ICRA

ECONOMIC OUTLOOK AND MACRO TRENDS

Improved margins, robust investment activity to boost Q1 FY2024 GDP expansion to 8.5%; growth momentum likely to slow down in H2 FY2024

August 2023

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Abbreviations

AE: Advance Estimates
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
CRR: Cash Reserve Ratio
CSI: Current Situation Index
CTD: Central Tax Devolution
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
GDP: Gross Domestic Product
GFCE: Government Final Consumption Expenditure
GFCF: Gross Fixed Capital Formation
G-Sec: Government Securities
GoI: Government of India
GVA: Gross Value Added
HAL: Hindustan Aeronautics Limited
HSD: High Speed Diesel
ICRR: Incremental Cash Reserve Ratio
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
LRF: Long Range Forecast
MIS: Monthly Income Scheme
MICE: Meetings, Incentives, Conferences, Exhibitions
MGNREGS: Mahatma Gandhi National Rural Employment Guarantee Scheme
MoRTH: Ministry of Road Transport and Highways
MoSPI: Ministry of Statistics and Program Implementation
MPC: Monetary Policy Committee
MSF: Marginal Standing Facility
MSME: Micro, Small and Medium Enterprises
MSP: Minimum Support Price
NBFC: Non-Banking Finance Companies
NDTL: Net Time and Deposit Liabilities
NHAI: National Highway Authority of India
NINL: Neelachal Ispat Nigam Limited
NR(E)RA: Non-Resident (External) Rupee Account
NSC: National Savings Certificate
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
PMGKAY: Pradhan Mantri Gareeb Kalyan Ann Yojana
PPF: Public Provident Fund
POL: Petroleum Oil and Lubricants
RD: Recurring Deposit
RDB: Rupee Denominated Bonds
RMS: Rabi Marketing Season
RE: Revised Estimates
REER: Real Effective Exchange Rate
SCSS: Senior Citizen Saving Scheme
SDF: Standing Deposit Facility
SDR: Special Drawing Rights
SGB: Sovereign Gold Bonds
SCSS: Senior Citizen Saving Scheme
SSAC: Sukanya Samriddhi Account Scheme
SUUTI: Specified Undertaking of Unit Trust of India
TD: Time Deposit
TDS: Tax Deducted at Source
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 in Q1 FY2024 was bolstered by continued healthy momentum of services demand, improved investment activity and margin expansion in some sectors

However, GDP growth in H2 FY2024 may moderate, with a likely slowdown in pace of Govt capex ahead of General Elections, erratic monsoons and narrowing differentials with year-ago commodity prices

ICRA maintains FY2024 GDP growth forecast at 6.0%, lower than MPC's estimate of 6.5%, mainly stemming from a lower print for H2

India's economic activity in Q1 FY2024 was boosted by a continued catch-up in services demand as well as improved investment activity, particularly the front-loading in the Government capital spending. Moreover, the YoY deflation in commodity prices supported margins in some sectors during that quarter. ICRA expects GDP growth to print at 8.5% for Q1 FY2024, higher than MPC's forecast of 8.0% for the quarter. However, we are circumspect that erratic rainfall, narrowing differentials with year-ago commodity prices, and possible slowdown in momentum of Government capex as we approach the 2024 General Elections, could dampen GDP growth in H2 FY2024 below the MPC's forecasts. Overall, ICRA maintains the FY2024 GDP growth estimate at 6.0%, lower than the MPC's projection of 6.5% for the fiscal. The CPI inflation is estimated at 5.4% for FY2024, amid a likely surge in Q2 print owing to vegetable price shock as well as hardening in prices of cereals and pulses, although supply measures announced by the GoI are likely to offer some relief. Given the MPC's inflation forecast for Q1 FY2025, the possibility of the earliest rate cut appears delayed to Q2 FY2025, and ICRA continues to expect the rate cut cycle to be limited to a shallow 50-75 bps. At present, the GoI's fiscal concerns appear to be mild, and ICRA does not expect the FY2024 fiscal deficit to exceed the target of 5.9% of GDP. On the external front, the CAD is projected to remain unchanged at 2.0% of GDP in FY2024, as compared to FY2023, while the USD/INR pair may trade between 82.0-84.0/$ in the remainder of Q2 FY2024.

