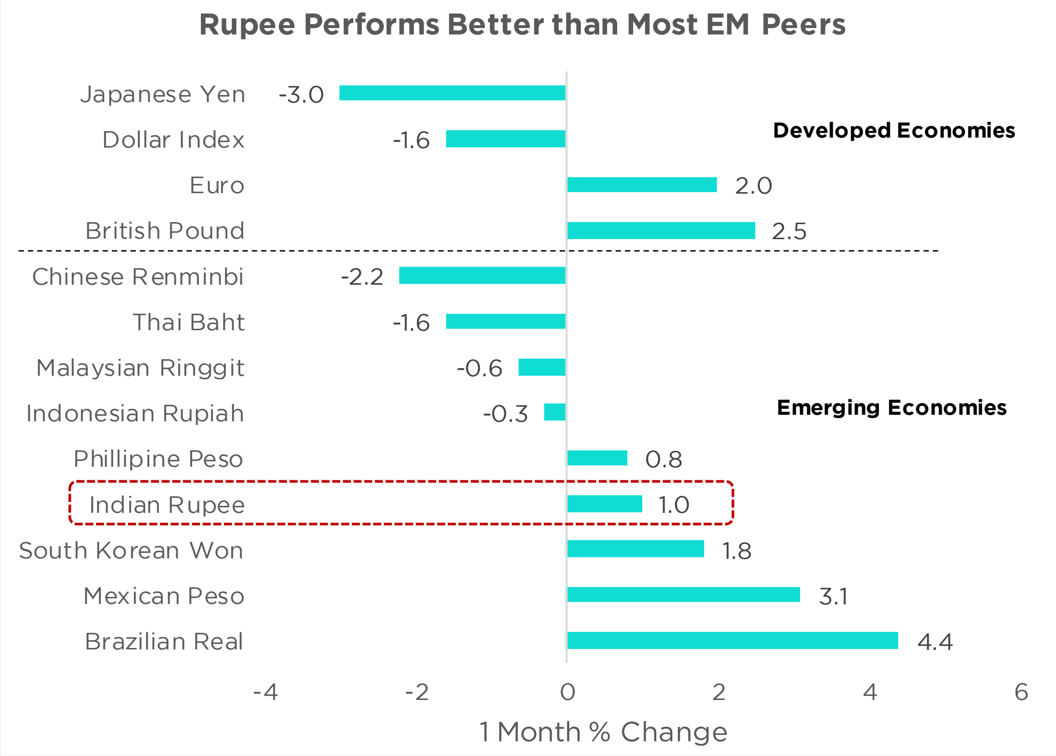
Source: CEIC

- India's balance of payment position was supported by narrowing current account deficit which helped partially offset the moderation in capital flows.
- Going ahead, we expect the current account scenario to improve with CAD projected to moderate to 1.6% of GDP in FY24.
- However, we remain cautious about capital inflows given the uncertain global economic scenario.

Rupee Trades Rangebound Despite Dollar Weakness



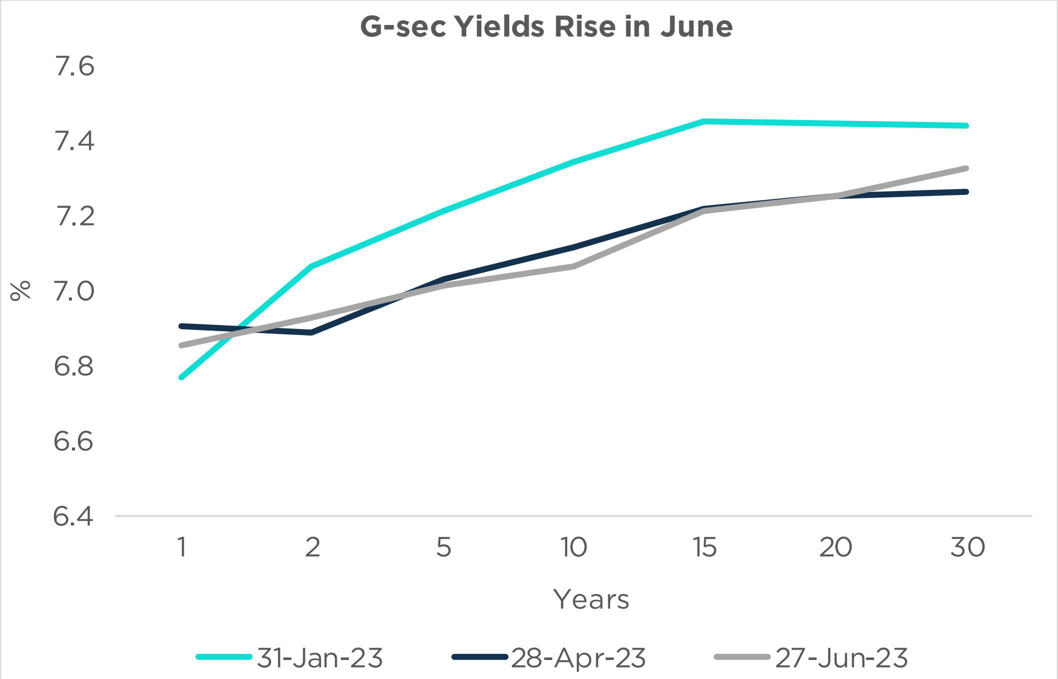
Source: CEIC (Data for June 2023 up to June 28)



