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ECONOMIC DIGEST

GDP'S Q1 DATA - OUTPERFORMER ON THE GLOBAL SCENE

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GLOBAL PERSPECTIVE

The IMF's WEO, July 2023 shows global growth is likely to fall from 3.5 per cent in 2022 to 3 per cent in both 2023 and 2024. The US economy expanded at 2.1 per cent in April-June, UK's GDP increased by 0.4 per cent, Japan's GDP expanded by 6 per cent and Germany's adjusted GDP contracted by 0.2 per cent. China's April-June GDP rose by 6.3 per cent because of the triple whammy of a worsening property slump, weak consumer spending and falling credit growth.

INDIA - AN OUTPERFORMER IN THE COMITY OF NATIONS

Against this disconcerting setting, India's GDP rose to four-quarter high of 7.8 per cent in Q1 of FY as compared to a growth of 6.1 per cent in the previous January-March quarter of fiscal 2022-23. This growth was spearheaded by consistent demand, higher activities in the services sector, and increased capital expenditure by the central and state governments. The GVA also grew by 7.8 per cent . Nominal GDP grew by 8 per cent.

India's 7.8 per cent Q1 GDP growth, which was marginally below the Reserve Bank of India's estimate of 8 per cent, was aided by a supportive base together with a robust increase in investment. The Indian economy is now 13.8 per cent larger than the pre-pandemic first quarter of FY20 in real terms.

Agriculture grew by 3.5 per cent in Q1. Construction activity which witnessed boom in Q1 FY23 (16.0 per cent), decelerated to 7.9 per cent in Q1 FY24. Services sector grew by 10.3 per cent due to 28-quarters high growth of 12.2 per cent in 'Financial, Real Estate & Professional service' sector. There was a growth of 9.2 per cent in 'Trade, hotels, transport, communication & services related to broadcasting'.

The 10.3 per cent services sector was driven by 28-quarters high growth of 12.2 per cent in 'Financial, Real Estate & Professional service'. While the services sector clearly out-performed, the sluggish growth in manufacturing was adversely affected by falling exports, and a deceleration in the construction sector. Domestic demand growth and private consumption and investment spending will be a key determinant of growth sustainability. Festive October-December demand will raise spending significantly. Capital formation, an intercessor for investments, and private consumption expenditure, a barometer of consumption demand, rose by 8 per cent and 6 per cent in Q1 FY24, respectively. These had recorded higher growth rates of 20.4 per cent and 19.8 per cent, respectively, in the corresponding period a year ago. There is some evidence to suggest that the government's capital expenditure push is "paying off" and is crowding in private investment. Similarly, the state governments also seem to be doing well in this sphere.

The well-conceived accent on public digital platforms and innovative measures, such as, PM GatiShakti, the National Logistics Policy, and the Production-Linked Incentive schemes would enhance manufacturing output. To be sure, a deceleration in the global economy and trade may hamper export growth. But it may be good for India in certain respects. The rural demand for FMCGs has increased especially for high-value goods. The same trend is evident for small towns, contributing to growth.

As a share of GDP, private consumption expenditure dropped to 57.3 per cent of GDP in April-June from 58.3 per cent in the year-ago period.

There was, however, a contraction of 0.7 per cent in government expenditure in the first quarter this year — its share in GDP also decreased to 10.1 per cent of GDP from 11 per cent; exports also recorded a contraction of 7.7 per cent, while imports increased by 10 per cent.

The manufacturing sector's growth is skewed more towards organised sector's growth. This requires an accent on making the ongoing recovery more broad-based. Consumption demand could also be hit by surging inflation and weak external demand.

Five of the eight key sectors registered over 5 per cent growth in April-June, with two sectors recording a higher growth rate than the year-ago period — 'financial, real estate and professional services' at 12.2 per cent as against 8.5 per cent in the year-ago period, and 'agriculture, forestry and fishing' at 3.5 per cent as against 2.4 per cent.

Manufacturing grew at 4.7 per cent in April-June 2023 as against 6.1 per cent in April-June 2022, while mining and quarrying grew at 5.8 per cent, lower than 9.5 per cent a year ago. Construction sector grew at 7.9 per cent in April-June this year as against 16 per cent growth in the corresponding period last year.

