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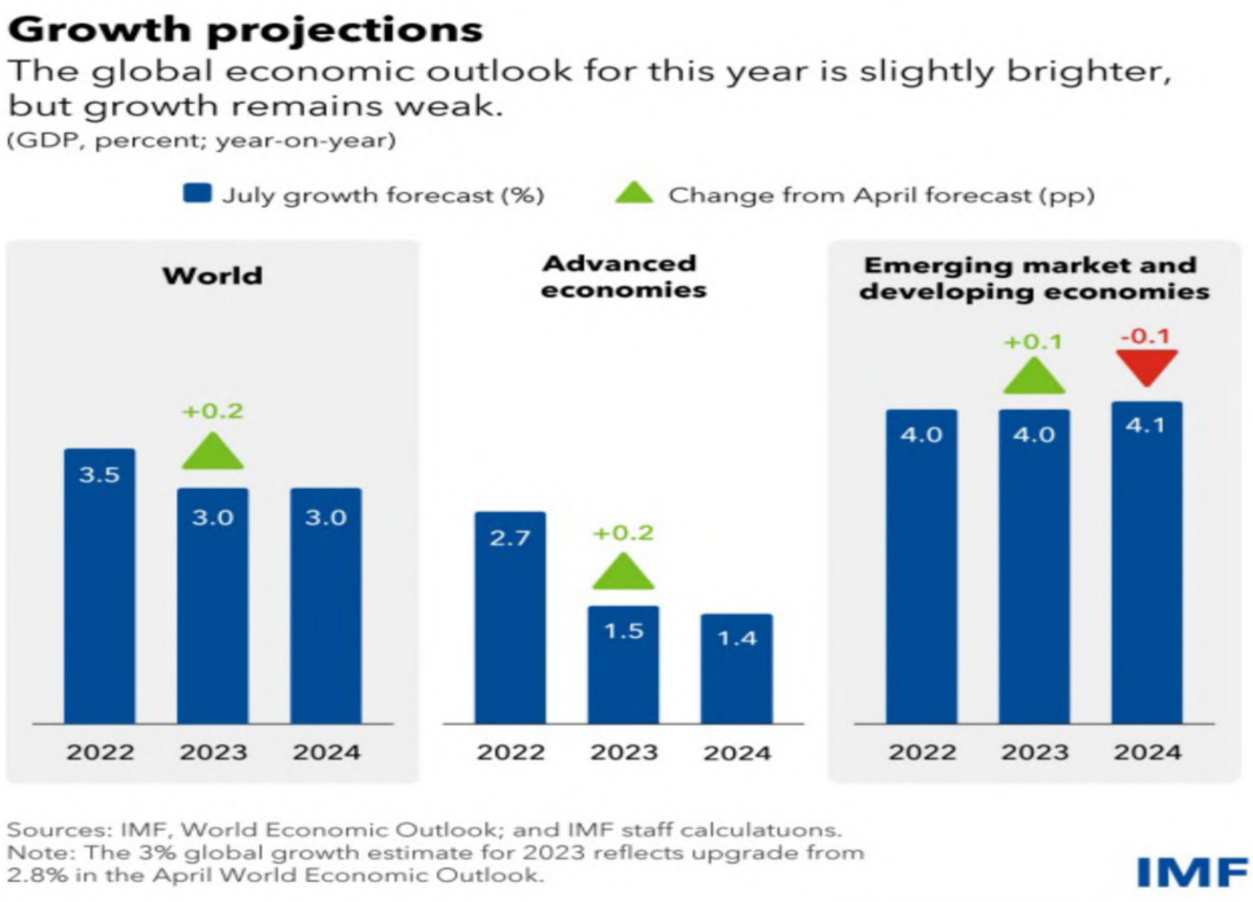
ECONOMIC DIGEST

GLOBAL AND INDIAN ECONOMY: DEVELOPMENTS AND OUTLOOK

08 August 2023

Introduction

According to the World Economic Outlook (WEO, July 2023), Global growth is projected to fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024, while global headline inflation is expected to fall from 8.7 percent in 2022 to 6.8 percent in 2023 and 5.2 percent in 2024. The balance of risks to global growth remains tilted to the downside. China's recovery could slow, in part as a result of unresolved real estate problems. Sovereign debt distress could spread to a wider group of economies. According to the Asian Development Bank (ADB) July'23 outlook, growth forecasts for East Asia are maintained at 4.6% in 2023 and at 4.2% in 2024, for South Asia at 5.5% in 2023 and 6.1% in 2024, and for the Pacific at 3.3% in 2023 and 2.8% in 2024. Southeast Asia's growth prospects are downgraded slightly from 4.7% to 4.6% in 2023 and from 5.0% to 4.9% in 2024, reflecting weaker global demand for manufactured exports. [1]



The Bank of Japan (BOJ) now offers to buy 10-year Japanese government bonds (JGBs) at 1.0% in fixed-rate operations, instead of the previous rate of 0.5%. Therefore, the 10-year JGB yields are now allowed to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, while it will conduct yield curve control with greater flexibility. The central bank said it would offer to buy 10-year JGBs at 1.0% in fixed-rate operations, instead of the previous rate of 0.5%- tolerating the wider band for bond market borrowing rates.[1]

The BOJ (July 2023) has highlighted that the projected year-on-year rate of increase in the CPI (all items less fresh food) for fiscal 2023 is significantly higher, mainly due to the fact that cost increases led by the past rise in import prices have been passed on to consumer prices to a greater extent than expected. The projected rates of increase in this CPI for fiscal 2024 and 2025 are more or less unchanged.

