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ECONOMIC DIGEST

THE ECONOMIC PERISCOPE

22 May 2023

1. Global Economic Developments

Global economic conditions remain volatile. In its World Economic Outlook (WEO) released in April 2023, the IMF projected global growth to decline to 2.8 per cent in 2023; a downward revision by 10 basis points from its January 2023 projection from 3.4 per cent in 2022, before settling at 3.0 per cent during 2024-28.

For the recently concluded spring meetings of the World Bank and the IMF, the global GDP growth is expected to fall from 3.4 per cent in 2022 to 2.8 per cent in 2023 and recover only marginally to 3.0 per cent in 2024. Advanced economies are expected to experience a more pronounced growth slowdown, from 2.7 per cent in 2022 to 1.3 per cent in 2023. While data out of China indicated earlier that the economy was improving with GDP up 4.5% in the first quarter encouraged by enhanced consumption and retail sales (after authorities suddenly abandoned the stringent "Zero Covid" policy), nonetheless, China's industrial activity and consumption spending show certain downward trend than April'23. The PBOC's policy is likely to be supportive for the economy's future growth momentum.

The US Fed raised rates by 25bps as expected (to 5-5.25%) in May'23 while possibly it will take a pause in June meeting. Job gains have been robust in recent months, and the unemployment rate has remained low.

The latest Headline CPI inflation slowed from 5.0% YoY in March to 4.9% YoY in April, while core CPI inflation declined from 5.6% YoY in March to 5.5% YoY in April, while the decline in headline CPI inflation is partially driven by a 5.1% YoY decline in energy prices as a consequence of the base effect.

Excluding energy, headline CPI inflation only slowed from 6.0% YoY in March to 5.8% YoY in April.[1] Furthermore, shelter CPI inflation declined marginally from 8.2% YoY to 8.1% YoY. But if the rental component is taken out, core services inflation slowed from an estimated 5.7% YoY in March to 5.1% YoY in April.

Interestingly, in India, the last trading yield of the 7.26% G-Sec 2033, maturing 06/02/2033, remains at 7.0303,[2] while others too marked certain slumps on expectations that Fed will possibly take a pause in its next monetary policy. After the Fed monetary policy announcement, the US Dollar index and US treasury yields both have showed some nosedive. On 4th May'23 the US 10-year treasury yield was down by 0.032% at 3.371%, whereas USD Index remains a bit volatile, gained marginally 0.02% at 101.37.

The FOMC statement mentioned that US banking sector is stable and resilient. Nevertheless, the spate of some US bank failures, including regional banks remain a matter of concern. The FDIC Chairman Martin J. Gruenberg has also highlighted in looking at the deposit insurance aspect.

Table 1: Top US Bank Failures*

Sl No.	Bank Name	Date	Deposits	Assets
1	Sillion Valley Bank	March 2023	$175.4bn	$209.0bn
2	First Republic Bank	May 2023	$103.9bn	$229.1bn
3	Signature Bank	March 2023	$88.6bn	$110.4 bn

Source: Visual Capitalist, Different Banks.

[*For top 20 bank failures over the last two decades, see this link-https://www.visualcapitalist.com/largest-bank-failures-modern-history/?utm_source=Visual+Capitalist+Infographics+%28All%29&utm_campaign=1e8293efbe-EMAIL_CAMPAIGN_2023_05_03&utm_medium=email&utm_term=0_31b4d09e8a-1e8293efbe-46730105]

JPMorgan Chase & Co. agreed to acquire First Republic Bank in a government-led deal to prevent a banking crisis. Steven Cress, Head of Quantitative Strategies at Seeking Alpha has narrated the US banking story, whereas he has put the question "How many big banks possess the ability to acquire smaller regional banks should more fail? With JPMorgan absorbing a large portion of FRC's burden of losses and the FDIC showing how "A poorly supervised bank was snapped up by an even bigger bank," posted Senator Elizabeth Warren in a Tweet. And while not everyone is happy about the acquisition, the number of U.S. banks has experienced a drastic fall from the 1980s to present-day.

As expected, the European Central Bank (ECB) has increased its main policy interest rates by 25bp, bringing the deposit rate to 3.25%. Since July 2022, the ECB has continued to increase interest rates cumulatively by a total of 375bp. Nevertheless, the latest increase is modest, indicating that the ECB has probably arrived at the final stage of this tightening cycle.

