ECONOMIC OUTLOOK AND MACRO TRENDS

India’s GDP growth to record mild step-up to 4.9% in Q4 FY2023; El Nino poses downside to FY2024 forecast of 6.0%

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Abbreviations

AE: Advance Estimates
AIDC: Agricultural Infrastructure and development cess
ATF: Aviation Turbine Fuel
BE: Budget Estimates
BoP: Balance of Payments
CAD: Current Account Deficit
CCS: Consumer Confidence Survey
CGA: Controller General of Accounts
CGST: Central Goods and Services Tax
CIL: Coal India Limited
CNY: Chinese Yuan
CP: Commercial Paper
CPI: Consumer Price Index
CSI: Current Situation Index
CTD: Central Tax Devolution
CU: Capacity Utilisation
CV: Commercial Vehicle
DBTL: Direct Benefit Transfer for LPG subsidy
DIPAM: Department of Investment and Public Asset Management
ECB: External Commercial Borrowing
EPC: Emerging, Procurement, Construction
FAO: Food and Agriculture Organization
FCI: Food Corporation of India
FCNR: Foreign Currency Non-Resident
FDI: Foreign Direct Investment
FPI: Foreign Portfolio Investors
FMCG: Fast Moving Consumer Goods
FRE: First Revised Estimate
FRL: Full Reservoir Level
FRP: Financial, Real Estate and Professional Services
FTA: Foreign Trade Agreement
GAIL: Gas Authority of India Limited
GDP: Gross Domestic Product
GFCE: Government Final Consumption Expenditure
GFCF: Gross Fixed Capital Formation
G-Sec: Government Securities
GoI: Government of India
GSTCC: GST Compensation Cess
GVA: Gross Value Added
HAL: Hindustan Aeronautics Limited
HSD: High Speed Diesel
IGST: Integrated Goods and Services Tax
IIP: Index of Industrial Production
IMD: Indian Meteorological Department
IMF: International Monetary Fund
IOS: Industrial Outlook Survey
IPO: Initial Public Offering
IRDAI: Insurance Regulatory and Development Authority of India
JPC: Joint Plant Committee
KVP: Kisan Vikas Patra
LAF: Liquidity Adjustment Facility
LIC: Life Insurance Corporation
LPA: Long Period Average
LPG: Liquefied Petroleum Gas
MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Act
MICE: Meetings, Incentives, Conferences, Exhibitions
MoRTH: Ministry of Road Transport and Highways
MoSPI: Ministry of Statistics and Program Implementation
MPC: Monetary Policy Committee
MS: Motor Spirit
MSF: Marginal Standing Facility
MSME: Micro, Small and Medium Enterprises
MSP: Minimum Support Price
NBFC: Non-Banking Finance Companies
NHAI: National Highway Authority of India
NINL: Neelachal Ispat Nigam Limited
NR(E)RA: Non-Resident (External) Rupee Account
NRI: Non-Resident Indians
NRO: Non-Resident Ordinary
NSO: National Statistical Office
OFS: Offer for Sale
ONGC: Oil and Natural Gas Corporation
OPEC: Organization of Petroleum Exporting Countries
PADOS: Public Administration, Defence and Other Services
PFCE: Private Final Consumption Expenditure
PLI: Production Linked Incentive
PPL: Pradeep Phosphates Ltd
PMGKAY: Pradhan Mantri Gareeb Kalyan Ann Yojana
POL: Petroleum Oil and Lubricants
QEP: Quarterly Expenditure Plan
RD: Recurring Deposit
RDB: Rupee Denominated Bonds
RMS: Rabi Marketing Season
RE: Revised Estimates
REER: Real Effective Exchange Rate
SAE: Second Advance Estimate
SAED: Special Additional Excise Duty
SCSS: Senior Citizen Saving Scheme
SDF: Standing Deposit Facility
SDR: Special Drawing Rights
SGB: Sovereign Gold Bonds
SGS: State Government Securities
SRE: Second Revised Estimate
SSY: Sukanya Samriddhi Yojana
SUUTI: Specified Undertaking of Unit Trust of India
SWS: Social Welfare Surcharge
TD: Time Deposit
THTCS: Trade, Hotels, Transport, Communication and Services related to broadcasting
TEU: Twenty-foot equivalent units
VRR: Voluntary Retention Route
WALR: Weighted Average Lending Rate
WMA: Ways and Means Advances
WPI: Wholesale Price Index
WTO: World Trade Organisation

OVERVIEW

India's economic activity remained uneven in Q4 FY2023; ICRA projects YoY GDP growth at 4.9% in Q4 FY2023

While India's growth trajectory for FY2024 is likely to be constrained by the slowdown in external demand, the outlook for domestic consumption and investment demand appears buoyant

ICRA expects GDP growth to moderate to ~6% in FY2024, with a downside risk of up to 50 bps owing to the impact of development of El Nino conditions

India's economic activity remained uneven in Q4 FY2023, with domestic demand for services outpacing that for goods and surprisingly robust exports of services amidst a decline in merchandise items. ICRA projects the GDP growth to improve modestly to 4.9% YoY in Q4 FY2023 from 4.4% in Q3 FY2023, amidst lower commodity prices, even as the unseasonal rains in March 2023 could weigh upon the agri GVA. India's growth trajectory for FY2024 will be constrained by the slowdown in external demand, although the outlook for domestic consumption and investment demand appears buoyant. At present, ICRA expects the GDP growth to moderate to ~6% in FY2024 from 6.9% in FY2023, partly led by the base effect. However, the impact of rising EMIs on household budgets, export contraction on employment, and a potential El Nino on crops, food prices and farm incomes pose challenges. ICRA estimates the downside risk to the FY2024 GDP growth from the latter at up to 50 bps, even as frontloaded capex by the GoI and the States and a rapid execution of infra projects could provide an upside. A bleaker outlook for merchandise exports vis-à-vis imports, amidst a relatively healthy domestic demand, is expected to lead to a slight widening in the CAD to 2.2% of GDP in FY2024 from the 2.0% expected in FY2023. The CPI inflation is estimated to ease to 5.3% in FY2024 from 6.7% in FY2023, amidst the impact of a potential El Nino on food prices. Nevertheless, with the CPI inflation set to trail the MPC's estimate for Q1 FY2024, it is likely to vote for another pause in the June 2023 policy meet.

