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ECONOMY OBSERVER



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Possible Rate Cut Delayed if Prolonged Elevated Inflation Persists – Dun & Bradstreet

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“ The increase in retail inflation, driven largely by the impact of the erratic monsoon on food articles, should be transitory. If this trend extends to other components of retail inflation, propelled by the pick-up in demand during the festive season, it will impact real wages for households, particularly affecting the rural segment. The growth in the real wage rate of non-agricultural occupations in the rural segment has remained in negative territory in Q1 2023 since Q1 2021. If inflation continues to stay elevated in the upcoming two quarters, the possibility of a rate cut, which we had previously expected, will be deferred. ”



Real Economy

D&B expects the Index of Industrial Production (IIP) to continue to exhibit a robust growth at least until October 2023, driven in part by a favourable comparison to a low base. Adding to the positive outlook, the industrial production is expected to receive support from festive driven demand starting from September 2023, particularly, as sluggish exports continue to exert a drag on overall industrial output. Healthy growth in the construction sector is likely to support industrial activity. However, there is a widespread weakness in the manufacturing sector, with 14 out of the 22 sub-sectors registering a decline in the month of June 2023 which warrants close monitoring.

Price Scenario

The combination of an erratic monsoon and strong domestic demand is expected to keep the inflation higher in the near term. Despite deflation being observed in the Wholesale Price Index (WPI), this is unlikely to translate to reduced retail inflation due to the potential reluctance of producers/retailers to lower prices during the approaching festive season. Therefore, the likelihood of a rate cut which we had anticipated earlier is postponed. In fact, probability of a rate hike will increase if inflation remains higher for long. Dun & Bradstreet expects the Consumer Price Inflation (CPI) to be 7.1% and WPI to be around (-) 0.8% in August 2023.



Money & Finance

The increase in the US Treasury yields and the surge in domestic retail inflation, which could prompt the Reserve Bank of India (RBI) to adopt a more hawkish stance in the upcoming months, will keep the 10-year yield elevated. Concurrently, short-term yields are also expected to climb, given the RBI's directive for banks to uphold an incremental cash reserve ratio (ICRR) of 10% to reduce excess system liquidity in the banking system. Dun & Bradstreet expects the 15-91-day Treasury Bills yield to remain at around 6.8% and 10-year G-Sec yield to be 7.2% for August 2023.



