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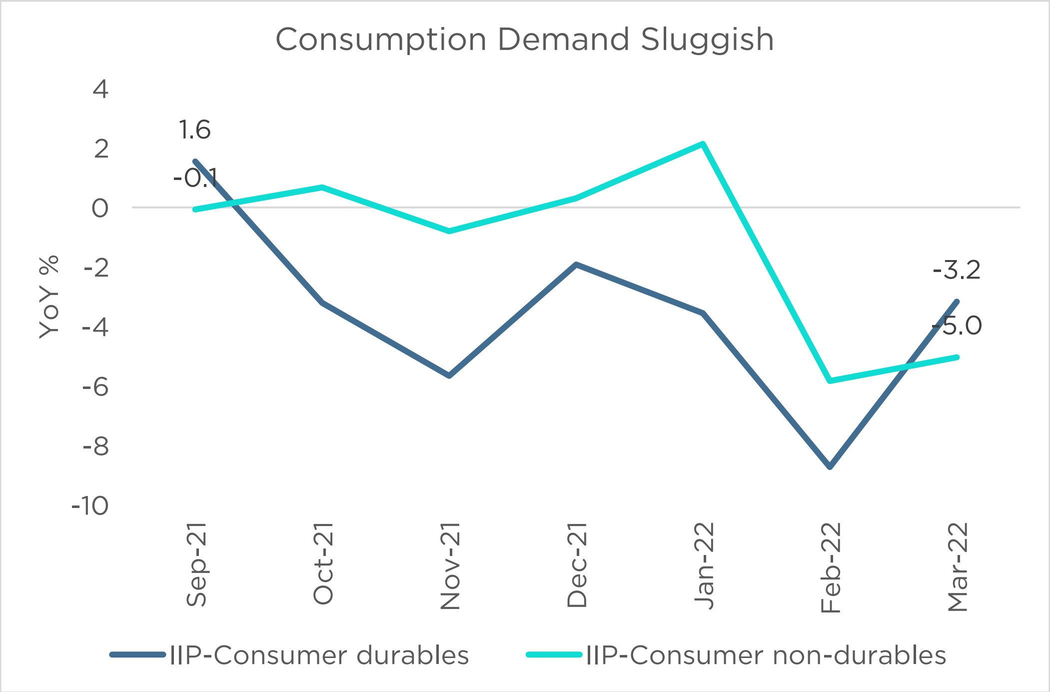
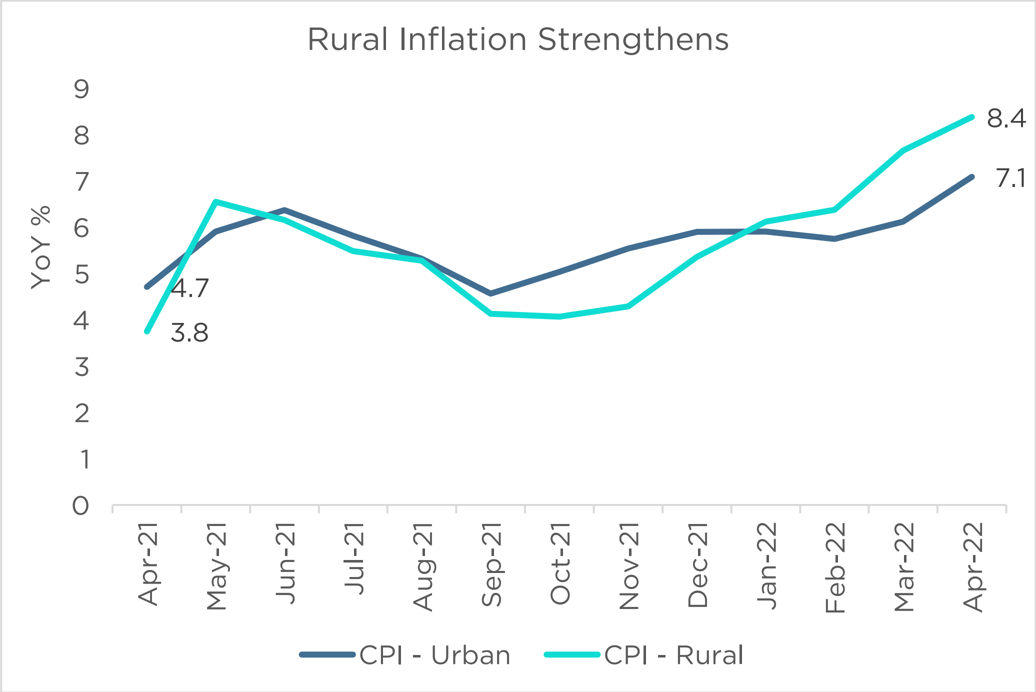
India: The Economic Pathway

