

India outlook 2023

India, officially the Republic of India, is a country in South Asia. It is the seventh-largest country by area, one of the most populous countries in the world (around 1.429 billion people), and the most populous democracy. India became a more prominent emerging market following the globalization of trade and other key economic reforms in 1991. Since then, the economy has been expanding consistently and quickly. In the previous ten years, it fluctuated sporadically as a result of serious socioeconomic problems, averaging to 7.1%. India will have the fastest-growing economy in the world as its growth rate is expected to stabilize around 8% over the coming decades. India now has the fifth-largest nominal GDP and the third-largest PPP economy in the world. Similar to China, PPP drops to 127th when adjusted for per capita GDP. India is rank as the second largest emerging market as per recent surveys.

Top emerging markets in Asia in numbers

The following table provides an overview of major economic rankings for the eight countries:

COUNTRY	GDP RANKING (US\$M) (IMF 2023)	EASE OF DOING BUSINESS SCORE (2020)	GLOBAL INNOVATION INDEX RANKING (2022)
China	2nd (19,373,586)	31st	11th
India	5th (3,736,882)	63rd	40th
Indonesia	16th (1,391,778)	73rd	75th
Thailand	27th (574,231)	21st	43rd
Vietnam	34th (449,094)	70th	48th
Malaysia	35th (447,026)	12th	36th
The Philippines	36th (440,901)	95th	59th
Cambodia	109th (30,628)	144th	97th

The rise of the service and industrial industries, exports, foreign investment, a young and continuously increasing working-age population, and a fast-developing middle class driving consumer market expansion are the main drivers of India's long-term economic growth. By 2025, India is anticipated to overtake the United States as the third-largest consumer economy, with spending likely to triple to US\$4 trillion. By 2040, it is projected to surpass the United States as the second-largest economy in the world in terms of PPP.

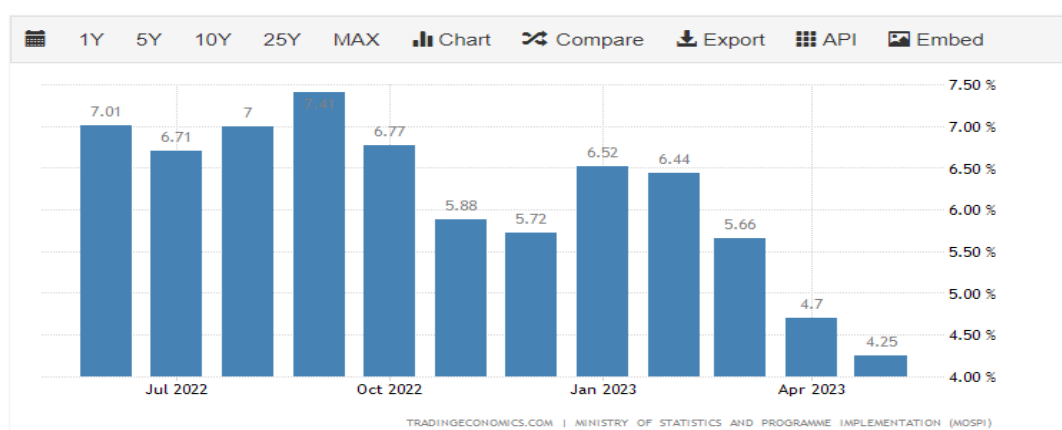
According to Deloitte Insight, for India to achieve sustained growth, investments must significantly increase. Although this year's growth would be hampered by global uncertainty, India is expected to develop by 6.5% over the next two years. The continued slowdown in global economic development, according to the World Bank, is likely to lead to a "lost decade." India has just updated its statistics, which suggests that the economy has performed better than previously thought despite ongoing global uncertainty. The International Monetary Fund (IMF) anticipates that India will expand by 5.9% in FY 2023–2024 and 6.1% on average over the next five years. Goldman Sachs raised India's GDP growth prediction for calendar year 2023 by 30 basis points to 6.3% last month, citing an increase in exports. The previous prediction, released in November 2022, predicted that the Indian economy would grow at a 5.9% annual rate. There are several areas of strength in service demand — Despite a downturn in global economy, the PMI reached a 13-year high of 62.0, domestic air passenger traffic topped pre-pandemic levels, and service

exports have remained up. However, demand for private sector investment has remained modest, according to the brokerage, as seen by a recent slowdown in industrial loan growth driven by major enterprises. In contrast, the Reserve Bank of India forecasts GDP growth of 7.8% in April-June, 6.2% in July-September, 6.1% in October-December, and 5.9% in January-March 2024, for a total of 6.5% in 2023-24.

