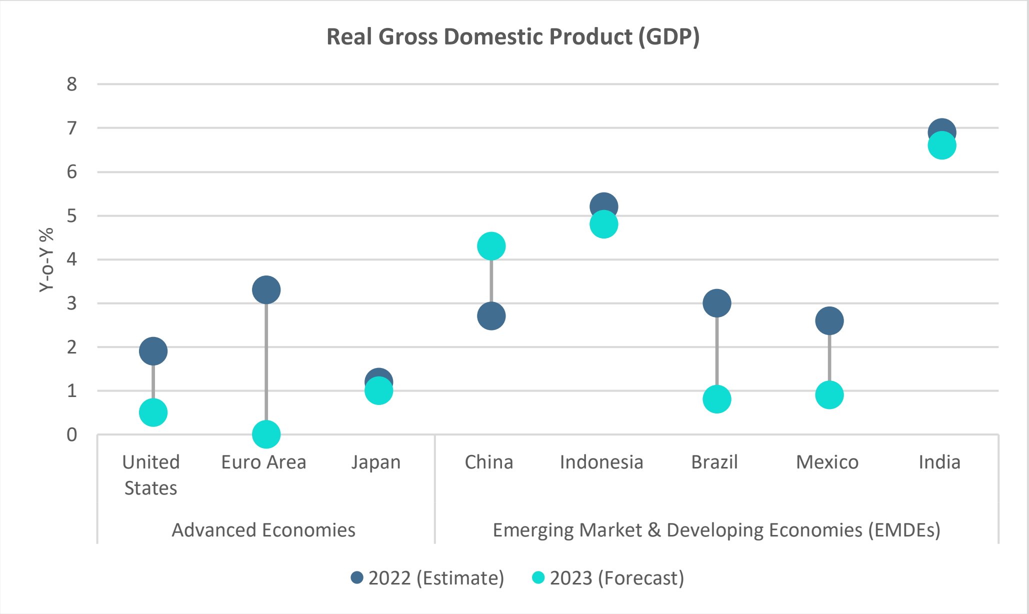
India: The Economic Pathway

January 2023

Growth Concerns Cloud Global Outlook

Growth Woes Deepen



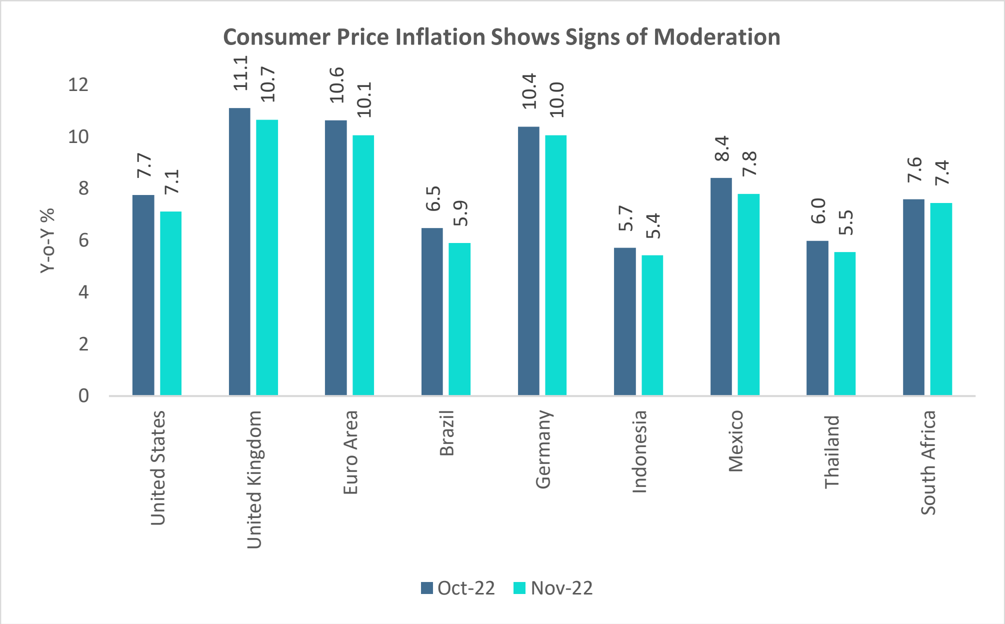
Source: World Bank Global Economic Prospects, January 2023

	World Bank GDP Growth Outlook (January 2023)		Differences from June 2022 Projections (percentage point)	
	2022 (Estimate)	2023 (Forecast)	2022 (Estimate)	2023 (Forecast)
United States	1.9	0.5	-0.6	-1.9
Euro Area	3.3	0.0	0.8	-1.9
Japan	1.2	1.0	-0.5	-0.3
China	2.7	4.3	-1.6	-0.9
Indonesia	5.2	4.8	0.1	-0.5
Brazil	3.0	0.8	1.5	0.0
Mexico	2.6	0.9	0.9	-1.0
India	6.9	6.6	-0.6	-0.5

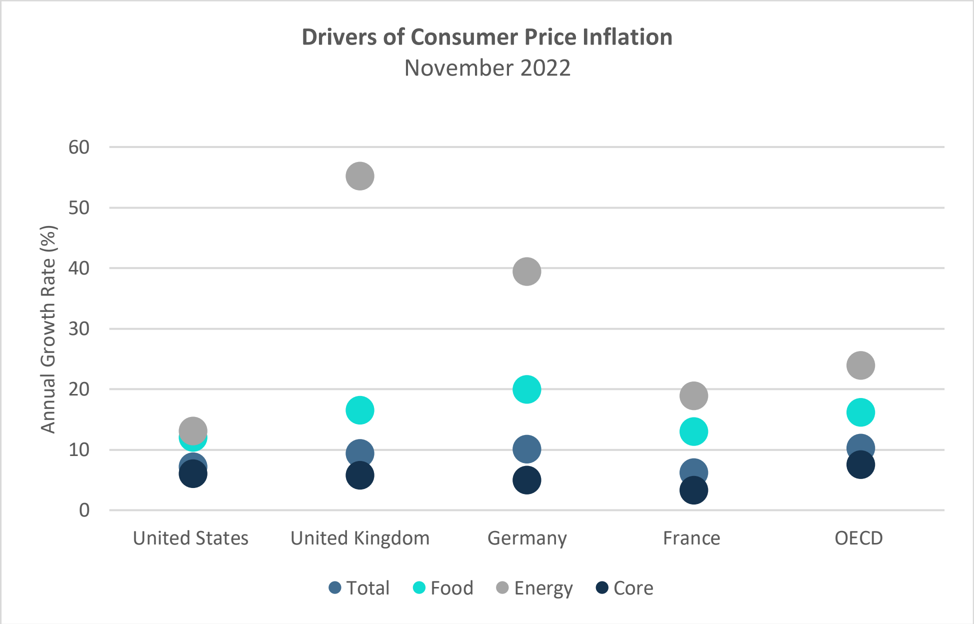
Source: World Bank Global Economic Prospects, January 2023

