

# India macroeconomic outlook

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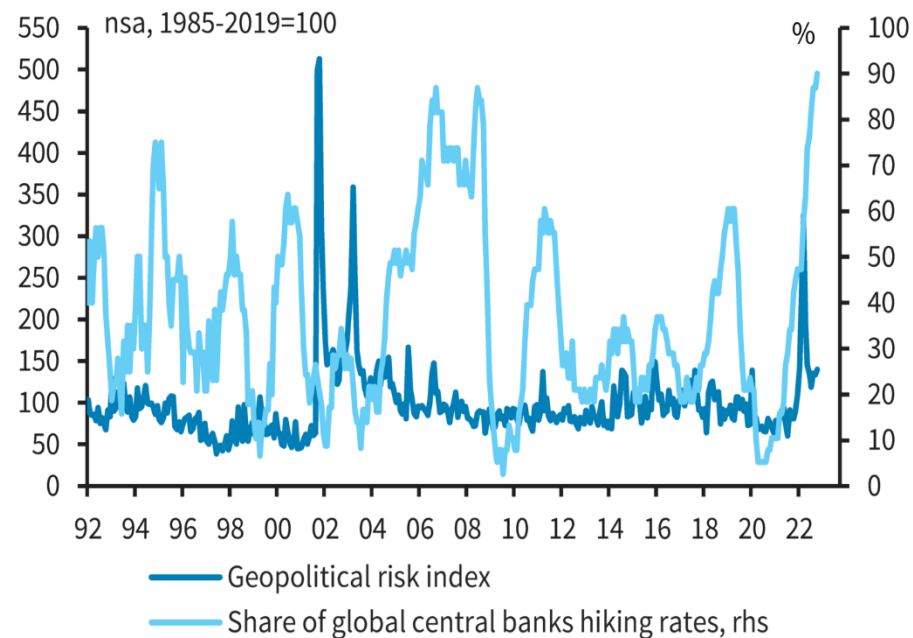
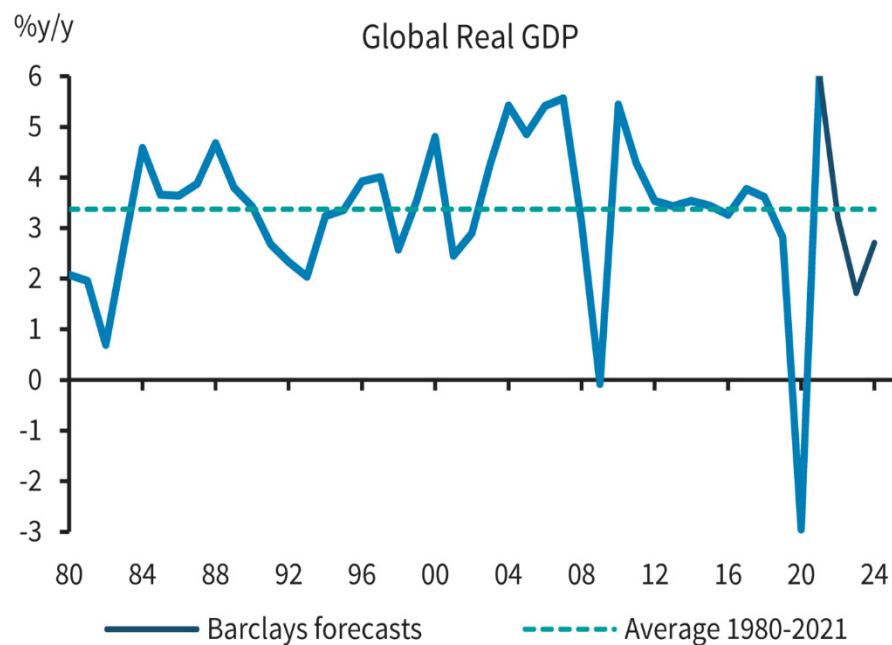
PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 40.

Restricted - External

# A world of 'Vusca' - Volatile, Uncertain, Stagflationary, Complex and Ambiguous

Global growth to slow far below long-term averages...

..in a world of synchronised monetary tightening and geopolitical discord

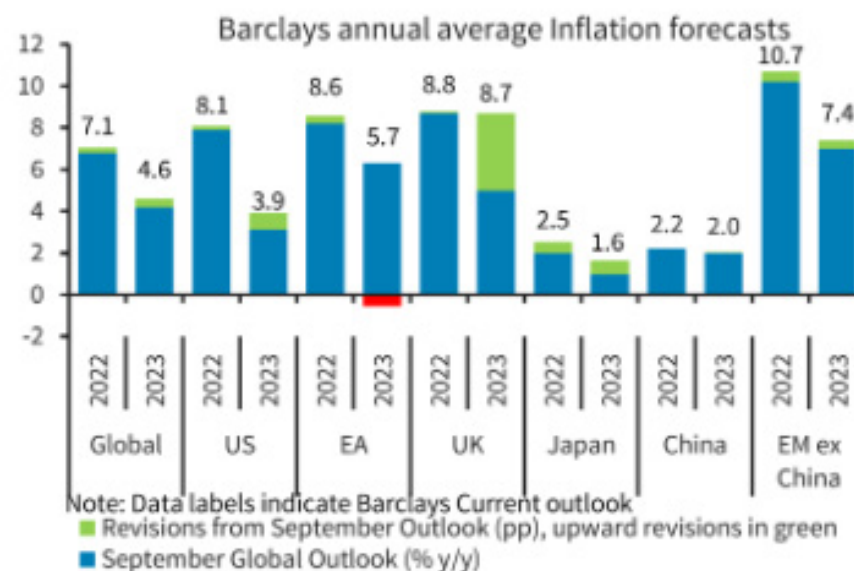
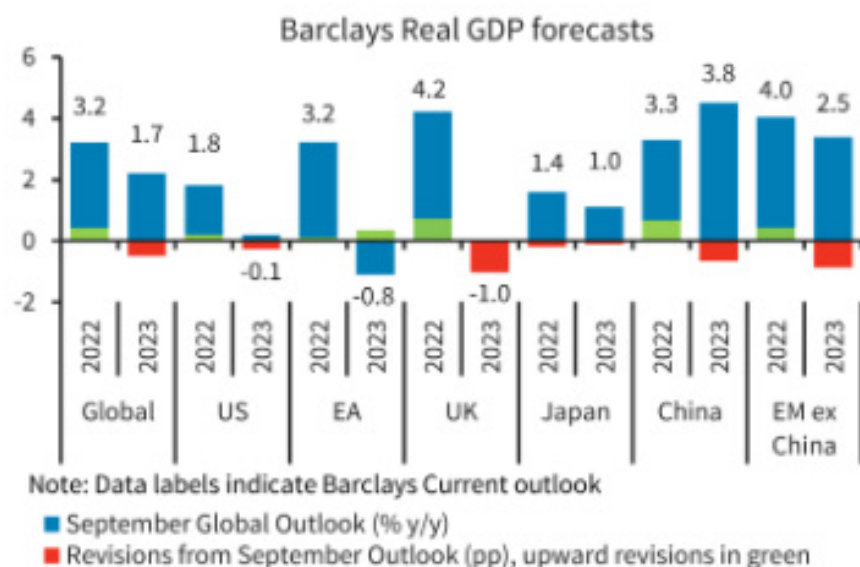


Source: IMF, Haver Analytics, Barclays Research

Source: BIS, PolicyUncertainty.com, Haver Analytics, Barclays Research

# The global economy is worsening

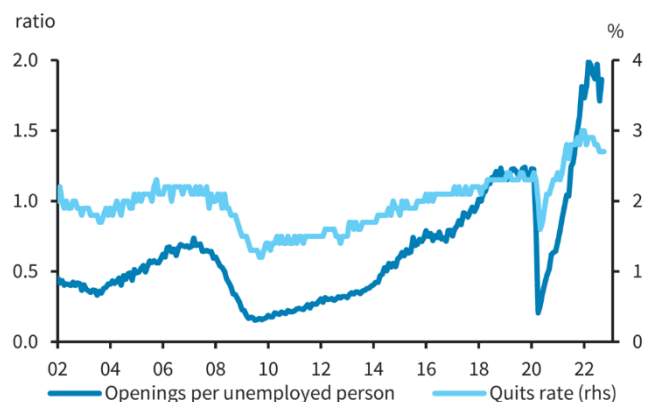
Higher inflation and lower growth, with DMs facing the brunt



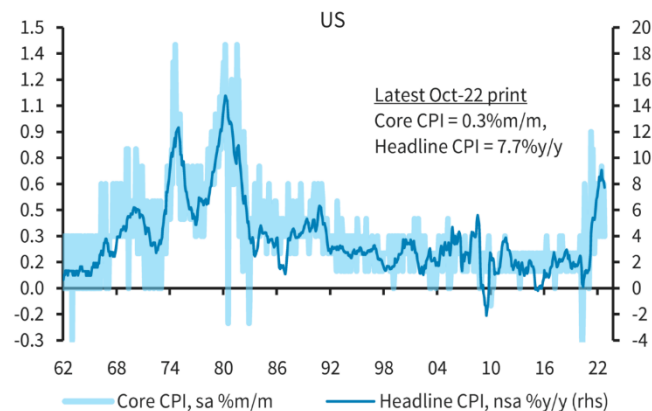
Source: [Global Economics Weekly: Hiking high and slow](#), Haver Analytics, Barclays Research

# US: Resilient economy slowed by tighter policy

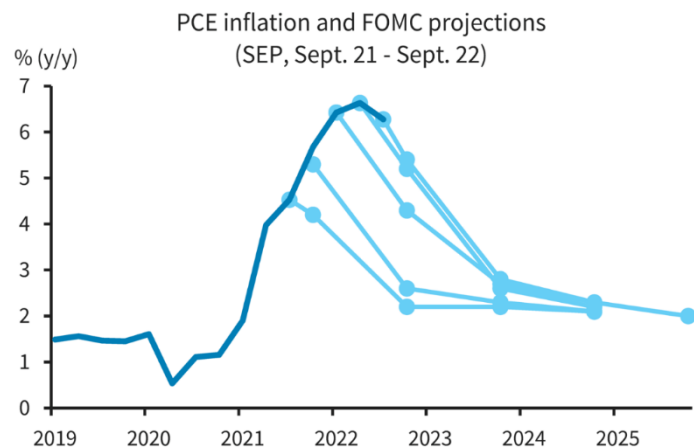
**Inflation has surged beyond the levels of recent decades...**



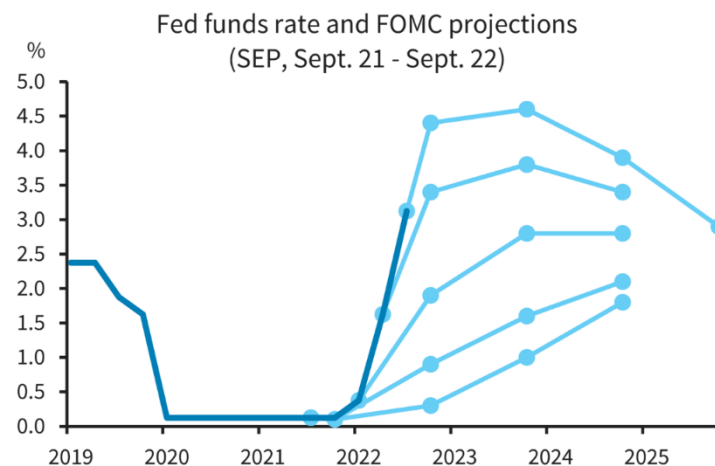
**...while growth will slow, and the EM-DM growth gap has evaporated**



**Upward revisions to FOMC's inflation projections...**



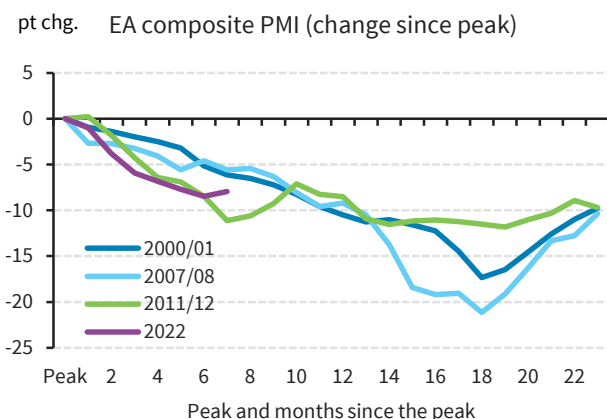
**... resulted in large changes in fund rate projections**



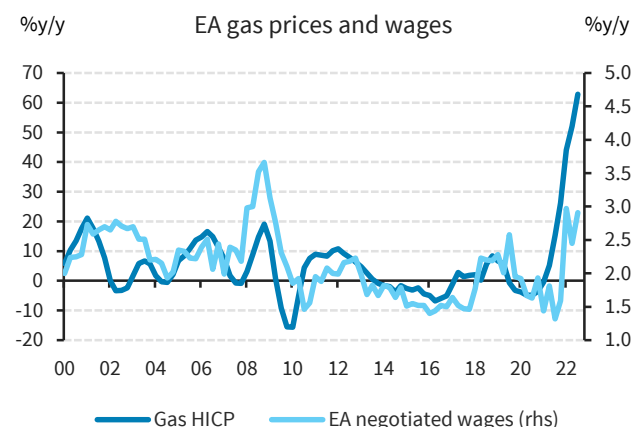
Source: BLS, Haver Analytics, BEA, Federal Reserve, Barclays Research

# Euro area: Energy crisis brings recession

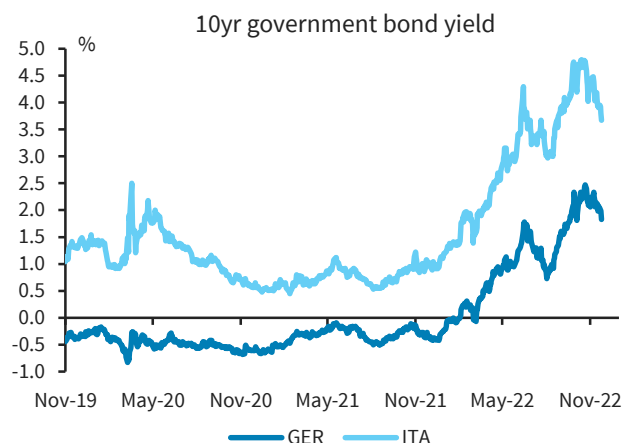
**Business sentiment has been deteriorating in line with the 2011-12 recession**



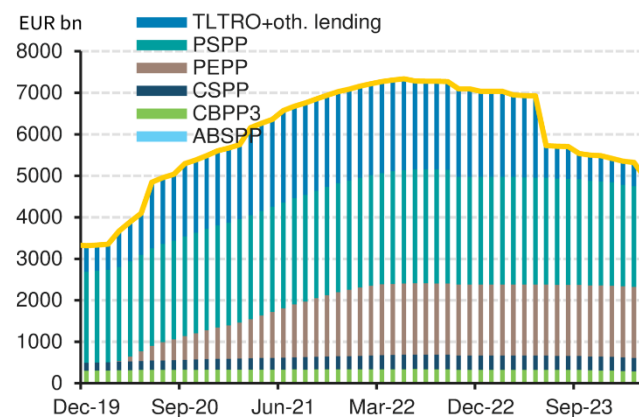
**Contrary to the US, gas prices soared, but wage growth remained relatively contained thus far**



**Bond yields could come under further pressure, as policy rate hikes continue and**



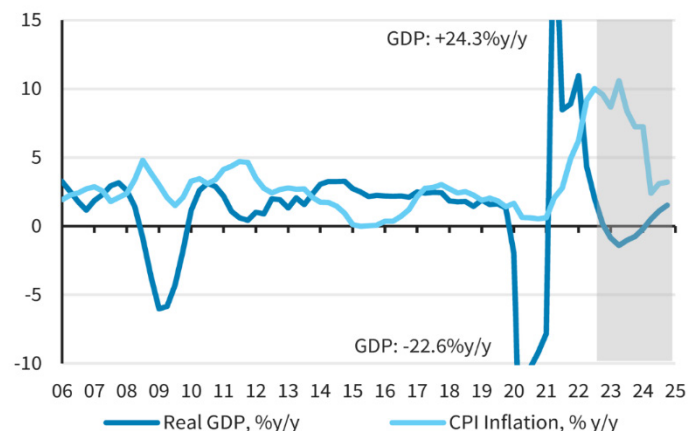
**... TLTRO repayments and reduced APP reinvestment start to shrink the ECB balance sheet**