May 2022

Rising Price Pressures Threaten Demand Recovery



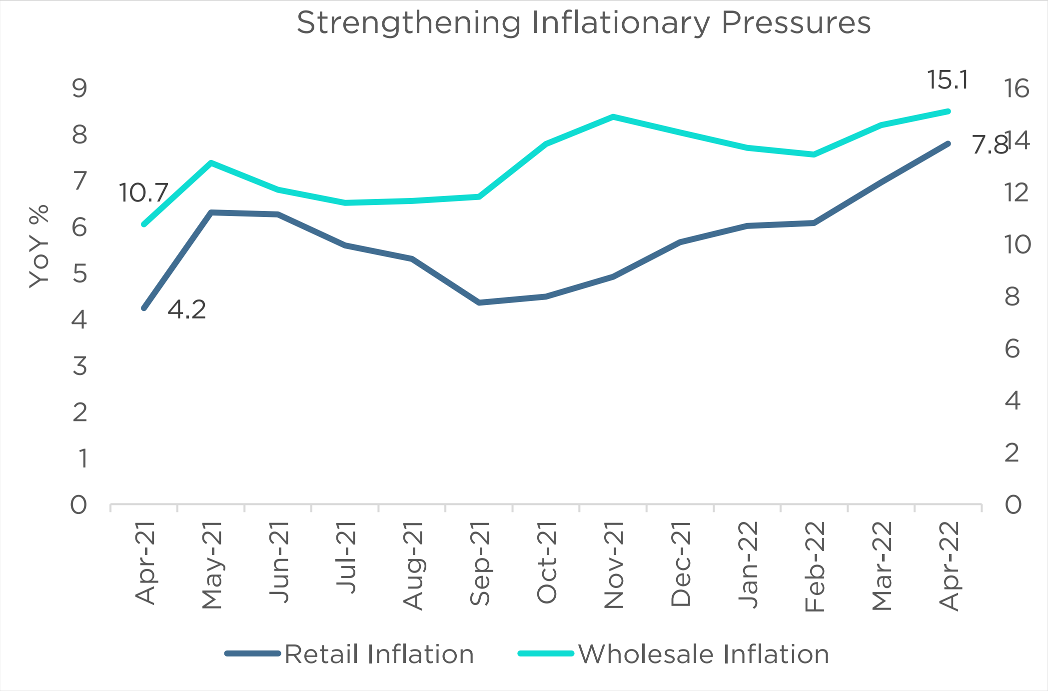
Source: MOSPI



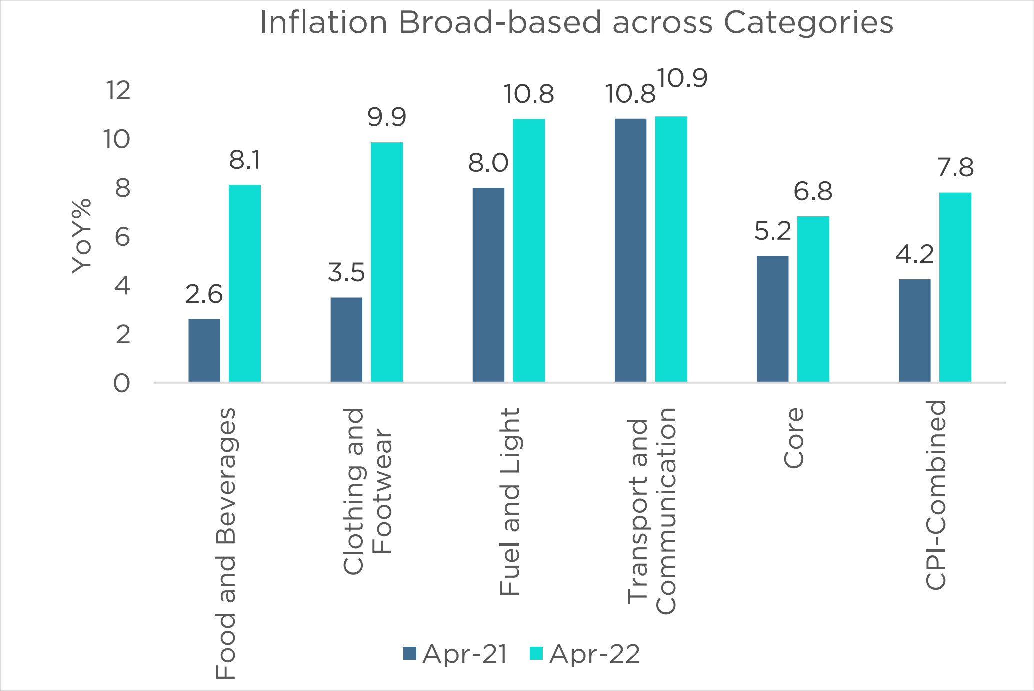
Source: MOSPI

- Poor performance in IIP consumer goods signals weakness in consumption demand
- Uptick in rural inflation likely to dampen the fragile rural demand recovery
- Consumer sentiments likely to be further hit by rising inflation

Food & Fuel Push Inflation to an Eight-Year High



Source: MOSPI



Source: MOSPI

- Food was the major driver in April with nearly 47% contribution to the overall inflation
- Clothing, fuel and light segments also saw sharp spike in inflation in April
- Core inflation was at 6.8% in April, gaining over 150 bps in last one year

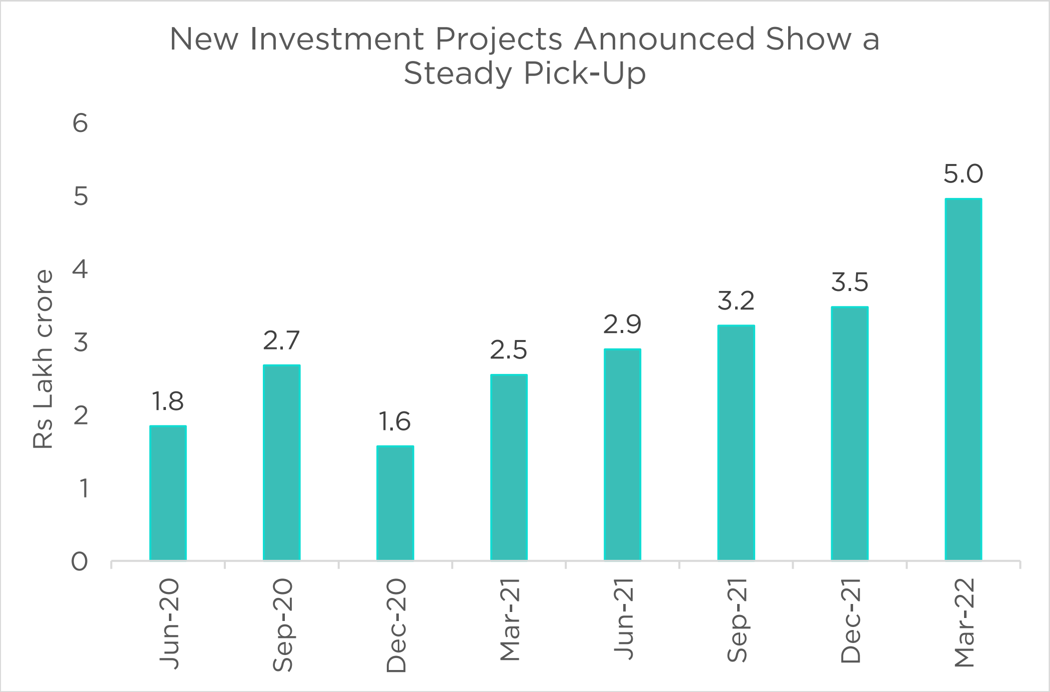
Govt Steps in to Cool Inflationary Pressures