The Bank of Japan (BOJ) Inflation Outlook (July 2023)[2]

Medium- to long-term inflation expectations have shown some upward movements again. The June 2023 Tankan (Short-Term Economic Survey of Enterprises in Japan) shows that the diffusion index (DI) for output prices has been at a high level, and firms' inflation outlook for general prices has also been at a high level, not only for the short term but also for the medium to long term. In addition, the wage growth rate agreed in the annual spring labor-management wage negotiations this year was significantly higher than in the previous year, including base pay. Given that the formation of inflation expectations in Japan is largely adaptive, the increase in inflation seen thus far has brought about a rise in households' and firms' medium- to long-term inflation expectations. In this situation, signs of change have been seen in firms' wage- and price-setting behavior. *Regarding the outlook, even as actual inflation decelerates, inflation expectations are likely to rise moderately toward the end of the projection period, with improvement in the output gap and changes in firms' wage- and price-setting behavior and in labor-management wage negotiations.* ***This will likely lead to a sustained rise in prices accompanied by wage increases.***

Source: The Bank of Japan (July 2023)

The JPY/INR is trending downwards, the near-term support was at 0.58 (spot) whereas it formed a bottom on 4 July'23 at 0.57. It shows a more or less continuous declining trends since 24 March'23 when it tops at 0.64.[3] The yen inched upwards 0.3% higher against USD at 140.77.

US PCE inflation (Fed's preferred measure of inflation) eased to its lowest levels in over two years. For the month of Jun-23, headline and core PCE inflation decelerated to 3.0% YoY (from 3.8% in May) and 4.1% YoY (from 4.6% in May) respectively. The US situation has improved as inflation remains range-bound with consumption trends remaining stable. The forthcoming non-farm jobs report and ISM surveys will be crucial in this regard. The "Seeking Alpha" has put it succinctly "*Following an infamous "transitory" call from 2021, Jay Powell and Co. made a serious policy U-turn, ratcheting up rates from near zero to 5.5% in the span of 16 months. A technical recession ensued in the first half of 2022, but the U.S. economy has been resilient since then, with quarterly GDP recently growing at a 2.4% annualized rate*." It seems there

[1] To encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

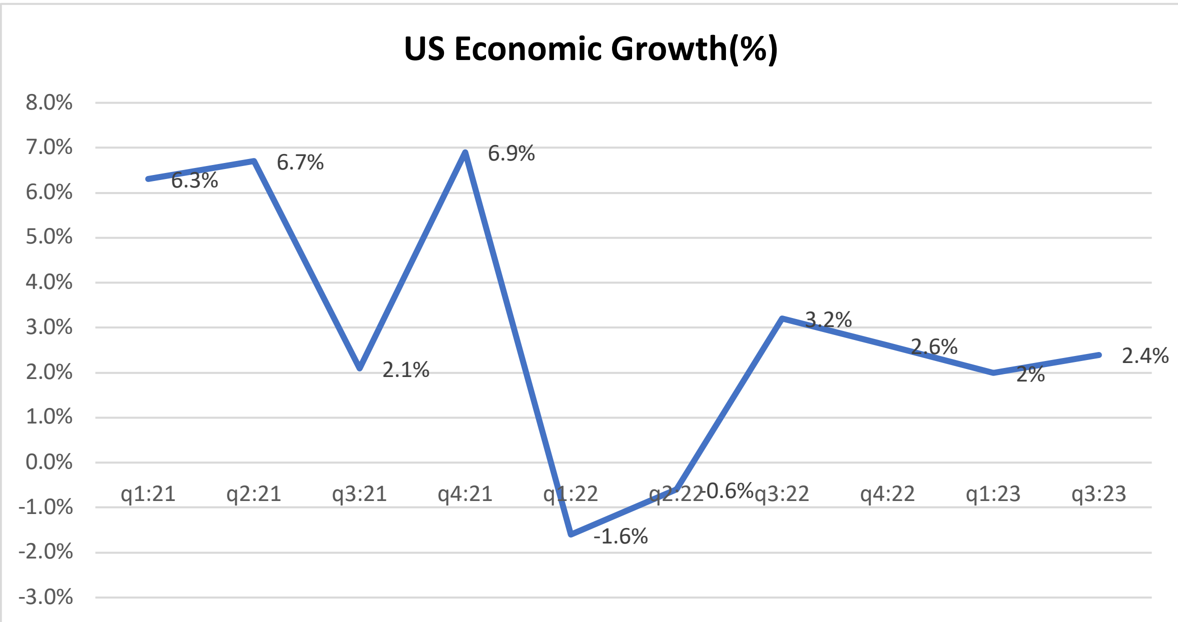
[2] https://www.boj.or.jp/en/mopo/outlook/gor2307b.pdf

[3] https://www.moneycontrol.com/markets/currencies/jpy-inr/

might be another hike before pause given tight labour market and Fed's commitment towards 2% target inflation rate.(However, such decisions will be data dependant).

