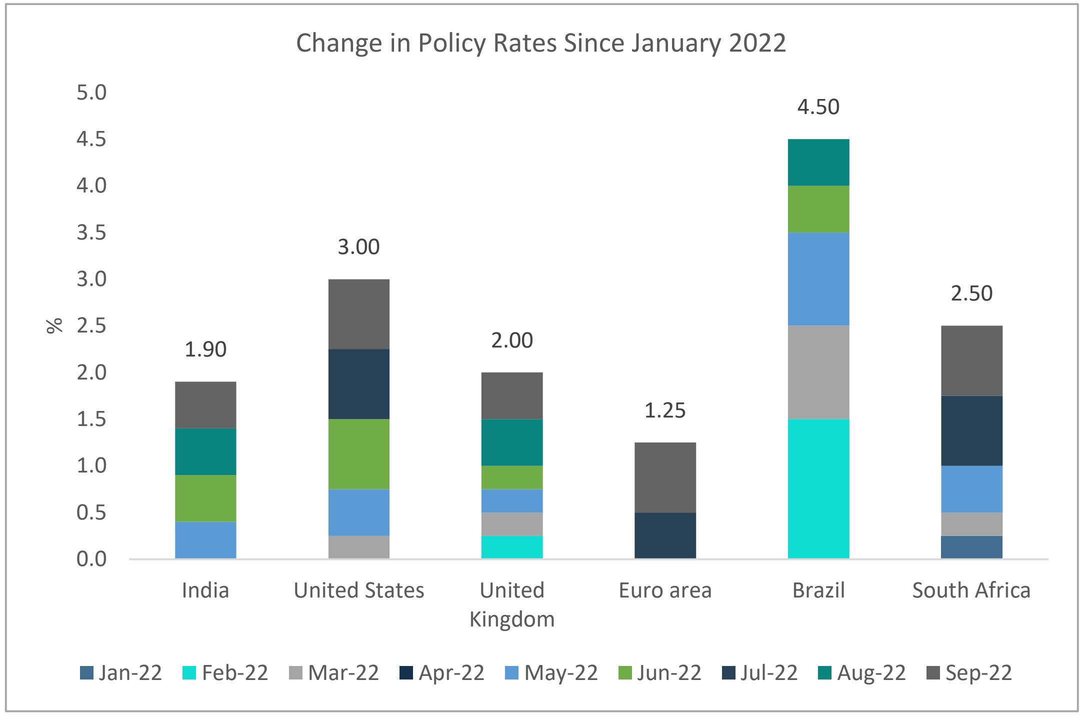
Ratings • Advisory • Research • Risk Solutions

India: The Economic Pathway

September 2022

Global Economic Outlook Grim

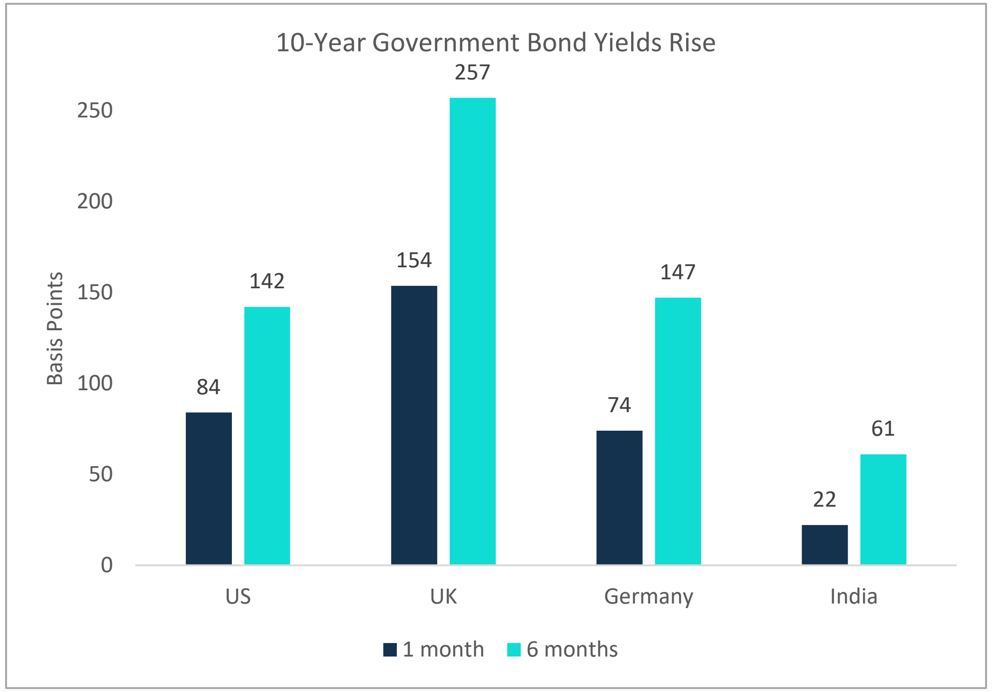
Global Economy in a Turmoil



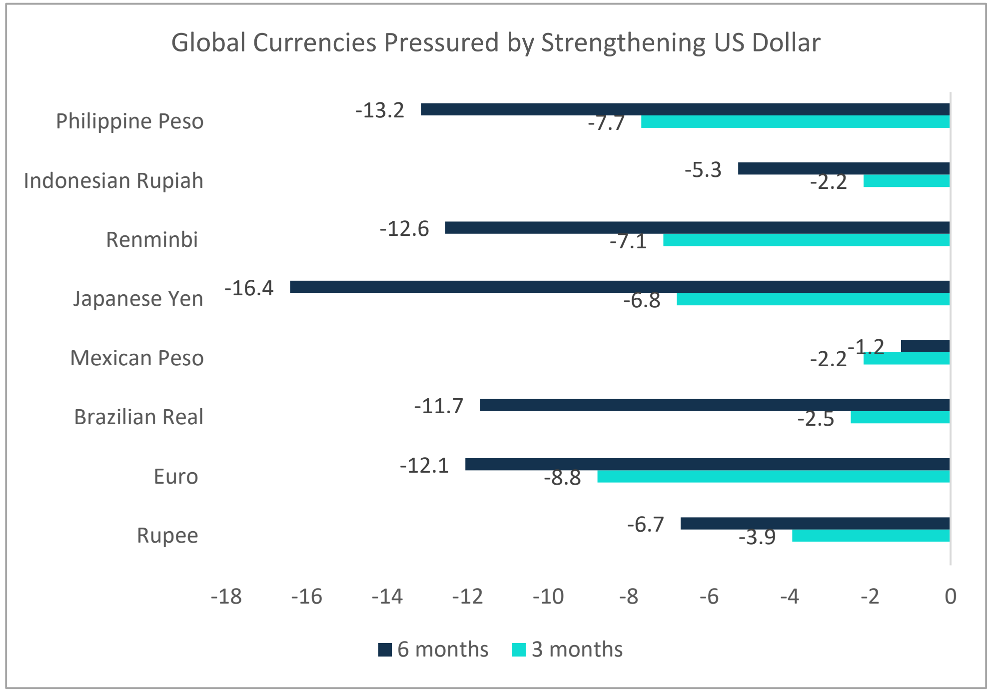
Source: Bank for International Settlements; Note: Change in Policy Rates Since January 2022

