Indian Economy in 2023

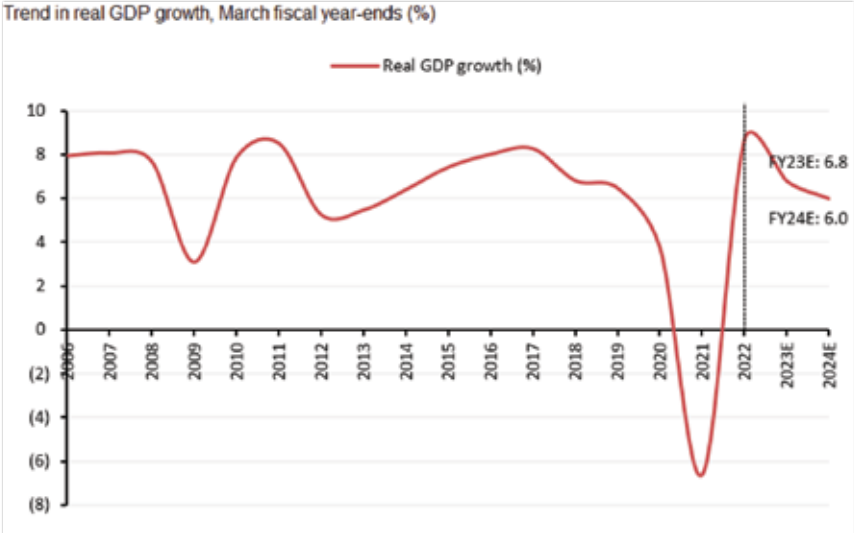
Mr Shekhar Bhandari, President of Global Transaction Banking
Kotak Mahindra Bank

I. Introduction

In alignment with Honourable Prime Minister Narendra Modi's vision, the Indian economy is making headway toward becoming a US$5 trillion economy by 2025.

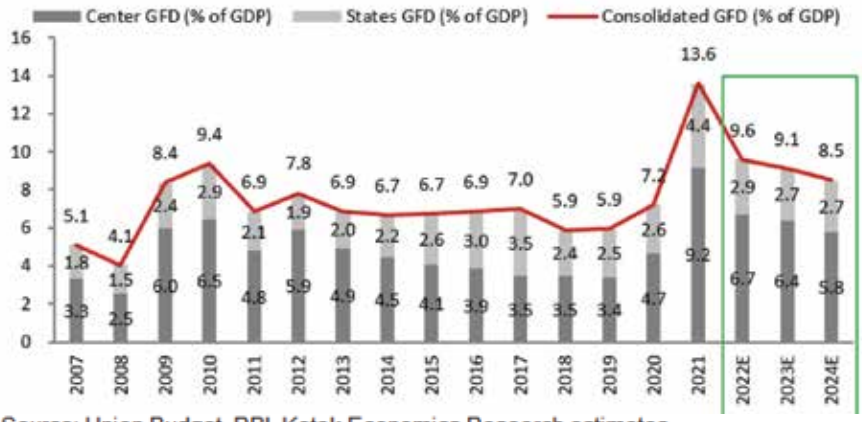
2022 has been a roller coaster ride. While it saw our nation bouncing back from the effects of the global pandemic, external forces such as rising inflation in the western world, the US repo rates, and the conflict in Ukraine also contributed to hindering the growth a bit. Despite this, we became the world's fifth-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP), with a growth rate of 6.9%, as reported by Goldman Sachs.

The inconsistency in the markets is expected to continue in 2023, majorly impacted due to the financial pressures being faced by other leading economies.



Source: CEIC, Kotak Economics Research estimates

Trend in center's, states', and consolidated GFD, March fiscal year-ends (% of GDP)



Source: Union Budget, RBI, Kotak Economics Research estimates

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II. Economic growth

Recently, the Institute of International Finance estimated a global economic growth rate of between 1.2 - 1.5 % in the upcoming year. This pegs it to the level of 2009 (mortgage-industry led recession). While many economists are averse to using the term recession, I believe a global slowdown is imminent.

Being a part of the connected world, it is inevitable that India too, will face the impact. Something that we have already witnessed in 2022. Having said that, Goldman Sachs still maintains a positive growth rate for India of 5.9%, which is almost four times higher than what is predicted for the rest of the world.

Two of the key factors for this sustained growth, despite the predicted inflation upwards of 6.5%, include a vast demand base and a

diverse demographic. The average age of the Indian workforce is expected to be 32 years by 2030, giving us a broad window for skilled people resources to power this growth in the long term.

On the other hand, the key risks to our growth stem from ongoing external factors like the frequent rate hikes by the US Federal Reserve. The consequence, as already being seen, is increased pressure on the Rupee, reduced inflow of capital and FDI, and a rise in imported commodities.

Source: CEIC, Kotak Economics Research estimates

III. Sectoral performance

Manufacturing supplies, exports, and the services industry have been the strongest hit due to the high dependence on the US dollar and its constant rise against the Rupee. This is expected to continue in H1 '23. However, and hearteningly so, India continues to remain an attractive consumer market for global corporations. Moreover, in their pursuit of a China+1 policy, leading enterprises are diversifying businesses to other countries, with India being a preferred beneficiary.

With the pledging of global and domestic net-zero (2070) goals, Greenomics has come into the foray as a sector wherein mercurial growth is projected.