A big jolt for US is that the global rating agency Fitch downgraded the debt rating of the US to AA+ from AAA citing likely fiscal deterioration over the forthcoming years due to a growing government debt burden. The following factors play crucial roles in the downgrade:

- Erosion of governance.
- Rising general government deficit.
- Likely increase in government debt.
- Unaddressed medium-term fiscal challenges.



Source: Bureau of Economic Analysis, Yahoo Finance!

A positive news is that the Eurozone inflation has settled at 5.3% in July'23, down from 5.5% in June'23. Energy inflation declined on base effects at-6.1% while food inflation reduced at 10.8%, down from 11.6% in June'23. While recent price developments have been less disinflationary, overall headline inflation should continue to trend lower. GDP growth accelerated in the second quarter, expanding by 0.3%, higher than the 0.2% expected. France and Ireland have made the GDP growth more resilient, especially Ireland.

Eurozone Macro-variables

Macro Variable	Value	Trend
Inflation Rate	5.3%	Negative(-)
Euro Short-term rate	3.40	Positive(+)
10-year AAA govt. bond yield	2.54%	Positive(+)
Cost of borrowing for house purchase	3.58%	Positive(+)
GDP volume growth	0.3%	Positive(+)
Current account balance	GBP 9.1 bn	Positive(+)
Household debt ratio	92.3%	Negative(-)

Source: European Central Bank (ECB).

In China, official business surveys showed manufacturing is down in July'23 while services and construction are facing bottlenecks. The official NBS Non-Manufacturing PMI for China declined to 51.5 in July 2023 from 53.2 a month earlier., while there is very marginal uptick in the official NBS manufacturing PMI.[4] official NBS Manufacturing PMI rose to 49.3 in July of 2023 from 49 in June'23. Chinese policymakers are concerned about housing sector and mounting local debt risks.

Source: CNBC.

Developments in the Indian Economy

Core sector growth hits 5-month high of 8.2% in June'23: India's eight core sectors posted a growth of 8.2 percent in June'23. the growth in India's eight key infrastructure sectors- coal, crude oil, steel, cement, electricity, fertilisers, refinery products, and natural gas- in June is the highest in five months. Core sector growth for May has been revised up to 5.0 percent from 4.3 percent. In June 2022, core sector growth was

[4] In case of Japan, the manufacturing PMI fell to 49.6 from 49.8 in Jun-23.See, https://seekingalpha.com/news/3993258-china-nbs-manufacturing-shrinks-for-fourth-straight-month-to-493-in-july

13.1 percent, thanks to a favourable base effect. For April-June, core sector growth has been 5.8 percent, down from 13.9 percent in the first three months of 2022-23.

Sector	Coal	Crude Oil	Natura lGas	Refinery Products	Fertilizers	Steel	Cement	Electricity	Overall Growth
Weight	**10.33**	**8.98**	**6.88**	**28.04**	**2.63**	**17.92**	**5.37**	**19.85**	**100.00**
Jun-22	32.1	-1.7	1.2	15.1	8.2	3.3	19.7	16.5	**13.1**
Jul-22	11.4	-3.8	-0.3	6.2	6.2	7.5	0.7	2.3	**4.8**
Aug-22	7.7	-3.3	-0.9	7.0	11.9	5.8	2.1	1.4	**4.2**
Sep-22	12.1	-2.3	-1.7	6.6	11.8	7.7	12.4	11.6	**8.3**
Oct-22	3.8	-2.2	-4.2	-3.1	5.4	5.8	-4.2	1.2	**0.7**
Nov-22	12.3	-1.1	-0.7	-9.3	6.4	11.5	29.1	12.7	**5.7**
Dec-22	12.3	-1.2	2.6	3.7	7.3	12.3	9.5	10.4	**8.3**
Jan-23	13.6	-1.1	5.2	4.5	17.9	14.3	4.7	12.7	**9.7**
Feb-23	9.0	-4.9	3.1	3.3	22.2	12.4	7.4	8.2	**7.4**
Mar-23	11.7	-2.8	2.7	1.5	9.7	12.1	-0.2	-1.6	**4.2**
Apr-23*	9.1	-3.5	-2.8	-1.5	23.5	15.3	12.0	-1.1	**4.3**
May-23*	7.2	-1.9	-0.3	2.8	9.7	10.9	15.3	0.8	**5.0**
Jun-23*	9.8	-0.6	3.6	4.6	3.4	21.9	9.4	3.3	**8.2**

Growth Rates (on Y-o-Y basis in per cent)

Source: office of the economic adviser, department for promotion of industry and internal trade

Centre's fiscal deficit rises to ₹4.51 lakh crore in April-June, 25.3% of FY24 target: The Indian government's fiscal deficit increased to ₹ 4.51 lakh crore in April-June from Rs 2.10 lakh crore in April-May, according to data released by the Controller General of Accounts on 31 July'23. At ₹ 4.51 lakh crore, the fiscal deficit for the first three months of the current financial year accounts for 25.3 percent of the full-year target of ₹ 17.87 lakh crore. The fiscal deficit in the first three months of 2022-23 was 21.2 percent of the target. The sharp expansion in the fiscal deficit- up 28.3 percent year-on-year in April-June and 62.9 percent in June- comes after an unexpectedly large dividend from the Reserve Bank of India (RBI) boosted non-tax revenue in May and helped limit the April-May fiscal deficit to just 11.8 percent of the full-year target.