- Globally, Central Banks have been tightening monetary policy since the start of 2022 to tame the high inflation level.
- The US Fed hiked interest rate by a cumulative of 3% in the last seven months amid high CPI inflation of around 8%.
- The OECD lowered global GDP growth forecast for 2023 to 2.2% (from earlier forecast of 2.8%), while retaining the 2022 global growth forecast at 3%.
- US economy contracted in two subsequent quarters of 2022 (Q1 and Q2) while EU grew by a weak 0.8% in Q2 amid the energy crisis.
- Growth in China has been adversely impacted due to its zero-COVID policy and property crisis. World Bank has revised China's GDP growth to 2.8% for 2022.
- High inflation, liquidity tightening and weakening growth are major challenges for the global economy.

Global Financial Markets in a Turmoil



Source: CEIC



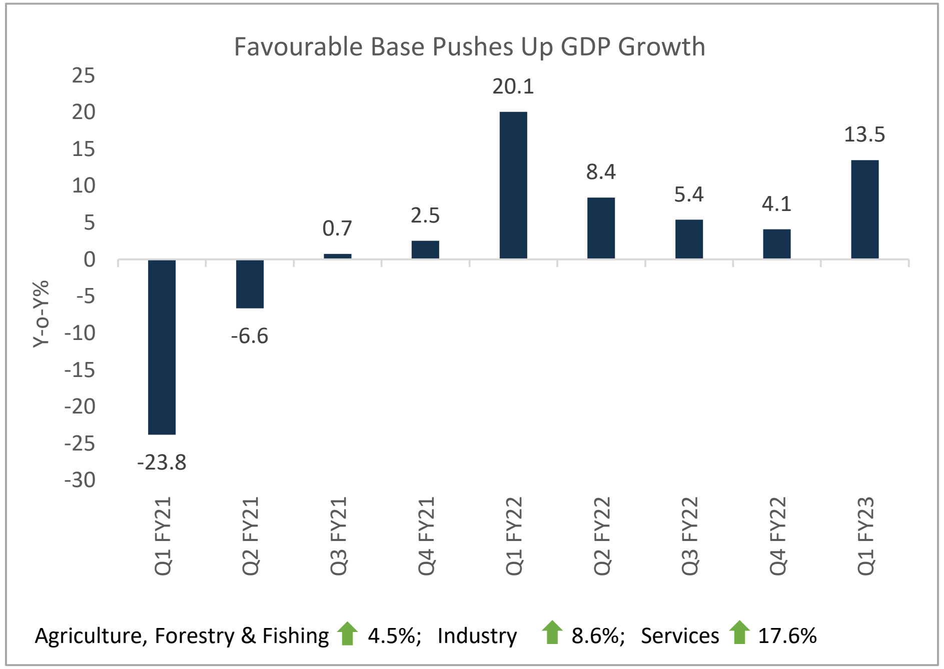
Source: CEIC; Note: (+)Appreciation/(-)Depreciation

- Monetary tightening by Central banks have pushed the global bond yields higher.
- The yield on 10-year US Treasury note briefly topped 4% for the first time in 12 years.
- The Dollar Index has strengthened by 9.8% in the last three months, resulting in weakening of major and emerging market currencies.

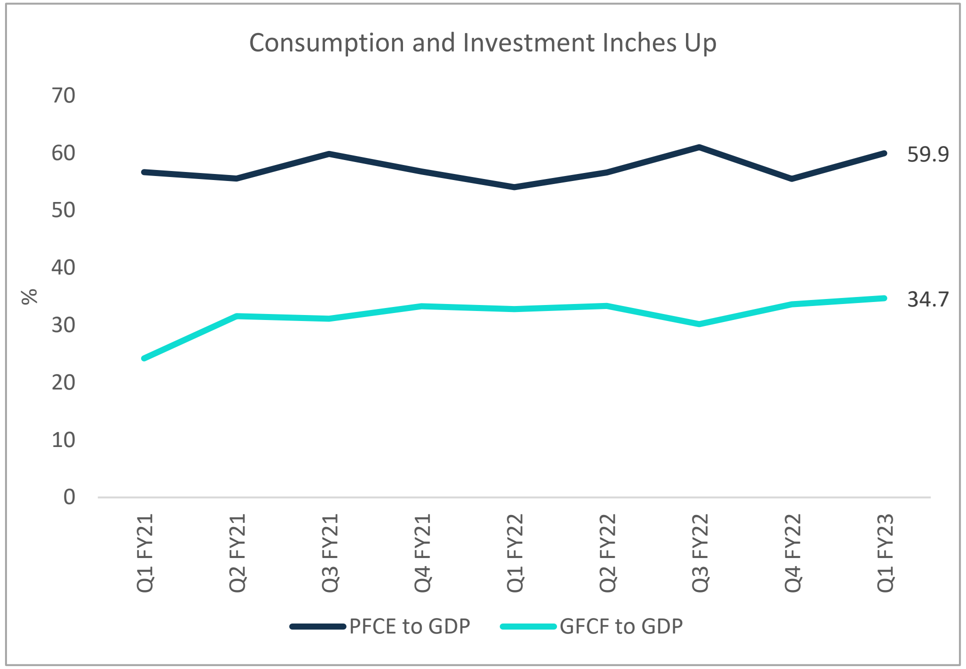
CareEdge
Ratings • Advisory • Research • Risk Solutions