- Cut in excise duty on petrol by Rs 8 per litre and on diesel by Rs 6 per litre
- Subsidy of Rs 200 per LPG cylinder to over 9 crore beneficiaries of Pradhan Mantri Ujjwala Yojana
- Additional fertiliser subsidy of Rs 1.10 lakh crore to cushion farmers from rising fertiliser prices
- Import duty waiver on raw materials for the steel industry
- Export duty levied on some finished steel products
- Wheat export ban and curbs on sugar export to cool domestic prices and ensure adequate availability

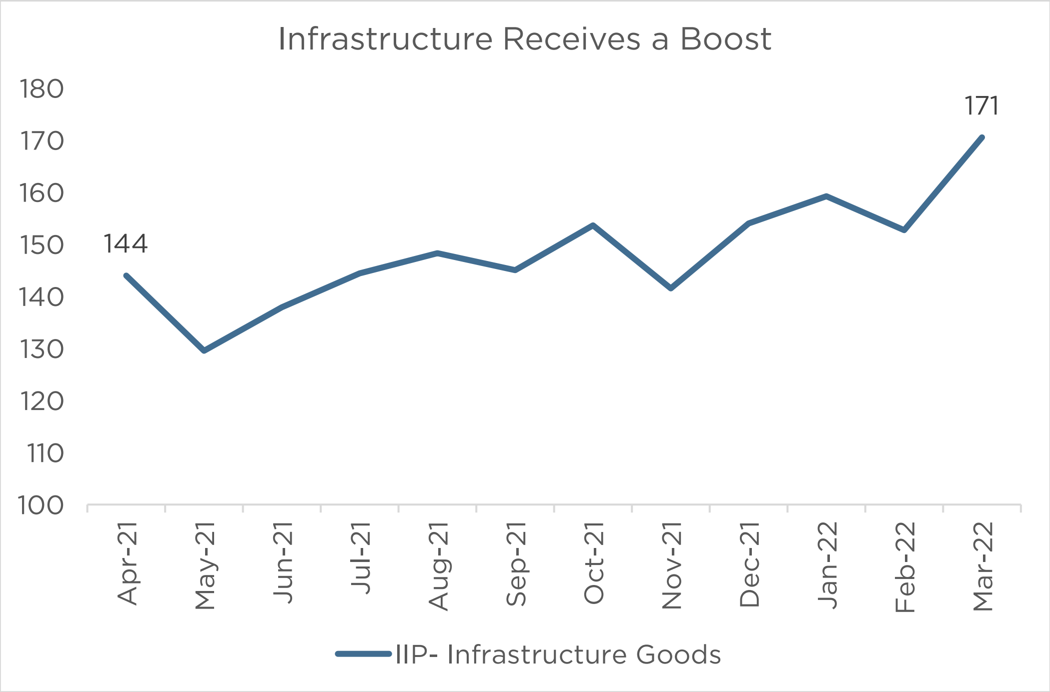
Impact on Inflation and Fiscal Deficit

- We estimate 50-60 bps direct and indirect impact on CPI inflation
- Higher subsidy bills and lower duties on petrol and diesel to put pressure on government finances
- The budgeted target of fiscal deficit to GDP is likely to be met given the support from higher tax revenue collection and nominal GDP growth

Investments to be Critical for Growth



Source: CMIE



Source: MOSPI

- Intent to invest by the private sector is improving as capacity utilisation level rises
- Private investments face challenges from the heightened domestic and global economic uncertainties
- Government committed to a robust capex growth of 25% in FY23 despite fiscal challenges