Another looming threat is emerging of the probability of the US exceeding its statutory debt ceiling limit and encountering technical default, which could occur as early as June 2023, which is also getting reflected

[1] Official data, Greed & Fear Report (11 May 2023).
[2] https://www.ccilindia.com/OMMWCG.aspx

in Credit Default Swaps (CDS). US treasury secretary Janet Yellen declared that US could default on its obligations in early June'23, if Congress remains inactive.

The Bank of England (BoE) has increased its interest rate to 4.5% (by 25 bps) on 11 May'23, despite dissent from two MPC members- Silvana Tenreyro and Swati Dhingra, thus taking elevated borrowing cost to the highest since 2008. The GBP increased to almost half a cent against the US Dollar, while government bond yields showed an upward trend. The UK inflation increased sharply due to its reliance on imported natural gas that increased substantially as energy prices skyrocketed after the Russian invasion into the Ukraine. However, energy prices have declined now, and the BoE expects inflation to decline to 5.1% by the end of the year from 10.1% in March'23.[3] The UK economy is still facing tough challenges regarding high inflation.

IMF's DMG Gita Gopinath has expressed her concern that emerging markets are still not out of the woods regarding inflationary challenge. Therefore, central banks should remain resolute in keeping policies tight.

As highlighted by the RBI Apr'23 bulletin, in March'23, global commodity prices softened further edging closer to pre-Ukraine war (January 2022) levels as prices of most agricultural commodities, especially grains, moderated post the renewal of the Black Sea Grain initiative and supply bottlenecks continued to ease. On the other hand, whereas the crude oil prices treaded down in March'23, reaching an average of US$ 78.5 per barrel as global oil supply increased, Prices rose in early April'23 following a surprise production cut announcement by the Organization of the Petroleum Exporting Countries (OPEC). According to its latest monthly report (May'23), global economic growth is estimated at 3.3% for 2022 and forecast at 2.6% for 2023, both unchanged from the previous month's assessment.[4]

For 2023, the forecast for world oil demand growth remains broadly unchanged at 2.3 million barrels per day (mb/d), with the OECD projected to grow by almost 0.1 mb/d and the non-OECD expected to grow by about 2.3 mb/d.

From the perspectives of the global oil supply, Non-OPEC liquids supply is estimated to have grown by 1.9 mb/d in 2022, broadly unchanged from the previous month's assessment. The main drivers of liquids supply growth for 2022 were the US, Russia, Canada, Guyana, China and Brazil, while the largest declines were seen in Norway and Thailand.

For 2023, the forecast for non-OPEC liquids production growth also remained unchanged from last month's assessment, at 1.4 mb/d, y-o-y. The main drivers of liquids supply growth are expected to be the US, Brazil, Norway, Canada, Kazakhstan and Guyana, while declines are expected primarily in Russia. Uncertainties remain, primarily related to the potential of US shale oil output and unplanned field maintenance in 2023.

OPEC NGLs and non-conventional liquids are estimated to have grown by 0.1 mb/d in 2022, to average 5.39 mb/d, and are forecast to grow by 50 tb/d to average 5.44 mb/d in 2023.

[3] Reuters report "Bank of England raises interest rate to 4.5%" republished in The HinduBusinessLine (12 May 2023).

[4] The report has highlighted that "The global economy continues to navigate through challenges including high inflation, higher interest rates in the US and the Euro-zone, and high debt levels in many regions. The US economic growth forecast for 2023 remains unchanged at 1.2%, following growth of 2.1% for 2022. The Euro-zone's economic growth forecast for 2023 remains at 0.8%, after growth of 3.5% for 2022. Japan's economic growth forecast for 2022 remains at 1.0% for both 2022 and 2023. China's economic growth forecast remains at 5.2% for 2023, compared with 3% for 2022. India's 2022 economic growth estimate is unchanged at 6.7%, and the forecast for 2023 remains at 5.6%. Brazil's economic growth estimates for 2022 and 2023 are unchanged at 2.9% and 1.0%, respectively. Russia's growth is also unchanged across both years, with an estimated contraction of 2.1% for 2022 and a smaller forecast contraction of 0.5% for 2023."

2.Indian Economic Developments:

India is expected to grow at 6%-6.5% during FY23-24, whereas IMF expects India to grow at 5.9% in 2023-24.

The monthly collection of GST in March’23 is at all time high at ₹1.87 lakh crore.

The seasonally adjusted S&P Global India Manufacturing Purchasing Managers' Index® (PMI®) rose from 55.3 in February to 56.4 in March’23.

Certain high-frequency economic indicators have shown that the Indian economy is showing rebound, e.g., E-way bill volumes and toll collections remained bright, scaling new highs in March 2023. However, there is a decline to 8.44 crore in April’23 compared to 9.09 crore in March’23, though compared to April’22 (7.52 crore), it is much higher.