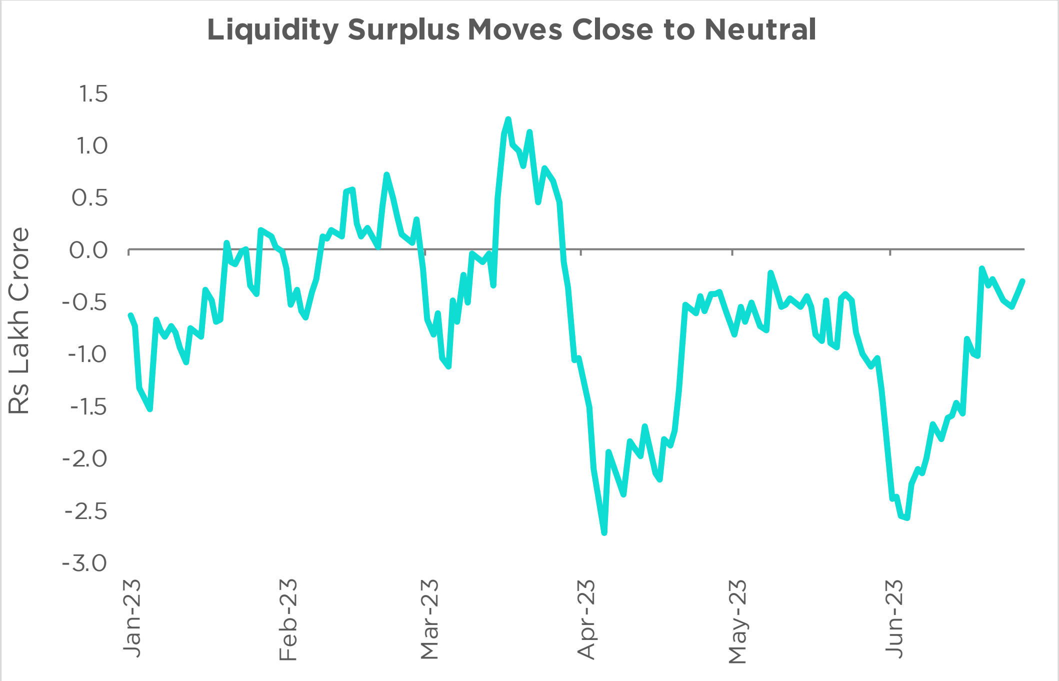
Source: CEIC

- Rupee continued to trade rangebound over the last month on likely RBI intervention, despite sharp weakness in the Chinese Yuan.
- Chinese yuan depreciated over 2% in the month, to its lowest levels in the year so far following PBoC's rate cut decision.
- Healthy capital inflows and low oil prices are also likely to have supported rupee.
- We expect INR to remain within 81-83 range by end-FY24.

Bond Yields Rise; Liquidity Tightens in June



Source: Refinitiv



Source: Refinitiv (Data for June up to June 27; (-) denotes surplus/(+) denotes deficit)

- 10-year benchmark bond yield rose 6 bps in last month tracking a rise in global bond yield on prospects of further rate hikes by major central banks.
- Incoming bond supply and El-Nino related risks weighed on domestic bonds.
- Advance tax outflows and reverse repo auctions worth Rs 2 lakh crore over the last month saw liquidity move close to neutral.

CareEdge Economy Outlook

Economic Growth

GDP growth projected at **6.5%** for FY24

Inflation

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

Current Account Deficit

CAD (as % of GDP) projected at **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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