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ECONOMY OBSERVER

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Rupee to depreciate amid low volatility– Dun & Bradstreet

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“ The Indian festive season to boost short-term consumption. Elevated retail inflation amid monsoon season uncertainty, poses risk to the consumption boost. On a positive note, the multiple strategic partnerships forged during India’s G20 presidency to enhance its market potential and open opportunities for greater integration with global economies. India’s addition in J.P. Morgan Emerging Markets bond indices is set to boost foreign portfolio investments. ”



Real Economy

Dun & Bradstreet expects the Index of Industrial Production (IIP) to register a healthy growth, partly due to low base of last year. Consumption and investment to support Industrial activity. Investment growth remains robust, supported by strong bank credit growth. Indian festive season demand to further stimulate consumption. Dun & Bradstreet expects the IIP to have grown by 6.5% during August 2023.

Price Scenario

Dun & Bradstreet expects retail inflation to remain elevated and stay above the RBI's upper target range in the month of September 2023. Although high inflation in vegetables is seasonal, items such as cereals, pulses, and spices are showing persistent upward pressure. Meanwhile global crude oil prices continue to rise, amid persistent supply worries. Wholesale Price Index (WPI) to remain in the positive zone after recording negative growth for five straight months. Dun & Bradstreet expects the Consumer Price Inflation (CPI) to be 6.9% and WPI to be around 0.7% in September 2023.



Money & Finance

The 10-year bond yield to inch higher as US Treasury yields remain elevated amidst the high retail inflation, which has pushed the rate cut possibility by the Reserve Bank of India (RBI) to next year. The RBI announced a phased withdrawal of incremental cash reserve ratio (I-CRR) even as liquidity to remain in deficit amid advance tax outflows. Tight liquidity conditions to keep the short end of the yield curve elevated. Dun & Bradstreet expects the 15-91-day Treasury Bills yield at 5.9% and 10-year G-Sec yield to be 7.3% for September 2023.



External Sector

Elevated US Treasury yields, higher crude prices and strength in the US dollar is likely to exert further downward pressure on the Indian rupee. Headline inflation to remain elevated adding downward pressure on the rupee. The RBI to intervene to reduce volatility and prevent sharp depreciation. Dun & Bradstreet expects the rupee to remain at 83.1 per US\$ in September 2023 and 83.4 per US\$ in October 2023.

D&B's Economy Observer Forecast

Variables	Forecast	Latest Period	Previous period
IIP Growth	6.5% August-23	5.7% July-23	3.8% June-23
Inflation WPI	0.7% September-23	- 0.52% August-23	-1.36% July-23
CPI (Combined)	6.9% September-23	6.83% August-23	7.44 % July-23
Exchange Rate (INR/US\$)	83.4 October-23	83.1 September-23 (est.)	82.79 August-23
15-91 day T-Bills	5.9% September-23	6.49% August-23	6.35% July-23
10 year G-Sec yield	7.3% % September-23	7.2% August-23	7.11% July-23
Bank Credit	18.2% September-23	19.8% August-23	14.7% July-23

State-wise industrial investment intentions: Ranking in terms of proposed investment values

State	2013	State	2019	State	2021	State	2022				
1	Odisha	987	1	Gujarat	3438	1	Maharashtra	2773	1	Gujarat	1001
2	Gujarat	942	2	Maharashtra	1153	2	Odisha	1379	2	Odisha	723
3	MP	887	3	Karnataka	835	3	Gujarat	926	3	Karnataka	707
4	Maharashtra	534	4	Odisha	298	4	Karnataka	617	4	Maharashtra	390
5	Rajasthan	369	5	AP	188	5	Rajasthan	425	5	Rajasthan	222
6	Chhattisgarh	341	6	MP	173	6	Chhattisgarh	316	6	Assam	186
7	TN	274	7	UP	168	7	TN	296	7	AP	161
8	AP	176	8	Rajasthan	101	8	MP	219	8	Delhi	151
9	Kerala	143	9	TN	86	9	UP	173	9	MP	120
10	UP	133	10	Haryana	83	10	Bihar	110	10	UP	104
11	Karnataka	100	11	WB	58	11	AP	94	11	TN	94
12	WB	81	12	Telangana	54	12	Punjab	80	12	Chhattisgarh	74
13	Jharkhand	77	13	Chhattisgarh	51	13	Haryana	57	13	Telangana	59
14	Telangana	77	14	Assam	24	14	Uttarakhand	56	14	WB	45
15	Haryana	42	15	Uttarakhand	21	15	WB	55	15	Jharkhand	43