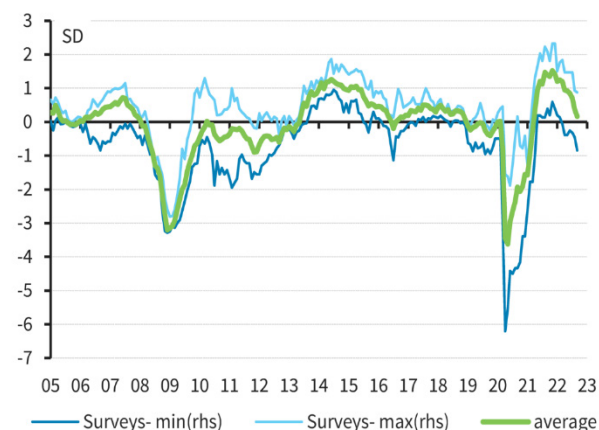
Source: S&P Global, REFINITV, Bnk Haver Analytics, ECB, Barclays Research

# UK: Beginning of an extended recession

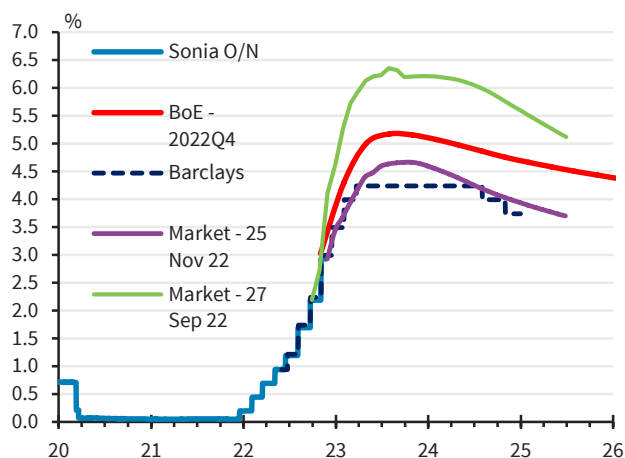
## UK inflation likely to stay elevated despite the economy falling into recession



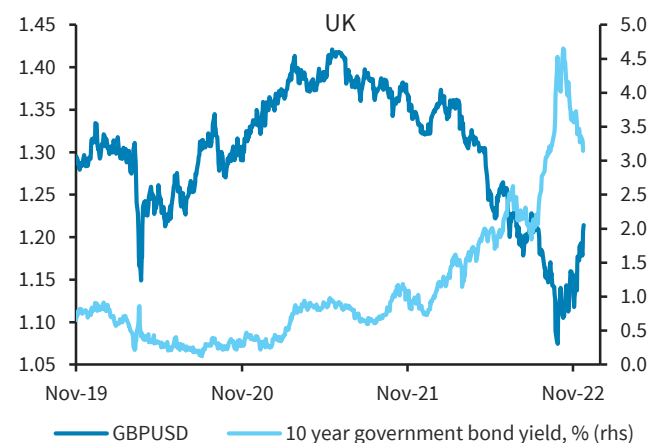
## Employment expectations now suggest a deterioration in labour market conditions



## Market expectations for rates made large swings after the "mini-budget" on 23 September



## Gilt and FX markets have calmed since, but the BoE will remain on watch as it sells off bonds



Source: ONS, Bloomberg, BoE, REC, IHS/Markit, GfK, BCCHaver Analytics, Barclays Research

# China: No quick fixes for a slower growth economy

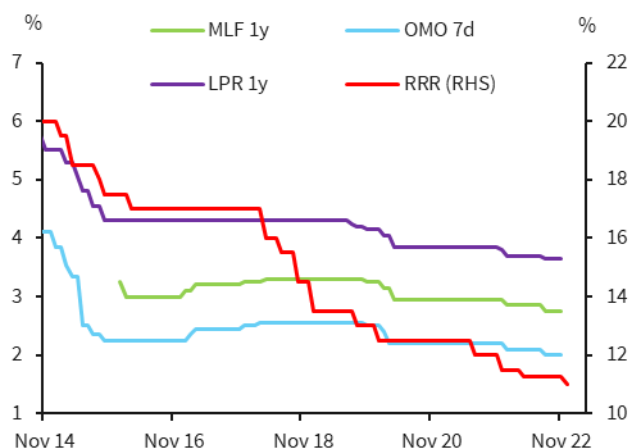
## Housing leading indicators remain in deep contraction



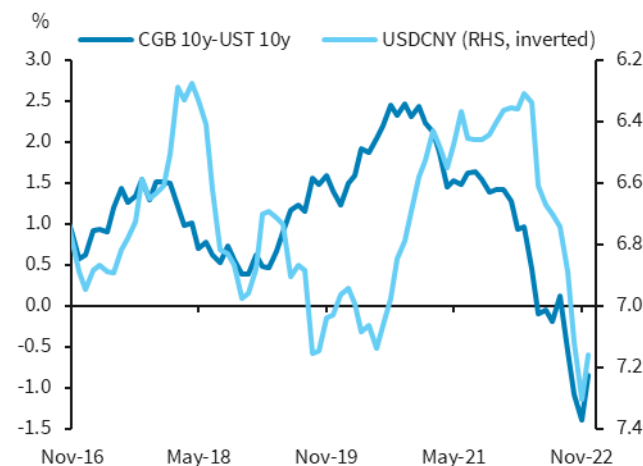
## Retail sales also remain very weak, contrary to the US



## China's PBoC cuts RRR as drag from COVID intensifies



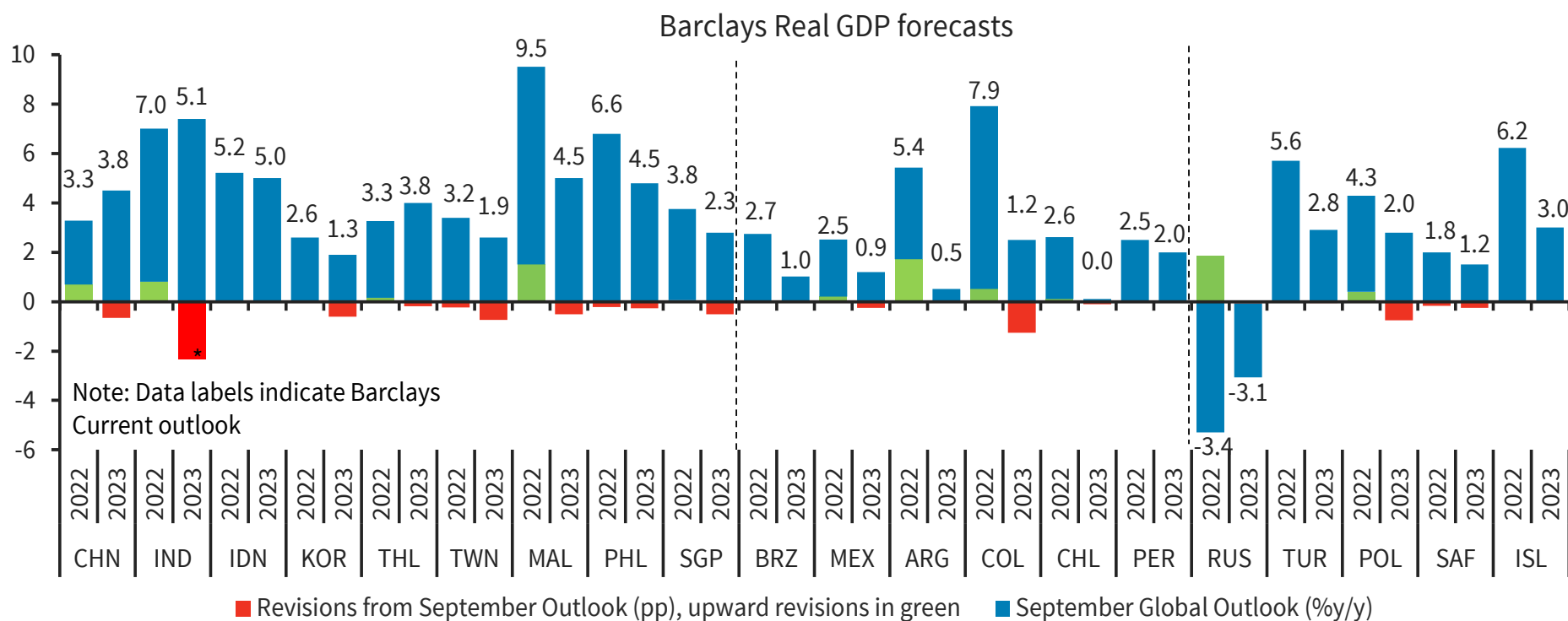
## The growing interest rate differential has contributed to CNY weakness



Source: Wind, Barclays Research

# Emerging Markets: varied performance

Although 2022 growth thus far surprised to the upside in a number of countries, growth forecasts for 2023 have been revised down further

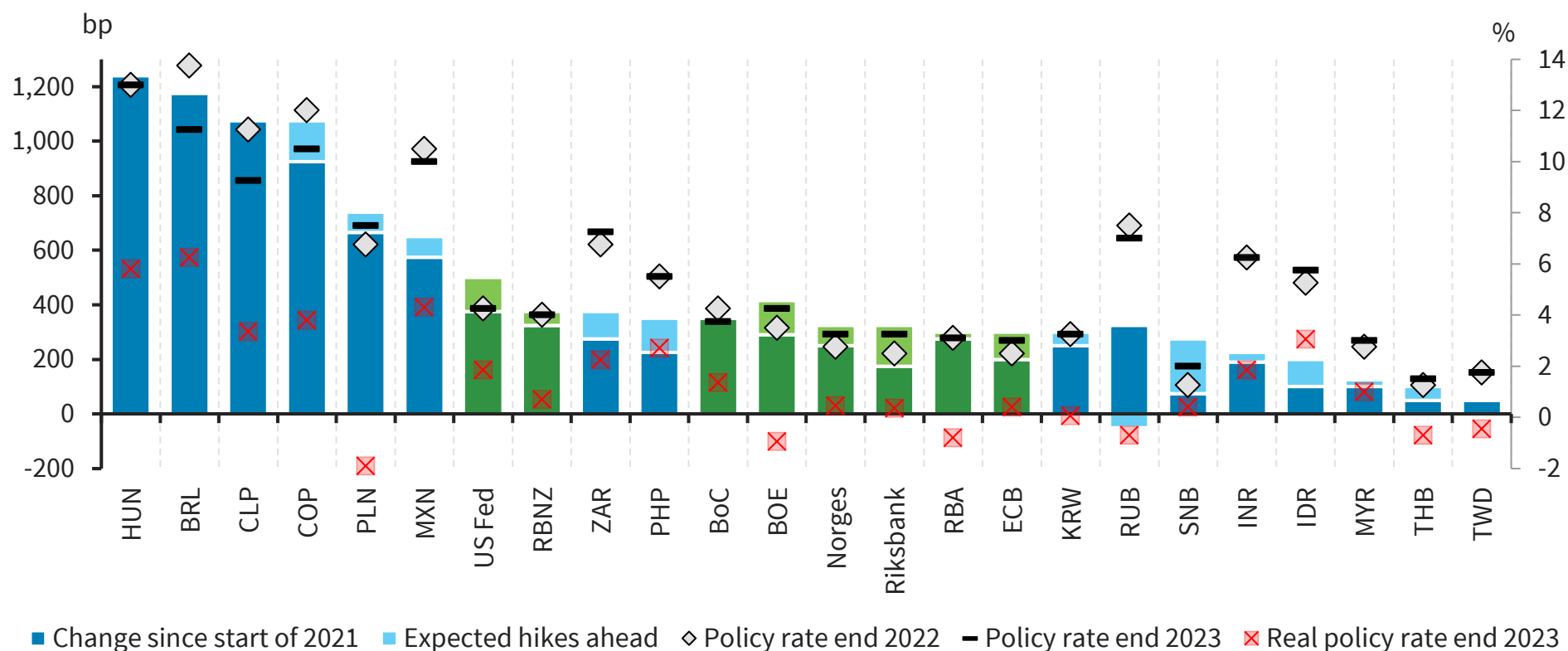


Source: Barclays Research



# EM central banks

LatAm led and looks done, but others in EM are still catching up, since the Fed is not yet done

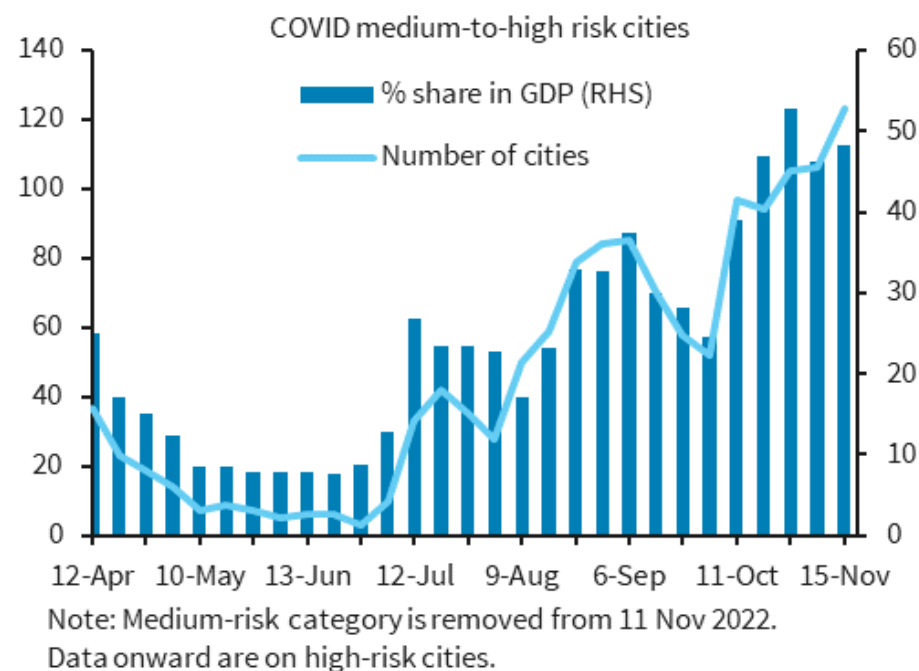
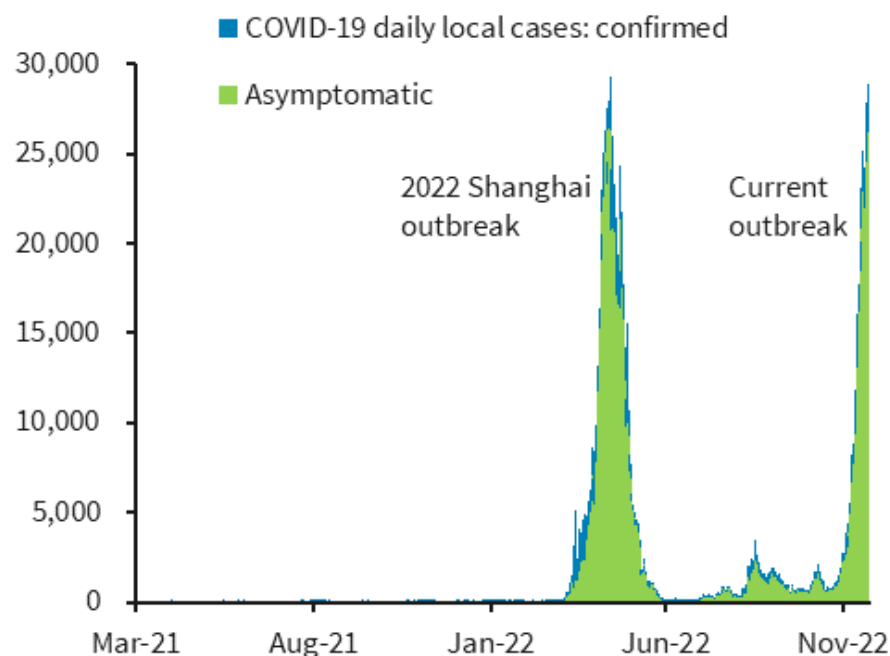


Note: Advanced economy central banks in green.  
Source: Barclays Research

# Important known unknowns: China's COVID policy

China COVID outbreaks have increased visibly...

