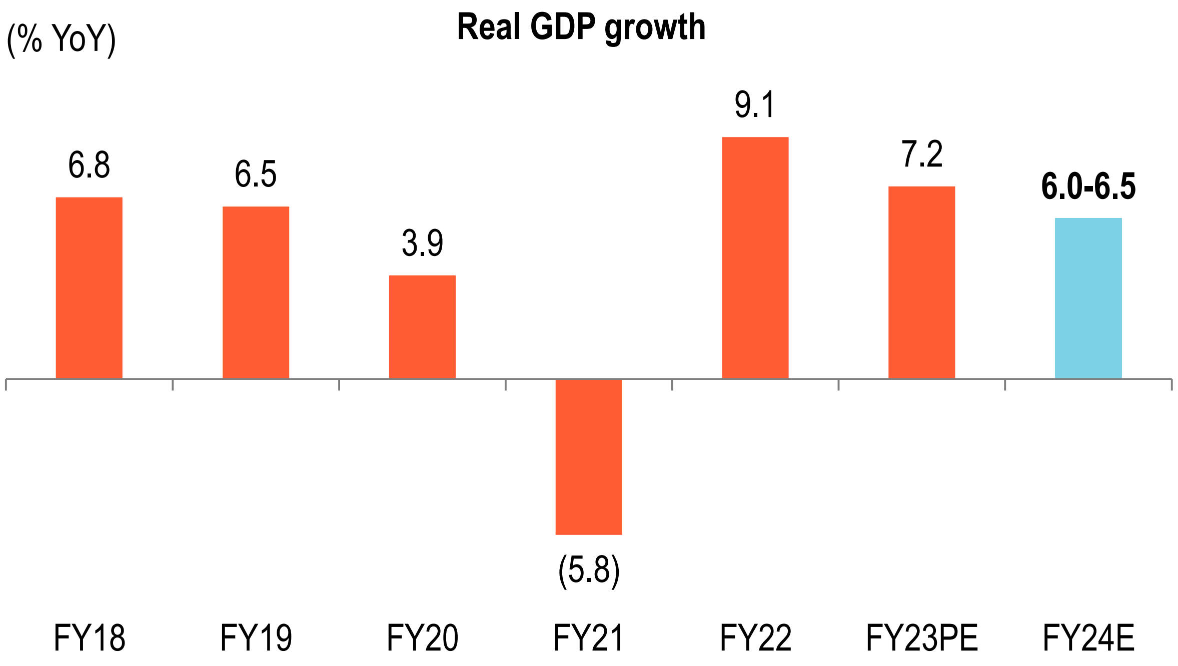
Indian Economy FY24: A Prognosis

1 June 2023

Growth Outlook

- Global growth expected to slow down in 2023, led by Advanced Economies.
- India expected to be the fastest growing major economy with GDP growth expected at 5.9% as per IMF.
- Our GDP estimate is slightly higher. We expect GDP growth in FY24 to range between 6-6.5%.
- This takes into account expected slowdown in the global economy, which may impact the external sector, and continued resilience of our domestic economy.



Source: CEIC, Bank of Baroda Research | PE: Provisional Estimate, E: BoB Estimate

Sectoral breakup of growth

- GVA growth expected in the range of 5.8-6.4%
- Agriculture to continue to grow at a healthy pace.
- Industry growth to recover.
  - This will be driven by the construction sector.
  - Manufacturing to benefit from base effect.
    - Specific sectors to see steady growth which will not be broad-based
- Services sector to remain resilient.

% YoY	FY19	FY20	FY21	FY22	FY23PE	FY24E
GDP	6.5	3.9	(5.8)	9.1	7.2	6.0-6.5
GVA	5.8	3.9	(4.2)	8.8	7.0	5.8-6.4
--Agri	2.1	6.2	4.1	3.5	4.0	3.5-4.0
--Industry	5.3	(1.4)	(0.9)	11.6	4.4	5.0-6.0
--Services	7.2	6.4	(8.2)	8.8	9.5	7.0-8.0

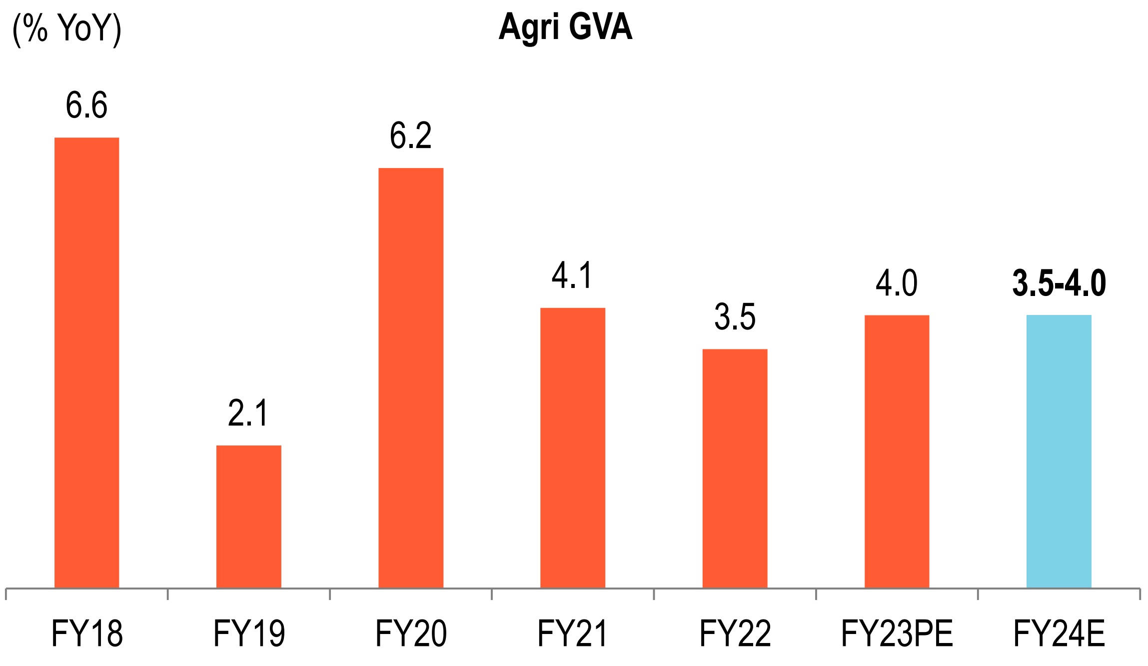
Source: CEIC, Bank of Baroda Research | PE: Provisional Estimate, E: BoB Estimate

Agriculture expected to be steady

- IMD has predicted a normal monsoon at 96% of LPA, which bodes well for agricultural production.
    - Skymet forecast is lower at 94% of LPA.

- Food grain production estimated to increase by 2.5% to 323 mn tonnes in 2022-23.
    - We expect foodgrain production to increase by 2-3% this year.

