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ECONOMIC DIGEST

THE ECONOMIC DRIFT AMID VOLATILE TIME

24 August 2023

Global Economic Developments:

The growth trajectories for the global economies remain mixed and are diverging across regions amidst moderating but still “over-the-target” inflation, tight financial conditions, simmering geopolitical conflicts, and geoeconomic fragmentation. China’s central bank cut the one-year loan rate by 15 bps to 2.5%, which was followed by July2023 data indicating weak consumer spending, declining investment, and increasing unemployment. As highlighted by Tao Wang, M.D. and Chief Economist, UBS Hong Kong “China's overall debt-to-GDP ratio is about 300% and rising, which is the highest among emerging markets and higher than most advanced economies as well.

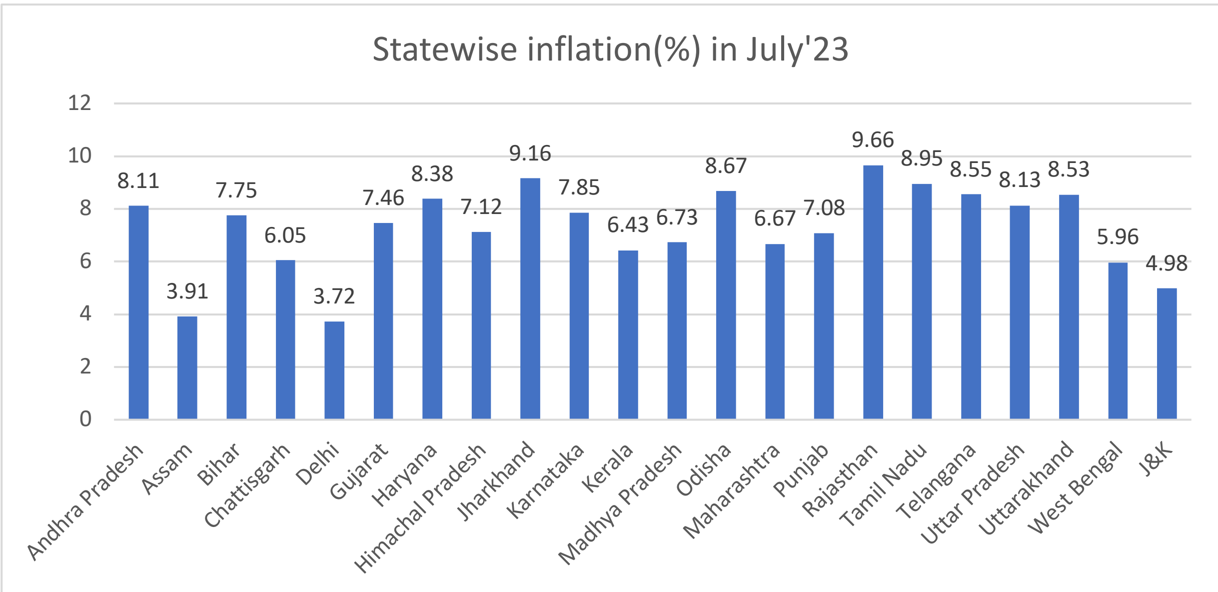
While China's central government debt is relatively small at just above 20% of GDP, debt at the local government level is estimated to be more than 70% of GDP. Moreover, many local governments do not have enough cash flow to pay interest on their debt. Some parts of the corporate sector, especially the property developers, are also now facing severe challenges to service their debt given the deep property slump.” Despite the State ownership of the banks and the government's guarantees on deposits, a worrisome factor is that debt has been consistently rising faster than output over a prolonged period and a growing share is allocated to nonproductive sectors.