- Global growth projected to decelerate sharply to 1.7% in 2023 from estimated 2.9% in 2022.
- Pace of global growth in 2023 is the third weakest in almost three decades.
- Cumulative output losses between 2020 and 2024 estimated at around 20% of 2019 global GDP.

Inflationary Concerns Ease



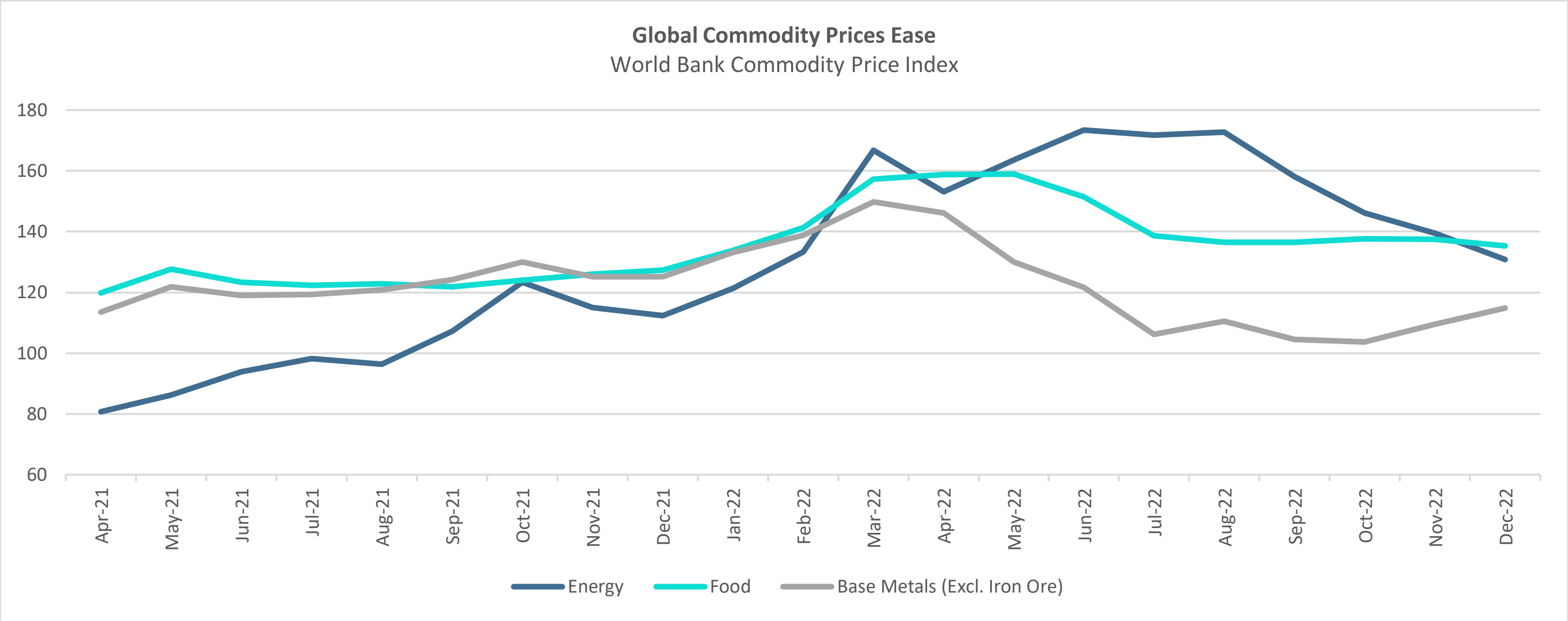
Source: Bank for International Settlements



Source: OECD

- Inflation moderated across most economies owing to aggressive monetary tightening, easing commodity prices, and slowing demand.
- Energy prices though moderating continue to be the main contributors to inflation.
- Favourable weather, high natural gas storage and demand reduction efforts supporting easing of the energy crisis in Europe.

