GUEST COLUMN

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On balance, India is in a sweet spot

Having successfully navigated the pain points of Covid-19, the economy is well poised to build on the positives. While the Reserve Bank of India (RBI) has forecast a lower GDP growth rate of 6.8 per cent for FY23 from 7 per cent earlier at its recent monetary review, the reality is that we have emerged as a source of global economic stability and are still the fastest-growing large economy.

On the global front, 2023 is likely to be a much slower-growth environment than 2022, with a deliberate deceleration in the developed markets engineered by the G-10 central banks to cool inflation. According to the International Monetary Fund's (IMF's) October World Economic Outlook, growth will slow to 3.2 per cent in 2022 and 2.7 per cent in 2023 (from 6 per cent in 2021). Analysts widely expect flat growth to shallow recession in both the US and the EU. China remains in the throes of a gradual exit from its zero-Covid lockdowns, but is vulnerable to potential disease outbreaks, risks from high debt and a real-estate crisis.

It is in this global context that India's prospects need to be considered. Global central banks' actions will certainly have an impact on the domestic economy, but it appears that we have weathered the worst. Of the three main channels of global spill-overs — financial, commodities and trade — the adverse effects of the first two seem to have largely peaked. The large capital outflows, especially portfolio, seem to have stabilised. The impact of soaring energy and metal prices on India also appears to be moderating.

It is the third channel — trade (both merchandise and services) — that is likely to have a large effect on India in FY24. Both the IMF and the World Trade Organisation forecast a

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sharp slowdown in global trade in 2023. We are already beginning to see the initial effects on India's merchandise trade (with the 16.7 per cent year-on-year contraction in exports in October). Yet, the services trade seems to have held up, despite the slowdown in the tech sectors, particularly in the US.

Our current account deficit is likely to remain high even in FY24, which is likely to keep the rupee under pressure, but we expect that a resumption of capital inflows will improve the ability to finance this deficit.

The resilience of our enterprises has been quite remarkable, especially with the strong tightening of our domestic monetary policy since May this year. High-frequency indicators suggest that domestic demand conditions remain strong. The central bank's Consumer Confidence Survey readings have continued to improve in September. Both the Manufacturing and Services Purchasing Managers' Indexes continue to show strong order books in November 2022.

The macro fundamentals remain sound. Balance sheets of corporations and financial intermediaries are very healthy. And despite the ongoing uncertainty, we sense that the private sector capex cycle is gradually reviving, albeit from specific pockets. While working-capital utilisation levels have been seeing an uptick on account of increased consumer spending and elevated commodity prices, much of the increased demand for credit is on account of term loans for new projects or expansion. The share of retail lending in the banking sector continues to grow; for the last few years, this has been growing at a higher rate versus overall lending growth.

From a credit-risk perspective, we expect the environment to be benign for the next couple of years.

Partly as a result of the gradual withdrawal of surplus liquidity by policy authorities, exacerbated by the high credit offtake, the incremental credit-deposit ratio has been above 100 per cent of late. We see a further hike in retail deposits to reduce reliance on wholesale deposits.

We expect the government to continue with its accelerated capex cycle in infrastructure and flagship programmes in the FY24 Union Budget, while continuing with the declared path of fiscal consolidation.

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