- However, there are some downside risks:
    - spatial distribution of rainfall
    - heatwave conditions due to El-Nino
    - unseasonal rainfall and late departure of monsoon



Source: CEIC, Bank of Baroda Research | PE: Provisional Estimate, E: BoB Estimate

Industrial growth to recover

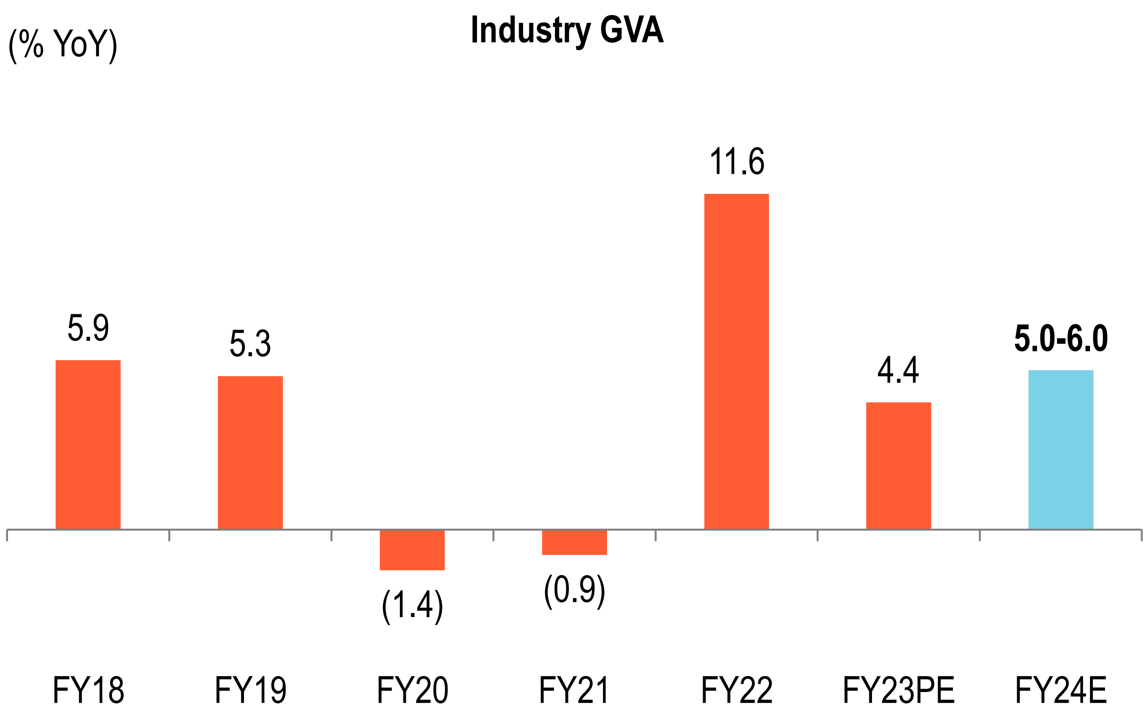
- India's IIP growth weakened to 5.1% in FY23 from 11.4%

- Apart from electricity, all other sub components dipped.

- Manufacturing sector growth moderated to 4.5% from 11.8%. Within this:
  - Textiles and wearing apparel saw maximum moderation
  - On the other hand, production of transport equipment, beverages etc. showed some improvement

- The moderation can be attributed to base effect.

- Capacity utilisation in the manufacturing sector has seen improvement recently.



Source: CEIC, Bank of Baroda Research | PE: Provisional Estimate, E: BoB Estimate

Industry wise growth prospects

Upbeat

- Mining and quarrying
- Wood and wood products
- Paper and paper products
- Glass and glassware
- Cement and cement products
- Basic metal and metal products
- Electronics
- Construction
- Renewable energy
- Roads
- Airports
- Railways
- Chemicals and chemical products

Stable

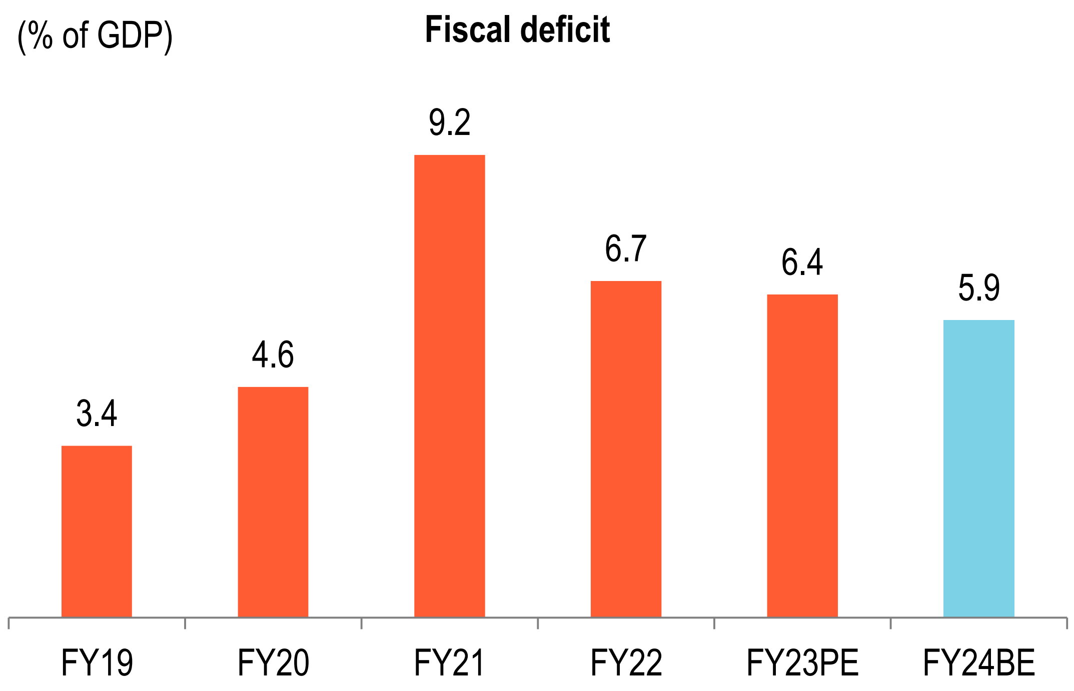
- Food processing
- Beverages and tobacco
- Leather and leather products
- Rubber and plastics
- Petroleum and refinery products
- Automobiles
- FMCG

Downbeat

- Textiles
- Machinery
- Engineering goods
- Gems and jewellery
- Ports
- Durables

Fiscal consolidation underway

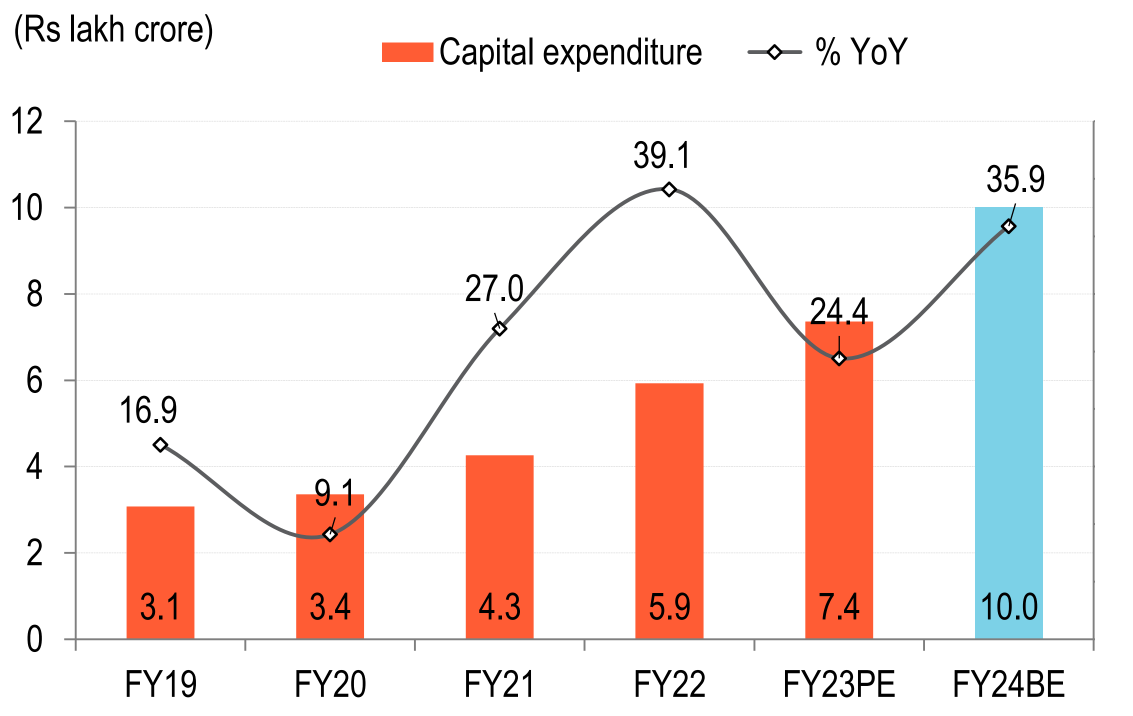
- Government is committed to bringing down fiscal deficit to a sustainable level.
  - Fiscal deficit level below 4.5% of GDP by 2025-2026
- Fiscal deficit target of 5.9% of GDP will be met.
- Revenue collections are buoyant, GST collections at record high at Rs 1.8 lakh crore.
  - With inflation moderating, revenue collections may see a dip.
- Nominal GDP growth projection (Union Budget) at 10.5% is lower than 16.1% in FY23.
- Gross borrowings at Rs 15.43 lakh crore in FY24 only marginally higher than Rs 14.21 lakh crore in FY23.