Commodity Prices Cool

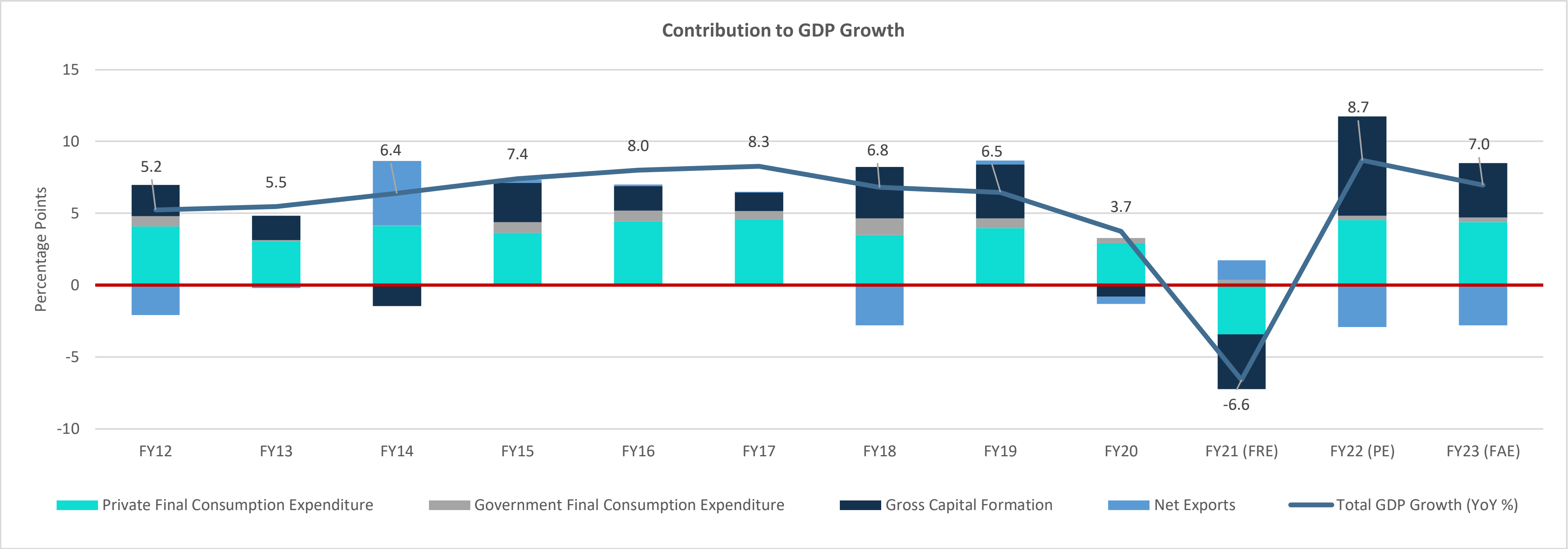


Source: World Bank

- Crude oil (Brent) prices retreated by 33% in the second half of 2022 helped by weakening global demand and recessionary concerns.
- UN FAO food price index fell for the 9th successive month in December, after touching a record high in March 2022.
- Energy prices also easing but are still elevated compared to a year ago level and their future price trajectory remains a key watch out in 2023.

Domestic Outlook Resilient, But Challenges Persist

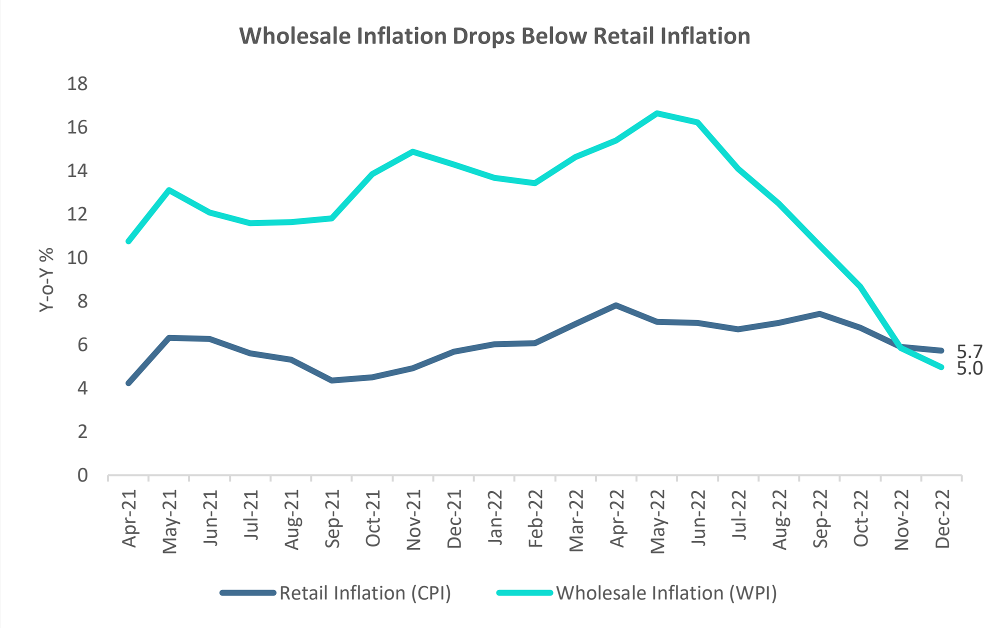
Growth Resilient; Net Exports Restrict Upside



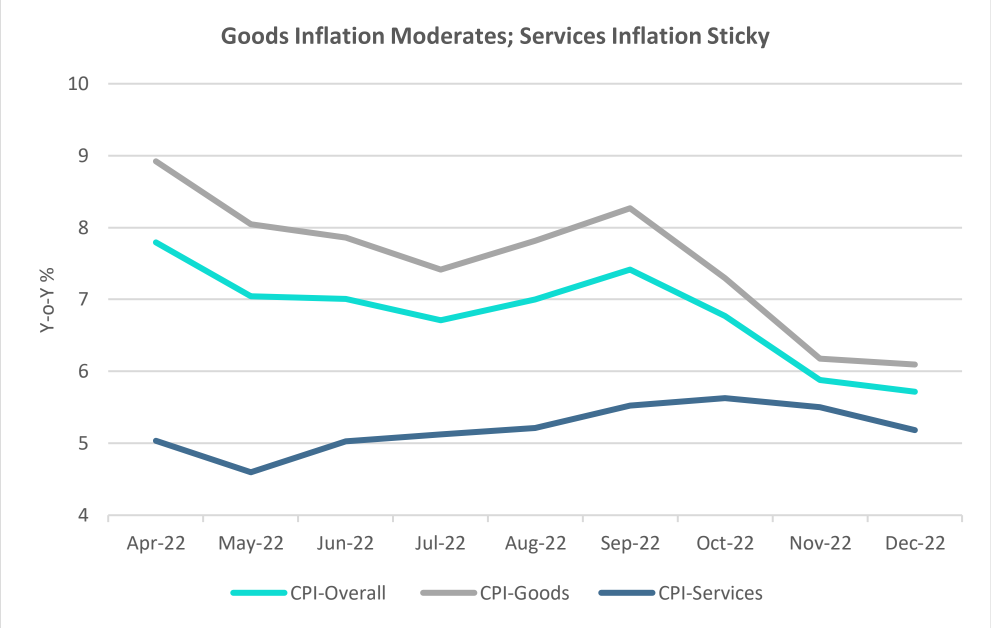
Source: MOSPI; FRE: First Revised Estimates; PE: Provisional Estimates; FAE: First Advance Estimates