Russia's central bank hiked its major interest rate from 8.5% to 12% after the rouble crashed to a more than 16-month low against the dollar. The rouble has shed around 30% of its value against the dollar since the beginning of the year. On the other hand, Japan's economy exceeded expectations with a 6.0% annualized growth in Apr-Jun, driven by strong auto exports and tourism, offsetting the slower post-COVID consumer recovery while a 1.5% quarterly rise surpassed forecasts, and pushed GDP to a new peak despite global recession concerns. UK headline inflation has dropped to 6.8%, though the core CPI (excluding energy, food, alcohol and tobacco prices) remains stringent at 6.9% marginally above the consensus estimate at 6.8%. Gas and electricity prices have declined, whereas food prices remain range bound. Wages (excluding bonuses) increased by 7.8% YOY in June, the fastest growth since 2001.

The US benchmark 10-year yields have increased to 4.366% indicating an upward trend, which comes amid a resilient US economy. Investors' sentiment remain cautious amid lack of clarity regarding policy easing and slowdown in Chinese economy. European stocks have seen upsurge due to tech sector as optimism is high on chipmaker Nvidia.

Indian Economic Developments:

The rise in headline CPI inflation to 7.44% is above 6.40% breaching RBI s upper tolerance limit. However, this basically reflects lagged impact of recent rise in tomato and certain vegetable prices including cereals and pulses. The broader point is that producers are now able to pass on end prices to consumers thus retail final prices are increasing but producer's prices or WPI is still very low largely negative. Wholesale or commodity prices are range bound but CPI increasing due to irregular monsoon and rise in food inflation. The RBI hinted this at last monetary policy in a hawkish tone. Monsoon and rainfall are going to play a larger role going forward. The forthcoming policy decision would be largely data dependant. The month of July'23 has witnessed an accentuation of food inflation, primarily on account of vegetables. The increase in tomato prices and further increase in prices of cereals and pulses have contributed to this. Uncertainties, however, remain on domestic food price outlook due to sudden weather events and possible El Niño conditions in August'23 and beyond. State-wise, Rajasthan has faced the highest inflation at 9.66% followed by Jharkhand at 9.16%.



Source: MOSPI.

Table 1: Rural and Urban inflation in India (%)

Month	Rural inflation(%)	Urban inflation(%)	Combined(%)
July'23	7.63%	7.20%	7.44%
June'23	4.78%	4.96%	4.87%
July'22	6.80%	6.49%	6.71%

Source: MOSPI.

Table 2: Trends in Consumer Price based inflation, new series (base = 2012) (%)

	Food & beverages	Pan, tobacco and intoxicants	Clothing and footwear	Housing	Fuel and light	Miscellaneous	All Groups	CFPI
Rural								
Nov-22	4.12	2.35	10.60	-	10.59	6.23	5.67	3.66
Dec-22	5.19	2.67	9.70	-	10.39	5.72	6.05	5.05
Jan-23	6.64	3.25	9.21	-	10.49	5.94	6.85	6.65
Feb-23	6.59	3.29	8.92	-	9.32	5.98	6.72	6.60
Mar-23	4.92	3.17	8.28	-	7.40	5.70	5.51	4.72
Apr-23	4.09	3.48	7.40	-	4.73	5.11	4.68	3.89
May-23	3.51	3.63	6.59	-	4.11	5.03	4.23	3.30
Jun-23	4.58	3.84	6.10	-	2.89	5.20	4.72	4.56
Urban								
Nov-22	4.50	1.83	9.39	4.63	11.57	6.42	5.68	3.69
Dec-22	3.72	2.18	9.33	4.47	11.69	6.59	5.39	2.80
Jan-23	5.40	2.65	8.88	4.62	11.45	6.49	6.00	4.85
Feb-23	5.64	2.90	8.57	4.83	10.86	6.34	6.10	5.09
Mar-23	5.42	2.63	8.07	4.96	11.00	5.85	5.89	4.82
Apr-23	4.36	3.25	7.58	4.91	6.80	4.78	4.85	3.69
May-23	3.15	3.39	6.85	4.84	5.71	4.76	4.33	2.43
Jun-23	4.63	3.18	6.26	4.56	5.55	5.19	4.96	4.31
Combined								
Nov-22	5.07	2.07	9.83	4.63	10.62	6.01	5.88	4.67
Dec-22	4.58	2.55	9.58	4.47	10.91	6.17	5.72	4.19
Jan-23	6.19	3.12	9.08	4.62	10.84	6.21	6.52	6.00
Feb-23	6.26	3.22	8.79	4.83	9.90	6.12	6.44	5.95
Mar-23	5.11	2.99	8.18	4.96	8.79	5.77	5.66	4.79
Apr-23	4.16	3.46	7.47	4.91	5.52	4.92	4.70	3.84
May-23	3.35	3.55	6.64	4.84	4.70	4.90	4.31	2.96
Jun-23	4.63	3.65	6.19	4.56	3.92	5.19	4.81	4.49