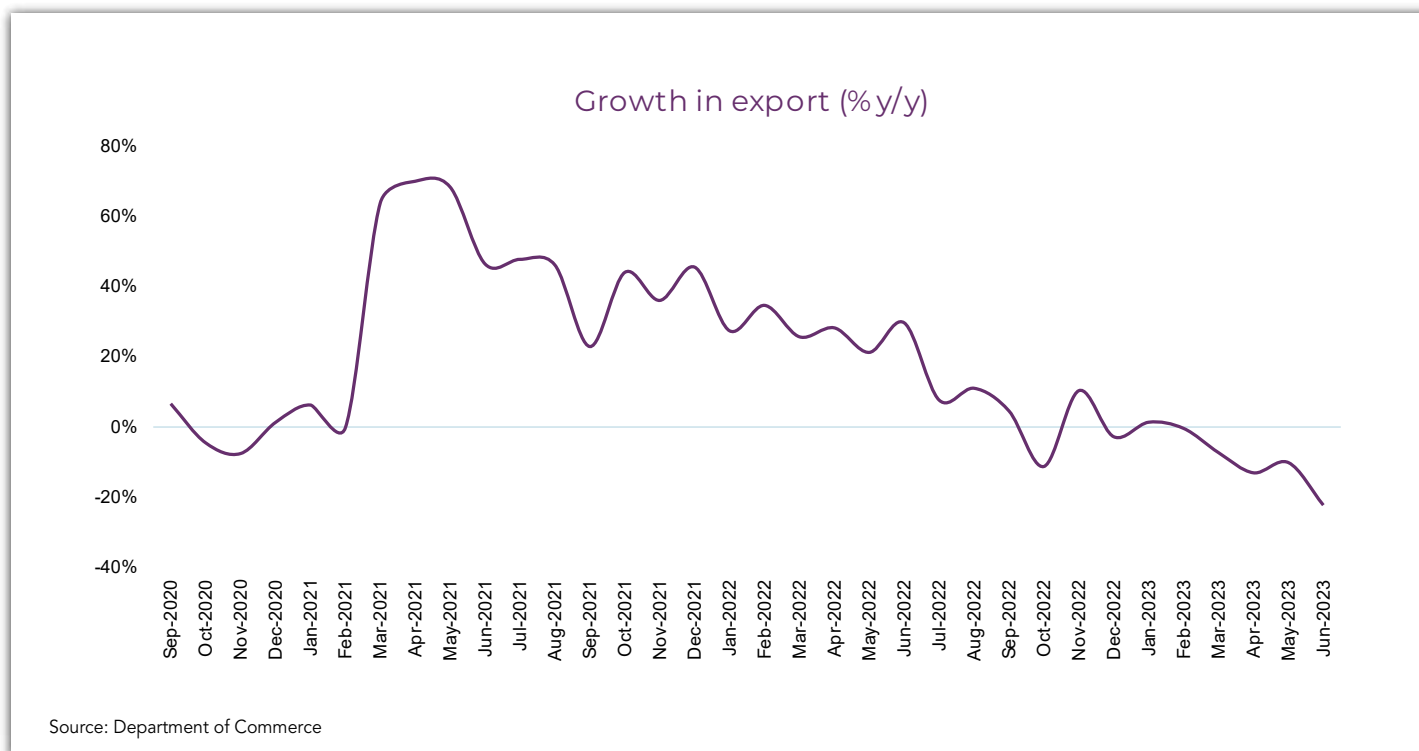
External Sector

Despite the robustness of domestic fundamentals, the rupee remains under pressure due to external factors. The surging US Treasury yields, ongoing strength in the USD, global risk aversion and geopolitical unrest is weighing upon rupee despite positive Foreign Institutional Investor (FII) inflows. Dun & Bradstreet expects the rupee to remain at around 83.0 per US\$ during August 2023.

D&B's Economy Observer Forecast

Variables	Forecast	Latest Period	Previous period
IIP Growth	5.8% July-23	3.7% June-23	5.3% May-23
Inflation WPI	- 0.8% August-23	-1.36 July-23	-4.12% June-23
CPI (Combined)	7.1% August-23	7.44 % July-23	4.87% June-23
Exchange Rate (INR/US\$)	83.0 August-23	82.15 July-23	82.23 June-23
15-91 day T-Bills	6.8% August-23	6.64% July-23	6.73% June-23
10 year G-Sec yield	7.2% August-23	7.11% July-23	7.05% June-23
Bank Credit	15.0% August-23	19.8% July-23	16.24% June-23

