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28 June 2023

RESEARCH

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SUMMARY

INDIA ECONOMICS: BALANCE OF PAYMENTS

India's CAD widened to -2% of GDP in FY23 from -1.2% of GDP in FY22. Uptick in merchandise imports due to higher global commodity prices led to the widening of trade deficit. This was offset to some extent by resurgent services exports as well as remittances. On a sequential basis, CAD moderated to 0.2% of GDP in Q4FY23 from 2% of GDP in Q3FY23. We expect further improvement on the back of lower commodity prices. Merchandise exports are expected to remain downbeat as global growth weakens. Overall, we expect CAD in the range of 1.2% to 1.6% of GDP in FY24.

Click here **for the full report.**

INDIA ECONOMICS: INVESTMENT TRENDS

It is often blurry when we speak of the investment picture of Indian economy. Different data points reveal mixed picture. The CMIE data which speak of investment intentions in the economy showed record high new project announcements in FY23, of Rs 29 lakh crore. The MoSPI data on proposed investment which is a bit lagged series (till Jan'23) on the other hand portrayed a flattened investment curve since Sep'22. GFCF which is the fixed investment in assets to GDP ratio on the other hand improved to 29.2% in FY23 from 28.9% in FY22.

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Daily macro indicators

Ticker	23-Jun	26-Jun	Chg (%)
US 10Y yield (%)	3.73	3.72	(1bps)
India 10Y yield (%)	7.07	7.07	(1bps)
USD/INR	82.03	82.04	0.0
Brent Crude (US$/bbl)	73.9	74.2	0.4
Dow	33,727	33,715	0)
Hang Seng	18,890	18,794	(0.5)
Sensex	62,979	62,970	0.0
India FII (US$ mn)	**22-Jun**	**23-Jun**	**Chg ($ mn)**
FII-D	(421.8)	371.8	793.6
FII-E	115.5	24.3	(91.2)

Source: Bank of Baroda Economics Research

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INDIA ECONOMICS: HOUSEHOLD FINANCES

Household savings are a critical part of the growth process as they provide the funding required for the same. In FY22 they were 10.8% of GDP and had come down from 16% in FY21 as per RBI data. IN FY20, that is before the pandemic struck, it was 12%. FY22 was the period when the repo rate was kept pegged at 4% as the position taken was to do everything to preserve growth. As deposit rates were low, there was a movement away to the market.

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BALANCE OF PAYMENTS

27 June 2023

Developments in India's BoP in FY23

Aditi Gupta
Economist

India's CAD widened to -2% of GDP in FY23 from -1.2% of GDP in FY22. Uptick in merchandise imports due to higher global commodity prices led to the widening of trade deficit. This was offset to some extent by resurgent services exports as well as remittances. On a sequential basis, CAD moderated to 0.2% of GDP in Q4FY23 from 2% of GDP in Q3FY23. We expect further improvement on the back of lower commodity prices. Merchandise exports are expected to remain downbeat as global growth weakens. Overall, we expect CAD in the range of 1.2% to 1.6% of GDP in FY24.

Current account: India's current account deficit (CAD) increased to US$ 67.1bn in FY23 from US$ 38.7bn in FY22. This translates into a CAD of -2% of GDP in FY23 versus -1.2% of GDP in FY22. Trade deficit increased to a record high of US$ 265.3bn in FY23 (7.8% of GDP) from US$ 189.5bn in FY22 (6% of GDP), as imports increased sharply by 16.6% in FY23.

In contrast, merchandise exports rose by only 6.3%. Support came from the surplus in invisibles account which improved to US$ 198.2bn, primarily led by services (US$ 143.3bn). Within services, exports of software services increased to US$ 146.8bn. Private transfers, which include remittances from Indians living abroad also increased to US$ 112.5bn in FY23 versus US$ 89.1bn in FY22. On the other hand, outflows on account of investment income picked up pace.

Capital account: Capital account surplus narrowed from US$ 85.9bn in FY22 to US$ 59bn in FY23. This was on account of lower FDI inflows which moderated to US$ 28bn in FY23 from US$ 38.6bn in FY22. FPI outflows were at US$ 5.2bn, even though it was lower than outflows of US$ 16.8bn in the same period last year. With higher global interest rates, even ECB inflows were lower. In fact, there was net outflows in ECBs at US$ 3.8bn. Even short-term credit moderated to US$ 6.5bn in FY23 from US$ 20.1bn in FY22. On the other hand, inflows on account of banking capital increased to US$ 21bn in FY23 versus US$ 6.7bn in FY22. In FY23, India's foreign exchange reserves saw a depletion of US$ 9.1bn versus an accretion of US$ 47.5bn in FY22.

Outlook: India's CAD for FY23, CAD at -2% of GDP was more or less in line with our estimate. In FY24, we expect CAD to moderate. This will be underpinned by lower commodity prices, services exports and robust remittances receipts. However, growth in merchandise exports is likely to be lower as global growth slows down. Some effect on services exports too cannot be ruled out. For FY24, we expect CAD in the range of -1.2% to -1.6% of GDP. Even in capital account, some improvement is expected as FDI and FPI inflows pick up. This should keep INR range bound.