Source: CEIC, Bank of Baroda Research | PE: Provisional Estimate, BE: Budget Estimate

Government to drive capex

- Government has focused on capital expenditure to drive growth.
- Capex target for FY24 at Rs 10 lakh crore.
- As % of GDP, capex expected to rise sharply to 3.3% in FY24 from 2.7% of GDP in FY23PE.
- Major focus of capex spending are:
  - Railways
  - Road
  - Defence
  - Urban development
- This will provide impetus to industrial growth due to multiplier effect.



Source: CEIC, Bank of Baroda Research | PE: Provisional Estimate, BE: Budget Estimate

Services sector to moderate

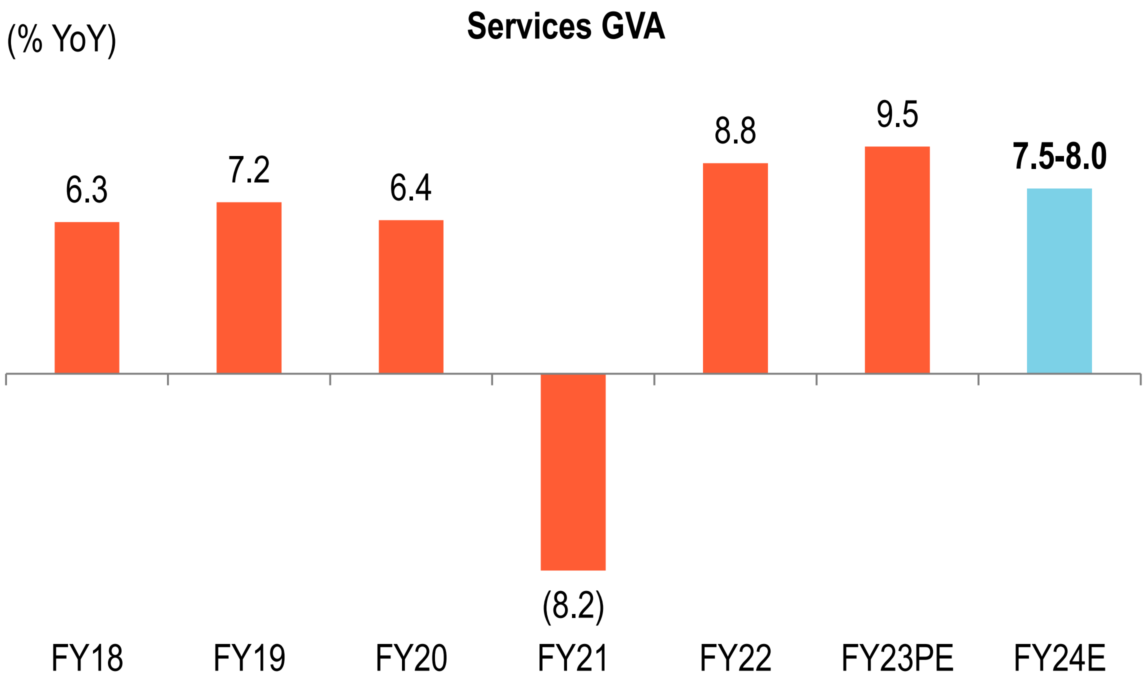
- Services sector witnessed strong growth inn FY23 due to pent up demand.

- Base effect and waning pent-up demand will lead to moderation in service sector growth in FY24.

- Main drivers of growth will be:
  - Trade
  - Finance
  - Hotels
  - Transport

- Services PMI too has shown sharp improvement in recent months.

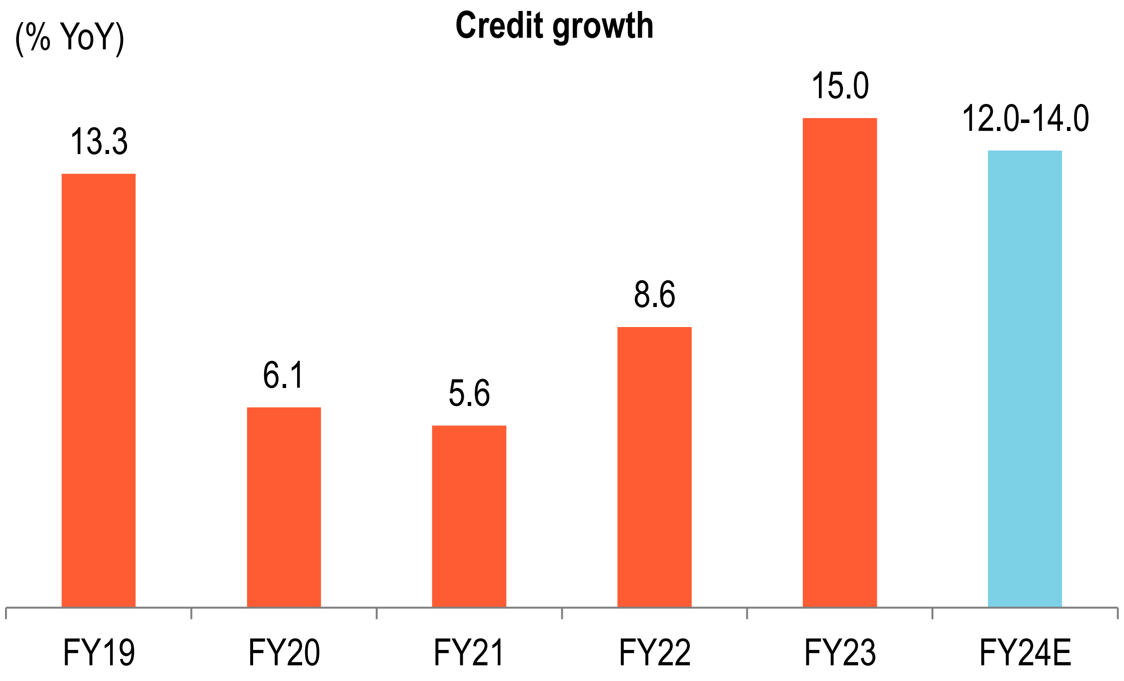
- Other high frequency indicators such as rail freight, diesel consumption, and credit to services is showing momentum.



