

India: The Economic Pathway

July 2023

Global Economy

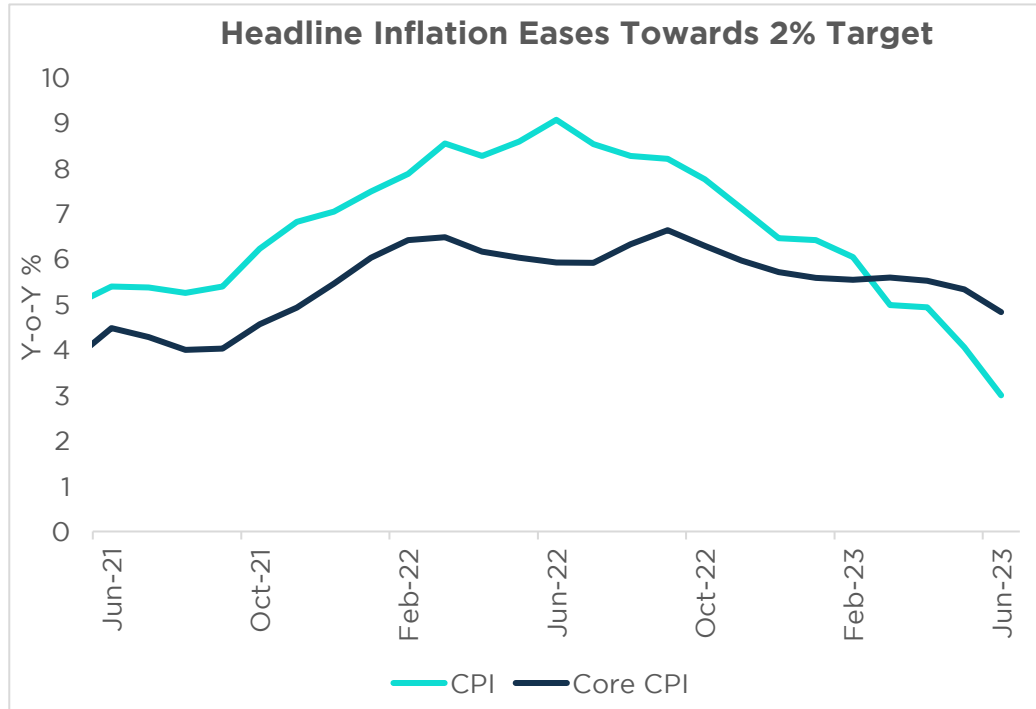
IMF Upgrades World GDP Forecast for 2023

	Real GDP July Forecast (%)			Percentage Point Difference from April Projections	
	2022	2023 (P)	2024 (P)	2023 (P)	2024 (P)
World	3.5	3.0	3.0	0.2	0.0
Advanced Economies	2.7	1.5	1.4	0.2	0.0
US	2.1	1.8	1.0	0.2	-0.1
Euro Area	3.5	0.9	1.5	0.1	0.1
Japan	1.0	1.4	1.0	0.1	0.0
EMDEs	4.0	4.0	4.1	0.1	-0.1
China	3.0	5.2	4.5	0.0	0.0
India	7.2	6.1	6.3	0.2	0.0

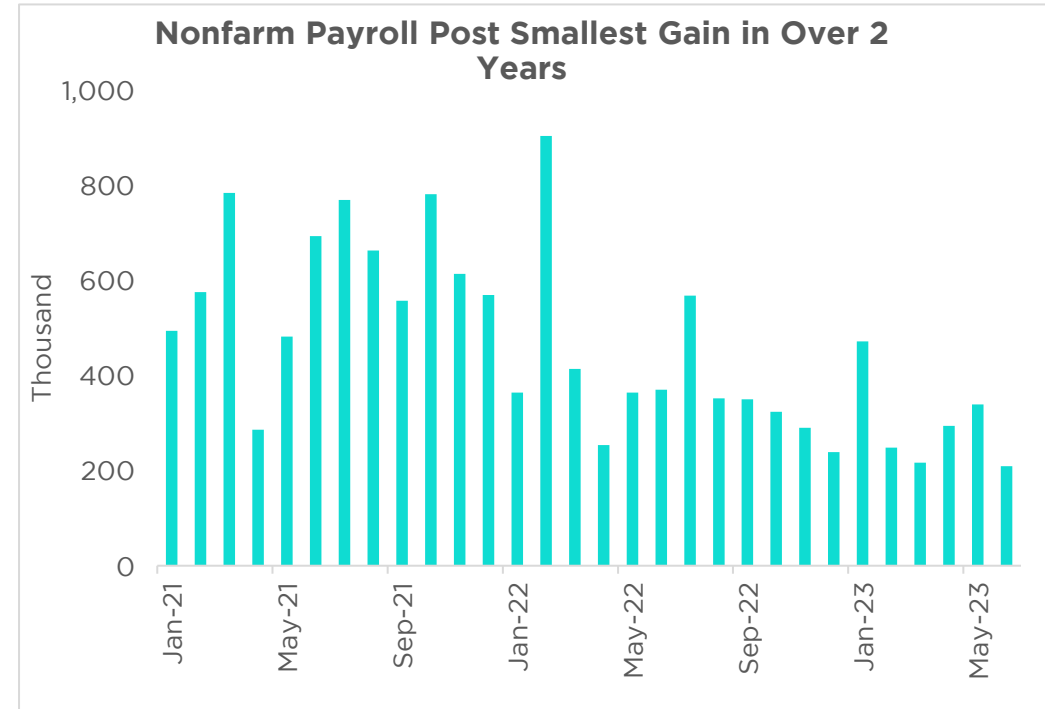
Source: IMF (Note: Projection for India is for fiscal year starting April 2023); P: Projections

- IMF attributed the uptick in global GDP growth forecast for 2023 to resilient services sector and strong labour markets.
- US GDP growth revised higher on account of resilient consumption growth, with a robust labour market supporting real income gains.
- Forecasts for China unchanged as stronger-than-expected net exports in Q1 2023 offset some of the investment weakness.
- India 2023 GDP growth forecast revised higher following better-than-expected Q4 FY23 growth due to strong domestic investment.