As per the World Bank, despite high headline inflation, it is expected to fall to an average of 5.2% in FY23/24 due to lower global commodity prices and some reduction in domestic demand. By raising the policy interest rate, the Reserve Bank of India has discontinued accommodating policies aimed at containing inflation. India's banking industry is solid, backed by asset quality improvements and sustained private-sector lending growth. The central government is expected to reach its fiscal deficit target of 5.9% of GDP in FY23/24, and the general government deficit is expected to fall as state government deficits are reduced. As a result, the debt-to-GDP ratio is expected to level out. On the external front, the current account deficit is expected to fall to 2.1 percent of GDP in FY22/23, down from an estimated 3% in FY22/23, thanks to strong service exports and a shrinking product trade imbalance.

Outlook					
Indicator (percent y-o-y, unless otherwise indicated)	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
Real GDP Growth, at constant market prices	3.9	-5.8	9.1	6.9	6.3
Private Consumption	5.2	-5.2	11.2	8.3	6.9
Government Consumption	3.9	-0.9	6.6	1.2	-1.1
Gross Fixed Capital Formation	1.1	-7.3	14.6	10.1	9.3
Exports, Goods and Services	-3.4	-9.1	29.3	11.5	9.2
Imports, Goods and Services	-0.8	-13.7	21.8	19.0	11.6
Real GDP Growth, at constant factor prices	3.9	-4.2	8.8	6.6	6.3
Agriculture	6.2	4.1	3.5	3.2	3.4
Industry	-1.4	-0.9	11.6	3.6	6.8
Services	6.4	-8.2	8.8	9.5	6.7
Inflation (Consumer Price Index)	4.8	6.2	5.5	6.6	5.2
Current Account Balance (percent of GDP)	-0.9	0.9	-1.2	-3.0	-2.1
Fiscal Balance (percent of GDP)	-7.2	-13.3	-10.5	-9.4	-8.7
Debt (percent of GDP)	73.6	87.5	85.4	83.0	83.4
Primary Balance (percent of GDP)	-2.5	-7.8	-5.2	-4.2	-3.3

The annual inflation rate in India decreased to 4.25% in May 2023 from 4.7% the previous month, the lowest since April 2021 and far below market expectations of 4.42%, owing to a new downturn in food inflation. The outcome pushed inflation closer to the RBI's (The Reserve Bank of India) objective of 4% and extended the decrease past the central bank's upper limit of 6%, allaying fears of a restart of the central bank's tightening cycle. Consumer food inflation decreased to 2.91% in May, down from 3.84% in April, due to considerable deflation in oils and fats (-16.01% vs -12.33%), vegetables (-8.18% vs -6.5%), and meat and fish (-1.29% vs -1.23%). Meanwhile, inflation in transport and communication (1.1% vs 1.17%), housing (4.84% vs 4.91%), and fuel and light (4.64% vs 5.52%) has moderated. Consumer prices increased 0.51% over the previous month on a monthly basis.

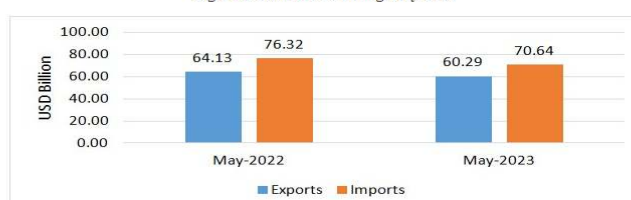


As per pib.gov.in, in May 2023, India's total exports (Merchandise and Services combined) are expected to be USD 60.29 billion, representing a (-) 5.99% decrease from May 2022. Overall imports in May 2023 are expected to be USD 70.64 billion, representing a (-) 7.45% decrease from May 2022. Electronic goods exports will grow by 73.96% in May 2023, and by 48.06% in April-May 2023, compared to the same time last year. Spice exports increased by 31.81% in April-May 2023 over April-May 2022, while rice exports increased by 19% in April-May 2023 over April-May 2022. Oil Meal exports increased by 74.33% in April-May 2023 compared to April-May 2022. Ceramic items and glassware expand by 17.36% in May 2023, and by 17.29% in April-May 2023, compared to the same time previous year. The trade balance increases significantly in April-May 2023. The overall trade deficit for April-May 2023 is predicted to be US\$ 13.28 billion, a decrease of (-) 35.41% from the deficit of US\$ 20.56 billion in April-May 2022.