Retail sales of vehicles, (as proxied by vehicle registrations), recorded a four-month high in March’23 due to increases in vehicles’ registrations. Two-wheeler sales have increased by 7.7 per cent y-o-y, with the electric vehicle (EV) segment recording highest ever sales at 1.4 lakhs in March’23. However, according to the FADA data, entry-level 2-wheeler segment continues to struggle, down by 19% compared to pre-COVID April 2019, contributing to a 12% decline in total vehicle retails. The 2-wheeler segment's continued low sales, with a 7% YoY decrease, can be attributed to limited supplies due to the OBD 2A shift, untimely rains, and pre-buying in March. Model mix availability, rural sentiment, and demand in the 2-wheeler motorcycle segment remain weak. Compared to the pre-COVID April 2019, 2-wheeler sales are still down by 19%. On the other hand, due to high demand in the e-rickshaw and passenger segments, the 3-wheeler segment has grown by 57% YoY and also surpassing pre-COVID levels at a healthy rate.

The Commercial Vehicle (CV) segment is witnessing strong demand in the M&HCV segment, supported by robust infrastructure projects taking place nationwide. Improved product supply from OEMs and customer adaptation to price shifts contribute to the segment's growth. In the Passenger Vehicle (PV) segment, rising inventory levels are raising concerns. FADA urges OEMs to recalibrate their inventory and prioritize the production and supply of products that are in high demand, ensuring a more efficient alignment between market demand and available inventory. This will ultimately benefit both customers and manufacturers. Despite the ongoing chip shortages and somewhat sluggish market conditions, the marriage season in May is expected to provide a slight boost in sales for the current month.

Major global semiconductor companies have evinced interest in India’s ambitious semiconductor programme and are likely to formally express interest in the near future that will likely widen the field in terms of contenders for more than $10 billion in federal and state subsidies, apart from other benefits, that India has announced to attract semiconductor manufacturing.[5]

In the tourism sector, the hotel occupancy rate crossed 70 per cent for the first time since the onset of the pandemic. There is a renewed in the medical tourism due to the government’s initiative like Ayush Visa for medical tourists. The Ministry of Tourism, GoI plans to develop 50 new tourism destinations and envisages 59 new air routes to boost tourism in India. Despite the challenges posed by the pandemic, the country

[5] “Global Chip Giants eye India presence” (17 May 2023)Livemint; https://www.livemint.com/news/india/major-global-semiconductor-companies-express-interest-in-india-s-ambitious-programme-for-10-billion-subsidy-11684261216159.html

registered 6.19 million Foreign Tourists Arrivals in 2022, registering a growth of 305 per cent as compared to 1.52 million in 2021.[6]

The Union Cabinet has approved ₹17000 crore Production Linked Incentive (PLI) for the IT hardware segment with the tenure six years. The scheme is likely to lead to incremental production of ₹3.35lakh crore, incremental investment of ₹2430 crore and expected to create further employment. This aims at strengthening local manufacturing of IT hardware like laptops, tablets, desktops, servers among other products.

3.EL NINO: An Emerging Challenge:

The southwest monsoon remains a key pedal for determining India's growth prospects. The Skymet has highlighted that the rains could be below normal in 2023, whereas the India Meteorological Department (IMD) has maintained a normal monsoon despite El Nino (a weather phenomenon that results in weaker monsoon). One issue is that despite the prevalence of the sufficient rainfall, there has been a substantial variation in regional rainfall pattern. On the positive side, reservoir levels are currently 18% above the long-term average, except in Eastern areas where they are almost 12% below. To some extent, this can partially offset a lower rainfall.

4.Inflation has come down below the RBI's upper tolerance range:

The CPI has declined to its 18-month low in April'23 to 4.7% against 5.7% in Mar'23. CPI food index moderated to 3.8% in Apr'23 from 4.8% in Mar'23(YOY). Interestingly, while the rural inflation (8.38%) was higher than the urban inflation (7.09%) during Apr'2022, it came down drastically in Apr'2023 at 4.68% compared to the urban inflation at 4.85%. Inflation for some highly inflated items like cereals has come down to 13.67% from 15.3%, milk prices has come down to 8.85% compared to 9.3%, spices have declined to 17.43% from 18.2% etc. Another positive development is that the core-inflation has declined to 5.2% in Apr'23 from 5.8% in Mar'23.