US Inflation and Labour Market Cools



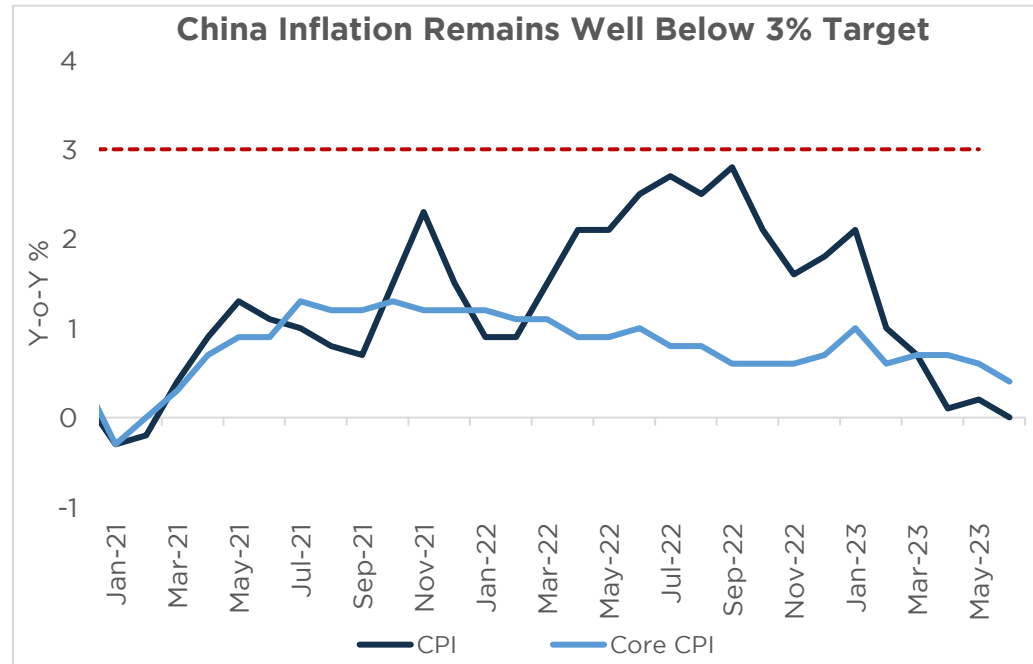
Source: Refinitiv



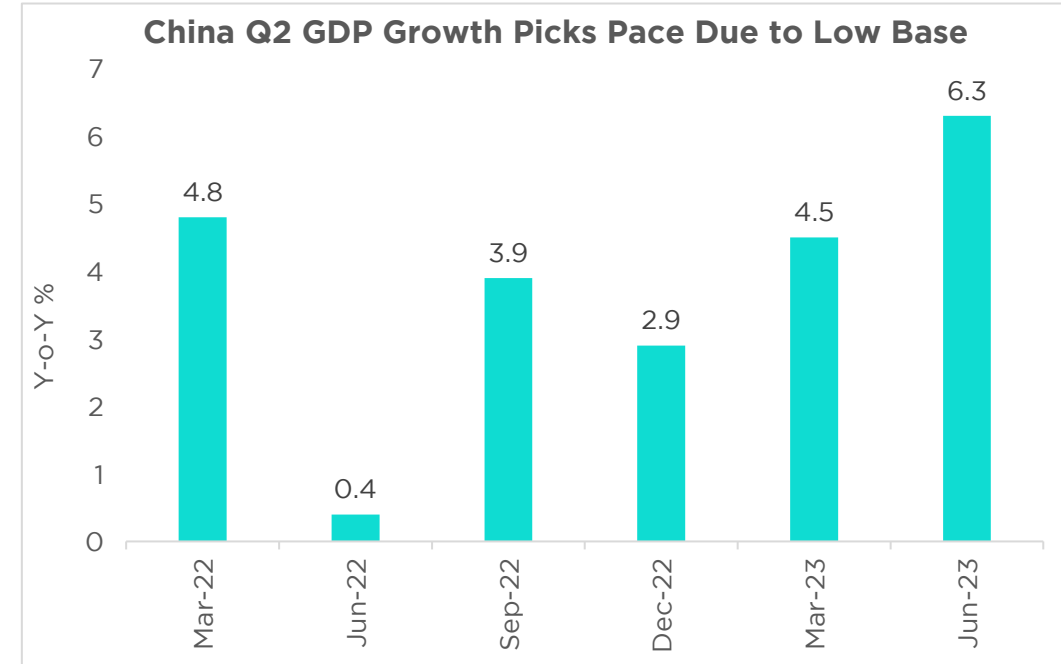
Source: Refinitiv

- Headline CPI eased 3% y-o-y in June, the slowest pace since March 2021, and lower than market expectations of 3.1%.
- Labour market painted a mixed picture with a fall in payroll additions, amidst an improvement in wage growth (4.4% y-o-y in June vs 4.3% in May).
- The widely reported U3 unemployment rate fell to 3.6% from 3.7% in May.
- U6 unemployment rate, that includes part-time workers and persons marginally attached to the labour force, however, rose to a 10-month high of 6.9% in June.

Chinese Economy at the Brink of Deflation?



Source: Refinitiv

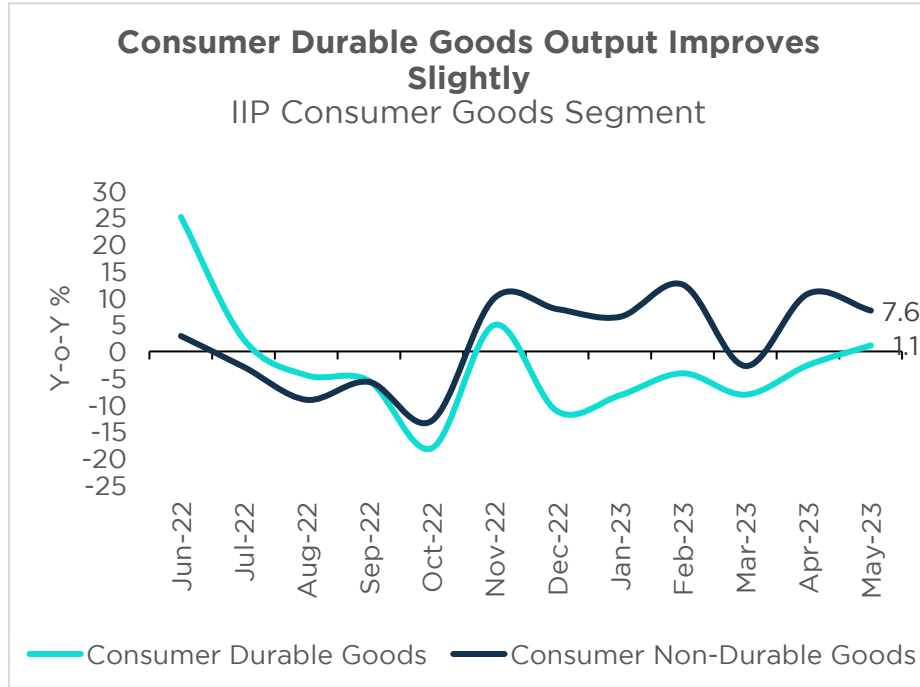


Source: Refinitiv

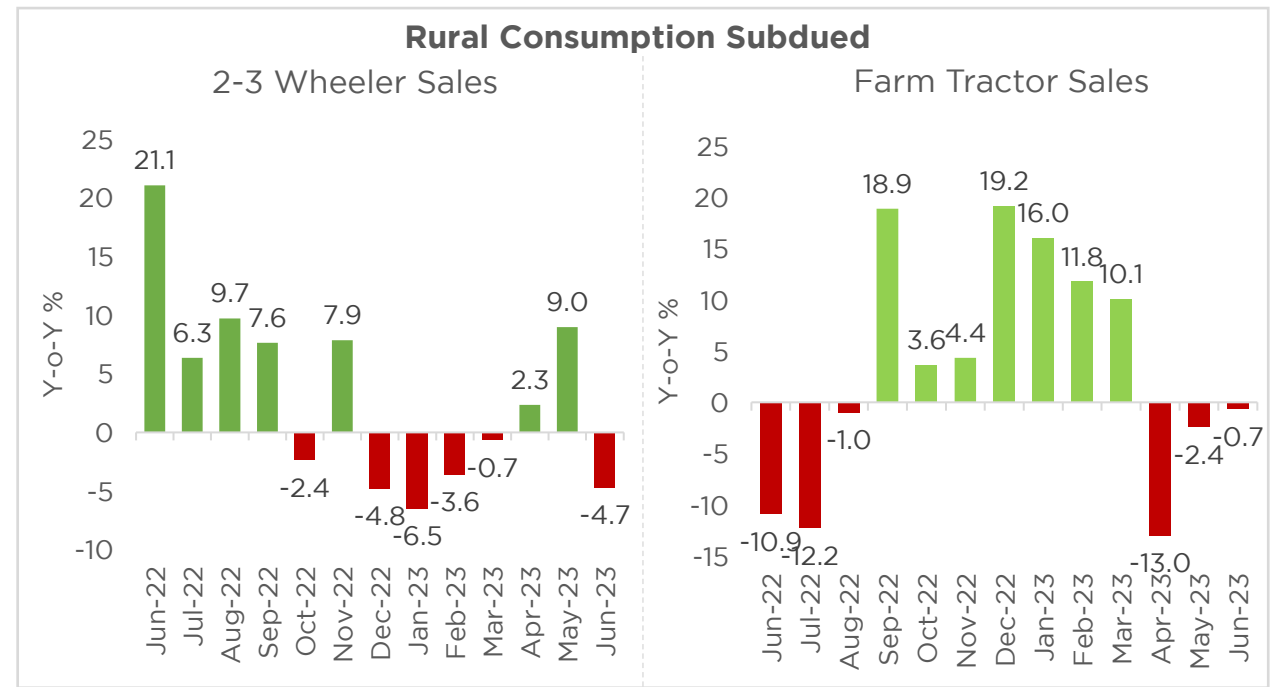
- China CPI inflation flatlined in June, with the sequential momentum reporting contraction for the 5th month.
- Q2 GDP grew 6.3% y-o-y, from 4.5% in Q1, supported by base effect. However, growth was lower than expectations due to weak domestic demand and slowing exports.
- With the economy on the verge of deflation, and indicators such as retail sales, PMI and fixed asset investment pointing to a slack, China could miss its 2023 growth target of around 5%.
- Markets expect Beijing to announce targeted stimulus measures; Top PBoC advisor recommends a shift in stimulus from investment to consumption.