Macroeconomic Variables	FY2023	FY2024 ICRA Projections
GDP Growth (in real terms)	7.2%	6.0%
GVA Growth (in real terms)	7.0%	5.9%
CPI Inflation (average)	6.7%	5.4%
WPI Inflation (average)	9.4%	0.5%
Current Account Balance	Deficit of $67.0 billion; 2.0% of GDP	Deficit of $70-72 billion; 2.0% of GDP
GoI's Fiscal Deficit	Rs. 17.3 trillion (6.4% of GDP)	Deficit is unlikely to exceed the BE of Rs. 17.9 trillion or 5.9% of GDP
G-sec Yields	10-year G-sec yield expected to remain range bound at 7.1-7.3% over the next two months; yield curve will remain flattish in the immediate term following the drain in liquidity owing to ICRR measure	
Repo Rate	Earliest rate cut foreseen in Q2 FY2025, amidst shallow rate cut cycle of 50-75 bps; inflation needs to persist above MPC's forecast for at least two consecutive quarters to set the stage for a rate hike	
INR	USD/INR pair to trade between 82.0/$ and 84.0/$ in the remainder of Q2 FY2024	

EXECUTIVE SUMMARY

GDP growth expected at 8.5% in Q1 FY2024, boosted by improved margins, continued catch-up in services demand

- Economic activity in Q1 FY2024 was bolstered by a continued catch-up in services demand and improved investment activity, particularly the frontloading in Government capital expenditure. Moreover, margins in some sectors improved further in the quarter amid prices of various commodities sharply trailing the year-ago levels. ICRA estimates GDP growth at 8.5% in Q1 FY2024, higher than the MPC's forecast of 8.0%.
- However, unseasonal heavy rains in some regions, the lagged effect of the monetary policy tightening, and slowdown in services export growth exerted a downward pressure on the GDP expansion in the quarter.

Erratic monsoon, likely dip in Government capex ahead of General Elections may dampen GDP growth in H2 FY2024

- While ICRA expects the GDP expansion in H1 FY2024 to exceed that of MPC's projections, the growth in H2 FY2024 may be dampened by the impact of erratic rainfall distribution, a potential slowdown in the momentum of Government capex ahead of the General Elections, as well as narrowing differentials with year-ago commodity prices. Accordingly, ICRA foresees the GDP growth in H2 FY2024 below the MPC's estimate of ~5.85% (Q3 FY2024: +6.0% and Q4 FY2024: +5.7%).
- Overall, ICRA maintains its GDP growth estimate for FY2024 at 6.0%, lower than the MPC's forecast of 6.5% for the fiscal.

CPI inflation estimated at 5.4% in FY2024, while a high base is likely to pull down WPI inflation to a mild 0.5%

- After a benign level seen in Q1 FY2024, the CPI inflation is expected to harden signifcantly in the ongoing quarter, given the sharper-than-expected surge in July 2023 (+7.4%) amid the vegetable price shock. Moreover, inflation is anticipated to exceed 6.5% in August 2023, before cooling off materially in September 2023 amid fresh arrivals and relief measures undertaken by the GoI on items like tomato, onion, rice, wheat, etc. Overall, ICRA projects the CPI inflation at 5.4% in FY2024, in line with MPC's estimate for this fiscal.
- Owing to commodity price correction and a high base, the WPI is likely to see a marginal inflation of 0.5% in FY2024 (+9.4% in FY2023).

CAD likely to remain unchanged at 2.0% of GDP in FY2024; USD/INR pair to trade between 82-84/$ in Q2 FY2024

- India's merchandise trade deficit is projected to remain elevated at $270-275 billion in FY2024 ($265.3 billion in FY2023, in BOP terms), with expectations of a sharper YoY moderation in merchandise exports (-8% to -9%) vis-a-vis imports (-3% to -5%). ICRA projects the CAD to rise mildly to $70-72 billion in FY2024 from $67.0 billion in FY2023, while remaining unchanged in GDP terms at 2.0%.
- The increase in crude oil prices and the strenghtening of the DXY have kept the USD/INR pair under pressure in the ongoing month. ICRA expects the pair to trade between 82.0-84.0/$ in the remainder of Q2 FY2024, influenced by the trends in DXY and the RBI's intervention.

GoI fiscal deficit in FY2024 unlikely to exceed target of 5.9% of GDP

- The 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 such as telecom receipts or overshooting in expenses in FY2024, relative to the respective BE, such as MGNREGS.
- Moreover, a sizeable miss on the disinvestment target could be offset via expenditure savings of Ministries/Departments, which have averaged at Rs. 1.6 trillion/year since FY2018, as per ICRA's estimates. Overall, fiscal concerns in FY2024 appear to be limited at the current juncture. ICRA does not expect the fiscal deficit to exceed the budgeted target of Rs. 17.9 trillion or 5.9% of GDP.

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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