CFPI: Consumer Food Price Index.
Source: Central Statistical Organization, MOSPI, Ministry of Labour, CCIL, Infomerics Research.

Measures to combat Inflationary Trends:

The National Agricultural Cooperative Marketing Federation (NAFED) and National Cooperative Consumers Federation (NCCF) were directed to procure tomatoes from mandis in Andhra Pradesh, Karnataka, and Maharashtra for simultaneous distribution at discounted prices in major consumption centres where retail prices recorded maximum increases. Under the recently launched brand ‘Bharat Dal’, the sale of subsidised Chana dal (₹ 60 per kg for a one kg pack and ₹ 55 per kg for a 30 kg pack) from the government’s stock is intended to meet consumer demand at affordable prices. In response to high cereal inflation, the government has undertaken seven e-auctions under the Open Market Sale Scheme – Domestic [OMSS (D)], with a total sale around 8.2 lakh tonnes of wheat and 1,995 tonnes of rice (as on August 09). The Government has also ceased the diversion of subsidised rice to distilleries for ethanol production under the ethanol blending programme (EBP). Additionally, export of non-basmati white rice (semi-milled or wholly milled rice) and de-oiled rice bran (mainly used as fodder) was restricted with effect from July 20 and July 28, 2023, respectively. The stock levels for both rice and wheat stood at 2.8 and 1.0 times their respective quarterly buffer norms (as of August 01, 2023) which provides a cushion to address supply concerns.

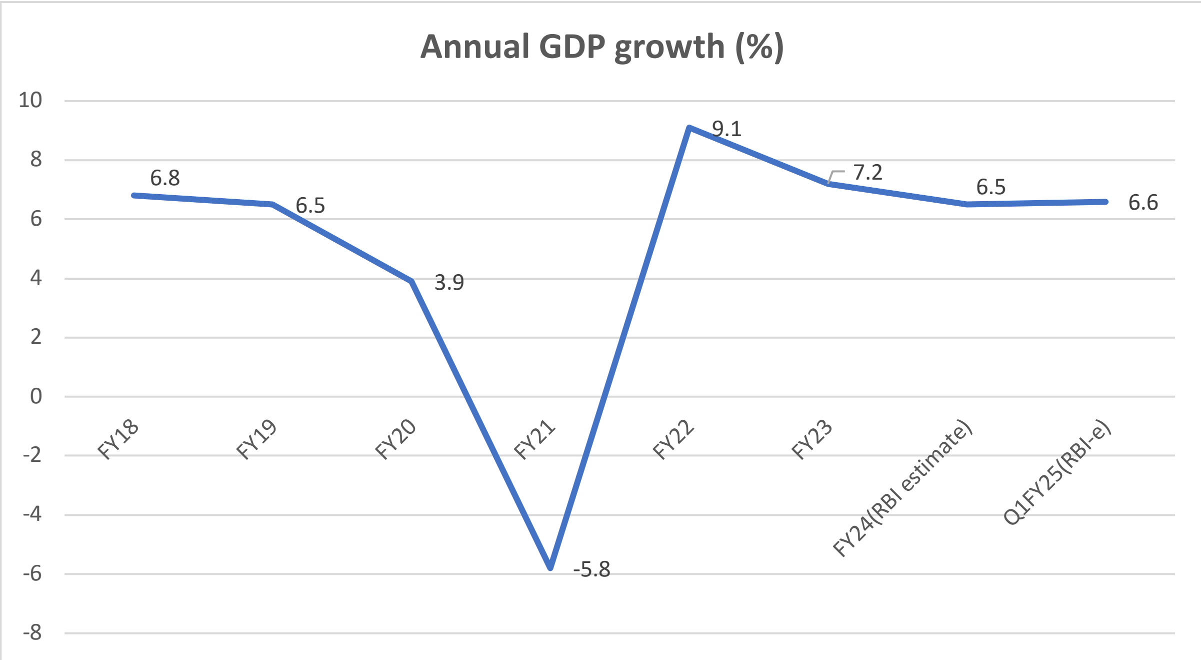
In the August’23 (10th August 2023) policy, the RBI Monetary Policy Committee (MPC) has kept the repo rate unchanged at 6.50 per cent. Consequently, the standing deposit facility (SDF) rate remains unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate remain steady at 6.75 per cent. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth. The RBI has highlighted a hawkish tone that going forward, food inflation might pose certain upward trajectory, as headline inflation, after reaching a low of 4.3 per cent in May 2023, rose in June’23 and is expected to surge during (July-August)’23 led by vegetable prices. Possible El Niño weather conditions along with global food prices need to be examined carefully against the backdrop of a skewed south-west monsoon so far. The spillovers emanating from weak external demand and protracted geopolitical tensions, however, pose risks to the outlook. Taking all these factors into consideration, real GDP growth for 2023-24 is projected at 6.5 per cent with Q1 at 8.0 per cent; Q2 at 6.5 per cent; Q3 at 6.0 per cent; and Q4 at 5.7 per cent. Real GDP growth for Q1:2024-25 is projected at 6.6 per cent. Assuming a normal monsoon, CPI inflation projections for 2023-24 is revised to 5.4 per cent, with Q2 at 6.2 per cent, Q3 at 5.7 per cent and Q4 at 5.2 per cent. CPI inflation for Q1:2024-25 is projected at 5.2 per cent.