- India’s GDP growth estimated at 7% in FY23 (FAE), supported by consumption and investment demand.
- Growth in private consumption was supported by a pick-up in discretionary spending primarily in contact-intensive sectors.
- Gross Capital Formation was upbeat with a growth of 10.6% aided by strong government capital spending.
- Net exports widened in FY23 and was a drag on GDP growth

Retail Inflation Within RBI's Tolerance Band



Source: MOSPI



Source: MOSPI & CareEdge

- Retail inflation softened to a 1-year low in December; but core inflation was unchanged at 6.2% for the 4th straight month.
- Goods inflation has been falling since Sep 22, supported by a fall in food inflation.
- Services inflation also showing some signs of moderation, but still above 5%.
- Wholesale inflation eased to the lowest level in almost 2 years due to lower food, textile and mineral prices.
- CPI inflation projected at an average of 5.1% in FY24.

Likely Focus Areas of the Union Budget FY24

1. Support to economic growth & fiscal consolidation to be the twin focus areas.
2. Continued focus on physical infrastructure to steer economic growth.
3. Increased spending on health, education and skilling for social infrastructure development.
4. Focus on development of agriculture and rural economy.
5. Measures to support the export sector.

Fiscal Deficit Estimated at 6.4-6.5% of GDP in FY23

CareEdge RATINGS

Overall Government Receipts to Benefit from Buoyant Tax Revenues

- Revenue receipts likely to exceed the budgeted target by Rs 2.2 lakh crore.
- Gross tax revenue likely to exceed the budgeted target by Rs 3.5 lakh crore despite revenue shortfall from excise and custom duty cut.
- Non-tax revenue is estimated to witness a shortfall owing to lower dividend transfers from the RBI.
- With disinvestment proceeds at 44% of the budgeted amount, achieving the targeted disinvestment of Rs 65,000 crore appears difficult.

Total Expenditure Likely to Overshoot the Budgeted Amount by Rs 3.3 lakh crore

- Additional expenditure outgo primarily due to higher food and fertilizer subsidy allocation.
- Centre’s capex during April-November period at 60% of the budgeted amount.
- Monthly average capex (currently at Rs 56,000 crore) must rise to Rs 75,600 crore to meet the annual capex target of Rs 7.5 lakh crore.

Fiscal Deficit Estimated Between 6.4-6.5% of GDP

- Centre’s fiscal deficit likely to exceed the budgeted target by Rs 0.8-1 lakh crore.
- Higher than budgeted growth in nominal GDP to keep the fiscal deficit to GDP ratio under check.

Fiscal Deficit Estimated at 5.8% of GDP in FY24

CareEdge RATINGS

Fiscal Consolidation on the Cards

- Centre to prioritise fiscal consolidation budgeting a lower fiscal deficit to GDP ratio of around 5.8%.
- Nominal GDP growth is estimated to moderate to around 10%.
- Gross market borrowings estimated between Rs 15-16 lakh crore.

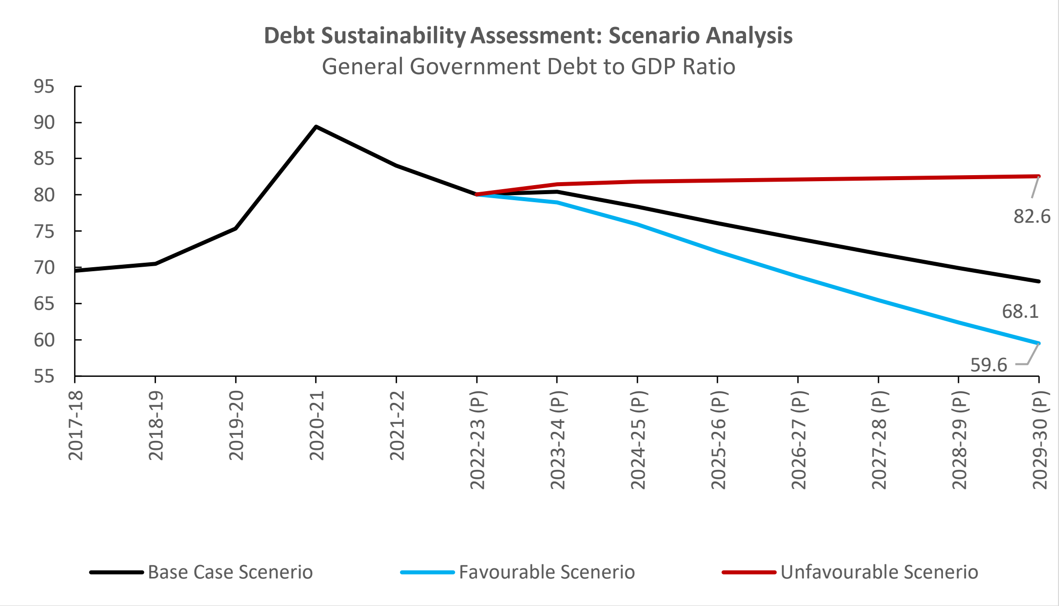
Tax Revenue Growth could Moderate

- With nominal GDP growth moderating, we expect gross tax revenue growth to moderate to 10%.
- Non-tax revenues are expected to rebound on the back of estimated lower receipts in the current fiscal.

Expenditure to be Focused On Capex

- Following the sharp spike in subsidy bills in the current fiscal, subsidy allocation is projected to moderate in the next fiscal.
- Capex is projected to grow by over 10% over the budgeted Rs 7.5 lakh crore for the current fiscal.
- Focus on the infrastructure sector to continue, given its strong multiplier effect on overall economic growth.

