January 2023

Macro Updates

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The State of the Indian Economy

January 2023

Select Macro Economic Indicators																	
Indicators/Sectors		**FY21**	**FY22**	**Nov-21**	**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**
Economy				**FY22 Q3**		**FY22 Q4**			**FY23Q1**			**FY23Q2***					
GDP at 2011-12 Prices	Y-o-Y in %	-6.60	8.68	5.40		4.09			13.51			6.34			-	-	-
GVA at 2011-12 Prices	Y-o-Y in %	-4.80	8.11	4.71		3.89			12.75			5.61			-	-	-
Agriculture	Y-o-Y in %	3.32	3.01	2.54		4.13			4.46			4.56			-	-	-
Industry	Y-o-Y in %	-3.26	10.27	0.35		1.25			8.56			-0.81			-	-	-
Services	Y-o-Y in %	-7.82	8.44	8.10		5.49			17.65			9.29			-	-	-
Banking																	
Gross Bank Credit	Y-o-Y in %	5.00	9.60	7.00	9.20	8.20	7.90	9.60	11.10	12.10	13.20	14.50	15.50	16.44	17.89	17.17	17.40
Bank Credit to Industries	Y-o-Y in %	0.40	7.10	3.80	7.60	6.40	6.50	7.10	8.10	8.70	9.50	10.50	11.40	12.56	13.57	13.07	-
Deposit	Y-o-Y in %	11.40	8.90	9.80	9.60	9.30	9.10	8.90	9.80	9.30	9.30	8.40	8.80	9.50	9.60	8.20	9.40
Repo Rate	in %	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.40	4.40	4.90	5.40	5.40	5.90	5.90	5.90	6.25
MCLR of SBI (1 year)	in %	3.20	3.24	3.17	3.30	3.50	3.27	3.27	3.64	4.11	4.67	5.16	5.13	5.12	5.99	5.91	
Industry																	
Composite PMI	Index	44.70	53.47	59.20	56.40	53.00	53.50	54.30	57.60	58.30	58.20	56.60	58.20	55.10	55.50	56.70	59.40
Services PMI	Index	41.69	52.32	58.10	55.50	51.50	51.80	53.60	57.90	58.90	59.20	55.50	57.20	54.30	55.10	56.40	58.50
Manufacturing PMI	Index	50.20	53.97	57.60	55.50	54.00	54.90	54.00	54.70	54.60	53.90	56.40	56.20	55.10	55.30	55.70	57.80
IIP	Y-o-Y in %	-8.40	11.40	1.00	1.00	2.00	1.20	2.20	6.70	19.70	12.60	2.20	-0.70	3.50	-4.20	7.10	-
Mining	Y-o-Y in %	-7.80	12.20	4.90	2.60	3.00	4.60	3.90	8.40	11.20	7.80	-3.30	-3.90	5.20	2.50	9.70	-
Manufacturing	Y-o-Y in %	-9.60	11.80	0.30	0.60	1.90	0.20	1.40	5.60	20.70	12.90	3.10	-0.50	2.20	-5.90	6.10	-
Electricity	Y-o-Y in %	-0.50	7.90	2.10	2.80	0.90	4.50	6.10	11.80	23.50	16.40	2.30	1.40	11.60	1.20	12.70	-
Primary goods	Y-o-Y in %	-7.00	9.70	3.50	2.80	1.60	4.60	5.70	10.30	17.80	13.80	2.50	1.70	9.50	2.00	4.70	-
Capital goods	Y-o-Y in %	-18.60	16.90	-2.60	-3.00	1.80	1.30	2.40	12.00	53.30	28.60	5.10	4.30	11.40	-1.70	20.70	-
Intermediate goods	Y-o-Y in %	-9.40	15.40	2.10	1.00	2.50	4.10	1.80	7.10	17.50	10.50	3.70	1.30	1.70	-2.60	3.00	-
Infrastructure/ construction goods	Y-o-Y in %	-8.70	18.80	3.10	2.00	5.90	8.60	6.70	4.00	18.40	9.40	4.80	3.00	7.70	1.10	12.80	-
Consumer durables	Y-o-Y in %	-15.00	12.50	-5.70	-1.90	-4.40	-9.70	-3.10	7.20	59.10	25.20	2.30	-4.40	-3.20	-17.80	5.10	-
Consumer non-durables	Y-o-Y in %	-2.20	3.20	-0.80	0.30	3.10	-6.80	-4.40	-0.80	1.40	2.90	-2.90	-9.00	-6.30	-13.40	8.90	-
Eight Core Industries	Y-o-Y in %	-6.39	10.41	3.20	4.10	4.00	5.90	4.80	9.50	19.34	13.13	4.77	4.21	7.85	0.88	5.40	-
External Sector																	
Exports	USD Bn	291.18	417.81	30.04	37.81	34.50	33.81	40.38	38.19	37.29	37.94	35.24	33.00	35.45	29.78	31.99	-
Imports	USD Bn	394.44	610.22	52.95	59.49	51.93	55.01	59.07	58.26	60.62	63.58	66.26	61.68	61.16	56.69	55.88	-
Exchange Rate (Average)	INR/USD	74.20	74.50	74.50	75.37	74.44	75.03	76.29	76.12	77.32	78.07	79.60	79.56	80.23	82.34	81.80	82.46
Crude Oil (Average)	USD/barrel	44.60	78.29	80.64	73.30	84.67	94.07	112.87	102.97	109.51	116.01	105.49	97.40	90.71	91.70	87.55	78.10
Forex Reserves (As on date)	USD Bn	579.3	617.7	638.0	633.6	629.8	631.5	617.7	597.7	601.4	588.3	573.9	561.0	532.7	531.1	561.2	562.9
Import Cover	in months	17.90	12.40	12.00	10.69	12.11	11.48	10.28	10.26	9.92	9.25	8.66	9.10	8.71	9.37	10.04	-
Net FPI Flows	USD Bn	36.18	-19.40	-0.33	-3.94	-3.82	-5.07	-6.56	-2.96	-4.73	-6.59	0.24	7.11	-0.44	-0.38	4.14	1.12
Inflation																	
CPI	Y-o-Y in %	6.16	5.51	4.91	5.66	6.01	6.07	6.95	7.79	7.04	7.01	6.71	7.00	7.41	6.77	5.88	5.72
Food	Y-o-Y in %	7.70	3.76	1.87	4.05	5.43	5.85	7.68	8.31	7.97	7.75	6.69	7.62	8.60	7.01	4.67	4.19
Core	Y-o-Y in %	5.51	5.98	6.08	6.01	5.95	5.99	6.32	6.97	6.08	5.96	5.78	5.84	6.07	5.99	6.02	6.08
WPI	Y-o-Y in %	1.20	12.97	14.87	14.27	13.68	13.43	14.63	15.38	16.63	16.23	14.07	12.48	10.55	8.67	5.85	4.95
Food	Y-o-Y in %	3.91	6.73	6.83	9.37	9.55	8.67	9.29	9.13	10.58	11.78	9.28	10.06	8.02	6.60	2.17	0.65
Manufactured Products	Y-o-Y in %	2.70	11.06	12.34	10.71	9.50	10.24	11.26	11.39	10.27	9.35	8.24	7.51	6.12	4.42	3.59	3.37