Domestic Economy Resilient, But Challenges Persist

GDP Growth Disappoints in Q1 FY23



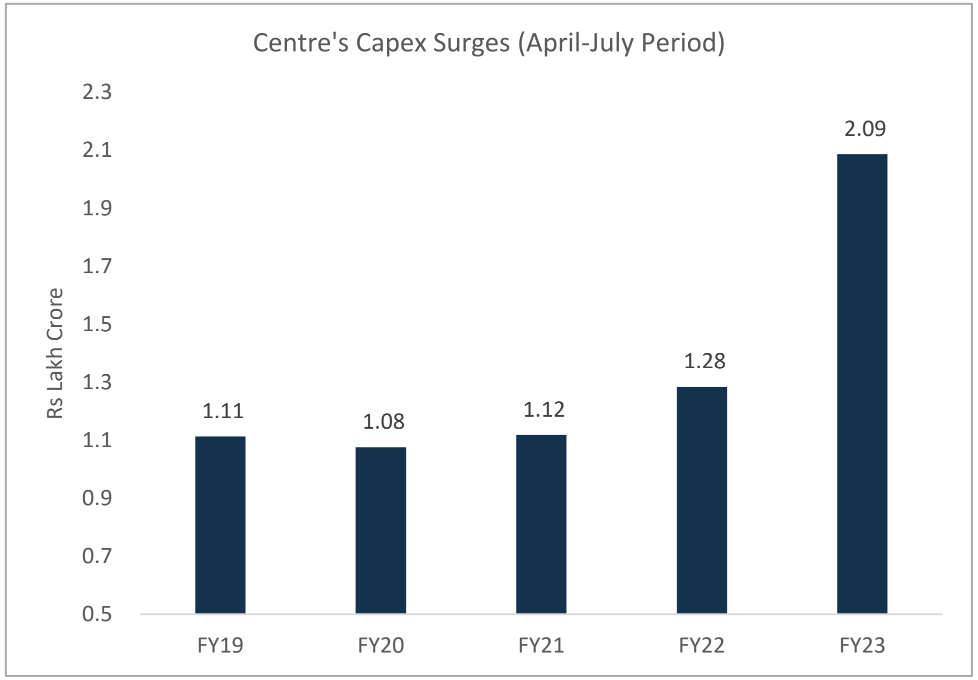
Source: MOSPI



Source: MOSPI

- Economy grew by a lower-than-expected 13.5% in Q1 FY23. Over the pre-pandemic period (Q1 FY20), the GDP grew by a modest 3.8%.
- Sharp weakening of net exports weighed on the GDP growth in Q1.
- Private consumption and investment GDP rose by a healthy 9.9% and 6.7% respectively over the pre-pandemic level.
- Industrial output fell sequentially in Q1. Though services sector grew by a strong 17.6% y-o-y in Q1 FY23, output in trade, hotels, transport, communication and broadcasting remained lower by 15.5% compared to the pre-pandemic level.
- Due to lower-than-expected Q1 GDP data, we have lowered our FY23 GDP growth forecast to 6.8-7%.

Revival Signs in Capex



Source: CMIE

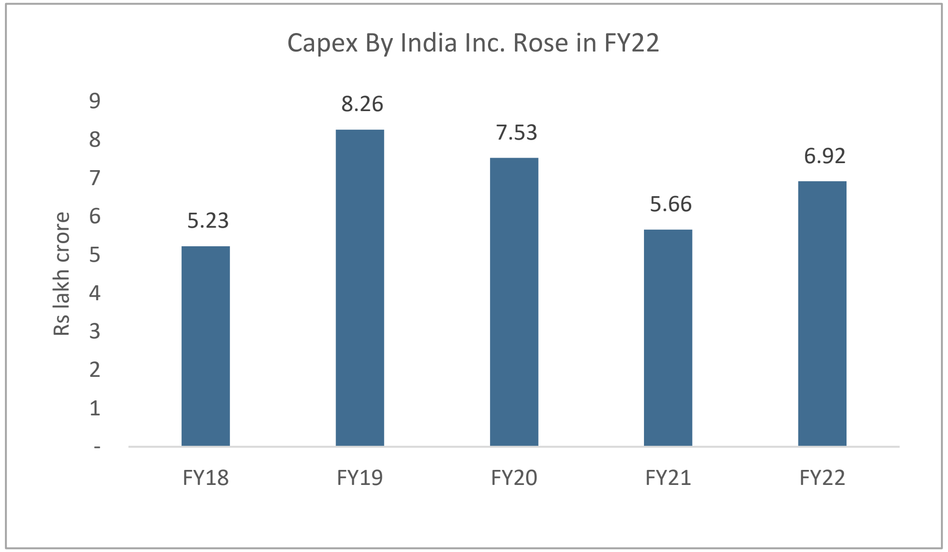
Some States Recording Healthy Capex Growth

	April-July FY23		FY23
	Actual Capex (Rs crore)	**Capex as % of BE**	**% growth in BE***
Madhya Pradesh	11,201	24.5	12.2
Gujarat	8,989	25	27.4
West Bengal	5,706	17.2	88.1
Kerala	4,119	27.6	7.6
Chhattisgarh	3,045	20	40

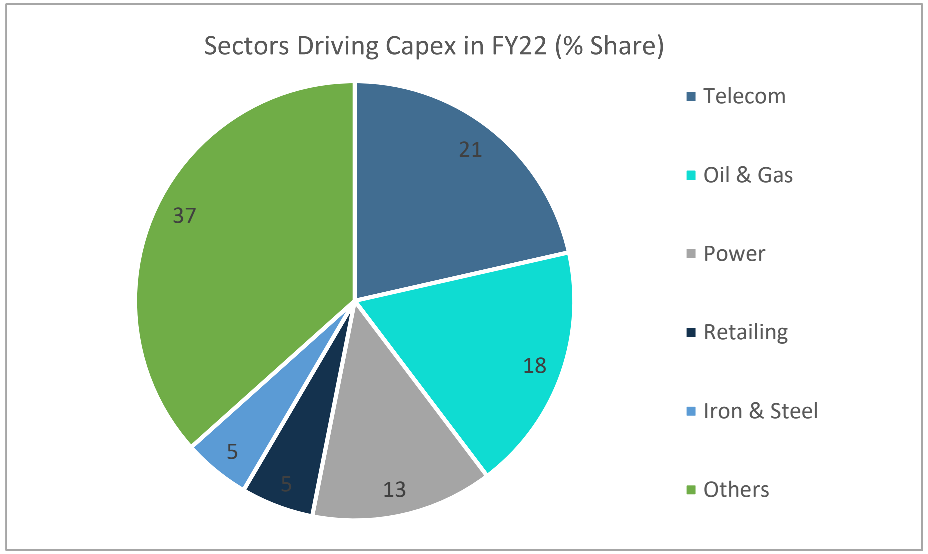
Source: CAG; *Over actual of FY22

- So far in FY23, the Central government has achieved 27.8% of the budgeted target for full fiscal.
- State's capex had been trailing behind due to concerns on cessation of GST compensation.
- In July, there has been a pick-up in capex by States. For 21 states analysed by CareEdge, the combined capex during April-July period was only marginally lower by 0.14% compared to last year.