...leading to intensified COVID lockdowns across cities



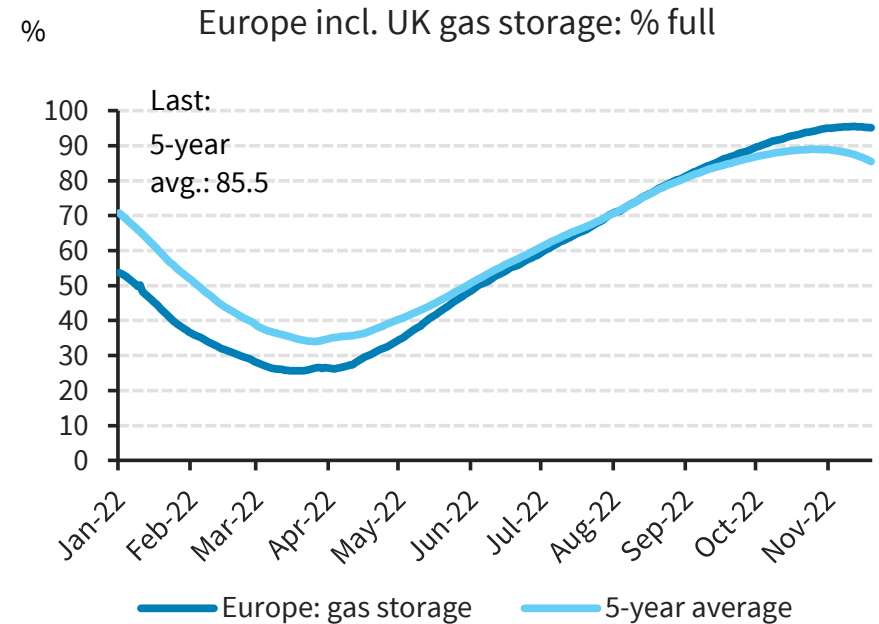
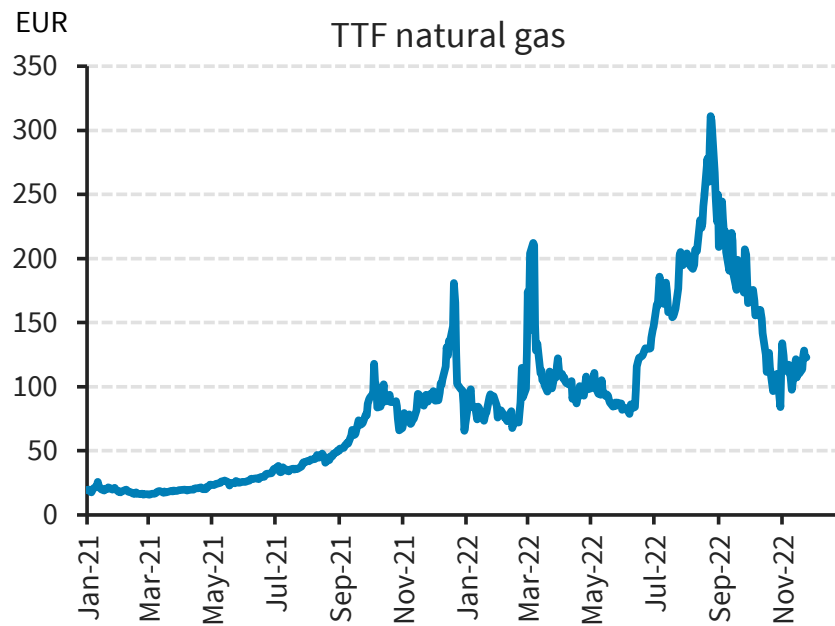
Source: Wind, Barclays Research

Source: Wind, Barclays Research

# Important known unknowns: Europe's energy crisis

Gas prices have declined due to unusually mild weather...

... but insufficient refill for the 2023-24 heating season remains a concern



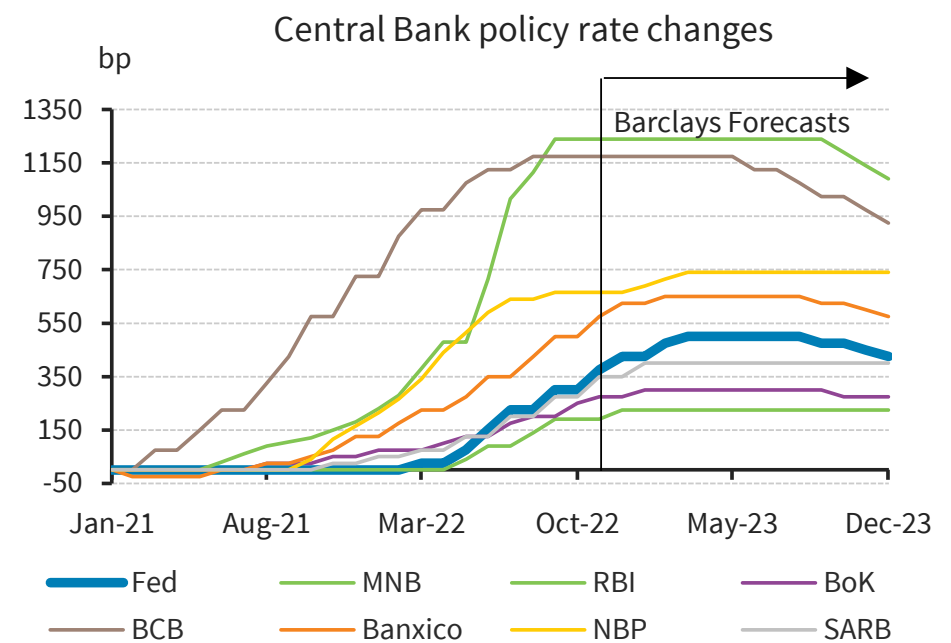
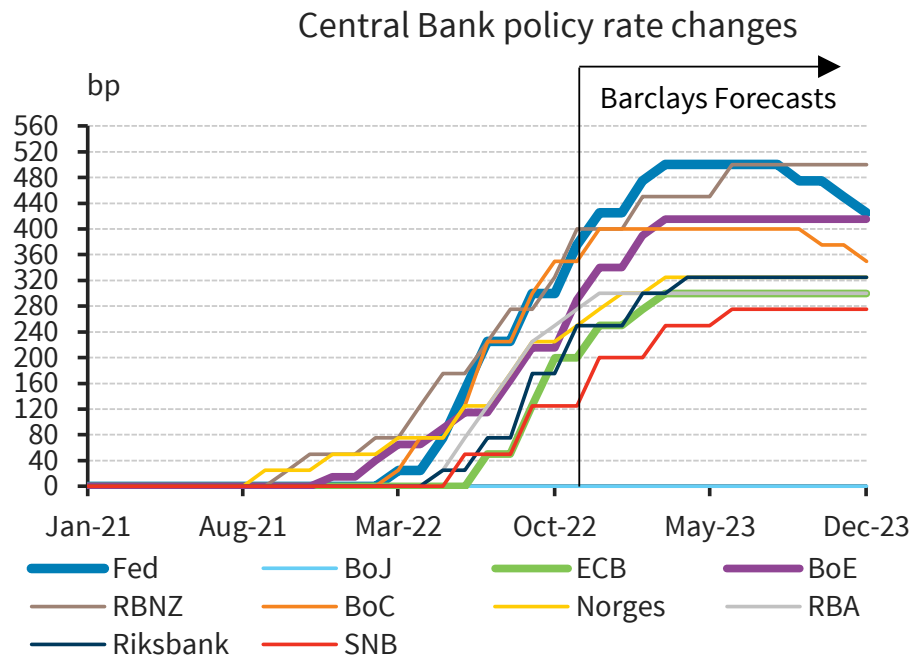
Source: Bloomberg, Barclays Research

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# Synchronised policy rate hikes ...

**G10 central banks are set to slow their rate tightening pace...**

**...while EM central banks are closer to ending their tightening cycle**

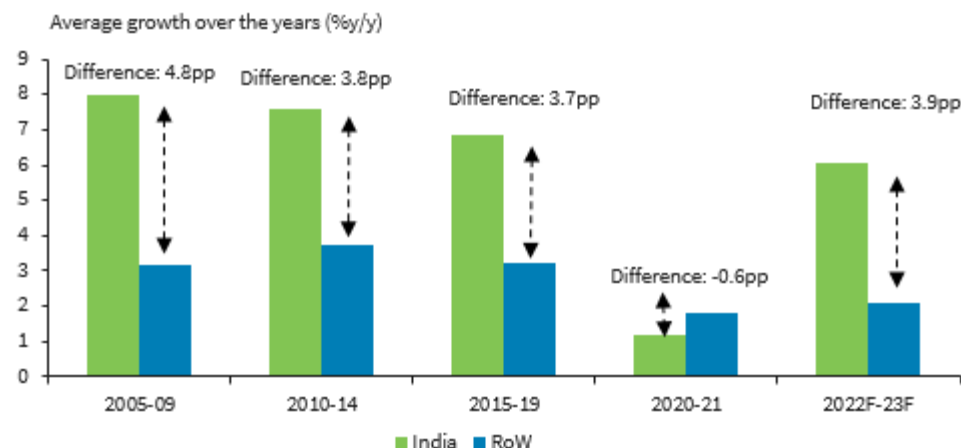


Source: Barclays Research

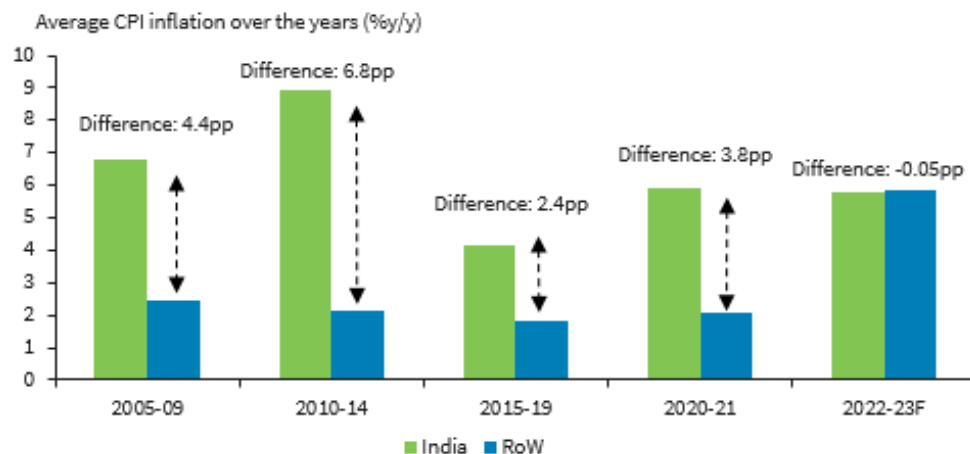
Source: Barclays Research

# But India appears to be placed better

India's growth is likely to exceed RoW by a larger amount in 2022-23



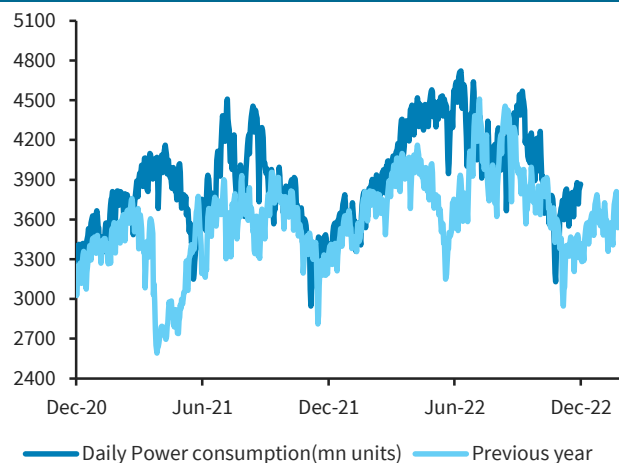
India's inflation is likely to be lower than RoW in 2022-23



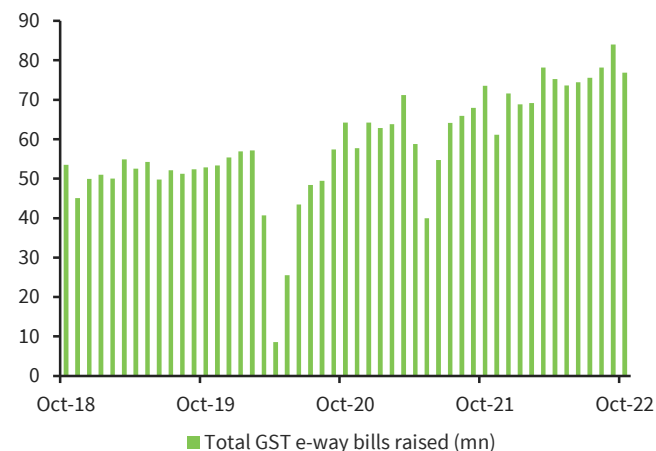
Source: Haver Analytics, Barclays Research, see [India: Macro Stability Perspectives](#), 20 October 2022

# India's growth recovery remains resilient

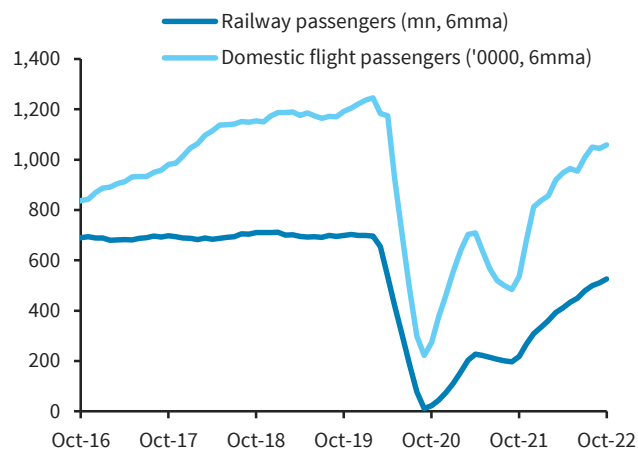
## Power consumption looks robust



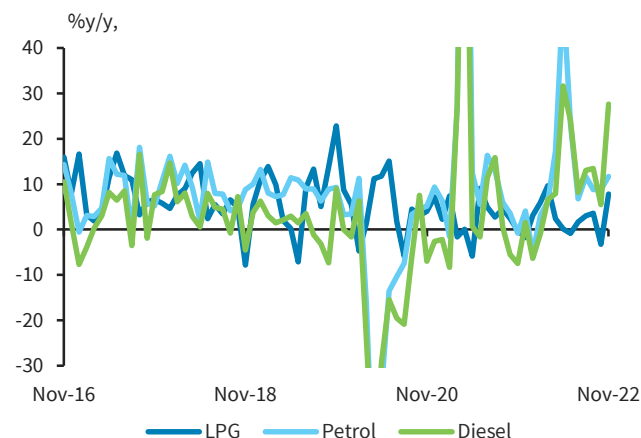
## GST collection is strong



## Passenger traffic is improving



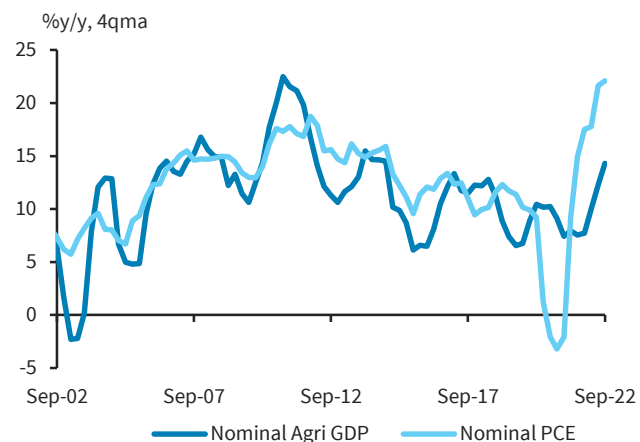
## Fuel consumption is recovering



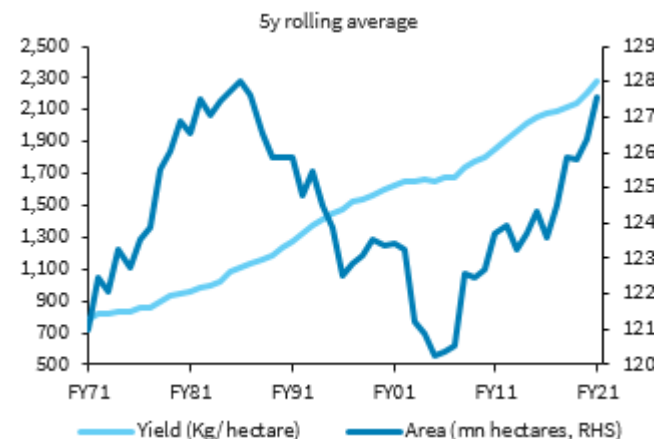
Source: Haver Analytics, Barclays Research, see [India: November manufacturing PMI: Holding firm](#), 01 Dec 2022