Domestic Economy

Consumption Signals Mixed



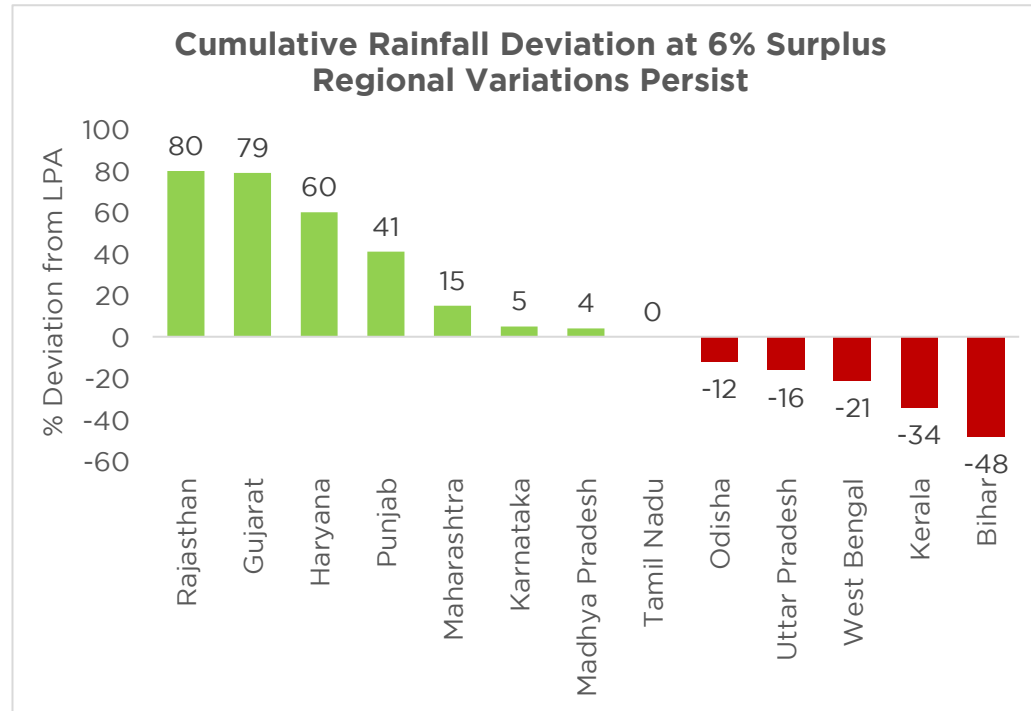
Source: CEIC



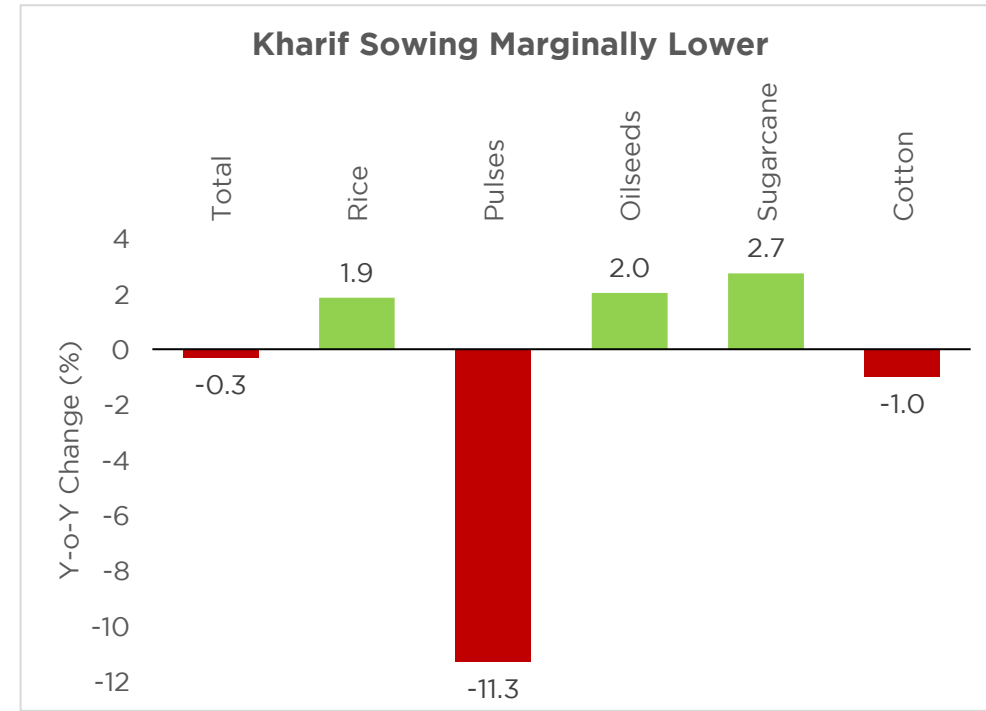
Source: CEIC & CMIE

- High-frequency consumption indicators such as GST collections, E-way bill generation, and railway passenger traffic remain upbeat.
- Going ahead, elevated food inflation and weather-related uncertainties pose headwinds for consumption.