Downward trend in India's export growth since June 2022

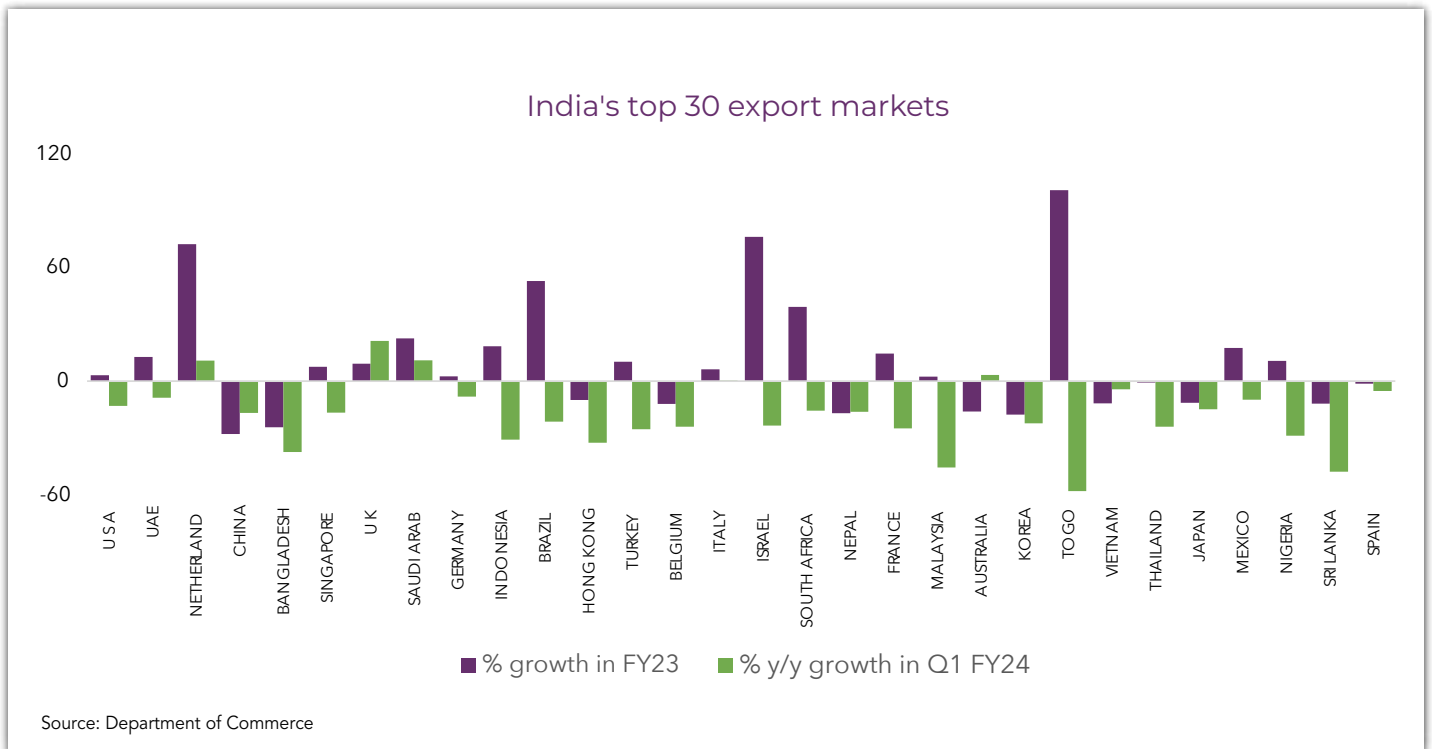


In 2022, India achieved a remarkable feat by ascending to the fifth position among the world's largest economies. Interestingly, this achievement coincided with a surge in India's exports to an all-time high level, a record that was surpassed in the subsequent year.

- In 2022-23, the country's merchandise exports marked a significant milestone, reaching an unprecedented annual value of USD 450.7 billion, growing by 6.9%. However, amidst this remarkable growth, non-petroleum exports experienced a slight setback, encountering a modest decline of 0.4%.
- Togo, Israel, Netherlands and Brazil were the fastest the growing export market in FY23. Netherland, which was the 5th largest export partner has overtaken China to become the 3rd largest exporting market in FY23. Brazil, which was the 21st largest export market is currently in the 11th position.

- Examining the data, it becomes apparent that following a substantial rebound in March 2021, following the pandemic, the rate of export growth gradually eased. The slowdown, which became evident starting from June 2022, resulted in a decline in export growth from October 2022 to June 2023, with the exception of January 2023.
- The global economic landscape is being significantly impacted by an array of factors, including the ongoing conflict in Ukraine, climate change-related incidents, elevated food and energy costs, inflationary pressures, and the enduring consequences of the COVID-19 pandemic.
- The challenges of international trade are further compounded by the imposition of trade protectionist measures by various countries. During 16 October 2022 to 15 May 2023, WTO Members introduced 182 new trade-facilitating and 110 trade-restrictive measures on goods, unrelated to the pandemic. 9.2% of global imports were affected by restrictions by the end of 2022.