The WPI has also declined to 34-month low of (-) 0.92% in Apr'23 due to softened prices of April, 2023 is primarily contributed by fall in prices of basic metals, food products, mineral oils, textiles, non-food articles, chemical & chemical products, rubber & plastic products and paper & paper products. This was 1.34% in March'23. Prices of Coal (-0.22%), Electricity (-2.20%) and Mineral Oils (-3.33%) declined in April, 2023 as compared to March, 2023.

Table 2: Comparison of Inflation Rates among Different Countries (%)[Apr-Jan'23]

Countries	Inflation rate in April'23	Inflation Rate in March'23(%)	Inflation Rate In Feb'23(%)	Inflation Rate in Jan'23(%)
India	4.7%	5.6%	6.4%	6.5%
US	4.9%	5.0%	6.0%	6.4%
UK	Yet to publish	10.1%	10.4%	10.1%
Euro Area	7.0%	6.9%	8.5%	8.6%

[6] "India to develop 50 new destinations to promote tourism: Union Tourism Secretary"(April 2023) BW Hotelier, [https://bwhotelier.businessworld.in/article/India-to-develop-50-new-destinations-to-promote-tourism-Union-Tourism-Secretary-/23-04-2023-473880/]

China	0.1%	0.7%	1.0%	2.1%
Switzerland	2.6%	2.9%	3.4%	3.3%
Japan	Yet to publish	3.2%	3.3%	4.3%
Canada	Yet to publish	4.3%	5.2%	5.9%
Indonesia	4.3%	4.9%	5.4%	5.2%
Brazil	Yet to publish	4.6%	5.6%	5.7%
Turkey	43.6%	50.5%	55.1%	57.6%
Argentina	Yet to publish	104.3%	102.5%	98.8%
Germany	7.2%	7.4%	8.7%	8.7%
Singapore	Yet to publish	5.5%	6.3%	6.6%

Source: Official Statistics of Countries, Trading Economics.

Note: For Parity, CPI inflation is compared up to single digit only.

5. Index of Industrial Production (IIP):

The IIP has tepidly grew at 1.1% in March'23. The electricity output growth remained subdued at 1.6% (YOY) and 0.5% growth in manufacturing sector seem pessimistic that brought down the overall IIP growth at five month low. Overall, both the consumer durables and non-durables have shown sharp moderation. During March'23, the consumer durables have declined sharply by (-)8.4% vis-à-vis (-)4.1% in Feb'23.

6. Capex Trends:

At the Central Government level, in Revised Estimate (RE) 2022-23, the total expenditure has been estimated at ₹41,87,232 crore and is more than Actuals of FY 2021-22 by ₹3,93,431 crore. The total capital expenditure in RE 2022-23 is estimated at ₹7,28,274 crore. The total expenditure in BE 2023-24 is estimated at ₹45,03,097 crore of which total capital expenditure is ₹10,00,961 crore. Budget 2023-24 reflects continuing strong commitment of the Union Government to boost economic growth by investing in infrastructure development leading to an increase in capital expenditure by 37.4 per cent over RE 2022-23.