Rainfall Distribution Uneven, Kharif Sowing Lags



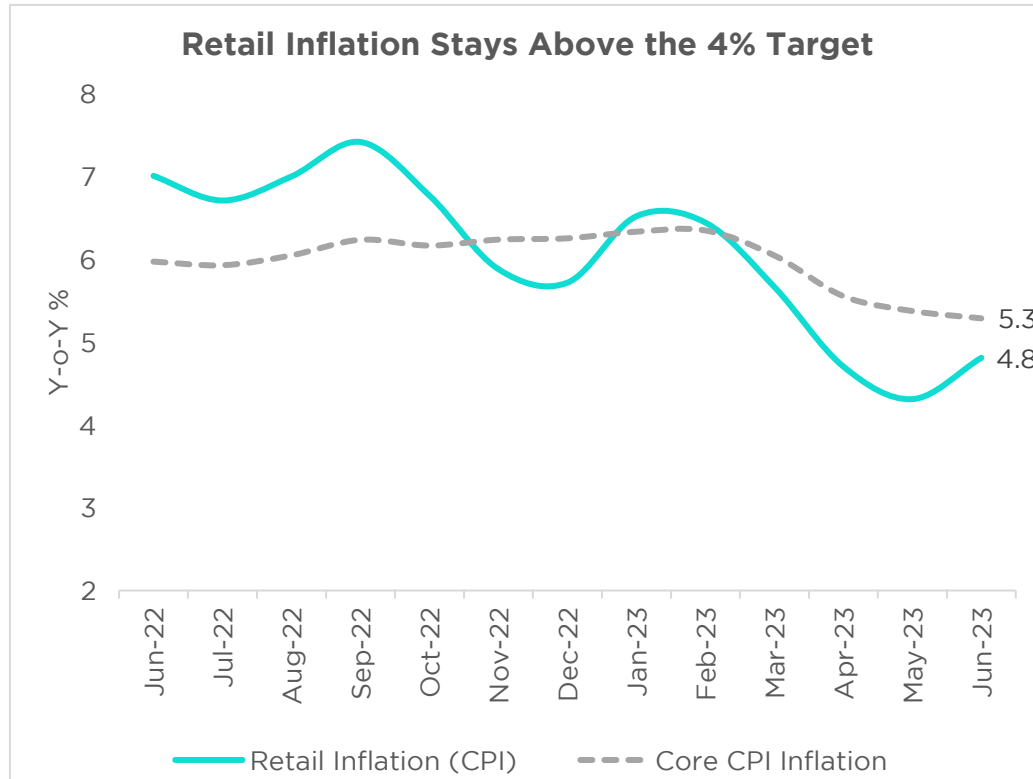
Source: CEIC; Data as on 30 July 2023



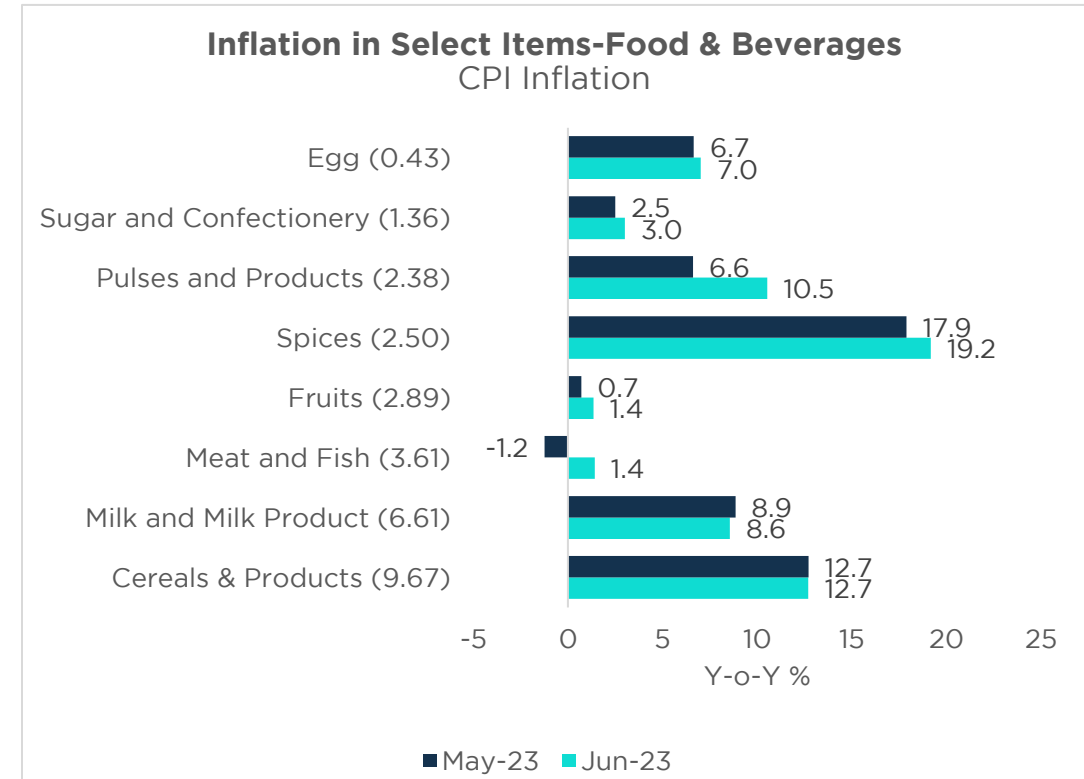
Source: CEIC; Data as on 28 July 2023

- States in north-west and central India witnessed above-normal rainfall whereas, eastern India remains deficient.
- Improvement seen in the sowing of rice, oilseeds and sugarcane.
- Deficient rainfall in West Bengal and Uttar Pradesh is concerning as they are major rice producing states.
- Sowing of pulses significantly lower due to below-normal rainfall in Uttar Pradesh.

Retail Inflation Elevated



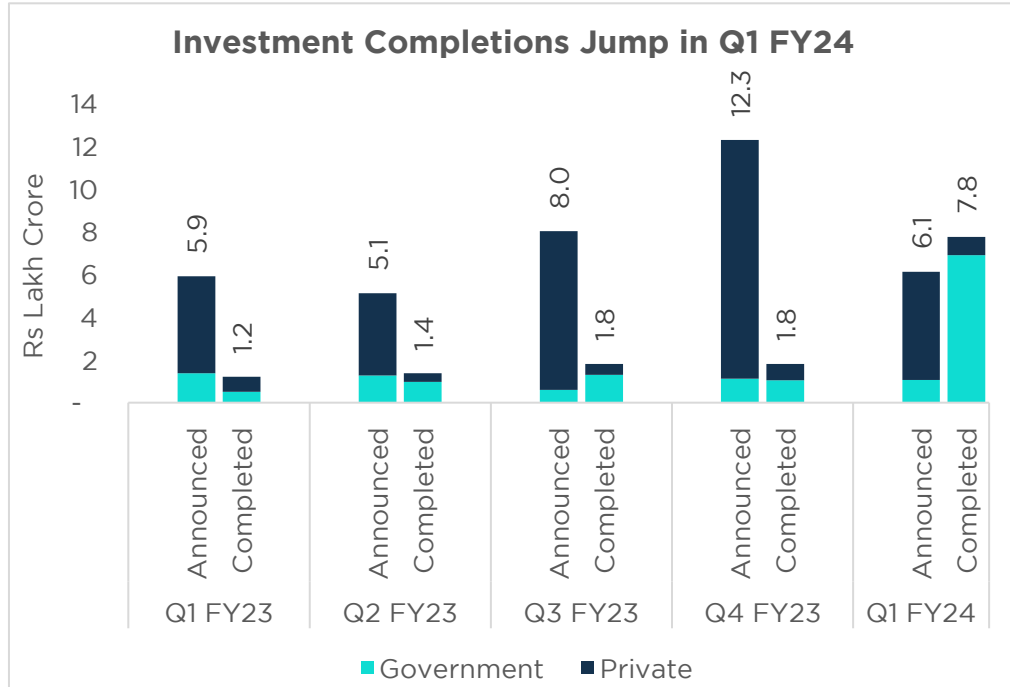
Source: MOSPI & CareEdge



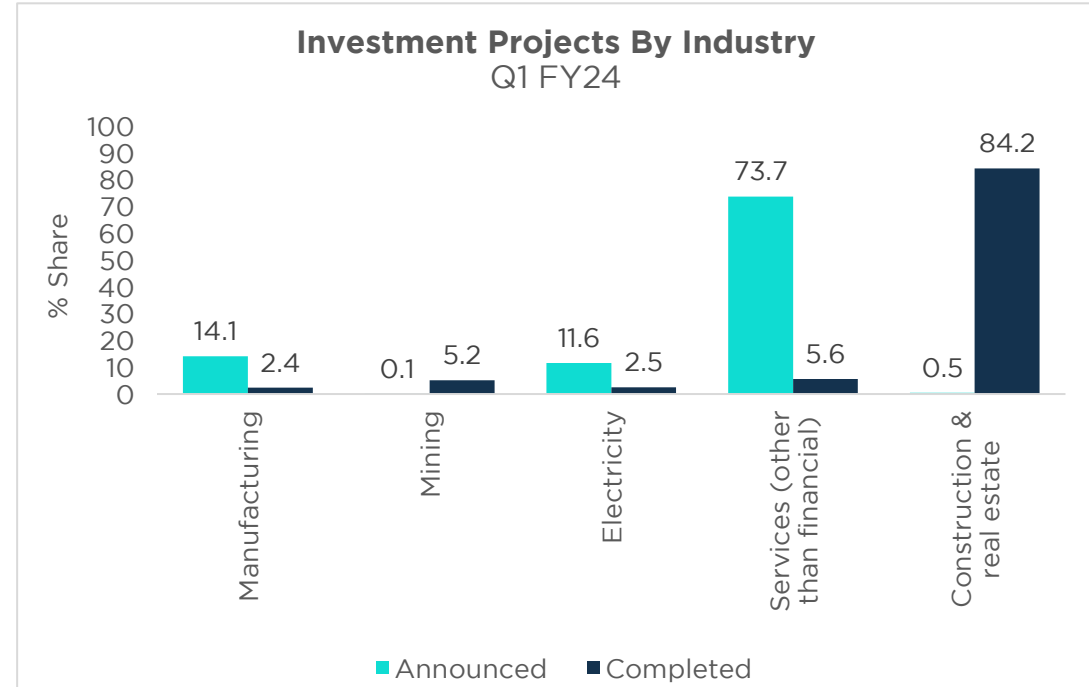
Source: MOSPI; Note: Figures in bracket represent weight in overall CPI

- Share of food inflation to overall inflation inched up to 44% in June from 36% a month ago.
- Seasonal uptick in vegetable prices and elevated cereal, pulses and milk inflation pushed food & beverages inflation to 4.6% in June (Vs 3.3% last month).
- We project retail inflation to stay elevated averaging 5.7% and 5.3% in Q3 and Q4, respectively.