Exports to be Hit by Slowing Global Growth

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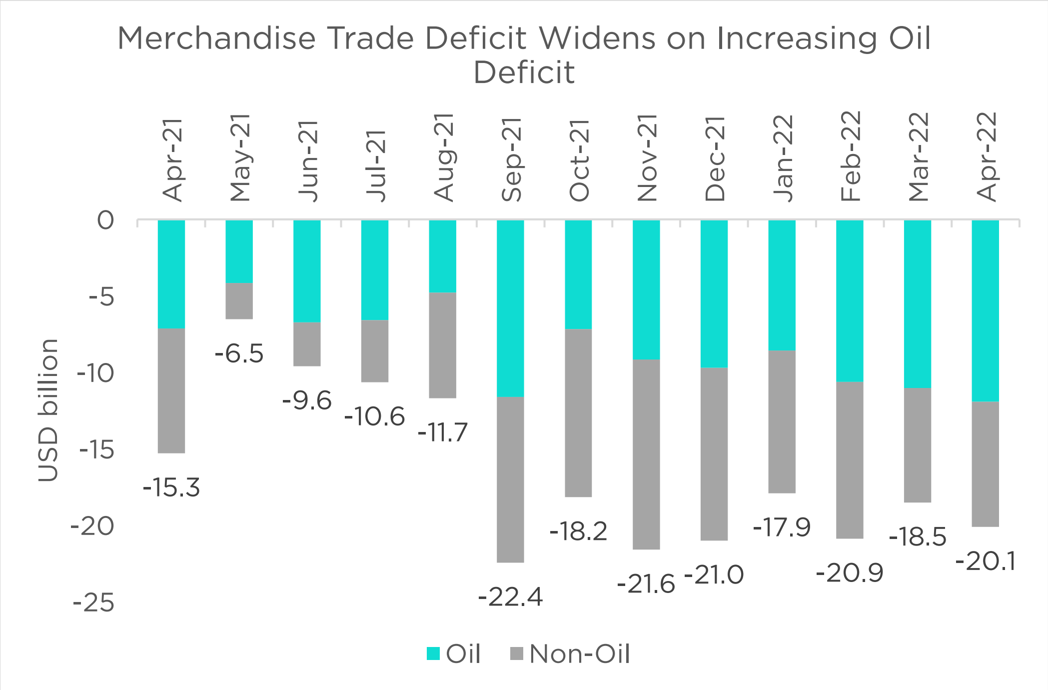
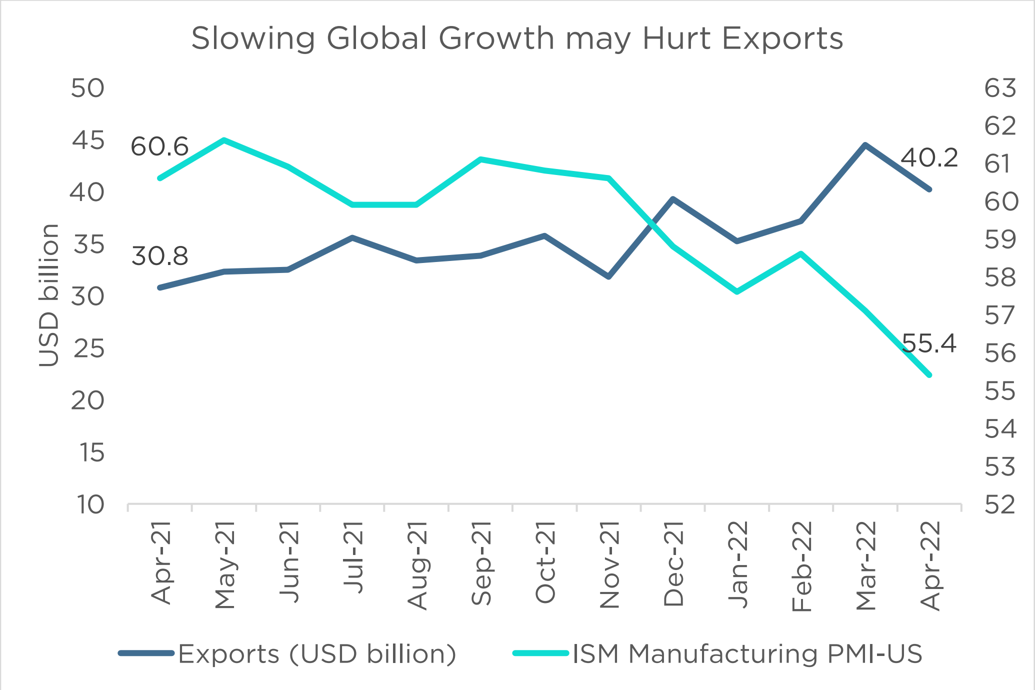


Source: CEIC



Source: CEIC, CMIE

- India's exports are likely to be impacted as aggressive monetary tightening by developed economies and the Russia-Ukraine conflict weighs on global growth
- Rising commodity prices including crude oil to widen the trade deficit