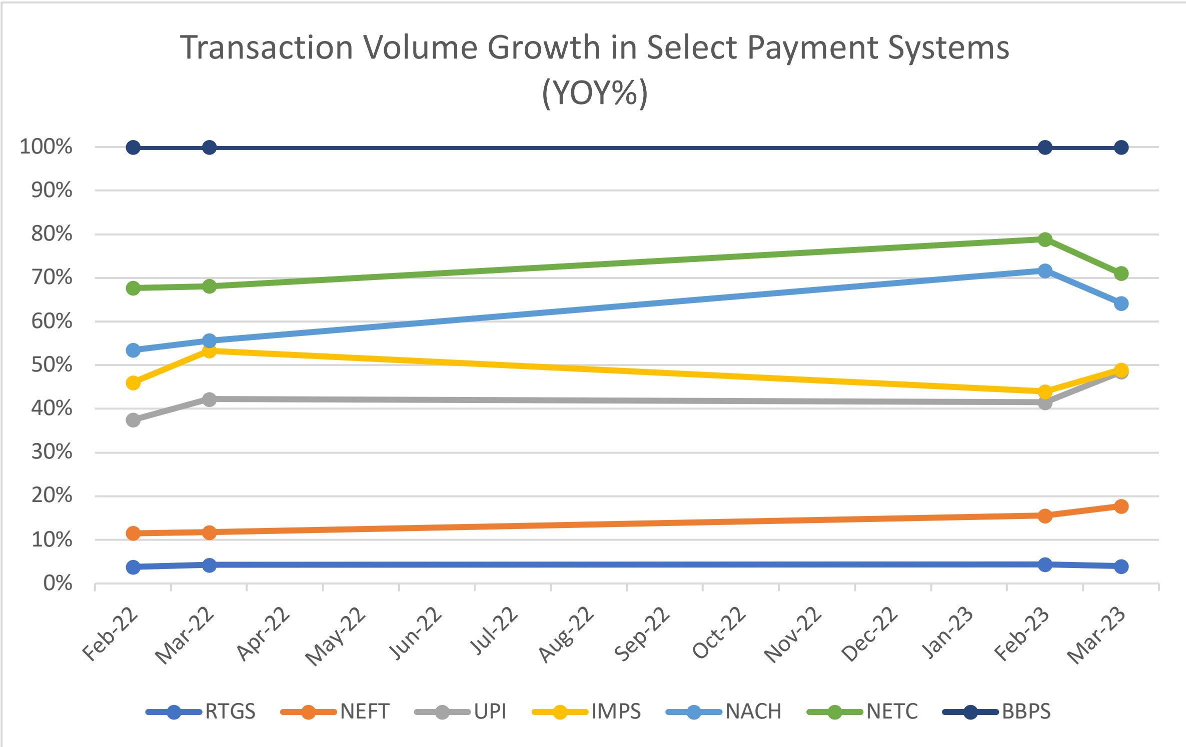
Effective Capital Expenditure, at ₹13,70,949 crore in BE 2023-24, shows an increase of 30.1 per cent over RE 2022-23. The capital expenditure during Apr-Feb 2023 was 21.7 per cent higher compared to the corresponding period of the previous year. The Centre has also announced continuing the 50-year interest-free loan to State governments under 'The Scheme for Special Assistance to States for Capital Investment' with an enhanced outlay of ₹1.3 lakh crore.

According to the CMIE data, state governments are likely to enhance capex by 17.7% by FY24. Around twenty-four major states that have presented their budgets as of 23 March 2023 have jointly announced a 17.7 per cent increase in capital expenditure in 2023-24 compared to the previous year's budget estimates. During April-February 2023, capex by states was 11.9 per cent higher compared to the same period a year ago.[7] The States' Monthly Fiscal Accounts data released by O/o CAG shows that during Apr-Feb 2023, the Capital expenditure by States was 11.9 per cent higher compared to the previous year.[8]

[7] https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=20230426131233&msec=496
[8] Month Economic Report, Ministry of Finance (March 2023).

Some notable announcements regarding capital formation and infrastructure growth by various state governments include Gujarat's announcement to develop a road network for connecting with border areas, Mizoram's Socio-Economic Development programme to provide families with capital to support ongoing economic activities or start new ventures, Odisha's Mukhyamantri Janajati Jeebika Mission to improve critical infrastructural needs incidental to livelihood promotion and support for tribal livelihood promotion, among others. Recently, the National Planning Group (NPG) under PM Gati Shakti scheme has approved infrastructure projects related to railways in Rajasthan, Odisha and Uttar Pradesh to develop an integrated and planned infrastructure and reduce logistics costs.

7. Growth in Select Payment Systems:



Source: RBI, NPCI.

Digital payments have increased across different channels led by retail transactions through the Unified Payment Interface (UPI), the Bharat Bill Payment System (BBPS), and the National Automated Clearing House (NACH). The growth of the UPI is in line with the RBI's planned expansion on 6 April 2023 as highlighted in the statement of developmental and regulatory policy. Moreover, according to the 29 March 2023 Press Release, the National Payments Corporation of India (NPCI) has allowed the Prepaid Payment Instruments (PPI) wallets to be part of the interoperable UPI ecosystem with interchange charges for PPI merchant transactions above ₹ 2,000 to promote the interoperability of the UPI and foster healthy competition in the ecosystem.

8. India's Export Import Scenario:

India's overall exports (Merchandise and Services combined) in April 2023 is estimated to be USD 65.02 Billion, exhibiting a positive growth of 2.00 per cent over April 2022. Overall import in April 2023 is estimated to be USD 66.40 Billion, exhibiting a negative growth of (-) 7.92 per cent over April 2022.India's merchandise trade deficit narrowed to a 20-month low of USD 15.24 bn in Apr-23 from USD 19.73 bn in Mar-23. India's overall trade balance has substantially improved to US$(-)1.38 billion compared to US$(-)8.37 billion in Apr'22 due to strong services export despite a decline in merchandise exports.[9]

India's electronic exports have shown impressive growth (USD 23.6bn in FY23 from USD 15.7bn in FY22 as well as services exports (especially by the surge in IT and business services exports) remain strong. Exports of Electronic goods increased by 26.49 percent during April 2023 at USD 2.11 Billion as compared to USD 1.67 Billion in April 2022, whereas the same was increased by 57.36 percent during March 2023 at USD 2.86 billion as compared to USD 1.82 billion in March 2022. During FY 2022-23 (April-March) electronic goods exports were recorded at USD 23.57 billion as compared to USD 15.66 billion during FY 2021-22 (April-March), registering a growth of 50.52 percent. Electronic goods, Rice, Drugs and Pharmaceuticals, Oil meals, Ceramic products and glassware and Spices registered significant increase in exports in April 2023.

