Outlook on Current Account Deficit and INR

CAD projected at 2.7% of GDP in FY2023; INR to trade in range of 75.0-79.0/US$ in rest of H1 FY2023 amidst global headwinds

May 2022

Highlights

ICRA

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A robust services trade surplus is expected to temper the worsening in the CAD to ~US$90-95 billion in FY2023 from ~US$41.5-43.5 billion in FY2022

While global factors would weigh on INR, large forex reserves, narrower inflation differentials and the likely stemming of FII debt outflows would prevent a further sharp depreciation from the recent record-low of ~77.5

We expect the INR to trade between 75.0-79.0/US$ in H1 FY2023

ICRA forecasts India's merchandise exports to rise by ~9% in FY2023, with expectations of a sharp slowdown in world trade volumes, being partly offset by higher commodity prices during the duration of the Russia-Ukraine conflict. Merchandise imports are set to expand by a faster ~16% in FY2023, as domestic demand growth is likely to outpace external demand. Accordingly, we expect the trade deficit to widen to an all-time high of US$250-255 billion in FY2023. However, a robust services trade surplus is expected to temper the worsening in the current account deficit (CAD) to ~US$95-100 billion in FY2023 from ~US$41.5-43.5 billion in FY2022. The deterioration in the CAD, monetary policy tightening across the globe and the risk aversion towards EM assets are expected to impart a depreciating bias to the INR. However, large forex reserves, narrower inflation differentials and the likely stemming of FII debt outflows would contain the further depreciation from the recent record low. We expect the INR to trade between 75.0-79.0/US$ in the remainder of H1 FY2023.

- **Slower growth in world trade to constrain India's merchandise export growth:** ICRA expects India's merchandise exports to rise by ~9% to US$455-460 billion in FY2023, benefitting from an expected 31% surge in oil exports to US$85 billion owing to elevated oil prices. Despite elevated commodity prices, higher exports of certain goods such as wheat to take advantage of the spike in prices, and PLI-support from government to some sectors, non-oil exports are expected to rise by a modest ~5% to US$370-375 billion in FY2023, dampened by the easing of growth in world trade volumes (to 3.0% in 2022 from 9.8% in 2021, as per the WTO).
- **Import growth to outpace exports:** Merchandise imports are projected to rise by ~16% to US$708-713 billion in FY2023, boosted by elevated commodity prices, some recovery in domestic demand and a back ended pick-up in investment activity. While oil imports are forecast to rise by 42% to US$225-230 billion, non-oil non-gold imports are expected to grow by ~10% to US$443-447 billion in FY2023. Gold imports are likely to decline following the surge in FY2022.
- **Widening in CAD to be tempered by robust services surplus:** The merchandise trade deficit is expected to widen to US$250-255 billion in FY2023 from ~US$190-192 billion in FY2022, on a BOP basis. However, a robust services trade surplus is expected to temper the worsening in the CAD to US$95-100 billion (2.7% of GDP) in FY2023 from US$41.5-43.5 billion in FY2022 (1.3% of GDP).
- **INR expected to trade between 75.0-79.0/US$ in H1 FY2023:** A rise in the CAD, along with monetary policy tightening across the globe, dollar strength and a general risk aversion towards EM assets is expected to impart a depreciating bias to the INR. However, large forex reserves, narrowing inflation differentials and the likely stemming of FII debt outflows would prevent a further sharp depreciation from the recent record-low. We expect the INR to trade between 75.0-79.0/US$ in H1 FY2023.

India's merchandise exports surged to record levels in FY2022; petroleum products and engineering goods accounted for bulk of the increase in exports

