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ECONOMY OBSERVER

APRIL 2023

El Nino and heatwaves could be a risk to demand from the rural sector – Dun & Bradstreet India

"~~The high and sticky core retail inflation raises concerns even as the headline inflation eases below the Central Bank's target. The US Federal Reserve is yet to indicate...~~"

> The impulse to growth from demand side is expected to remain weak, as the support from the pent-up domestic demand is likely to wane. Along with that, lack of any meaningful recovery from India's biggest export partners would weigh upon the Indian economy. This is not meant to undermine the resilience in the external sector as seen by the continued improvement of vulnerability indicators including the ratio of external debt to GDP, the ratio of short-term debt (residual maturity) to reserves, and the debt service ratio. What needs to be monitored closely is the occurrence of heatwave and El Nino as it can pose a potential risk for the crop output which could then affect business demand from the rural market.

Real Economy

Dun & Bradstreet India expects the Index of Industrial Production (IIP) to have expanded steadily in March 2023. Resilient demand, easing inflationary pressures and government capex are tailwinds for industrial output. However, high interest rates, weak external demand, impact of the heatwave and El Nino on rural demand pose risks to industrial activity. Dun & Bradstreet expects the Index of Industrial Production to have grown by (4.5%) - (5.0%), partly due to base effect, during March 2023.

Price Scenario

Easing of supply chain pressures and commodity price declines suggest that India's retail and wholesale inflation print will remain low. However, the impact of the heatwave and El Nino also pose a potential risk for the domestic crop output and could keep food inflation elevated. Despite the recent corrections in global crude oil and commodities prices, their future trajectories are still unpredictable due to ongoing geopolitical tensions. Dun & Bradstreet expects the Consumer Price Inflation (CPI) to be in the range of 4.4% - 4.9% and Wholesale Price Inflation (WPI) to be around 0.1% - 0.3%, respectively in April 2023.

Money & Finance

US bond yields are anticipated to decrease as a new set of economic reports indicated a potential worse-than-expected economic slowdown in the US. This, together with the Reserve Bank of India's decision to hold off on raising interest rates, is expected to keep yields range bound and largely unchanged from the previous quarter. Dun & Bradstreet expects the 15-91-day Treasury Bills yield to remain at around 6.9% and 10-year G-Sec yield to be 7.3% for April 2023.

External Sector

Dun & Bradstreet anticipates that the currency will strengthen in April 2023 following its appreciation in March 2023. The rupee is anticipated to be supported by the return of FII inflows, a moderation in the current account deficit, an increase in foreign exchange reserves, along with the moderation in inflation to help rupee to appreciate, albeit slightly. Dun & Bradstreet expects the rupee to appreciate to 82.1 per US$ during April 2023.

D&B's Economy Observer Forecast			
Variables	Forecast	Latest Period	Previous period
IIP Growth	~~(-1.0) % - (-0.5) % Dec-22~~	~~7.1% Nov-22~~	~~-4.0% Oct-22~~
Inflation WPI	~~4.3% - 4.5% Jan-23~~	~~4.95% Dec-22~~	~~5.85% Nov-22~~
CPI (Combined)	~~5.6% - 5.8% Jan-23~~	~~5.72% Dec-22~~	~~5.68% Nov-22~~
Exchange Rate (INR/US$)	~~81.9 Jan-23~~	~~82.46 Dec-22~~	~~81.81 Nov-22~~
15-91 day's T-Bills	~~6.4% - 6.5% Jan-23~~	~~6.39% Dec-22~~	~~6.46% Nov-22~~
10 year G-Sec yield	~~7.4% - 7.45% Jan-23~~	~~7.31% Dec-22~~	~~7.36% Nov-22~~
Bank Credit	~~14.5% - 15.0% Jan-23~~	~~12.9% Dec-22~~	~~15.61% Nov-22~~