Source: CEIC, Bank of Baroda Research | PE: Provisional Estimate, E: BoB Estimate

Bank credit growth

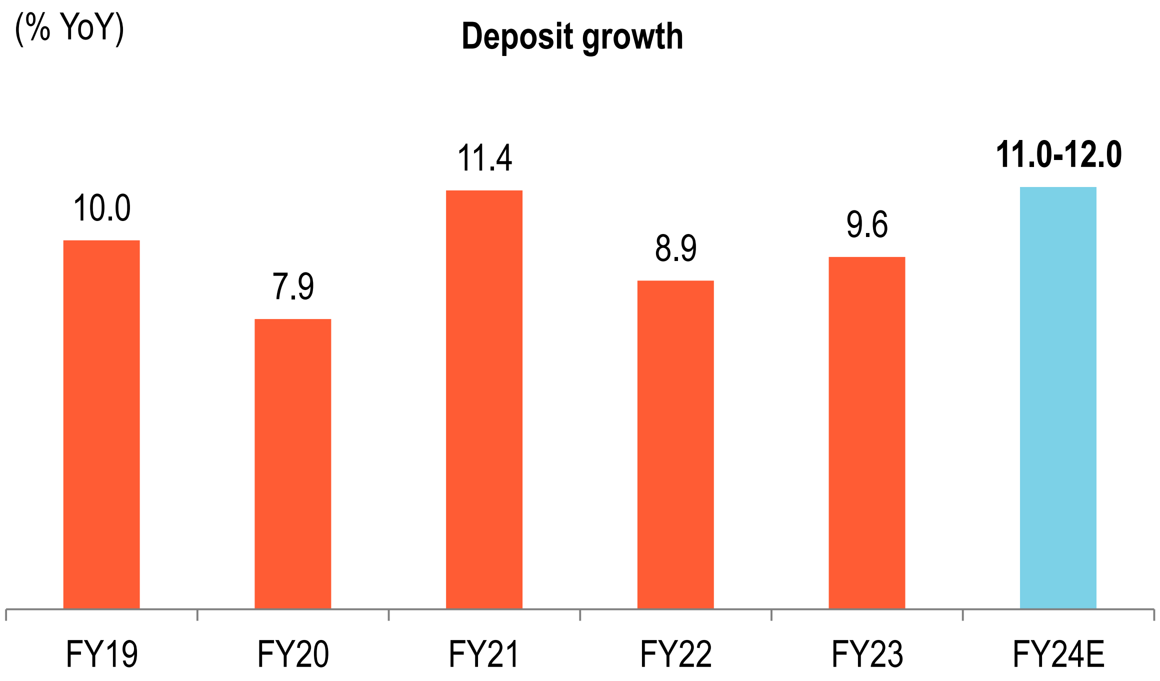
- Despite an increase in lending rates, credit growth witnessed a sharp uptick in FY23.
- With nominal GDP growth expected at 11.5-12% in FY24, we expect credit growth to remain buoyant in the range of 12-14%.
- In FY23, growth in credit was driven by personal loans and services segment.
  - We expect this trend to continue in FY24
- However, credit to industry remained laggard.
  - This will pick up in FY24 driven by infrastructure linked industries.



Source: CEIC, Bank of Baroda Research | E: BoB Estimate

Deposit growth

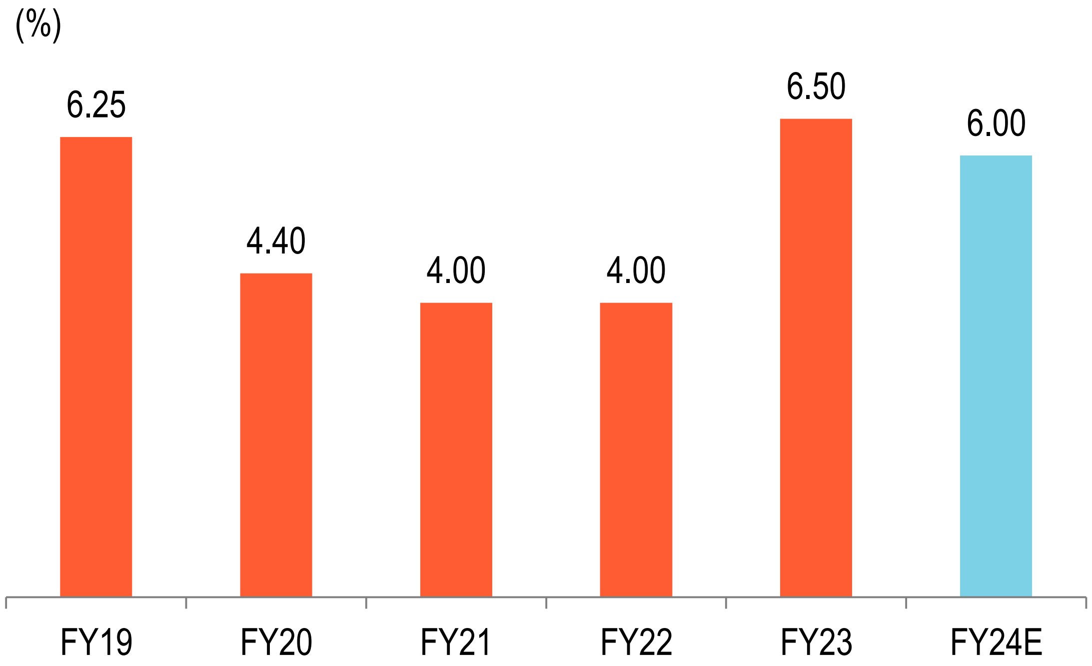
- Deposit growth trailed behind credit growth in FY23.
- With a hike in repo rates, deposit rates have also started inching up.
- We expect deposit growth in the range of 11-12% in FY24.
- This will be driven by:
  - Shifting of household savings towards bank deposits due to rising rates
  - Government's decision to tax debt MFs



Source: CEIC, Bank of Baroda Research | E: BoB Estimate

Monetary policy

- After raising rates by 250bps, RBI surprised markets by keeping policy rates steady in Apr’23.
- With inflation expected to moderated in FY24, we expect RBI to remain on pause in the near-term.
- We do not expect any rate action in H1FY24.
- If inflation trajectory evolves as per expected, we may see rate cuts in H2FY24.
- We expect a cumulative 50bps reduction in repo rates in FY24, in Oct’23 and Feb’24.



Source: CEIC, Bank of Baroda Research | Note: End Period | E: BoB Estimate

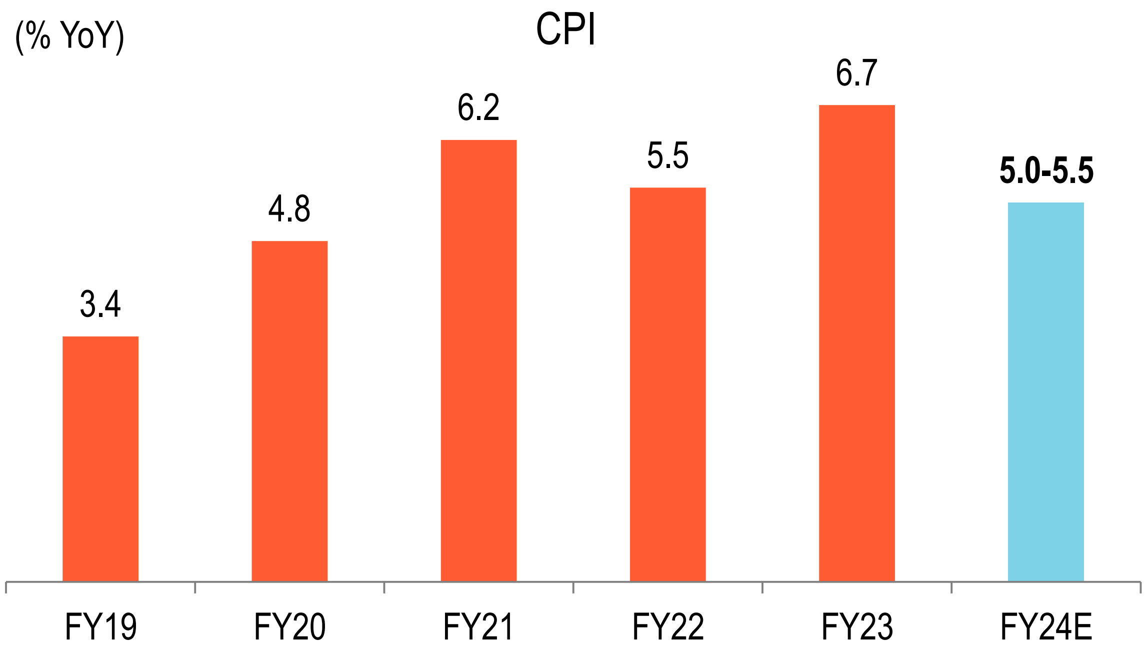
Outlook for inflation

- After rising by 6.7% in FY23, CPI inflation is expected to moderate to 5.0-5.5% in FY24.

