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Lowering the bar

GDP growth to slip in this and next fiscals as global demand slows; resilience of domestic demand on test

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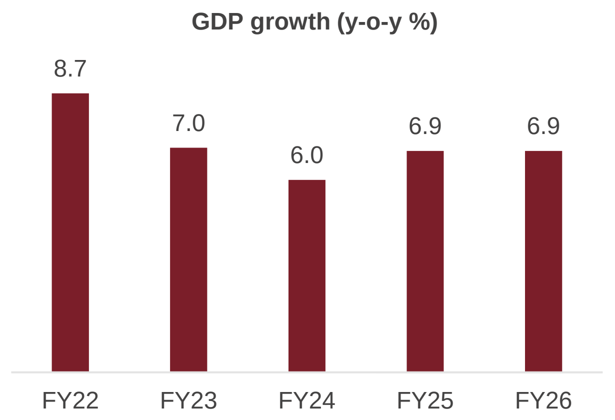
We have revised down our forecast for India's real gross domestic product (GDP) growth to 7.0% for the current fiscal (2022-23) from 7.3% estimated previously. This is primarily because the slowdown in global growth has started to impact India's exports and industrial activity.

However, domestic demand remains supportive this fiscal, helped by a catch-up in contact-based services, government capital expenditure (capex), relatively accommodative financial conditions, and overall normal monsoon for the fourth time in a row.

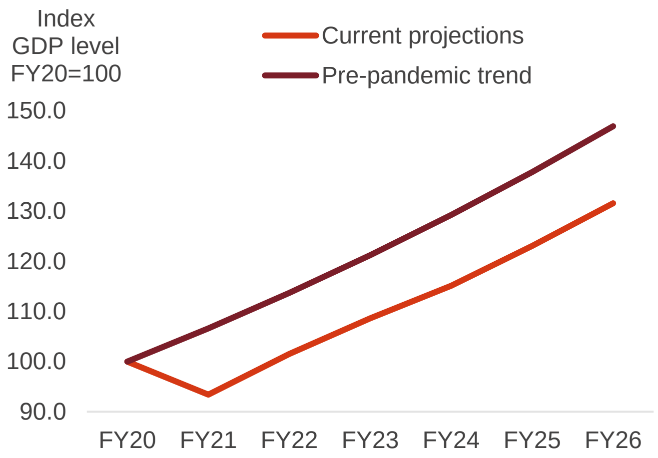
The impact is expected to be more next fiscal (2023-24) as global growth decelerates faster. Additionally, domestic demand could come under pressure as interest rate hikes gets transmitted more to consumers, and the catch-up in contact-based services fades.

Consequently, we expect India's GDP growth to slow to 6.0% in fiscal 2024, down from 6.5% estimated previously. The risks to the forecast remain tilted downwards.

India's growth lowered for fiscals 2023 and 2024…



…so catch-up to pre-pandemic trend more elusive



Source: National Statistics Office (NSO), CEIC, CRISIL

India to remain a growth outperformer globally

Despite the markdown in near-term growth, India is expected to remain a growth outperformer over the medium run. We expect India's GDP growth to average 6.6% between fiscals 2024 and 2026, compared with 3.1% globally — as estimated by the International Monetary Fund (IMF).

India would also outgrow emerging market peers such as China (4.5% growth estimated in calendar years 2023-2025), Indonesia (5.2%), Turkey (3.0%) and Brazil (1.6%).

Stronger domestic demand is expected to drive India's growth premium over peers in the medium run. Investment prospects are optimistic given the government's capex push, progress of Production-linked Incentive (PLI) scheme, healthier corporate balance sheets, and a well-capitalised banking sector with low non-performing assets (NPAs). India is also likely to benefit from China-plus-one policy as global supply chains get reconfigured with shifting focus from efficiency towards resilience and friend shoring. Private consumption (~57% of GDP) will play a supportive role in raising GDP growth over the medium run.

Factors that will shape growth in fiscals 2023 and 2024

Three factors will play a prominent role:

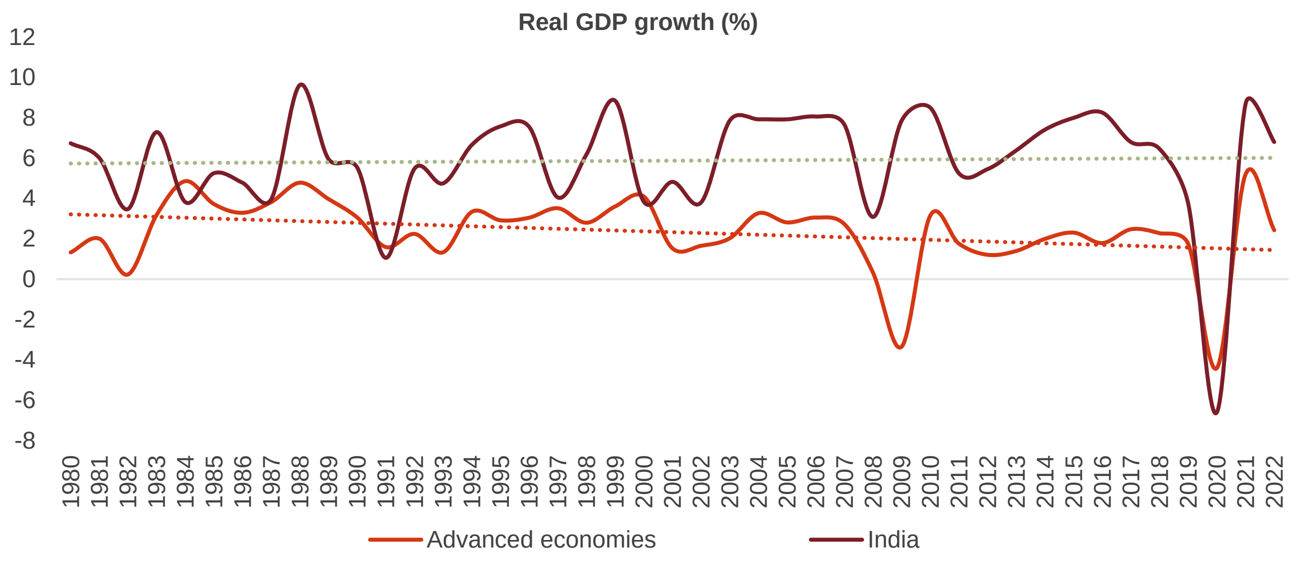
1. Global slowdown to impact domestic industrial activity via the exports channel
2. The one-time lift to contact-based services from domestic demand will abate next fiscal, but government capex will stay supportive
3. Tightening domestic financial conditions will hurt growth next fiscal

