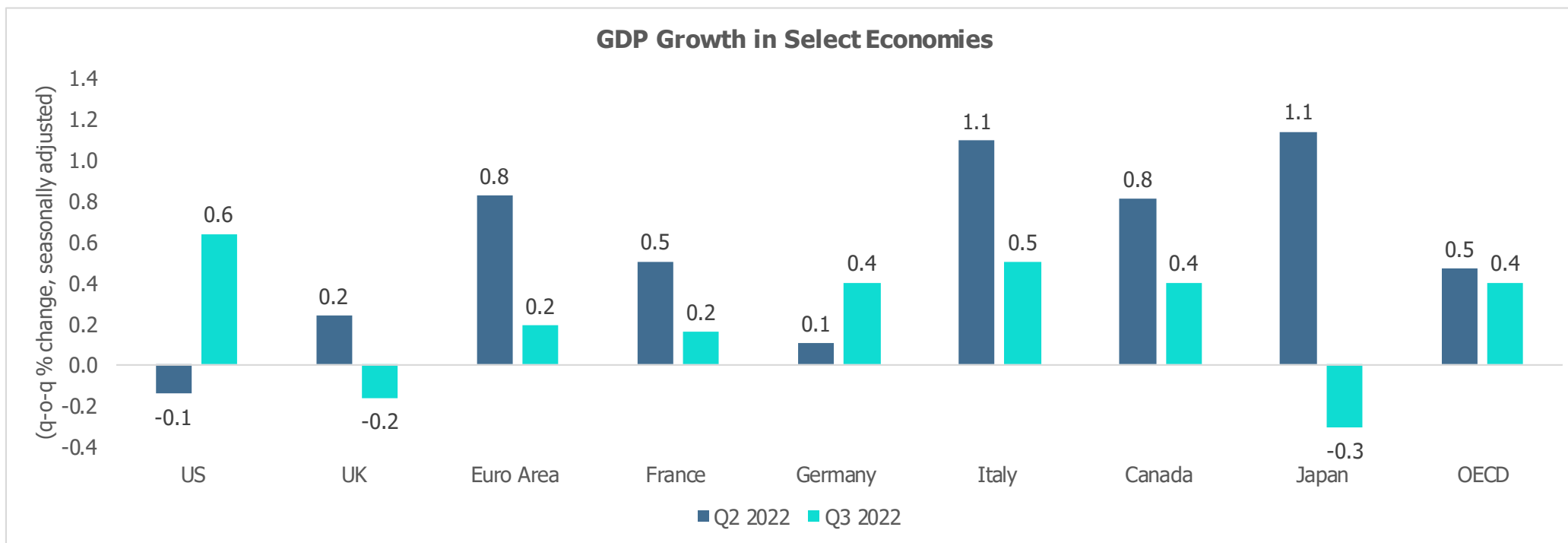


India: The Economic Pathway

November 2022



Global



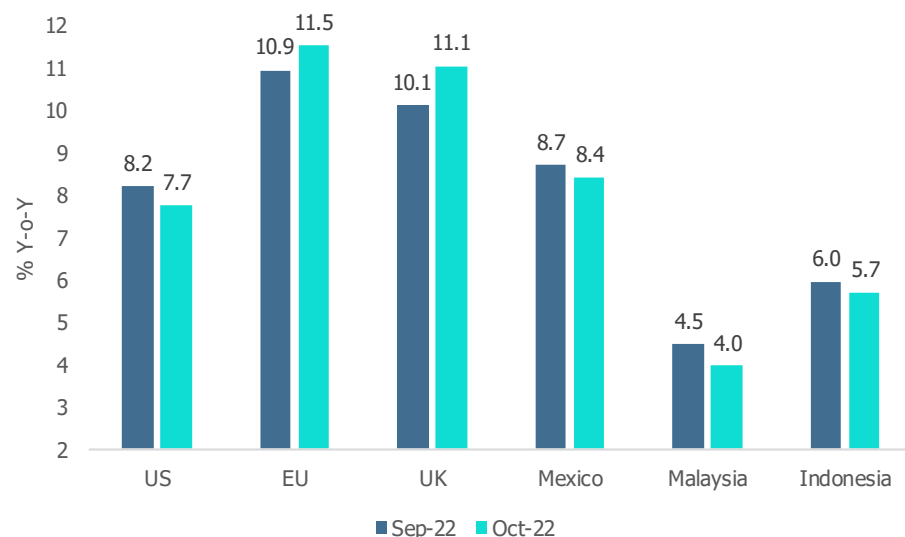
Source: OECD

- OECD growth rates (q-o-q) have remained subdued close to 0.5% in the three quarters of 2022.
- In Q3 2022, GDP growth accelerated in US and Germany while it decelerated in Canada, Italy and France. A contraction in GDP was recorded in UK and Japan.
- While net exports were the key driving factor for GDP growth in US and UK, it remained the main drag on GDP in France and Japan.

Price Pressures Show Signs of Moderation

Inflation Shows Signs of Moderation in Some Economies

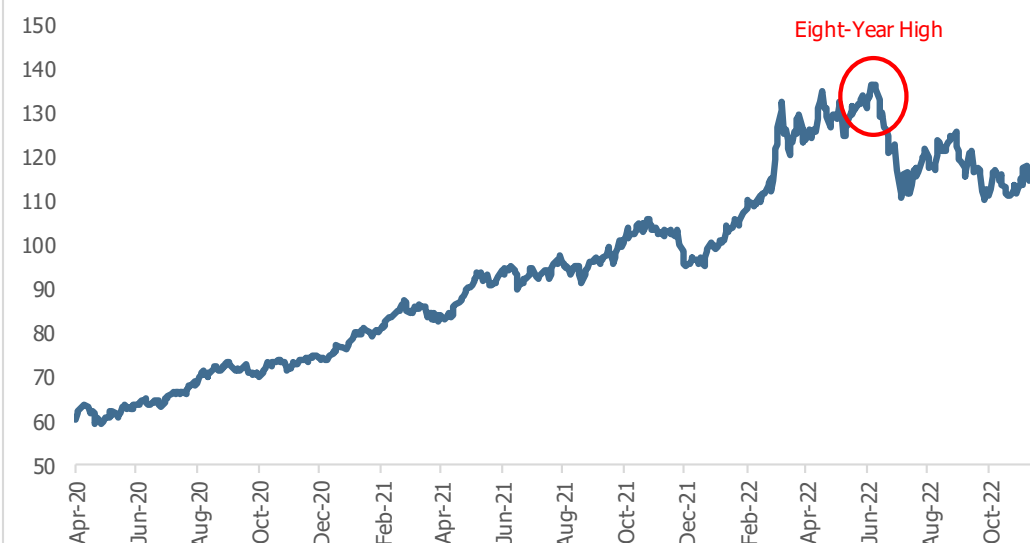
Data for October 2022*



Source: CEIC; Note: Inflation rate based on Consumer Price Index, inflation rate for European Union based on Harmonised Indices of Consumer Prices