- This will be due to :
  - favorable base
  - lower international commodity prices, including energy prices

- However there are some upside risk to the projections on account of the prevalence of El-Nino conditions which might have an impact on Monsoon.

  - If the threat persists, summer crops (Kharif) will be effected and will translate in to higher inflation.



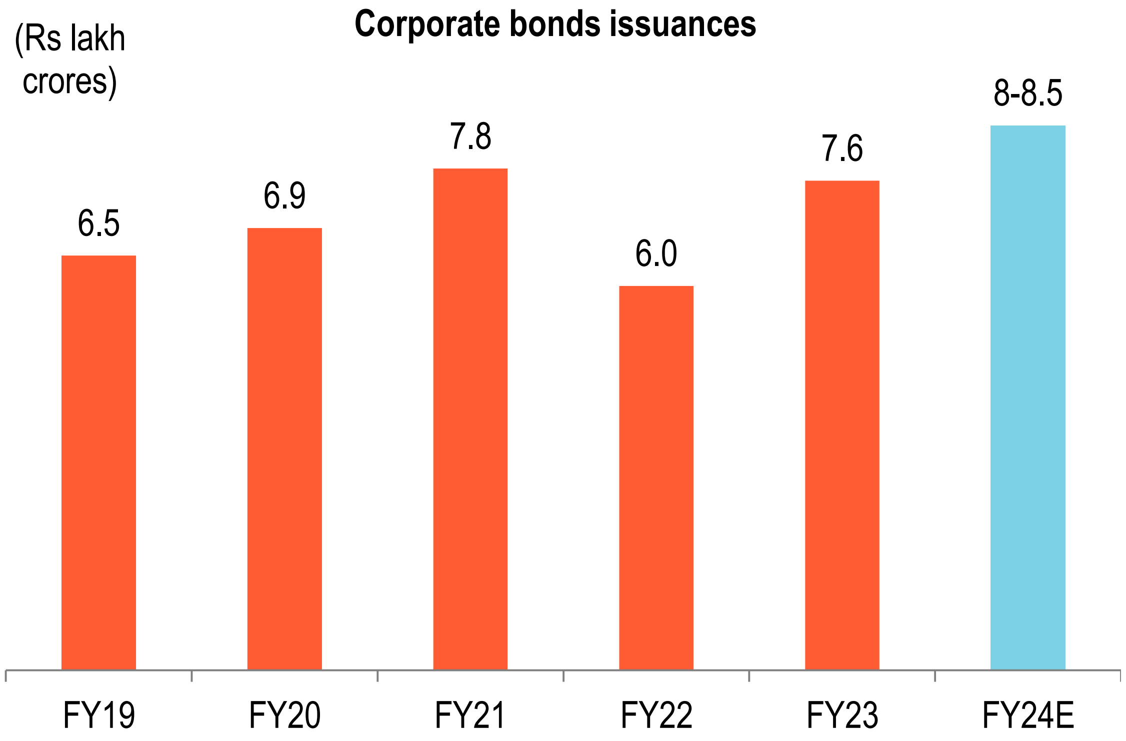
Source: CEIC, Bank of Baroda Research | E: BoB Estimate

Debt market

- Corporate bonds issuances rose to Rs 7.6 lakh crores in FY23.
  - Higher global interest rates
  - Surge in credit demand
  - Increase in bank rates

- Most of the bonds raised through private placements.

- We expect a further increase in corporate bonds issuances in FY24.
  - NBFCs to dominate in terms of issuance
  - Sectors impacted by government capex to raise more debt



Source: SEBI, Bank of Baroda Research | E: BoB Estimate

Debt market

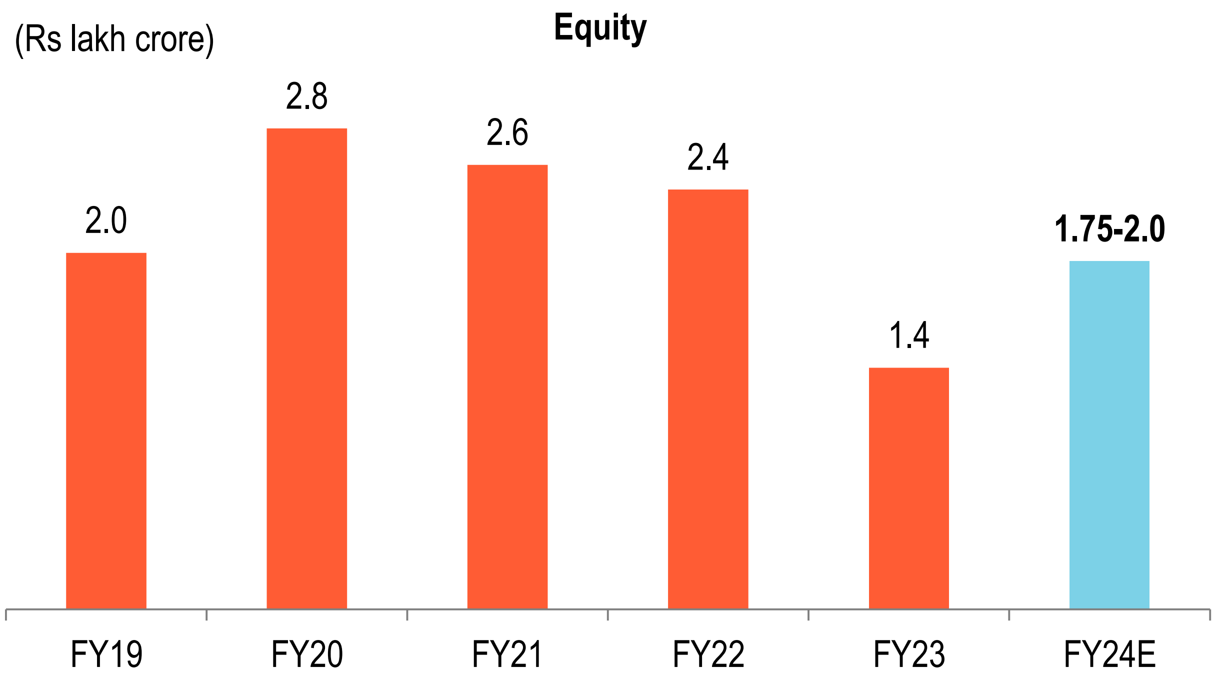
- Debt market is another source of borrowings for companies.
- We compared the cost of funds for companies based on credit rating with the 1 year MCLRs of banks.
- For Apr'23, median MCLR for SCBs is at 8.6%.
- Against this, the implicit yield for 1 year and 5 year corporate bonds have been tabled (as of 12 May 2023).
- For AAA, AA+ and AA rated companies, the bond market clearly offers lower interest rates.
- For companies rated AA- and lower, banks will be preferable where the interest rates is much lower.