1. Impact of global slowdown

Increased synchronisation of global and domestic growth cycles

Long-term growth movements suggest that despite being on divergent trends, India's growth cycles have been remarkably synchronised with those of advanced economies since the 2000s (see chart below). Put another way, there is no escaping the short-term demand fluctuations around the trend and this time will be no different. The deceleration of major developed economies underway will create downside risks for India's growth outlook[1].

Growth cycles moving in sync, even as the trends are moving away



Note: For India, data is for financial year, i.e., 2022 represents fiscal 2023
Source: IMF, NSO, CRISIL

Gloomier global outlook will spill over to India

As central banks aggressively raise rates to fight inflation, advanced countries will find it hard to stave off a sharp downturn in activity. According to S&P Global, global growth is set to decline from 3.1% this year to 2.4% in 2023, led by slower growth in advanced economies, especially eurozone and the United States (US).

[1] Refer to CRISIL Quickonomics *Let this 'sync' in*, November 04, 2022, for more details

In the base case, S&P Global expects a shallow recession in the US in early 2023, but the economy is expected to grow 0.2% for the full year, following a modest 1.4% growth in 2022. In the downside scenario, where high inflation persists and the US Federal Reserve (Fed) is forced to tighten policy even more aggressively (to at least 5-5.25% by mid-2023, and rates remain higher for longer), the US economy could contract 0.3% in 2023.

Eurozone is expected to grow a mild 0.3% in 2023, markedly down from the 3.1% forecast for 2022. In the downside scenario, eurozone would see high prices and rationing of energy, leading to GDP contraction of 1.3% in 2023.

Monetary policy tightening and weakening growth momentum in advanced economies have already started to impact India in the form of slowdown in exports and volatility in foreign portfolio investment (FPI) inflows. The impact of tightening will be more pronounced next fiscal because monetary policy actions manifest with a lag. India's core (non-oil, non-gold) exports declined by a massive 16.9% on-year in October; core exports have declined for three consecutive months now, with an average decline of 7.8% between August and October. The economy also witnessed net FPI outflow averaging $0.4 billion in September and October after an average inflow of $3.7 billion in the previous two months.

Industrial activity in India has begun to feel the tremors

- India's exports (particularly non-oil) have been slowing since July 2022 (*refer to table 1a in annexure*), reflecting decelerating global growth and tightening global financial conditions. India's exports have reduced significantly to the US (0.4% on-year in September versus 28.7% in June) and the European Union (EU) (2.8% vs 38.9%)
- Falling exports have affected domestic industrial momentum. The Index of Industrial Production has been on a falling trend since July 2022 for export-linked sectors. The hit to industrial activity could intensify in fiscal 2024, as aggressive rate hikes in the US and the EU reach closer to consumers
- Yet, rising domestic demand in some pockets has been partially cushioning industrial activity. For instance, robust government capex is supporting manufacturing growth through higher demand for infrastructure and construction-related goods. S&P Global's Purchasing Manager's Index (PMI) for manufacturing remains above 50 – i.e. in expansion zone – since July 2021, and even rose to 55.3 in October from 55.1 in September. Domestic demand resilience remains crucial to countering global headwinds in 2023
- The global slowdown's hit to Indian exports could weaken income prospects in the Indian manufacturing industry, particularly the labour-intensive ones such as textiles, and gems and jewellery. But the overall impact could be less pronounced this time because the China-plus-one policy will gradually turn more export demand towards other economies, including India

2. Household demand holding up this fiscal, helped by services catch-up and government capex, but will moderate next fiscal

- Consumer spending is growing in pockets for some goods and services (refer to table 1b in annexure). Among goods, passenger vehicle sales have been recording double-digit growth since May 2022. The ongoing festive season especially augurs well for consumer spending after two pandemic years of subdued celebrations
- Services is sustaining a strong pick-up, with PMI services in expansionary zone since August 2021, rising

to 55.1 in October from 54.3 in September. Passenger traffic is logging double-digit growth for both rail and air traffic, reflecting the broad nature of recovery in travel services

- However, a lot of the robust pick-up in services can be explained by the pending catch-up to pre-pandemic levels. Passenger rail and air traffic remains below that mark till date
- Signs of slowdown are emerging for some demand segments. Core imports have been on a slowing trend in September-October 2022. IIP has also been declining for consumer durables and non-durables, possibly reflecting weakening demand conditions
- Demand recovery remains uneven, with consumption for lower value goods continuing to trail higher-ticket items. While passenger vehicle sales have crossed pre-pandemic levels, two-wheeler sales continue to wallow below corresponding levels. Further, consumer non-durables have been recording their sharpest decline in growth among major IIP components since March 2022
- Rural income prospects remain dependent on the vagaries of weather. Increasing frequency of extreme weather events, therefore, remain a key monitorable. While lowering of demand for MGNREGA jobs is an encouraging sign for rural economy from a job perspective, depressed wages are a matter of concern for rural demand

3. Tighter financial conditions could test resilience of domestic demand next year

- So far, the Reserve Bank of India (RBI) has raised the policy repo rate by 190 basis points (bps). While the repo rate is higher than the pre-pandemic level of 5.15%, it remains lower than 6.50% peak reached in 2018 during the last rate hike cycle. Similarly, bank lending rates remain lower than the pre-pandemic five-year average so far. The impact on domestic demand and lending activity, therefore, is still not adverse
- For instance, bank credit is still supporting demand recovery, growing to a decadal high of 17.9% in October 2022, and is forecast at 15% for this fiscal. The offtake is strongest to retail loans. Besides, given cleaner balance sheets, banks are more willing to lend to corporates and households

However, some of this is expected to change soon with the transmission of rate hikes and lower liquidity to the system picking up. As transmission increases**,** higher borrowing costs could take some steam off from the current strength in domestic demand

Weather sway over rural demand

Agriculture production was impacted by unusual weather events this year. First, there was the heatwave in March-May, which damaged the wheat crop at its harvesting stage. Then came delayed rains that hurt sowing of the rice crop. And finally, excess rains in October hit several kharif crops at the harvesting stage. While India saw excess rains in October last year as well, their quantum and duration was relatively higher in 2022.