Global Commodity Prices Cool

Bloomberg Commodity Price Index

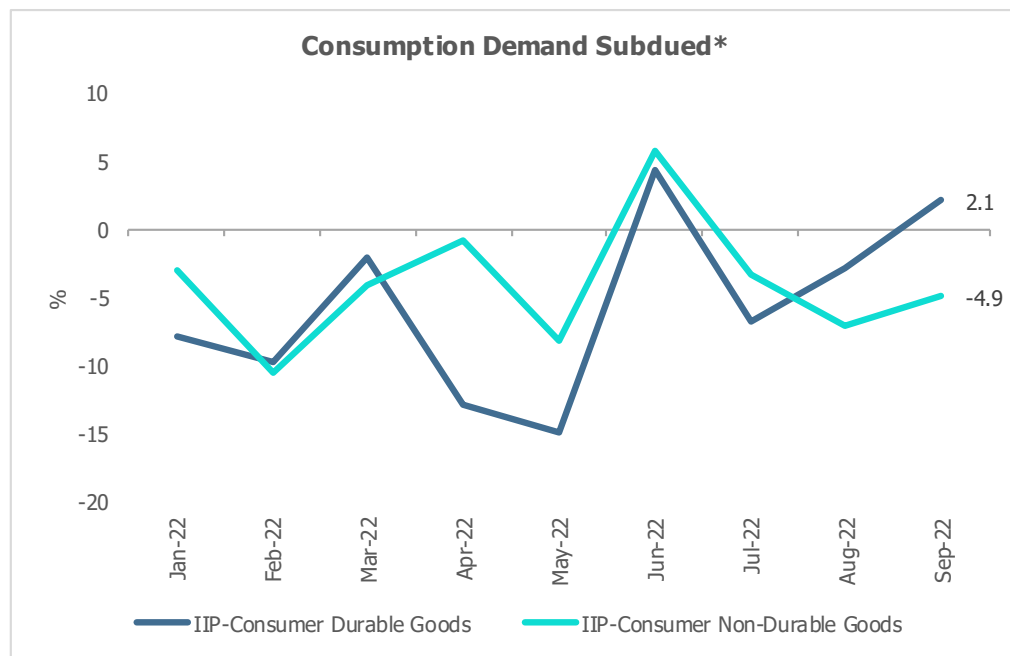


Source: CEIC

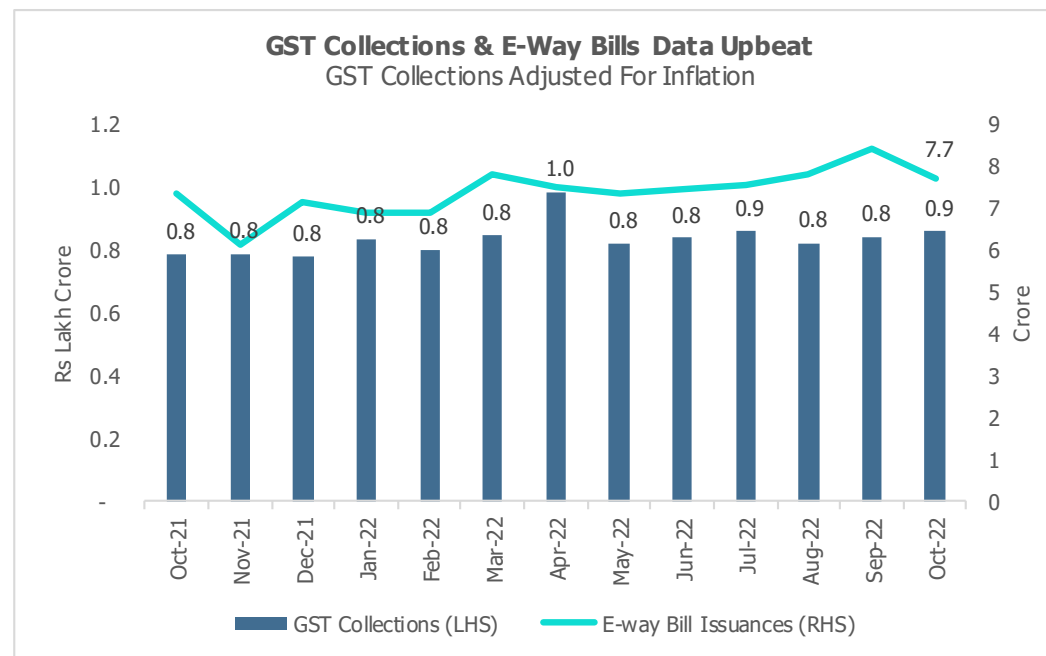
- US CPI inflation eased to 7.7% in October, marking the lowest inflation since January this year.
- Bucking the trend seen across most economies, inflation in UK and European Union accelerated to fresh record highs in October.
- UN FAO Food Price Index after falling for six straight months remained unchanged in October from the previous month with higher cereal prices offsetting lower prices of other food items.
- Bloomberg Commodity Price Index has fallen by 16% from the eight-year high of early June this year indicative of easing commodity prices.



Domestic

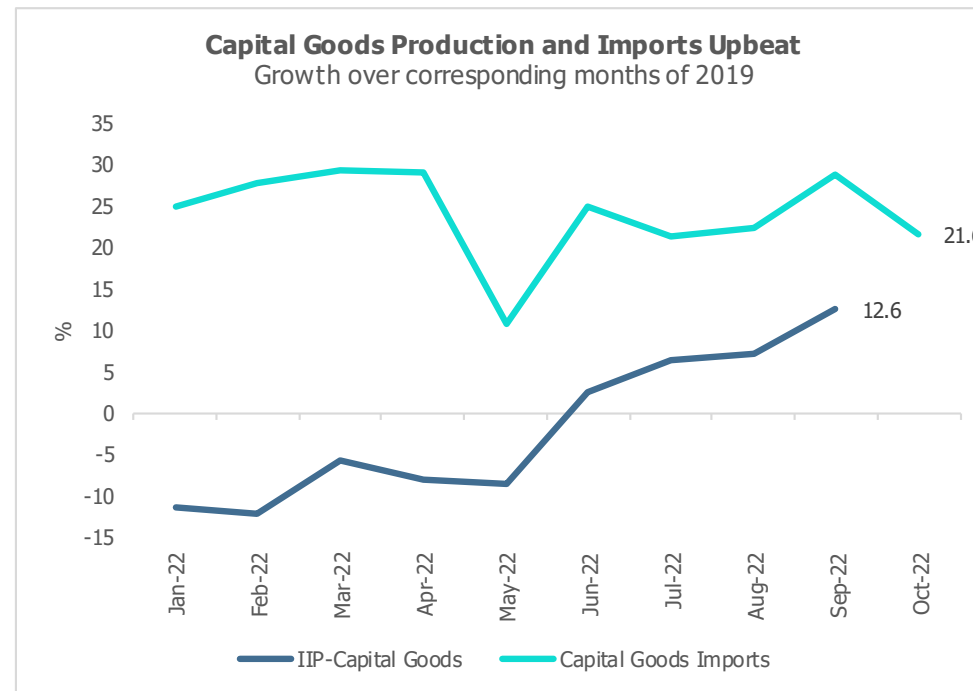
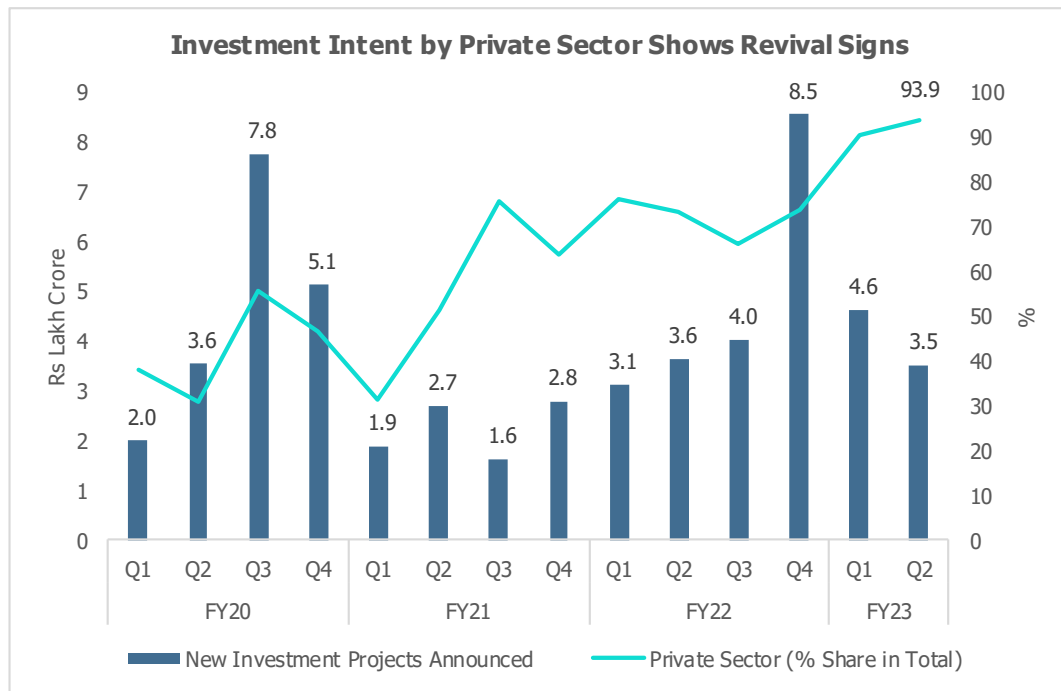