Sharp downturn in exports to markets which have 63% share in India's total exports in Q1 FY24



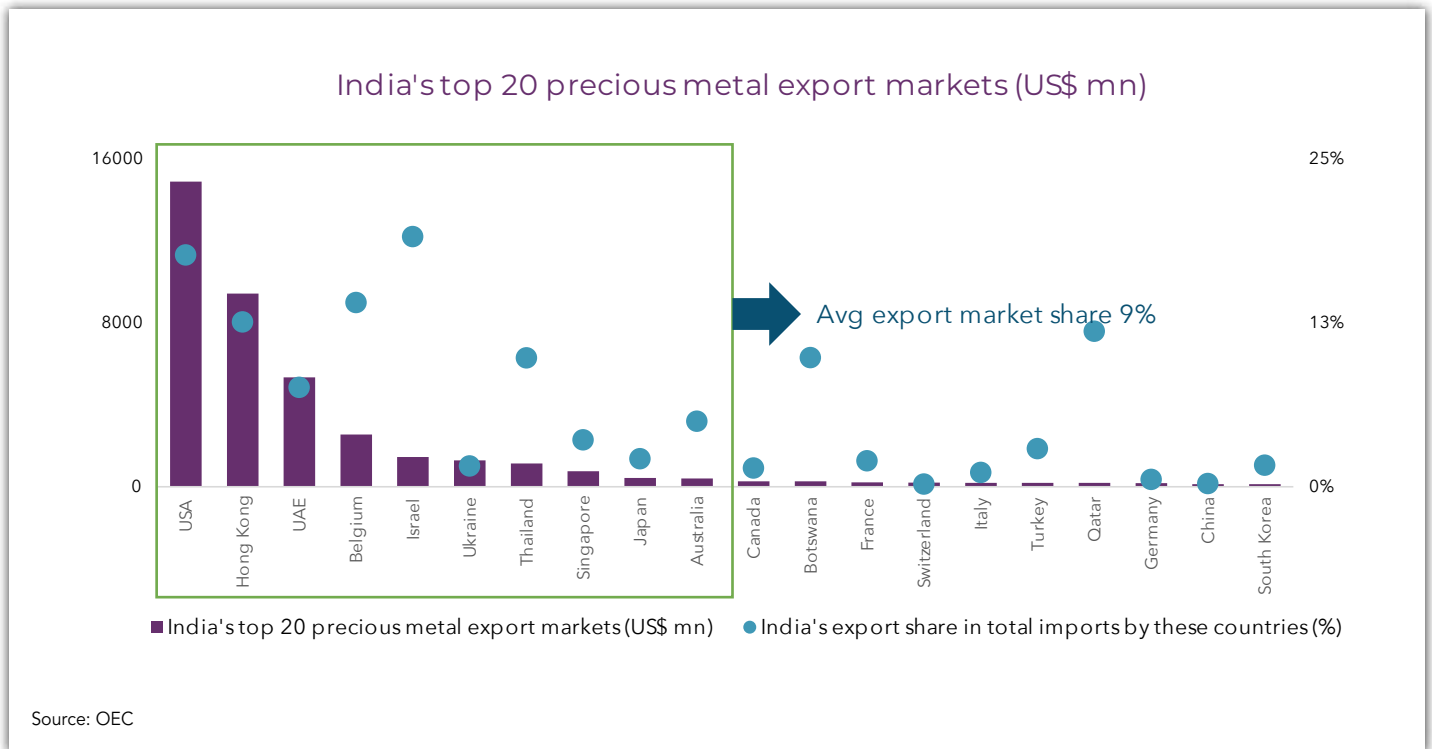
As exports declined by 14% in Q1 FY24, India's export to 24 out to 30 top export markets which had a share of 63% share in total exports, witnessed a decline.

- Since October 2022 when India's exports started contracting, as per Dun & Bradstreet's Country Risk Ratings, market environment of eleven countries, which constitute 20% of India's exports, have been downgraded. In simpler terms, a downgrade in market environment broadly implies a decline in the potential demand for foreign goods within the domestic market.
- India's efforts to establish connections with trade partners and broaden its export markets will play a crucial role in enhancing its export growth. This growth is imperative for India's journey towards

becoming a global powerhouse.