For this fiscal, we see agricultural GDP growth a tad slower at 3.0% compared with the decadal average of 3.8%. Heathy soil moisture and reservoir levels will support agriculture in the rabi season, which should offset some of the damage to kharif crops from erratic rains.

Increasing extreme-weather events highlights a bigger challenge on climate change. According to United Nations Intergovernmental Panel on Climate Change (IPCC), rising global temperatures are contributing to changing water cycles, and rising frequency of extreme weather events. Monsoon variability is also on the rise, along with more extreme events (more frequent dry spells and intense rains). Moreover, the IPCC expects rising temperatures to increase heatwaves across Asia, with India expected to have 2.5 heatwaves per season by 2040-2069, and 3.0 events by 2100 under RCP 4.5 scenario[2].

Investment outlook: Centre, states and the private sector

- The central government has been supporting growth through robust capex: in the first half of this fiscal, capex by the Centre was 50% higher on-year. State capex, which was ~12% higher on-year, is also expected to pick up in the second half. Higher-than-budgeted revenues are allowing this despite more outgo on subsidies
- This fiscal, a windfall in tax revenues has provided some legroom to spend on capex despite higher outgo on subsidies and revenue loss due to tax and import duty cuts on fuels and select imported items. For this fiscal, the central government had budgeted a net tax revenue of Rs 19.3 lakh crore, against which 52% — or Rs 10 lakh crore — has already been received in the first half. Most of this is on account of higher inflows through the Goods and Services Tax (GST), income tax and corporate tax. Similarly, outgo on subsidies (mainly fertilisers) — which is 63% of budget estimates (BE) — is already 10% higher than last year in the first half
- Notably, elevated inflation is also playing a role in driving up costs, and hence higher spending. Most of the government capex has flowed into road transport and highways, railways and shipping
- Given the government's capex orientation of the past few years, coupled with its plan to bring down the fiscal deficit only gradually, next fiscal could see the capex momentum going, and will support growth. The Union Budget for next fiscal will clarify the direction and intensity of spends

Turning to the private sector, in the pandemic years, low interest rates, low appetite for meaningful investments given weak demand, and supportive policies such as the Insolvency and Bankruptcy Code allowed corporates to improve operating efficiency and reduce debt. The improvement is visible in corporate credit quality with the CRISIL Ratings credit ratio (upgrades to downgrades) for the first half coming in at 5.52 vs 5.04 in the second half of last fiscal (*CRISIL Ratings Round-Up*).

[2] Representative Concentration Pathway, or RCP, refers to a climate change scenario, which models the quantum of greenhouse gas (GHG) emissions that will result in a given rise in temperature. At present, the government's efforts to reduce GHG emissions are broadly in line with RCP4.5 scenario. Estimates on frequency of heatwaves are reported by the Ministry of Earth Sciences

Capacity utilisation (CU) is also on an uptrend: it increased to 74.3% in the first quarter of this fiscal from 73% in the fourth quarter of last fiscal. That's above the pre-pandemic level of 69.9% in the fourth quarter of fiscal 2020.

Financial sector health, too, is expected to improve this fiscal. CRISIL Ratings expects gross non-performing assets (GNPAs) of the banking sector to improve 90 bps to 5% this fiscal owing to post-pandemic recovery and higher credit growth. For non-banks, too, GNPA is expected to improve 50 bps to 3%.

While the central government's capex thrust should continue this fiscal, improved credit profiles of the private sector, and increased ability and willingness of banks to lend bode well for the investment cycle. What could hold back private investments is the uncertain economic environment. All eyes, therefore, on how domestic demand conditions fare in the face of a global slowdown

CRISIL's Nowcasting model forecasts real GDP growth in Q2FY23 at 6.5%

Real GDP growth in the second quarter of this fiscal is expected to print at 6.5% on-year, compared with 13.5% in the first quarter, supported by ongoing recovery in consumption demand and government capex. High frequency indicators (*see Annex*) corroborate the pick-up in contact-based services, even as economic activity remains uneven, with industrial production beginning to feel the heat of slower export growth.

For the first half of the fiscal, growth is forecast at 9.8% on-year. Second half will see a moderation in growth, as the base effect comes to play, and impact of global slowdown percolates through exports and industrial activity. Some impact of policy rate hikes (which started in May 2022) will also be felt towards the last quarter of this fiscal.

Accordingly, we expect real GDP growth to slow to 4.5% on-year in the second half, largely driven by the base effect.

CRISIL's GDP Nowcasting model uses a combination of dynamic factor model (DFM), linear regression and time series analysis methods to forecast GDP in real time. The premise of a DFM is that a few latent dynamic factors drive the co-movements of the high frequency economic activity indicators, which can be used to forecast GDP. The nowcast is updated through the quarter as new information becomes available.

The model uses 35 high-frequency indicators across sectors – real (industrial production, consumption of goods and services), financial (bank credit, money supply), prices and global.

The Nowcasting model allows the functionality of predicting current quarter GDP growth earlier than the official data release by the Ministry of Statistics and Programme Implementation (which comes with a lag of about two months), and hence can track the current status of the economy.