Source: MOSPI; *Growth rate over the corresponding month of 2019



Source: CEIC & CareEdge

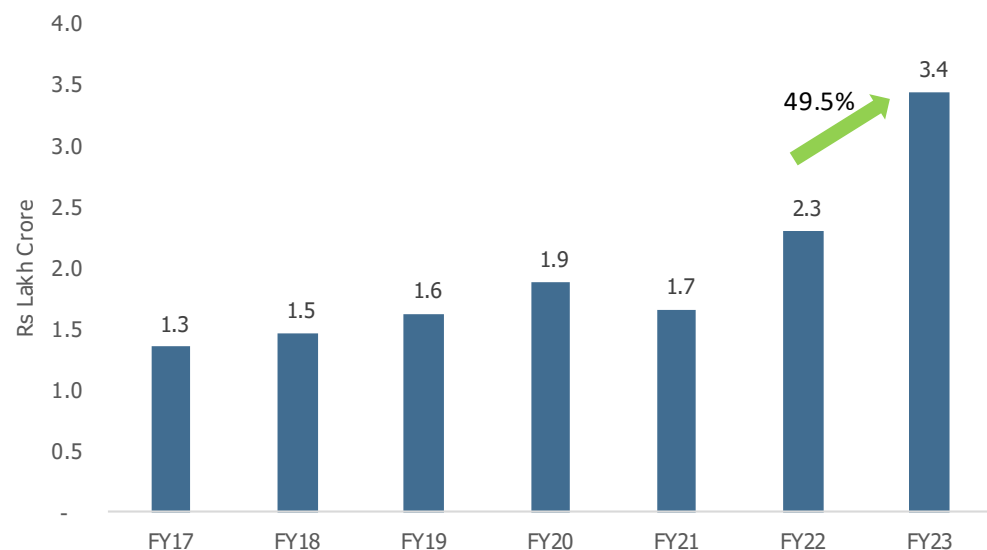
- GST collections, auto sales and retail credit demand have been showing an encouraging performance, however, persistent weakness in demand for consumer goods is concerning.
- Weak performance in IIP consumer durables and non-durables continued in September as they recorded growth of 2% and -4.9% compared with the same month of 2019.
- Boosted by festive season demand, GST collections rose to Rs 1.52 lakh crore in October, the second highest since the implementation of GST.
- E-way bill issuances retreated from the quarter-end high of September on account of festive holidays and fewer working days in October.



- New investment projects announced (CMIE), showing investment intentions dipped in Q2 FY23 on a sequential as well as annual basis.
- Encouragingly, the share of the private sector in new investment projects announced has shot above 90% in the first two quarters of FY23.
- IIP capital goods production has been upbeat logging a pre-pandemic growth of 12.6% in September. Capital goods imports rose by 3.9% (y-o-y) in October.

Centre's Capex Growth Must Rise to Meet the Budgeted Target

Data for April-September



Source: CMIE

State Capex Only Marginally Higher

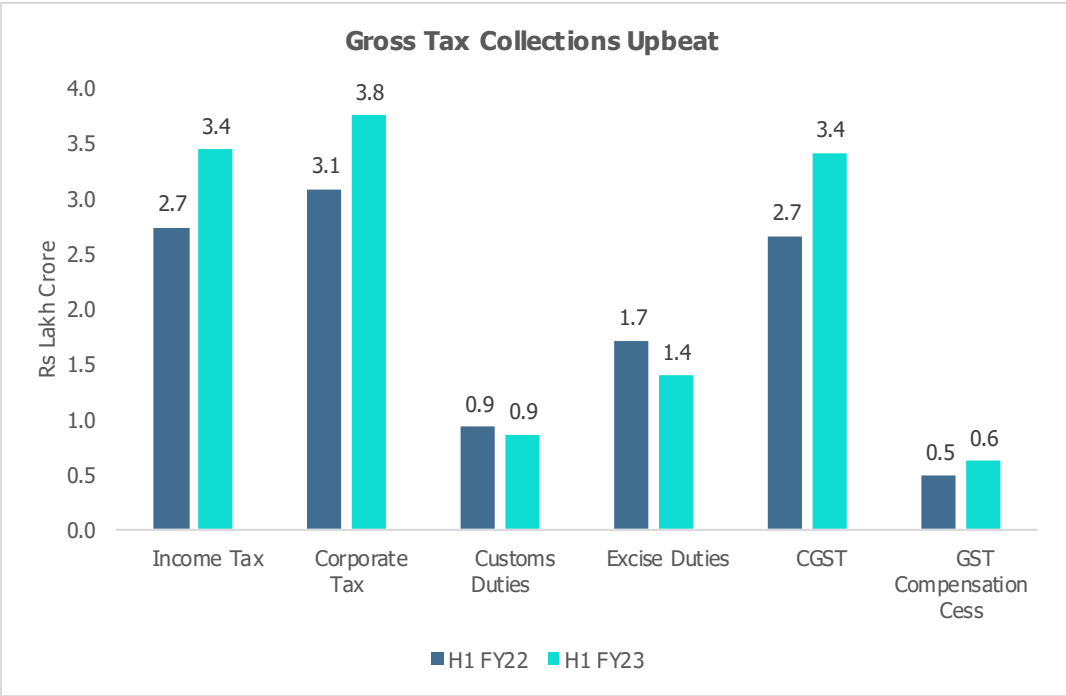
Cumulative data for 26 states for April-September



Source: CEIC

- In H1 FY23, the Centre has achieved 45.7% of the annual budgeted target, the best performance in H1 of the last two years.
- Despite this capex growth, the monthly average capital spending has been at Rs 57,000 crore. This must rise to the tune of Rs 68,000 crore to meet the ambitious annual target of Rs 7.5 lakh crore.
- In H1 FY23, the cumulative capex for 26 states was only marginally higher by 2% (y-o-y).
- Despite the Centre's capex infusion to states in the form of interest-free capex loans, states have shown a subdued capex growth in H1 FY23.