# Rural demand will prop up consumption

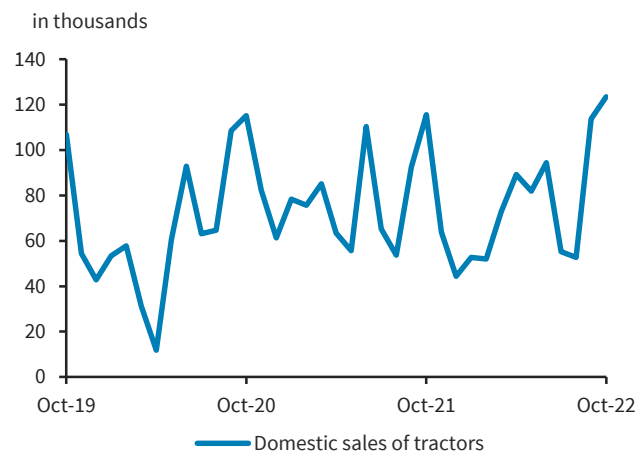
## Consumption increases on agricultural growth



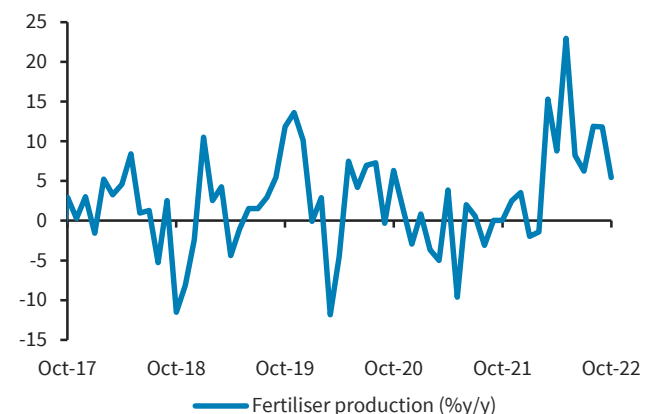
## Agricultural output is improving



## Tractor sales increasing



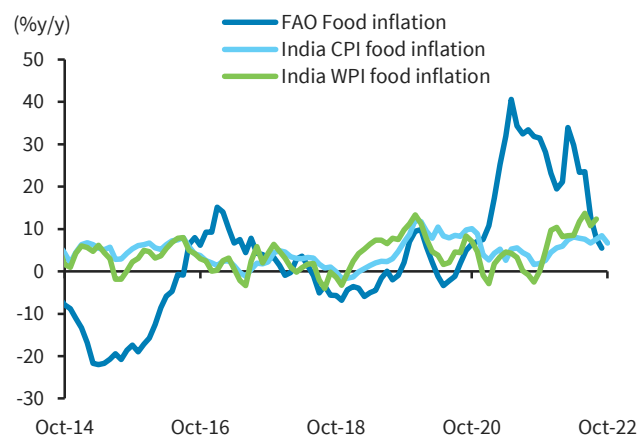
## Fertiliser production holding up



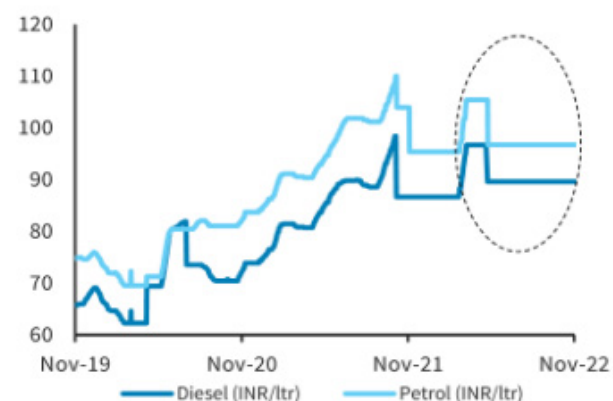
Source: Haver Analytics, Barclays Research, see [India: Macro Stability Perspectives](#), 20 October 2022

# Conditions ripe for moderation in India's inflation levels

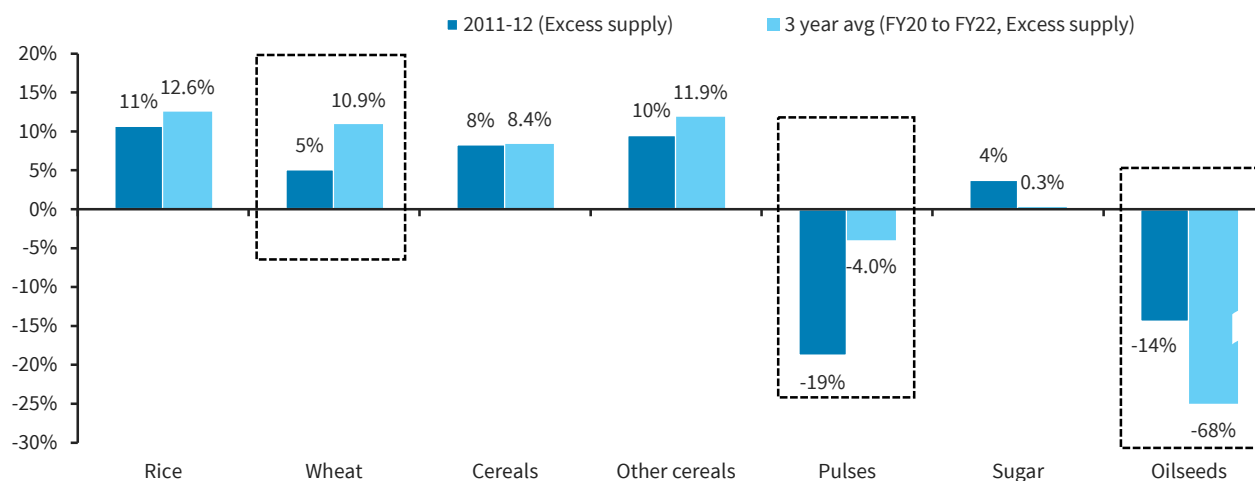
## Global food inflation is easing



## Fuel prices have fallen since the excise duty cut



## India's food import dependencies only in pulses and edible oils

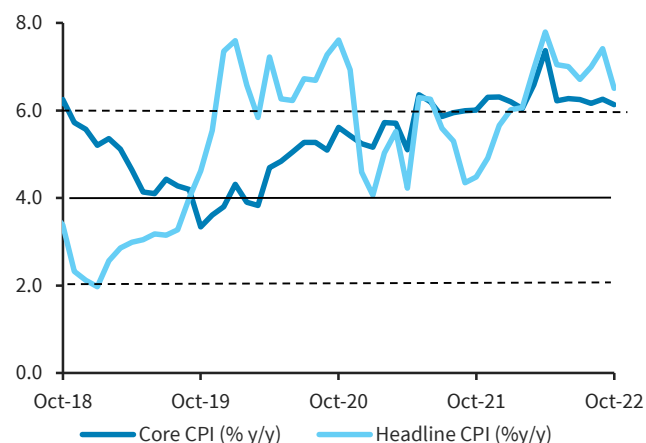


Source: Haver Analytics, Barclays Research, see [India: November CPI preview: Losing momentum](#), 05 December 2022

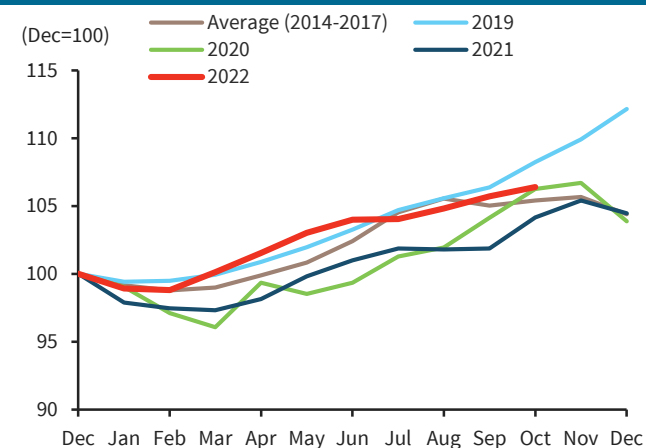


# Inflation has peaked; back within target by Q4 22

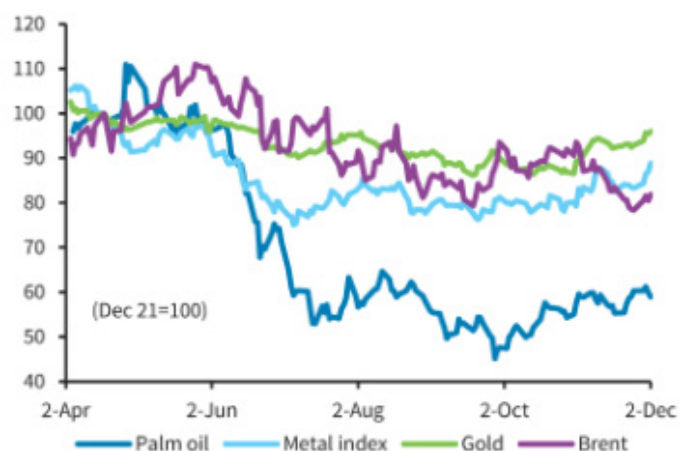
## Inflation is starting to moderate...



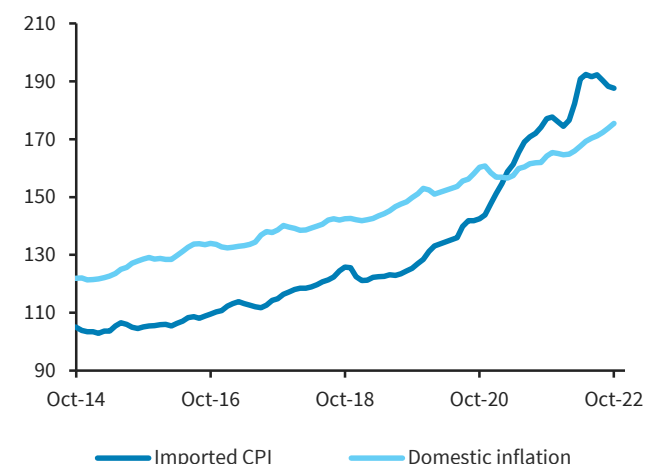
## ... as food prices remain manageable



## Fall in global commodity prices...



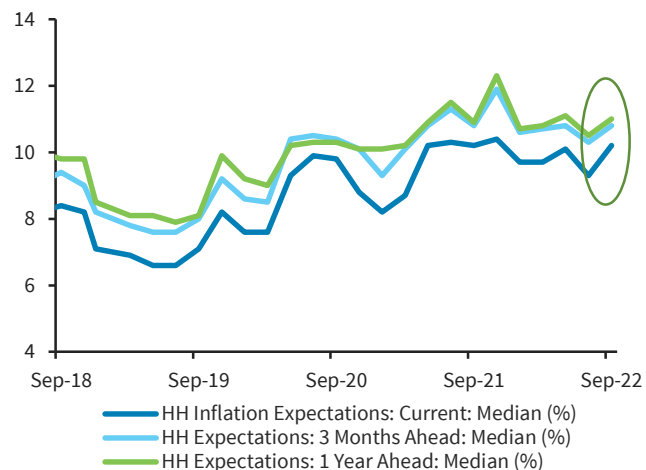
## ...to ease imported inflation



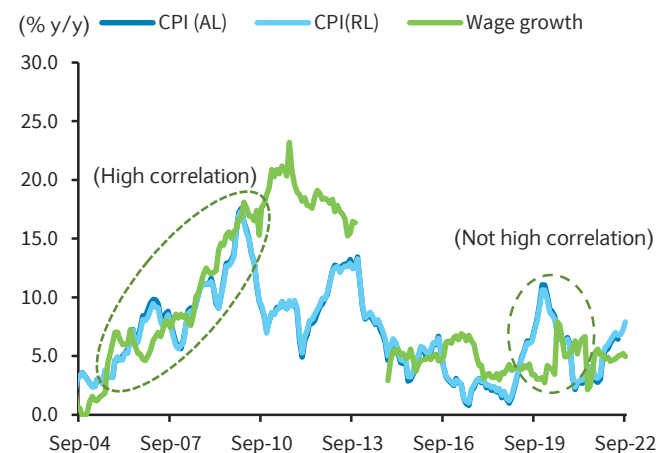
Source: Haver Analytics, Barclays Research, [India: November CPI preview: Losing momentum](#), 05 December 2022.

# No signs of major demand-led price pressures

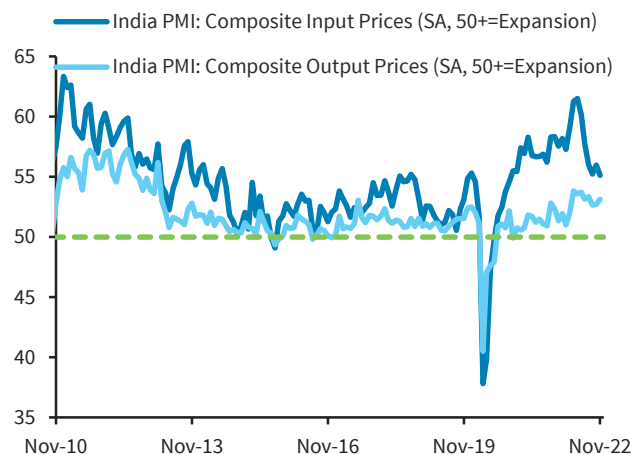
## Inflation expectations remain elevated



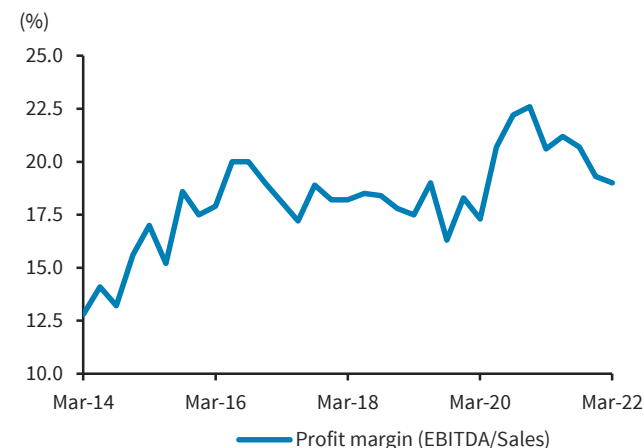
## No signs of wage-price spiral



## Firms could pass on the surge in input costs



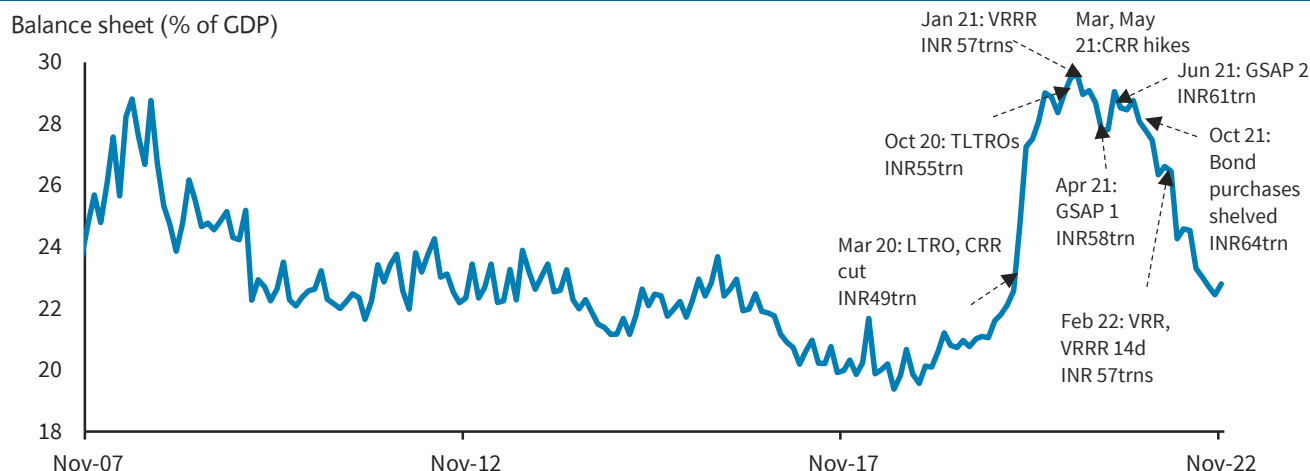
## Profit margins are narrowing



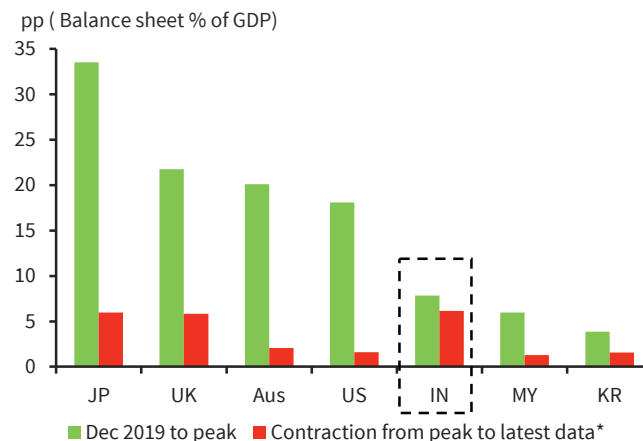
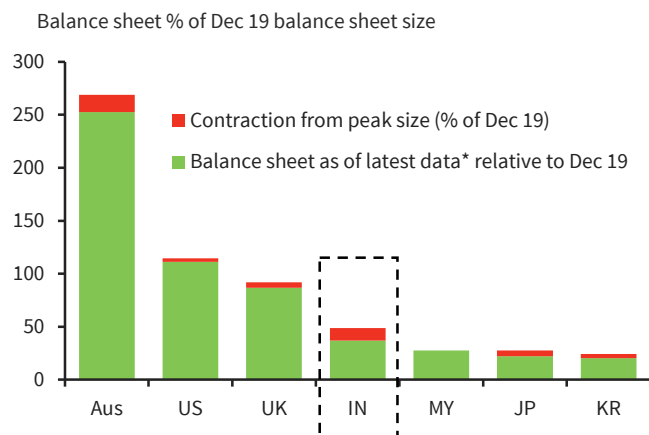
Source: Haver Analytics, Barclays Research, see [India: RBI watching: A nudge to the centre](#) 13 July 2022.