Inflation to moderate, but risks remain

What risk factors remain for inflation this fiscal?

In the first half of this fiscal, consumer price index-based inflation has remained elevated at 7.2%, above the RBI's upper tolerance band of 6%. This was due to a combination of factors, largely supply-led, both domestic and global:

- Surge in food inflation at the start of the fiscal due to the heatwave's impact on foodgrains and vegetables
- Uneven monsoon distribution/ delayed monsoon withdrawal impacting sowing and harvest

- Pass-through of input prices to consumers, especially in sectors that saw demand revival (services)
- Elevated food and international energy commodity prices driven by geopolitics (crude oil, natural gas, fertilisers) and/or supply constraints (coal, metals)

That said, government interventions aimed at lowering supply-side constraints had eased the momentum of price rises. These included ensuring domestic supply of wheat and rice via export restrictions, slashing import duty on edible oils, and reduction in excise duty on petroleum products, among others.

For the remainder of the fiscal, we expect inflation to moderate as the base effect takes hold, and on expectation of healthy rabi crop. Risks to inflation remain, though:

- Tight wheat supplies will continue to contribute to higher cereal inflation until the rabi season. Further, despite rice buffers, lower rice kharif sowing is leading to pricing pressures for the crop
- Delayed monsoon withdrawal and seasonal demand would mean vegetables would see elevated inflation till November. Already, in October, retail prices of onions and tomatoes have risen in double digits on-year (beyond November, the seasonal effect comes down with the arrival of the winter harvest and is expected to calm prices)
- Persisting geopolitical tensions impacting international energy prices, as evidenced in the volatility seen in crude oil prices in the past few months

For the full fiscal, we expect CPI inflation to average 6.8% on-year, with fourth quarter inflation likely printing below 6%.

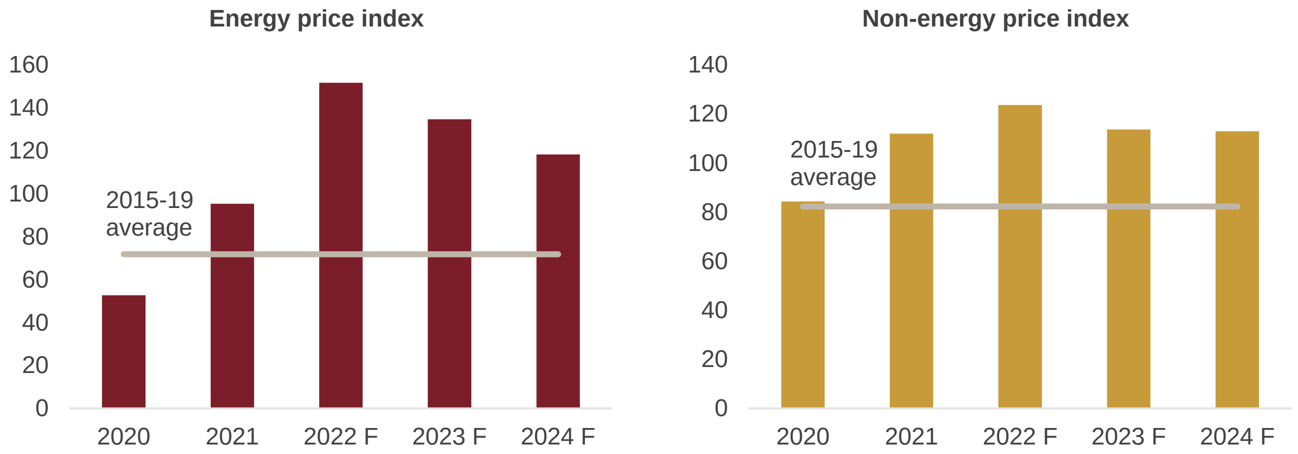
Outlook for inflation next fiscal

For fiscal 2024, we expect CPI inflation to come down, averaging 5% on-year, within the RBI’s target range of 4-6%.

A combination of three factors — impact of rising interest rates on domestic demand, a global demand slowdown leading to falling international commodity prices, and the base effect — should lead to lower inflation.

- Since monetary policy works with a lag of around three quarters, transmission of the rate hike cycle (which began in May 2022) to the broader economy in pre-empting second-round effects will be fully felt only next fiscal
- A slowdown in global demand, particularly in advanced economies, will imply easing of inflation in international commodity prices for the next two years (World Bank Commodity Markets Outlook, October 2022), implying lower imported inflation. Already, commodity price inflation has fallen from its 2022 highs. Supply-chain pressures, too, are easing following a sharp slide in shipping freight costs
  - Yet, the World Bank expects commodity price levels to stay above their average of the past five years
  - Risks persist in the form of volatility in energy prices arising from geopolitical tensions, and pass-through of energy prices to non-energy prices. Last, the rupee’s depreciation will limit gains from lower international prices, and hence, will remain a monitorable

Despite international commodity prices coming down next year, they will remain elevated compared with their pre-pandemic average



Source: World Bank Commodity Markets outlook, October 2022

The course of monetary policy hereon

The RBI's Monetary Policy Committee (MPC) has frontloaded rate hikes since its first move in May 2022. The repo rate has cumulatively risen by 190 bps so far to tackle elevated inflation. Concurrently, the central bank has conducted liquidity management operations to drain excess liquidity, which helps monetary policy transmission.

We expect the RBI's MPC to raise rates by 25 bps at its December meeting. The trajectory for monetary policy actions in the remainder of this fiscal will be guided by domestic inflation and spillover risks to financial stability from aggressive monetary tightening by advanced economies. Further, the RBI, in raising rates to control a largely supply-led surge in inflation, intends to anchor inflation expectations. Given that risks to inflation are still present (as outlined in the previous section), and that inflation expectations had inched up in September (as per the RBI's Household Inflation Expectations Survey), we believe another rate hike, of a smaller quantum than seen in the past meetings, is in the offing in December.