Notes: The growth rates in 2021 and 2022 over corresponding period of previous year are to be interpreted considering the unusual circumstances on account of COVID 19 pandemic since March 2020.
Source: MOSPI, RBI, eaindustry.nic.in, S&P Global, CMIE, FIMMDA, NSDL, PPAC, PIB press releases, B2K Research.

Contacts

Ritaban Basu
Research Head

Anita Shetty
Team Lead - Research

Reach Us
research@b2kanalytics.com

The Inflation-Growth Dilemma: Walking the Tight Rope

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

B2K wishes all our readers a very Peaceful, Prosperous and Productive New Year!

This is budget time again and speculations are rife and expectations galore. Although the economy is in a recovery phase, the global headwinds of slowdown, inflation and recession, and continued risks of the virus in countries like China, pose serious policy challenges. In India, the government is faced with the dilemma of having to loosen the purse to fast-paced infrastructure spending to aid growth recovery while containing the fiscal deficit to return to the fiscal consolidation path. This is the last full year before the general elections to the Lok Sabha. Although as many as nine states will go for elections this year, they are unlikely to influence the budget process much.

The Finance Minister has the difficult task of preparing the budget at a time when both global and domestic economic environment is far from being congenial. According to the IMF, the world economy is projected to grow at just about 2.7% in 2023 as compared to 3.2% in 2022 and 6% in 2021. One third of the world and a half of Europe is expected to slip into recession and the US is at the cusp too. With major production centres in the grip of the pandemic in China, the country is also expected to face a phenomenal slowdown. The sharp rise in interest rates following raging inflation in most developed countries of the west has only added fuel to the fire.