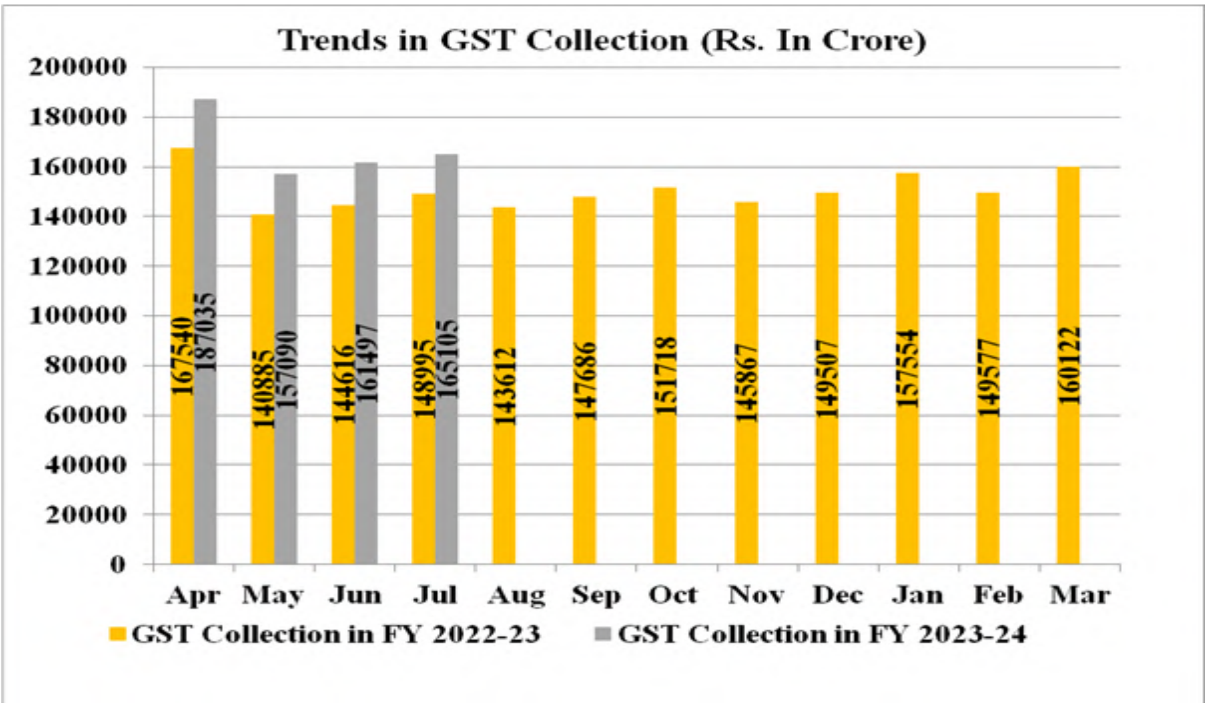
₹1,65,105 crore gross GST revenue collected for July 2023; records 11% Year-on-Year growth

The gross GST revenue collected in the month of July, 2023 is **₹1,65,105 crore** of which CGST is **₹29,773 crore**, SGST is **₹37,623 crore**, IGST is **₹85,930 crore** (including ₹ 41,239 crore collected on import of goods) and cess is **₹11,779 crore** (including ₹ 840 crore collected on import of goods).

The government has settled ₹39,785 crore to CGST and ₹33,188 crore to SGST from IGST. The total revenue of Centre and the States in the month of July 2023 after regular settlement is ₹69,558 crore for CGST and ₹70,811 crore for the SGST.

The revenues for the month of July 2023 are 11% higher than the GST revenues in the same month last year. During the month, the revenues from domestic transactions (including import of services) are 15%

higher than the revenues from these sources during the same month last year. It is for the fifth time, the gross GST collection has crossed Rs. 1.60 lakh crore mark.



Source: Ministry of Finance.

Auto retail sales in June demonstrated a 10% YoY growth, encompassing positive performances across all vehicle categories including 2W, 3W, PV, Tractor and CV with respective growth rates of 7%, 75%, 5%, 41%, and 0.5%.[5] Despite a slight decline of-3% compared to pre-COVID levels, the overall retail figures relatively improved, except 2W sales (-14%) being the primary segment which continued to experience setback. For the first time, CV came out of the effect of covid and grew by 1.5% when compared to June'19. However, in July'23 the passenger vehicles sales remains a bit muted, whereas SUV sales are high. June'23 recorded multiple segment all-time highs as 3W, PV and Tractor showed maximum strength when compared to previous June's.