The Incremental CRR (I-CRR) has been adopted by RBI to absorb excess liquidity from the system. It may be noted that, the level of surplus liquidity in the system has gone up in the recent months on the back of return of ₹2000 banknotes to the banking system, RBI’s surplus transfer to the government, pick up in government spending and capital inflows. The overall daily absorption under the liquidity adjustment facility (LAF) was ₹1.7 lakh crore in June’23 and ₹1.8 lakh crore in July 2023. However, the VRRR route for parking excess liquidity by banks is largely avoided which reflects greater risk aversion among banks to park large funds under the main operation. Therefore, to absorb excess liquidity from the system, the RBI announced in its 10th August 2023 monetary policy that with effect from the fortnight beginning August 12, 2023, scheduled banks shall maintain an incremental cash reserve ratio (I-CRR) of 10 per cent on the increase in their net demand and time liabilities (NDTL) between May 19, 2023 and July 28, 2023. This measure is intended to absorb the surplus liquidity generated by various factors referred to earlier including the return of ₹2000 notes to the banking system.

Liquidity has seen some downtrend:

Since March'23, the liquidity in the banking system shows deficit trend due to the GST outflows of ₹1.5 trillion and intervention by the RBI in the forex market. This happened in the backdrop of the imposition by the RBI on incremental CRR (I-CRR) on banks. However, the liquidity deficit seems to be transitory since the government cash balances with the RBI is at ₹4 trillion.

Indian GDP Growth Trends (%)



Source: MOSPI, RBI, NSE, Infomerics Research

Table 3: Growth trends in Quarterly Gross Value Added (GVA) Estimates (At 2011-12 prices)