Macroeconomic Variables	FY2023	FY2024 ICRA Projections
GDP Growth (in real terms)	6.9%	6.0%
GVA Growth (in real terms)	6.6%	5.9%
CPI Inflation (average)	6.7%	5.3%
WPI Inflation (average)	9.4%	1.6%
Current Account Balance	Deficit of $67-69 billion; 2.0% of GDP	Deficit of $77-79 billion; 2.2% of GDP
GoI's Fiscal Deficit	Fiscal deficit unlikely to materially exceed the RE of Rs. 17.6 trillion (6.4% of GDP)	Budget math seems credible, deficit may print in line with the BE of Rs. 17.9 trillion (5.9% of GDP)
G-sec Yields	10-year G-sec yield expected to remain between 7.0-7.2% in the rest of Q1 FY2024; rise to 7.2-7.5% thereafter	
Repo Rate	With the CPI inflation set to trail the MPC's estimate for Q1 FY2024, the MPC is likely to vote for another pause in the June 2023 policy meeting	
INR	USD/INR pair to trade between 81.0 and 84.0 in H1 FY2024	

EXECUTIVE SUMMARY

Real GDP expected to record a modest step-up in YoY growth to 4.9% in Q4 FY2023 from 4.4% in Q3 FY2023

- Economic activity remained uneven in Q4 FY2023, with domestic demand for services outpacing that for goods and surprisingly robust exports of services amidst a contraction in merchandise items. The softening of commodity prices offered relief for corporate margins in some sectors, while trends in investment activity and Government spending were mixed.
- Although the third advance estimates of crop production has indicated a favourable YoY trend in the rabi output in AY2023, unseasonal rains during March-April 2023 are expected to have affected the yield/quality of some crops, weighing on the agri GVA growth.

FY2024 GDP growth forecast placed at 6.0%, with a downside of upto 50 bps stemming from El Nino

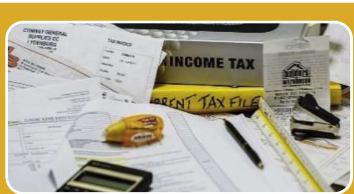
- Domestic economic activity is expected to see a healthy momentum in the ongoing fiscal, boosted by the sustained demand for contact-intensive services and the overall recovery in investment activity, even as the demand for goods remains uneven amid softening inflation.
- External demand remains fragile as reflected in the double-digit decline in merchandise exports in April 2023. Further, development of El Nino conditions could lead to sub-par monsoon in 2023, which will weigh on crops, food prices and farm incomes, posing a downside of up to 50 bps to the GDP growth. At the same time, frontloading of capex by the Government, and rapid exection of infra projects may provide an upside.

CPI inflation likely to soften to a four-year low 5.3% in FY2024

- The headline CPI inflation is likely to display a base effect-led dip to 4.7% in Q1 FY2024 from 6.2% in Q4 FY2023. ICRA estimates the CPI inflation to moderate to 5.3% in FY2024 from 6.7% in FY2023, amid some tempering in core inflation given the high base of some services items. Occurence of El Nino conditions could push up food inflation in H2 FY2024.
- Additionally, the WPI inflation is expected to correct sharply to 1.6% in FY2024 from the elevated 9.4% in FY2023, largely on account of the high base and the dip in global commodity prices.

CAD to widen slightly to 2.2% of GDP in FY2024, amid sharper fall in merchandise exports vis-a-vis imports

- India's merchandise exports are projected to decline by ~8% to $415-425 billion in FY2024 ($451.0 billion in FY2023), owing to the impact of a slackening global demand, softening of commodity prices, impact of feared-El Nino on agri output, and export ban on certain items.
- However, merchandise imports are expected to dip by a shallower 4-5% YoY to $690-695 billion in FY2024 amid a likely sustanence of domestic demand and continued recovery in investment activity. Overall, ICRA projects the CAD to rise mildly to $77-79 billion (-2.2% of GDP) in FY2024 from $67-69 billion (-2.0% of GDP) in FY2023, amid a widening in the merchandise trade deficit.



FY2023 GoI fiscal deficit target unlikely to materially overshoot 6.4% of GDP; FY2024 budget math seems credible

- While there may have been some modest deviations from the revised estimates for corporation tax, disinvestment receipts and certain categories of expenditures, the GoI's fiscal deficit in FY2023 is unlikley to sharply exceed the RE of 6.4% of GDP.
- The FY2024 budget math seems credible, with 10.4% growth forecast for gross tax revenues relative to FY2023 RE, and a robust 37% rise in capex target amid some curtailment in revex. Higher-than-budgeted dividend surplus transfer of Rs. 874.2 billion from the RBI is likely to provide some cushion to meet any undershooting in other revenues streams or overshooting in expenses, relative to respective budget estimates.

ICRA

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