February 2023

Macro Updates

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Monthly Report

February 2023

Annexure: Select Macro Economic and Sectoral Indicators																	
Indicators/Sectors		**FY21**	**FY22**	**Dec-21**	**Jan-22**	**Feb-22**	**Mar-22**	**Apr-22**	**May-22**	**Jun-22**	**Jul-22**	**Aug-22**	**Sep-22**	**Oct-22**	**Nov-22**	**Dec-22**	**Jan-23**
Economy				**FY22 Q3**	**FY22 Q4**			**FY23Q1**			**FY23Q2**						
GDP at 2011-12 Prices	Y-o-Y in %	**-6.6**	**8.7**	5.4	4.1			13.5			6.3			-	-	-	-
GVA at 2011-12 Prices	Y-o-Y in %	**-4.8**	**8.1**	4.7	3.9			12.7			5.6			-	-	-	-
Agriculture	Y-o-Y in %	**3.3**	**3.0**	2.5	4.1			4.5			4.6			-	-	-	-
Industry	Y-o-Y in %	**-3.3**	**10.3**	0.3	1.3			8.6			-0.8			-	-	-	-
Services	Y-o-Y in %	**-7.8**	**8.4**	8.1	5.5			17.6			9.3			-	-	-	-
Banking																	
Gross Bank Credit	Y-o-Y in %	**5.0**	**9.6**	8.2	7.1	8.1	8.6	10.1	11.1	12.1	13.4	14.4	15.3	16.7	16.0	14.9	16.3
Bank Credit to Industries	Y-o-Y in %	**0.4**	**7.1**	7.3	5.9	7.4	7.5	8.0	8.8	9.5	10.5	11.4	12.6	13.6	13.1	8.7	-
Deposit	Y-o-Y in %	**11.4**	**8.9**	9.6	9.3	9.1	8.9	9.8	9.3	9.3	8.4	8.8	9.5	9.6	8.2	9.4	10.5
Repo Rate@	in %	**4.0**	**4.0**	4.0	4.0	4.0	4.0	4.4	4.4	4.9	5.4	5.4	5.9	5.9	5.9	6.3	6.5
MCLR of SBI (1 year)	in %	**7.1**	**7.0**	7.0	7.0	7.0	7.0	7.1	7.2	7.4	7.5	7.7	7.7	8.0	8.1	8.3	8.4
Industry																	
Composite PMI	Index	**44.7**	**53.5**	56.4	53.0	53.5	54.3	57.6	58.3	58.2	56.6	58.2	55.1	55.5	56.7	59.4	57.5
Services PMI	Index	**41.7**	**52.3**	55.5	51.5	51.8	53.6	57.9	58.9	59.2	55.5	57.2	54.3	55.1	56.4	58.5	57.2
Manufacturing PMI	Index	**50.2**	**54.0**	55.5	54.0	54.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4
IIP	Y-o-Y in %	**-8.4**	**11.4**	1.0	2.0	1.2	2.2	6.7	19.7	12.6	2.2	-0.7	3.3	-4.2	7.3	4.3	-
Mining	Y-o-Y in %	**-7.8**	**12.2**	2.6	3.0	4.6	3.9	8.4	11.2	7.8	-3.3	-3.9	5.2	2.5	9.7	9.8	-
Manufacturing	Y-o-Y in %	**-9.6**	**11.8**	0.6	1.9	0.2	1.4	5.6	20.7	12.9	3.1	-0.5	2.0	-5.9	6.4	2.6	-
Electricity	Y-o-Y in %	**-0.5**	**7.9**	2.8	0.9	4.5	6.1	11.8	23.5	16.4	2.3	1.4	11.6	1.2	12.7	10.4	-
Primary goods	Y-o-Y in %	**-7.0**	**9.7**	2.8	1.6	4.6	5.7	10.3	17.8	13.8	2.5	1.7	9.5	2.0	4.8	8.3	-
Capital goods	Y-o-Y in %	**-18.6**	**16.9**	-3.0	1.8	1.3	2.4	12.0	53.3	28.6	5.1	4.3	11.4	-1.7	21.6	7.6	-
Intermediate goods	Y-o-Y in %	**-9.4**	**15.4**	1.0	2.5	4.1	1.8	7.1	17.5	10.5	3.7	1.3	1.7	-2.6	3.3	-0.3	-
Infrastructure/ construction goods	Y-o-Y in %	**-8.7**	**18.8**	2.0	5.9	8.6	6.7	4.0	18.4	9.4	4.8	3.0	8.2	1.1	13.2	8.2	-
Consumer durables	Y-o-Y in %	**-15.0**	**12.5**	-1.9	-4.4	-9.7	-3.1	7.2	59.1	25.2	2.3	-4.4	-5.5	-17.8	5.3	-10.4	-
Consumer non-durables	Y-o-Y in %	**-2.2**	**3.2**	0.3	3.1	-6.8	-4.4	-0.8	1.4	2.9	-2.9	-9.0	-5.7	-13.4	9.1	7.2	-
Eight Core Industries	Y-o-Y in %	**-6.4**	**10.4**	4.1	4.0	5.9	4.8	9.5	19.3	13.1	4.8	4.2	8.3	0.9	5.7	7.4	-
External Sector																	
Exports	USD Bn	**291**	**418**	39.3	35.2	37.2	44.6	39.7	39.1	42.4	36.3	37.0	35.4	31.6	34.9	38.1	32.9
Imports	USD Bn	**394**	**610**	60.3	52.6	55.9	63.1	60.3	63.3	66.6	66.3	61.7	64.7	59.0	58.2	60.2	50.7
Exchange Rate *	INR/USD	**74.2**	**74.5**	75.4	74.4	75.0	76.3	76.1	77.3	78.1	79.6	79.6	80.2	82.3	81.8	82.5	81.9
Crude Oil *	USD/barrel	**44.6**	78.3	73.3	84.7	94.1	112.9	103.0	109.5	116.0	105.5	97.4	90.7	91.7	87.6	78.1	80.9
Forex Reserves @	USD Bn	**579**	**618**	634	630	632	607	597	603	589	574	561	533	531	561	563	577
Import Cover	in months	**17.9**	**12.4**	10.7	12.0	11.3	9.6	9.9	9.5	8.8	8.7	9.1	8.2	9.0	9.6	9.4	11.4
Net FPI Flows	USD Bn	**36.2**	**-19.4**	-3.9	-3.8	-5.1	-6.6	-3.0	-4.7	-6.6	0.2	7.1	-0.4	-0.4	4.1	1.1	-3.2
Inflation																	
CPI	Y-o-Y in %	**6.2**	**5.5**	5.7	6.0	6.1	7.0	7.8	7.0	7.0	6.7	7.0	7.4	6.8	5.9	5.7	6.5
Food	Y-o-Y in %	**7.7**	**3.8**	4.1	5.4	5.9	7.7	8.3	8.0	7.8	6.7	7.6	8.6	7.0	4.7	4.2	5.9
Core	Y-o-Y in %	**5.5**	**6.0**	6.0	6.0	6.0	6.3	7.0	6.1	6.0	5.8	5.8	6.1	6.0	6.0	6.1	6.1
WPI	Y-o-Y in %	**1.2**	**13.0**	14.3	13.7	13.4	14.6	15.4	16.6	16.2	14.1	12.5	10.6	8.7	6.1	5.0	4.7
Food	Y-o-Y in %	**3.9**	**6.7**	9.4	9.6	8.7	9.3	9.1	10.6	11.8	9.3	10.1	8.0	6.6	2.5	0.7	2.9
Manufactured Products	Y-o-Y in %	**2.7**	**11.1**	10.7	9.5	10.2	11.3	11.4	10.3	9.3	8.2	7.5	6.8	4.6	3.3	3.2	2.8