Note: The above table denotes state-wise IEMs (Based on Part A) filed (Rs bn)

IEM Part A - All industrial undertakings exempted from the requirements of industrial licensing under I (D&R) Act, 1951 and having an investment in plant and machinery of Rs 50 Crore and above; OR turnover of Rs. 250 crore and above including Existing Units, New undertaking (NU) and New Article (NA), are required to file information relating to setting up of industries is known as IEMs.

Source: DIPP

Filing an industrial entrepreneur memorandum or IEM signals businesses' intent to invest in industrial activities and serves as a key indicator for the private sector capital expenditure cycle. Tracking these intentions state-wise provides insights into leading investment destinations and potential growth areas.

- In 2021, the proposed investment, in value terms, by the private sector in setting up new factories or expanding the production of existing factories crossed the pre-pandemic level and jumped almost two-fold from 2018. However, both the number and value of these investments declined in 2022 compared to 2021.

- This suggests that private sector investment intentions remained subdued in 2022 amidst the uncertainty posed by the Russia Ukraine war and concerns about a potential global economic slowdown prompting the government to announce a record capital expenditure in the Union Budget in February 2023.
- Comparing private sector investment intentions across states in 2021 and 2022 with data from a decade ago and the pre-pandemic period reveals shifting patterns in private sector interests.
- A decade ago, in 2013, Orissa, Gujarat, Madhya Pradesh (MP), and Maharashtra were the top four states attracting private investments. While three of these states maintained their top positions in 2021 and 2022, Madhya Pradesh lagged behind, securing lower ranks in both years.
- Remarkably, Assam, which held a lower rank over the past decade, emerged as one of the top 10 states for private sector investment intentions. In contrast, Kerala, previously ranked 9th, now finds itself among the bottom 10 states in attracting private investment, reflecting major shifts in private sector preferences and investment strategies.

State-wise industrial intentions implemented: Ranking in terms of declared investment values

State	2013	State	2019	State	2021	State	2022
1 Maharashtra	303	1 Gujarat	15,189	1 Gujarat	1050	1 AP	452
2 Gujarat	155	2 Odisha	474	2 Odisha	892	2 Gujarat	393
3 AP	50	3 Jharkhand	442	3 Maharashtra	459	3 Odisha	373
4 Karnataka	49	4 AP	347	4 Chhattisgarh	165	4 Maharashtra	357
5 UP	41	5 Maharashtra	342	5 MP	145	5 Rajasthan	174
6 Telangana	34	6 Punjab	278	6 TN	137	6 Jharkhand	155
7 Rajasthan	32	7 Karnataka	220	7 UP	113	7 TN	93
8 WB	25	8 Chhattisgarh	143	8 AP	104	8 UP	89
9 TN	23	9 Rajasthan	123	9 Rajasthan	76	9 Karnataka	80
10 MP	15	10 MP	113	10 Telangana	67	10 MP	72
11 Meghalaya	11	11 Telangana	74	11 Karnataka	63	11 Punjab	45
12 Assam	10	12 UP	62	12 Punjab	56	12 Telangana	39
13 Haryana	9	13 Uttarakhand	44	13 Uttarakhand	45	13 WB	37
14 Bihar	9	14 Haryana	38	14 Haryana	36	14 Dadra & Nagar Haveli	32
15 Uttarakhand	8	15 TN	29	15 Jharkhand	27	15 Haryana	29

Note: The above table denotes state-wise IEMs implemented (Based on Part B) filed (Rs bn) IEM Part B - All Industrial undertakings which had filed IEM Part A are required to report commencement of commercial production and file it on-line.