INVESTMENT TRENDS

27 June 2023

How India Inc fared in terms of capital formation?

Dipanwita Mazumdar
Economist

It is often blurry when we speak of the investment picture of Indian economy. Different data points reveal mixed picture. The CMIE data which speak of investment intentions in the economy showed record high new project announcements in FY23, of Rs 29 lakh crore. The MoSPI data on proposed investment which is a bit lagged series (till Jan'23) on the other hand portrayed a flattened investment curve since Sep'22. GFCF which is the fixed investment in assets to GDP ratio on the other hand improved to 29.2% in FY23 from 28.9% in FY22.

Taking the cue of GFCF in GDP, in this note, an attempt is made to capture the investment (fixed assets) angle from the balance sheet of corporates. We have analyzed balance sheet of 3,420 corporates and looked into the sum of fixed assets and capital work in progress. Further, we segregated it on the basis of ownership pattern and industry, to get a closer look at the level of concentration. A view held is that the PSUs tend to invest more because of the nudge from the government. An industry-wise analysis would reveal which are the sectors that have been investing more in capital. This is a forward looking indicator as GDP data does not provide us with this information or rather the information is lagged (till FY22 this information is available).

Our study shows that the CAGR-5Y period (FY18-FY23) in fixed asset creation of corporates stands at 4.9%, lower than 9.8% CAGR in nominal GDP. Further the concentration ratio is skewed towards only a handful of industries due to their inherent nature such as crude oil, power and telecom. Interestingly, 8 out of this major 15 industries have seen a CAGR below the 5Year industry total CAGR of 4.9%, which is also a concern reflecting slow pace of investment. House or ownership pattern data reveals that the share of PSU and non PSU companies have not changed much in the past 5 years. This seems to be in anomaly with what we have observed in the trend of capex data of Centre.

What to make out of the data:

- Fixed assets of companies have increased to Rs 38.3 lakh crore in FY23 from Rs 36.3 lakh crore in FY22, noting a YoY growth of 5.5% in the same period. However, the 5Year CAGR stands at 4.9%, which is far lower than the CAGR of 9.8% in nominal GDP during the same period.
- Even on an incremental basis, in the past 5 years fixed assets of corporates have increased by only Rs 8 lakh crore in our sample.
- The sectoral picture is skewed towards industries such as crude oil, power, telecom, iron and steel and automobile, dominating 65.3% of fixed asset creation in FY23.

HOUSEHOLD FINANCES

27 June 2023

Household savings move towards markets

Economics Research Department
Economist

Household savings are a critical part of the growth process as they provide the funding required for the same. In FY22 they were 10.8% of GDP and had come down from 16% in FY21 as per RBI data. IN FY20, that is before the pandemic struck, it was 12%. FY22 was the period when the repo rate was kept pegged at 4% as the position taken was to do everything to preserve growth. As deposit rates were low, there was a movement away to the market.

Table 1 below provides the profile of household financial savings across different alternatives. As can be seen savings flows were of the order of around Rs 25.6 lakh crore in Fy22 having fallen from Rs 31.62 lakh crore in FY21. Bank deposits remain the largest component of household savings though have been volatile with covid and lockdown pushing it up in FY21 and the ultra-soft monetary policy subsequently bringing it down.

Table 1: Structure of flow in financial assets of households

	2019-20	2020-21	2021-22
Financial Assets	**24,07,250**	**31,61,953**	**25,60,478**
Per cent of GDP	12.0	16.0	10.8
of which:			
1. Total Deposits (a+b)	**8,84,579**	**12,59,767**	**6,95,471**
(a) Bank Deposits	8,27,830	12,19,909	6,53,911
i. Commercial Banks	7,68,855	11,56,334	6,51,733
ii. Co-operative Banks	58,975	63,576	2,178
(b) Non-Bank Deposits	56,749	39,858	41,561
2. Life Insurance Funds	**3,74,170**	**5,63,216**	**4,40,810**
3. Provident and Pension Funds (including PPF)	**5,00,203**	**5,46,700**	**5,81,668**
4. Currency	**2,82,662**	**3,81,976**	**2,69,667**
5. Investments	**97,657**	**1,24,577**	**2,27,977**
of which:			
(a) Mutual Funds	61,686	64,084	1,60,600
(b) Equity	26,738	38,531	48,613
6. Small Savings (excluding PPF)	**2,63,723**	**2,81,495**	**3,40,655**

Source: RBI

Table 2 gives the shares of the savings avenues in total.

- Share of bank deposits is the highest, but clearly the structure of interest rates does drive the flows. It may be expected that some ground would have been regained in FY23 when banks started increasing deposit rates. In FY23 increase in aggregate deposits (includes households and other savers) was Rs 15.78 lakh crore which is comparable to Rs 15.54 lakh crore in FY21. Therefore the share of bank deposits should be increasing.

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HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

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