Capex By India Inc. Shows Revival Signs



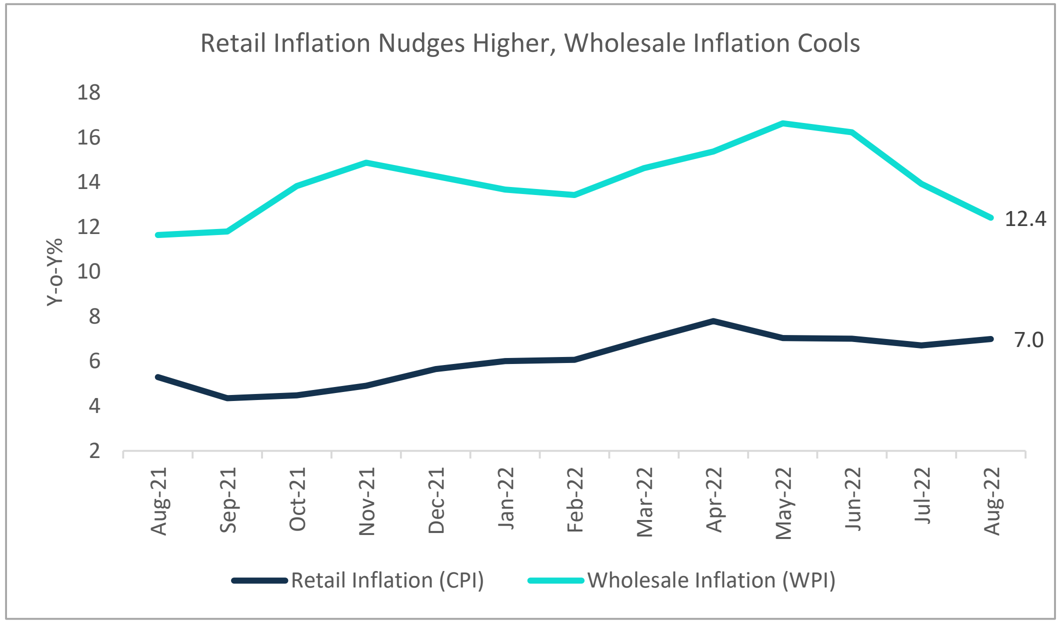
Source: Ace Equity; CareEdge; Note: Numbers based on data of 659 non-finance companies



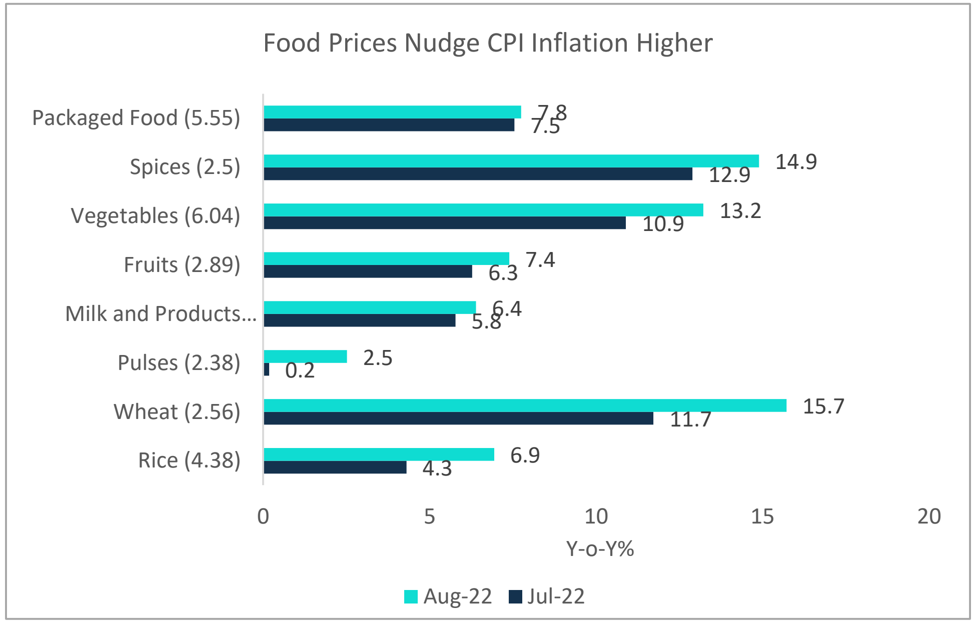
Source: Ace Equity; CareEdge; Note: Numbers based on data of 659 non-finance companies

- Capex by India Inc. rose by 22% y-o-y in FY22, albeit on a low base. Overall capex remains below pre-pandemic period (FY20).
- Revival in capex was skewed with few sectors and a few big players being the main drivers.
- As per CMIE data, the new investment projects announced have risen in the last two quarters. In Q1 FY23, the project announcements were up by 44.6% y-o-y.
- In an encouraging sign, the share of private players in new investment projects announced have been more than 90% in the first quarter.
- Improving capacity utilization level could bode well for private capex revival, however, sustenance of demand remains critical.

Retail Inflation Nudges Higher, Wholesale Inflation Cools



Source: MOSPI & Office of Economic Advisor



Source: MOSPI; Figures in bracket represent weight in CPI

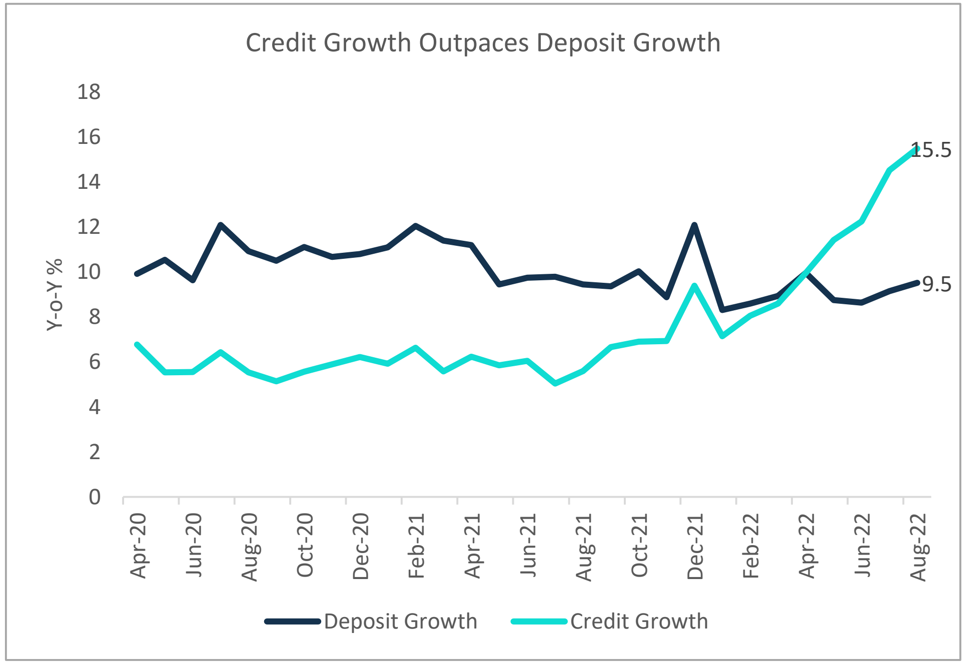
- While retail inflation edged up in August, wholesale inflation though elevated continued to decline for the third straight month.
- Bloomberg Commodity Price Index fell by 8% in the last three months and global crude oil prices (WTI & Brent) fell by more than 20% in the same period.
- With global commodity prices easing, we expect WPI inflation to ease to single digit by October if this trend sustains.
- However, volatile food prices and hesitancy to pass on the benefit of lower input prices to final consumers could keep retail inflation above 6% in the near term.