India's growth performance in FY23, estimated at 7%, looks impressive as compared to other large countries, but this is mainly due to economic recovery from the low base in the first two quarters of FY22. The RBI projects that in the second half (H2) of FY23, the growth rate in GDP will be just about 4.3% and the next year's growth rate is pegged at 6%. The crucial element to accelerate growth is increase in investment, and the public sector will have to take a lead role in this in the prevailing circumstances. The indicators like PMI index for manufacturing at 57.8 in December was the highest in 26 months and services at 58.3 was a significant improvement over the previous month (56.4). Bank credit to commercial sectors have been impressive too. However, it is too early to characterise these as a trend.

Thus, growth acceleration will require significant increase in infrastructure spending by the government, but that will be constrained by the need to comply with the fiscal consolidation path. The Finance Minister in her 2021-22 budget Speech has committed that the fiscal deficit will be compressed to 4.5% of GDP by 2025-26. Assuming that the government will contain the deficit at the budgeted 6.4% in FY23, there will have to be a reduction of 1.9 percentage point in the next three years and quite a considerable part of that has to be done in the forthcoming budget as the compulsions of electoral politics could constrain much compression next year. To keep pace with the required compression, the budget would have to reduce the fiscal deficit to 5.8% in FY24.

The nominal estimate of GDP put out by the first advanced estimate, provides some cushion. The budget had assumed the nominal GDP of Rs. 258 trillion and the advance estimate puts it at Rs. 273.08 trillion. If the nominal value of the fiscal deficit is limited to the budget estimate of Rs. 16.6 trillion, the fiscal deficit will work out to 6.08%, as against the budgeted 6.4%. In other words, the new GDP estimate provides a cushion of Rs. 865 billion.

However, there have been overshooting of expenditures from the budgeted and that is estimated at Rs. 3.36 trillion. This includes increased allocation to food and fertilizer subsidies, additional dearness allowance payments and additional allocation to MGNREGA as the beneficiary numbers have swelled from 50 million before the pandemic to 70 million now.

Swelling of food subsidy was due to the additional allocation of foodgrains under Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) and increase in fertilizer subsidy was on account of inputs. However, increased tax collections over the budget estimate on account of higher buoyancy in both income taxes and GST should be enough to meet these additional expenditure requirements. Thus, there may not be much increase in the fiscal deficit in nominal terms and as a percentage of GDP, there could actually be a marginal decline.

The Finance Minister would be hoping that the buoyancy in tax revenue seen this year will continue into the next year and in addition, the government would garner more through monetisation of assets and disinvestment. GST, in particular, has shown higher revenue productivity and with better application of technology and administration, compliance should increase. With the crude oil hovering around USD80 per barrel, the fertilizer and transport bill too could settle at a lower level. Rationalization of subsidies is important, and this is the time to do that. The discontinuation of additional allocation of foodgrains under PMGKAY would save at least Rs.500 million. Introduction of Single National Agency in the administration of Centrally Sponsored Schemes (CSS) seem to have helped the government to effect significant volume of savings and the benefit of that will accrue in the coming years as well. There is a much larger issue of consolidation and design reform in the CSS, but it is unlikely to be initiated this year. With pick up in employment opportunities in urban areas, migration of labour from rural areas will increase and the requirement for MGNREGA allocation would be less.

On the reform front, some important measures are expected in this budget. The last couple of years have seen much greater transparency as off-budget liabilities have been phased out. The 15th Finance Commission has made a number of recommendations such as (i) to have credible fiscal rules; (ii) to provide comprehensive, consistent, reliable and timely reporting of fiscal indicators (iii) and to create an independent fiscal assessment mechanism. Also, it is hoped that the attempts to make the tax system simple and transparent by phasing out deductions and concessions and reducing the rates will continue. In doing this, it is not necessary to increase the number of brackets. Most importantly, keeping the long-term perspective on competitiveness and growth it is hoped that the protectionist policy followed since 2017 will be reversed.

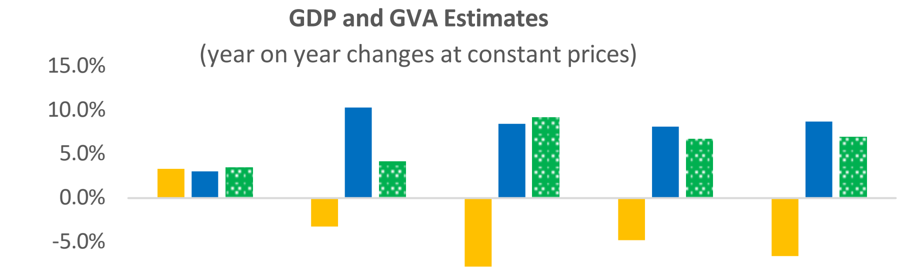
B2K Views

The growth estimates for FY23 provided by MOSPI looks optimistic considering the rising risks of a global recession, coupled with the tightening of financial conditions worldwide amid continued inflationary pressures. With 7% estimates for FY23, and 9.7% for H1FY23, the H2FY23 growth works out to 4.5%. Some high-frequency indicators are showing revival, such as pick up in rural demand, improvement in private consumption, rising demand for credit, and buoyant GST collections so far. High inflation and adverse global situation will continue to be a cause for concern in the near term.