Notes: Data is provisional, The colour shade is **Green to Yellow to Red** with the best score getting the green colour and the worst score getting the red colour. The growth rates in 2022 over corresponding period of previous year are to be interpreted considering the unusual circumstances on account of COVID 19 pandemic since March 2020. '*Average, @ at the end of the period,
Source: MOSPI, RBI, eaindustry.nic.in, S&P Global, CMIE, FIMMDA, NSDL, PPAC, PIB press releases, B2K Research.

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Fiscal Policy Stance is Clearer: On to the Monetary Policy

By Dr M. Govinda Rao, Chief Economist, B2K Analytics

There were considerable apprehensions about how the Finance Minister would balance the fiscal consolidation objective with the objective of reviving growth by increasing infrastructure spending. The budget proposes to compress the fiscal deficit by half a percentage point to GDP to 5.9% while increasing the capital expenditure from 2.7% of GDP to 3.3%. In nominal terms, this is 37% higher than the revised estimate of the previous year and comes on the back of 23% higher outlay than the revised estimate of the previous year and 39% increase in the year before. In many ways, it is an ambitious budget and is crafted at a time when the global economic environment is challenging and domestically the engines of growth except private consumption were stuttering.

Although the fiscal deficit projections show the reduction by 0.5%, the next two years are going to be challenging. Reducing the fiscal deficit to 4.5% by 2025-26 requires compression of deficit by 1.4 percentage points in the next two years. This is the last full year budget before elections and as there will be general elections next year, feasibility of large compression of fiscal deficit next year is questionable. Given that interest payments at the central level constitute 40% of the revenue receipts, further addition to the debt will only add to the problem and in some ways, it would have been better to front load fiscal adjustment.

The global economic environment poses serious uncertainties. The IMF, in its latest revision, has estimated global GDP growth at 2.9% as against 3.2% in the previous year and 6.1%, the year before. More than a third of the economies are facing recessionary conditions. The excess liquidity released during the pandemic and the sharp increase in food and energy prices due to the Russia-Ukraine war and the sanctions have not only resulted in both inflationary conditions but also supply chain disruptions causing significant economic slowdowns in most parts of the world. Besides, there has been a secular decline in saving and investment rates in India and most projections show the economy decelerating from 7% growth this year to 6-6.5% in the next with an upward bias. The slowing world economy does not leave much scope for reviving exports and the only way the growth can be maintained and accelerated is by increasing public investment. Considering the fact infrastructure spending has a crowding-in effect, the sharp increase in capital expenditure could help to revive private investment as well.