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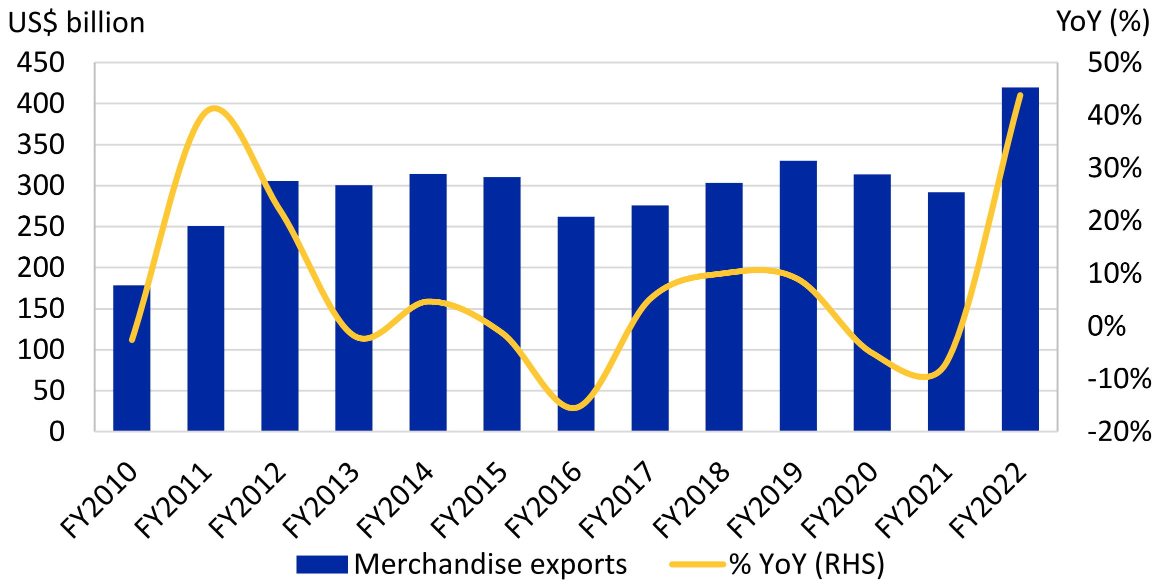
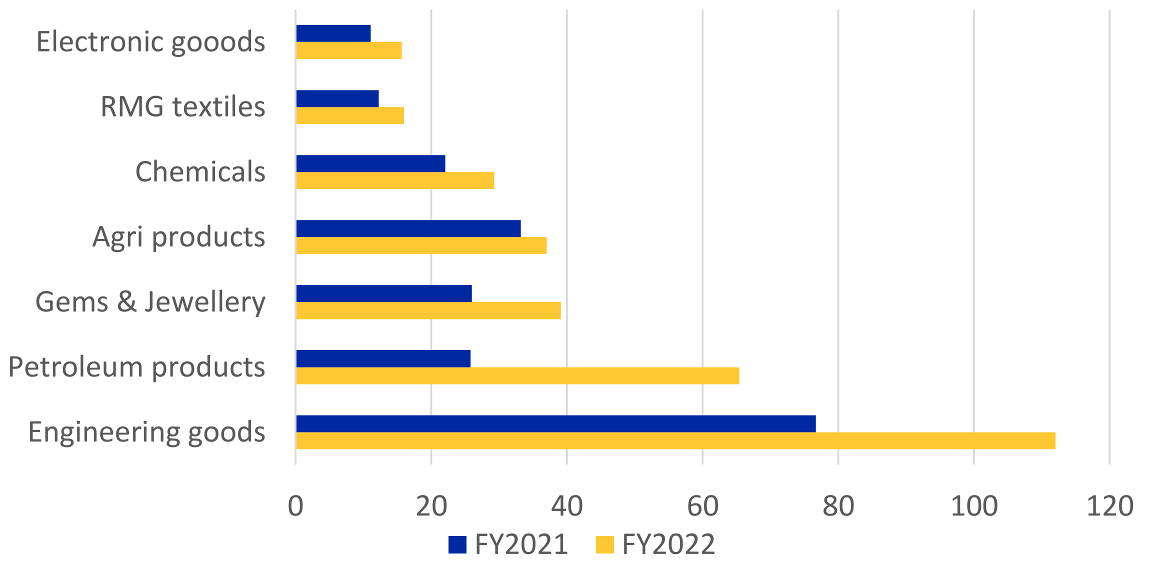
EXHIBIT: India's merchandise exports (US$ billion, YoY %)



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Performance of major export items (US$ billion)



Source: Ministry of Commerce and Industry, GoI; ICRA Research

- India's merchandise exports surged by 43.8% to an all-time high US$419.7 billion in FY2022 from US$291.8 billion in FY2021 (US$313.4 billion in FY2020). This was driven by both oil exports (YoY: +153.6%; to US$65.4 billion in FY2022 from US$25.8 billion in FY2021), as well as non-oil exports (+33.2%; to US$354.2 billion from US$266.0 billion).
- Apart from petroleum products, the value of exports of engineering goods (YoY: +46.0%; share in total exports: 26.7%), gems and jewellery (+50.3%; 9.3%), agri products (+11.6%; 8.8%), and organic and inorganic chemicals (+32.6%; 7.0%) rose sharply in FY2022.