RBI Stays on Policy Tightening Path

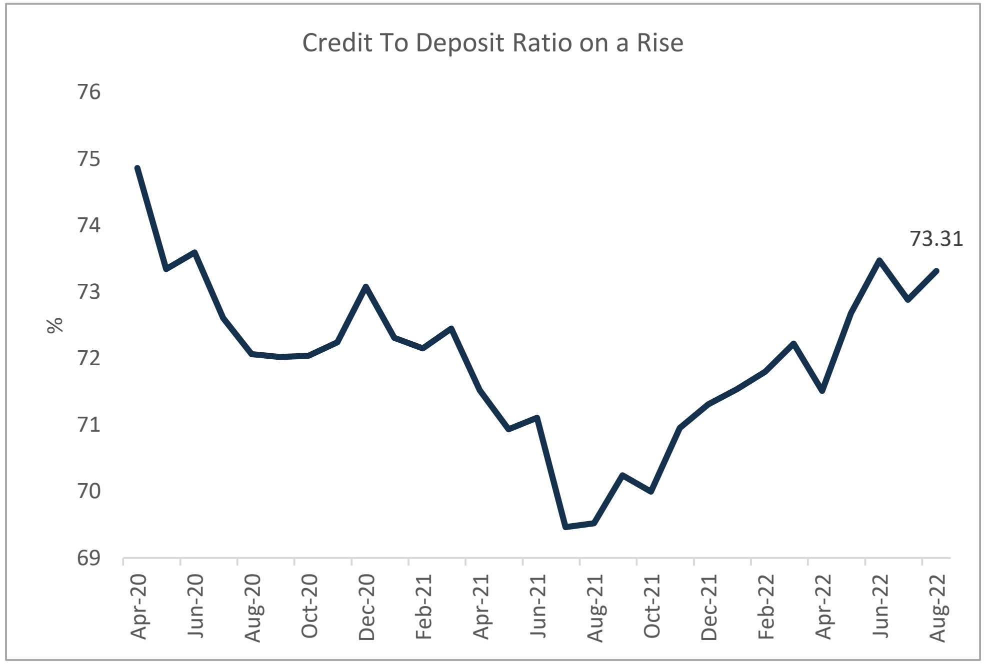
	Q2 FY23	Q3 FY23	Q4 FY23	FY23	Q1 FY24
RBI's GDP Growth Outlook (%)					
Aug-22 Outlook	6.2	4.1	4.0	7.2	6.7
Sept-22 Outlook	6.3	4.6	4.6	7.0	7.2
RBI's Inflation Outlook (%)					
Sept-22 Outlook	7.1	6.5	5.8	6.7	5.0

- RBI delivered a 50-bps hike in the repo rate taking it to 5.90% while retaining the policy stance at 'focus on withdrawal of accommodation'.
- GDP growth projection was lowered to 7% (from earlier 7.2%), given the headwinds from geopolitical tensions, tightening of global financial conditions and weakening external demand.
- RBI maintained its average inflation projection for FY23 at 6.7%, but highlighted concerns on food inflation and imported inflation and geopolitical concerns.
- Given the persistence of inflation, we expect another 25-50 bps repo rate hike in FY23.

Deposit Growth Trails Behind Credit Growth



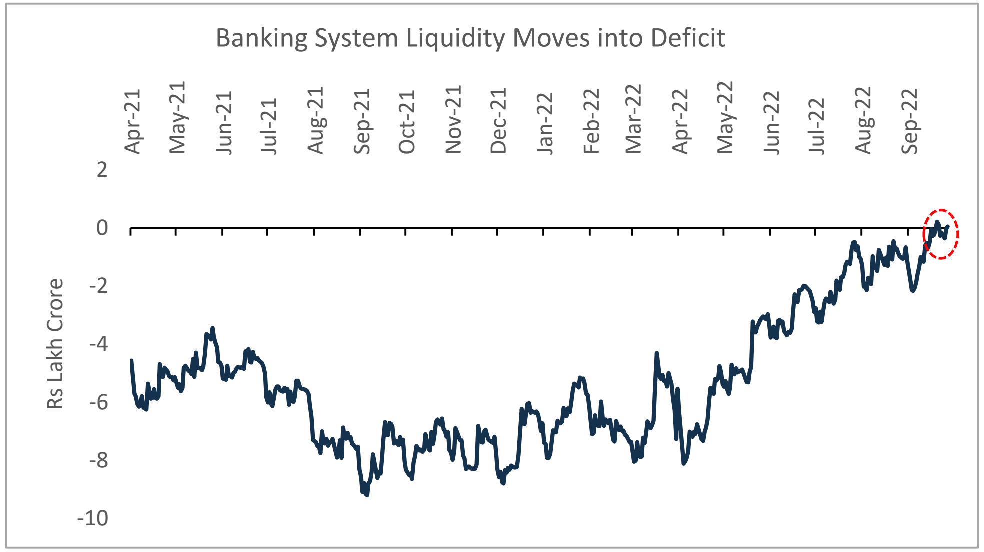
Source: CEIC



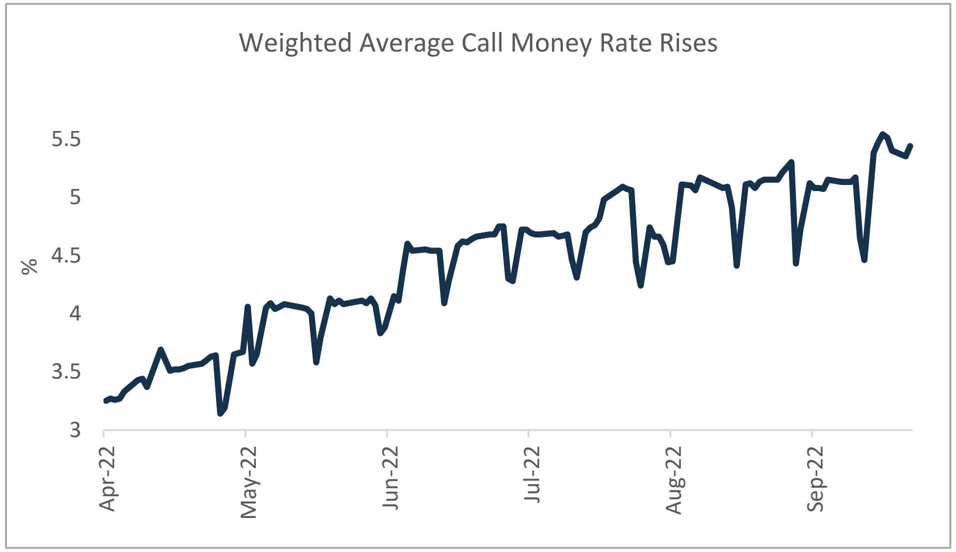
Source: CEIC

- Credit demand has been recording double-digit growth driven by increased working capital requirements and demand revival.
- Lower deposit mobilisation and pick-up in credit demand have pushed the credit-deposit ratio to 73.3% in August 2022.
- Slow deposit expansion amid tightening liquidity conditions poses a challenge for the sustenance of healthy credit growth.