Expenditure Prioritisation Crucial for Debt Sustainability



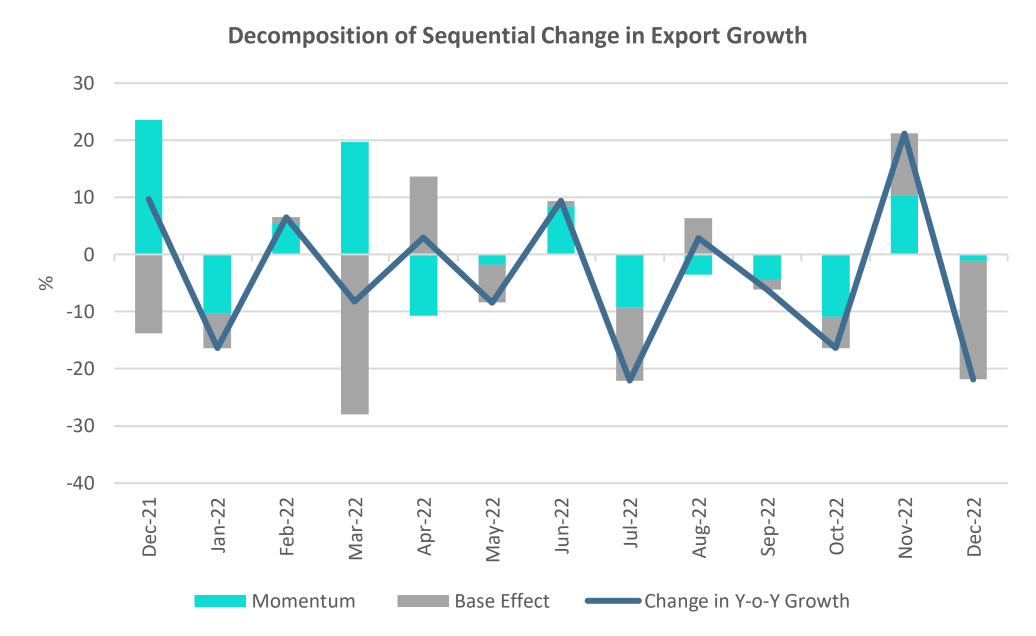
Source: CareEdge; (P): CareEdge Projections

Base Case Assumptions	2022-23	2023-24	2024-25	2025-26 to 2029-30
Nominal GDP growth (%)	15.4	10.0	11.1	11.5
Effective Nominal Interest Rate (%)	8.0	7.5	7.2	7.2
Primary balance (%)	-3.2	-2.5	-1.5	-1.5

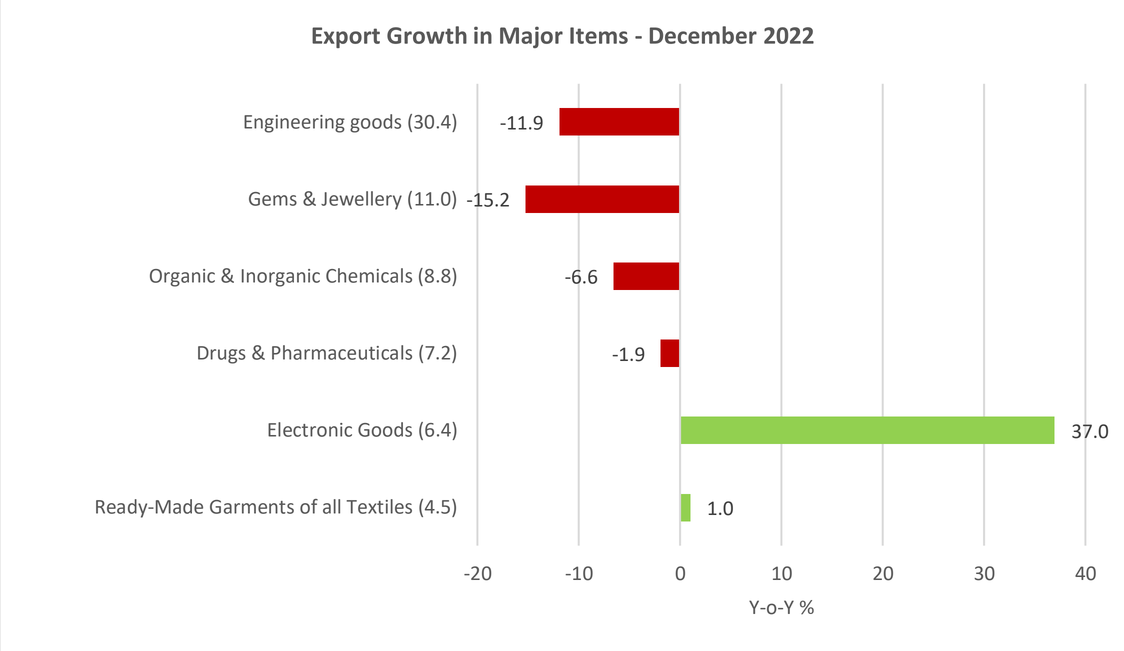
Note: Primary balance base case assumption for 2022-23 to 2023-24 are based on World Bank Group Macro-Poverty Outlook. Effective nominal interest rate defined as ratio of interest payments to previous period debt level.
Source: CareEdge

- General government debt-to-GDP ratio spiked to a historic high of 89% of GDP in FY21 due to shocks from the pandemic and the Russia-Ukraine conflict.
- As per our analysis, even in the base case scenario, the debt-to-GDP ratio is estimated to reach the pre-pandemic level of 70% by FY29 and fall further to 68% by FY30 (still higher than the Fiscal Responsibility and Budget Management Act target of 60%).
- To ensure debt sustainability, Government must prioritise expenditures that have a higher multiplier effect in terms of generating a higher GDP growth rate.