Surge in world trade volumes aided the strong growth in India's merchandise exports; imports of major economies expanded by 28.5% YoY during April-February 2022

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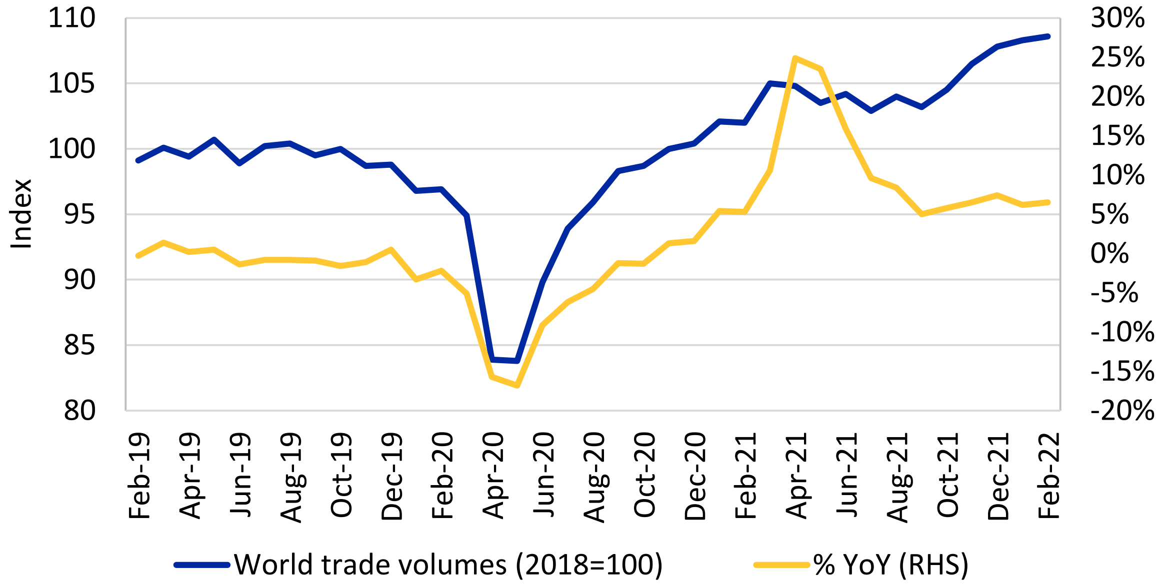
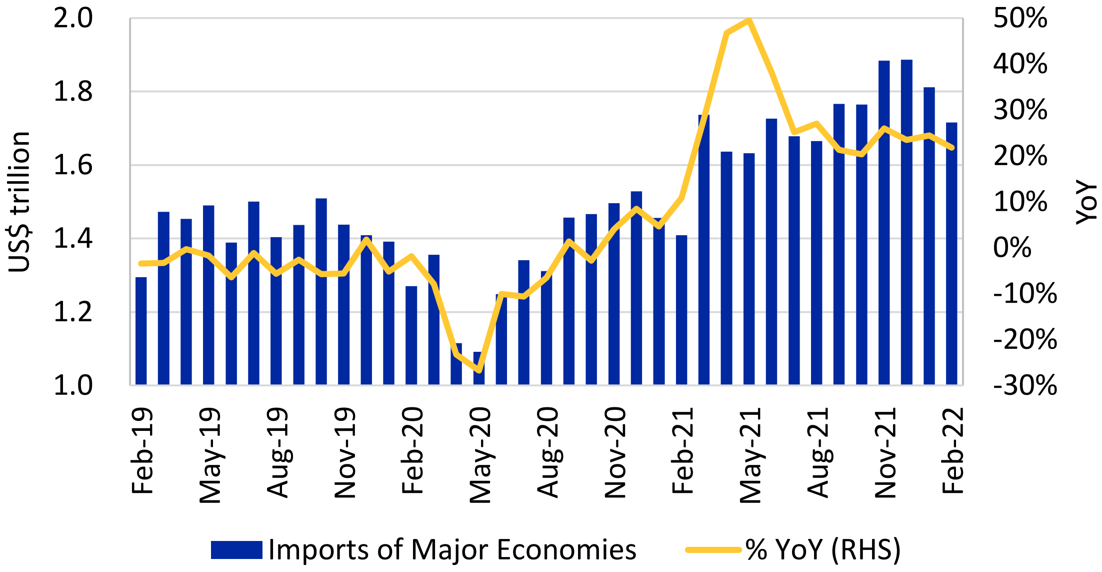
EXHIBIT: Monthly world trade volumes (2018 = 100, YoY %)



Trade volumes are seasonally adjusted ; Source: CPB Netherlands Bureau for Economic Policy Analysis, ICRA Research

EXHIBIT: Nominal imports of major* economies (US$ trillion, YoY %)