Upbeat Revenue to Offset Higher Expenditure in FY23



Source: CMIE

Marginal Slippage in FY23 Fiscal Deficit Expected (Rs lakh crore)	
Additional Revenue Receipts Over Budgeted Amount (Net Tax Revenue + Non-Tax Revenue)	2.19
Additional Total Expenditure Over Budgeted Amount	3.03
Slippage in Fiscal Deficit From Budgeted	0.84
Fiscal Deficit (As % of GDP)	6.5

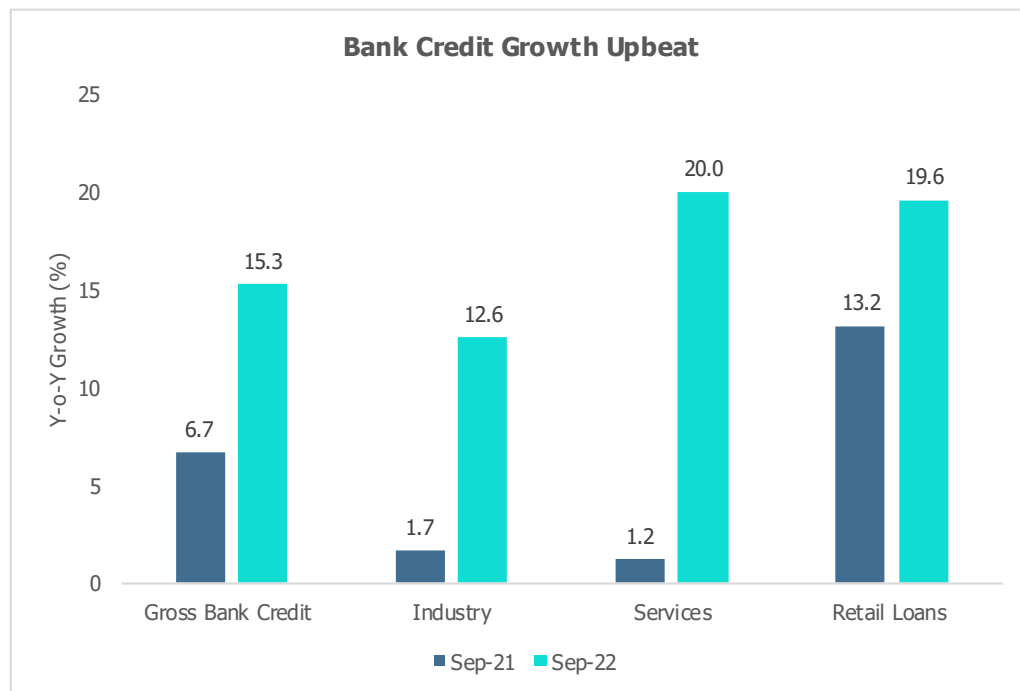
Source: CareEdge Projection

- In H1 FY23, the Centre exhausted 37% of the budgeted fiscal deficit target, higher than 35% last year but significantly lower than the figure seen in almost a decade.
- Net tax revenue collections were upbeat with 52% of the annual net tax revenue target mobilised in H1. The Centre has garnered less than 45% of the budgeted amount during H1 of the previous years (except FY22).
- Expenditure policy centered on asset creation and revenue rationalisation. However, the government’s subsidy (food & fertilizer) burden is expected to rise in the current fiscal.

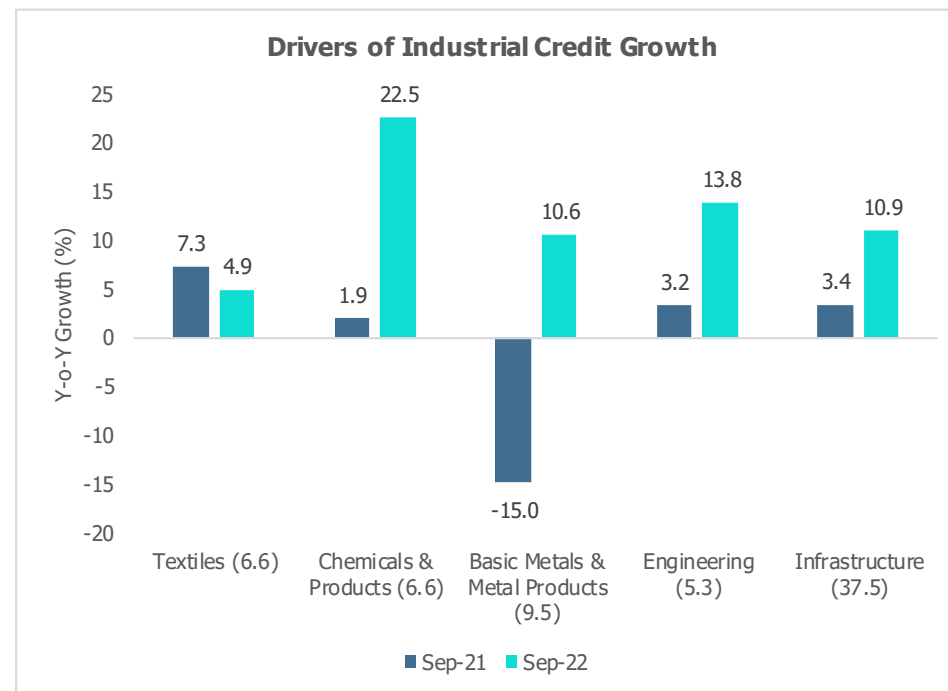
Trends in Inflation (Y-o-Y % Change) - Major Components											
	Weights	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
CPI		6.0	6.1	7.0	7.8	7.0	7.0	6.7	7.0	7.4	6.8
CPI-Core		5.9	5.9	6.3	6.8	6.0	6.0	5.9	6.0	6.2	6.2
Food & Beverages	45.86	5.6	5.9	7.5	8.1	7.8	7.6	6.7	7.6	8.4	7.0
-Cereals & Products	9.67	3.5	4.0	5.0	6.0	5.3	5.7	6.9	9.6	11.5	12.1
-Egg, Fish & Meat	4.04	5.1	7.1	9.0	6.3	7.1	7.3	2.4	0.5	2.2	2.8
-Milk & Products	6.61	4.1	3.9	4.7	5.5	5.6	6.1	5.8	6.4	7.1	7.7
-Oils & Fats	3.56	18.7	16.4	18.7	17.3	13.3	9.4	7.5	4.6	0.4	-2.2
-Vegetables	6.04	5.1	6.1	11.6	15.3	18.3	17.3	10.9	13.3	18.2	7.8
-Packaged Products	5.55	6.4	6.3	6.6	7.1	7.1	6.7	7.5	7.8	7.8	7.8
Clothing & Footwear	6.53	8.8	8.9	9.4	9.9	8.9	9.5	9.9	9.9	10.2	10.2
Housing	10.07	3.5	3.6	3.4	3.5	3.7	3.9	3.9	4.1	4.6	4.6
Fuel & Light	6.84	9.3	8.7	7.5	10.7	9.5	10.1	11.8	10.8	10.4	9.9
Miscellaneous	28.32	6.5	6.6	7.0	8.0	6.8	6.3	5.9	6.0	6.1	5.9

Source: MOSPI & CareEdge

- CPI inflation cooled to a 3-month low in October 2022 mainly on account of a favourable base.
- Food inflation remained elevated due to higher prices of cereals, vegetables and milk products.
- WPI inflation moderated to a single-digit print of 8.4% after 18 months as prices of metals, chemicals and textiles eased.
- CPI and WPI have been showing a converging trend with the gap narrowing from a high of nearly 9.6 percentage points (pp) in May 2022 to 1.6 pp in October.
- With CPI inflation consistently ruling above the RBI's upper tolerance limit, we expect the MPC to deliver a 35-bps rate hike in its December meeting.