With inflation forecast to come down to 5% by the first quarter of fiscal 2024, we expect the RBI to evaluate the lagged impact of monetary policy on inflation and growth, before undertaking further rate actions. Of course, the impact of monetary tightening by major central banks on global financial conditions will also remain a monitorable for the RBI. Yet, it will not be solely driven by unabated frontloading of rate hikes in the US. As we shall see in the section, *'How much do interest differentials matter?'*, empirical evidence so far for India suggests that interest differential is not the most important factor in determining capital flows and the exchange rate.

A less synchronous global monetary policy setting and the impact on India

Central banks across most advanced and emerging economies coordinated monetary policy tightening this year. The Fed has raised rates by 375 bps cumulatively (as of its latest November meeting). Most emerging market central banks, too, tightened. For instance, Brazil and Chile raised policy rates by 450 and 675 bps, respectively, in the first three quarters this year.

But with inflation still at elevated levels in the US and Europe, their central banks are expected to keep interest rates higher for longer. S&P Global assumes that in a downside scenario of US inflation proving more persistent and the Fed responding more aggressively, the Fed funds rates may reach 5-5.25% by mid-2023.

Yet, in the emerging markets, as average headline inflation rates seem to be coming down, some major central banks (Brazil, Chile, Poland and Hungary) have signaled a peak in their current rate hike cycle (*S&P Global, October 2022*). Brazil and Hungary, for instance, kept rates unchanged at their latest meeting in October.

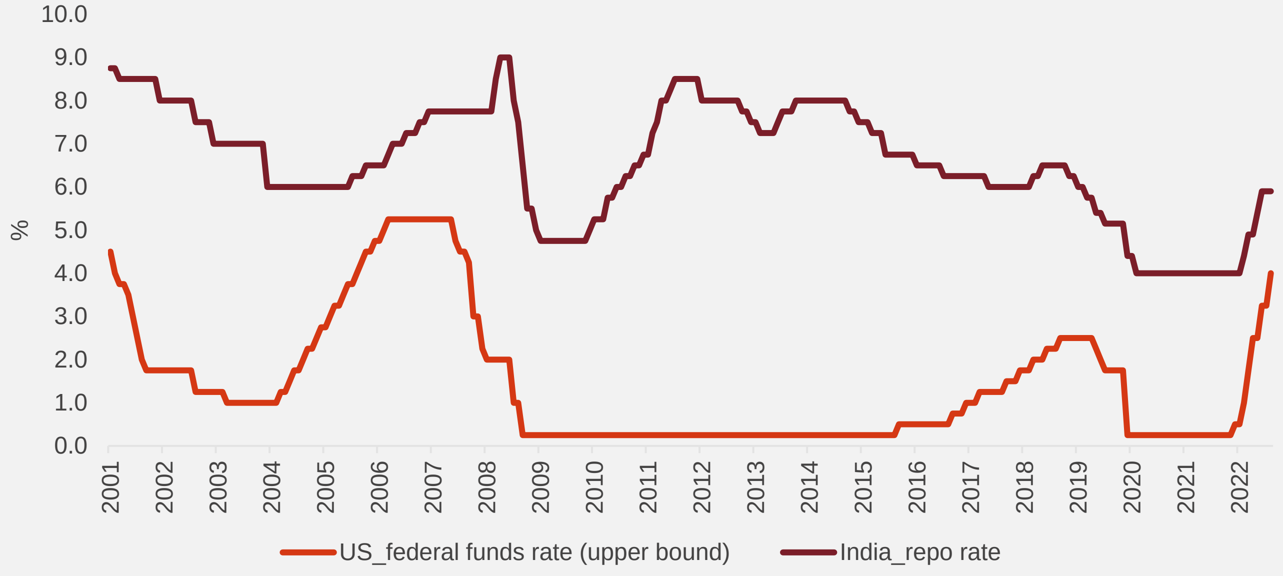
In India, too, inflation is forecast to fall next fiscal to within the central bank's target range of 4-6%. A reading of the MPC minutes from the September meeting suggests a few members arguing that a pause may be needed soon in the rate hike cycle to evaluate the lagged impact of the hikes so far.

This suggests that monetary policy actions may be less synchronous in the coming months with advanced economies staying aggressive by tightening, while central banks in some emerging market economies (including India) stepping off the gas.

How much do interest differentials matter?

Aggressive monetary tightening in the US this year has meant the interest differential between the US federal funds rate and India's repo rate has narrowed to around 190 bps, much lower than the pre-pandemic five-year average of ~450 bps[3].

Interest differential between US federal funds rate and India's policy rate has narrowed



Note: This is based on nominal interest rates and does not account for country/currency risk