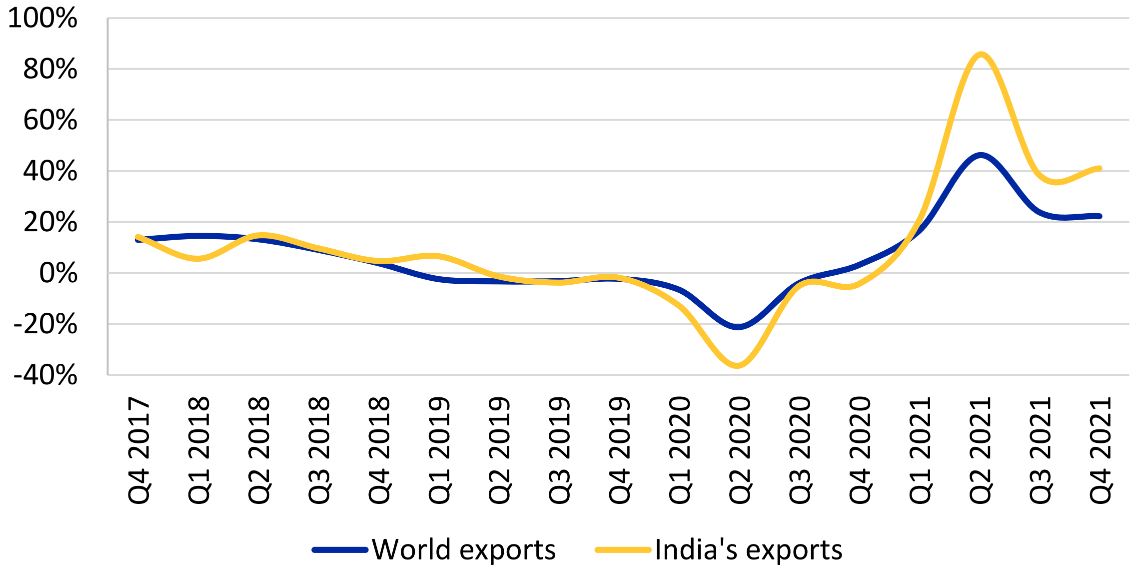


**Data is for 66 economies, including EU, US, China and Japan ; Source: WTO, ICRA Research*

- The growth in India's exports in FY2022 was aided by a sharp rebound in global trade volumes. As per the CPB World Trade Monitor, global trade volumes rose by 10.5% YoY during Apr-Feb 2022, after declining by 2.7% in FY2021. Volumes were also significantly higher than pre-Covid levels.
- The aggregate nominal imports of 66 countries (including the US, the EU countries, China and Japan), which account for ~90% of world imports, surged by 28.5% YoY to US$19.2 trillion during Apr-Feb 2022 after declining by 4.9% during April-Feb 2021.

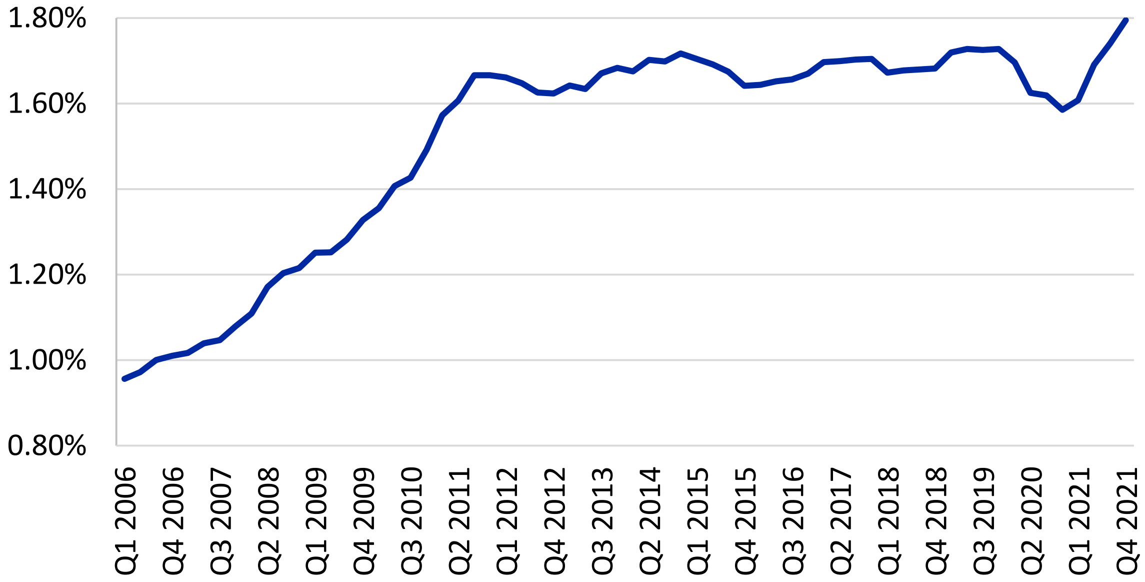
India's exports gained market share during 2021