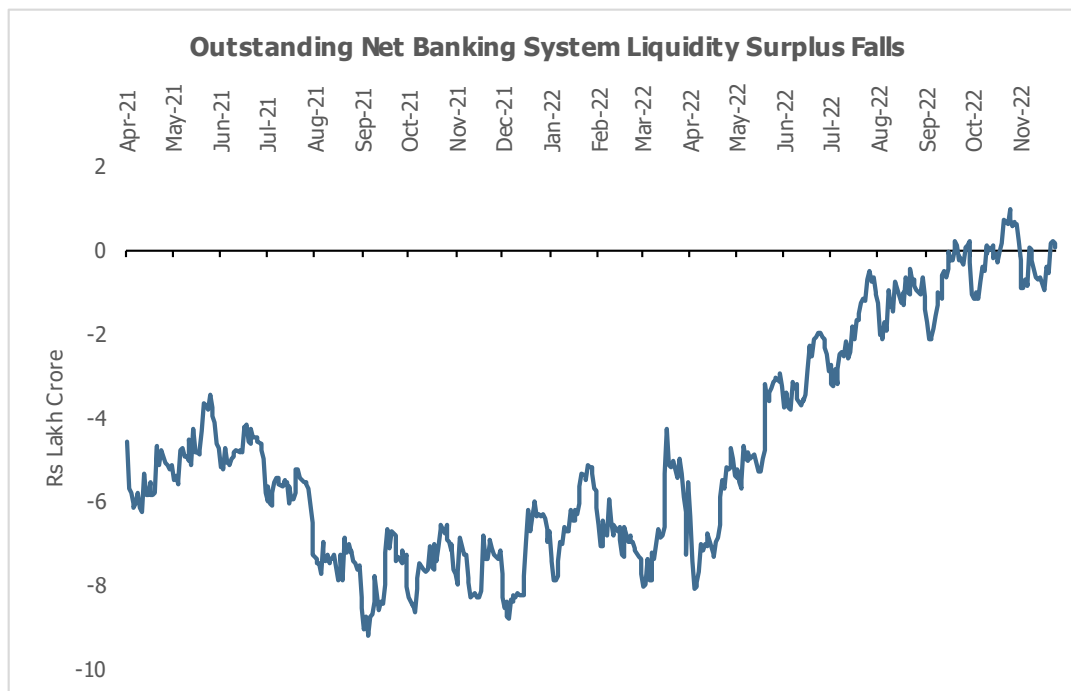
Source: CEIC



Source: CEIC; Note: Figures in bracket represent % share in total industrial credit

- Gross bank credit continued to log double-digit y-o-y growth for the sixth month in a row in September.
- Credit growth was steered mainly by the retail segment (31.6% share), followed by industry (27.6% share) and services (27.5% share).
- Credit to large enterprises picked up to 7.9% in September 2022 (as against de-growth of 2% in September 2021).
- High credit growth was witnessed in industries such as chemicals (22.5%), engineering (13.8%), infrastructure (10.9%) and metals (10.6%).

Yield Spread Narrows Amid Tightening Liquidity

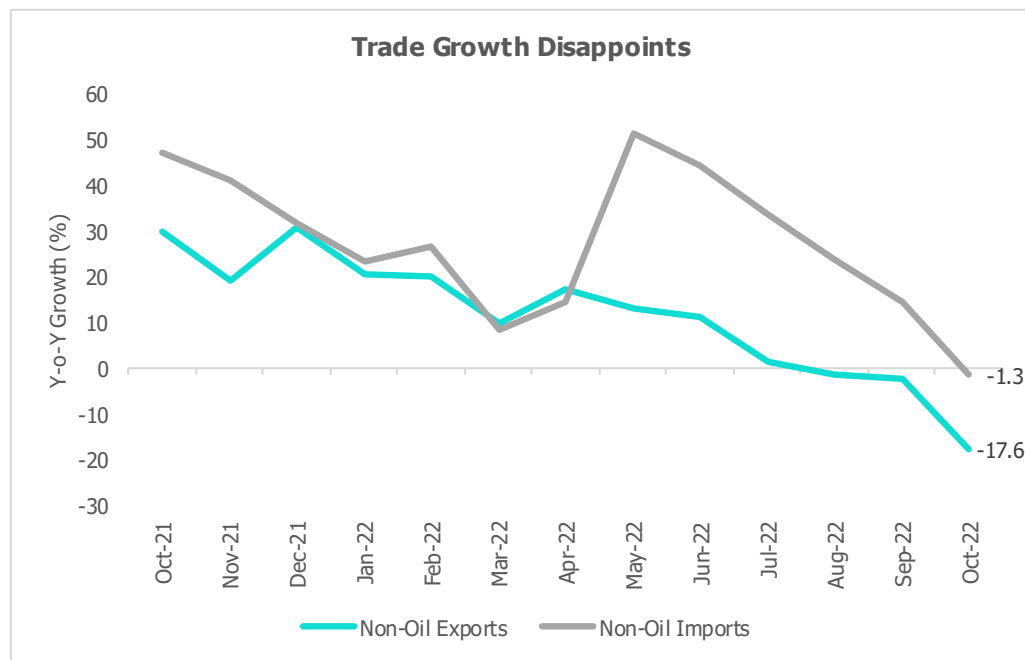


Source: CEIC

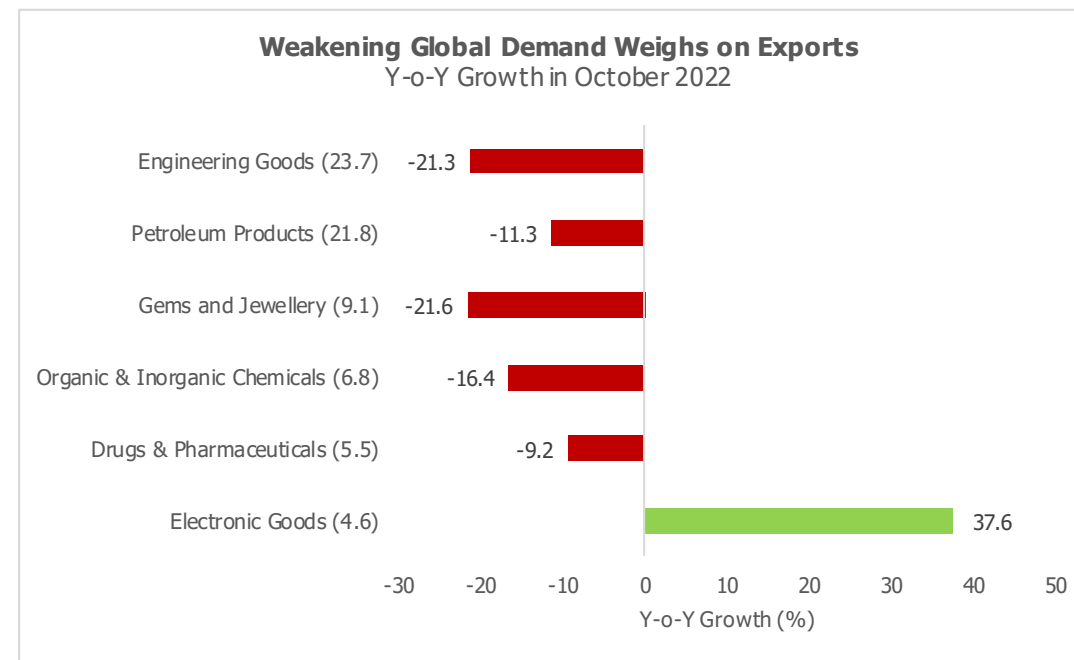


Source: CEIC

- Banking system liquidity surplus has fallen in the recent months from Rs 6-7 lakh crore in the start of FY23 amid monetary tightening by RBI.
- On a year-to-date basis, the yield on 10-year benchmark government security hardened by 36 basis points, while that on the 1-year government security rose sharply by 217 basis points.
- Sharp increase in short term yields has resulted in narrowing of the 10-1 year G-Sec yield to less than 0.5 percentage point (pp), lowest since 2019.