Key Highlights of the Foreign Trade Policy and comments

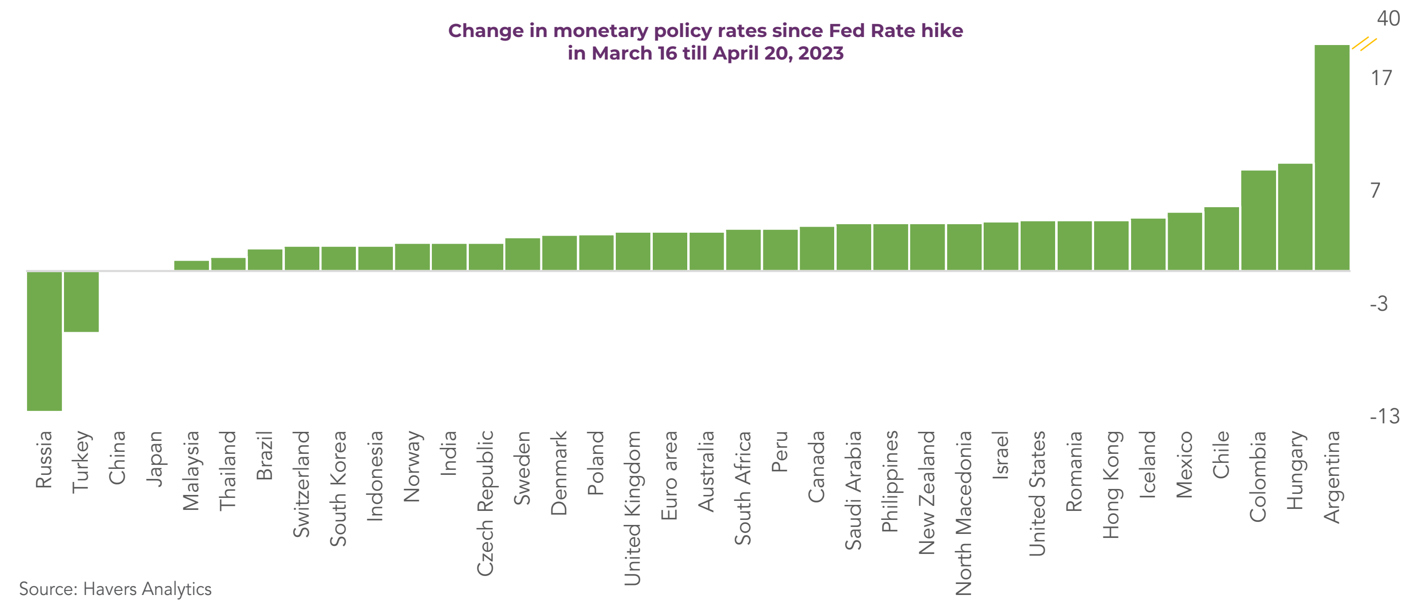
Key Highlights

- India's Foreign Trade Policy (FTP) 2023 is aimed at making India an export hub and integrating it into global value chains and facilitating ease of doing business for exporters
- The policy is based on four pillars: Incentive to Remission, Export Promotion through Collaboration, Ease of Doing Business, and Emerging Areas- E-Commerce Developing Districts as Export Hubs and streamlining SCOMET (Export of Special Chemicals, Organisms, Materials, Equipment and Technologies) policy
- The new FTP seeks to create an enabling ecosystem for exporters, with a shift from an incentive-based approach to a regime which is facilitating, based on technology interface and principles of collaboration.
- The new FTP aims at process re-engineering and automation to facilitate ease of doing business for exporters.
- The policy introduces a one-time Amnesty Scheme for exporters to close the old pending authorizations and start afresh.
- Four new towns have been designated as Towns of Export Excellence (TEE) in addition to the existing 39 towns and will have priority access to export promotion funds under the MAI scheme.
- Exporter firms recognized with 'status' based on export performance will now be partners in capacity-building initiatives on a best-endeavor basis.
- The policy emphasizes the use of automated IT systems with risk management systems for various approvals and codifies implementation mechanisms in a paperless, online environment to facilitate ease of doing business for exporters.
- The policy also aims to promote exports from the district level and accelerate the development of the grassroots trade ecosystem through partnerships with state governments and the Districts as Export Hubs (DEH) initiative.
- The FTP 2023 places a wider outreach and understanding of Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET) among stakeholders to ensure compliance with international regulations.