Two-wheeler market anticipates continued economic pressures and supply challenges, while the reduction in FAME subsidies casts a shadow over EV sales. Passenger vehicle segment faces inventory pressures and demand-supply mismatches, impacting profitability, but the anticipation of a boost from the upcoming festive season beginning, end-August offers a hopeful outlook. Erratic monsoon in India raising concerns about yield and potentially impacting automobile sales, especially in rural areas, but anticipation of evenly spread rains going forward may revive rural demand and thus positively influence retails.

[5] FADA, 6 July 2023 Press Release, Link: https://fada.in/images/press-release/164a63562b4002FADA%20Releases%20June%202023%20Vehicle%20Retail%20Data.pdf

Brokerage firm Morgan Stanley has upgraded India to overweight as it believes the country is just at the start of a long wave boom given its relative valuations are 'less extreme' than in October and the nation's reform and macro-stability agenda supports a strong capex and profit outlook. The upgrade comes just four months after the brokerage had upgraded India to equal weight from underweight on March 31 citing a narrowing valuation premium and a resilient economy. India has now become the core overweight market for Morgan Stanley within the Asia Pacific Ex-Japan and Emerging Markets basket. India's valuation premiums to Emerging Markets and China have moderated significantly from last October's high and are starting to rise again.

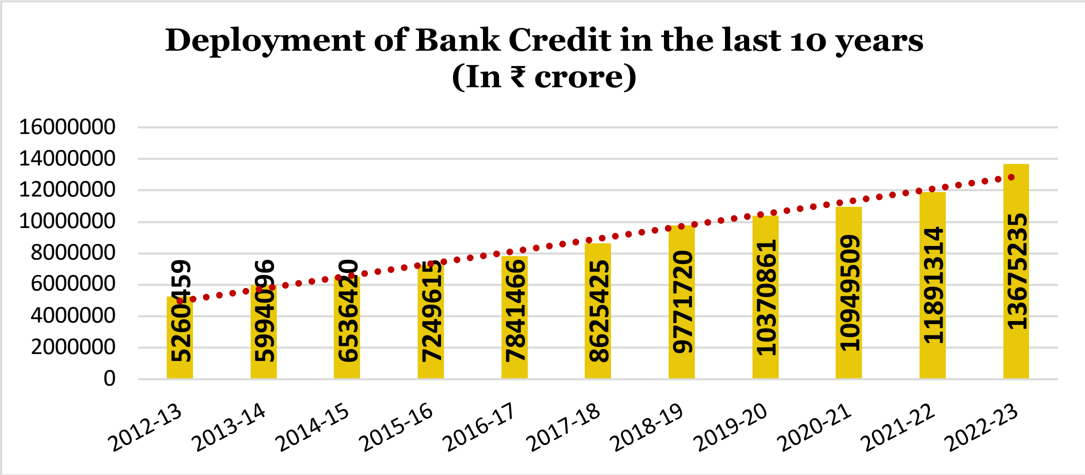
June'23 exports (both goods and services) along with Q1, 2023-24 exports have seen moderation due to slowdown in growth coupled with demand contraction across the globe. Major economies including US and China have shown downward trend in exports, along with the stressed Eurozone, marking shrinkage in their GDP including UK. One of the reasons for moderating pace of growth in merchandise exports significantly in 2023 has been because of persistent geopolitical tensions, disruption in global supply chain due to Russia-Ukraine war, monetary tightening and recessionary fears, which has continuously led to a fall in consumer spendings across the globe especially in advanced economies. Some of the key sectors, which have shown positive growth during the month of June 2023, include electronic goods, drugs & pharmaceuticals, iron ore, fruits & vegetables, oil seeds, cashew, tobacco, handicrafts excluding handmade carpets and coffee.[6] Nevertheless, there is a marginal moderation of service exports amid the downturn of the global economies. There is also a gradual shift of more exports from India towards emerging market (EM) economies, vis-à-vis developed markets.

The overall balance of payments improved in Q1:2023-24, indicating that financial flows comfortably exceeded the current account again on a quarterly basis. The World Investment Report 2023 of the United Nations Conference on Trade and Development (UNCTAD) expects India to remain a bright spot in a challenging global environment in which global foreign direct investment (FDI) may continue to face downward pressure.

