India's Economy in 2023

What is this article about?

This article talks about how the Indian Economy will be in 2023 - hope, challenges, and a lot of uncertainty.

What happened in 2022?

- 2022 began with hopes of a rebound in the global economy as pandemic fears receded.
- But the optimism was dashed early when Russia's invasion of Ukraine triggered the biggest land conflict in Europe since World War II.
- The overhang of the war continues to cloud the outlook for 2023, with elevated food and fuel prices threatening to upend the fight against inflation.
- China's uncertain post-pandemic path, and the prospect of a central bank-engineered downturn - a global recession seems imminent.
- India may not be decoupled from all of this, even though it was bracketed with the better performing economies in 2022.

What are the growth forecasts?

- In its December 'State of the Economy' update, the Reserve Bank of India noted that
    - Balance of risks is increasingly tilted towards "a darkening global outlook", and
    - Emerging market economies appear to be "more vulnerable".
- But the incoming data suggest that global inflation may have peaked.
- In that backdrop, the expectation that global growth could average around 3% in 2022 seems to be a commendable achievement.
- The year witnessed the highest global inflation in 50 years, the most aggressive monetary tightening cycle in nearly 40 years, the strongest US dollar in 20 years, and the weakest Chinese growth in over 45 years.

> *Forecasts by the IMF suggest that global growth is projected to slow from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023 - the weakest growth profile since 2001, except for the global financial crisis and the acute pandemic phase.*

What is the external situation?

- **Global food, energy and other commodity prices** may have **eased** moderately over the past few months, but **inflation** continues to stay **high** and broad-based.

- According to the IMF, global inflation is forecast to decline from 8.8% in 2022 to 6.5% in 2023 to 4.1% by 2024 - still high by most yardsticks.
- The problem going into 2023 is the implications of stubbornly high inflation for the US Federal Reserve.
- An extended phase of rate hikes in the US could have a three-pronged impact.
- Emerging markets such as India will have to continue grappling with the paradoxical situation of a strong dollar and elevated commodity prices.

What are the positive prognosis?

- **The near-term growth outlook for the Indian economy is supported by domestic drivers, some of which are reflected in the buoyant trends in high frequency indicators.**

- **Twin balance sheet problem** - of corporates having high levels of debt and banks saddled with bad loans on their books - looks to be on the mend.
- Waning input cost pressures, surging corporate sales, and a turn-up in investments in fixed assets seem to indicate the beginning of an upturn in the capex cycle - contribute to a reboot of India's growth momentum.
- **PLI scheme** is offering an impetus to manufacturing, although the gains are skewed in favour of larger companies.
- Fresh investments are expected in renewables, electric vehicles, and battery tech.
- **Bank credit has been growing** in double digits, reflecting in part an uptick in investment appetite.
- **China-plus-one strategy** being adopted by most multinational companies could be an opportunity.
- This is because Beijing is vacating large amounts of space in low-skilled, unskilled labour intensive manufacturing such as textiles, shoes, leather, and ceramics, and India has a chance to fill part of this vacuum.
- As per the RBI, after a two years gap, **term-lending** to non-corporates is seeing an uptick - a positive sign that seems to imply that smaller firms may be seeking funds beyond their immediate working capital needs.
- The Centre had recorded **robust collections in both direct taxes and GST**, reflecting sustained recovery of the corporate sector.
- The states too have shown some decline in their consolidated deficits and net market borrowings.
- Agriculture has been a sustained driver for overall GDP growth.

What are the negative prognosis?

- **External environment** continues to be fraught with risks.
- The Ukraine war drags on, threatening an energy-linked downturn in the European Union, India's biggest export market.
- The US continues to grapple with cooling inflation pressure, and a let-up in the Fed's rate hikes is unlikely until well into the second half of 2023.
- The World Bank has slashed its growth forecast for China to 2.7% this year from the 4.3% estimated in June 2022.

- With the world's second largest economy (China) going into a sustained slump, the global economy will slow sharply next year.
- 2023 will see **higher protectionism** worldwide, greater fervour for de-globalisation, and more economic balkanisation.
- In India, **manufacturing continues to be wobbly**.
- Factory output, as measured by the Index of Industrial Production (IIP), slumped to a 26-month low in the festive month of October.
- Core sector growth for October was just 0.1%, the lowest for 20 months.
- That has led to a rapid downward revision of India's growth projections by analysts for the next fiscal.
- The anomaly of private consumption growing at over 9% even as manufacturing has shrunk by over 4% is worrying.

Capacity utilisation is the ratio of actual output to the potential output that can be produced under normal conditions

- **Capacity utilisation** has shown a minor uptick but continues to hover around the 75% mark.
- Unless this goes up on a sustained basis, private investments are unlikely to pick up perceptibly.
- **MSME distress** - There is continuing distress among the Micro, Small and Medium Enterprises (MSME) firms.
- This reflects the deep cleavages in industrial recovery where the bigger companies are doing far better than the smaller ones.
- One in every six loans disbursed under the Emergency Credit Line Guarantee Scheme (2020) has turned bad in just 27 months, with the defaults mainly in the lower end of the loan bands (up to Rs 20 lakh).
- Given that MSMEs employ a sizable section of the labour force, their continuing financial stress points to the distress in the labour market, and a cascading impact on demand recovery.
- **Capital expenditure of the states has remained weak**. Investments by states typically tend to have a higher multiplier effect.
- Managing inflation expectations in 2023 could be a challenge going forward, despite having hiked its benchmark lending rate by 225 basis points since May 2022.
- **India's dependence on imported energy**, at 4% of the country's GDP, is a challenge that shows up on the balance of payments side.
- A current account deficit of well over 3% is projected for FY23.
- **Rural wages contracted** - Buoyancy in farm output notwithstanding, rural wages contracted for the ninth consecutive month in September 2022, pointing to continuing distress in the hinterland.
- This points to a continued labour oversupply in rural areas, and could have an impact on the labour supply dynamics and in depressing aggregate household consumption.
- The relatively higher inflation in rural areas is further muting spending in those regions.

Reference

1. [Indian Express | India’s economy in 2023]