Comments

- While the new FTP policy is dynamic with both short term and long-term focus on boosting India's export potential, timely and effective implementation will ensure its success.
- Given the accelerated shift towards e-commerce, outlining the roadmap to facilitate e-commerce exports through e-commerce hubs, extending all FTP benefits to e-commerce exports and handholding artisans, weavers etc., to onboard them on E-Commerce platforms should help to increase India's export potential in untapped segments.
- District Export Promotion Committees (DEPCs) have been given the responsibility to transform districts into export hubs by identifying the products and services that hold export potential will help in job creation and infrastructure enhancement at the district level.
- While process automation and electronic application submission will make it easier to conduct business, organisations will need to modify their systems to accommodate such digitized processes.
- The special one-time amnesty programme may offer importers who were unable to complete their export obligations under the AA and EPCG programmes much-needed relief.
- Focusing on green energy products by making some products/segments/services eligible for reduced Export Obligation requirements under the EPCG Scheme should support India's sustainability initiative.
- Lastly, to increase long-term competitiveness, India should shift away from a subsidy-driven system and focus on structural reform initiatives. India could also seek product specific MoUs with different economies to stimulate exports in diverse regions, that would also help to attract investors interested in establishing China plus one structures.

Since the fourth quarter of 2022, Central Banks have started to shift in favour of lower rate increases or a pause from the brisk pace in the first half of 2022



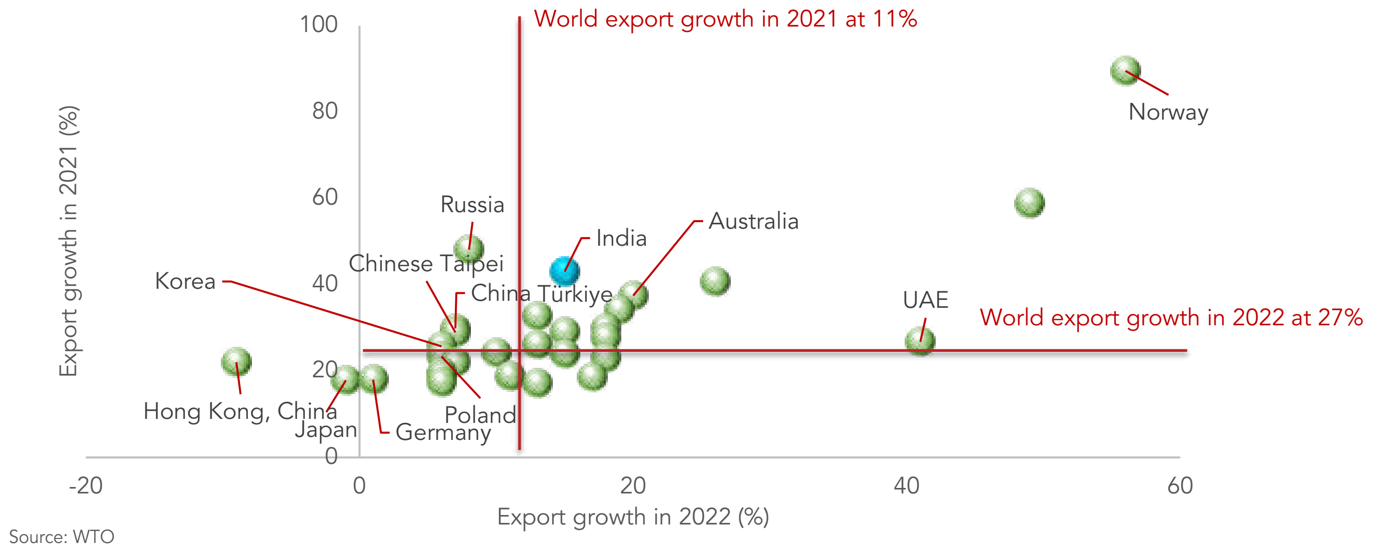
Source: Havers Analytics

Out of the 36 major developed and emerging economies that we have tracked, 17 Central Banks are still raising their policy interest rates, 16 Central Banks have paused, China and Turkey have already begun to decrease policy rates, and Japan has maintained its policy rate at the same level.