Liquidity Conditions Tighten; Short Term Rates Rise



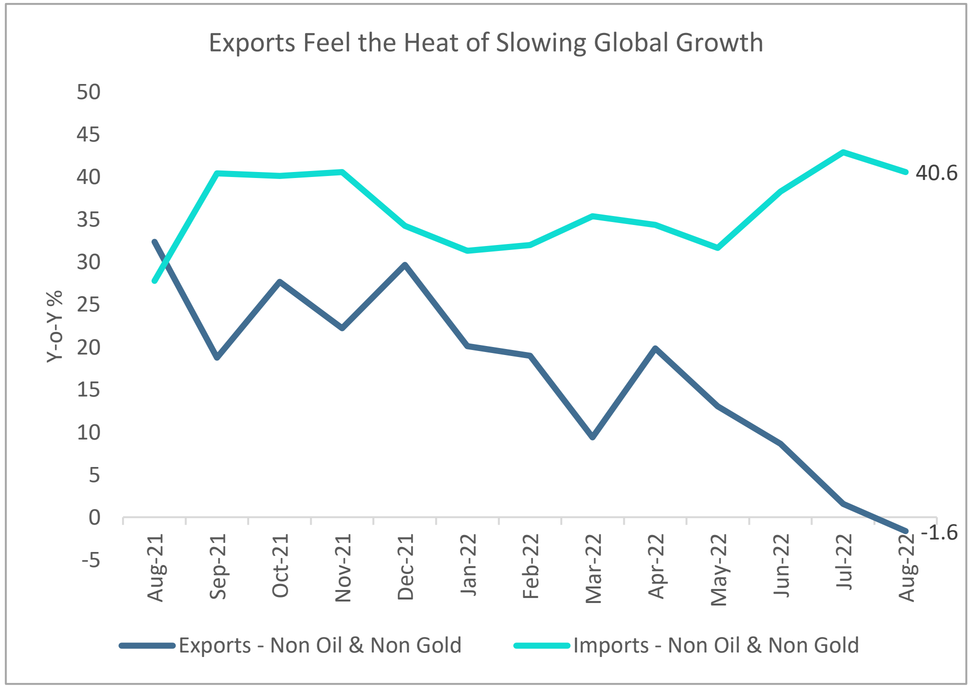
Source: CEIC



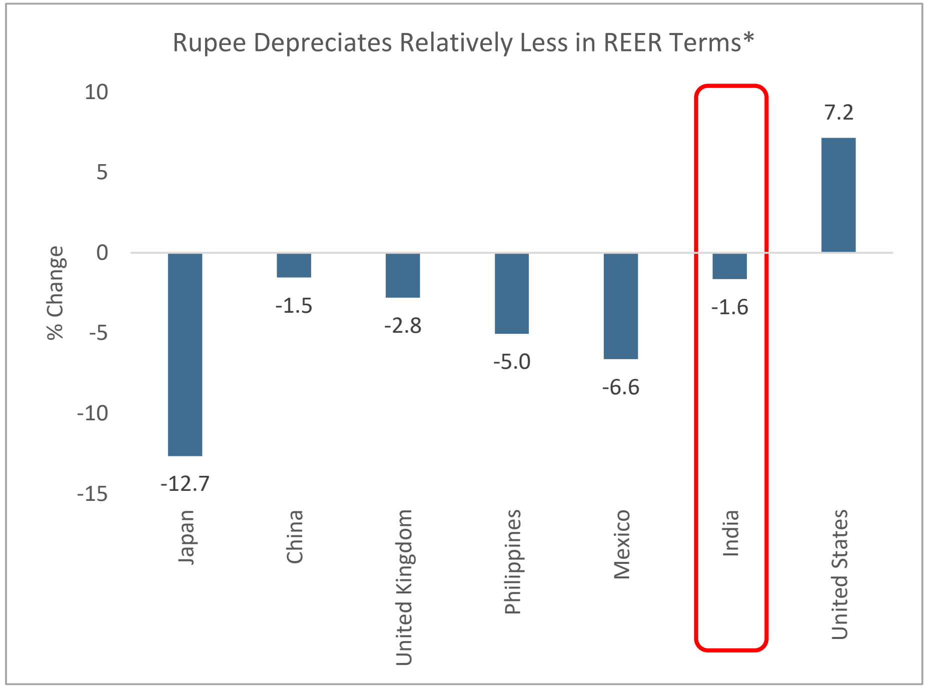
Source: CEIC

- The banking system liquidity moved into a deficit for the first time in nearly 40 months, mainly due to advance tax outflows.
- Liquidity condition likely to remain pressured with higher BoP deficit, credit demand outpacing deposit growth, RBI's forex intervention and festive season currency demand. Increased government spending would ease some tightening pressure in the coming months.
- Tightening liquidity condition has pushed the short-term interest rates higher.
- The weighted average call money rate has risen from 3.25% at the start of FY23 to 5.55% (closer to the repo rate) by end-September 2022.
- The spread between the 10-1 year G-Sec yield fell from 2.29 percentage point (pp) at the start of FY23 to 0.45 pp by end September 2022.