% YoY	1Y	5Y
AAA	7.50	7.46
AA+	7.80	7.86
AA	8.10	8.15
AA-	8.95	8.66
A+	9.40	9.21
A	10.17	9.89
A-	10.95	10.66
BBB+	11.63	11.35
BBB	11.45	11.35
BBB-	12.01	11.73

Source: Bloomberg, Bank of Baroda Research | Data as on 14 May 2023

Equity issues

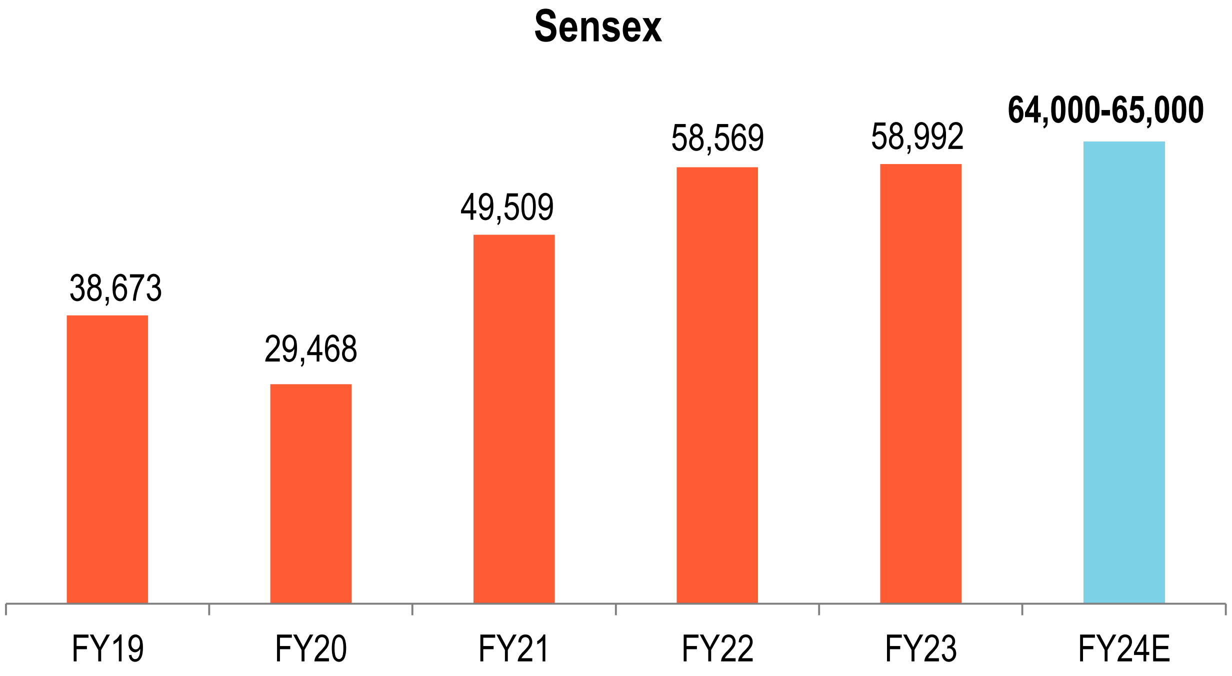
- Fundraising from equity route fell to Rs 1.4 lakh crores in FY23.
- Adverse global macroeconomic environment as well as volatility in global financial markets weighed on investor sentiments.
- We expect equity issuances to improve to Rs 1.75-2lakh crores in FY24.
- This will be driven by:
  - Growth will come from new-age companies



Source: CMIE, Bank of Baroda Research | E: BoB Estimate

Sensex

- Sensex rose by only 0.7% in FY23, after increasing by 18.3% in FY22.
- Over the last 5 years, Sensex has risen by 52.5%.
- We expect Sensex to rise to 64,000-65,000 in FY24.
- This is because:
  - India remains the fastest growing major economy
  - Corporate profitability to improve
  - Inherent domestic strength



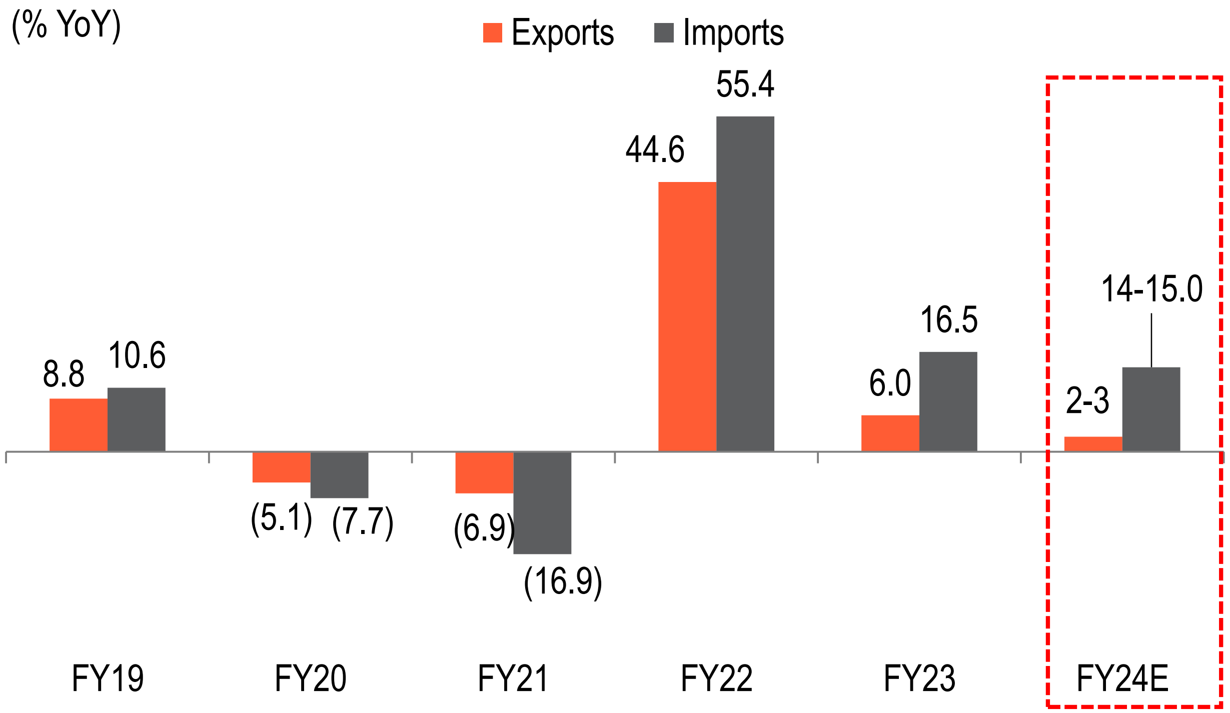
Source: BSE, Bank of Baroda Research | E: BoB Estimate

External sector

- India's goods exports rose by 6% in FY23, imports rose by 16.5%, leading to widening trade deficit.

- In FY24, merchandise exports likely to remain muted amidst weak external demand.