Around half of the 16 Central Banks that have decided to postpone their rate hike have not indicated that their tightening cycle is coming to an end.

- Major central banks had been sharply raising their policy rates to bring prices back down and stabilize their economies as inflation reached its worst levels in decades.
- Since the fourth quarter of 2022, Central Banks have started to shift in favour of lower policy rate increases or a pause from the brisk pace in the first half of 2022, realizing that headline inflation is declining, but slowly, and that underlying inflation pressures are still persistently strong.
- However, increased financial market volatility and worries about financial stability following the stress in the global banking system and bailouts have raised uncertainty about the course of future monetary policy.
- While there is still concern about global inflation, it is likely that central bankers should now plan based on their own country's economic situation.
- In its most recent cycle of monetary policy, the Reserve Bank of India declared a halt rather than a pivot in its monetary policy stance.
- We think that the Central Bank of India will likely hold its rate steady through the end of 2023 and consider a rate cut in early 2024 or cut the policy rate in 2023 if growth experiences a sharp decline. This is because high inflationary pressures are less likely to persist, the global commodity process is slowing down, and household inflation expectations are declining.

Exports growth of top 30 global exporters



Source: WTO

For 22 of the top 30 exporters globally (by share), growth in exports fell by more than ten percentage points in 2022. Russia recorded the worst fall followed by Norway, Hong Kong and India.

- Exports in value terms grew by 11% in 2022, moderating substantially from 27% growth recorded in 2021.
- Exports of Hong King and Japan declined by nine and one percentage points respectively in 2022. The annual percentage growth in exports for India was 43% in 2021 and 15% in 2022.
- Out of the top 30 global exporters (by share), exports of eleven countries grew below the global average export growth rate for the two consecutive years of 2021 and 2022.
- Despite significant global headwinds, India's merchandise exports reached its highest annual level of US$447.46 bn in FY23, growing by 6.03%.
- However, non-petroleum and non-gems & jewellery exports recorded a slight decline during the fiscal year.
- Under merchandise exports, 17 of the 30 key sectors exhibited growth during FY23. The top six sectors were oil meals (55.1%), electronic goods (50.5%), petroleum products (40.1%), tobacco (31.4%), oil seeds (20.1%) and rice (15.2%).
- India's sustained dependency on China remains a concern. India is attempting strategic decoupling from China, while trying to boost domestic manufacturing and capitalise on global investors' efforts to diversify. In FY23, China's share in India's merchandise imports have declined to 13.79% from 15.43% in FY22. Import share from China in electronic goods has also declined from 48.1% in FY22 (Apr-Feb) to 41.9% in FY23 (Apr-Feb). A significant fall in share from China seen in imports of fertilizers from 21.9% in FY22 (Apr-Feb) to 13.9% in FY233 (Apr-Feb).

India’s Invisibles for 3rd Quarter (October- December) 2022-23

The Reserve Bank will release data on India’s invisibles payments and receipts as per the IMF’s Balance of Payments and International Investment Position Manual (BPM6) format for October-December of 2022-23.

Half Yearly Report on Management of Foreign Exchange Reserves: October-March 2022-2023

The Reserve Bank of India will release the 40th half-yearly report on management of foreign exchange reserves with reference to end-March 2023. Developments regarding movement of foreign exchange reserves, information on the external liabilities vis-à-vis the reserves, adequacy of reserves, etc., during the half-year under review. Objectives of reserve management, statutory provisions, risk management practices, information on transparency and disclosure practices followed by the RBI with regard to reserve management are covered.

India’s merchandise Trade

Watch out for India’s goods trade data for April 2023. Exports of goods have decreased in the past five out of six months in March. The March contraction was sharp, coming in at a 13.9% year-over-year decrease.

Research Team
Dr. Arun Singh | Dipshikha Biswas | Annie Mahajan

Please send your feedback to Dr Arun Singh, Global Chief Economist.
Dun & Bradstreet Information Services India Pvt. Ltd., 7th Floor, Godrej BKC, Bandra (East), Mumbai – 400051 | CIN - U74140MH1997PTC107813
Tel: 91-22-4941 6666 | Email: SinghArun@DNB.com | www.dnb.co.in