		May 2023 (USD Billion)	May 2022 (USD Billion)
Merchandise	Exports	34.98	39.00
	Imports	57.10	61.13
Services*	Exports	25.30	25.13
	Imports	13.53	15.20
Overall Trade (Merchandise + Services) *	Exports	60.29	64.13
	Imports	70.64	76.32
	Trade Balance	-10.35	-12.20

* Note: The latest data for services sector released by RBI is for April 2023. The data for May 2023 is an estimation, which will be revised based on RBI's subsequent release. (ii) Data for April-May 2022 has been revised on pro-rata basis using quarterly balance of payments data

Fig 1: Overall Trade during May 2023*

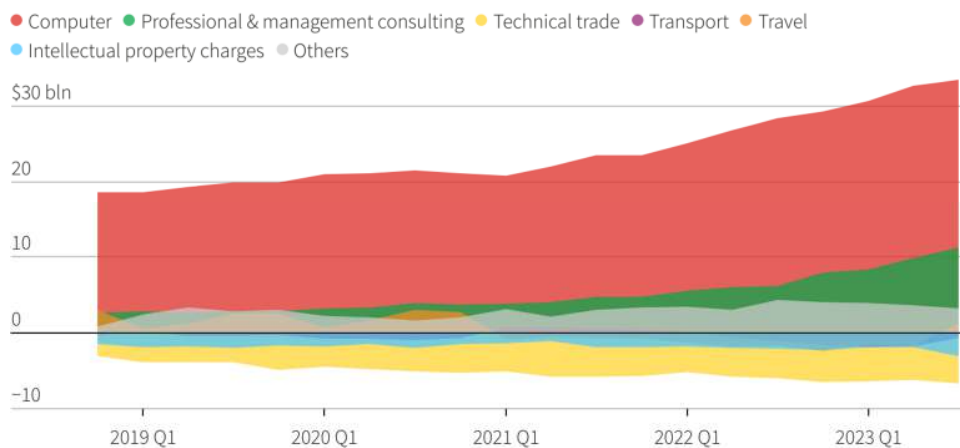


India's overall exports (Merchandise and Services combined) in April-May 2023 is estimated to exhibit a negative growth of (-) 5.48 per cent over April-May 2022. Overall imports in April-May 2023 is estimated to exhibit a negative growth of (-) 9.63 per cent over April-May 2022.

US companies were the first to establish themselves in India, several companies from Europe, Australia, and Asia are also considering expanding their operations. Accelerated digitalisation following the Covid issue, as well as a lack of competent IT talent in some of these nations, are major factors. Tourism, education, financial services, and health care all contributed to India's increasing service exports.

Computer services leading the way

Services surplus between Q4 2017-18 and Q3 2022-23.



Note: The years on the horizontal axis refer to the fiscal year between April and March.

Source: IDFC FIRST Bank Economics Research | Reuters, April 3, 2023

GDP growth in India will decline in fiscal year 2023/24 (April-March) as pent-up consumption demand progressively fades and export growth moderates as a result of weaker global development. However, increased government expenditure, strong urban demand, large foreign investment inflows, and lower inflation will underpin growth. Investments will improve and propel the economy into long-term development. As the global economy struggles, India is expected to develop at a modest pace of 6.0%-6.5% in FY 2023-24. Growth will likely accelerate in the coming year as investments initiate the virtuous loop of job creation, income, productivity, demand, and exports, which will be supported by favorable demographics in the longer term. The ruling coalition will remain in power until the conclusion of its term in 2024, with no immediate threat to political stability. Tensions with China will stay high, but a full-fledged military clash is improbable. Over time, India will aim to balance its strategic relations with Russia while also pursuing deeper cooperation with the Quad (an informal diplomatic grouping of the United States, Japan, Australia, and India).