Of course, the actual increase in public investment will depend upon how well the budget is implemented. The increase in capital expenditures was done mainly by compressing revenue expenditures and the budgeted revenue expenditure in nominal terms is just 1.2% higher than the revised estimate of the previous year. While interest payment itself takes claims 40% of revenues, there is very little scope for compressing revenue expenditures. Much of the compression has come from reducing food subsidies, the fertilizer subsidy, and reduced allocations to the MGNREGA. The food subsidy has been cut by Rs 90,000 crore and mainly due to the discontinuation of foodgrain distribution under PMGKAY. The fertilizer subsidy was reduced by Rs 50,000 crore due to lower prices. MGNREGA funds allocation has been reduced by Rs 29,000 crore (from Rs 89,400 crore in 2022-23 RE to Rs 60,000 crore in 2023-24 BE).

There are a number of other budget announcements which basically are intended to appeal to virtually every section of population. The seven focus areas stated in the budget are intended to appease across a wide section of people and most of them are in the State or concurrent list. The direct tax policy announcement is mainly aimed nudging the taxpayers to opt for the new tax regime. Of course, a tax policy without tax preferences is simple and desirable but providing options will add to the confusion.

After the budget, the focus was shifted to the monetary policy stance. In line with the market opinions, the monetary policy committee increased the repo rate by 25 basis points. But the MPC continued with the accommodating stance. With the inflation rate crossing again the upper target of 6% in January 2023, and the core inflation continues to be sticky, there is little room left for any easing in the near term. Besides, the better employment data in the US and the possibility of a further increase in the rate by the Fed could lead to the outflow of FII widening the current account and exchange rate depreciation putting pressure on prices. Therefore, the dilemma of supporting growth on the one hand and controlling inflation on the other will continue for some more time.

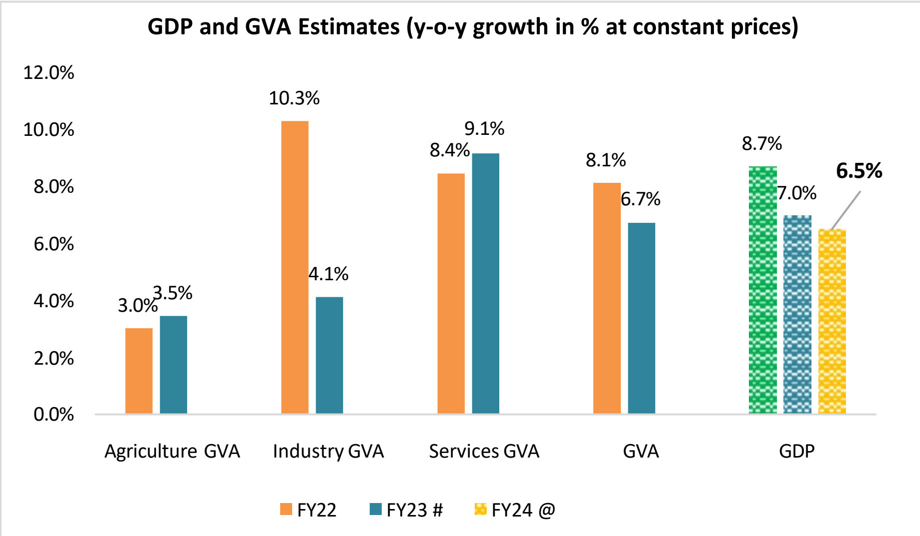
B2K Views

The domestic growth estimates for FY24 provided by Economic Survey looks optimistic considering the global economic slowdown, coupled with the tightening of financial conditions worldwide amid continued inflationary pressures. Further, more than a third of the global economies are facing recessionary conditions. Besides, there has been a consistent decline in saving and investment rates in India and IMF projections show the economy decelerating from 6.8% growth this year to 6.1% in the next, but with an upward bias.

Despite global headwinds, the domestic growth outlook looks strong with resilient domestic demand. In addition, the increased focus on infrastructure spending in the latest Union Budget provides for crowding-in effect, and the sharp increase in capital expenditure could help revive private investment as well.