The Indian economy has emerged 'a bright spot' amidst the current global economic deceleration. In view of global cues, improved crop sowing, uneven monsoon, good industrial growth, buoyant services activity, buoyant aggregate demand conditions, rising investment activity, and 2 per cent current account deficit (CAD), real GDP growth for 2023-24 is seen at 6.5 per cent with Q1 growth at 8 per cent, Q2 at 6.5 per cent, Q3 at 6 per cent and Q4 at 5.7 per cent.

The index of industrial production (IIP) grew by 5.2 per cent in May 2023. The corporate balance sheets are robust with lower leverage, improved debt servicing capacity, and strong profitability. The capital expenditure of the government rose by 59.1 per cent yoy during Q1 of FY24. The demand conditions continue to be buoyant with improvements in the sale of vehicles and improved sales in the FMCG sector.

Among demand segments, investment is gaining steam, led by government capital expenditure. Private capex is also reviving with capacity utilisation in the manufacturing sector at 76.3 per cent in Q1—above the long-term average of 73.7 per cent. The urban economy continues to lead consumption demand, while rural demand is seeing a nascent recovery. Robust domestic economic growth is reflected in Purchasing Managers Index (PMI) of manufacturing staying at 57.7 in July. The service sector PMI rose to 62.3 in July as against 58.5 in June led by robust demand and new business gains with the sharpest expansion in output since June 2010.

SUSTAINED GROWTH - NOT A FLASH IN THE PAN

Morgan Stanley's report (29 May 2023) highlighted ten big changes post 2013, viz., Supply-side Policy Reforms, Formalisation of the Economy, Real Estate (Regulation and Development) Act, Digitalizing Social Transfers, Insolvency and Bankruptcy Code, Flexible Inflation Targeting, FDI, India's 401(k) Moment, robust government support for corporate profits, multiyear high MNC Sentiment. Goldman Sachs in its Asia-Pacific Portfolio Strategy, in a report titled as "Investing in India's medium-term growth story: Identifying potential multibaggers" (1 June 2023) highlighted "India's economy has grown 7-fold in the past two decades, from about half a trillion US dollars at the end of 2002 to about US$3.4 trillion currently. India has delivered a nominal GDP CAGR of 10% over the past two decades between 2002 and 2022, second only to China and surpassing most other Asian and developed market peers".

STRATEGIC GOVERNMENT INITIATIVES

In recent years, the GoI has taken several major initiatives like- Pradhan Mantri Jan Dhan Yojana (PMJDY) Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) Pradhan Mantri Suraksha Bima Yojana (PMSBY). Atal Innovation Mission (AIM) is Government of India's flagship initiative to create and promote a culture of innovation and entrepreneurship across the country. The Pradhan Mantri Kaushal Vikas Yojana, which is aimed at enabling youth to take up training to secure a better livelihood, is Skill India's flagship skill development scheme. The GoI has undertaken Startup India Seed Fund Scheme to incentivise start-ups.

CORE INDUSTRIES GROWTH

The eight core industries' growth continued to be buoyant with the latest July 2023 growth being 8 per cent. This is substantially higher than the 4.8 per cent growth recorded in July last year. All the eight core industries' — coal, natural gas, crude oil, refinery products, fertilizers, cement, steel and electricity — recorded positive growth in July 2023. The eight core industries comprise 40.27 per cent of the weight of items included in the Index of Industrial Production (IIP). The latest growth print of 8 per cent was however lower than the five month high of 8.2 per cent growth recorded in June 2023. In May 2023, the core industries growth had come in at 5 per cent. Meanwhile, the Commerce and Industry Ministry revised upwards the final growth rate of April 2023 to 4.6 per cent from its provisional level of 3.5 per cent. In fiscal 2022-23, core industries output grew 7.6 per cent, lower than 10.4 per cent growth in the previous fiscal.

BANKING LANDSCAPE

The RBI's Financial Stability Report (FSR) shows that greater recovery post the enactment of the IBC, 2016 and rejigging of loans portfolio from corporate loans to personal loans partly led to GNPAs and NNPAs declining to 3.9 per cent and 1 per cent, respectively in March 2023, the lowest since 2015. Similarly, return on assets (RoA) rose steeply from a negative 0.2 per cent in 2018 to a healthy 1.1 per cent in 2023.