Investments Higher Than a Year Ago



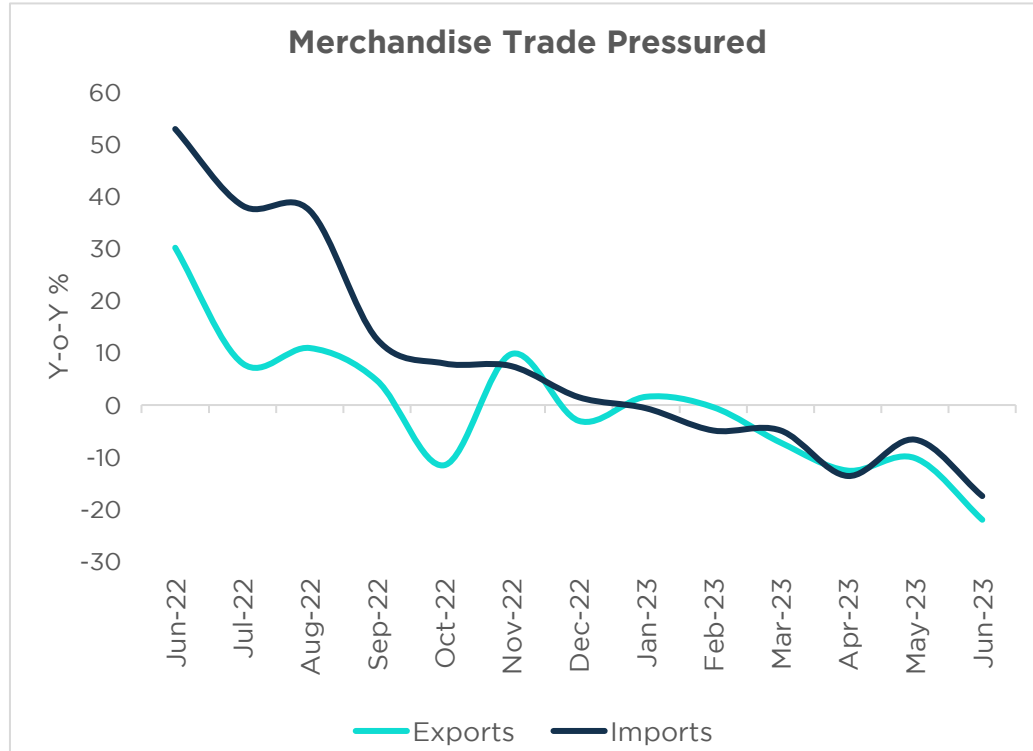
Source: CMIE



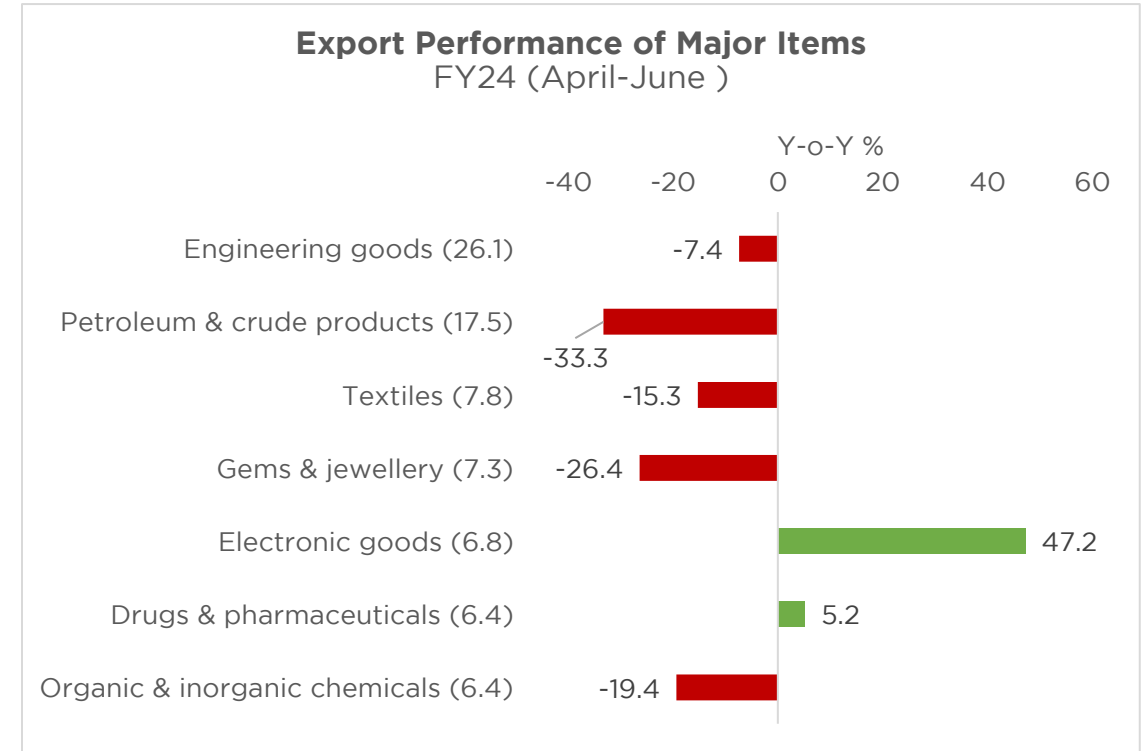
Source: CMIE

- In Q1 FY24, new investment announcements were concentrated in the transport services segment (air transport services).
- Project completions in the construction and real estate sector were driven by an increase in government housing projects.
- Investment projects completed in the manufacturing sector remained weak.
- Private sector investment is expected to witness a pick-up amid rising capacity utilisation levels and the government's sustained capex push.