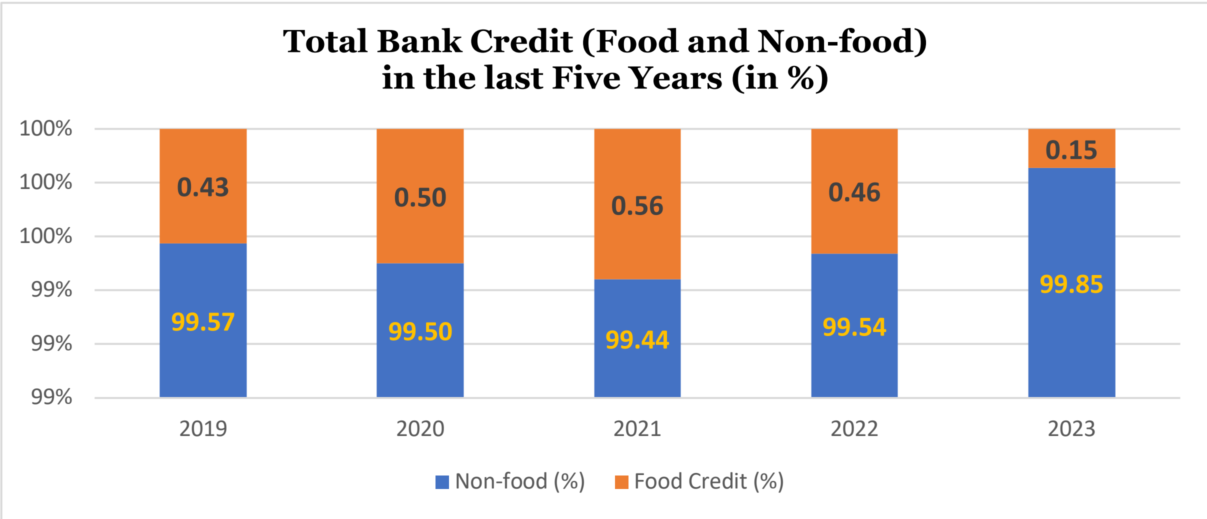
India's Bank Credit growth remains robust:

- India's bank credit growth remains at 15.4% YoY in FY23, highest since FY12 Recovery in retail credit boosts overall credit growth.
- Retail credit growth is driven by recovery in consumer credit (PL, LAP, vehicle loan, credit card etc.). Pl & LAP segment witness strong growth of 25.4% YoY in FY23. Demand for vehicle loan recovers in FY23, up 25% YoY, from 9.3% in the previous year.

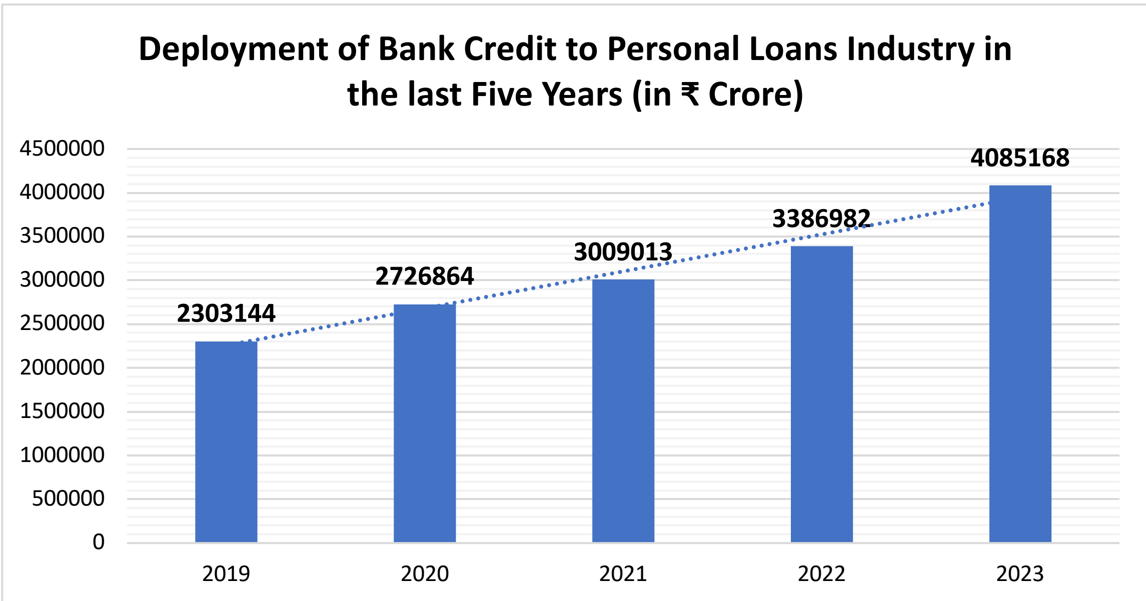
[6] FIEO (14 July 2023) Press Release.



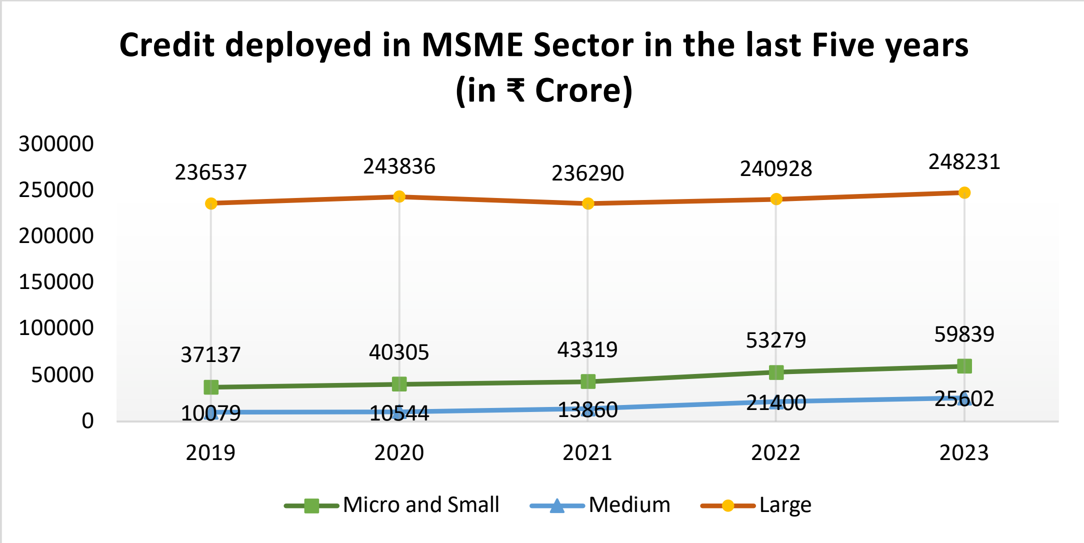
Source: CMIE, RBI.