The nominal estimate of GDP (15.4%) put out by the first advanced estimate, provides some cushion to rein in fiscal deficit to some extant which is targeted at 6.4% of GDP for FY23.

GDP Trends: Government pegs GDP growth at 7% for FY23

As per MOSPI's first advance estimate, the real GDP is estimated to grow at 7% on year-on-year (y-o-y) basis in FY23. The growth estimates are optimistic compared to RBI's estimates of 6.8% but is notably lower than the growth reported in FY22 (8.7%). The agricultural sector and services performed well compared to FY22, but the industrial growth brings out some concerns, particularly the manufacturing sector which is lagging with just 1.6% y-o-y growth.

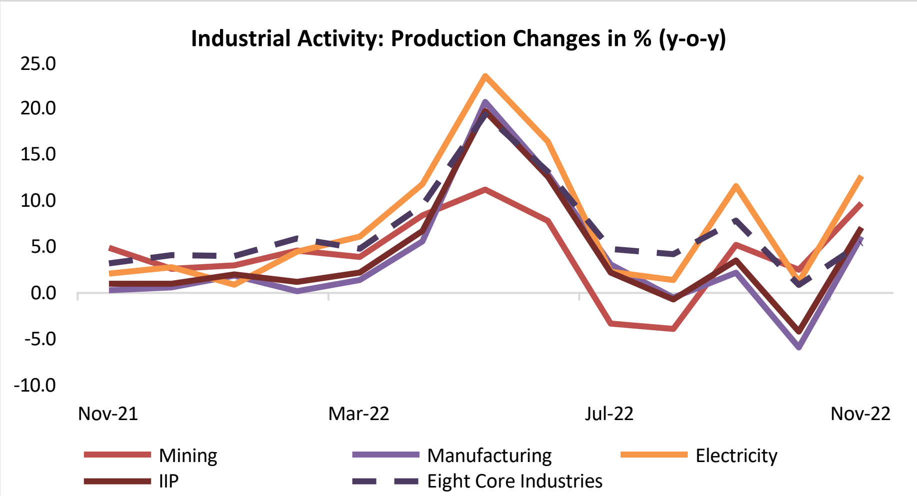


	Agriculture GVA	Industry GVA	Services GVA	GVA	GDP
FY21	3.3%	-3.3%	-7.8%	-4.8%	-6.6%
FY22	3.0%	10.3%	8.4%	8.1%	8.7%
FY23 #	3.5%	4.1%	9.1%	6.7%	7.0%

Note: Data is provisional. # First Advance Estimate
Source: Ministry of Statistics and Programme Implementation (MOSPI), B2K research

Buoyant industrial activity reflects strong demand

After slipping to 26-months low in October, the growth in IIP bounced back to 7.1% in November 2022 (y-o-y), and eight core sectors also reported sequential growth in production during the same period. The manufacturing PMI rises to a 26-month high in December, and services PMI too improved to 6-month high, reflecting faster increases in new business and strong demand, despite inflation concerns.