Economic Survey projects FY24 GDP growth at 6.5%

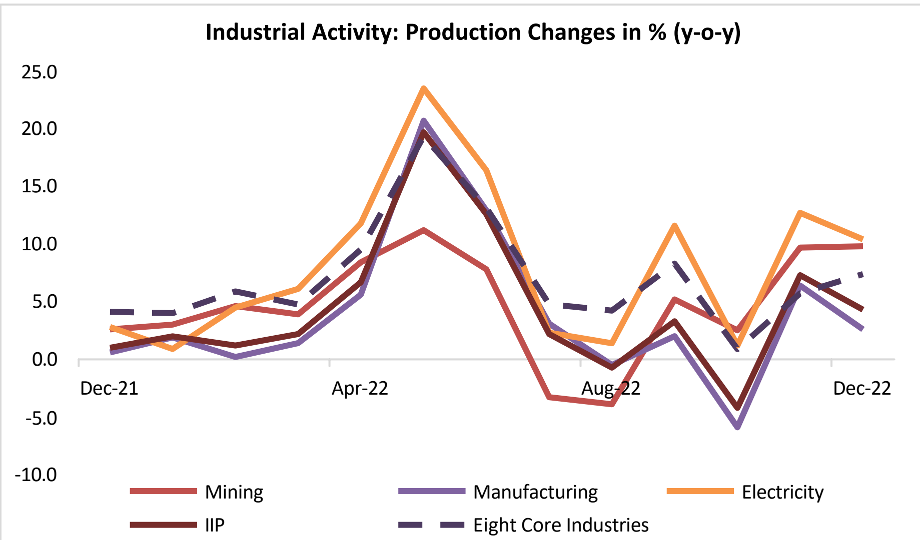
As per Economic Survey 2022-23, the real GDP is estimated to grow at 6.5% on year-on-year (y-o-y) basis in FY24 as compared to RBI's projections of 6.5%. Despite global headwinds, the domestic growth outlook remains strong, albeit lower than the 7% growth for FY23 estimated by MOSPI.



Note: Data is provisional. # First Advance Estimate, @Economic Survey 2022-23
Source: Ministry of Statistics and Programme Implementation (MOSPI), B2K research

Domestic high frequency indicators suggest continued economic momentum

After slipping to 26-months low to -4.2% in October, the growth in IIP bounced back to 7.1% in November (y-o-y). Eight core sectors reported 7.4% growth in December which suggests a better IIP growth numbers in the coming months. The tempo in manufacturing and services PMI continued and manufacturing PMI remained in expansion mode for the 19th straight month in January 2023, while services PMI too expanded for the 18th month in a row.



Source: eaindustry.nic.in, www.mospi.gov.in, B2K Research

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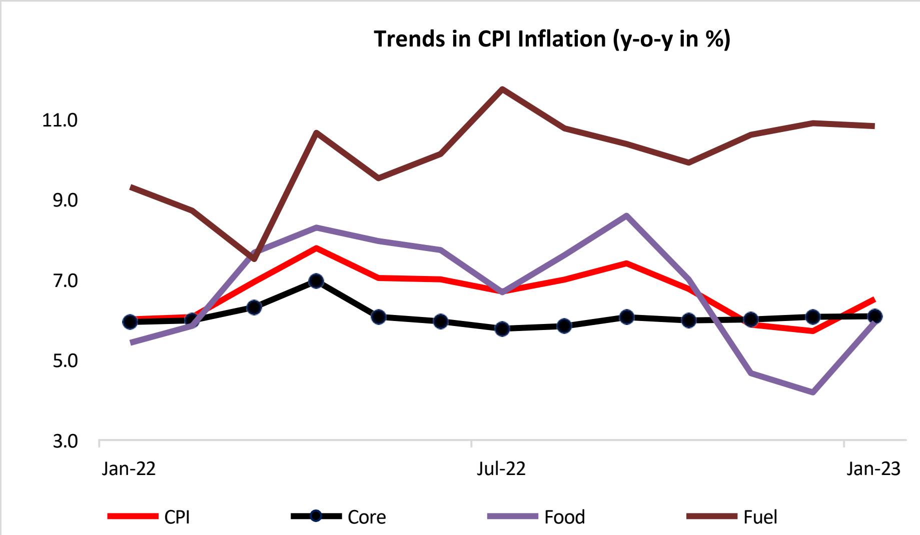
CPI Inflation rises above 6% in January

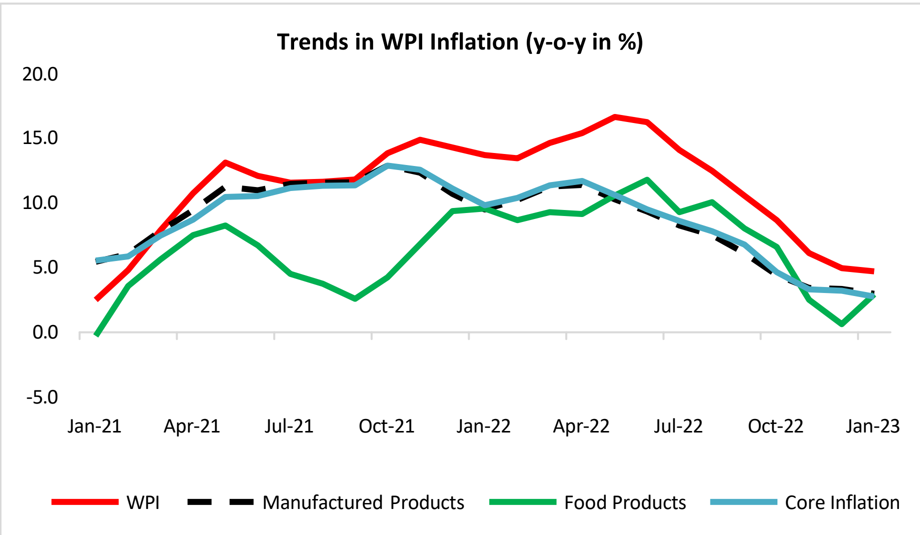
CPI inflation soared to 6.5% in January after easing below the 6% levels in December and November. Food inflation increased sharply in January due to sharp spike in cereals and spices. Core inflation continued to remain sticky and inched up to 6.1%. This poses a major setback for the MPC to pause the rate hiking cycle beginning FY24.