Merchandise Trade Disappoints



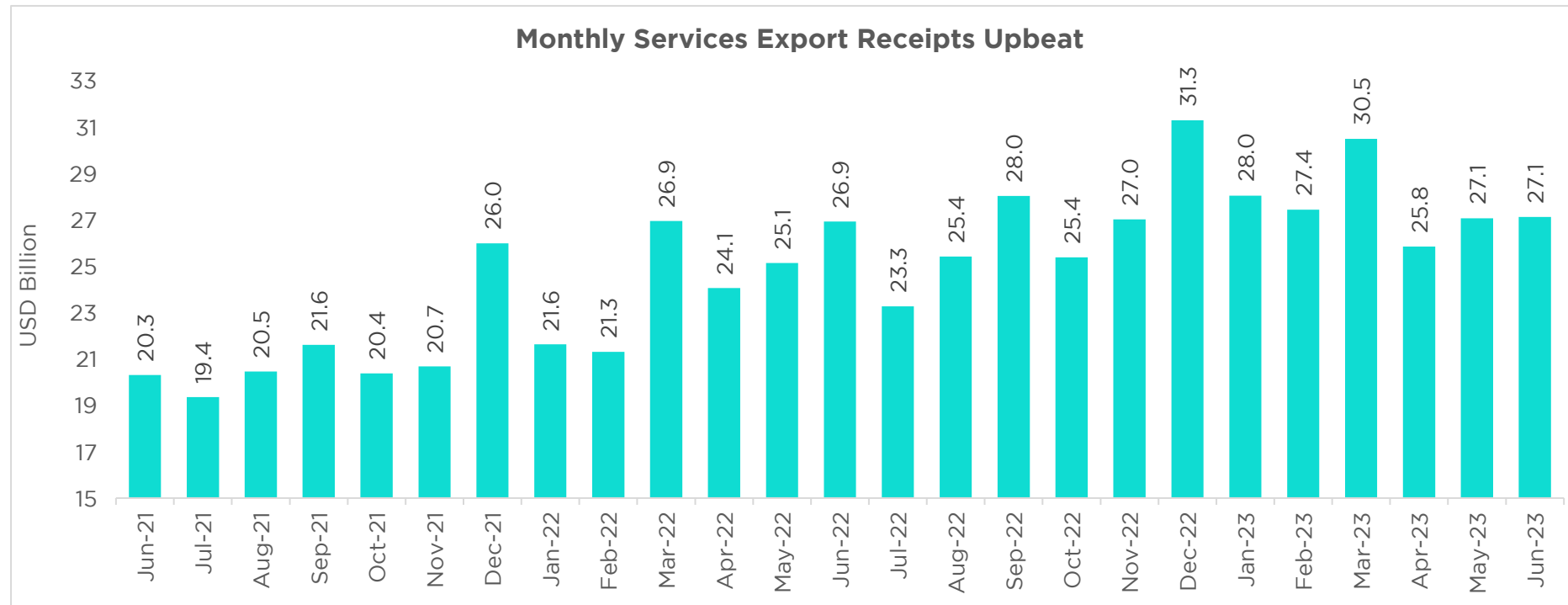
Source: CMIE



Source: CMIE

- Contraction in merchandise exports widened to 22% in June (from 10% in May); more concerning is the contraction in non-oil exports by 13.5%.
- India's non-oil and non-gold imports fell for the 6th straight month contracting by 15.2% in June.
- We project merchandise exports to contract by 5% in FY24 amid weakness in external demand.

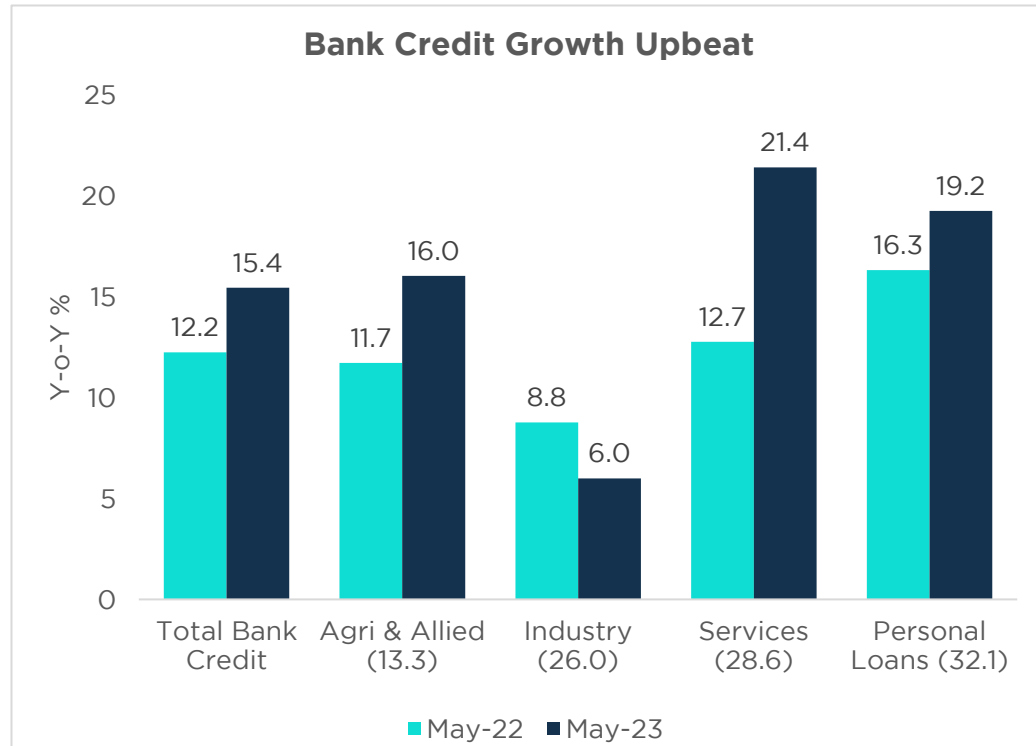
Services Exports Remain a Bright Spot



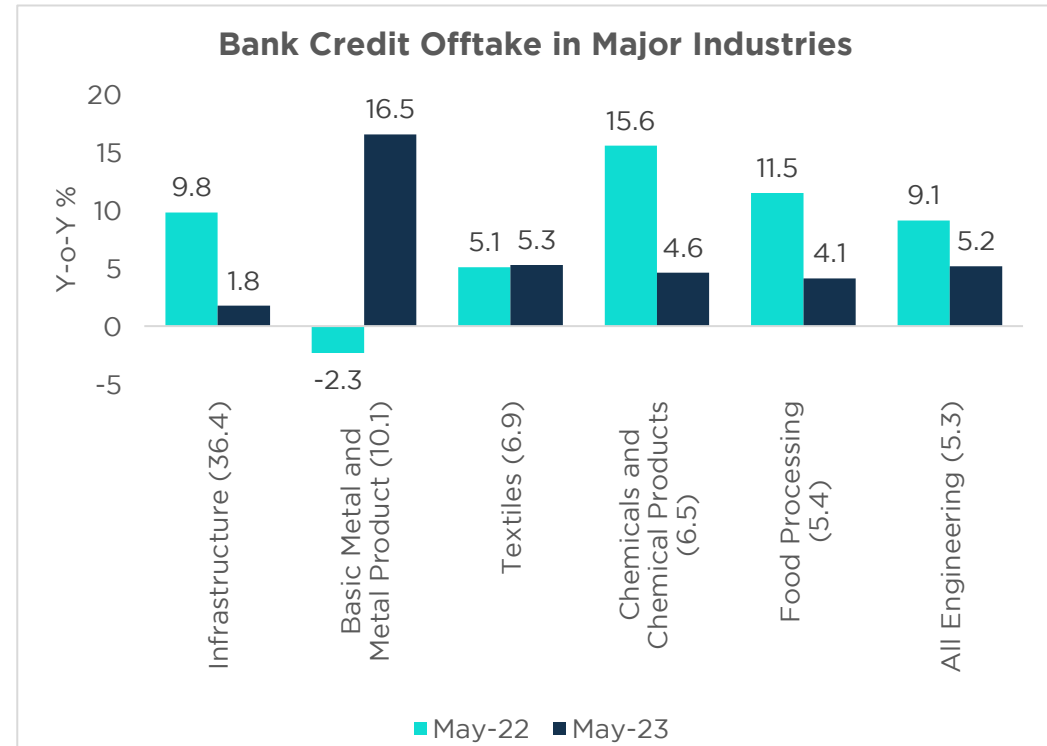
Source: CEIC

- While merchandise exports have stayed under pressure, services exports remained healthy staying above USD 25 billion for 11 months in a row.
- We expect resilience in services exports to support India's current account position in FY24.
- Current account deficit is projected to moderate to 1.6% of GDP in FY24 from 2% in FY23.