Dark Clouds over Trade Outlook



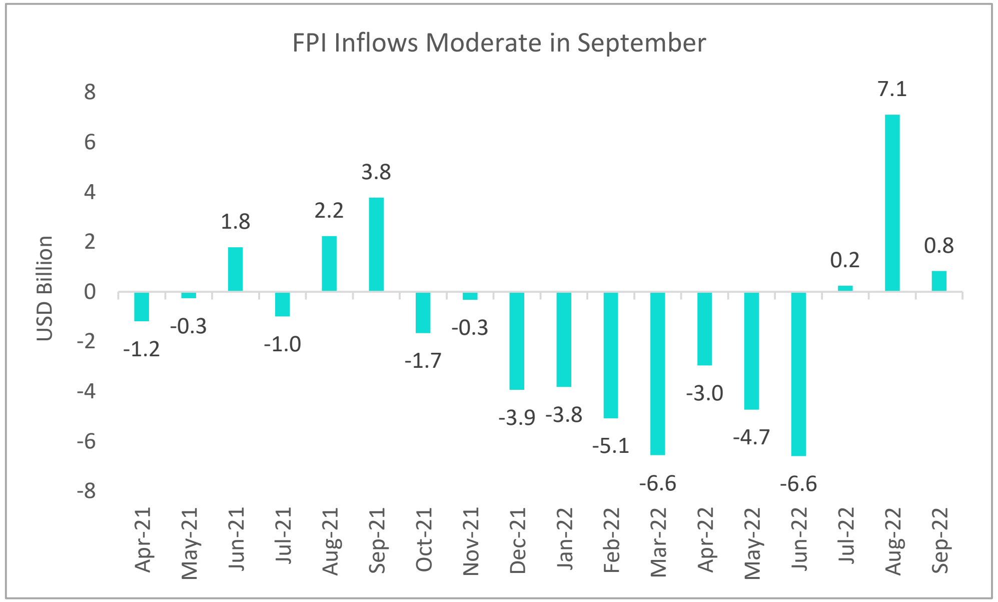
Source: CEIC



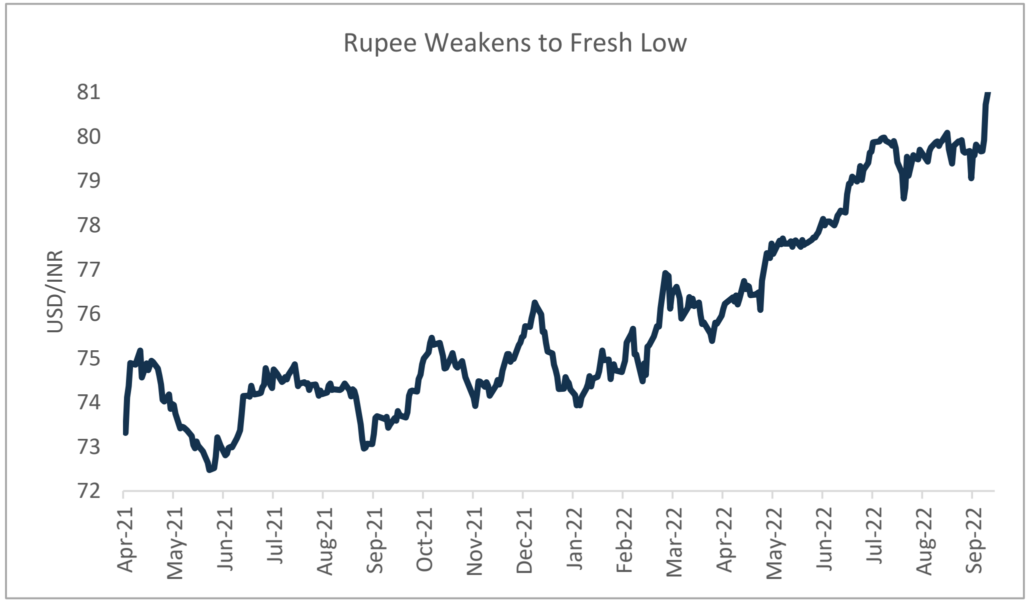
Source: CEIC; * % Change during January-July Period

- In August, the non-oil & non-gold trade deficit continued to climb for the 7th-straight month due to slowing exports and strong imports.
- Global trade volume growth is estimated to reduce to 3% in 2022 (against an earlier estimate of 4.7%), as per WTO.
- Relative strength in rupee in REER terms may weigh on India's export competitiveness, further adding to the pain of weak exports.
- We project the merchandise trade deficit to be at USD 294 billion (or 8% of GDP) in FY23.

FPI Inflows Fall, Rupee Faces Pressure



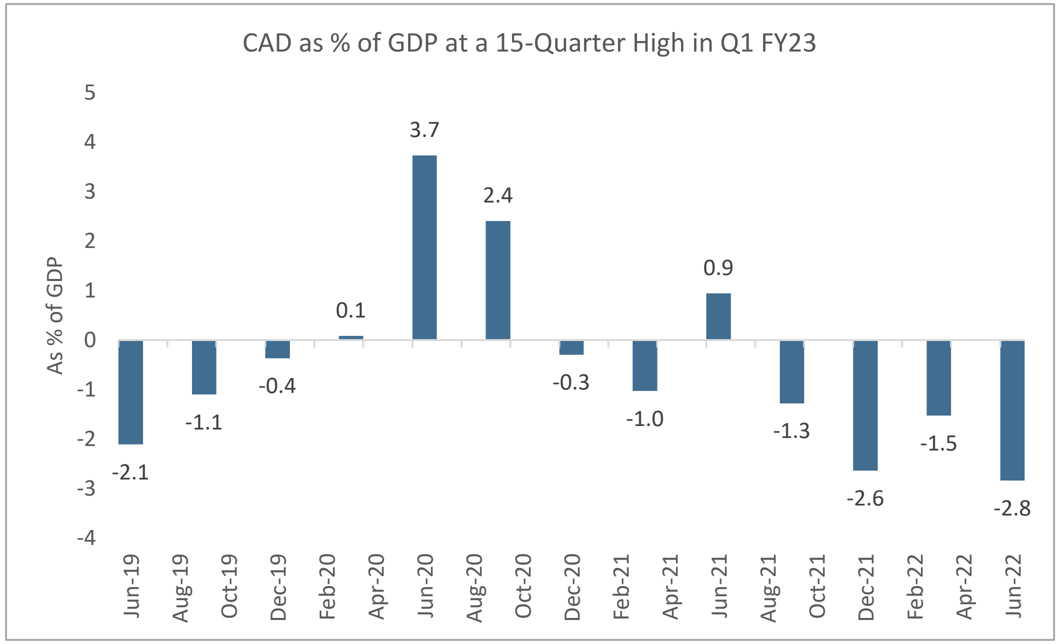
Source:CEIC; Note: Data as on 27 September, 2022



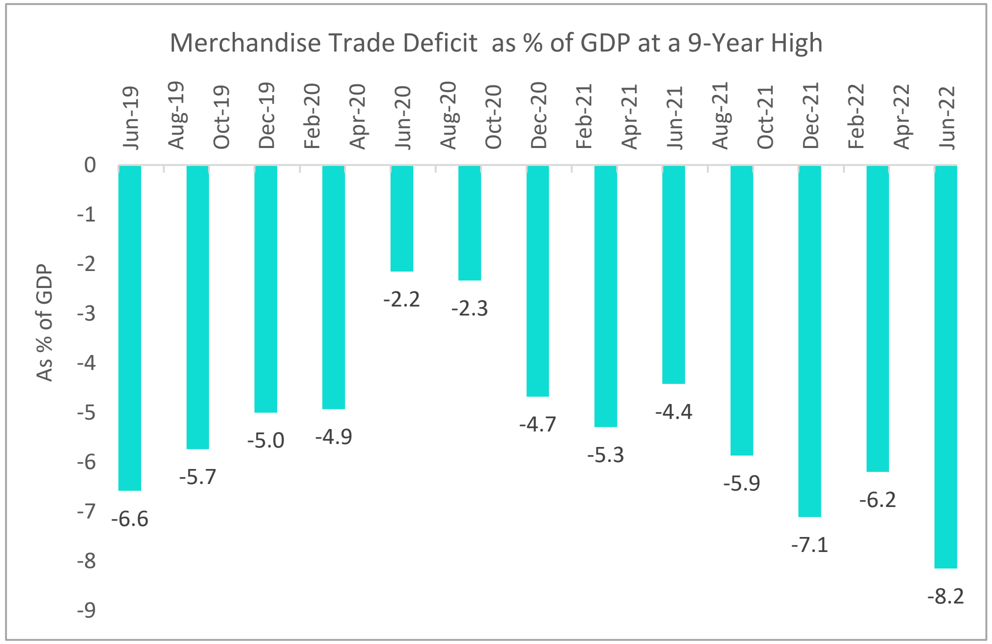
Source: CEIC

- After upbeat FPI inflows of USD 7.1 billion in August, inflows slowed in September amid pessimism over aggressive Fed tightening and global recessionary concerns.
- Rupee continued to plunge to fresh lows amid stronger US Dollar. The Dollar index has risen above 114, highest level in nearly 20-years.
- We expect USD/ INR to be in the range of 81-83 by end of FY23.