Note: Core inflation excluding food and fuel group
Source: MOSPI, B2K Research

Easing WPI inflation provides comfort on the price front

WPI inflation eased to 23-months low to 4.73% in January from 4.95% in December, due to sharp softening in manufacturing and fuel prices. However, food inflation increased on a sequential basis, due to rise in cereals and fruits. Unlike in CPI, core inflation in the WPI basket, eased notably, following the easing global commodity prices and normalisation of supply chain issues.



Source: eaindustry.nic.in, B2K Research

B2K Views

The excess liquidity released during the pandemic and the sharp increase in food and energy prices following the Russia-Ukraine war, and the sanctions have resulted in inflationary conditions since the beginning of 2022. Recent moderation in global commodity prices, particularly crude oil prices helped the inflation to ease more than expected in the last two months of 2022. However, once again in January 2023, the CPI inflation breached the RBI's upper tolerance level of 6% with sharp uptick in cereal prices. In the recent MPC, the RBI revised the inflation outlook for FY23 downwards to 6.5% from 6.7%, and 5.3% for FY24. However, these estimates are largely based on the assumption of a normal monsoon and average crude oil price (Indian basket) at ~USD95 per barrel.

The RBI has already raised the key policy rates by 250 bps so far, although at a slower pace at 25 bps in its February meeting. The sticky core inflation and rising food price inflation minimises the scope for any policy easing or a pause in the April meeting.

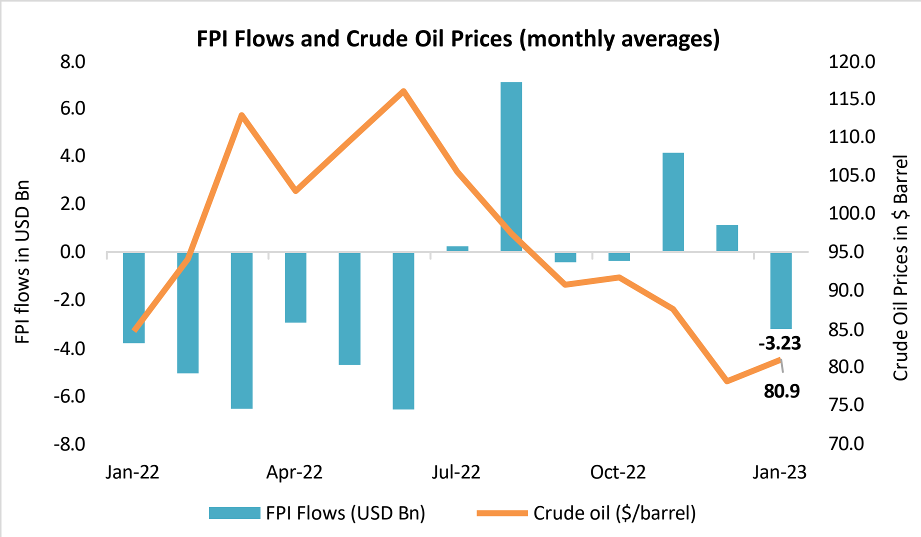
B2K Views

WPI inflation has eased by a sizeable 140 bps cumulatively over the last two months. Although the RBI's MPC keeps a close watch on CPI inflation and is mandated to contain the CPI inflation within the band of 2 to 6%, easing WPI inflation is comforting, as the latter seeps into the former in a two to three months lag.

External Sector Developments

Renewed global demand drives crude oil prices higher

The crude oil prices (Indian basket) averaged USD80.9 per barrel (/b) in January, about USD2.8 /b higher than the average in December 2022. The slight increase in oil prices is partly because of the expectation of rising demand following the relaxing COVID-19 restrictions and increasing mobility in China. Improving global macroeconomic conditions and expectations of a less severe recession also contributed to the rise in prices.