FPIs on a Selling Spree, Forex Reserves Fall

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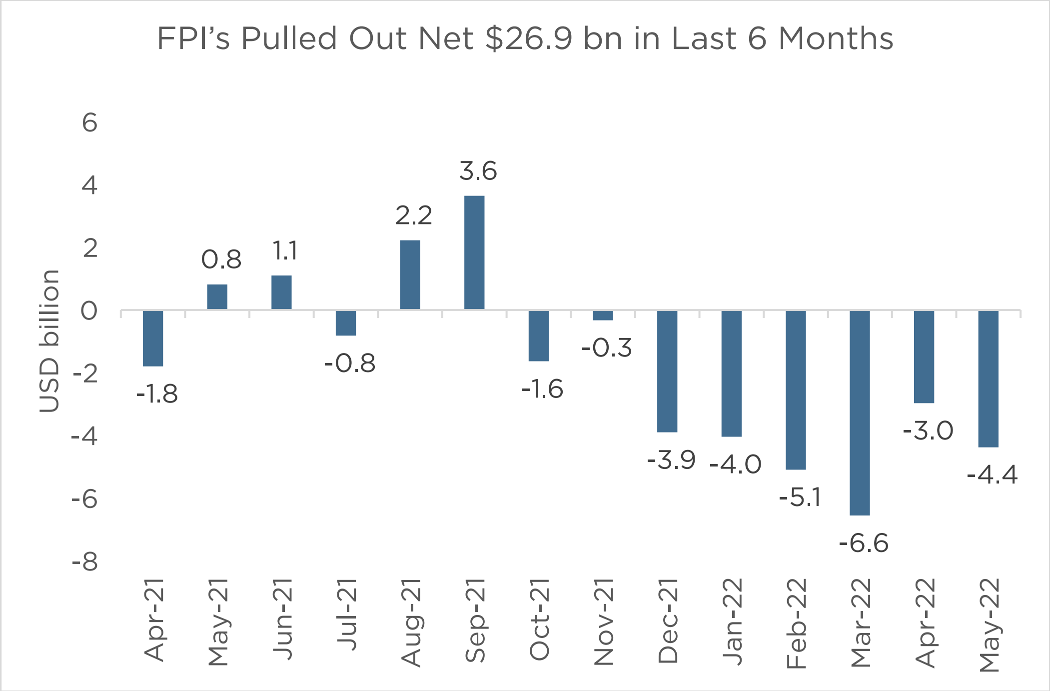
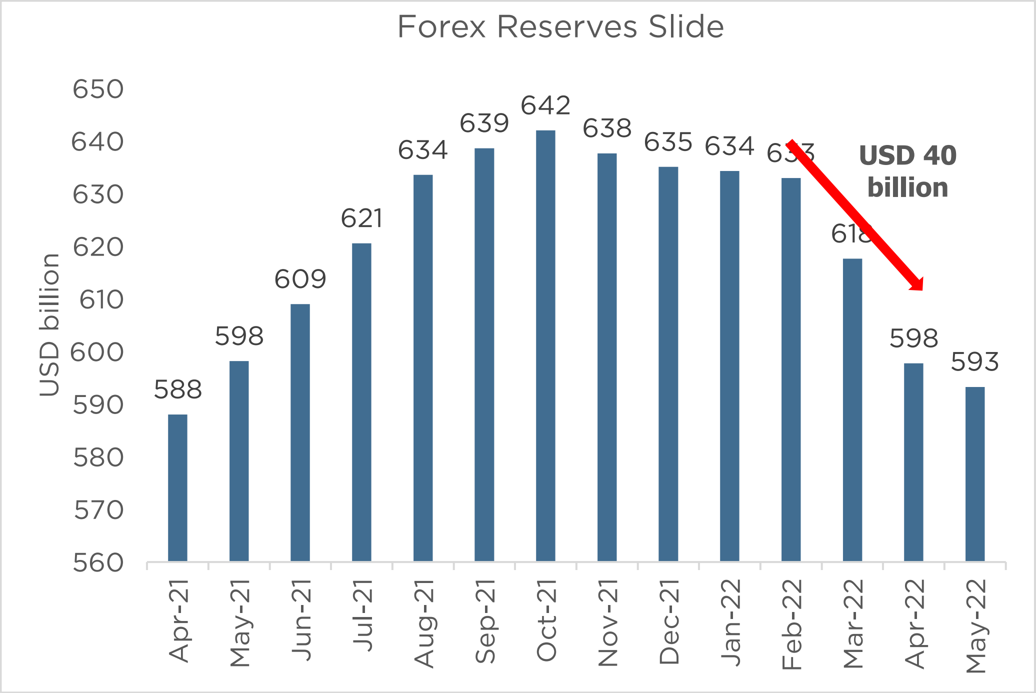


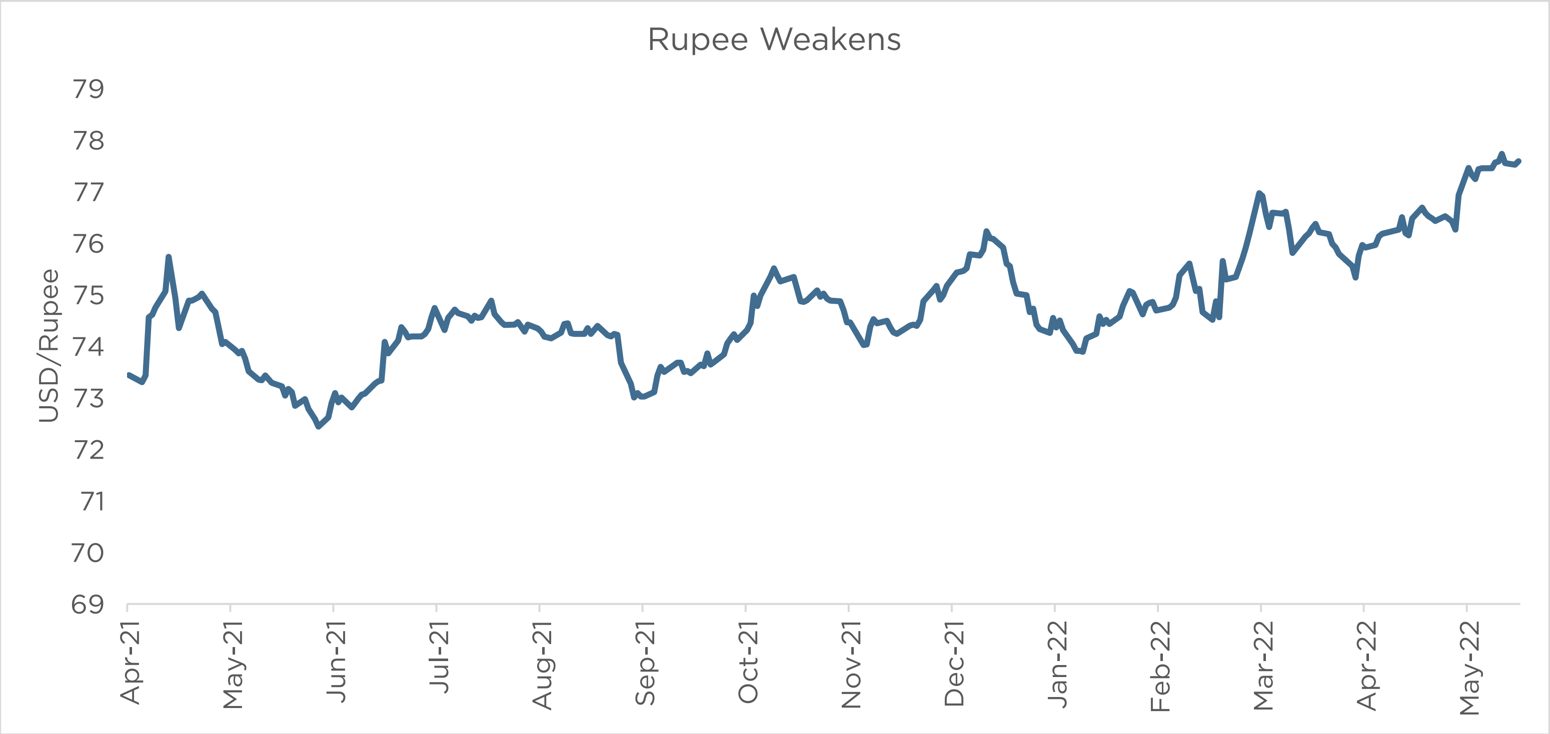
Source: NSDL Note: Data up to 24th May 2022