Source: CMIE, RBI.



Source: CMIE, RBI.



Source: CMIE, RBI.

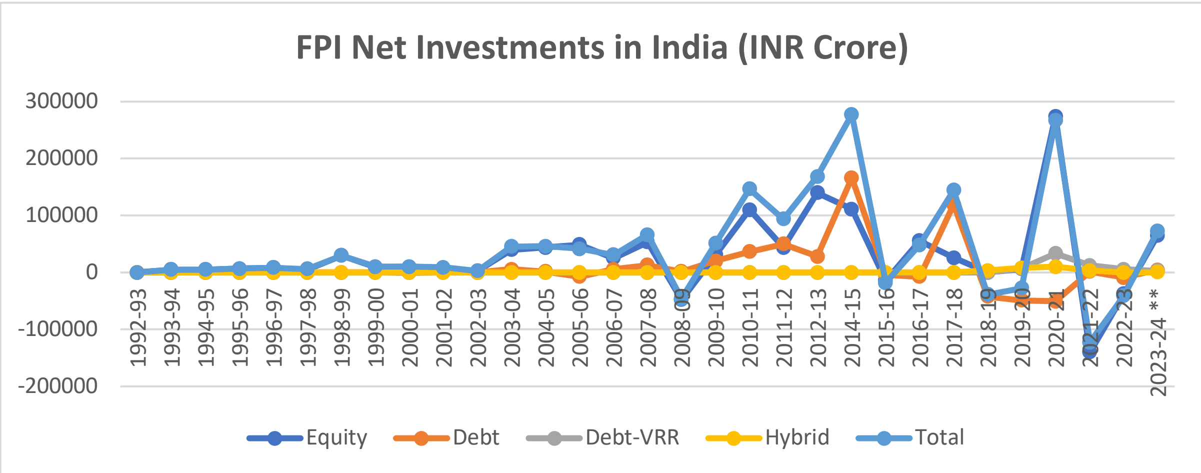
Consumer Non-Essential Spending has shown upward Trend:

- RBI's Consumer Confidence survey shows that consumers are more optimistic about doing non-essential spending.
- CMIE Consumer Sentiment Survey shows consumer in the middle-income group (Rs 2-10 lakh annual income) are now much more comfortable in buying consumer durables. Demand in low-income groups Pessimism still muted.
- Tractors sales witnessed growth of 12% YoY in FY23. Expect moderation in growth in the event of weak or erratic monsoon.
- Government is focused on improving transport infrastructure: Logistics sector accounts for 33% share of National Infrastructure Pipeline. Logistics sector accounts for the highest share (33%) of Rs 111 trillion capex under the National Infrastructure Pipeline CMIE data shows steep pick up in value of announcements in logistics sector in FY23. But a large part of the increase is Air India order for aircrafts National Logistics Policy was launched in Sep'22 to lower the cost of logistics from the existing 13-14% to 7.5% in five years.

As highlighted by the Goldman Sachs (GS) report, "Investing in India's medium-term growth story: Identifying potential multibaggers" (1 June 2023); India's aggregate equity market capitalization has risen twelve-fold since 2003. The average market capitalization to GDP ratio has increased by 11pp, from 76% in the previous decade (2003-2012) to 87% in the recent decade (2013-22), suggesting ongoing capital market development. The realized long-term equity returns at the headline index level have also been compelling. Over the past two decades, NIFTY 50 and the broader BSE 200 index have offered 15-16% annualized returns in local currency, and 12-13% in USD terms, almost double the 7% offered by the MSCI

EM index. Furthermore, in addition to a strong track record of delivering long-term beta via a simple buy-and-hold index strategy, the equity market in India has offered outsized stock returns and alpha opportunities for EM investors. Over the past two decades, about 60% of the current BSE 200 stocks would have outperformed the benchmark. Nearly 40% of the current BSE 200 stocks have generated more than 20% annualized returns over the past two decades, double the 20% of stocks for broader MSCI EM.

The Foreign Portfolio Investors (FPIs) have invested ₹9,800 crore in June 2023 and in May2023, the FPIs invested ₹43,838 crore in the Indian stock markets. A survey among foreign portfolio investors showed that India is now the consensus overweight among all emerging markets. In May'23 India attracted the largest investment among all emerging markets, whereas FPIs were sellers in China. FPIs are expected to continue their investment momentum in India in June'23 (especially in financials, automobiles, telecom, construction etc) since the latest GDP data and robust high frequency indicators have shown brighter growth prospect for India going forward.