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

B2K Views

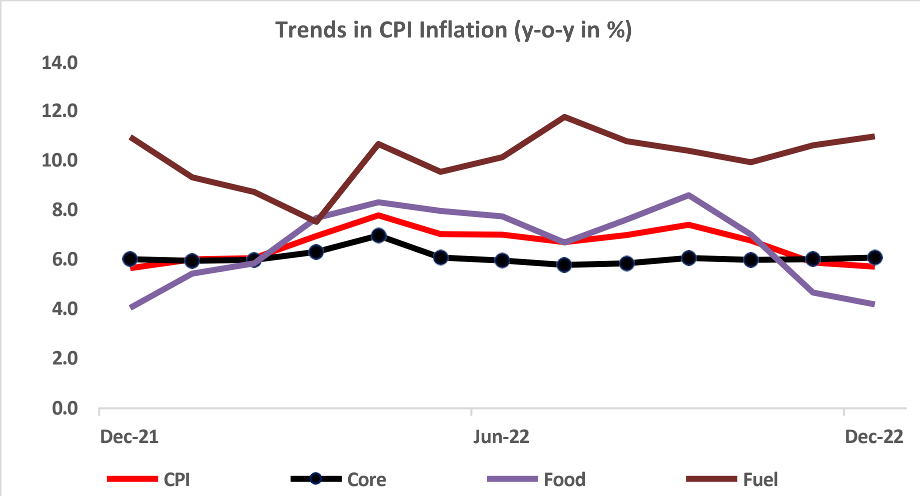
With a sharp moderation in global commodity prices, particularly crude oil prices, the inflation is expected to soften in the coming months. But the sticky core inflation and its downward inflexibility continued to be a major concern. Hence, the RBI has continued to maintain the inflation estimate unchanged at 6.7% for FY23. For Q1FY24 and Q2FY24, the inflation outlook is placed at 5% and 5.4%, respectively, largely based on the assumption of a normal monsoon and average crude oil price (Indian basket) at USD100 per barrel. Given the sharp fall in food prices in December, the average inflation slipped to 6.1% compared to RBI's estimate of 6.6% in Q3. If the inflation eases further and remains below the 6% levels, the RBI may take a pause in the rate hikes in the next fiscal. We expect another 25 bps increase in repo rate in the February 2022 meeting.

B2K Views

Lower crude oil prices help narrow trade deficit due to lower import bill and reduces the demand for USDs. Also, it provides much needed relief on the fiscal front and imported inflation, strengthens rupee and eases pressure on RBI to intervene in the forex market. While the decision of OPEC+ alliance for any additional cut in production to support the market may increase oil prices. In October, OPEC+ agreed to cut output by about 2% of world demand till end of 2023. Considering the lower demand due to global economic slowdown, we expect the crude oil prices to remain below USD80 per barrel in the near term.

Inflation: CPI softened and remained below 6%

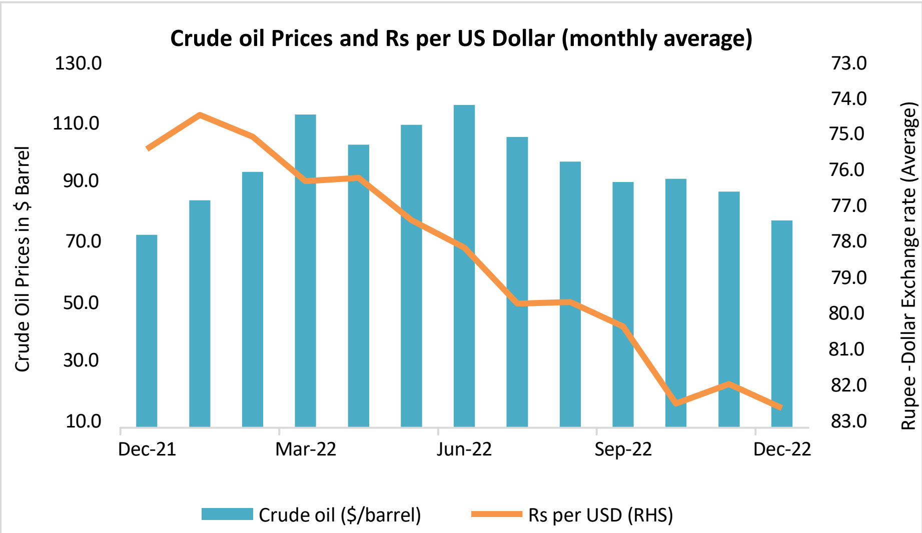
CPI inflation eased to 5.72% in December from 5.88% in November, due to sharp softening in food prices. The food inflation may moderate further in the rest of FY23, with a likelihood of bountiful Rabi output. However, core inflation continued to remain sticky at around 6% in December as well (average for 2021 and 2022), which continues to remain a major cause for concern.



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

Crude oil prices eased notably; rupee again turns volatile

With the slowing global demand amid monetary tightening and recessionary fears in the developed world, crude oil prices eased remarkably in December and the average monthly prices fell to 12 months low to USD78 per barrel. After showing some stability in November, the Indian rupee depreciated again in December 2022 as Foreign Portfolio Investors (FPIs) reduced their investments in the Indian markets, dampening the forex inflows.