EXHIBIT: Growth in India's and World merchandise exports (YoY %)



Source: WTO, ICRA Research

EXHIBIT: Share of India's merchandise exports in world merchandise exports*



**4QMA; Source: WTO, ICRA Research*

- World merchandise exports rose by 26.4% in 2021 after declining by 7.1% in 2020. India's merchandise exports, on the other hand grew by a much faster 43.1% in 2021 (-14.8% in 2020).
- Consequently, the share of India's merchandise exports in world merchandise exports rose to an all-time high of 1.79% in 2021 from 1.59% in 2020. Thus, notwithstanding the global nature of the export boom in 2021, the increase in India's market share implies that the country fared much better relative to the rest of the world.

India's merchandise imports also recorded a sharp YoY growth of ~55% in FY2022 on a curtailed base; oil imports nearly doubled during the year

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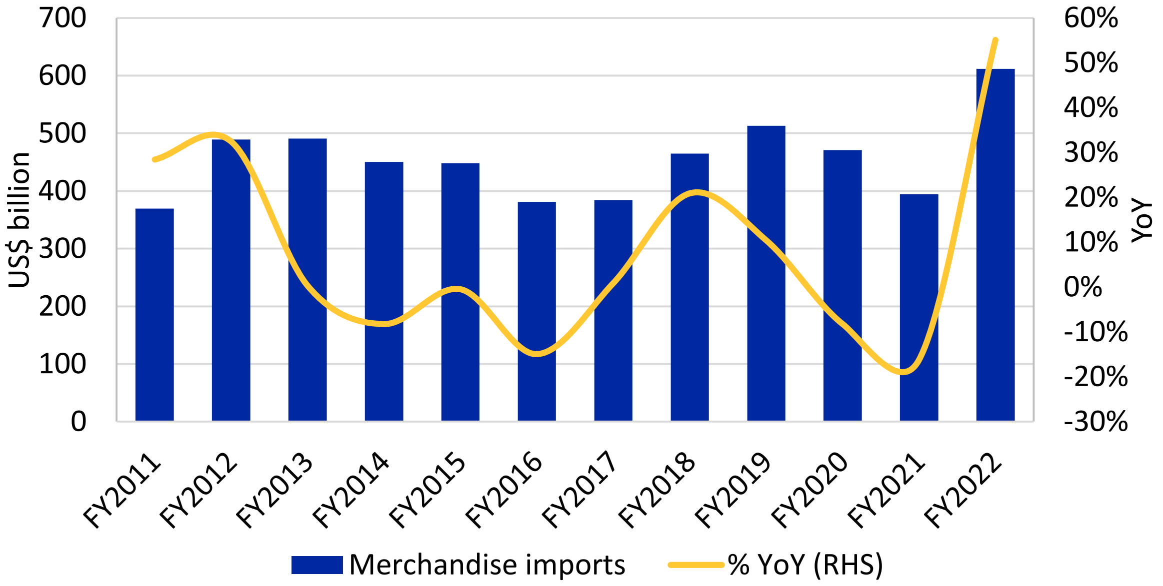
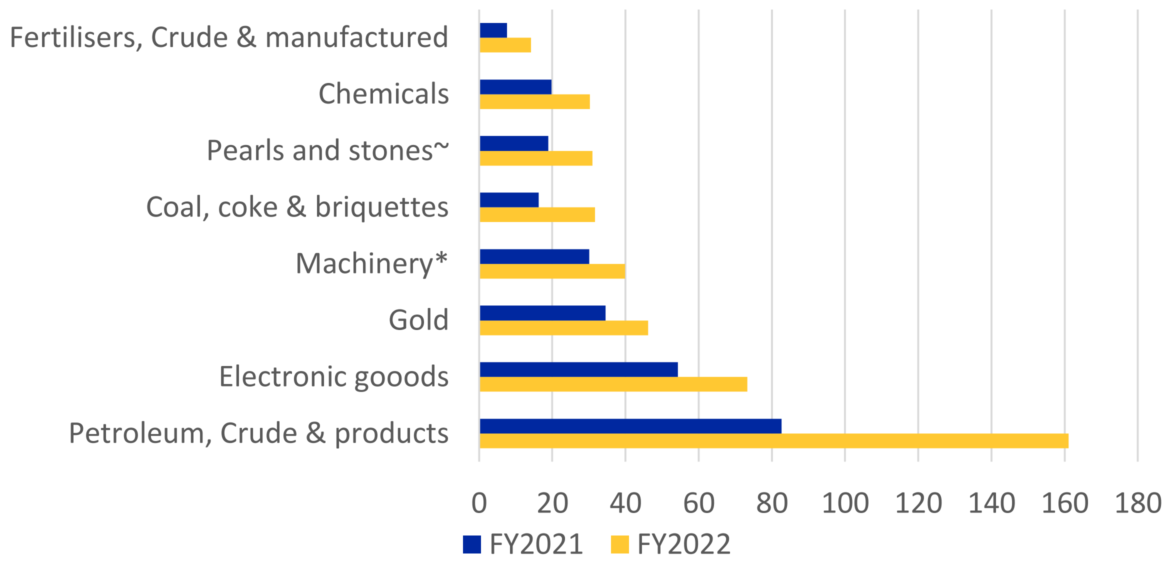
EXHIBIT: India's merchandise imports (US$ billion, YoY %)