Real GVA and components growth, March fiscal-year ends, 2017-24E (%)

	2017	2018	2019	2020	2021	2022	2023E	2024E
Real GVA	8.0	6.2	5.8	3.8	(4.8)	8.1	6.2	5.8
Agriculture and allied	6.8	6.6	2.1	5.5	3.3	3.0	4.2	3.1
Industry	7.7	5.9	5.3	(1.4)	(3.3)	10.3	1.8	5.6
Mining	9.8	(5.6)	(0.8)	(1.5)	(8.6)	11.5	1.8	3.2
Manufacturing	7.9	7.5	5.4	(2.9)	(0.6)	9.9	(0.1)	5.7
Electricity	10.0	10.6	7.9	2.2	(3.6)	7.5	7.2	4.0
Construction	5.9	5.2	6.5	1.2	(7.3)	11.5	4.5	6.4
Services	8.5	6.3	7.2	6.3	(7.8)	8.4	9.4	6.6
Trade, hotel, transport, communication	7.7	10.3	7.2	5.9	(20.2)	11.1	13.5	6.5
Financial, real estate, professional service	8.6	1.8	7.0	6.7	2.2	4.2	6.1	5.7
Public admin, defence, and others	9.3	8.3	7.5	6.3	(5.5)	12.6	9.6	8.3
Real GDP	8.3	6.8	6.5	3.7	(6.6)	8.7	6.8	6.0

Source: CEIC, Kotak Economics Research estimates

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The global slowdown and its impact on exports are likely to keep the current account deficit intact. The government will need to intervene with its policies to attract foreign investors and associated capital inflow that has reached record lows due to the strain on global economies.

Right from the bustling EV industry to renewable energy and agritech, startups are popping up in various aspects of the value chain, from manufacturing to logistics and financial management. Not only is this giving a boost to the economy and diversifying opportunities, but it is also invariably investing in the sustainable development of the nation in the long haul. The EV market, in particular, is expected to become US$2 Bn by 2023 and rise over threefold by 2025. The scope of renewable energy is immense, too, with a current installed capacity of 160 GW planned to reach 1,000+ GW over the next few years.

Specialty chemicals are another sector wherein a surge is anticipated. The sub-sector contributes 22% to India's total chemicals market, which translates to the 6th largest sales globally. The sector is expected to grow at a CAGR of over 12% YoY for the next 4 years.

The Ministry of Defence (MOD) has given a strong impetus to Make in India defense contractors and declared a target of US$2 Tn for

defense production. 2023 is expected to play a key role in the establishment and proliferation of this sector as well.

As you can see, apart from the traditional industries such as banking, IT, telecom, and manufacturing, several niche sectors are emerging that are likely to contribute to India's above-average economic growth.

IV. Fiscal and monetary policy

In a low-inflation environment, monetary policy aids in consolidating debt by keeping borrowing costs low. However, in the present scenario, the RBI – the gatekeeper of India's monetary policy – has been taking corrective actions to keep inflation in check by increasing repo rates. While a lot of this has been in response to the US Fed Reserve's actions, it is likely that there will be a few more hikes domestically as well. Economic think tanks project this to be around 50 basis points by the end of Q4 2022-23. However, it is also predicted that repo rates might be cut if the inflation levels fall in the latter half of 2023.

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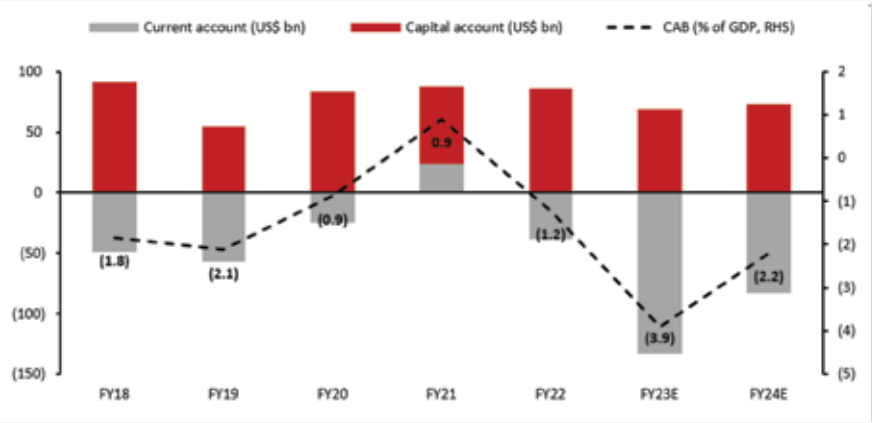

V. Conclusion

Our economic resilience and robust economic resurgence have become a benchmark for the world. The large scale public investments and other initiatives undertaken by the government have brought about a noticeable transformation in varied sectors such as healthcare, energy, climate action, education, and MSME development.

Manufacturing supplies, exports, and the services industry have been the strongest hit due to the high dependence on the US dollar and its constant rise against the Rupee. This is expected to continue in H1 '23. However, and hearteningly so, India continues to remain an attractive consumer market for global corporations. Moreover, in their pursuit of a China+1 policy, leading enterprises are diversifying businesses to other countries, with India being a preferred beneficiary.

The business-friendly policies and sops being provided to enterprises have made India the third-largest startup ecosystem in the world. Fanned by this encouragement, more entrepreneurs are seeking sunrise opportunities in sectors that are aimed at future-proofing our economic growth.

While we will see what 2023 holds for our nation, all signs point towards a stable outlook with a few unalarming periods of slowdown and negative market downswings. As an investor and part of the country's workforce, these minor hiccups do not deter me, and neither should you be perturbed. In the long run we are, most likely, headed to becoming a global economic powerhouse, and 2023 should be one rewarding step closer to that port of call.

Profile

Shekhar Bhandari is responsible for Technology, Digital, P&L on Trade, Foreign Exchange, Investment and Supply Chain Finance, International Trade Finance, Domestic and cross border payments culminating into liquidity and working capital solutions for the entire bank. Shekhar is also Member of precious metals oversight committee governed under Financial Conduct Authority. He has also been felicitated as "Transaction Banker of the Year in Asia pacific" by The Asian Banker in May 2019. ■■■