PSBs performed remarkably well with profit of ₹ 34,774 crore for Q 1of FY 24. Resuscitating measures included the 4R's strategy of recognition, resolution, recapitalisation and reforms, NPAs of banks plummeted to a 10-year low at 3.9 per cent of total advances. Simultaneously, banks recovered bad loans worth over ₹ 8.6 lakh crore in last eight years. The government infused ₹ 3,10,997 crore to recapitalise PSBs from 2016-17 to 2020-21. With credit discipline, ensured responsible lending and improved governance, there has been greater technology adoption, consolidation of banks and upbeat bankers.

Bank loans rose 16.3 per cent in June. Retail loan growth of over 20 per cent raises concerns of concentration risk and higher sectoral NPAs. But with growth in bank credit, low NPAs and adequate capital and liquidity buffers, the Indian financial sector is stable and resilient.

BANKING LIQUIDITY

Surplus liquidity rose to ₹ 1.7 lakh crore to ₹ 1.8 lakh crore because of return of ₹2000 banknotes, RBI's surplus transfer to the government, pick up in government spending and capital inflows. Hence RBI imposed an incremental cash reserve ratio (I-CRR) of 10 per cent on increase in net demand and time liabilities (NDTL) between May 19, 2023, and July 28, 2023 to absorb surplus liquidity. This temporary liquidity overhang measure will be reviewed on September 8, or earlier. With ₹ 1 lakh crore ($12.07 billion) system liquidity withdrawn, there could be an upward bias on the short term rates in the busy season but banks will see a "slight impact" on lending margins.

EXPANDING BANK CREDIT

The merger of HDFC with HDFC Bank significantly increased credit growth for July with credit growth reaching 19 per cent compared to 14. 5 per cent in the previous year. However, loan growth only amounted to 14.7per cent, exclusive of the merger.
On a year-on-year (y-o-y) basis, non-food bank credit registered a growth of 14.8 per cent (excluding the merger impact) in July 20233 as compared with 15.1 per cent a year ago.
Retail loans rose 18.4 per cent (y-o-y) in July 2023 compared to 18.7 per cent a year ago, supported by 'housing' and 'vehicle' loans. Factoring the merger of mortgage lender HDFC with the bank, the retail loan book growth works out to an all-time high of 31.7 per cent as housing loans worth close to ₹ 5 lakh crore merged with the banking sector loan book.

Credit to industry registered a growth of 5.2 per cent (y-o-y) in July 2023 as compared with 10.5 per cent in July 2022. Among major industries, credit growth to 'basic metal & metal products' and 'textiles' accelerated in July 2023 as compared with the corresponding month of the previous year. Credit growth to 'chemicals & chemical products', 'food processing' and 'infrastructure' on the other hand contracted.

Credit growth to services sector accelerated to 19.4 per cent (y-o-y) in July 2023 from 16.7 per cent a year ago, primarily due to 'trade' and 'commercial real estate'. Credit growth to agriculture and allied activities improved to 16.8 per cent (y-o-y) in July 2023 from 13.2 per cent a year ago.

SECTORAL DEPLOYMENT OF BANK CREDIT

The RBI's data on sectoral deployment of bank credit for July 2023 collected from 40 select scheduled commercial banks (SCBs), accounting for about 93 per cent of the total non-food credit deployed by all scheduled commercial banks revealed that on a yoy basis, non-food bank credit registered a growth of 14.8 per cent in July 2023 as compared with 15.1 per cent a year ago. Credit growth to agriculture and allied activities improved to 16.8 per cent (y-o-y) in July 2023 from 13.2 per cent a year ago. Credit to industry registered a growth of 5.2 per cent (y-o-y) in July 2023 as compared with 10.5 per cent in July 2022. Credit growth to services sector accelerated to 19.4 per cent (yo-y) in July 2023 from 16.7 per cent a year ago, primarily due to 'trade' and 'commercial real estate'. Personal loans registered a growth of 18.4 per cent (y-o-y) in July 2023 (18.7 per cent a year ago), supported by 'housing' and 'vehicle' loans.