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Performance of major import items (US$ billion)



*~Precious and semi-precious Stones; *Electrical and non-electrical machinery; Source: Ministry of Commerce and Industry, GoI; ICRA Research*

- Merchandise imports rose to an all time high US$611.9 billion in FY2022 from US$394.4 billion in FY2021, led by oil imports (YoY: +94.8%; to US$161.1 billion from US$82.7 billion), gold imports (+33.4%; to US$46.2 billion from US$34.6 billion), as well as non-oil non-gold imports (+46.0%; to US$404.7 billion from US$277.1 billion).
- Within the latter, imports of electronic goods (YoY: +35.0%; share in total imports: 12.0%), electrical and non-electrical machinery (+32.8%, 6.5%), coal, coke and briquettes (+94.9%; 5.2%) and crude and manufactured fertilisers (+86.5%; 2.3%) rose sharply in FY2022.
- In addition to higher commodity prices, a nascent recovery in economic activity boosted merchandise imports in FY2022.

Ports cargo traffic growth trailed the expansion in the value of merchandise exports and imports in FY2022

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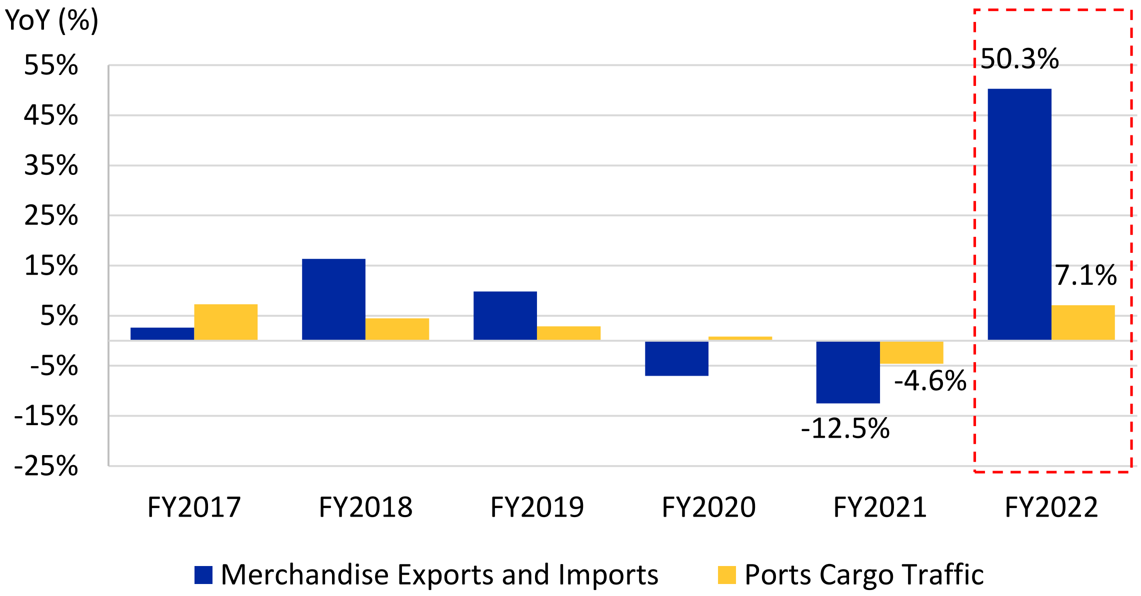