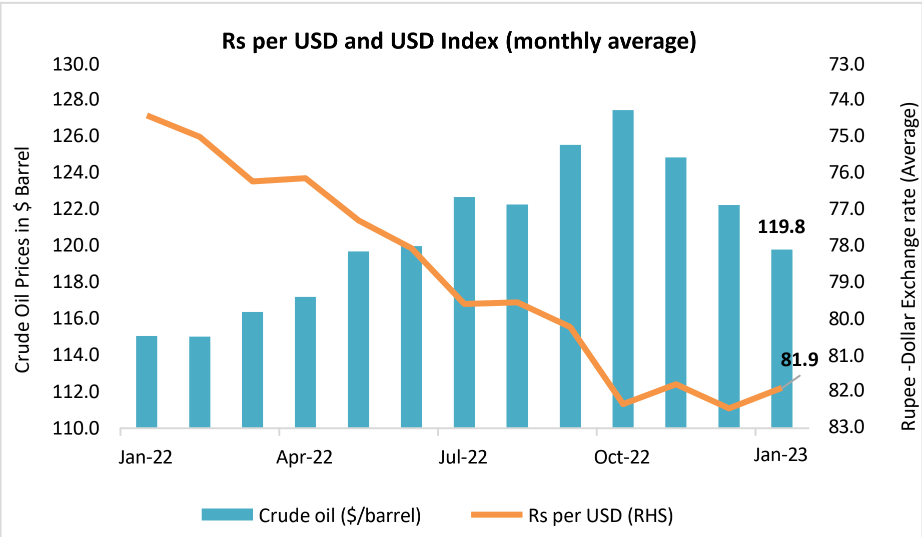
Source: www.ppac.gov.in, NSDL, B2K Research

B2K Views

After major economies imposed a price cap on oil products, Russia decided to reduce crude oil production by 5,00,000 barrels per day from March 2023. This decision may influence the global crude oil prices. In October 2022, OPEC+ also agreed to cut output by about 2% of world demand till end of 2023. Considering the slight improvement in global economy and demand, in addition to production cuts, we expect the crude oil prices to move in the range of USD80-85 per barrel in the near term.

Rupee to remain volatile in the near-term

Despite FPI outflows worth USD3.2 bn and a moderate increase in crude oil prices in January, the Indian rupee appreciated by 60 paise against USD in January over December, due to sharp fall in US dollar index.



Source: RBI, Federal Reserve Economic Data, B2K Research

B2K Views

The likelihood of US Fed retracting from its aggressive rate hike policy amid weaker set of economic numbers and moderating inflation, the US dollar weakened against a basket of major other currencies. On the domestic front, FPIs withdrew USD3.2 bn in January, following adverse domestic equity market developments and rising interest rate concerns. Reversal in portfolio inflows could pose pressure on rupee, in addition to rising crude oil prices.

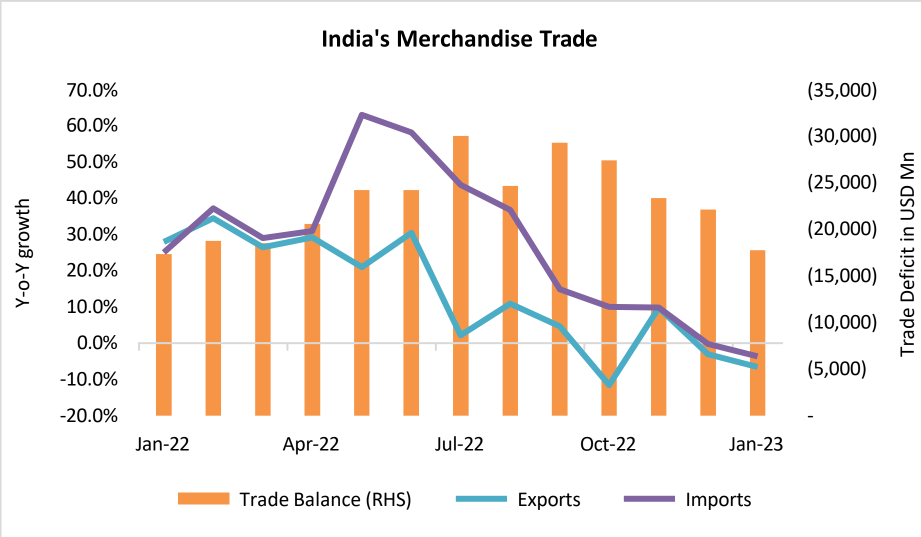
Merchandise Trade; Trade deficit at 12-months low

B2K Views

India's merchandise trade deficit narrowed to USD 17.8 bn in January 2023, close to January 2022 levels. This is predominantly due to moderation in international commodity prices leading to fall in imports value.

Geopolitical tensions continued to keep the external sector under stress, while recessionary expectations in the advanced economies already dampened demand for domestic exports. The slowing world economy does not leave much scope for reviving exports. While the signs of softening global commodity prices may bring some respite on import bills.

In dollar terms, growth in merchandise imports and exports both decreased by -02% and -3.1% in December y-o-y, respectively. During April to December FY23, exports improved by 9.6%, while imports risen by 26.9% over the corresponding period last year. Rapid tightening of global financial conditions and heightened geopolitical uncertainty weigh on India's exports, while drastic increase in global commodity prices made the imports costlier.