Source: RBI Note: Data up to 13th May 2022

- FII outflows could rise as US Fed hikes policy rate aggressively, even while FDI inflows remain healthy
- Forex reserves witnessed their 10th weekly fall for the week ended May 13. The reserves may fall further as Balance of Payment moves into negative territory in FY23

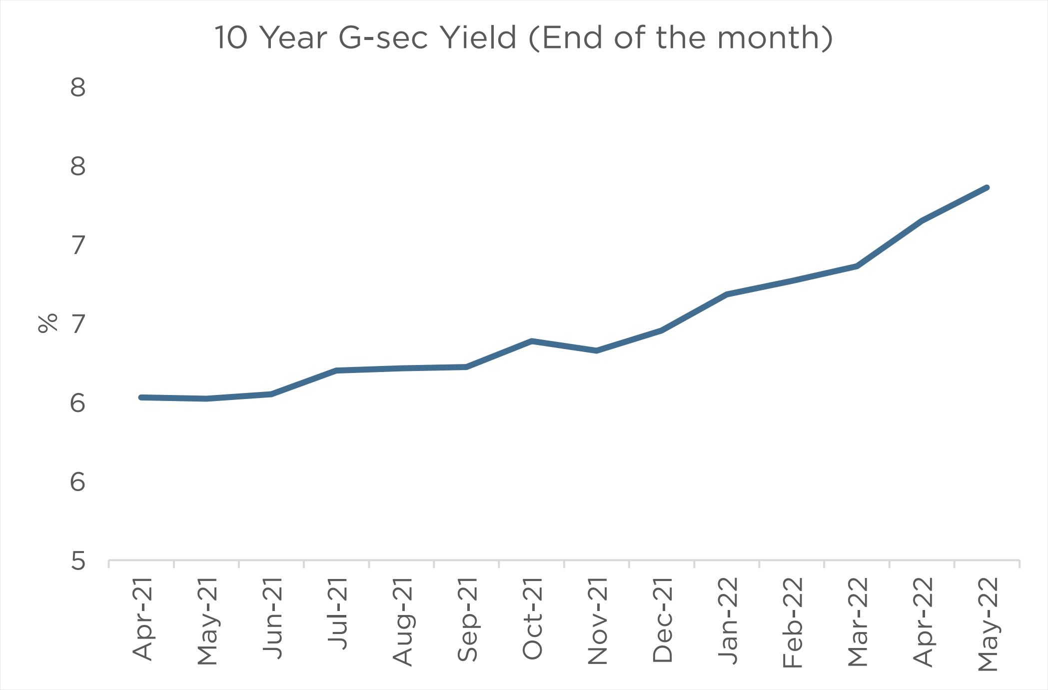
Rupee Under Pressure



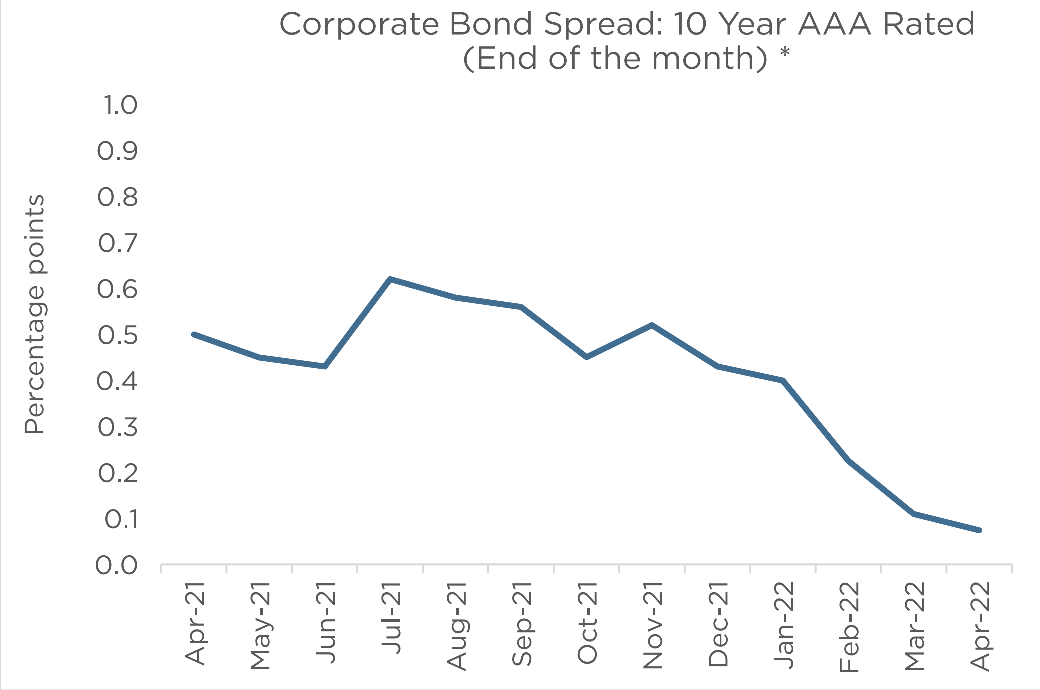
Source: CMIE

- Rupee under pressure in response to widening current account deficit and FII outflows
- Dollar strengthening and weakening of other emerging basket currencies add to the weakening pressure on the rupee
- We expect USD/INR to move in the range of 77-80 in H1 FY23