- India has signed 13 FTAs and six preferential pacts so far. India is also actively engaged in FTA negotiations with some of its trading partners including the UK, European Union and Canada.
- India is currently focusing on enhancing its bilateral trade with Morocco as trade volumes surpassed US\$4 billion positioning them as strategic partners in trade. Additionally, India and Greece are in talks to set a target to double their bilateral trade by 2030, while also preparing to sign a migration and mobility agreement.
- The FTAs should also help India to deepen its market penetration for its key export commodities. Data shows that on average, market share of India's topmost export commodities are around 8-13% in its key export markets.

India's average export share in total precious metal imports of its top 10 exports partners is around 9%

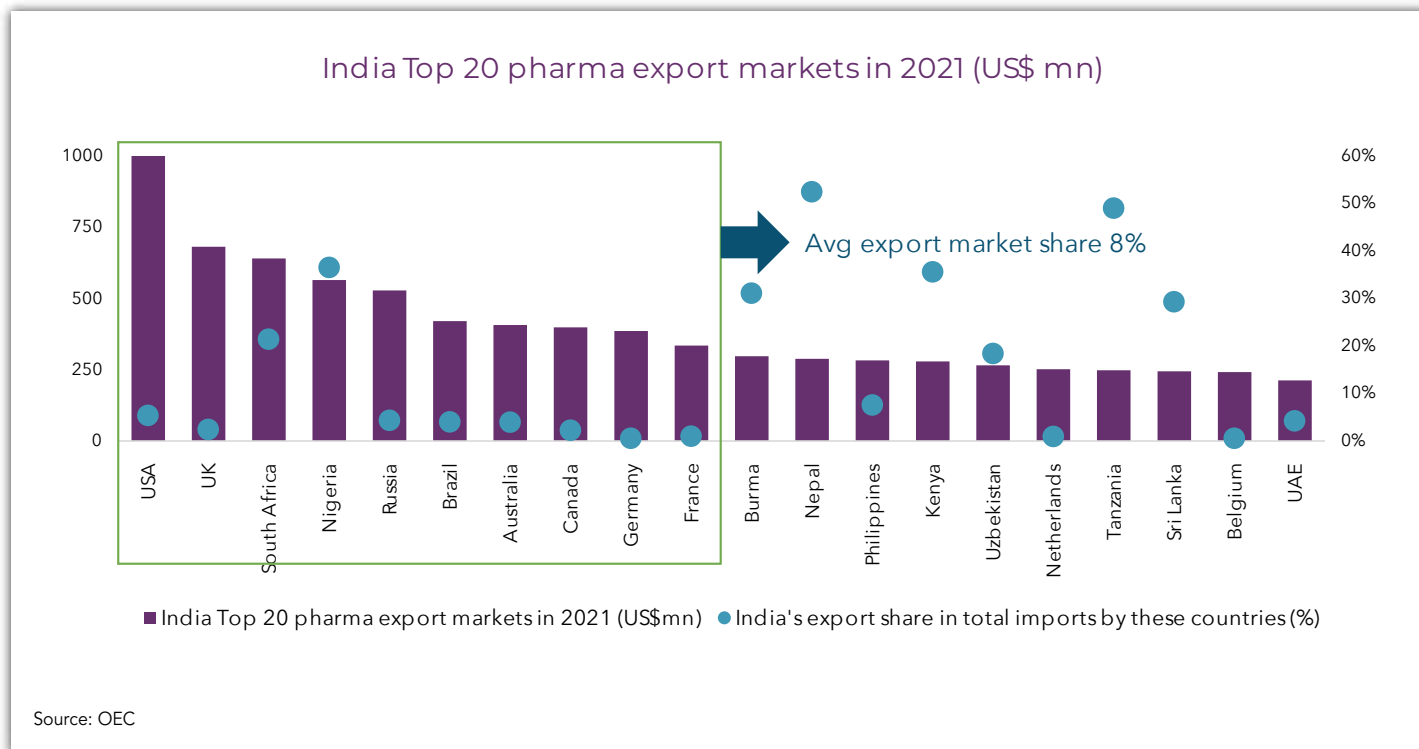


Globally, precious metals are the world's 8th most traded product. Precious metals are the 2nd most exported product of India with a share of 5.6% in FY23. However, its share and rank in global exports fell from 6.0% in 2019 (Rank 4) in the pre-pandemic period to 4.9% (Rank 6) in 2021.