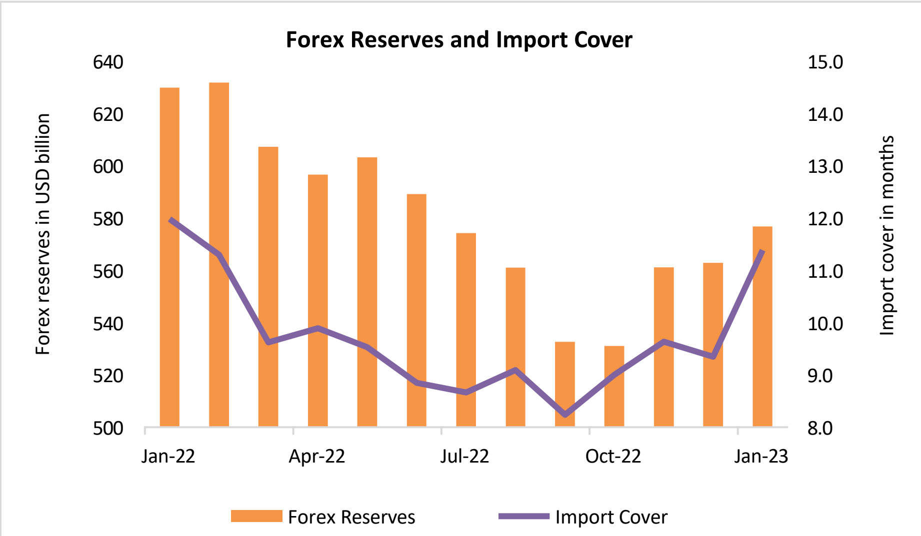
Source: Ministry of Commerce and Industry, B2K Research

Moderate increase in forex reserves

B2K Views

In 2022, India's foreign exchange reserves depleted by USD70 bn, as the depreciation of the rupee led to valuation loss. In addition, RBI frequently intervened to curb volatility in the exchange rate. While the recent cooling of US dollar helped the rise in forex reserves. Revaluation of reserves held in other major global currencies likely to help improve forex reserves in the coming months.

Forex reserves reached to July 2022 levels to USD 577 bn in January 2023, accounting for ~11.4 months of imports. Despite FPIs being net sellers in the Indian markets in January 2023, forex reserves increased by USD14 bn in a month due to fall in US dollar leading to valuation gains. All the four components of the reserves increased during the month. The share of gold reserves also rose to 7.6% in January 2023 compared to 7.3% a month ago.



Source: Ministry of Commerce, RBI, B2K Research

B2K Views

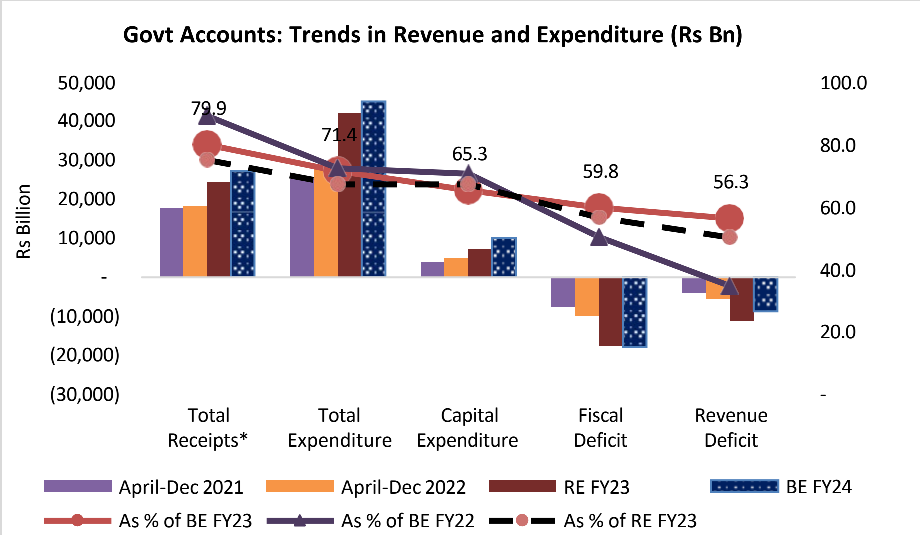
In the Union Budget 2023-24, the government has revised the revenue and expenditure targets upwards, as the overall tax revenue collection remained healthy so far, in spite of the cuts in excise and customs duties on petroleum products and edible oil to rein in the prices.

The budget proposes to compress the fiscal deficit by half a percentage point to GDP to 5.9% while increasing the capital expenditure from 2.7% of GDP to 3.3%. Reducing the fiscal deficit to 4.5% by 2025-26 requires compression of deficit by 1.4 percentage points in the next two years.

Government Finances

FY23 fiscal deficit reaches close to 56.6% of the revised budget estimates

Provisional data released by the CGA for April-December 2022 shows that the central government has spent 71.4% of the Budget Expenditure for FY23 with spending through capital expenditure reaching 65.3% of the Budget Estimates (BE).