Note:* Data up to 9 June 2023, Financial-Yearwise.

Source: NSDL (https://www.fpi.nsdl.co.in/web/Reports/Yearwise.aspx?RptType=5).

From the following Table, it can be observed that a cumulative comparison of growth of market share of certain products have shown that India's share has increased substantially in electronics, telecom, electrical equipment, machinery etc. **It is noteworthy that as electronics and machinery are the most significant product groups in world trade with global trade exceeding $6 trillion, India's share remained historically always low, which has now increased substantially.**

India's Competitive Export Strength in Products/Segments

Product/Sector Category	India's Global Exports In 2015($bn)	India's Global Exports In 2022($bn)	India's Share in Global Trade in 2015(%)	India's Share in Global Trade in 2022(%)	Change in Share (%)
Petroleum etc.	31.4	98.5	1.87	2.48	32.9
Machinery, mechanical appliances	13.2	27.5	0.75	1.05	40.3
Electronics, Telecom, Mobile Phones, Electrical Equipment	7.9	26.6	0.41	0.71	72.9
Automobiles, parts etc.	14.1	21.3	1.11	1.32	19.8
Iron & Steel	6.3	15.2	1.98	2.66	34.6
Cereals	6.8	14.1	6.63	7.8	17.6
Articles of iron or steel	6.5	9.9	2.4	2.63	9.5
Aluminium and articles	2.7	9.6	1.69	3.55	109.6
Sugars, Confectionary	1.4	6.3	3.62	11.21	209.3

Source: Ministry of Commerce & Industry, The Hindu Bussinessline(6 June 2023), Infomerics Research.

Concluding Remarks

Globally, India appears to be among one of the fastest growing economies. The RBI's forward-looking surveys indicate that economic growth will be sustained until FY25 with the real Gross Fixed Capital Formation (GFCF) expected to increase to 7.4 per cent in FY25 from 6.8 per cent in FY24. Consumer confidence in the domestic economy is improving since the pandemic even as household inflation expectations are seeing normalising over the course of the current financial year. RBI has pegged GDP growth for FY24 at 6.5 per cent with Q1 growth observed at 8 per cent, Q2 at 6.5 per cent, Q3 at 6 per cent and Q4 at 5.7 per cent. The Consumer Confidence Survey showed that both the Future Expectations Index (FEI) and the Current Situation Index (CSI) improved from the previous round on the back of improved assessment for all the survey parameters, barring essential spending.

Riding on the overall optimism in the economy, Indian corporates posted healthy order book positions as of FY23 end, even as it is expected to gain further momentum due to an increase in capex spends. The total order book position of 25 major companies across infrastructure, power, capital goods have increased by 9.6% to ₹10.27 trillion as of FY23. Many companies have witnessed higher growth in order book supported by strong inflows in certain segments such as roads, power transmission & distribution, water and buildings among others. The increased order inflow in these segments is led by governments (both Central and certain major state governments) in a major push in the infrastructure capital outlay as evident in the recent budgetary allocations. Many companies have evinced interest in establishing and expanding their businesses in India. For instance, Henkel has expressed recently that India is a key market for them, and the company would continue to invest in Indian operations, by highlighting that India is an important market for B2B, whereas they would invest in laboratory infrastructure and additional capacities in electronics. It currently operates a customer experience centre in Mumbai and two innovation centres in Mumbai and Pune. It also opened a Global Technology Centre in Bengaluru. Henkel has about 1000 employees in India out of 52,000 globally.

Among other companies, Taiwanese electronics contract manufacturer Foxconn plans to start manufacturing iPhones units by April 2024 at its proposed Devanahalli plant in Bengaluru. Further, Danfoss India sees its potential to grow at a CAGR of 18-20 per cent over the next three years in India helped by its core businesses coupled with a fresh growth strategy to bring additional business from newer areas. The company has also expanded its design footprint in India and has hired more than 400 IT engineers in the past 18 months. The expansion is due to strong growth opportunities spurred by energy transition, infrastructure expansion, ESG, PLI schemes etc. The company is eyeing for a deeper localisation of its products such as electronics and drives in its core business to more than 90 per cent plus from the current level of 60 per cent.

According to the APM Terminals CEO, Keith Svendsen, India is very well positioned to take advantage of the global supply chain resilience and multi-sourcing shift. He said that inventories had begun to normalise with the easing of pandemic and restocking should begin by end of the year. On India plans, he said that APM Terminals, part of Maersk Group plans to invest about ₹3,500 crore in its Pipavav port but a large part of the proposed capex is subject to extension of port leases. He said the company is keen to play a role in India's infrastructure and logistics sectors by investing in projects aimed at lowering logistics costs. This is line with the priorities of the Centre. As reported by the Economic Times (15 June 2023), Svendsen said the past couple of years have taught the whole world the importance of supply chain resilience and multi-sourcing. "I think that India is very well-positioned to take advantage of that. It appears that the next period of time could be of India."[7]

[7] 'Shifts in Global Supply Chains and Sourcing to Benefit India' (15 June 2023) The Economic Times.