Exports Continue to Weaken



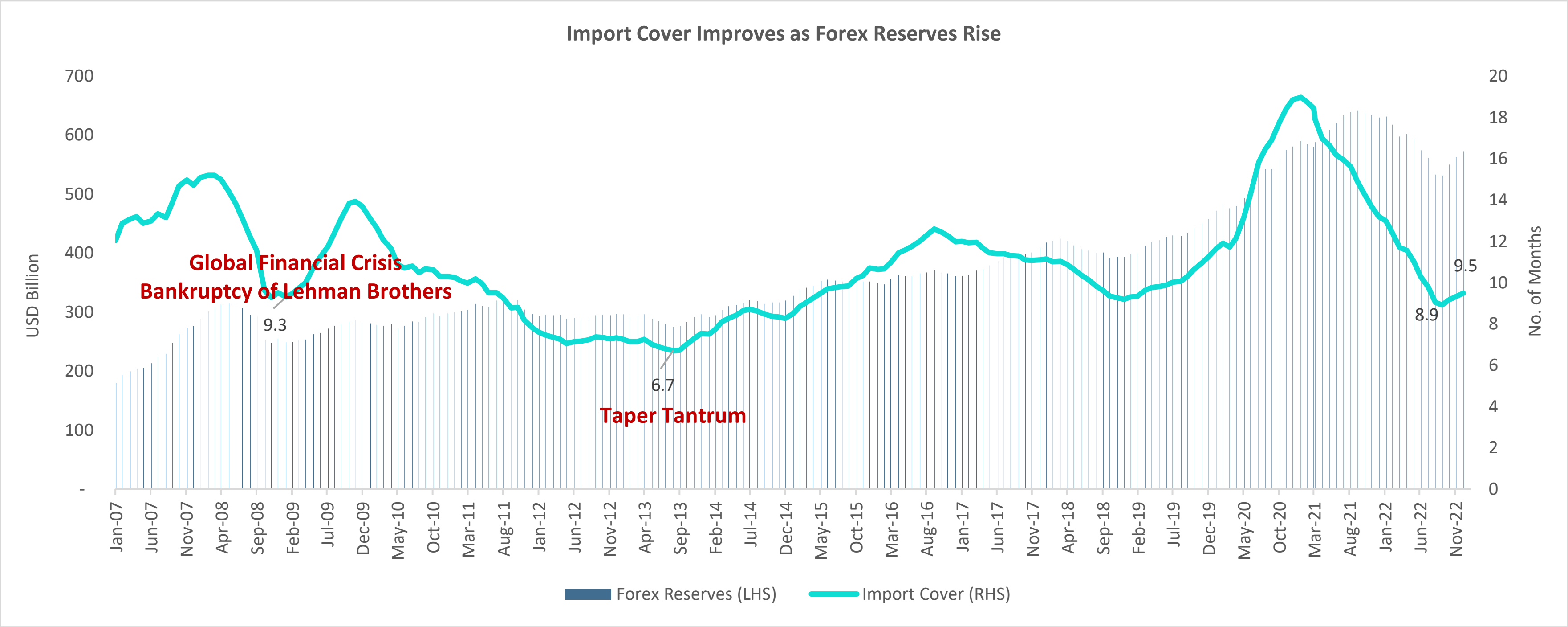
Source: CMIE & CareEdge



Source: CMIE; Note: Figures in bracket represent % share in Non-oil exports for the April-December period of FY23

- Export momentum found to be broadly slowing in the last few months.
- Merchandise export growth contracted by 12.2% in December 2022, recording the steepest contraction since May 2020.
- Contraction in exports was mostly broad-based with de-growth recorded in most items.
- Merchandise trade deficit remained elevated above USD 23 billion in December 2022 (monthly average deficit of USD 16 billion last year).