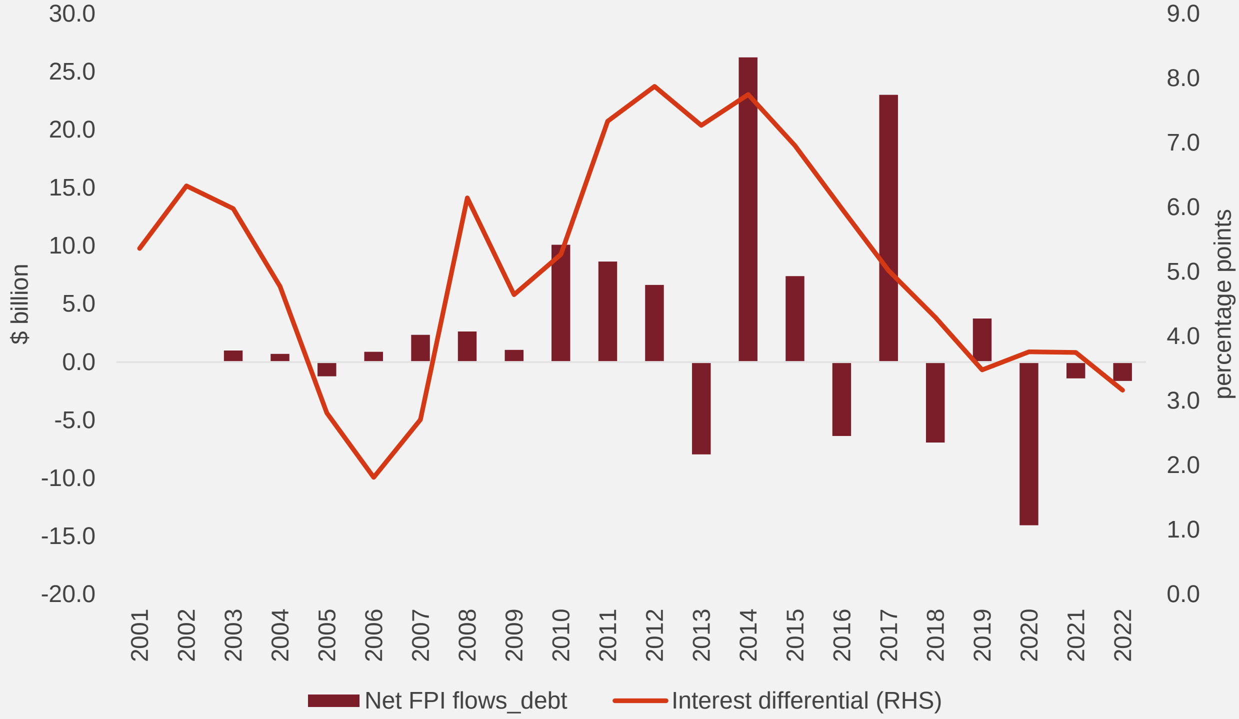
Source: Respective central banks

The narrowing corridor has led to concerns over outflow of foreign funds, which may consequently increase the depreciating pressure on the rupee. Yet, this may not be a dominant reason for the MPC to continue to hike repo rates in sync with the Fed due to the following:

[3] These calculations do not account for country/currency risk, which would increase the differential for both the referenced periods

- **Capital flows exhibit weak co-movement with interest differential:** Foreign direct investment (FDI) and equity FPI flows are not much sensitive to interest rate differentials (RBI, 2011). And while debt FPI flows have been impacted by narrowing interest differential, the correlation is weak. Indeed, in 2022 (April-November 15), debt FPI outflows amount to ~$1.5 billion – contrast that with the pandemic year of 2020, when the interest differential was wider but debt outflows were at $6.7 billion. The RBI 2011 study found that while external commercial borrowings (ECBs) and NRI deposits do exhibit sensitivity to interest rate differentials, other determinants (exchange rate movements, capital market openness, domestic GDP, performance of other advanced economies, risk perception of investors, etc) "dominate the impact of interest rate differential".

Weak co-movement between debt FPI flows and interest differential

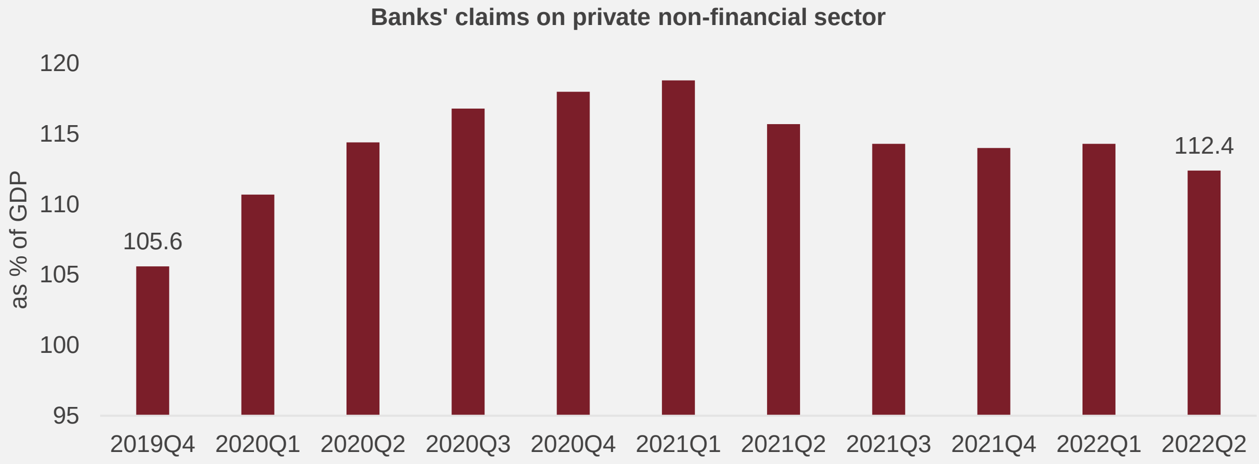


Source: NSDL, Respective central banks, CRISIL

- **Global liquidity, growth prospects of recipient countries matter more.** A Bank for International Settlements survey in 2020 of central banks in emerging Asian economies showed that respondents consider ample global liquidity as the most important driver of capital flows.

- In the current scenario, even as central banks in advanced economies have raised rates aggressively, global liquidity itself has not come down significantly and remains above pre-pandemic levels. This implies foreign funds may still find their way to India, particularly given the fact that the Indian economy is emerging as a relatively brighter spot amid the global slowdown.

Global liquidity indicators (banks' claims as % of GDP) show liquidity still above pre-pandemic levels, even as interest rates have shot up



Note: Banks' claims are one of the global liquidity indicators as maintained by BIS

Source: BIS

- **Exchange rate itself does not co-move with just interest differential.** Concerns of a narrowed interest differential leading to exchange rate depreciation do not hold much significance empirically. A 2021 study by the RBI found weak evidence of role for interest rate differentials in determining the exchange rate. It said, "It is possible that the US monetary policy influences the rupee through the risk premia channel, *but not directly through interest rate differentials*" (emphasis added)[4].