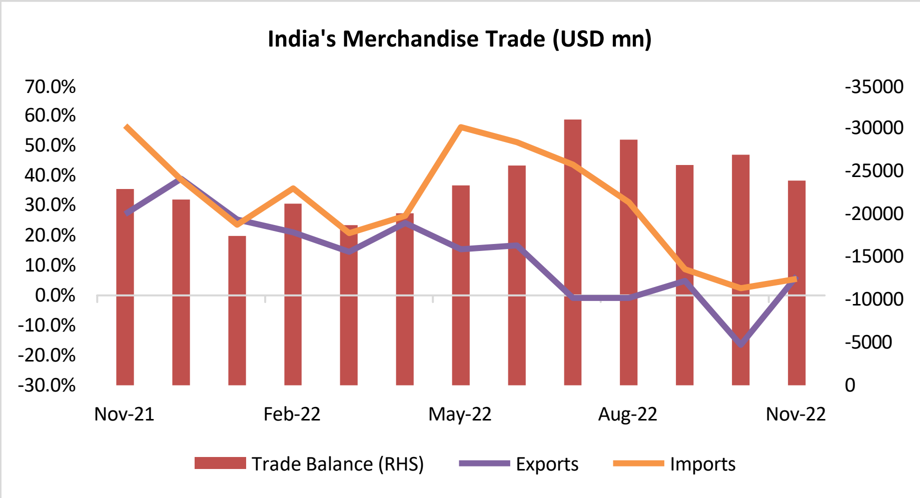
Source: www.ppac.gov.in, RBI, B2K Research

B2K Views

Geopolitical tensions continued to keep the external sector under stress, while recessionary expectations in the advanced economies dampened demand for domestic exports. While the recent fall in crude oil price brings some respite on import bills. The trade deficit narrowed to USD 23.9 bn in November 2022 from USD 26.9 bn in October2022.

Merchandise Trade: **External sector concerns eased marginally; exports rise**

A weaker rupee, higher crude oil and other commodity prices have rendered imports expensive. In dollar terms, growth in merchandise imports increased by 5% in November y-o-y, while exports improved by 6.5%. During April to November FY23, exports improved by 11%, while imports risen by 29.5% over the corresponding period last year.



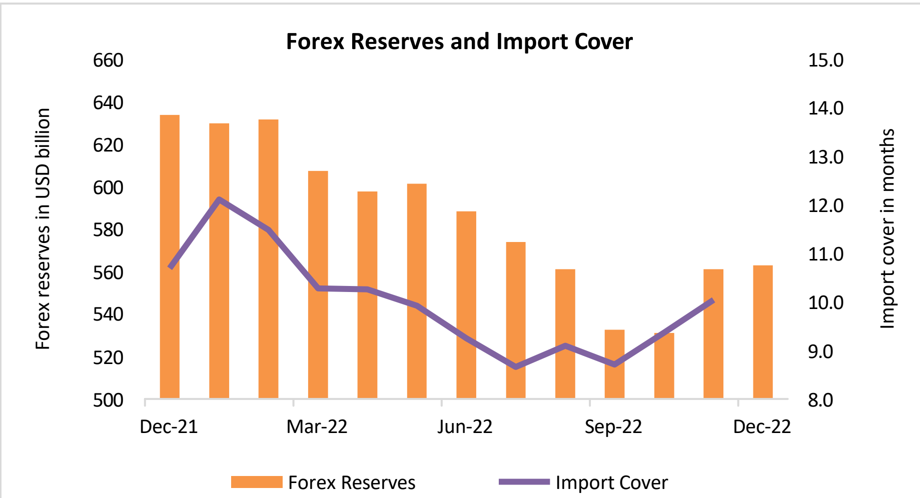
Note: Data is provisional.
Source: Ministry of Commerce and Industry, B2K Research

B2K Views

With the depreciation of the rupee leading to valuation loss and frequent intervention by RBI to curb volatility in the exchange rate, India's foreign exchange reserves have depleted sharply in the first seven months of FY23. However, some stability in rupee-dollar exchange rate in November and FPIs' renewed interest in Indian markets resulted in the forex reserves to reach back to August 2022 levels in November 2022. The revaluation of reserves held in other major global currencies due to cooling of US dollar was also a major reason for the rise in forex reserves. The import cover of India's foreign exchange reserves improved to 10 months in November 2022 compared to 8.7 months in October. Yet it remains below last year's level of 12 months of imports.

Forex reserves fell by USD70 bn in 2022

The forex reserves depleted by USD70 bn in 2022, as the Indian rupee depreciated by about 9% in a year and FPIs also remained net sellers in the Indian markets for eight months in 2022. In December 2022, FPI invested USD1.12 bn and forex reserves also increased by USD1.7 bn compared to November to USD563 bn in December.