Table 3:India's Trade Balance

Exports/Imports (US$bn)	Apr 2023	Apr2022	Mar-23	Mar-22
Merchandise Exports	34.66	39.70	38.38	44.57
Merchandise imports	49.90	58.06	58.11	63.09
Services Exports	30.36	24.05	27.75	26.95
Services Imports	16.50	14.06	14.07	15.35
Total Export (X)	65.02	63.75	66.13	71.52
Total Import (M)	66.40	72.11	72.18	78.44
Trade Balance	-1.38	-8.37	-6.05	-6.92

Source: PIB, Ministry of Commerce & Industry

From the above Table, it can be seen that the services exports have increased in March'23 compared to March'22, whereas services imports have declined marginally. In Apr'23, services exports have increased substantially, with a modest growth in imports. Textiles, Plastic & Linoleum exports continued to decline in March 2023 because of subdued demand due to recessionary effects in major economies.

China's share in India's merchandise imports have declined to 13.79% in 2022-23 from 15.43% in 2021-22.[10] Imports of electronic goods from China has seen a decline of around $2 billion in 2022-23 (Apr-Feb) compared to same period last year. Import share from China in electronic goods has also declined from 48.1% in 2021-22 (Apr-Feb) to 41.9% in 2022-23 (Apr-Feb). A significant fall in share from China seen in imports of fertilizers from 21.9% in 2021-22 (Apr-Feb) to 13.9% in 2022-23 (Apr-Feb) and this accounts for around half a billion fall in imports from China.

Exporters expect a growth of 11%-13% in FY24, whereas cotton textile and apparel exporters expect an 8%-10% YOY growth. With an optimism that export would take a boost after July'23, they expect US$900 billion

[9] 15 May Press Release, PIB (https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1924221)

[10] https://www.pib.gov.in/PressReleasePage.aspx?PRID=1916220#:~:text=India's%20overall%20exports%20(Merchandise%20and,per%20cent%20over%20March%202022.

for the full year of which $500 billion would be goods and rest will be the services.[11] Nevertheless, Indian exports have seen a decline in certain major markets including the US, the UAE, China, Singapore, Bangladesh, Germany. On the other hand, countries like Netherlands, UK, Saudi Arab, Italy have seen higher export growth. As reported by the Business Standard (17 May 2023), according to Santosh Kumar Sarangi, Director General of Foreign Trade, the demand scenario is not very optimistic for the next couple of months, the situation is likely to improve September onwards. The demand scenario is not impressive from the US and Europe. The Indian Finance Minister (FM) also expressed concern in an ET-BFSI interview that recession in major Indian export destinations is more challenging that the fear of the contagion risk.[12]

9. Financial Stability:

An investment fluctuation reserve (IFR) has been created to protect banks from an unexpected increase in G-Sec yields. As highlighted by the Monthly Economic Report (MER), Finance Ministry, "The IFR acts as a countercyclical macroprudential tool that is created by transferring the gains realised on the sale of investments during an easing interest rate cycle and acts as a shock absorber in a tightening phase. As per the RBI's Financial Stability Report (FSR) of December 2022, the system-wide IFR of scheduled commercial banks (SCBs) stood at 2.2 per cent of the available-for-sale (AFS) plus held-for-trading (HFT) investment portfolio. It helped banks to absorb the losses associated with the rise in G-sec yields in Q1 FY23 and resultant treasury losses to the tune of 4.9 per cent of their operating profit. Additionally, macro stress tests reveal that for an increase of 250 basis points (bps) in yields of banks' HTM portfolios, no commercial bank would fall short of its regulatory Capital to Risk weighted assets Ratio (CRAR). The RBI has also stipulated that banks cannot place more than 23 per cent of their deposit liabilities in their HTM portfolios. This implies that a 10 per cent loss sustained in banks' HTM portfolios will have only a deposit impact of 2.3 per cent."