Sectors	Share(%)	2022-23 Q4 GVA (Rs. crore)	Quarterly GDP Growth (%) 2021-22 Q4	2022-23 Q1	2022-23 Q2	2022-23 Q3	2022-23 Q4
1. Agriculture, forestry & fishing	**15**	**607131**	**4.1**	**2.4**	**2.5**	**4.7**	**5.5**
Industry	**33**	**1313413**	**2.3**	**9.4**	**-0.5**	**2.3**	**6.3**
2. Mining & quarrying	2	98104	2.3	9.5	-0.1	4.1	4.3
3. Manufacturing	19	738200	0.6	6.1	-3.8	-1.4	4.5
4. Electricity, gas, water supply &other utility services	2	85297	6.7	14.9	6.0	8.2	6.9
5. Construction	10	391811	4.9	16.0	5.7	8.3	10.4
Services	**52**	**2058618**	**4.9**	**16.3**	**9.4**	**6.1**	**6.9**
6. Trade, hotels, transport, com- munication and services related to broadcasting	20	810205	5.0	25.7	15.6	9.6	9.1
7. Financial, real estate &							

profes-sional services	19	760810	4.6	8.5	7.1	5.7	7.1
8. Public administration, defenceand Other Services	12	487603	5.2	21.3	5.6	2.0	3.1
GVA at Basic Price	**100**	**3979162**	**3.9**	**11.9**	**5.4**	**4.7**	**6.5**

Source: Central Statistical Organization (CSO)

The RBI August 2023 Consumer Confidence Survey:

The major findings of the RBI's Aug'23 Consumer Confidence Survey (CCS) are as follows:

- After persistent recovery for almost two years, consumer confidence for current period, as reflected in the current situation index (CSI), stood a shade lower than that witnessed in the previous survey round; improvement in respondents' sentiment on income and spending was offset by somewhat higher pessimism on general economic and employment situation.
- Going forward, households expect improvement in general economic, employment and income conditions; they turned less pessimistic on one year ahead price situation vis-à-vis May 2023 round of the survey.
- The future expectation index (FEI) remained in optimistic terrain and recorded a marginal rise in the latest survey round.
- Sentiments on current income improved further and moved to optimistic zone for the first time in four years; future earnings expectations remain buoyant.

The Indian Rupee (INR) has shown certain stress:

After the Fed meeting minutes shows that possibility of future interest rate hikes is not ruled out, the US treasury yield increased (the 10-Year US treasury has increased to 4.31%) and weakening Chinese currency puts downward pressure on rupee. The Indian rupee (INR) declined to its lowest amid surging dollar index towards 83.14. RBI has intervened in the forex market by dollar selling in attempt to stabilise the INR.

Table 4: INR Movement Trends vis-à-vis other major currencies

Date	USD	GBP	EURO	YEN
17/08/2023	83.1263	105.8807	90.4758	56.8100
14/08/2023	82.9521	105.2059	90.6982	57.2900
11/08/2023	82.7796	105.2349	91.0233	57.1900
10/08/2023	82.8372	105.4413	91.0602	57.5200
09/08/2023	82.8166	105.7491	90.8708	57.8500
08/08/2023	82.7968	105.6885	91.0621	57.8700
07/08/2023	82.7431	105.2581	90.8376	58.1800
04/08/2023	82.7978	105.2984	90.6713	58.1100
03/08/2023	82.7171	105.0187	90.4660	57.6100
02/08/2023	82.5347	105.3445	90.6468	57.8000
01/08/2023	82.2833	105.5777	90.4595	57.6900