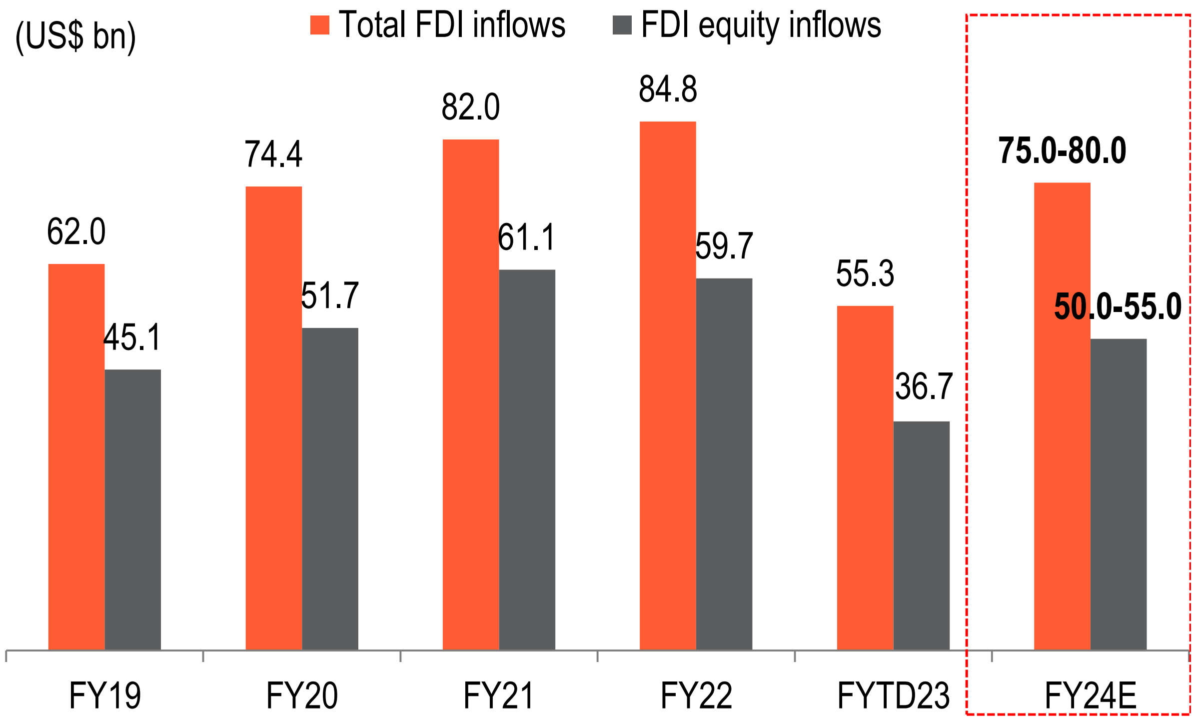
- Imports also expected to be lower due to:
    - Lower commodity prices
    - Fading pent-up demand



Source: CEIC, Bank of Baroda Research | E: BoB Estimate

Foreign inflows- FDI

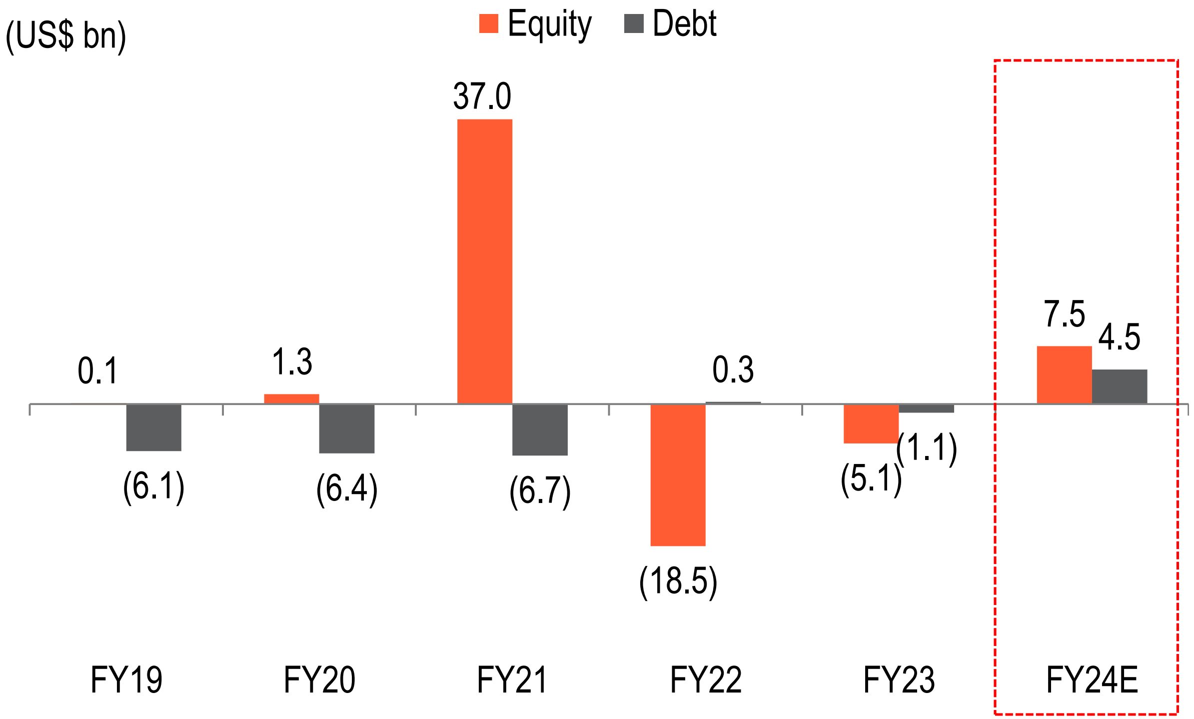
- FDI inflows into India have seen a moderation in FY23.
- Sector-wise, automotive and computer software and hardware have seen the maximum deceleration.
- Inflows into services and trading sector saw an increase.
- In FY24, we expect FDI inflows to remain stable in the range of US$ 75-80bn.



Source: DIPP, Bank of Baroda Research | E: BoB Estimate | FYTD23: Apr-Dec'22

Foreign inflows- FPI

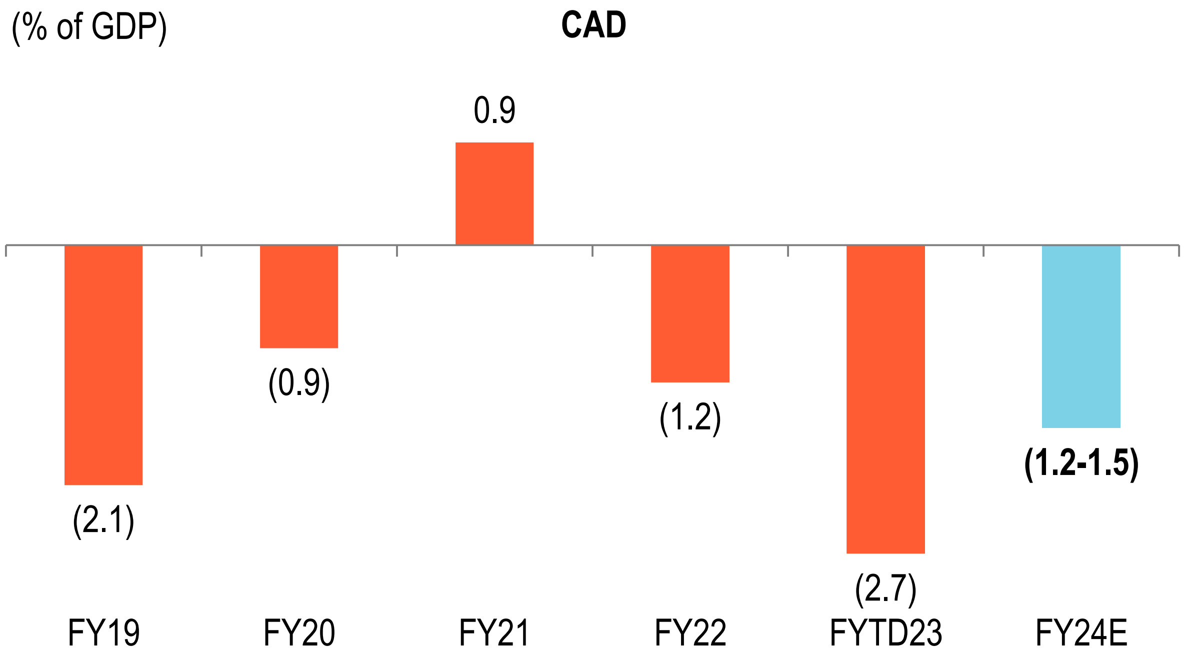
- FPI flows to India remained negative in FY23 at US$ 5.5bn.
- In FY24, we expect FPI inflows to recover and turn positive.
- Inflows expected at US$ 5bn, concentrated mainly in the equity segment.
- Risk of recession may spur safe-haven flows into developed markets.
- Risks also remain from quantitative tightening in advanced economies.