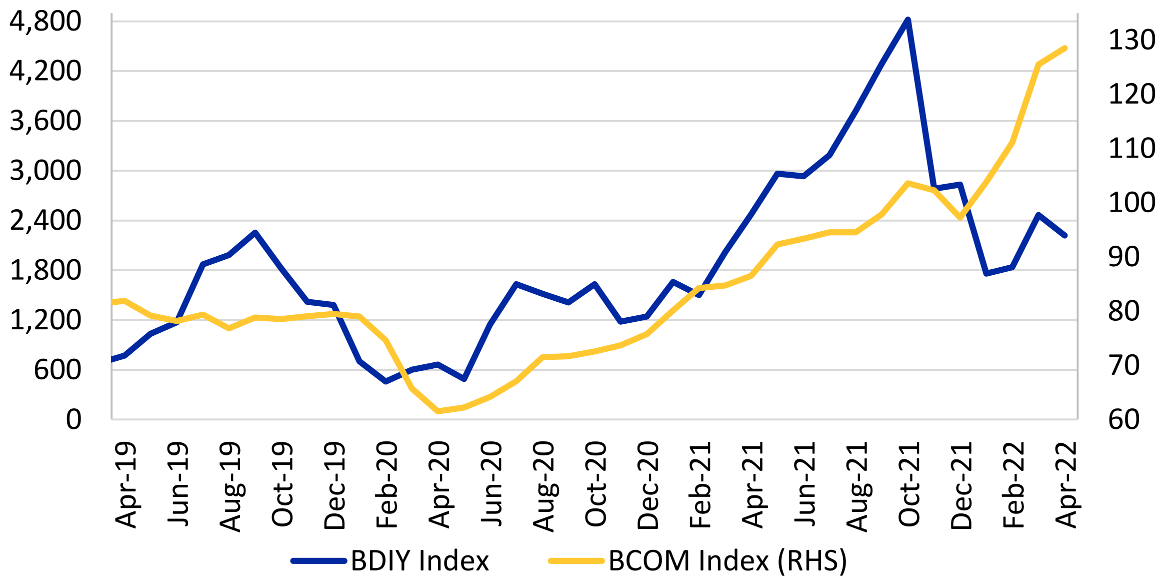
EXHIBIT: YoY trends in merchandise exports and imports and ports cargo traffic



Source: Ministry of Commerce and Industry; GoI, IPA; ICRA Research

EXHIBIT: Trends in Baltic Dry (BDIY) Index and Bloomberg Commodity (BCOM) Index



Source: Bloomberg; ICRA Research

- In FY2022, total merchandise exports and imports recorded a YoY growth of 50.3% (-12.5% in FY2021), much higher than the 7.1% YoY growth (-4.6% in FY2021) recorded in ports cargo traffic. Moreover, ports cargo traffic recorded a contraction consistently during November 2021 to February 2022, while merchandise exports and imports recorded a healthy YoY growth during these months.
- Additionally, the BCOM and the BDIY indices recorded a sharp YoY growth of 36.6% and 17.1%, respectively, in Jan-Mar 2022, initially led by the recovery in economic activity across the globe and thereafter by escalating geopolitical tensions. Further, the BCOM Index rose by 48.5% in Apr 2022, although the BDIY Index moderated by 10.3%.

India recorded the first-ever surplus on account of engineering goods trade in FY2022; however, gap between imports and exports of electronic goods widened during the year