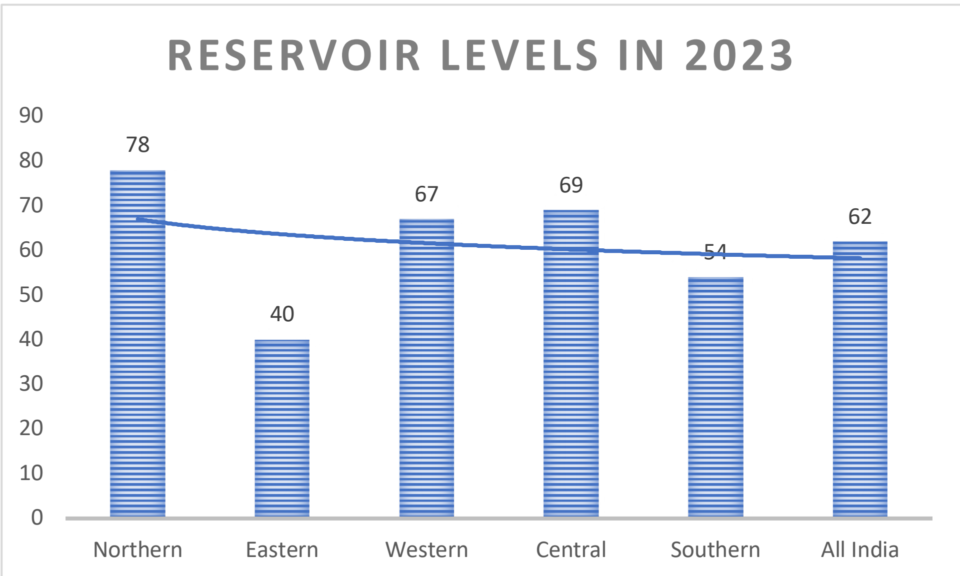
Source: RBI.

Earlier, the yield on the 10-year US treasury rose to a high of 4.18 per cent on August 3, its peak since November 7, 2022 on the back of stronger than expected US Q2:2023 GDP data and the downgrade of US credit rating by Fitch. The yield on the Indian 10-year government bond advanced past the 7.25% level in August'23[1] and tracking the surge in US Treasuries as concerns of hawkish monetary policy for key central banks pressured demand for government bonds. Minutes from the FOMC's latest meeting showed that policymakers are still aware of upside risks to inflation, possibly warranting another rate hike for the US central bank.

Monsoon Trends

The monsoon remains volatile, for instance, the dry spell in many parts of India in Aug'23 has led to a 36% below normal rain for the country whereas the deficit in other parts including central and southern regions is paramount. The rainfall during 1 July-14 July'23 was 85.9 mm against its long period average (LPA) of 133.3 mm. Uneven spatial distribution of rainfall persists as the eastern and north-eastern regions registered a 25 per cent rainfall deficit. The sub-divisions adjoining the Himalayas and the eastern region are expected to receive normal/ above normal rainfall in the second half of the SWM season (August-September), which could help improve the kharif sowing in these regions. Kharif crops include rice, groundnut, maize, soybean, tur, masoor and cotton. Inadequate monsoon impacts the production of key foodgrain items, as more than 65% agricultural lands are dependant on monsoon for kharif crops.

Reservoir Levels (As on 10th August 2023)



Note: *LHS shows per cent of full reservoir levels.*
Source: *RBI.*

[1] https://tradingeconomics.com/india/government-bond-yield

External Sector

India's goods exports declined 15.9% in July'23 to $32.3 billion, whereas imports decreased to $52.9 billion thus narrowing the trade deficit to $20.7 billion. In the goods segment, 18 of the 30 top export products have experienced a decline, with petroleum products have seen the topmost decline (declined 43.7% to $4.6 billion in July'23 from $8.3 billion in the corresponding period last year). Regarding imports, 16 of the top 30 items have seen a decline in the case of silver where the value of shipments dropped 97% to $30 million in July'23. The surge in import of oil and fertiliser from Russia has helped the country to become the second largest source of imports after China (overtaking US and UAE). During Apr-July'23 imports from Russia almost doubled to $20.5 billion as against $10.4 billion a year ago. Though India has recently experienced a surge in electronics exports, petroleum products continue to be major source of trade deficit, followed by electronic goods in 2023-24 so far.

As highlighted by the RBI August Bulletin (17 August 2023), trade restraints on rice exports in September 2022 included prohibition of exports of broken rice and a 20 per cent cess on exports of all other rice varieties except parboiled and basmati. Despite the imposition of the duty, exports of non-basmati white rice continued to increase. This category accounted for 20.8 per cent of India's rice exports by value during September 2022 to June 2023. To increase the domestic availability and contain inflation, exports of non-basmati white rice were prohibited with effect from July 20, 2023. Globally, prices of this variety surged after the export ban India remained the world's largest rice exporter, with its share in global exports increasing from 35.7 per cent in 2021 to 36.8 per cent in 2022. China and Russia are major sources of trade deficit in 2023-24.