Source: CEIC, Bank of Baroda Research | E: BoB Estimate

Current account deficit

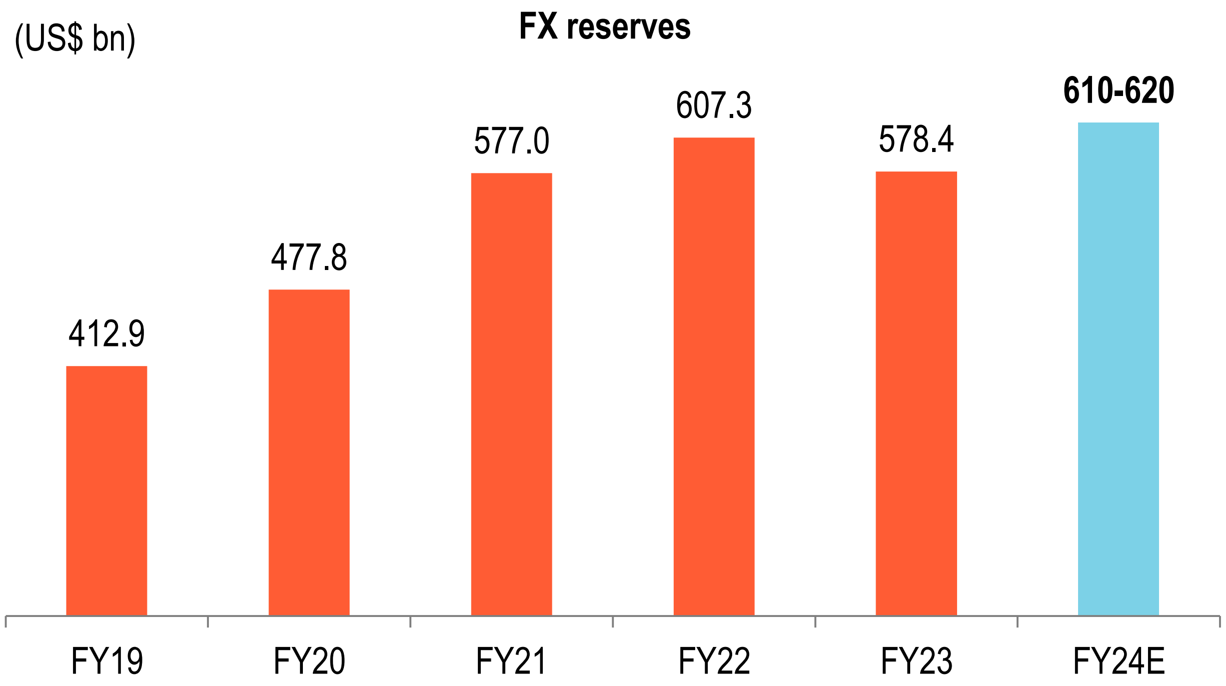
- India's CAD is expected in a comfortable range of 2-2.2% of GDP in FY23, despite rising import bill.
- In FY24, we expect CAD to moderate further to 1.2-1.5% of GDP.
- Lower merchandise deficit, buoyant services and remittances receipts to offer support.



Source: CEIC, Bank of Baroda Research | E: BoB Estimate

Foreign exchange reserves

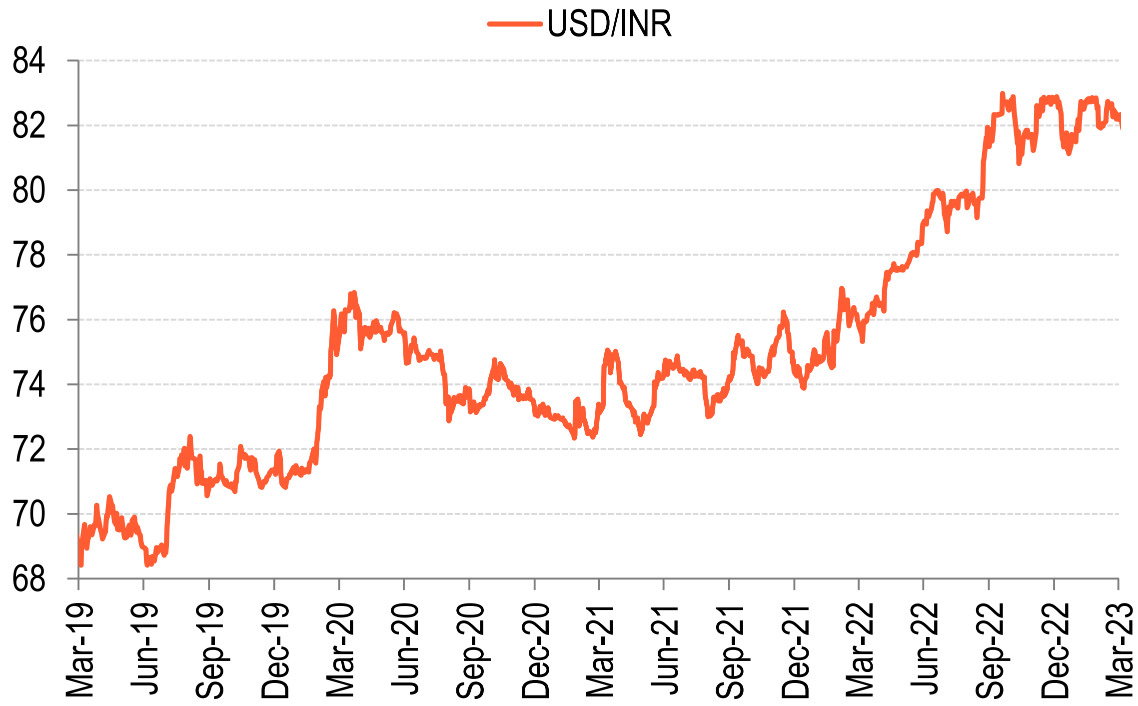
- Led by a widening CAD and RBI's intervention in the forex market, India's foreign exchange reserves fell by ~US$ 29bn in FY23.
- With CAD expected to lower in FY24, pressure on India's forex reserves is likely to abate.
- Foreign inflows will also be supportive.
- We expect an accretion of ~US$ 30-40bn to India's external reserves.



Source: CEIC, Bank of Baroda Research | E: BoB Estimate

Exchange rate

- Rupee depreciated by 7.8% in FY23.
- Higher oil prices, FPI outflows and a strong dollar weighed on the rupee.
- We expect INR in the range of 80-82/$ in FY24.
- Comfort to be provided from range bound oil prices, lower trade deficit, foreign inflows and a benign dollar.
- Further, RBI is likely to intervene in the currency market to maintain India’s export competitiveness.



Source: CEIC, Bank of Baroda Research

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