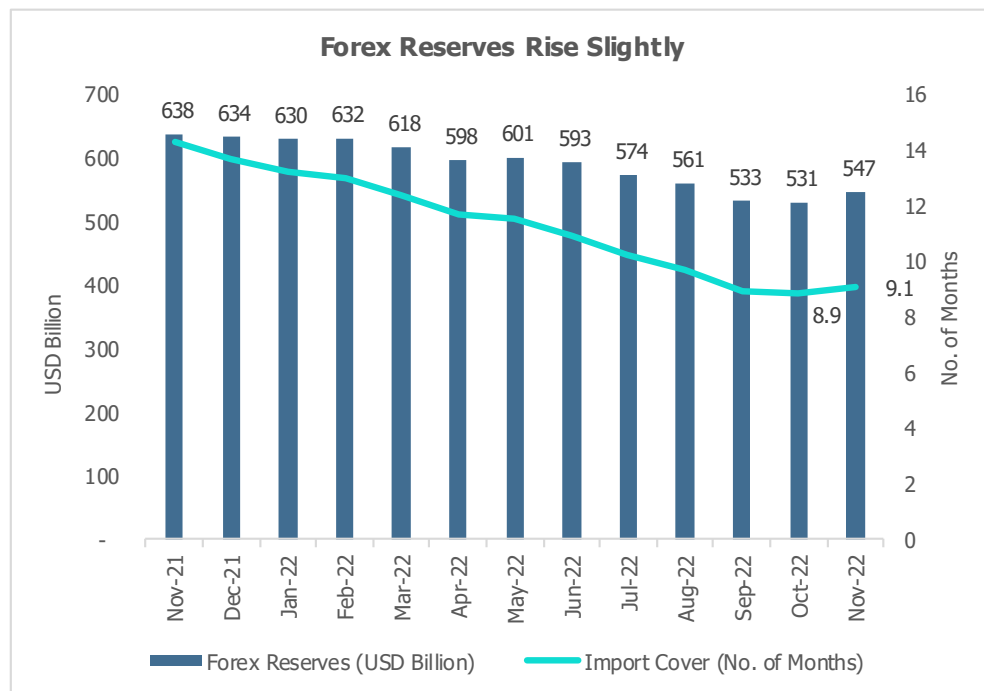
Source: CEIC



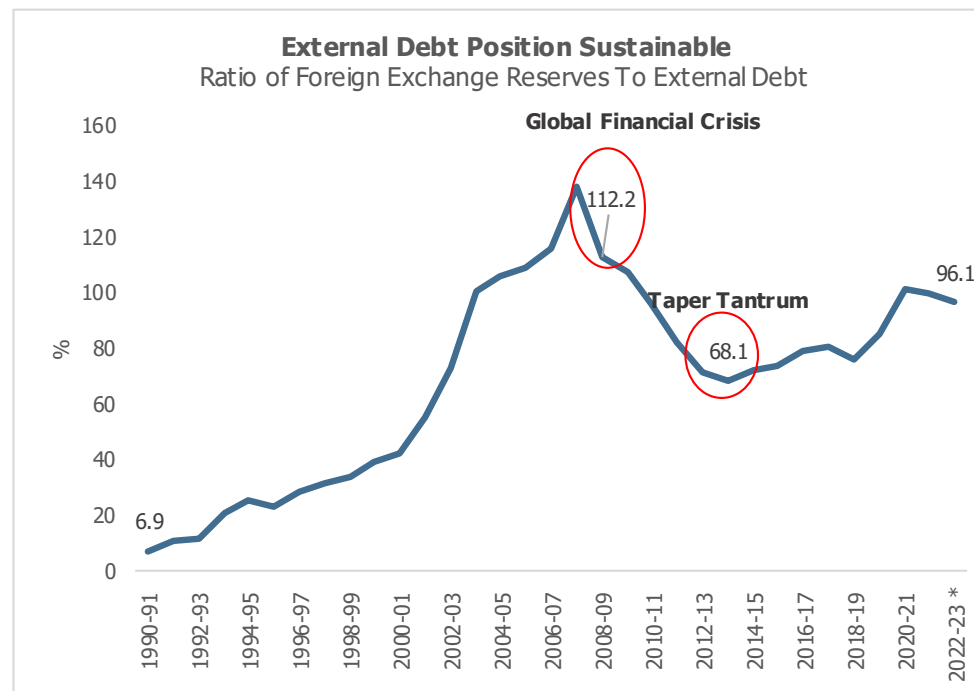
Source: CEIC; Note: Figures in bracket represent % share in total for April-October period of FY23

- Non-oil export growth recorded the steepest contraction since May 2020 reflective of weakness in global demand.
- Contraction in exports in October 2022 was mostly broad-based with de-growth recorded in 24 of the 30 major export items.
- Non-oil import growth recorded the first contraction in the last two years.
- While lower imports could be attributed to easing global commodity prices, they will have to be closely watched for signs of softening domestic demand.
- Overall merchandise trade balance remained elevated above USD 25 billion for the fourth straight month, higher than the monthly average deficit of USD 16 billion last year.