In the electronics segment, India has announced licensing requirements for import of laptops, tablets, all-in-one personal computers and ultra-small computers and servers with effect from 1st November, 2023. The restricted items constitute around 10 per cent of India's electronic imports.

As India has high import dependence for many of the critical and strategic minerals like lithium, rare earth elements, vanadium etc; it has started to explore how to reduce such imports. Lithium is in demand for the lithium-ion batteries required to run EVs. Explorations are also ongoing for the rare earth elements (REE) that are used in industrial applications including electronics, clean energy, aerospace, automotive and defence.[2] Explorations of other minerals like vanadium used in nuclear reactors, spacecraft and aircraft are also ongoing in states like Madhya Pradesh, Himachal Pradesh, Arunachal Pradesh and Kerala.

Table 5: Trends in merchandise trade and growth on Y-o-Y basis ($ million)

	Exports	Growth (%)	Imports	Growth (%)	Balance	Oil imports	Growth (%)
Year							
2021-22	441570	51.94	624880	60.56	-183310	163065	98.01
2022-23	426320	-3.45	710050	13.63	-283730	207430	27.21
Apr-Jun'23	78700	-6.41	119190	22.18	-40490	34249	68.39
Apr-Jun'24	69640	-11.51	107000	-10.23	-37360	30797	-10.08
Month							
Jun-22	42280	30.13	66310	57.54	-24030	18937	77.34
Jul-22	36270	2.14	66270	43.60	-30000	21134	70.40
Aug-22	33920	1.62	61900	37.28	-27980	17701	87.44

[2] "India steps up exploration of critical minerals"(16.08.2023) The HinduBusinessline.

Sep-22	35450	4.85	61160	8.65	-25710	15876	-5.38
Oct-22	29780	-16.65	56690	5.69	-26910	12279	-14.91
Nov-22	31990	0.60	55880	5.37	-23890	15741	10.50
Dec-22	34480	-8.81	58240	-2.08	-23760	17472	8.08
Jan-23	32910	-6.59	50660	-3.63	-17750	14673	18.76
Feb-23	33880	-8.80	51310	-8.21	-17430	15755	4.46
Mar-23	38380	-13.89	58110	-7.89	-19730	16115	-23.79
Apr-23	34660	-12.70	49900	-14.05	-15240	15173	-13.95
May-23	34980	-10.31	57100	-6.59	-22120	15624	-5.97
Jun-23	32970	-22.02	53100	-19.92	-20130	12543	-33.77

Source: Ministry of Commerce & Industry, GoI.

Crude Oil Prices have shown softer trends:

Global oil prices eased due to fears that US rates could stay higher for longer time coupled with China's slowdown. Brent crude dipped 17 cents, or 0.2 per cent, to $83.86 a barrel by 0031 GMT while U.S. West Texas Intermediate crude was at $79.56 a barrel, down 8 cents, or 0.1 per cent. Indian Refineries and Oil Marketing Companies (OMCs) have seen certain decline in import costs due to fall in global crude oil prices. The Indian crude oil basket declines in July at $80.37/barrel, down from $105.49 during July'22.

Foreign Direct Investment (FDI) Trends:

Inflows of foreign direct investment (FDI) into India dipped to $71 billion (on a gross basis) during the financial year 2022-23 due to high inflation and subdued global demand. During the last financial year, after modifying for repatriation and disinvestment by foreign investors, direct inflows were 27% lower at $41.6 billion. Fund outflow under the RBI's Liberalised Remittances Scheme (LRS) increased to $3.89 billion in June'23 compared to $2.88 billion in May'23. Substantial fund outflow has happened in equity/debt investments, purchase of immovable properties, overseas deposits and maintenance of relatives abroad. The Union Budget 2023-24 proposed increasing the TCS rate from 20% from 5% above ₹7 lakh threshold for all purposes except education and medical treatment. The GoI had since then postponed the implementation of TCS on remittances to 1 Oct'23.