Bank Credit Growth Healthy



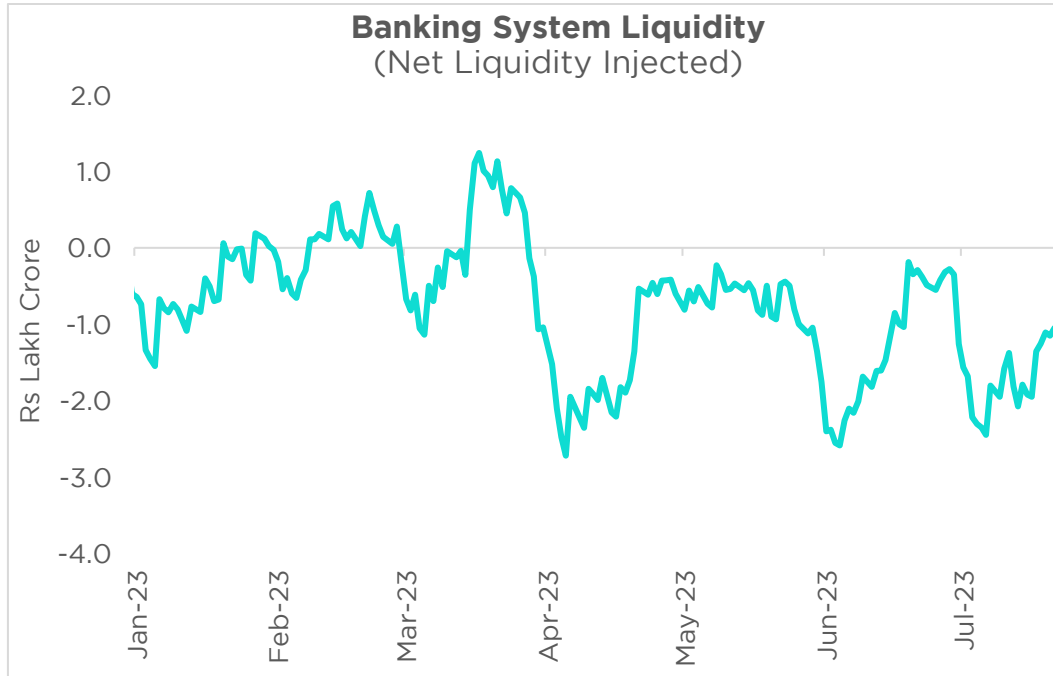
Source: RBI



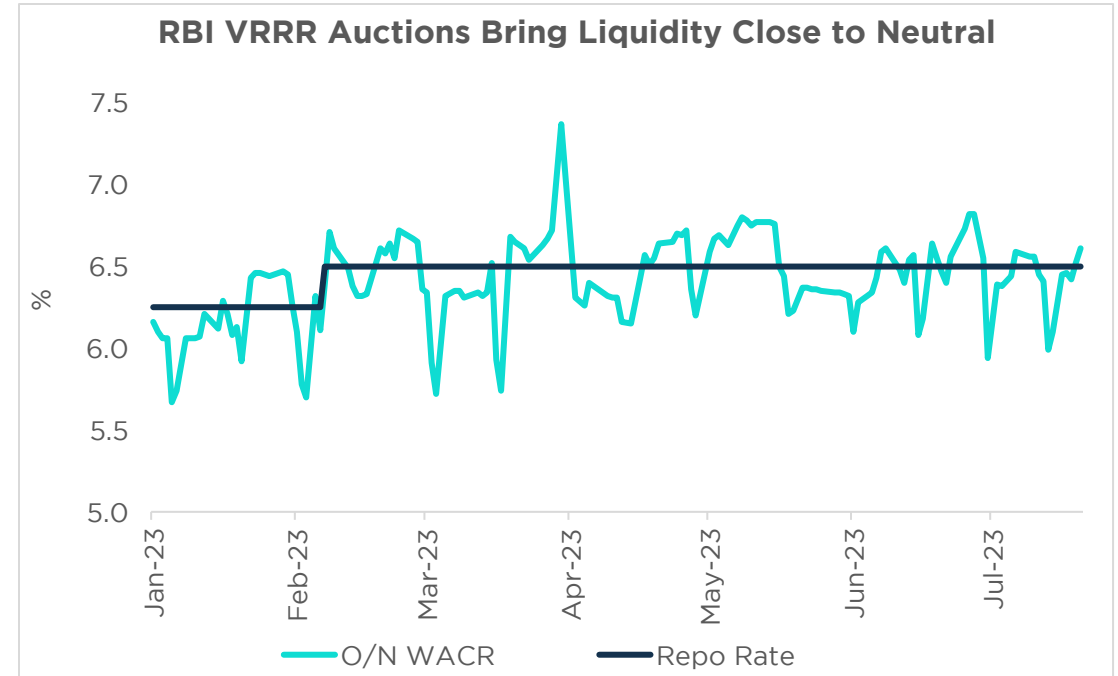
Source: RBI

- Credit to large enterprises (74% share in total industrial credit) picked up to 3.9% as against 2.1% last year.
- Credit growth in services driven by upbeat credit offtake in trade and the NBFC sector.
- Retail credit growth supported by demand in the housing, vehicle, and other personal loans segment.
- We project credit growth to moderate to around 13% in FY24 from 15% growth in FY23.