# RBI's quantitative easing has already been rolled back

## RBI's balance sheet expansion has been squared off



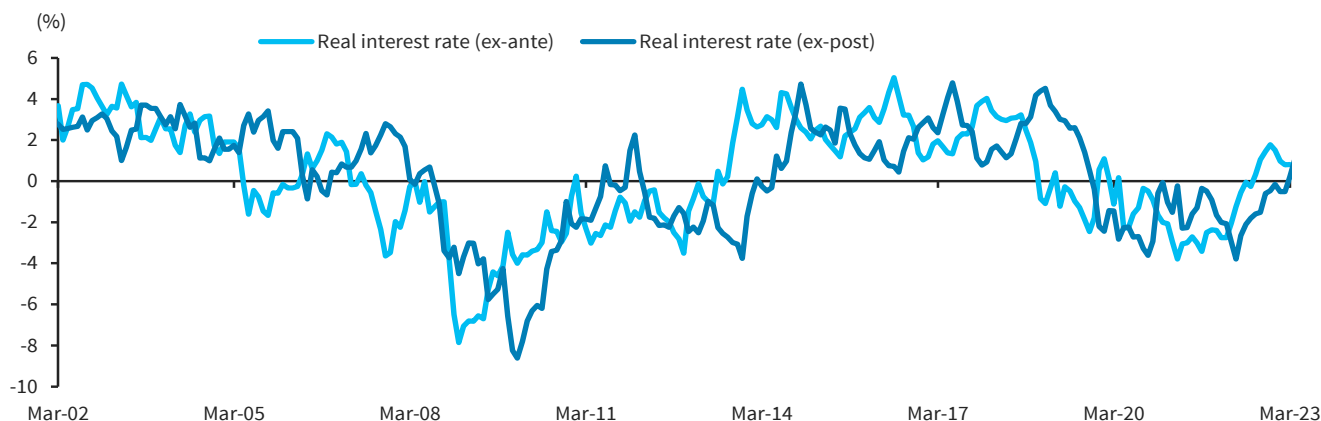
## The RBI's balance sheet has contracted by much more than other major central banks



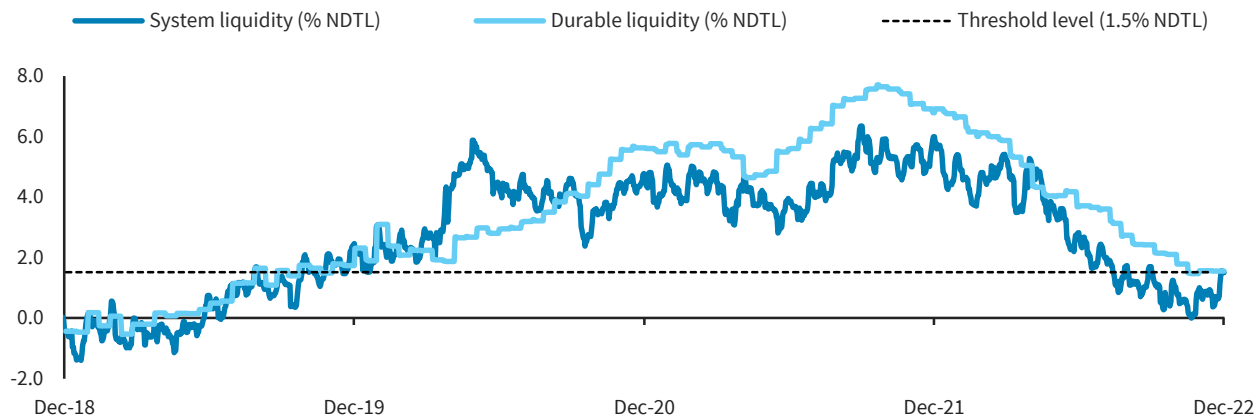
Source: Haver Analytics, Barclays Research, [India: December MPC preview: The beginning of the end](#), 02 December, 2022

# RBI has tightened conditions enough...

Real rates (ex-ante, ex-post) are moving closer to desired levels



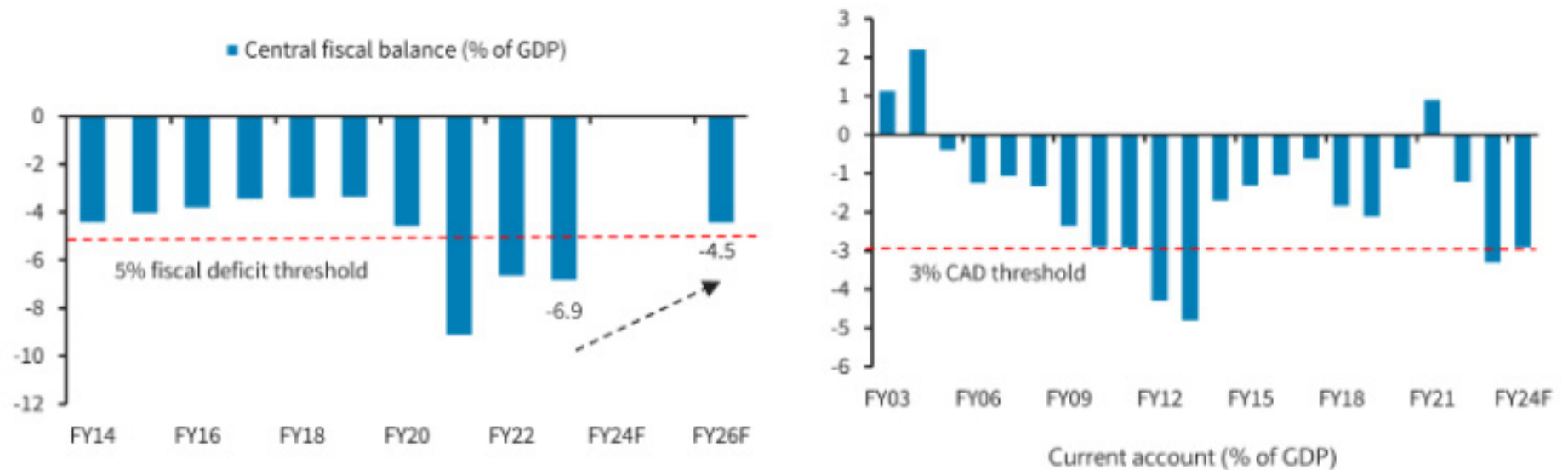
Liquidity levels have declined ... pushing up short-term rates



Source: Haver Analytics, Barclays Research, [India: December MPC: The battle against inflation goes on](#), 07 December 2022.

## ...but India faces macro stability risks in near term

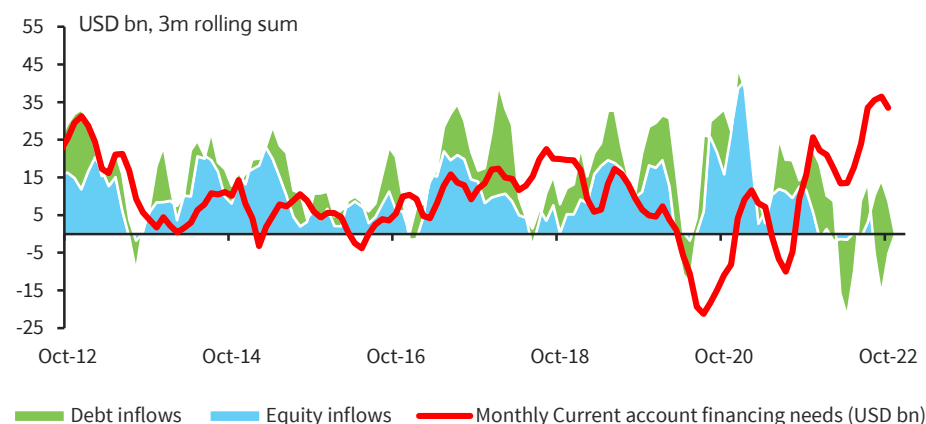
Robust growth is weighing on the external deficit, while fiscal deficit also high



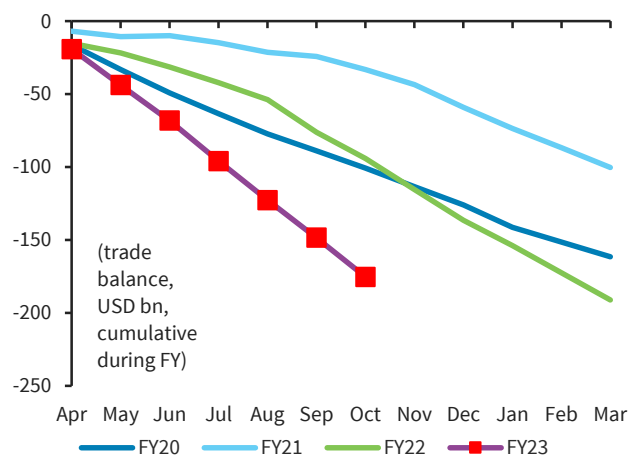
Source: [India: Macro Stability Perspectives](#), 20 October 2022, Haver Analytics, Barclays Research

# Widening current account deficit...

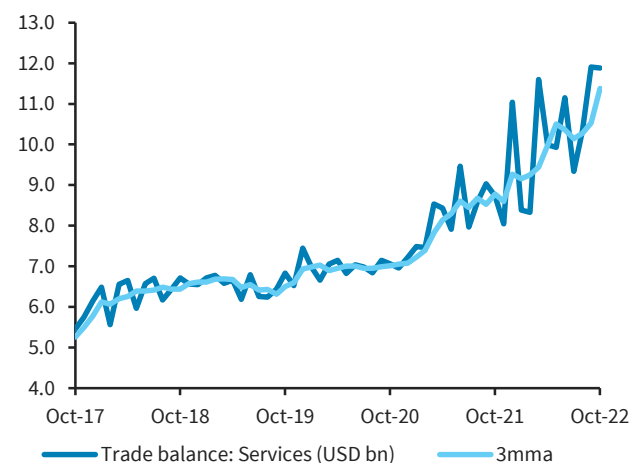
Current-account financing needs have risen dramatically on a quarterly basis



Goods deficit widening



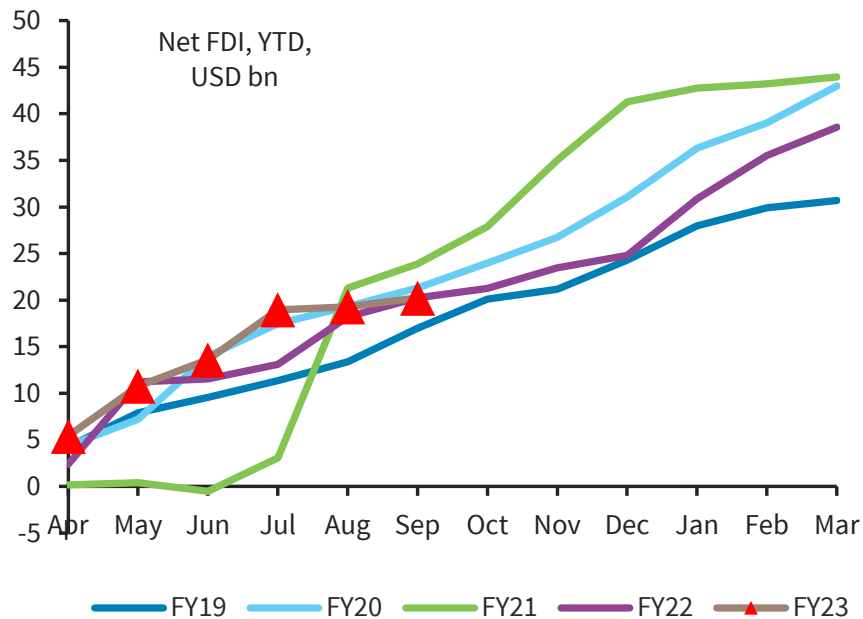
Services surplus consolidating at high levels



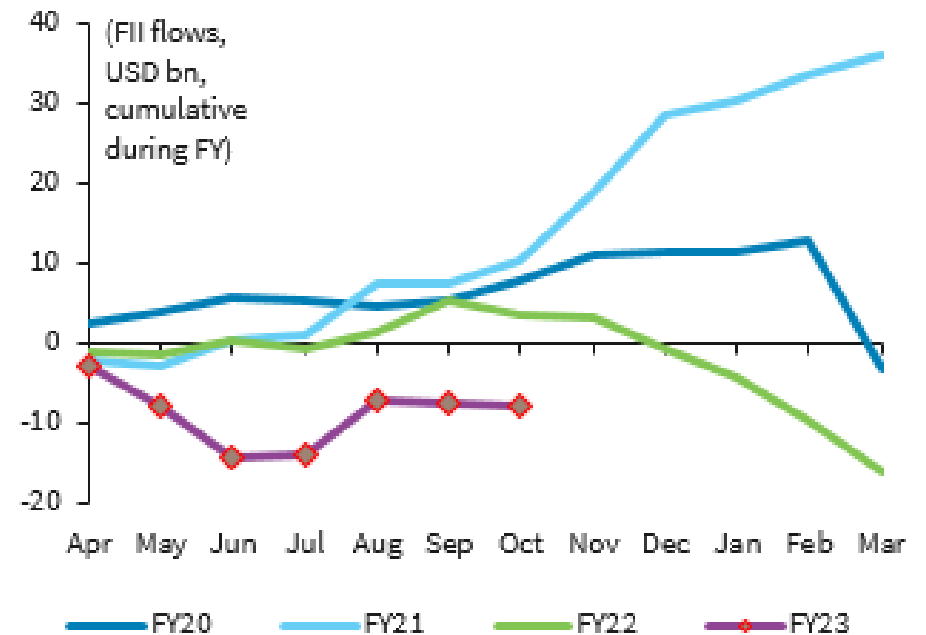
Source: Haver Analytics, Barclays Research, see [India: Macro Stability Perspectives](#), 20 October 2022

## ...and capital flows too small to fund

### FDI inflows have been rising in 2022...



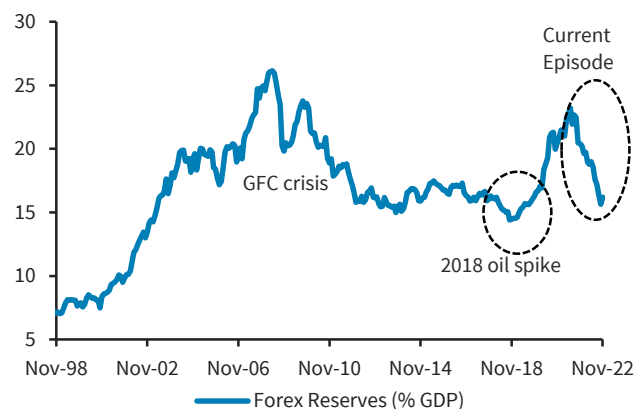
### ... but portfolio flows have been swinging



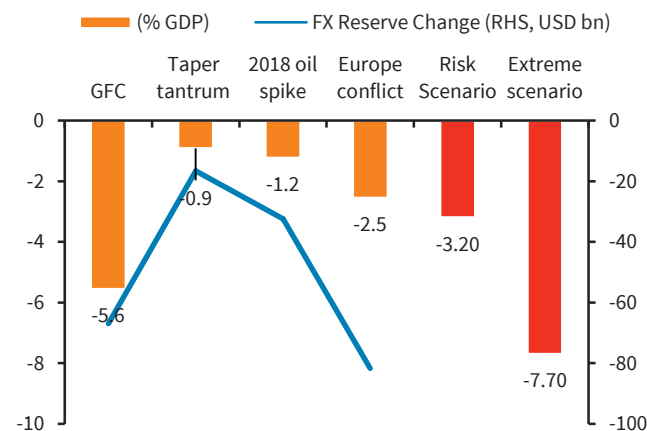
Source: Haver Analytics, Barclays Research, see [India: Macro Stability Perspectives](#), 20 October 2022

# FX reserves have declined

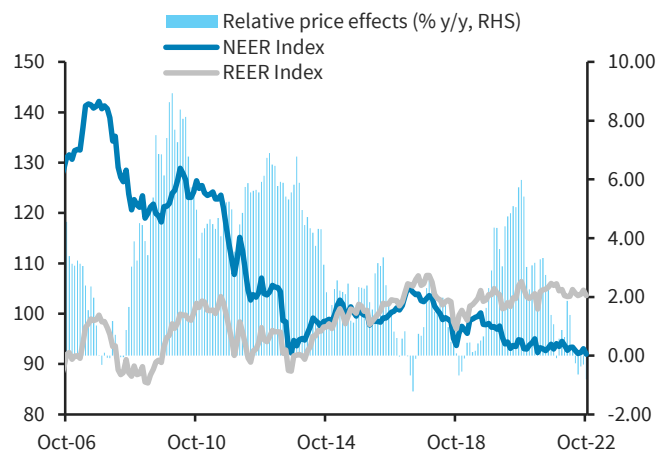
FX reserves are falling rapidly...