Source: DIPP

IEM data shows projects implemented have witnessed a traction especially since 2018. Private capital expenditure (as per part B of the IEM form) jumped four-fold in 2018 compared to 2017. The following years also witnessed increase in traction of project implementation.

- The Industrial Entrepreneur Memorandum (IEM) filings with the government and the surge in foreign direct investments not only indicates pick up in the private sector investment since 2018 but also faster approvals by state and central governments enabled by the various business reform initiatives taken over the years.

- Odisha stands out. From being the bottom 21st state in project implementation, it is now the amongst the top four states since 2019, which has witnessed high implementation or expansion of projects by the private sector.
- Markedly, Andhra Pradesh and Rajasthan also witnessed increase in project expansion and new project implementation.
- West Bengal continued to rank below both in terms attracting private sector investment and implementation and expansion of private investments.

Ranking of states according to investments received and business reforms initiated

RANKING				
	Investment intentions	IEMs Implemented	FDI inflows	BRAP ranking
State	2019-2022	2019-2022	Oct 2019 to March 2023	2020
Gujarat	1	1	3	Top achievers
Maharashtra	2	3	1	Achievers
Karnataka	3	8	2	Top achievers
Odisha	4	2	19	Achievers
Rajasthan	5	7	9	Aspirers
MP	6	11	15	Achievers
Chhattisgarh	7	4	26	Aspirers
UP	8	9	11	Achievers
TN	9	12	5	Top achievers
AP	10	5	13	Top achievers
WB	11	16	10	Aspirers
Telangana	12	13	7	Top achievers
Assam	13	19	24	Aspirers
Delhi	14	20	4	Emerging business ecosystems
Haryana	15	14	6	Top achievers

Source: DIPP, PIB

Since 2014, the government had initiated an action plan for business reforms for states to improve the conduciveness to do business at the state level and stimulate domestic and foreign private sector investments.

- States are assessed based on the implementation of Business Reforms Action Plan and are given a ranking or grouped into categories. In a departure from the previous years, where States/UTs were ranked, in 2020 states have been placed under the four categories i.e Top Achievers, Achievers, Aspirers and Emerging Business Ecosystems. This serves as a crucial resource for investors in determining where to allocate their investments.
- It has been observed that the states that have embraced a significant portion of the recommended reforms to improve the business environment are not the sole beneficiaries of higher domestic and foreign private investments.
- For instance, Andhra Pradesh has consistently secured the top position in the Business Reform Action Plan (BRAP) since 2016 and was recognized as a 'Top Achiever' in 2020. However, when comparing its ranking in private sector investment intentions and foreign investment inflows between 2019 and 2020, Andhra Pradesh ranked 10th in domestic investment intentions and 13th in the share of FDI inflows.
- Indeed, during 2019 and 2020, West Bengal attracted a higher share of FDI inflows at 0.8%, surpassing Andhra Pradesh, which received 0.4% in the same period.
- Telangana, a 'Top Achiever' in 2020 and consistently holding high ranks since 2017, has successfully attracted significant Foreign Direct Investment (FDI) inflows. However, it lags behind in terms of domestic private investment intentions and actual investments. States like Andhra Pradesh and Haryana, despite being 'Top Achievers' i.e. amongst the top 7 seven states, rank quite lower in terms of attracting domestic and foreign investments.

Business Reform Action Plan (BRAP) ranking for top 15 states

State/Union Territory	2015	2016	2017	2019	2020	
Andhra Pradesh	2	1	1	1	1	Top achievers
Gujarat	1	3	5	10	2	
Haryana	14	6	3	16	3	
Karnataka	9	13	8	17	4	
Punjab	16	12	20	19	5	
Tamil Nadu	12	18	15	14	6	
Telangana	12	18	2	3	7	Achievers
Himachal Pradesh	17	17	16	7	8	
Madhya Pradesh	5	5	7	4	9	
Maharashtra	8	10	13	13	10	
Odisha	7	11	14	29	11	
Uttarakhand	23	9	11	11	12	
Uttar Pradesh	13	1	12	2	13	Aspirers
Assam	22	24	17	20	14	
Chhattisgarh	4	4	6	6	15	