Table 6: Trends in Foreign Investment(Net) in India(amount in USD million)

	Equity	Growth (%)	Portfo-lio	Growth (%)	Total	Growth (%)	ECB	Growt h (%)
Year								
2020-21	61393	21.17	37103	705.37	83274	167.15	35257	-33.39
2021-22	60226	-1.90	-15315	-141.28	19396	-76.71	39886	13.13
2022-23	46945	-22.05	-5890	61.54	22976	18.46	26629	-33.24
Month								
Apr-22	6528	43.41	-4071	-133.83	801	-6.64	362	-86.71
May-22	6220	-41.18	-4458	-593.14	709	-92.53	1516	105.42
Jun-22	4047	45.73	-6586	-761.91	-2922	-	1889	27.21
Jul-22	5044	70.06	458	139.86	5747	805.04	2616	-23.82
Aug-22	2450	-61.42	7532	141.64	7751	-6.54	1875	-34.14
Sep-22	3047	-34.09	-1378	-146.30	-623	-111.83	2709	-32.66
Oct-22	3093	-19.56	607	128.52	3340	557.53	1430	6.80
Nov-22	2491	-44.83	4727	-	2323	45.28	5203	116.88
Dec-22	4491	11.25	-554	83.08	1516	150.72	2768	-50.12

Jan-23	4138	-36.50	-3103	25.87	1095	10.94	1777	-77.73
Feb-23	2932	-38.23	-681	87.32	1411	211.28	644	-72.34
Mar-23	2464	-47.83	1617	131.09	1819	172.33	3840	-23.84
Apr-23	5224	-19.98	2110	151.83	4818	501.50	5360	-

Source: DGFT, DPIIT, GoI, RBI,CCIL, Infomerics Research.

Private Corporate Investment Trend:

According to the RBI August 2023 Bulletin, the near-term outlook for private investment activity in India is gauged from project investment proposals of the private corporate sector. A sustained pick-up in bank credit in recent period, rising capacity utilisation, improved business outlook and demand conditions and various government policy initiatives to support investment activities provided a conducive environment for the private corporates to undertake fresh capital all India investment. The envisaged total cost of the projects financed by banks/financial institutions reached a new peak during 2022-23 since 2014-15. Of the total capital investment during 2022-23, about 40 per cent is expected to be spent in 2023-24.

During 2022-23, 393 companies, which did not avail of any financing from banks/FIs for capex projects, raised ₹82,448 crore through ECBs, while 42 other companies raised ₹3,629 crore through domestic equity issues under the IPO route for funding their capex needs. Overall, investment plans of 982 projects were made during 2022-23, with record capital outlay of ₹3,52,624 crore – higher than the level seen since 2014-15, as against 791 projects in 2021-22 with investment intentions of ₹1,96,445 crore.

Concluding Remarks:

The continuing global headwinds pose certain stresses on Indian macroeconomic indicators, e.g. exports remain subdued. Nevertheless, India remains one of the fastest growing economies; IMF has projected India's growth at 6.1% in 2023, a 0.2 percentage point upward revision compared with the April projection. RBI has estimated Q1FY24 Real GDP growth at 7.8% and full year FY24 growth at 6.5%. The July 2023 monthly economic report (MER) by the Ministry of Finance, GoI has shown optimism regarding India's economic growth driven by robust domestic investments. The report further highlighted that the Union Government in FY24 Budget increased the capital outlay by 33.3 per cent, raising the share of capital expenditure in total expenditure from 12.3 per cent in FY18 to 22.4 per cent in FY24 (BE). Measures implemented by the Union Government have also incentivised States to increase their capex spending. States capital expenditure increased by 74.3 per cent YoY in Q1 of FY24 to complement Centre's Capex increase of 59.1 per cent in the same quarter. Going forward, capital overhead investments, maintain financial and external stability, incentivising manufacturing sector, provision of careful advancement of benefits of PLI schemes, maintaining the services driven growth momentum, strengthening digital and physical infrastructure would help propelling India's growth momentum.