Banking System Liquidity Remains Comfortable



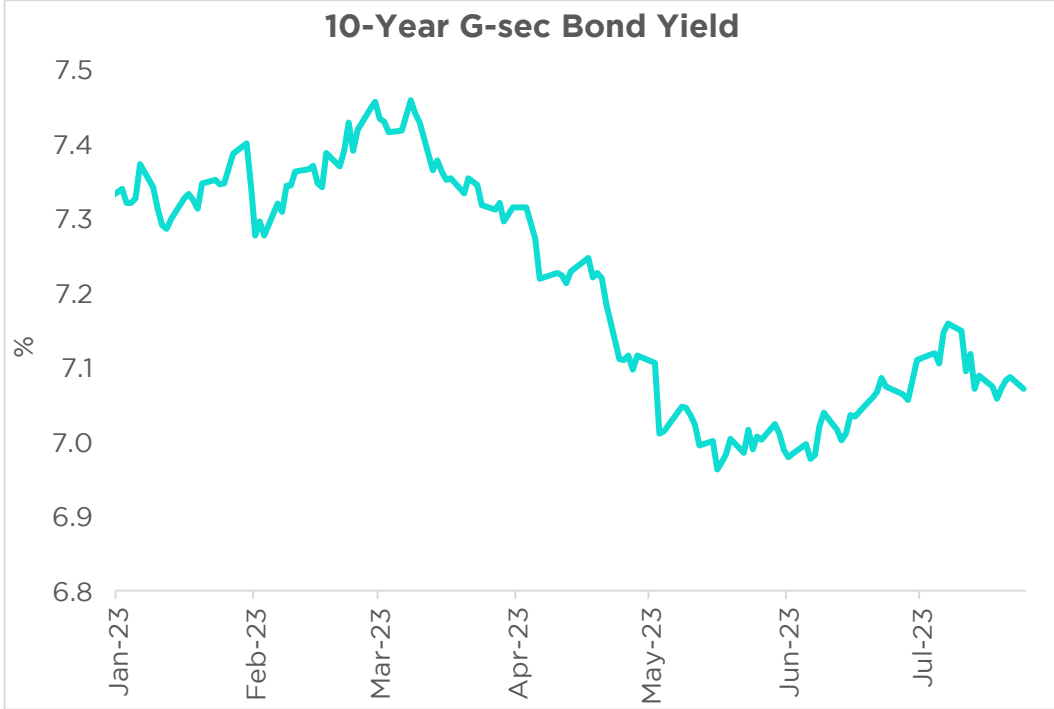
Source: Refinitiv



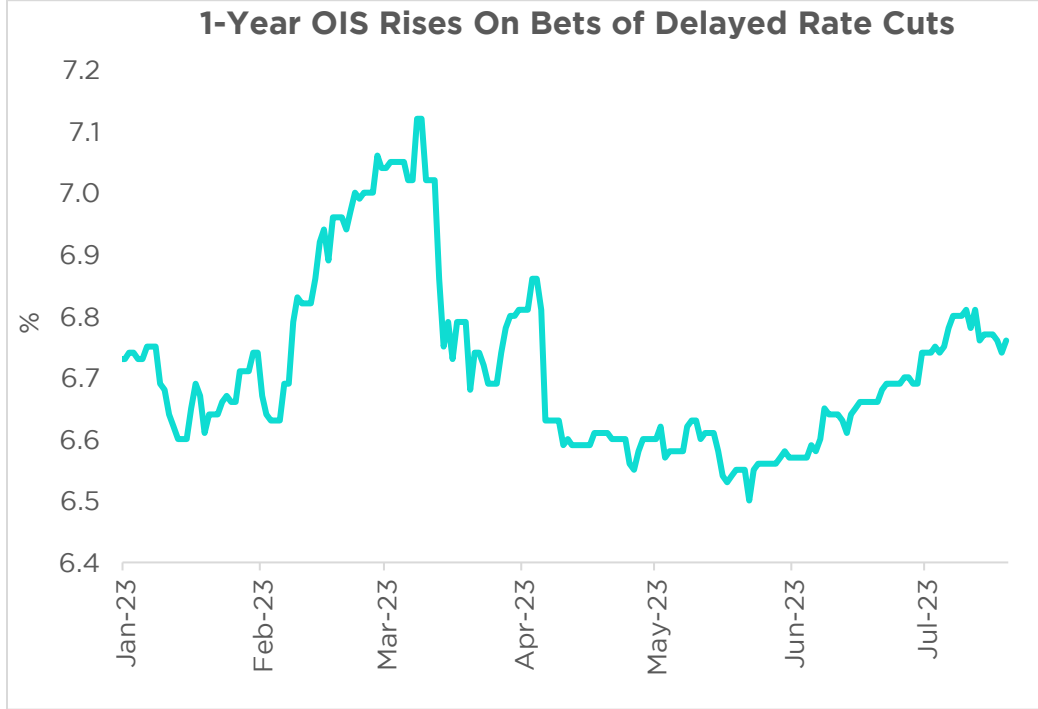
Source: Refinitiv

- Surplus liquidity in the banking system reduced to around Rs 1 lakh crore from over Rs 2 lakh crore in June on account of GST outflows.
- RBI conducted variable rate reverse repo auctions worth Rs 4.6 lakh crore in July to ensure overnight call rates remain close to repo rate.
- Going ahead, RBI could continue intervening via variable rate repo/reverse repo auctions as required to keep system liquidity close to neutral.

Bond Yield Rise; OIS Rates Climb Higher



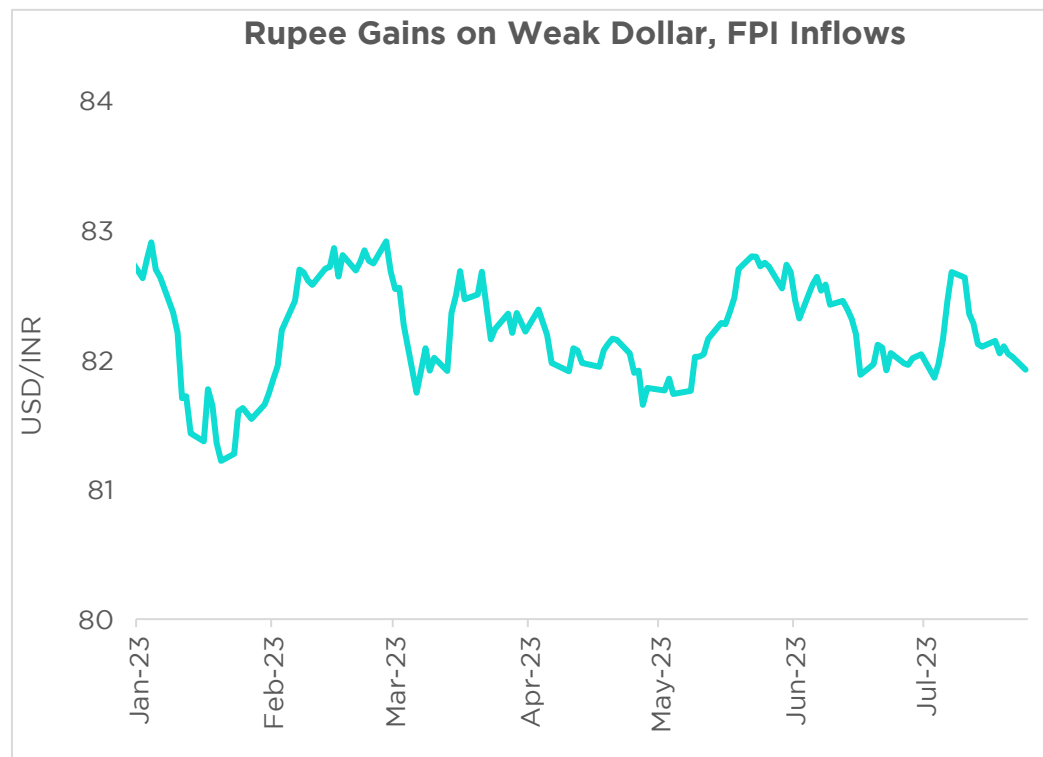
Source: Refinitiv



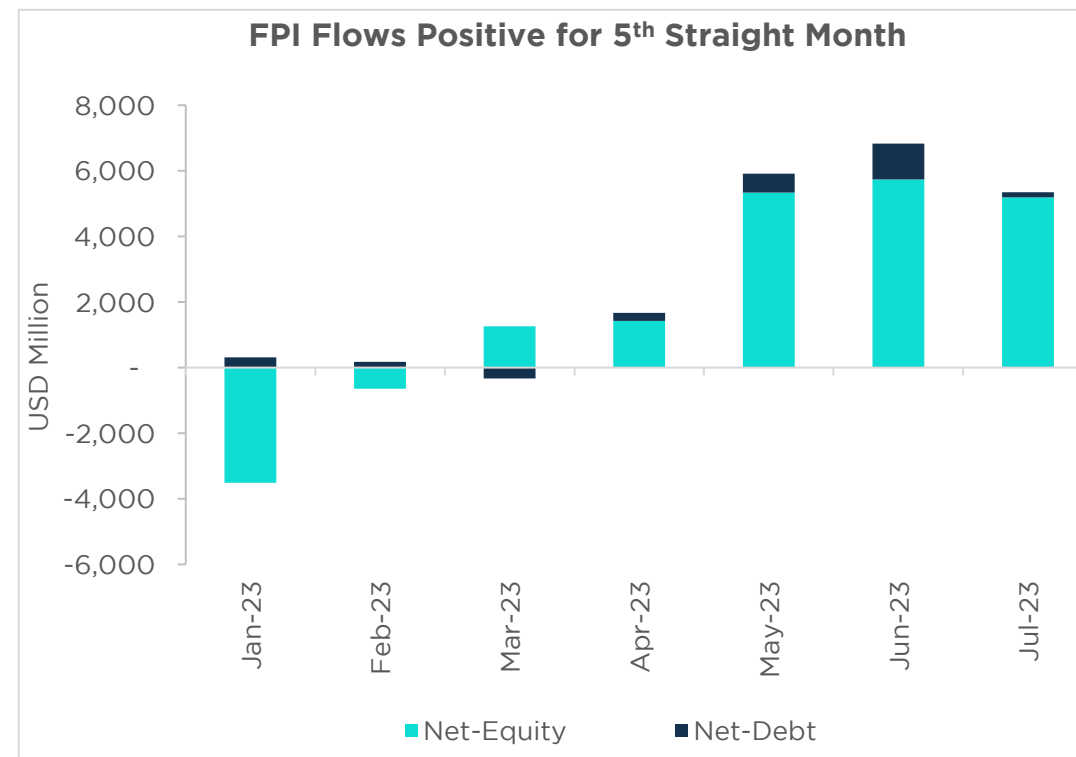
Source: Refinitiv

- We expect RBI to maintain an extended pause in FY24 owing to upside risks to inflation on account of surging food prices.

Rupee Appreciates Amidst Healthy FPI Inflows



Source: CEIC (Data for July 2023 up to July 25)



Source: CEIC (Note: Net Debt includes VRR; Data for July 2023 up to July 24)

- Rupee appreciated in July amidst support from FPI inflows and waning dollar dominance.
- We expect INR to remain within 81-83 range by end-FY24.



Economic Growth

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



Inflation

Average inflation projected at **5.3%** 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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