Additionally, Indian banks don't hold most of their assets in the form of bonds, instead, for the top ten banks in terms of asset size, loans constitute more than 50 per cent of their total assets, making banks more immune to the rising interest rate cycle. Furthermore, the capital adequacy ratio for top 10 major banks (based on asset size) has been well above Basel III Norms.

10. Growth in Forex Reserves remain healthy:

India's foreign exchange reserves have increased to $595.97billion in the first week of May'23. Earlier, India's forex reserves increased by US$60.2 billion since October 21, 2022, when it reached an all-time high of $645 billion. The forex reserves stood at US$ 584.8 billion on April 07, 2023, sufficient to cover 9.9 months of projected imports for 2022-23. In May'23, the foreign currency assets increased to $526.02 billion, though the Special Drawing Rights (SDRs) were lower by $19 million to $18.44 billion.

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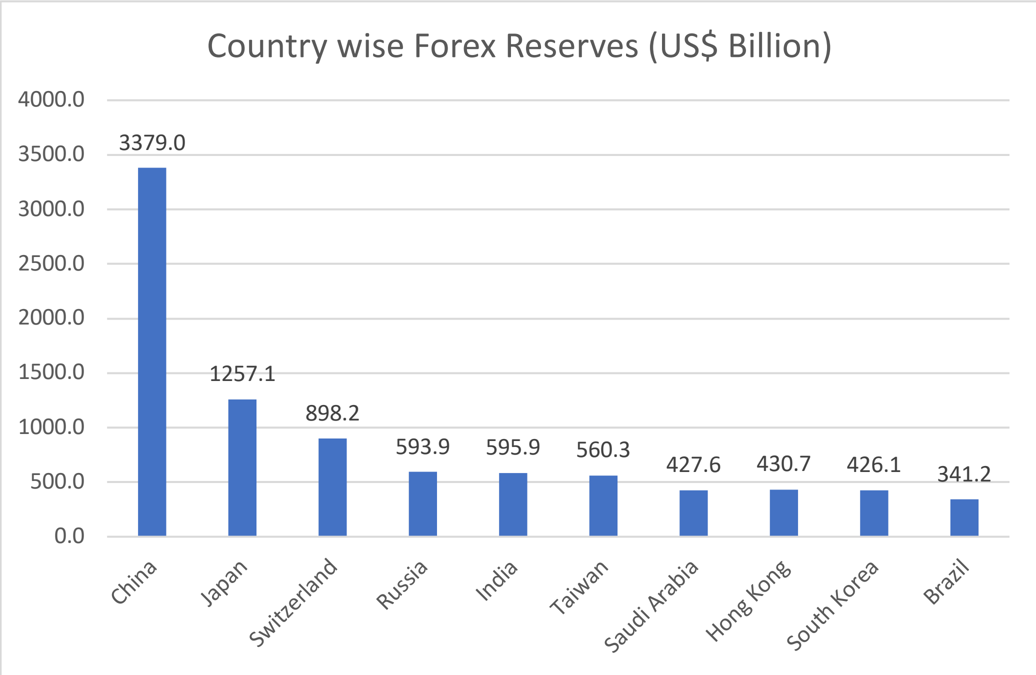
[11] ET Bureau(17May'23)reported by Kirtika Suneja; Link:[
https://retail.economictimes.indiatimes.com/news/industry/exporters-see-11-13-growth-in-fy24/100290226?action=profile_completion&utm_source=Mailer&utm_medium=newsletter&utm_campaign=etretail_news_2023-05-17&dt=2023-05-17&em=c2Fua2hhLm5iQGdtYWlsLmNvbQ==]

[12] "Financial contagion not a risk, recession in exports markets is a concern: Nirmala Sitharaman" (1 May 2023), ET-BFSI interview with Bodhisatva Ganguli (https://bfsi.economictimes.indiatimes.com/news/industry/financial-contagion-not-a-risk-recession-in-exports-markets-is-a-concern-nirmala-sitharaman/99898079?utm_source=twitter_web&utm_medium=social&utm_campaign=socialsharebuttons)



Source: RBI

During March 2023, the taxation arbitrage enjoyed by the debt mutual funds has been removed to bring parity in other fixed income streams, and there is certain rush during March'23 for investors to take tax advantage as the new tax regime was about to start from April 2023.

11. The Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) Trends:

Gross inward foreign direct investment (FDI) moderated by 14.5 per cent during April-February 2022-23 on a y-o-y basis. More than 63 per cent of FDI equity flows were reported to be from Singapore, Mauritius, and the US during this period. Net FDI decreased to US$ 27.7 billion from US$ 35.5 billion a year ago, mainly due to moderation of gross FDI inflows and increase in repatriations. FDI equity flows remained skewed towards manufacturing, followed by financial services and computer services.