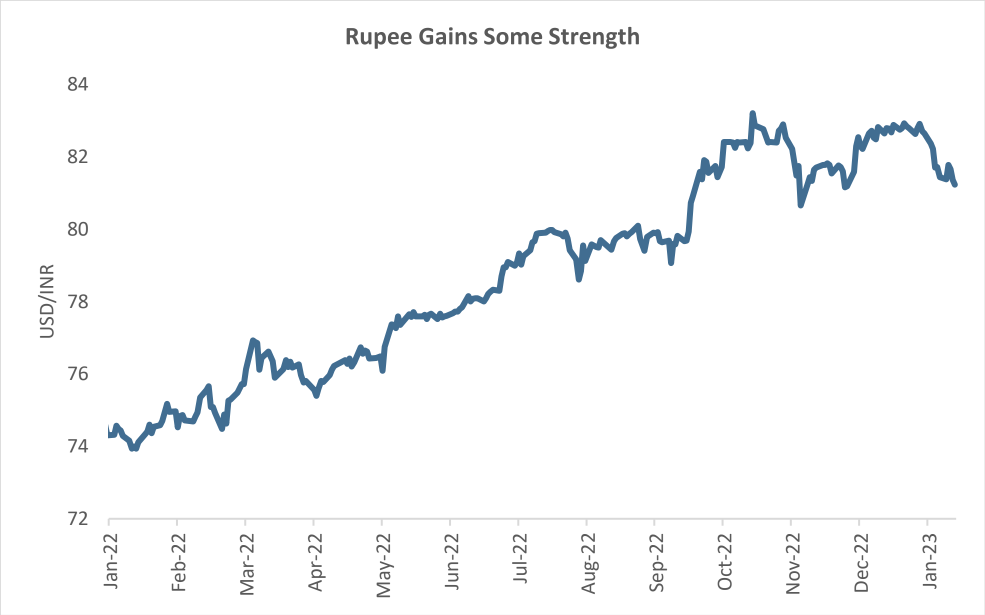
Forex Reserves Climb to a 5-Month High



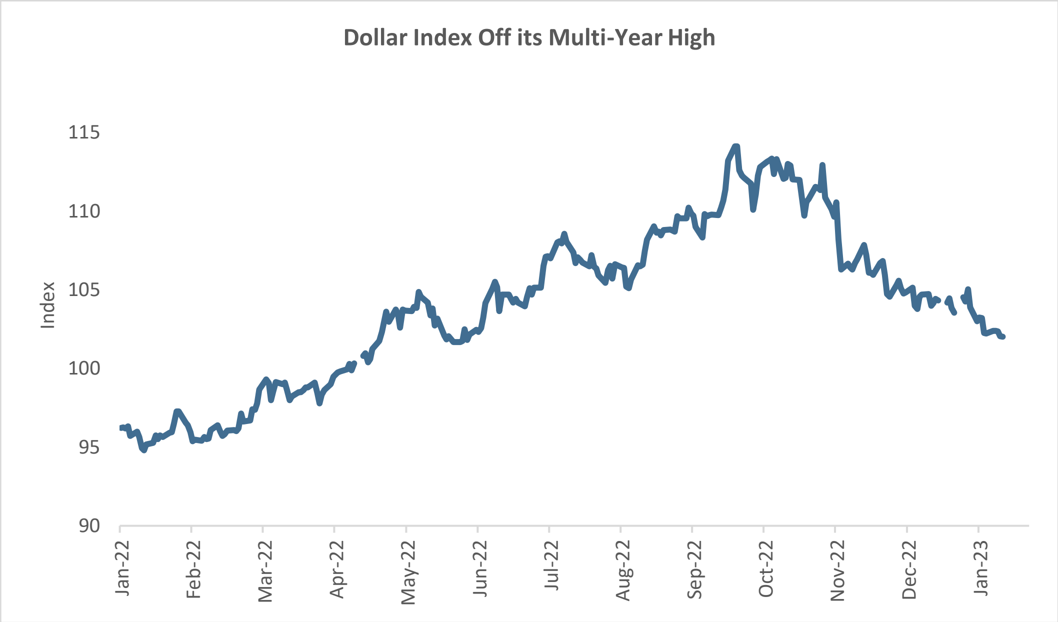
Source: CEIC & CareEdge

- Forex reserves climbed to a 5-month high of USD 572 billion in the week ending January 13, 2023.
- Import cover rose for the 3rd straight month to 9.5 months, rebounding from a 7.5-year low of 8.9 months in October 2022.

Rupee Stages Slight Recovery



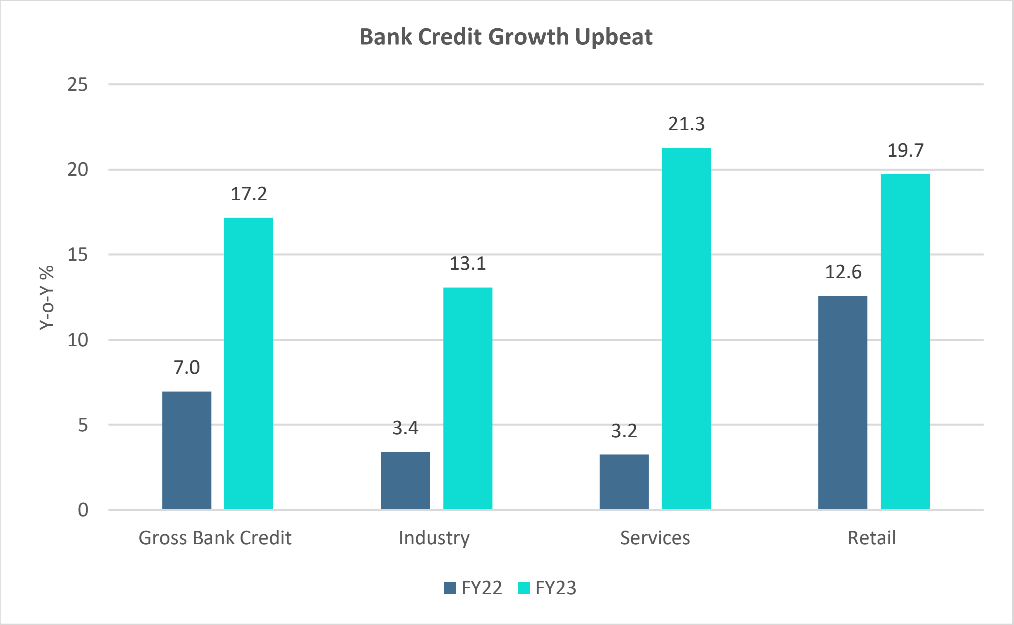
Source: CEIC



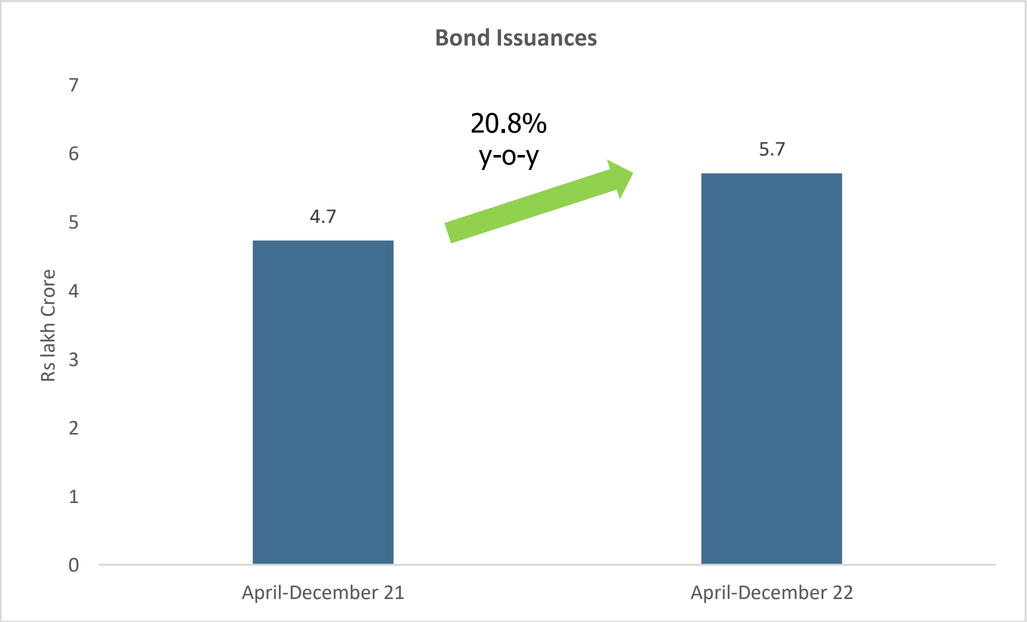
Source: CEIC

- Rupee staged a recovery, gaining nearly 2% in the last month on the back of weakness in US Dollar index.
- US Dollar index retreated close to 102 levels after a gap of almost 6 months as softening US inflation fuelled hopes of a less hawkish Fed.