NO GENERALIZED INFLATION

India's CPI inflation rose to 4.81 per cent in June after hitting a 25-month low of 4.25 per cent in May on an annual basis, driven by food prices which accounts for 40 per cent of consumer price basket. Higher July food inflation stemmed not wholly (e.g., increase in prices of cereals and pulses) but largely from tomato price increases. Tomato-price surges are largely attributable to monsoon anomalies. Crude oil prices also exceeded $80 a barrel. Inflation, excluding food and fuel, however, softened by 100 bps from its recent peak in January 2023.

Shortly after the Policy announcement, CPI inflation in India reached a 15-month high of 7.44 per cent and breached the RBI's 6 per cent upper threshold for the first time since October 2022 because of both seasonal (prices of vegetables, particularly tomatoes) and structural inflation (inelastic demand for cereals despite changing weather patterns, lower production and higher distribution of cereals, declining government's cereal stocks). Uncertainties making for an elevated near-term inflation outlook also stem from El Niño conditions, global food prices and crude oil prices raising annual inflation projection to 5.4 per cent with price rise set to exceed 5 per cent for the rest of the year.

Annual retail inflation would, however, be contained within the RBI's upper threshold level of 6 per cent because of the lagged monetary policy transmission of cumulative rate hike of 250 bps effected by the MPC in six instances since May 2022, resilience in local manufacturing and services activity and broad-based decline in food, energy, and core inflation, excluding food and fuel. But things could get worse before they get any better with there being some near-term blips before inflation reaches the midpoint of the inflation target of 4 per cent by Q2 of FY25. Both the monetary and fiscal policy must work in tandem to contain the inflationary spiral with timely supply side interventions to 'limit the severity and duration of such shocks'.

RAPIDLY SURGING UPI TRANSACTIONS

India's Unified Payment Interface (UPI) crossed 10 billion transactions in volume for the first time in August 2023. Based on data available until August 30, released by the National Payments Corporation of India (NPCI), the transaction volume reached 10.241 billion. In terms of value as well, UPI transactions are poised to reach a new high, having already reached ₹ 15.18 trillion, within striking distance of the previous high of ₹ 15.34 trillion in July this year.

FISCAL DEFICIT

The Indian government's fiscal deficit widened to ₹ 6.06 lakh crore in April-July from ₹ 4.51 lakh crore in April-June. At ₹ 6.06 lakh crore, the fiscal deficit for the first four months of the current financial year accounts for 33.9 per cent of the full-year target of ₹ 17.87 lakh crore. The fiscal deficit for April-July 2022 was 20.5 percent of the target for 2022-23. In July, the Centre's finances weakened after a monthly fiscal deficit of ₹ 1.54 lakh crore. In contrast, in the same month last year, the government recorded a fiscal surplus of ₹ 11,040 crore. The fiscal deficit for April-July 2023 was a massive 77.7 percent higher compared to the first four months of 2022-23.

EMERGING CONTOURS

The West is confronted by twin challenges of high inflation and slow growth and China by a consumer demand slowdown. But India is well poised for sustained growth because of the twin advantages of improving profitability of companies and higher capacity utilization together with a robust and well capitalized banking sector. Steady growth would foster stability in overseas flows and also promote higher domestic institutional investment providing some support to the Indian equity markets.

As the Chief Economic Advisor V Anantha Nageswaran stressed, investment and consumer momentum will underpin solid growth prospects over the upcoming year. The private sector capital formation, supported by the Government's capex push, is underway. These and other measures would significantly boost economic growth, employment and income gains for households.

Going ahead, there are concerns of erratic monsoon with India getting 36 per cent less rain than it usually gets in August making it the driest August in 122 years, July CPI inflation rising to 7.44 per cent, the lagged impact of interest rate hikes, weak trade activity, heightened political uncertainty, volatile global financial markets, likely slowing of Government capex and exports, geopolitical tensions and economic fragmentation. Hence GDP growth would moderate in the remaining three quarters of this financial year because of the base effect, deficient rainfall, high inflation and geo-political dynamics. But we are well and truly on a course to steady growth.