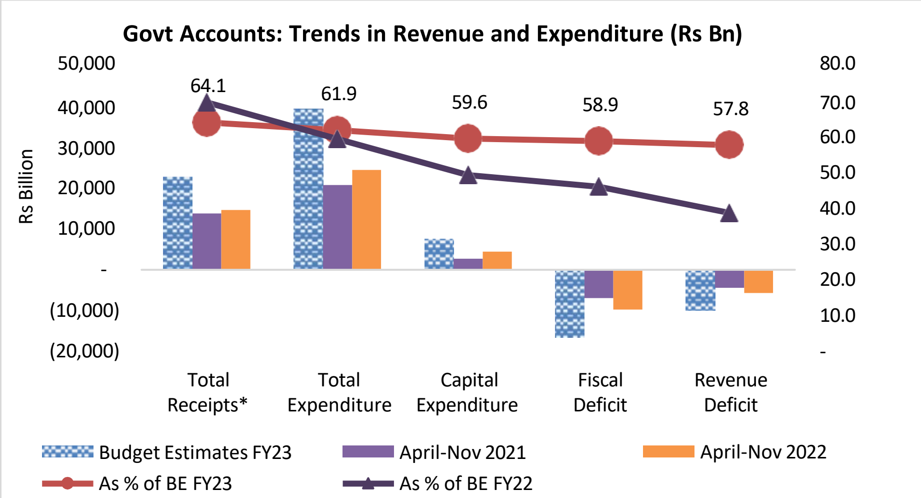
Source: Ministry of Commerce, RBI, B2K Research

B2K Views

The overall tax revenue collection has been healthy so far and in spite of the cuts in excise and customs duties on petroleum products and edible oil to rein in the prices, the aggregate tax revenue is expected to be higher by about Rs 2 trillion. Higher crude oil prices impose a huge risk on fiscal management but the recent fall in crude oil prices brings some respite. With a fiscal deficit target of 6.4% of the GDP for FY23, it remains to be seen whether the government will be able to maintain the tempo of increasing capital expenditure in the rest of the current fiscal.

Government Finances: **Fiscal deficit crossed 58.9% of the budget targets**

Provisional data released by the CGA for April-November 2022 shows that the central government has spent 61.9% of the Budget Expenditure for FY23 with spending through capital expenditure reaching 59.6% of the Budget Estimates (BE), as compared to 49.4% of BE in the corresponding period last year. Similarly, fiscal deficit overshoots the level of corresponding period last year and crossed 58.9% of the BE.



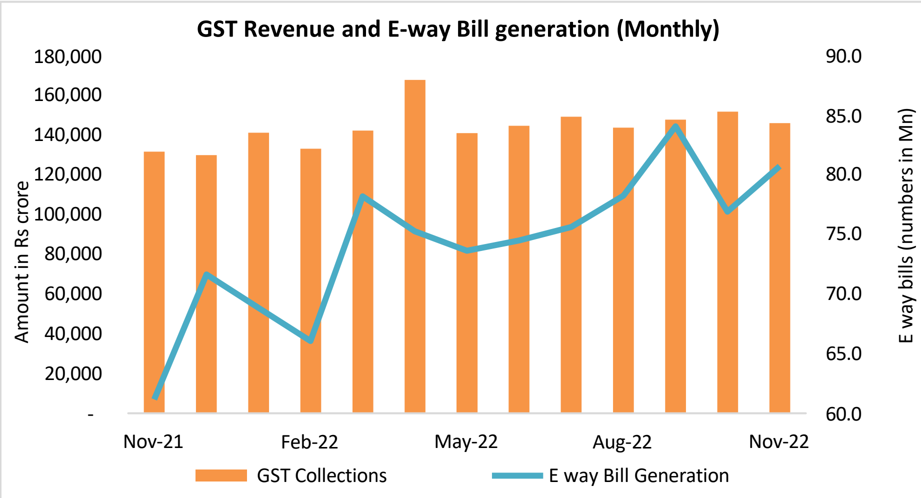
Note: Data is provisional, * Excluding government borrowing.
Source: Controller General of Accounts (CGA), B2K Research

B2K Views

Buoyant GST collections actually indicate the stabilisation of the technology platform. Due to improved tax compliance and 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 generation of E-way bills has led to a significant improvement in compliance. The pace of growth in E-way bill generation also remained buoyant and recorded 17% increase over the corresponding month last year.