- India's exports for precious metals fell by 8.8% in FY23 and further by 27% in Q1 FY24.
- The precious metals basket experienced a tumultuous 2022, with volatile price swings across gold, silver, platinum, and palladium impacting the sector globally.
- In FY23, the Indian gems & jewellery sector experienced elevated GNPA ratio, although it was lower than the level before the pandemic. Meanwhile, bank credit to this sector remained subdued in 2023 compared to FY19.
- The FTA with the UAE, which is India's largest 3rd export partner in precious metals, will boost exports going ahead. Besides the proposed new revised SEZ Act (announced in Feb 2022) is also expected to support exports of gems and jewellery.

- Data shows that despite being the 6th largest exporter globally, India's penetration in its key export markets is quite low. India's average export share in total precious metal imports of its top 10 exports partners is only around 9%.
- The fastest growing export markets for Precious Metals of India between 2020 and 2021 were United States, Hong Kong, and Belgium.

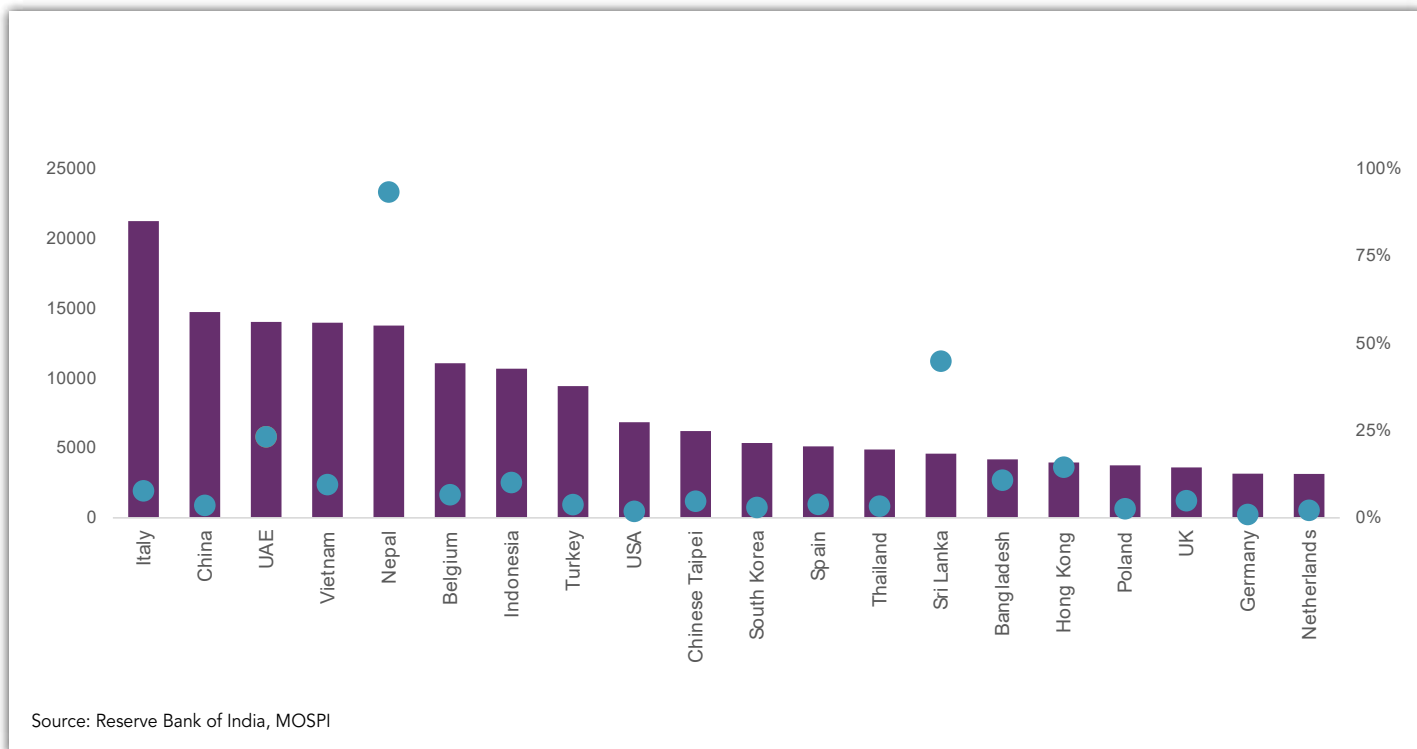
India's average export share in total pharma imports of its top 10 exports partners is around 8%