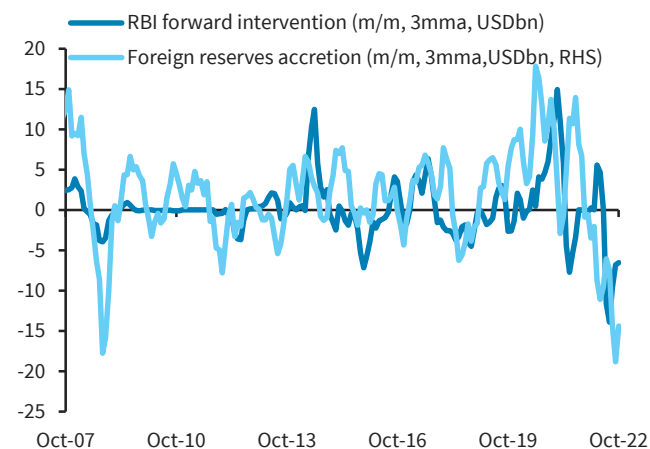
... and could decline further in the event of an extreme shock



Inflation differentials unlikely to generate INR depreciation pressure – unlike the past



RBI USD sales have increased materially

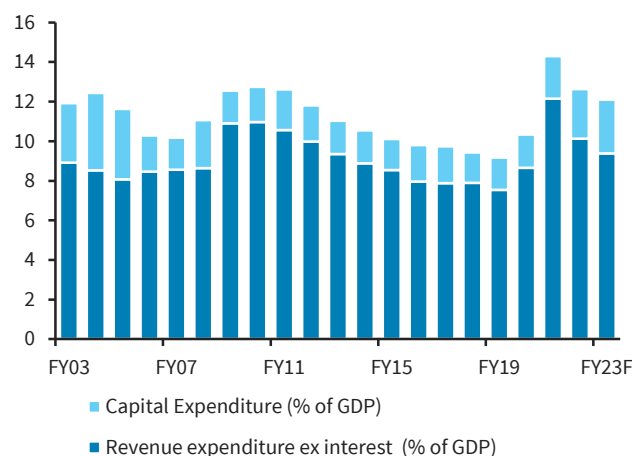


Source: Haver Analytics, Barclays Research, see [India: RBI FX policy: Hands on, hands off?](#) 01 July 2022

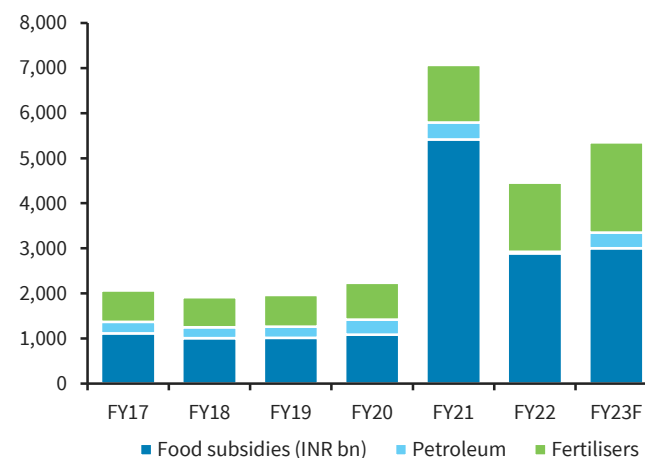


# Fiscal deficit remains high

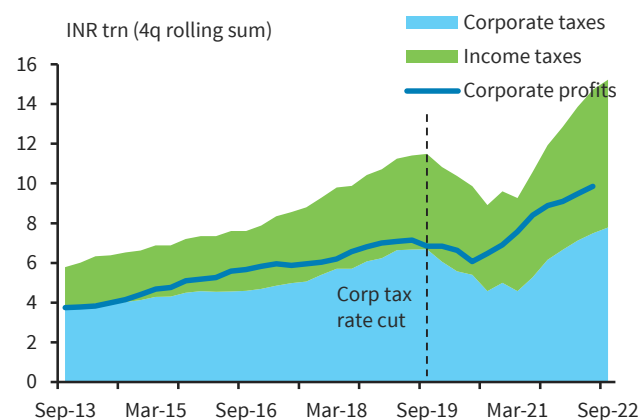
## Capital expenditures are increasing



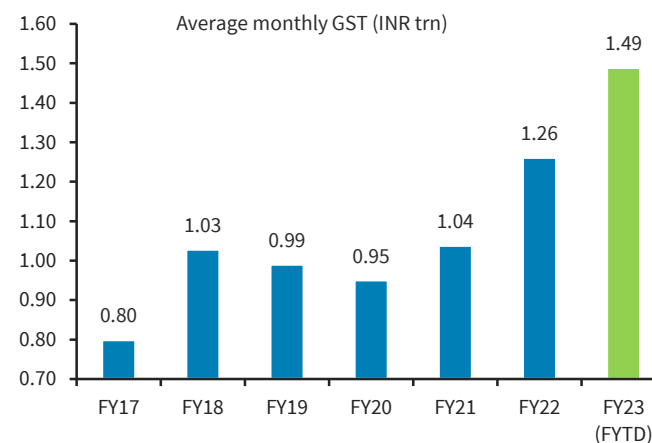
## Subsidy costs are up, largely on higher food and fertiliser transfers



## Direct tax revenues rising on personal income taxes despite cuts in corporate tax rates



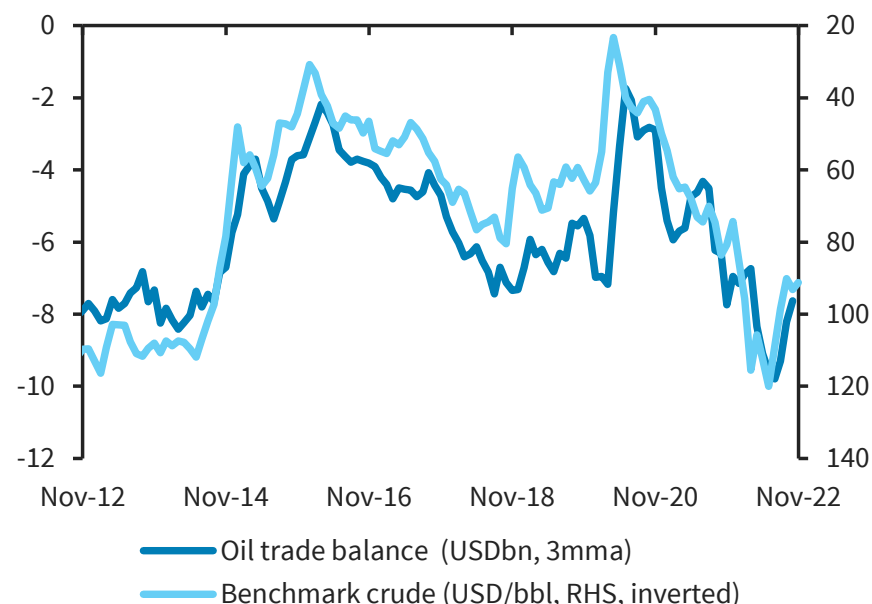
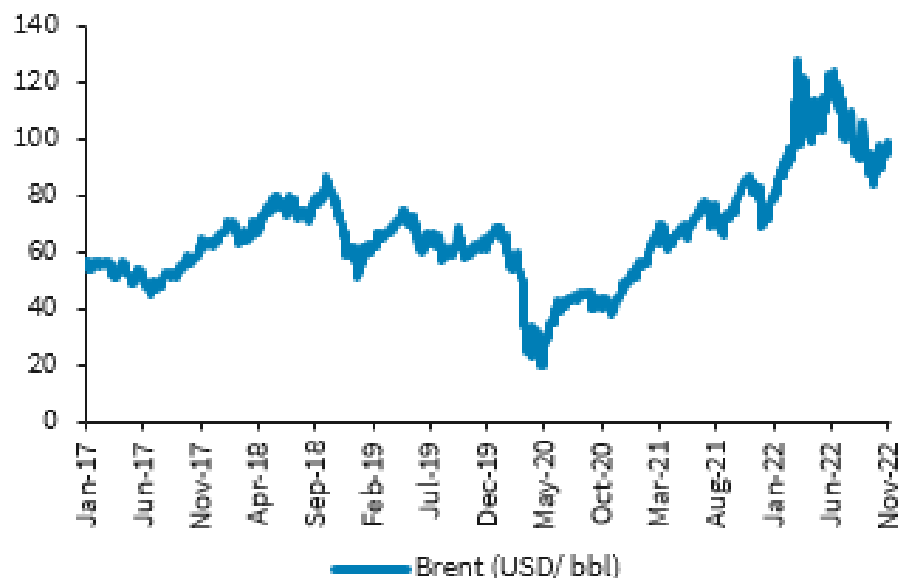
## Material growth in GST run-rate in the past three years



Source: Haver Analytics, Barclays Research, see [India: Macro Stability Perspectives Part 4 - The hunt for fiscal space](#), 6 October 2022

# Global headwinds facing India - high oil prices

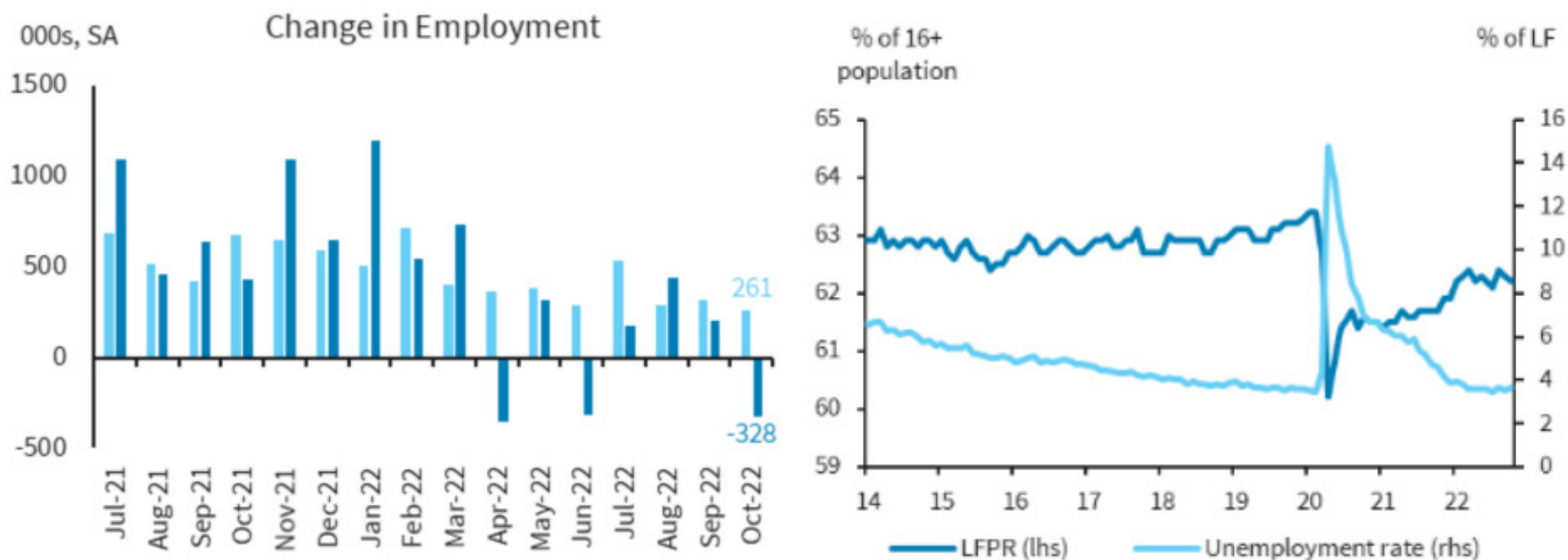
India's external balance remains at the mercy of still high and volatile oil prices



Source: Haver Analytics, Barclays Research

# Global headwinds facing India – tight Fed policy

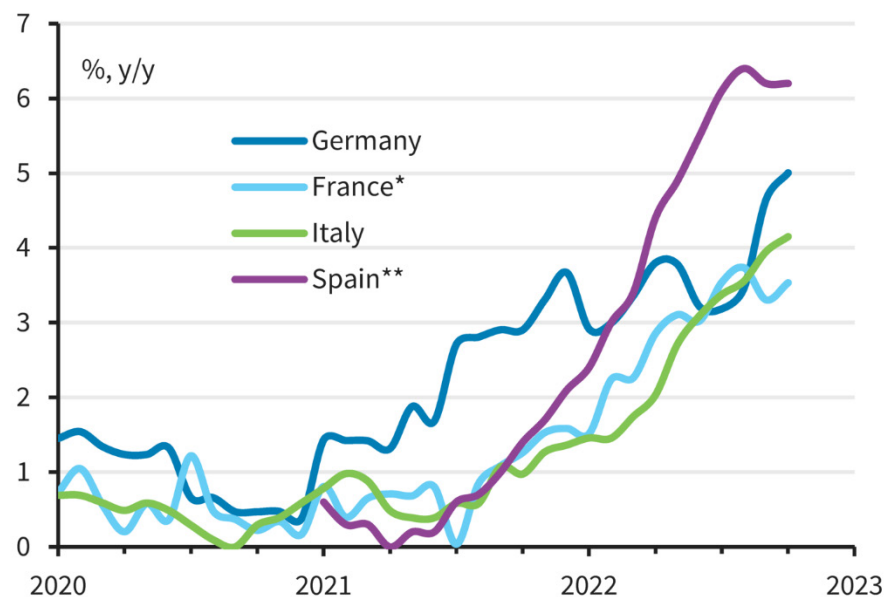
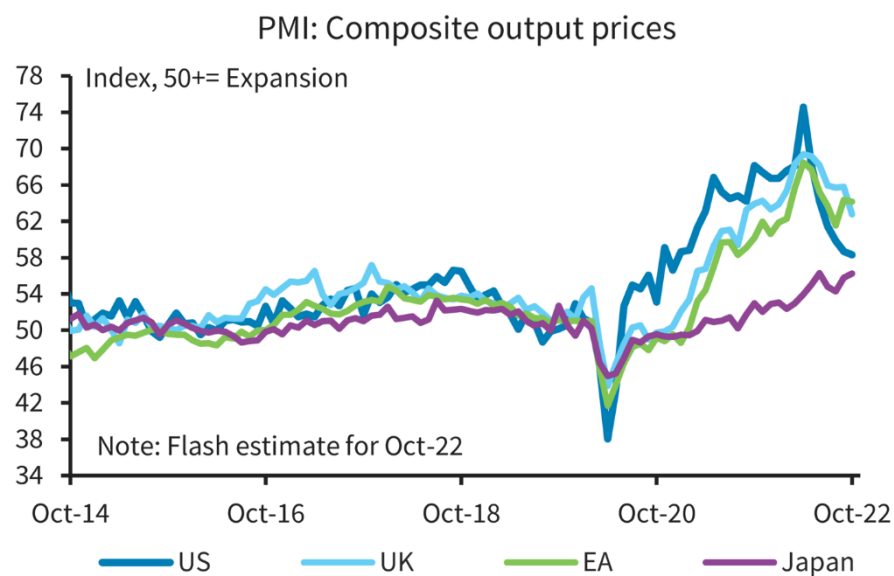
US labour market still too strong; little comfort for the Fed



Source: [US Economics: October employment: Slowing, but too high for comfort for the FOMC](#), Haver Analytics, Barclays Research

# Global headwinds facing India – elevated global inflation

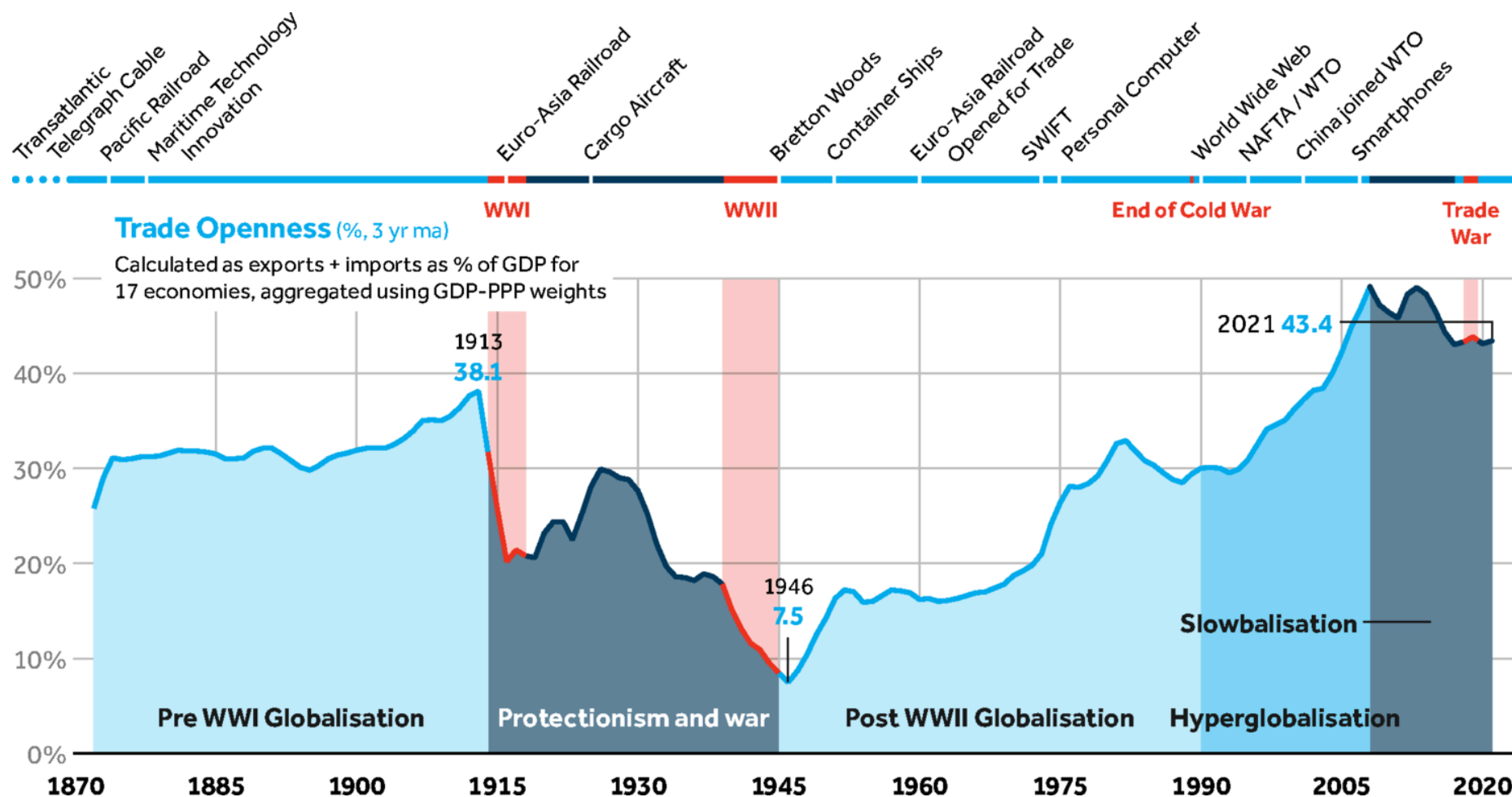
## Short term: High inflation



Source: [Global Economics Weekly: Waiting for Pivot: Act II](#), Haver Analytics, Barclays Research

# Global headwinds facing India – economic disengagement

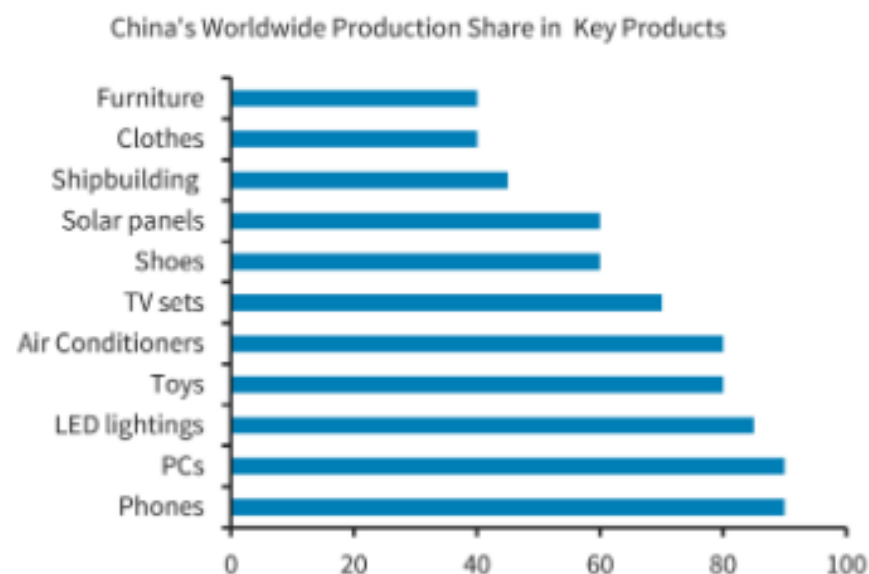
## Medium term: Deglobalisation and supply chain disintegration



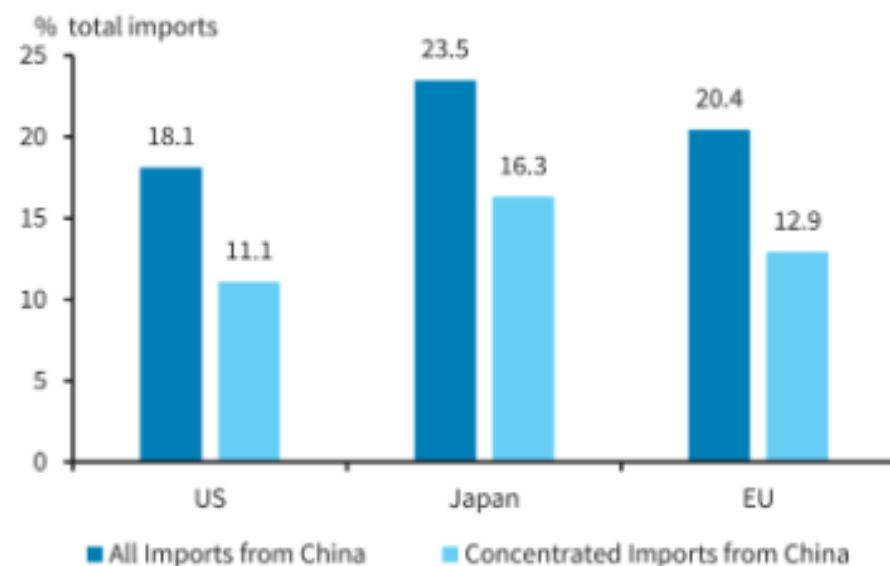
Source: [Deglobalisation: Homecoming](#), Haver Analytics, Barclays Research

# Global headwinds facing India – supply chain disintegration

## Medium term: Deglobalisation and supply chain disintegration



Source: MIT, Economist, TrendForce, statista, 1421 Consulting Group, US Commerce Dept., Forbes, The Atlantic, Barclays Research



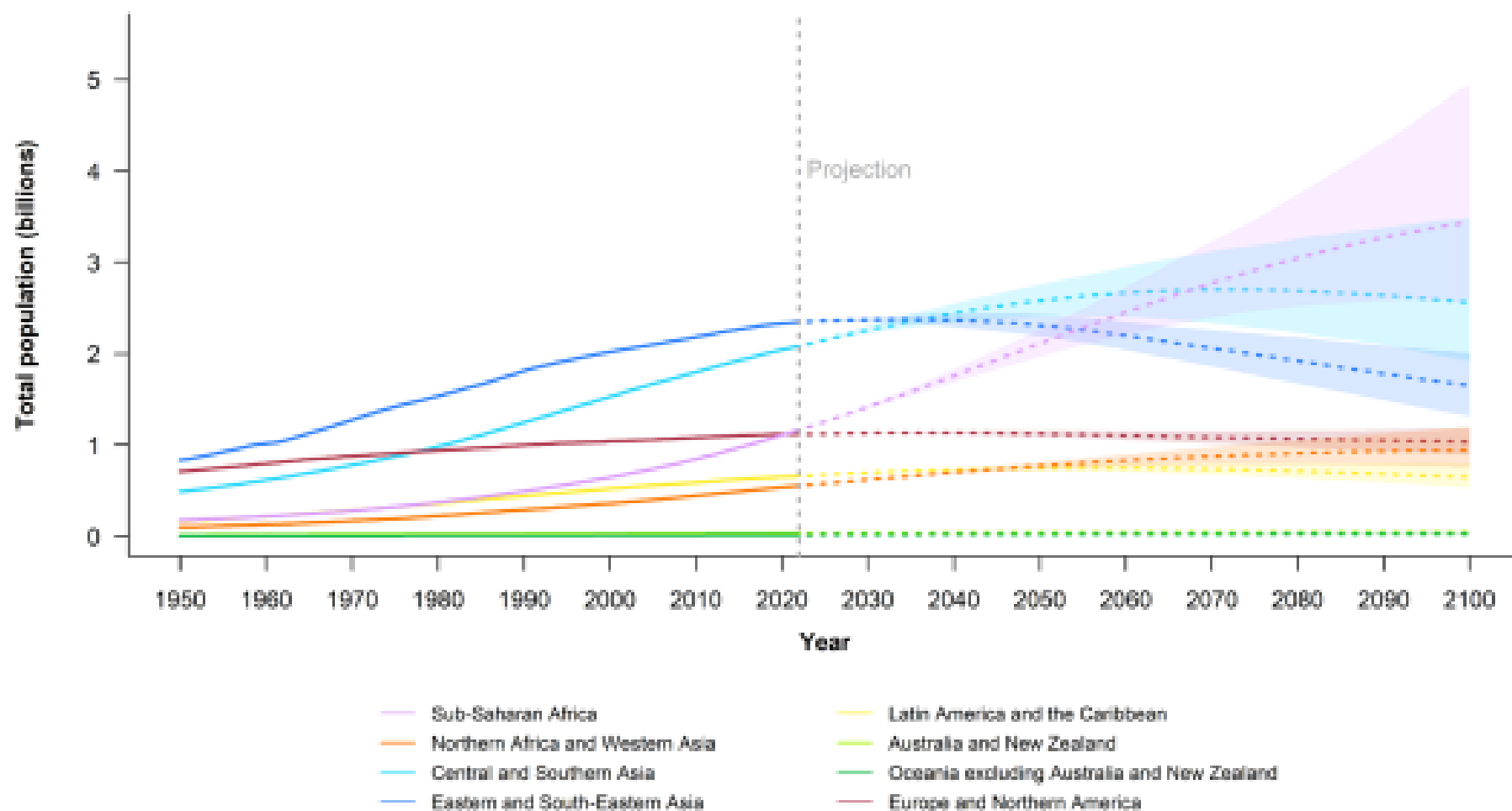
Note: Concentrated imports from China implies that at least 50% of the concentrated products are electronics and machineries, with notable products including mobile phones, PCs, image/sound recorders, monitors and semiconductor devices. Data for 2019.

Source: US Census Bureau, Japan Customs and Tariff Bureau, Eurostat, Barclays Research

Source: [Deglobalisation: Homecoming](#), Haver Analytics, Barclays Research.

# Global headwinds facing India – global ageing

## Long term: Demographic changes and falling population

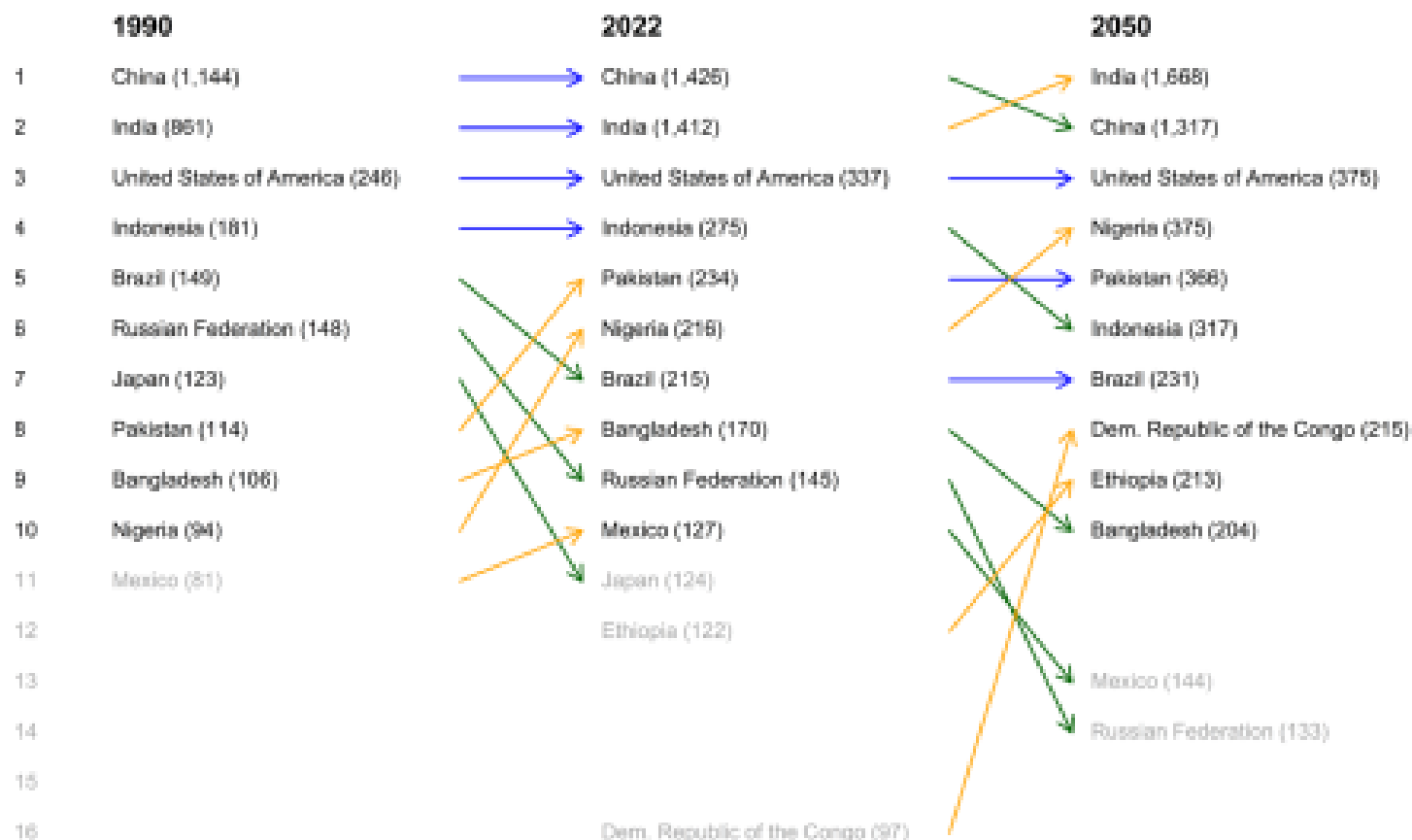


Source: [United Nations: World Population Prospects 2022](#), Barclays Research

# Global headwinds facing India – falling fertility rates

## Long term: Demographic changes and falling population

Rankings of the world's ten most populous countries, 1990 and 2022, and medium scenario, 2050 (numbers in parentheses refer to total population in millions)



Source: [United Nations: World Population Prospects 2022](#), Barclays Research



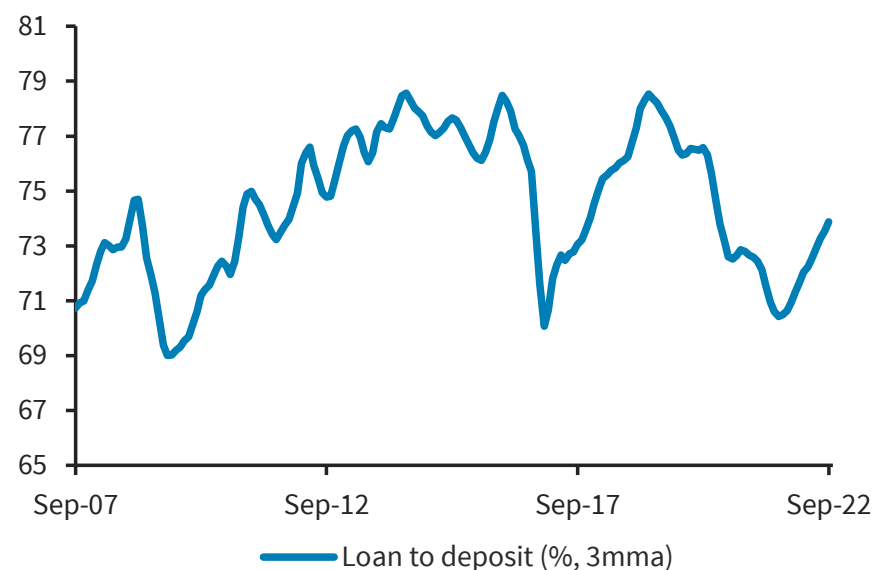
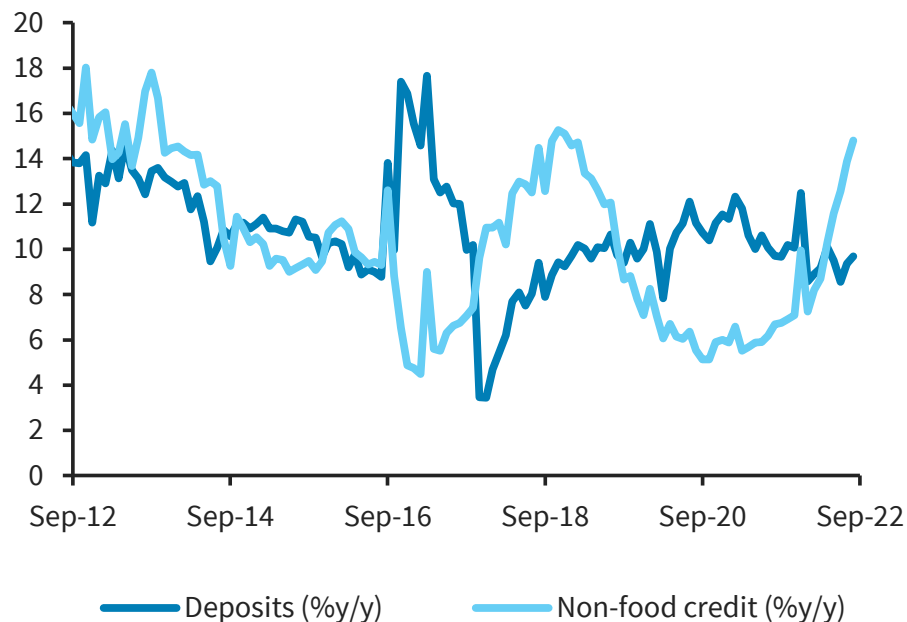
# India appears better placed to deal with all three headwinds

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- India's inflation is high, but relatively better managed now, as food security has improved
- While deglobalisation is a headwind, India's economic integration with the rest of the world is still limited, and will likely increase in coming years
- Demographic issues for India are less problematic than many other parts of the world, including China

# Inherent strength for India: Strong, clean balance sheets

Stronger and cleaner balance sheets are supporting credit growth



Source: Haver Analytics, Barclays Research

# Inherent strength for India: demographics

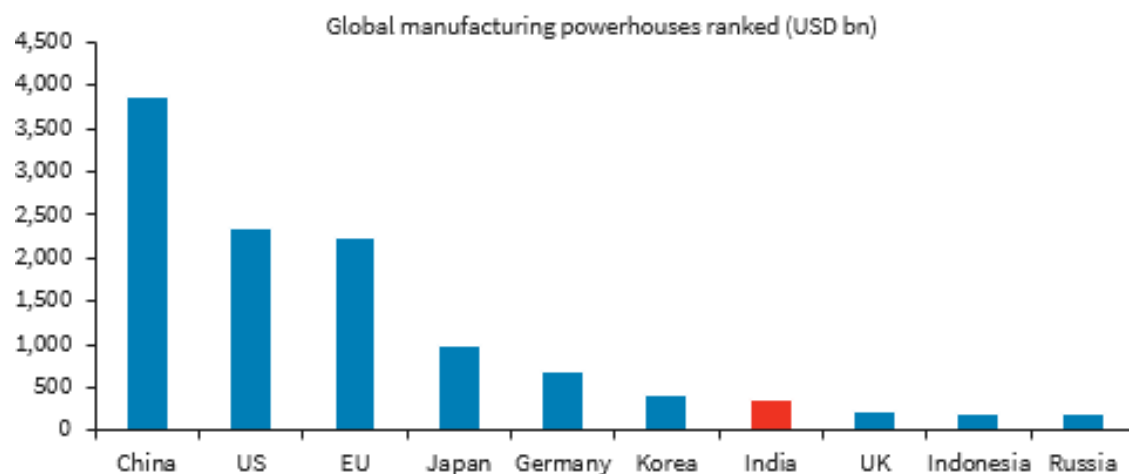
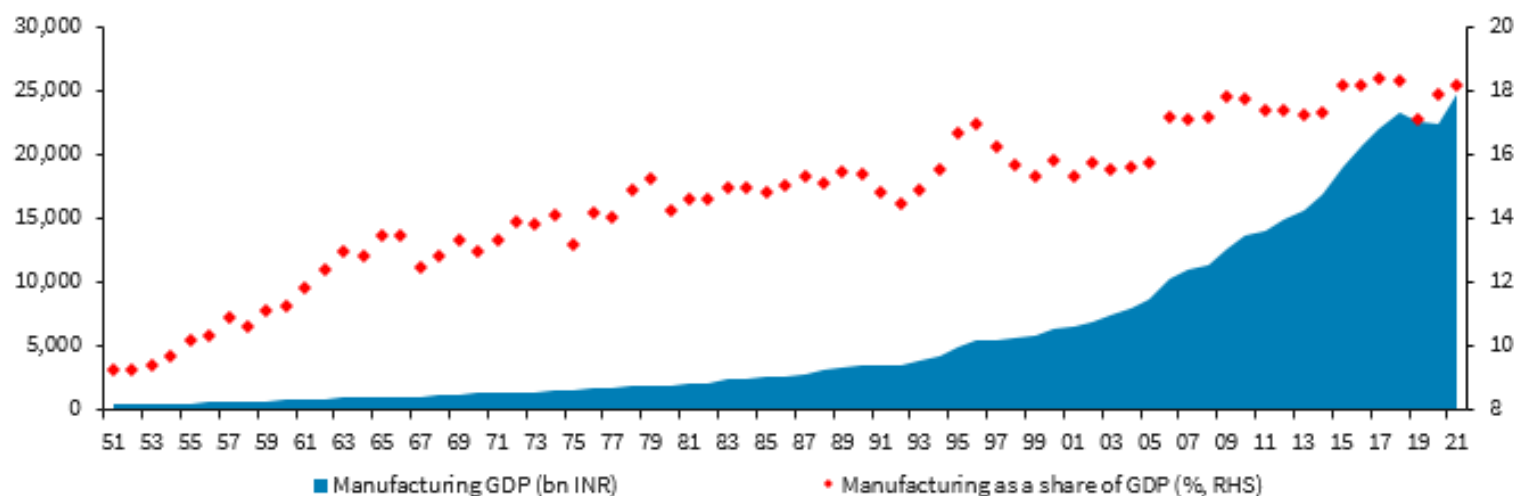
India has just entered the demographic dividend phase



Source: Haver , UNPOP, Barclays Research

# India faces three internal risks – a small manufacturing sector

## Manufacturing – Small share, both domestically and globally



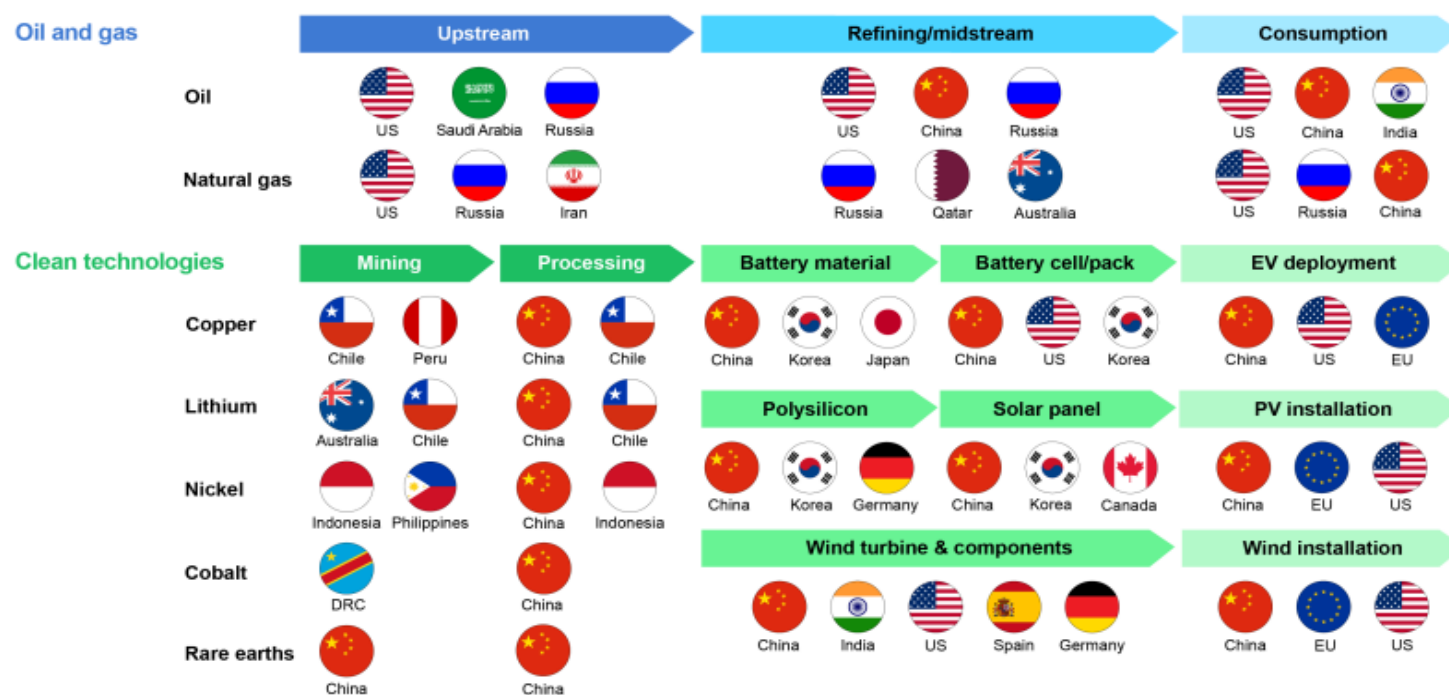
Source: Haver Analytics, World Bank Barclays Research

# India faces three internal risks – supply chain dependencies

## Supply chain dependencies – large for critical resources

The transition to a clean energy system brings new energy trade patterns, countries and geopolitical considerations into play

Indicative supply chains of oil and gas and selected clean energy technologies



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Notes: DRC = Democratic Republic of the Congo; EU = European Union; US = United States; Russia = Russian Federation; China = People's Republic of China. Largest producers and consumers are noted in each case to provide an indication, rather than a complete account.

Source: IEA (2021), The Role of Critical Minerals in Clean Energy Transitions, IEA, Paris <https://www.iea.org/reports/the-role-of-critical-minerals-in-clean-energy-transitions>, License: CC BY 4.0 World Energy Outlook. Barclays Research

# India faces three internal risks – fiscal populism

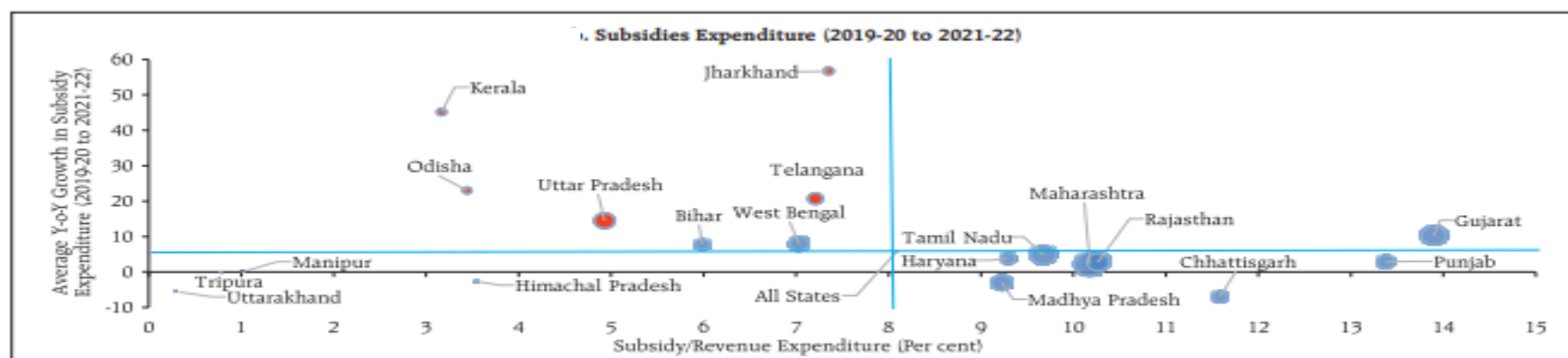
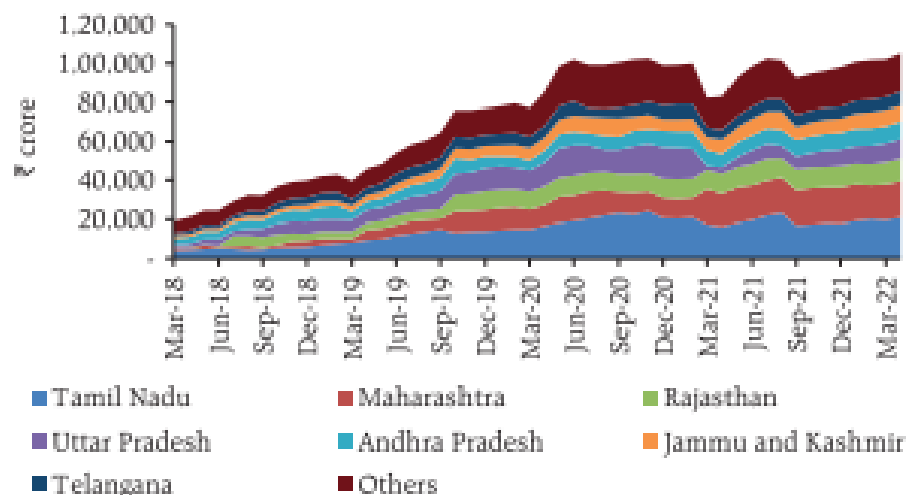
## Economic populism – an ongoing risk that could derail economic progress

**Freebies Announced by the States in 2022-23**

	(As a per cent of GSDP)	(As a per cent of Revenue Receipts)	(As a per cent of Own Tax Revenue)
1	2	3	4
Andhra Pradesh	2.1	14.1	30.3
Bihar	0.1	0.6	2.7
Haryana	0.1	0.6	0.9
Jharkhand	1.7	8.0	26.7
Kerala	0	0	0.1
Madhya Pradesh	1.6	10.8	28.8
Punjab*	2.7	17.8	45.4
Rajasthan	0.6	3.9	8.6
West Bengal	1.1	9.5	23.8

\*: Dhasmana, I. (2022). "Not all states are so financially weak that they can't announce freebies". Business Standard. April 2022.

**DISCOMs overdue to Power Generation Companies**



**Note:** Data pertains to 19 states for which monthly subsidies expenditure data is available till March 2022. Bubble size corresponds to the total subsidy outgo during 2019-20 to 2021-22.

Source: State Finances: A Risk Analysis (Reserve Bank of India Bulletin, June 2022), Barclays Research

# India faces three internal risks – social coherence

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- The Economic Survey has shown the risk of emerging fault lines along social lines, echoed by businesses, if economy does not revive quickly
- Four of India's immediate neighbours are going through economic and social challenges, which may not ease in coming years
- India is still fighting Maoist insurgencies in parts of the hinterland
- India needs a national policy consensus on growing 8% every year as frequently as possible in the next two decades to overcome economic challenges

Source: [India Inc warns of social issues if growth does not revive soon](#), Economic Survey 2021-22, 3 June 2020, Creating an India Consensus for growth, LiveMint, 1 Oct 2018, A New Delhi Consensus: India's Imagination and Global Expectations, ORF, 5 Apr 2021, Barclays Research

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