Forex Reserves Up Slightly; External Debt Position Sustainable



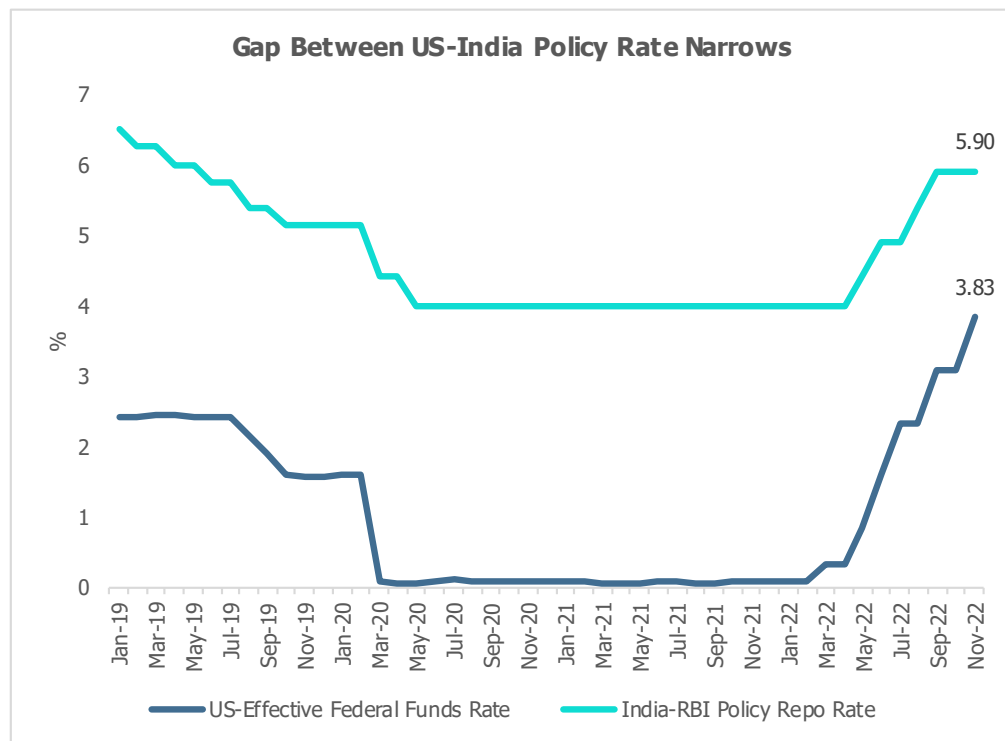
Source: CEIC & CareEdge



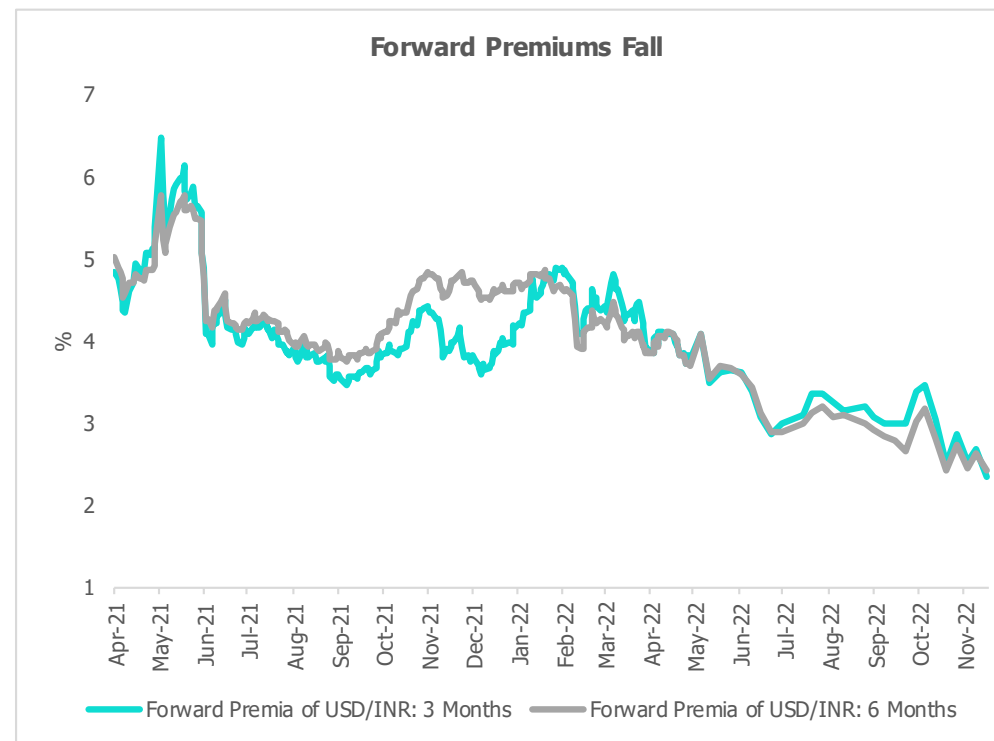
Source: CMIE & CareEdge; *Data till Q1: 2022-23

- Forex reserves rose for two successive weeks by USD 17.3 billion to USD 547 billion, the highest level in the last ten weeks.
- Import cover improved slightly to 9.1 months in November 2022 from 8.9 months (7.5 year low) in the last month.
- As at the end of Q1 FY23, India's external debt stood at USD 617 billion with the buffer of foreign currency reserves at 96.1% of external debt.