Source: RBI, PIB

- Conversely, Maharashtra, despite attracting and implementing higher levels of domestic and foreign investments, obtained a lower ranking since 2016 under the Business Reform Action Plan (BRAP) and was classified as an "Achiever" in 2020.
- Additionally, the observation reveals that the top three states attracting domestic investments also tend to draw significant foreign investments. However, this relationship does not apply to the implementation of reforms. Karnataka, for example, lags behind in the ranking, securing the 8th position in terms of implementation. In contrast, Odisha, classified as an 'aspirer' under BRAP, ranks just below Gujarat and outperforms Maharashtra in terms of implementation.
- The observed disparity between the measures taken to attract private investments and the actual attraction of domestic and foreign private investors can stem from various factors. These disparities might be influenced by variables such as labor costs, compliance requirements, or infrastructure limitations. It is crucial to thoroughly investigate these factors so that appropriate measures can be implemented to address these challenges effectively.
- Since 2014, the DPIIT initiated an Action Plan for State Reforms, partnering with state governments and Union Territories to streamline business operations, reduce compliance burdens, and enhance ease of doing business. The assessment studies the extent to which states have implemented Business Reform Action Plan (BRAP).
- The reform plan has expanded over the years to cover all aspects of businesses and include the best practices demonstrated by the states. The BRAP 2014 had recommendations for 98 reforms spread across 9 reform areas. In 2015 it had 285 recommendations across 8 reform areas and in 2016 this increased to 340 across 10 reform areas. In 2017 and 2019 BRAP included 372 and 187 recommendations for reforms respectively spread across 12 reform areas, while the BRAP 2020 included 301 reform points covering 24 business regulatory areas.

ORDER BOOKS, INVENTORIES AND CAPACITY UTILIZATION SURVEY

Watch out for the Reserve Bank of India's quarterly survey on Order Books, Inventories and Capacity Utilization Survey (OBICUS) for Q1:2023-24. Capacity utilization at 76.4% in Q4 2022-23 remained above the long run average.

QUARTERLY INDUSTRIAL OUTLOOK SURVEY

Watch out for the RBI's quarterly survey that will give qualitative assessment of the business climate by the manufacturing companies for Q2:2023-24 and their expectations for Q3:2023-24 as well as outlook on selected parameters for the two subsequent quarters. During Q1 2023-24, overall business sentiments in the manufacturing sector remained positive, manufacturers reported easing of raw material cost pressures, and an uptick in selling price sentiments and were more optimistic on demand conditions for Q2:2023-24.

SERVICES AND INFRASTRUCTURE OUTLOOK SURVEY

Similar to the survey for manufacturing companies, RBI's releases another survey that captures qualitative assessment and expectations of Indian companies in the services and infrastructure sectors on a set of business parameters relating to demand conditions, price situation and other business conditions. In the previous survey, service enterprises were optimistic about overall business situation as well as their turnover and employment situation in Q2:2023-24 and expected further improvement in demand conditions in the second half of the financial year. Pressures from wage bill and cost of finance were expected to rise in Q2 2023-24 but input cost pressure were likely to be lower vis-à-vis Q1 2023-24.

BANK LENDING SURVEY

Keep an eye on the quarterly Bank Lending Survey (BLS), which captures qualitative assessment and expectations of major scheduled commercial banks (SCBs) on credit parameters (viz., loan demand as well terms and conditions of loans) for major economic sectors. During the last survey, bankers assessed an optimistic loan demand condition in Q1:2023-24 and remained upbeat for the next three quarters. Loan terms and conditions were expected to ease further during Q2 Q3 and Q4 of 2023-24.

GLOBAL FINANCIAL STABILITY REPORT

Watch out as International Monetary Fund (IMF) is expected to release Global financial stability report in October 2023, which offers a comprehensive perspective on global financial system, highly valuable for emerging market borrowers with its assessment on the current conditions of the financial markets and the associated risks.

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