In April'23, the FPIs appears to be bullish on banking and financial services stocks, whereas they have purchased ₹7,690 crore shares. Capital goods, FMCG, metals, mining are the sectors where FPIs bought consistently, whereas the FPI selling in the IT sector increased, between Jan-March'23 IT stocks sold worth ₹7974 crore (reported by the Economic Times on 8 May'23). Investor's sentiment is subdued in this sector due to banking crises in the US.

12. Liquidity Trends and Situations:

Despite huge placement of funds under the SDF at the system level, many banks resorted towards the marginal standing facility (MSF), which averaged ₹0.11 lakh crore during 16th March ~ 15th April'23. To ease the liquidity stress, the RBI commenced a series of measures including one 5-day variable rate repo (VRR) operation on March 24, 2023 injecting ₹55,885 crore.[13] During 25-31 March'23, government spending increased by ₹ 2.55 lakh crore, which increased system liquidity. However, a challenge is now that the

[13] An amount of ₹5,000 crore was also made available to standalone primary dealers (SPDs) under the standing liquidity facility (SLF) on 31st March 2023 at the prevailing repo rate, with funds availed under this facility (₹3,900 crore) repayable on or before April 5, 2023.

weighted average call rate (WACR) (6.90%) is higher than the maximum policy corridor Marginal Standing Facility (MSF) (6.75%) and higher than the repo rate (6.50%), thus pushing the overnight short-term borrowing rate higher than the policy rate, indicating a tight liquidity situation with high borrowing cost. There is also an asymmetrical distribution of funds between the bigger and smaller banks.

13. Rupee Movements:

Date	USD	GBP	EURO	YEN
17/05/2023	82.3695	102.6533	89.4626	60.2300
16/05/2023	82.2735	102.6291	89.4022	60.5100
15/05/2023	82.2841	102.6050	89.4055	60.4600
12/05/2023	82.1606	102.9407	89.8163	60.9800

Source: RBI.

The Indian rupee has shown certain pressure points due to weakness in Chinese Yuan (CNH) and strength in the US Dollar index. According to a Kotak Securities update, USDINR face resistance near 82.60 and 82.80/85 levels on spot. Eight-month-old range top is near 83.00. The concern regarding the US debt issue primarily weighs on the movement, coupled with the weaking CNH.

14. Sectoral Deployment of Bank Credit

According to the RBI's sectoral deployment of bank credit data, March 2023 (published on 28 April 2023), On a year-on-year (y-o-y) basis, non-food bank credit registered a growth of 15.4 per cent in March 2023 as compared with 9.7 per cent a year ago, whereas credit to agriculture and allied activities have increased by 15.4 per cent (y-o-y) in March 2023 as compared with 9.9 per cent a year ago. Notably, bank credit to services sector has increased phenomenally, due to enhanced credit offtake by the NBFC sector, and other trade related activities. Personal loans registered a growth of 20.6 per cent (y-o-y) in March 2023 as compared with 12.6 per cent a year ago, primarily driven by housing loans.

Table 4: Bank Credit to different Sectors

Sector	Outstanding as on			Variation	
	26.Mar,2021	25.Mar,2022	24.Mar,2023	25.Mar,2022 / 26.Mar,2021	24.Mar,2023 / 25.Mar,2022
				%	%
Bank Credit (II + III)	10949509	11891314	13675228	9.6	15.0
II. Food Credit	61254	55011	19906	-10.2	-63.8
III. Non-food Credit	10888255	11836304	13655322	9.7	15.4
Agriculture	1329618	1461719	1687191	9.9	15.4
Industry	2934689	3156067	3336722	7.5	5.7
Services	2770713	3011975	3608574	8.7	19.8
Personal Loans	3009013	3386982	4085168	12.6	20.6

MSME Advances by Banks (₹crore)

Bank	March 2022	March2023	%Change
Canara Bank	119026	123627	3.87%
Bank of India	64750	70777	9.31%
Bank of Maharashtra	26279	33244	26.5%
Central Bank of India	34139	39899	16.9%
Indian Bank	74167	79656	7.4%
Punjab & Sind Bank	13021	14857	14.1%
UCO Bank	22045	24710	12.1%
Union Bank of India	110577	125022	13.1%

Source: Financial Express (12 May 2023), different banks, RBI.

The Future Outlook

Going forward, major challenges remain - US debt management issue, El Nino impact, global financial stability, inflation trends, oil price movements, trends in the US Dollar index and emerging market currencies movements, probable recessionary impact of certain western developed economies on emerging markets among others.