Narrowing US-India Interest Rate Gap Drives Down Forward Premiums



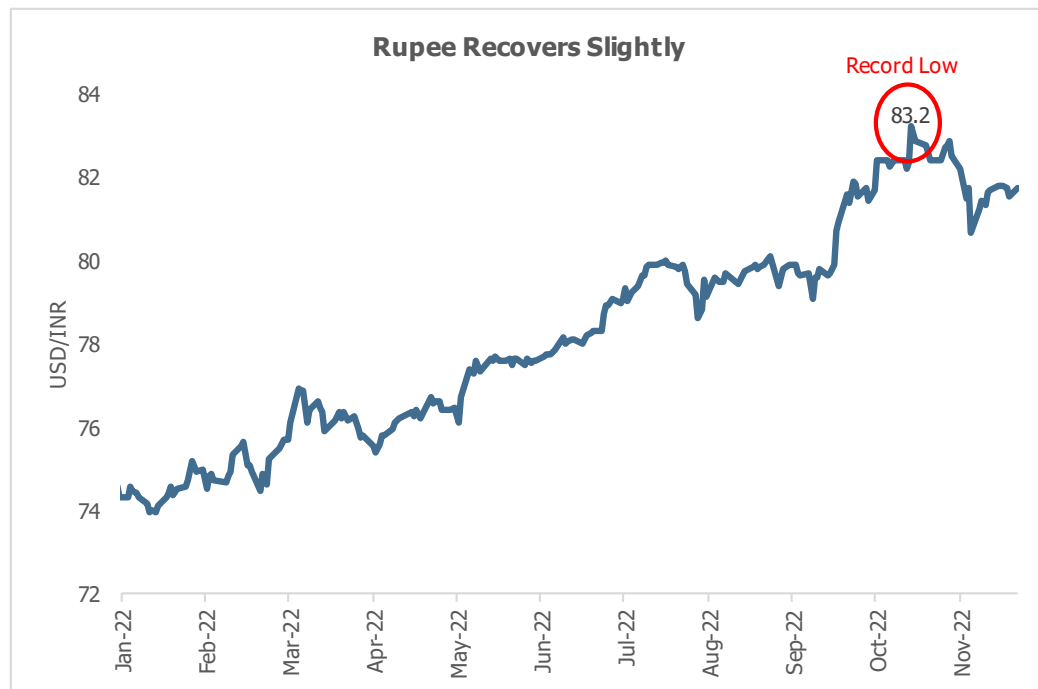
Source: CEIC



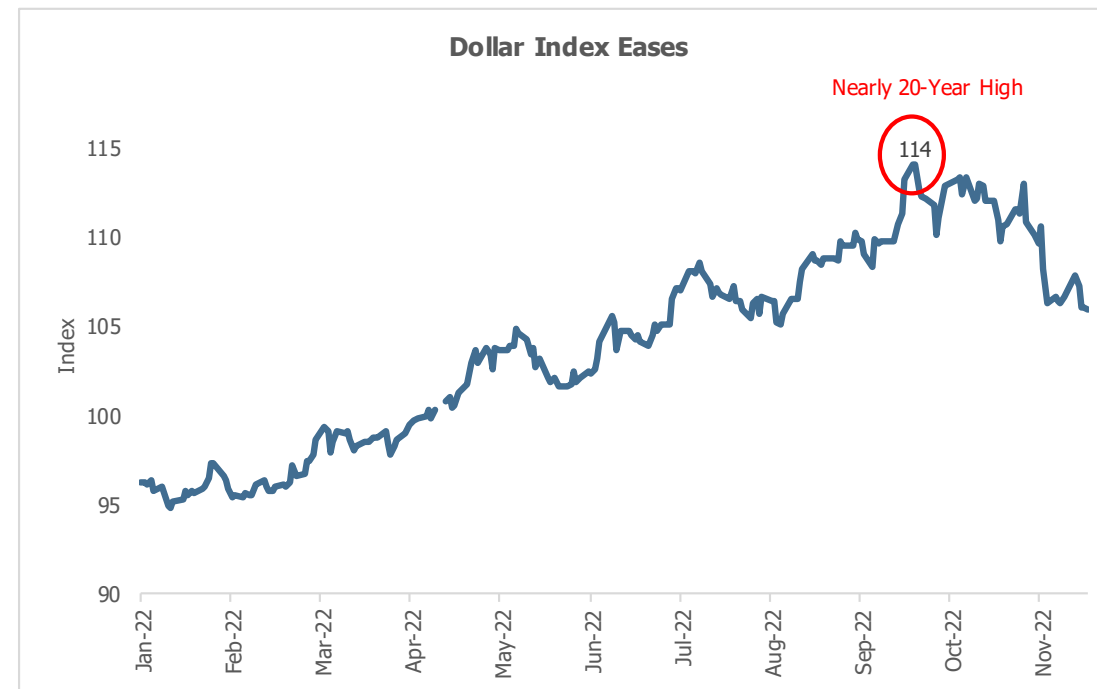
Source: CEIC

- US Fed hiked the policy rate by a cumulative 375 basis points (bps) since the beginning of 2022 while the RBI hiked the repo rate by a cumulative of 190 bps.
- In the same period, the US Dollar Index appreciated by nearly 11% resulting in weakening pressure on most major and emerging market currencies.
- Narrowing of the US-India policy rate differential has pushed the 6-month Dollar-Rupee forward premium below 2.5%.

Rupee Recovers Slightly as Dollar Index Eases



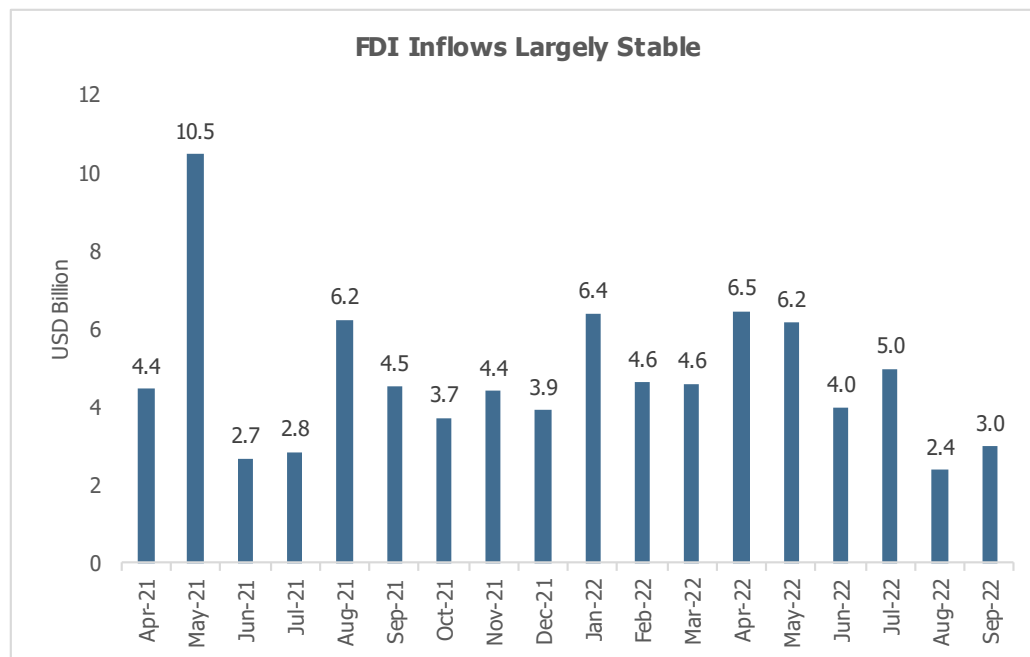
Source: CEIC



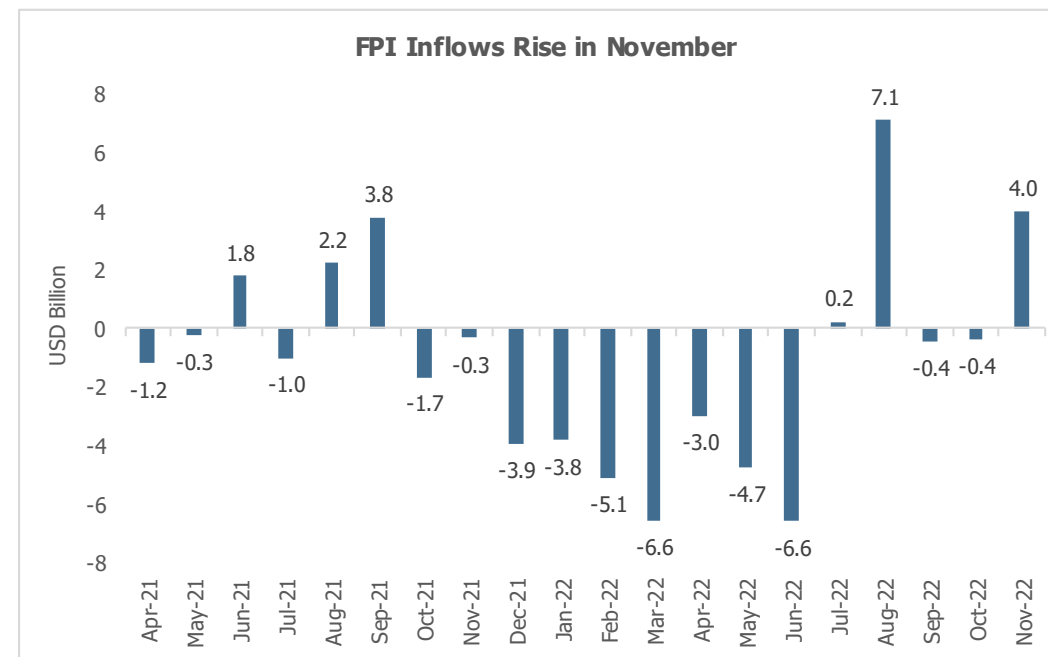
Source: CEIC

- With markets expecting slower rate hikes by US Fed, the US Dollar index has eased by 7% from its 20-year high of end-September.
- Rupee has regained some strength moving back into the narrow range of 81-82 in the second half of November.

FDI Largely Stable; FPIs Turn Positive



Source: CEIC



Source: CEIC; Note: Data up to November 29, 2022

- India's Foreign Direct Investment (FDI) inflows in H1 FY23 dipped by 14% compared to a year ago level.
- Top three sectors in H1 FY23 attracting the highest FDI equity inflows were computer hardware and software sector (USD 6.3 billion) followed by the services sector (USD 4.2 billion) and trading (USD 3.3 billion).
- Foreign Portfolio Investors (FPIs) turned net buyers with inflows worth USD 4 billion in November after remaining net sellers in the last two months.



Economic Growth

GDP growth projected at
6.8-7% for FY23



Inflation

Average inflation
projection for FY23 at
6.8%



Current Account Deficit

CAD to widen to **3.6%** of
GDP in FY23



Fiscal Deficit

Fiscal deficit projected at
6.5% of GDP in FY23



Interest Rates

RBI to hike the repo
rate by **35 bps**
in December meeting



Currency

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

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 | CIN: L67190MH1993PLC071691

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