Bank Credit Demand Upbeat; Bond Issuances Rise



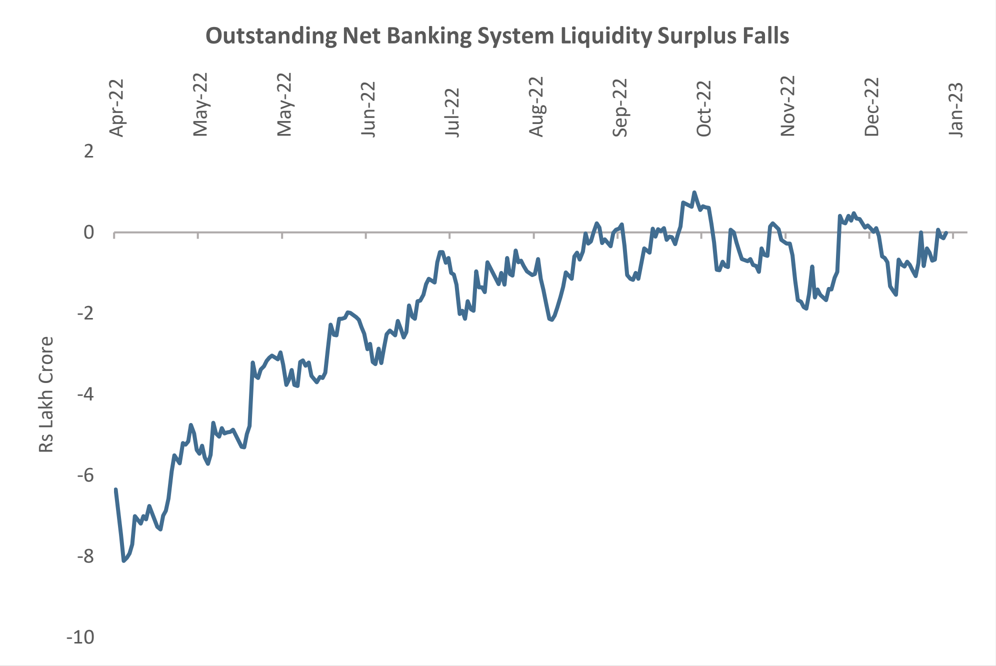
Source: Data up to November 2022



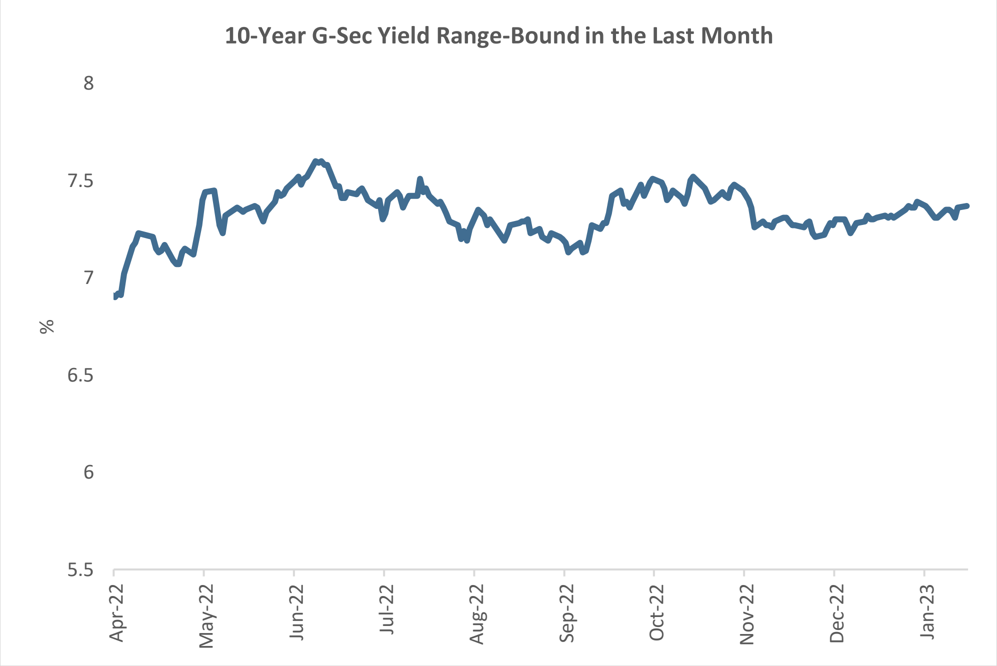
Source: Prime Database

- Bank credit growth was steered mainly by the retail segment (31.7% share) and services sector (27.6% share).
- Credit to industry grew by a healthy 13%; credit to specifically large industries jumped to 10.5% as against de-growth of 0.6% in the year-ago period.
- Strong credit growth was witnessed in industries such as chemicals (19.1%), engineering (11.1%), infrastructure (10.5%) and metals(15.3%).
- Corporate bond issuances recorded a growth of 21% in April-December 2022 compared to year-ago period.

Banking System Liquidity Surplus Falls, G-Sec Yields Rise



Source: CEIC



Source: CEIC

- Large central government borrowing (estimated at Rs 15-16 lakh crore) to put upward pressure on G-Sec yields in FY24.
- However, with the global and domestic interest rate hiking cycle likely to stop in H2 2023, we could see some reprieve for the debt market.
- RBI is likely to hike the repo rate by another 25 bps in February 2023, taking the terminal repo rate to 6.5%.
- Overall, we expect 10-year G-Sec yield to rise to around 7.4-7.5% by the end of FY23.

CareEdge Economy Outlook

Economic Growth

GDP growth projected at **6.1%** for FY24

Inflation

Average inflation projected at **6.5%** for FY23 and **5.1%** for FY24

Current Account Deficit

CAD (as % of GDP) projected at **3.6%** in FY23 and **2.2%** in FY24

Fiscal Deficit

Fiscal deficit (as % of GDP) projected at **6.5%** in FY23 and **5.8%** in FY24

Interest Rates

Terminal repo rate expected at **6.5%**

Currency

USD/INR projected to be at **81-83** by end of FY23

CareEdge RATINGS

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