10-Year G-Sec Yield on an Upward Trajectory



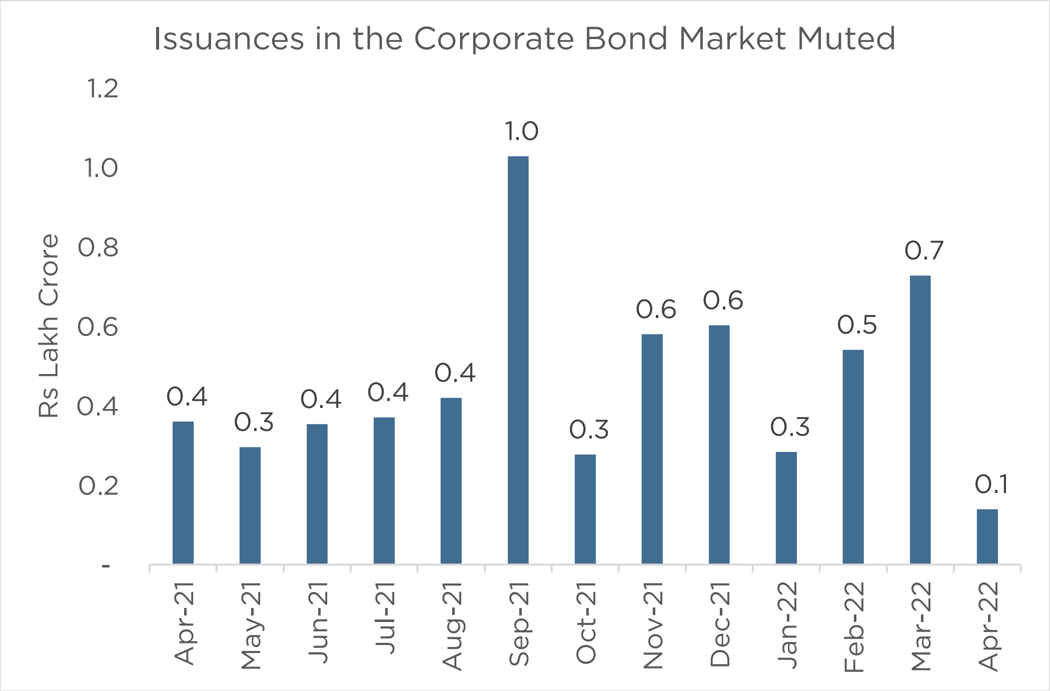
Source: CCIL



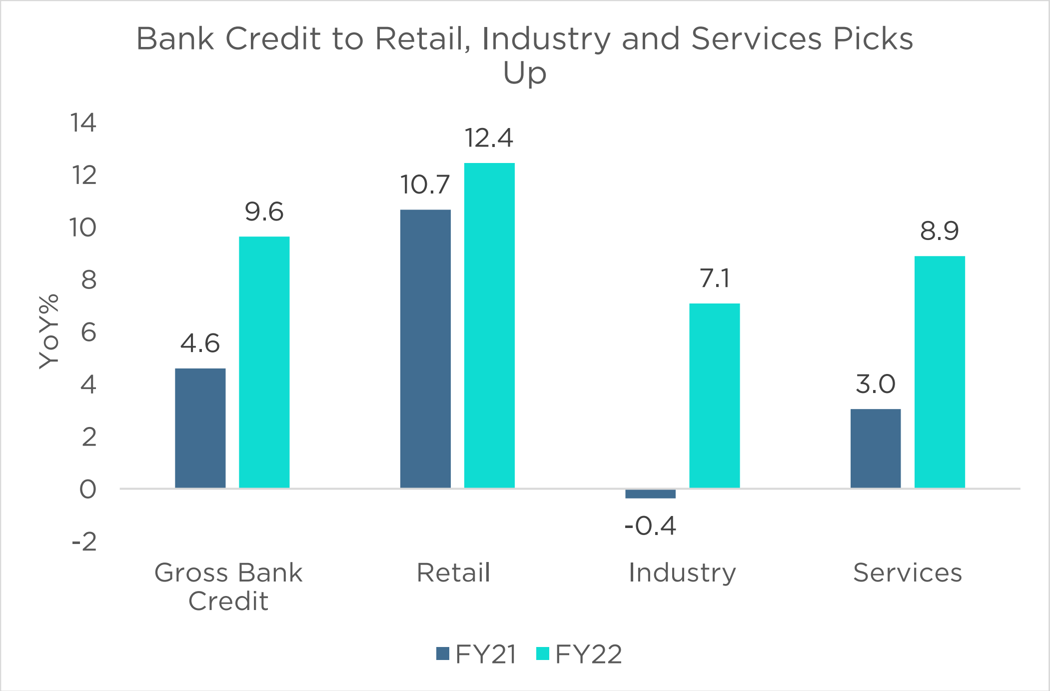
Source: FIMMDA *Spread over 10 Year G-sec Yield