Pharmaceutical products are the world's 6th most traded product. India majorly exports drug formulations & biologicals, and these products contribute to about 75% of the total pharmaceuticals exports out of India. Drug formulations & biologicals are the 2nd largest exported commodity of India.

- Globally, India's penetration in its key export markets is quite low. India's average export share in total pharma imports of its top 10 exports partners is around 8%.
- India main exporting competitors are Germany, Switzerland and USA.
- The fastest growing export markets for pharmaceutical products of India between 2020 and 2021 were United States, Nigeria, and Pakistan. The risk of doing business with both Nigeria and Pakistan have increased in 2023 following the military coup in Nigeria and political and economic crisis in Pakistan.
- Globally, India holds the distinction of being one of the largest supplier of generic medicines. With a 20% share in global supply volume, it plays a crucial role, contributing to approximately 60% of the world's vaccines.
- In spite of the government's endeavors to enhance domestic production of diverse medicines, raw materials, and medical devices, the imports of these items have continued to rise. It is imperative for India to decrease its reliance on imports from China, necessitating the accelerated establishment of medical device manufacturing and the implementation of the PLI scheme for Bulk Drugs.

India's average export share in total iron & steel imports of its top 10 exports partners is around 13%



Globally Iron & steel are the world's 9th most traded product. In 2021, India was the 11th largest exporter of Iron or steel articles in the world. However, India's average export share in total iron & steel imports of its top 10 exports partners is around 13%.

market for metals, has not yet regained sufficient momentum. The slowdown in China, will impact demand for steel as India is the 3rd largest exporter of iron ore to China.

- Increasing competitive intensity in India, especially after the acquisition of steel assets by international steel producers under the Insolvency and Bankruptcy Code of 2016 are impacting the major steel producers.
- However, with the anticipated support from the domestic market, the steel sector is poised for growth. The Ministry of Steel has taken a step further by joining the PM Gati Shakti National Master Plan Portal. It has identified 22 crucial infrastructure gaps and is actively working on addressing these gaps in collaboration with various Ministries.

- India currently ranks as the world's 2nd largest producer of crude steel, surpassing Japan in 2018. In FY23, iron and steel exports fell by 41% and further by 30% in Q1 FY24.
- Global demand for iron and steel remained weak in 2022, putting pressure on domestic steel prices. The Chinese property sector, which is a crucial

US FOMC meeting (Federal Open Market Committee Schedule)

As the benchmark interest rate peaked up to 22 years high in June 2023, watch out for stance taken by the US FED at its FOMC meeting to be held in September as the FED policymakers would exercise caution while determining the need for additional tightening and at the same time the FED has indicated that the central bank has not reached a definitive conclusion regarding whether its benchmark interest rate has reached a level sufficient to ensure a return of inflation to the 2% target.

Bi- Annual Monetary Policy Report (MPR)

RBI is expected to release its Biannual monetary policy report in September 2023 with the macroeconomic and monetary developments that have occurred in economy over last 6 months.

Consumer Price Index (CPI)

Watch out for Consumer Price Index (CPI) to be released by Ministry of Statistics & Planning for July 2023 as the retail inflation crossed the 6% benchmark in August 2023 with rising food prices.

India's International Investment Position (IIP)

RBI would release data for India's international investment position for June 2023, which serve as a guidance on sovereign credit rating for the country in terms of its net assets and liabilities with respect to other countries.

India External Debt: A status Report for FY23

Ministry of external affairs is expected to release status report on India's external debt position for FY23, providing detailed view on classification of external debt, its composition and debt service payments along with international comparison.

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