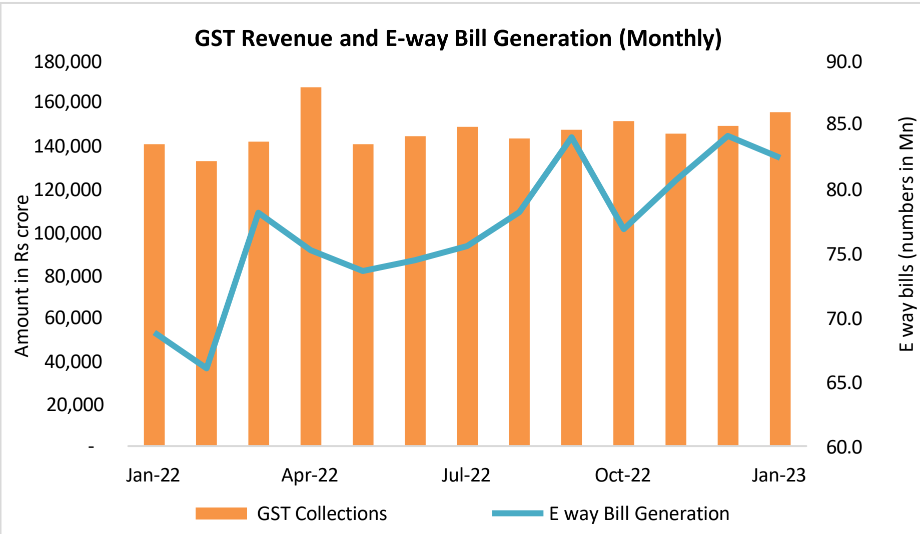
Note: Data is provisional, * Excluding government borrowing.
Source: Controller General of Accounts (CGA), B2K Research

GST collection remained buoyant; second highest so far

There has been a steady increase in the revenue collections in 2022, and the trend continued in January 2023 as well, with GST collections breaching earlier 2nd highest record. Total GST collection in January 2023 rose by 11% over the January 2022. For the third time in FY23 so far, GST collection has crossed Rs 1.50 lakh crore mark.

B2K Views

Due to improved tax compliance on account of various policy changes introduced during the course of the year GST collection improved since 2022 indicating the stabilisation of the technology platform. Better tax administration by both the central and state tax authorities, coupled with a more stable technology platform in place, GST collections may continue to be higher in the coming months. The pace of growth in E-way bill generation also indicates further increase in GST collections in the next month as well.



Source: PIB press releases, GSTN, B2K Research

B2K Views

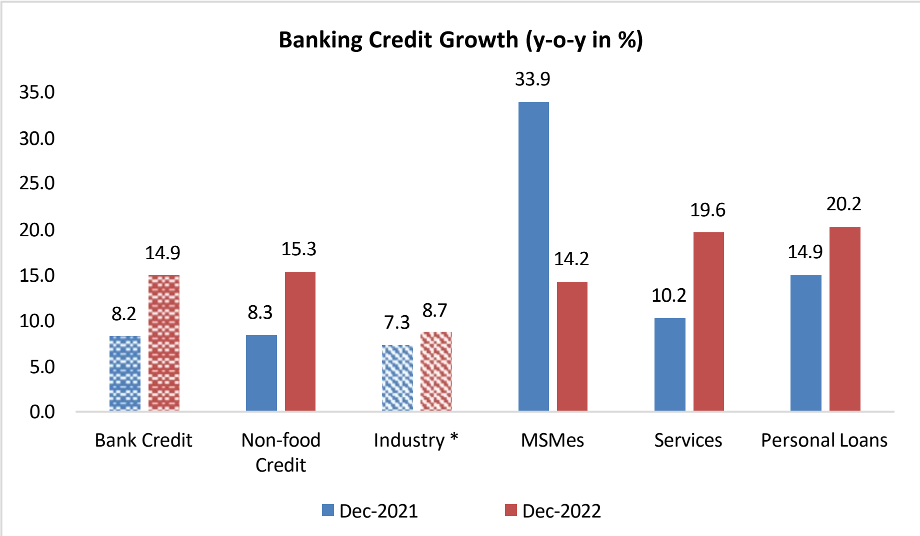
The outlook for the banking industry appears to be brighter for FY23. According to the December 2022 Financial Stability Report of RBI, the Gross Non-Performing Asset (GNPA) ratio of SCBs fell to a seven-year low of 5.0% and net NPAs have dropped to ten-year low of 1.3% in September 2022. In addition, the approval of a Rs 15,300-crore blanket guarantee for National Asset Reconstruction Co (NARCL) by the Central government gives banks the option to fall back on an instrument in case recovery is not as expected. This would clear the roadblocks for the transfer of doubtful advances to the state-sponsored bad bank. A good amount of clean up through sale of NPAs to NARCL is expected to help banks contain gross NPAs at below 5% in March 2023 as against 5.9% in March 2022.

B2K believes that the asset quality shall continue to improve in FY23 with the continuous improvement in loan growth and economic recovery.

Broad based credit growth reflects steady economic activity

Bank lending has been growing at double-digit rates in since April 2022. Fiscal year so far (April to January 2023), bank credit grew by 12.2% and on a y-o-y basis the growth continues to remain in double-digits and grew by 16.3%.

Overall credit to industries including large industries improved in December 2022. Services sector and Micro and Small, Medium (MSMe) industries reported the maximum jump in outstanding credit in December 2022 (y-o-y). Increased credit flows in the personal loans segment is largely driven by 'the housing' and 'vehicle loans' segments, while services is led by NBFCs segment. The build-up of concentration in retail loans may become a source of systemic risk, while improving credit offtake to MSMes reflect recovery in the sector.



Source: RBI, B2K Research