- 10 Year G-sec yield has shot up by more than 1 percentage point in the last 12 months
- Elevated inflation levels and expectations of a rate hike by RBI putting upward pressure on yields
- Corporate bond spread at historical low due to low supply of corporate bonds, coupled with a sharp rise in G-Sec yield
- We expect 10-year G-sec yield to rise to 7.75-8% by the end of the fiscal year

Bond Issuances Muted, Bank Credit Growth Up



Source: Prime Database Note: Data extracted on 16th May 2022



Source: RBI

- Bank credit has been a preferred source of fundraising by corporates due to attractive rates
- Bank credit growth picks up to 9.6% in March 2022 from 4.6% a year back
- In FY22, 28% of the total credit offtake has been by the retail sector, followed by industry (27%) and services (26%)

Some Bright Spots of Recovery Visible

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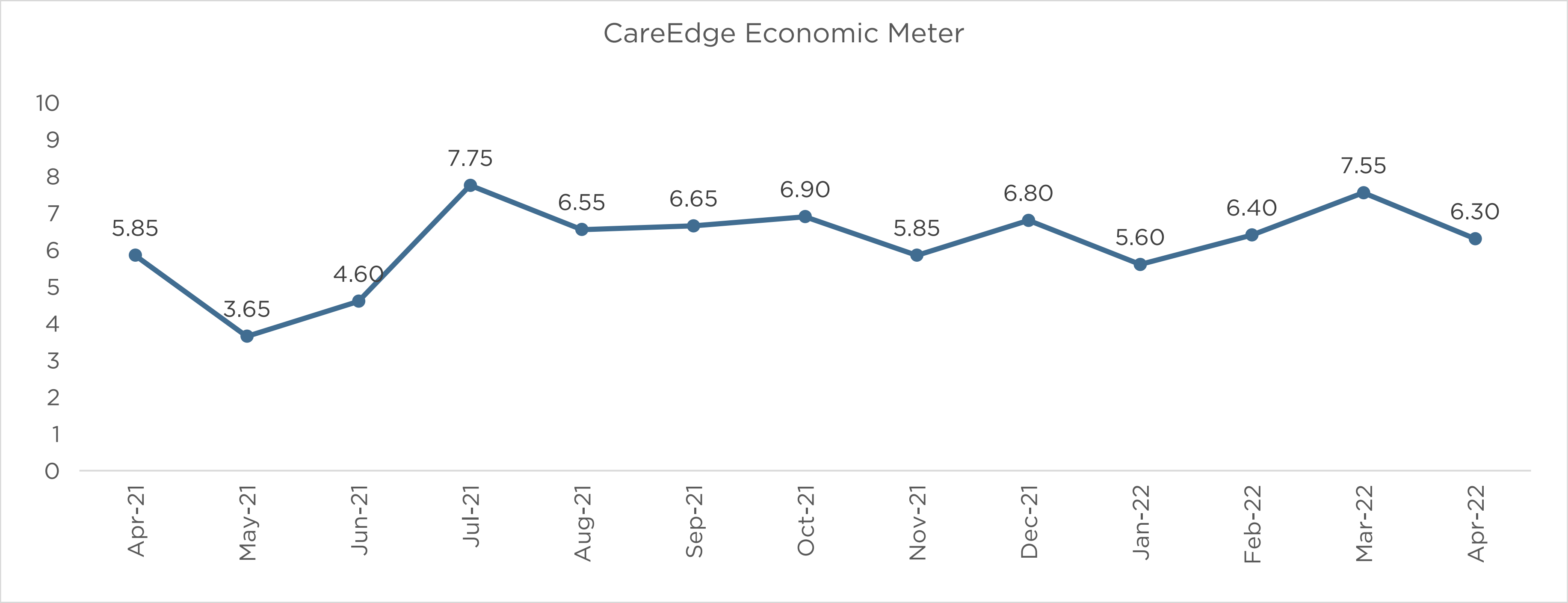
	Apr-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
PMI-M	**55.5**	**57.6**	**55.5**	**54.0**	**54.9**	**54.0**	**54.7**
PMI-S	**54.0**	**58.1**	**55.5**	**51.5**	**51.8**	**53.6**	**57.9**
Core (YoY%)	*	**3.2**	**4.1**	**4.0**	**6.0**	**4.3**	
IIP-Consumer goods (YoY%)	*	-2.6	-0.6	-0.2	-7.0	-4.2	
IIP-Infrastructure goods (YoY%)	*	3.1	2.0	6.1	9.1	7.3	
PV Sales (Lakh)	3.0	2.6	2.7	3.0	3.1	3.4	3.0
2-3 Wheeler Sales (Lakh)	14.9	14.7	14.4	15.7	14.8	16.1	16.1
Tractor Sales (Lakh)	0.7	0.7	0.6	0.6	0.6	0.8	1.0
Railways freight traffic (Million tonnes)	111.7	116.8	126.8	129.0	119.7	139.2	122.2
GST Collections (Rs lakh crore)	1.4	1.3	1.3	1.4	1.3	1.4	1.7
E-way bills (Crore)	5.9	6.1	7.2	6.9	6.9	7.8	7.5
Power Consumption (BU)	119.3	100.4	110.3	112.7	109.5	130.3	133.0

Source: CMIE; POSOCO; TMA; *Number too high due to base effect

- Overall consumer goods demand remains subdued
- Pick-up in tractor and 2-3 wheelers sales are healthy indicators of rural demand
- Manufacturing disappoints whereas services sector shows sign of a pick-up

Mixed Bag at Macroeconomic Level



Source: CareEdge Calculation; *CEM tracks the state of the economy based on 14 high-frequency economic indicators

- CareEdge Economic Meter eased marginally in April after touching eight-month high in March

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