GST: Tax collections continued to remain buoyant

There has been a steady increase in the revenue collections in 2022, and the GST collections have remained higher than Rs 1.4 trillion in eleven months, except for February 2022. Total GST collection in December rose by 15% over the previous year. State-wise, Maharashtra, Karnataka, Tamil Nadu, Gujarat and Uttar Pradesh who are the major contributors, have reported double-digit growth in GST revenue receipts.



Source: PIB press releases, GSTN, B2K Research

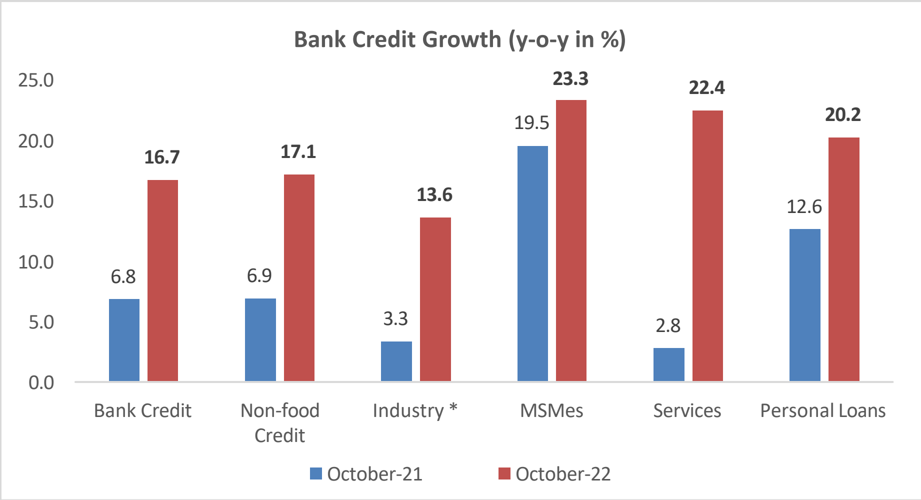
B2K Views

The outlook for the banking industry appears to be brighter for FY23. Recently, the Central government has approved a Rs 15,300-crore blanket guarantee for National Asset Reconstruction Co (NARCL). The guarantee 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.

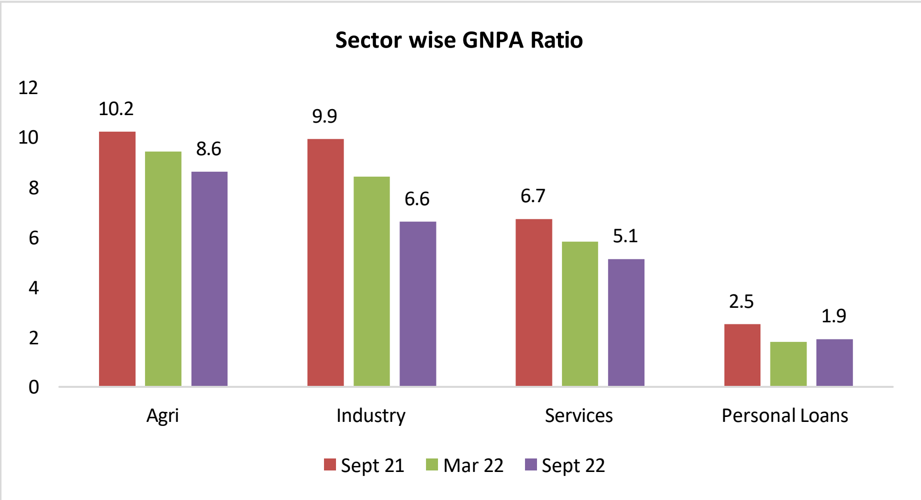
Bank credit growth remains strong; Asset quality shall continue to improve in FY23

Bank lending has been growing at double-digit rates in since April 2022. Since March 2022, the gross bank credit grew at 8.4% as against 0.9%, a year ago. In October 2022 also, bank credit grew by 16.7% on a y-o-y basis, with Micro and Small, Medium (MSME) industries reporting the maximum rise. Overall credit to industries including large industries also improved compared to the corresponding month last year. Credit to the personal loans segment increased by 20.2%, largely driven by 'the housing' and 'vehicle loans' segments, while credit to services improved by 22.4%, led by NBFCs segment.



Source: RBI, B2K Research

Buoyant demand for bank credit and early signs of a revival in investment cycle are benefiting from improved asset quality, return to profitability and strong capital and liquidity buffers of Scheduled Commercial Banks (SCBs). According to the latest 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.



Source: RBI, B2K Research