CAD Widens on Rising Trade Deficit



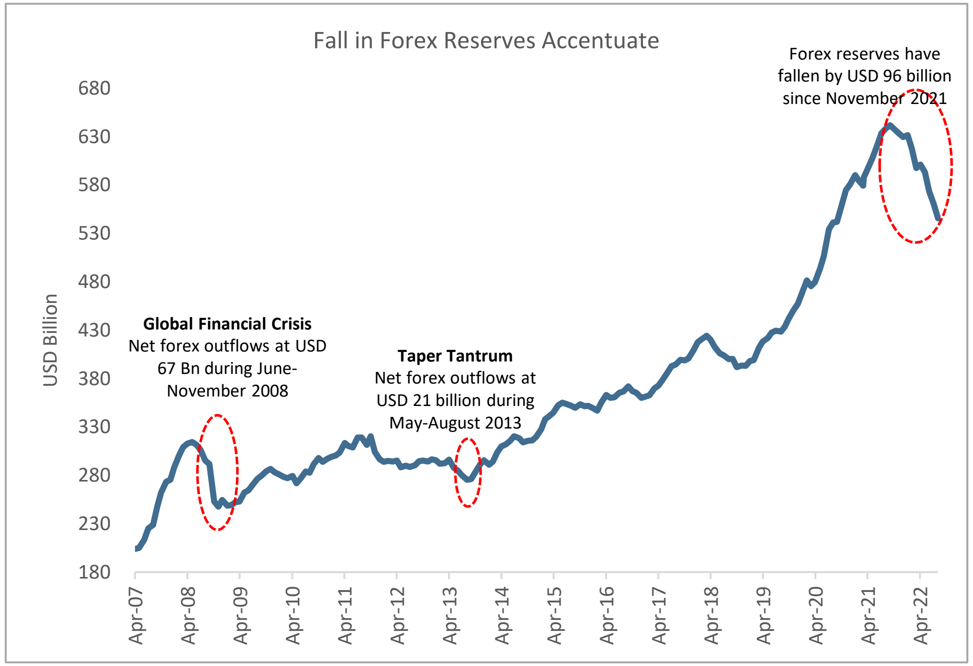
Source: CMIE



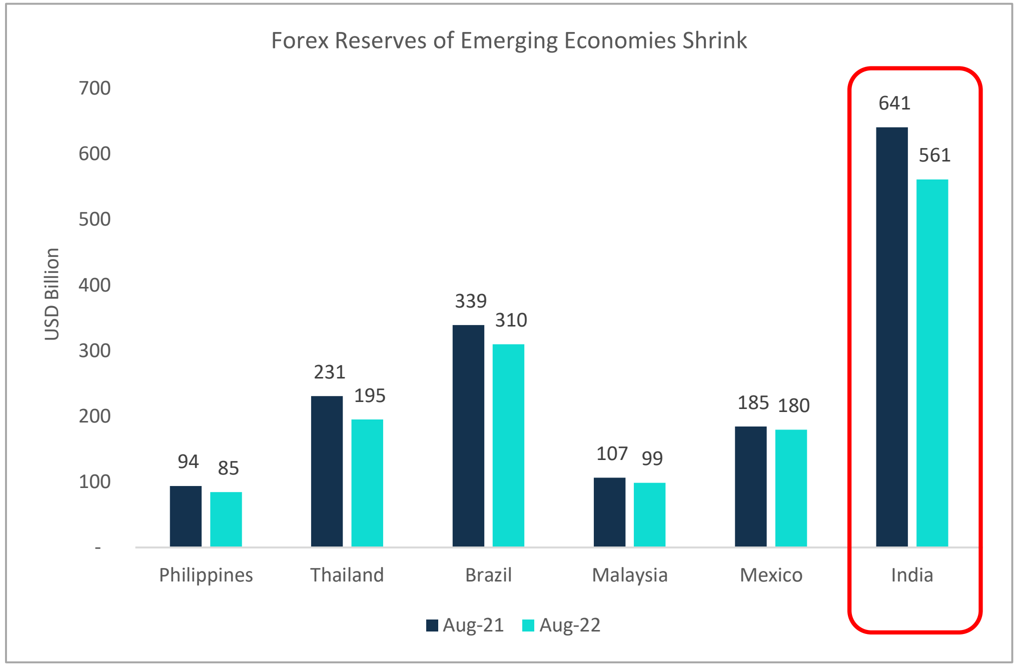
Source: CMIE

- Current Account Deficit (CAD) widened to 2.8% of the GDP in Q1 FY23 from 1.5% in the previous quarter as the trade deficit surged.
- Net services receipts increased on an annual as well as sequential basis due to higher exports of computer and business services.
- Stable FDI inflows at USD 13.6 billion helped offset net FPI outflows worth USD 14.6 billion, and net banking capital inflows rose sharply to USD 19 billion as against USD 4 billion in Q1 FY22.
- Strong net capital inflows helped offset higher CAD, translating into a Balance of Payment (BoP) surplus of USD 4.6 billion in Q1 FY23 as against a deficit of USD 16 billion in Q4 FY22.
- In FY23, we expect CAD to widen to 3.6% of GDP and BoP to record a deficit of more than USD 65 billion.

Forex Reserves Dive, but Remain at Comfortable Level



Source: CEIC; Note: Data up to 16 September 2022



Source: CEIC

- India's forex reserves fell to a 2-year low as the RBI intervened to limit sharp rupee depreciation.
- Despite the depletion, current reserves represent a 9-month import cover, higher than that of around 6.8 months during the taper tantrum of 2013.
- Forex reserves are likely to moderate further due to volatile FPI flows. However, less aggressive forex intervention by RBI could offer some support.

Ratings • Advisory • Research • Risk Solutions

Economics Research Team

Rajani Sinha
Chief Economist
rajani.sinha@careedge.in
+91 - 22 - 6754 3525

Akanksha Bhende
Associate Economist
akanksha.bhende@careedge.in
+91-22-6754 3424

Mradul Mishra
Media Relations
mradul.mishra@careedge.in
+91-22-6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect