

NEED TO SIZE UP EXPORTS, FISCAL, GROWTH, HEALTH, INFLATION, JOBS, AND CAPITAL IN THESE VOLATILE TIMES

# EFGHIJK: Taking stock of the Indian economy

In September last year, with two waves of COVID-19 largely behind us, we had taken stock of the Indian economy using the EFGHIJ framework. We relook at these factors again as many macroeconomic factors have changed dramatically, especially in the last fortnight.

**Exports:** The \$400-billion target of goods exports in FY22 appears achievable: This is a structural break from ~\$300-330 billion per year over the last decade. Note that in calendar year 2021, India exported almost \$400 billion worth of goods. This export growth comes at a time when global shipping and freight markets have been in a tizzy over the last few months as Covid-related supply chain disruptions across commodities and final products reverberated across the globe. India is benefitting from the “China+1” strategy and from the availability of shipping capacity that remains choked in the Pacific. Schemes like PLI kicking in, and low corporate tax rates for manufacturing units, have helped. The current geopolitical tensions are expected to keep the supply chain and freight costs significantly disrupted as countries and companies absorb the second-order impact of sanctions. India has an ambitious target of \$500 billion of goods exports in FY23 which could see significant volatility. *Prima facie*, first-order impacts suggest that while fertiliser imports can be a challenge for India, wheat and other cereal exports can be an important export opportunity.

**Fiscal:** India has significant fiscal headroom in FY23 with a 6.4% fiscal deficit pencilled in. The revenue buoyancy, assumed at less than 1, is conservative as is the overall assumption on nominal growth at 11%. In as volatile a world as this, the conservatism in forecasting should come to India's

advantage. We had noted in September that the consensus profit after tax estimates for the companies listed on the stock exchanges suggest that profits in FY22 could double from FY21 levels—this will reflect in stronger direct tax collections. India saw healthy direct and indirect tax receipts in FY22: the GST collections have consistently remained above the ₹1-trillion-a-month mark for many months now. Two aspects need a close watch: (a) as the prices of various commodities (oil, agriculture, semiconductor-related articles, etc.) rise, there can be calls for softening the blow on the final consumer via tax cuts or direct support, and (b) the disinvestment programme of the government which could face a market where investor appetite is uncertain. The question on fiscal that countries across the globe will face is: where will the governments get the funds to support their societies in times of high inflation? Keep track of the trajectory of the quantitative easing programme of the various central banks.

**Growth:** India's GDP growth in FY23 is projected to be 7.6-8.5%, making it one of the fastest-growing economies. The small range was what various Indian authorities forecasted: the Union Budget, the Economic Survey, and RBI. With the newly changed

circumstances, it is possible that this tight range and the absolute number may require revision. It is, however, too early to say in which direction and by what amounts. Global dislocations of supply chain or the creation of new supply sources could create divergent challenges and opportunities for India. The post Covid rebound in high frequency indicators (air and rail passengers, toll collections, UPI payments, etc.) suggests that the internal consumption economy is currently back on track. It is important to note that India continues to be the fastest-growing nation of its size in the world. China's growth is expected to 5.5% this calendar year, the slowest in 30 years, apart from the Covid disruption in CY2020.

**Health:** Vaccinations have been a bright spot for India. India has now completed almost 1.8 billion doses. The Omicron wave, thankfully both due to the inherent nature of the virus and the large vaccination drive, did not cause significant economic upheaval. Note that when the Omicron wave came in January, the testing infrastructure and the overall health infrastructure responded quickly to enhance capacity. It may be time to think of Covid as endemic and plan accordingly.

**Inflation:** All analyses and expectations that inflation will be 'transi-

tory' have themselves proved to be so. The inflation in 2021 was based on a sudden bout of fiscal-support-driven spending meeting with tight supply chain bottlenecks. It was expected that as spending normalises and supply chains open, prices will stabilise. However, the sharp uptick in the prices of crude, coal, commodities, and chips has created a more sustained scare for inflation. Many measures may be taken across the world to curb the impact for the common man: from opening of oil reserves, to cutting of taxes, to direct support, etc—all of which could impact the fiscal. The policy dynamic to watch out for will be how monetary policy across the world reacts to a bout of inflation not directly caused by increased money supply.

**Jobs:** As the economy comes back on steam (India has now breached pre-Covid levels of GDP sustainably), jobs are beginning to come back. Coupled with inflation, employment is an important social and political indicator. Expect policy makers to focus on these over the next few quarters. The PLI schemes are expected to create 6 million new jobs.

**Capital:** Denoted by K by economists, expect to see a lot of ebb-and-flow here as investors react to evolving, volatile trends. Higher public investment in the last two years has supported economic recovery: India has planned for a record ₹10-trillion-plus public capex. Net FDI has been strong at \$25.3 billion up to December in FY2022.

While FPIs have withdrawn \$9.5 billion in FY22, DIIs and retail investors have supported the markets. With stock markets down more than 15% from their recent peaks, investors will continuously evaluate their portfolio allocations. If indeed, times are going to be inflationary, a move to physical assets, or assets with underlying cashflows linked to inflation, can be an interesting trade.

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