Current account deficit seen at 3.2% this fiscal vs 1.2% last fiscal

Given a lesser hit to domestic growth this fiscal compared with the next, core imports may not come down as sharply as core exports, leading to a worsening of the current account deficit (CAD) this fiscal. Though a weakening rupee supports exports to some extent, it is overshadowed by the impact of slowing demand, which is a dominant influencer of export growth[5]**.**

Not only have merchandise exports come under pressure, some of the services exports (related tourism, etc) and remittances could face headwinds from the growth slowdown in the advanced economies. Together, these factors could lead to CAD widening to ~3.2% of GDP this fiscal, up from 1.2% in the last. To be sure, factors such as rising share of discounted crude oil imports from Russia, lower gold prices, and robust IT exports will provide some cushion to CAD.

In fiscal 2024, a relatively bigger hit to domestic growth is likely to temper our core imports. Along with this, an expected correction in international crude oil and raw material prices in view of the softening global demand would assuage the trade deficit. Given these factors, we expect CAD to decline to 2.4% of GDP next fiscal.

[4] Compared with just pure interest differential, global risk aversion emerges as a significant determinant of the exchange rate. In the current context, it can be seen as the driving factor behind the rupee's weakening and the US dollar index's strengthening
[5] Please refer to CRISIL Quickonomics *A tale of two effects*, September 14, 2022

Annexure

1: Assessing growth trends through high-frequency indicators

1a: Supply side

Industrial activity is feeling the heat via slower exports growth

			Growth yoy %								Growth over corresponding month in FY20						
			Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22		Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Industry	Overall activity	IIP overall	6.7	19.7	12.6	2.2	-0.7	3.1	#N/A		6.3	1.8	7.0	2.0	4.2	8.6	#N/A
		E-way bills	28.0	84.1	36.2	17.8	18.7	23.7	4.6		43.3	35.6	49.7	44.9	52.7	60.3	45.4
		Railway freight cargo	9.4	14.6	11.3	8.3	7.9	9.1	1.4		20.9	25.5	23.7	22.5	31.0	30.6	26.8
		Air cargo	2.3	13.8	13.9	6.1	-1.2	-0.5	#N/A		-2.3	-7.7	-1.3	-6.3	-9.7	-4.2	#N/A
	Input industries	Core - coal	30.1	33.5	32.1	11.4	7.7	12.0	#N/A		20.5	22.8	19.8	24.8	34.5	46.0	#N/A
		Core - cement	7.4	26.2	19.7	0.5	1.8	12.1	#N/A		12.1	10.8	20.0	5.8	18.6	20.4	#N/A
		Core - electricity	11.8	23.5	16.5	2.3	1.4	11.0	#N/A		19.4	13.1	13.4	10.8	15.4	17.4	#N/A
	Manufacturing	PMI manufacturing*	54.7	54.6	53.9	56.4	56.2	55.1	55.3		-	-	-	-	-	-	-
		IIP manufacturing	5.6	20.7	12.9	3.0	-0.5	1.8	#N/A		4.3	-0.9	6.0	0.9	2.3	6.6	#N/A
		Merchandise exports	29.1	20.8	30.4	8.4	10.4	4.8	-16.7		52.5	30.8	69.2	46.7	41.8	36.3	13.6
	Construction	IIP infra and construction goods	4.0	18.4	9.4	3.8	2.1	7.4	#N/A		10.9	5.7	7.3	7.0	15.8	22.1	#N/A
Services	Overall	PMI services*	57.9	58.9	59.2	55.5	57.2	54.3	55.1		-	-	-	-	-	-	-
	IT services	Services exports	33.2	40.7	32.6	20.2	24.3	29.7	#N/A		33.2	34.5	45.1	21.9	39.3	59.8	#N/A

Source: NSO, RBI, CEIC, CRISIL

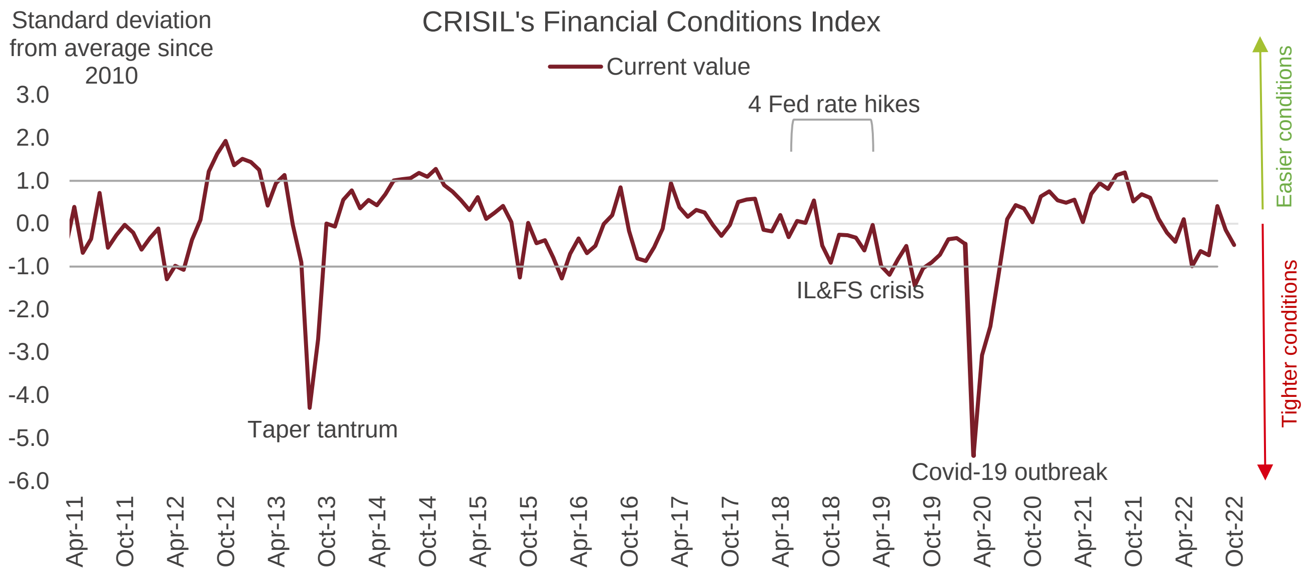
1b: Demand side

Uneven demand recovery across segments, with many goods and services yet to catch up to pre-pandemic levels

		Growth yoy %								Growth over corresponding month in FY20						
		Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22		Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Essentials	IIP consumer non-durables	-0.8	1.4	2.9	-2.8	-9.5	-7.1	#N/A		-0.8	-8.2	5.7	-3.3	-7.1	-4.9	#N/A
Discretionary	Two-wheeler sales	15.4	255.3	24.0	10.2	17.0	13.5	2.3		-29.9	-27.4	-20.7	-8.6	2.9	4.7	-10.2
	Passenger vehicle sales	-3.8	185.1	19.1	11.1	21.1	92.0	28.6		1.6	10.6	31.6	54.6	48.7	42.9	7.1
Rural demand	Tractor sales	40.6	47.4	-14.4	-15.3	-1.9	23.0	6.8		55.5	41.1	24.5	21.2	42.2	34.3	15.6
Services	Railway passenger traffic	116.2	478.1	237.6	168.6	113.6	87.6	62.2		-33.4	-26.2	-29.6	-27.7	-21.8	-21.1	-21.4
	Air passenger traffic	95.3	502.4	288.1	127.4	73.1	61.6	#N/A		-8.8	-7.1	-12.6	-17.3	-14.2	-10.1	#N/A
Imports	Core imports	33.3	34.3	40.2	44.7	40.6	20.5	2.4		44.2	31.4	57.4	47.6	48.0	51.6	40.6
Financing conditions	Money supply (M3)	9.5	8.8	7.8	8.6	8.9	8.6	9.1		34.7	34.1	34.0	35.1	34.3	33.3	33.5
	Retail credit	14.5	16.3	18.1	18.8	19.5	19.6	#N/A		49.1	49.3	50.4	51.7	52.7	52.6	#N/A
Government	Centre's capex	67.5	77.8	40.1	98.5	0.5	57.5	#N/A		158.0	64.5	344.5	-24.7	52.8	76.3	#N/A
Private	Credit to industry	8.0	8.8	9.5	10.5	11.4	12.6	#N/A		10.9	13.4	13.1	14.4	15.8	17.7	#N/A
Revenue expenditure (ex. interest payments)		3.2	23.9	-14.3	-27.7	-6.5	19.5	#N/A		-24.4	17.6	35.2	-35.4	0.6	16.5	#N/A

Source: NSO, RBI, Ministry of Finance, CEIC, CRISIL

2: Financial conditions are on a tightening trend



3 Tightening driven by domestic monetary tightening and squeeze in global financial conditions

		Pre-pandemic trend	Pandemic years		Current fiscal						
		FY16-20	FY21	FY22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Policy rate	Repo rate (%)	6.3	4.0	4.0	4	4.4	4.9	4.9	5.4	5.4	5.9
	Repo rate, inflation-adjusted (%)	2.0	-2.2	-1.5	-3.8	-2.6	-2.1	-1.8	-1.6	-2.0	-0.9
Liquidity conditions	Net absorption(-)/injection(+) under LAF (% of NDTL)	-0.5	-3.0	-3.9	-3.7	-2.5	-1.7	-1.1	-0.7	-0.4	0.0
Money market	Call money rate (%)	6.2	3.4	3.3	3.5	4.0	4.4	4.8	5.0	5.3	6.0
	91-day T-bill (%)	6.5	3.3	3.5	3.9	4.8	5.0	5.3	5.5	5.8	6.2
	CP 6-month rate (%)	7.6	4.4	4.3	4.9	5.9	6.3	6.3	6.4	6.7	7.5
Debt market	10-year G-sec (%)	7.2	6.0	6.3	7.1	7.3	7.5	7.4	7.3	7.3	7.4
	Term premium (%)	1.0	1.9	2.3	3.1	3.0	2.7	2.5	2.0	1.8	1.5
	AAA bond spread' (%)	0.6	0.7	0.5	0.1	0.2	0.2	0.2	0.2	0.1	0.1
	AA bond spread'' (%)	2.0	3.6	2.0	3.0	3.0	3.1	3.3	3.1	2.9	3.7
Lending rates	MCLR (6-month, %)	8.3	7.4	7.1	7.1	7.2	7.3	7.5	7.6	7.7	7.8
	Auto loan rate (%)	9.6	8.0	7.7	7.6	7.84	7.70	8.3	8.5	8.5	8.9
	Housing loan rate (%)	9.1	7.4	7.1	7.0	7.30	7.57	7.88	8.3	8.4	8.8
Credit availability	Bank credit growth (y-o-y, %)	9.7	5.9	7.0	10.1	11.1	12.1	13.4	14.3	16.4	17.9
Money supply	M3 growth (y-o-y, %)	9.7	12.2	9.6	9.5	8.8	7.8	8.6	8.9	8.6	9.1
Equity market	Sensex (%*)	8.7	7.6	27.0	17.8	8.1	4.5	5.4	11.8	9.8	7.8
	NSE VIX	15.6	25.8	17.9	18.9	22.6	21.1	18.3	18.6	19.6	18.3
Forex market	Rs/$ (m-o-m, %)	0.2	-0.2	0.4	-0.1	1.5	1.0	2.0	-0.1	0.9	2.6
Foreign capital	Net FPI ($ bn)	0.6	3.0	-1.3	-3.0	-4.7	-6.6	0.2	7.1	-0.4	-0.4
Global conditions	S&P 500 (%*)	8.9	14.0	24.3	11.6	1.3	-3.2	-3.6	1.5	-6.4	-9.8
	10-year US Treasury yield (%)	2.3	0.9	1.6	2.7	2.9	3.1	2.9	2.9	3.5	4.0
	Brent ($/barrel)	57.4	44.8	80.0	105.8	112.4	120.1	108.9	98.6	90.2	93.1

Easier than pre-pandemic 5-year average | Worse than pre-pandemic 5-year average | Close to pre-pandemic 5-year average

Source: CRISIL

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