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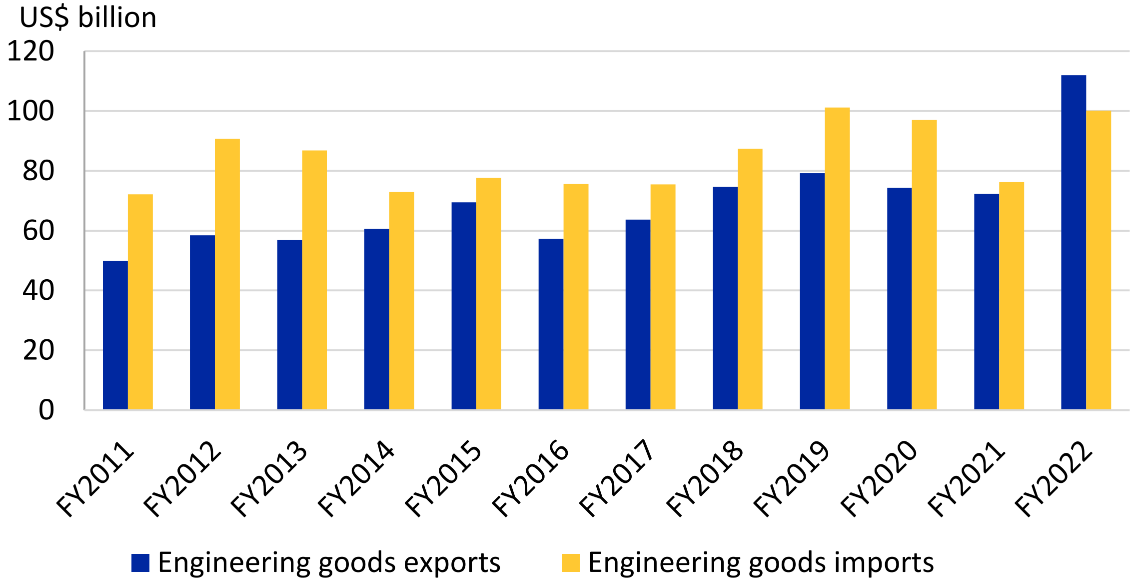
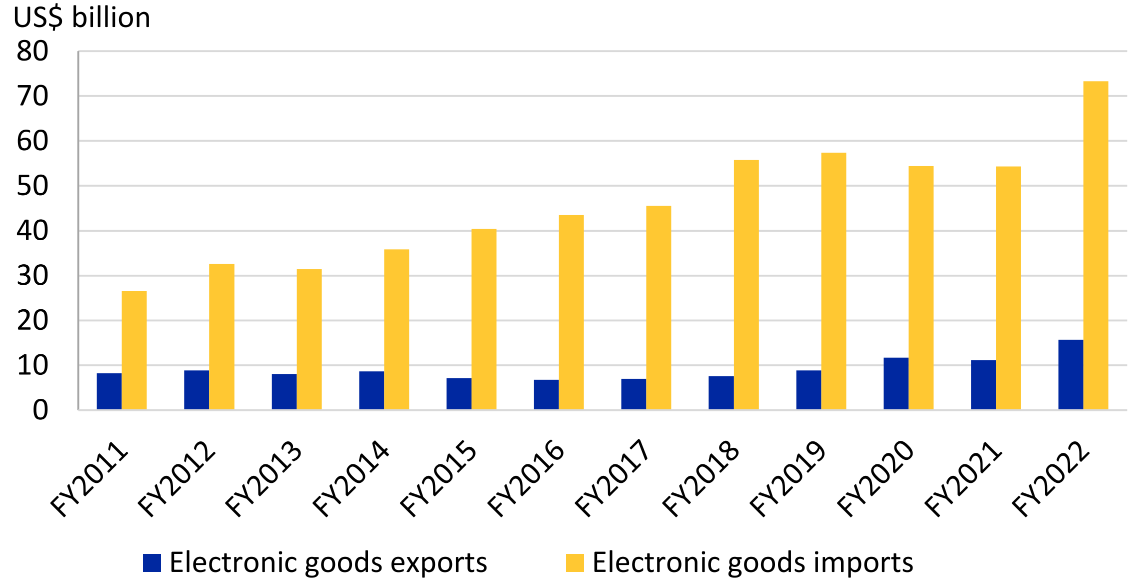
EXHIBIT: Engineering goods* exports and imports (US$ billion)



**Transport equipment, iron & steel, metal products, machine tools, electrical and non-electrical machinery, project goods, etc; Source: Ministry of Commerce, GoI; CEIC; ICRA Research*

EXHIBIT: Electronic goods exports and imports (US$ billion)



Source: Ministry of Commerce, GoI; CEIC; ICRA Research

- India's engineering goods exports expanded by a robust 46.0% to US$112.0 billion in FY2022, while imports rose by a slower 31.3% to US$100.1 billion in the year. Consequently, India witnessed a surplus of US$11.9 billion on account of net engineering goods exports during FY2022 as against a deficit of US$18.3 billion in FY2020 and US$0.5 billion in FY2021.
- In the case of electronic goods, the gap between imports and exports widened significantly to US$57.6 billion in FY2022 from US$43.2 billion in FY2021. While electronic goods' exports surged by 41.2% (or +US$4.6 billion) to US$15.7 billion in FY2022, imports rose by 35.0% (or + US$19.0 billion) to US$73.3 billion. The gap had narrowed between FY2019 and FY2020 and had remained stable in FY2021.

IMF and WTO have pared their world trade volume projections for CY2022 and CY2023, driven by the ongoing geopolitical tensions

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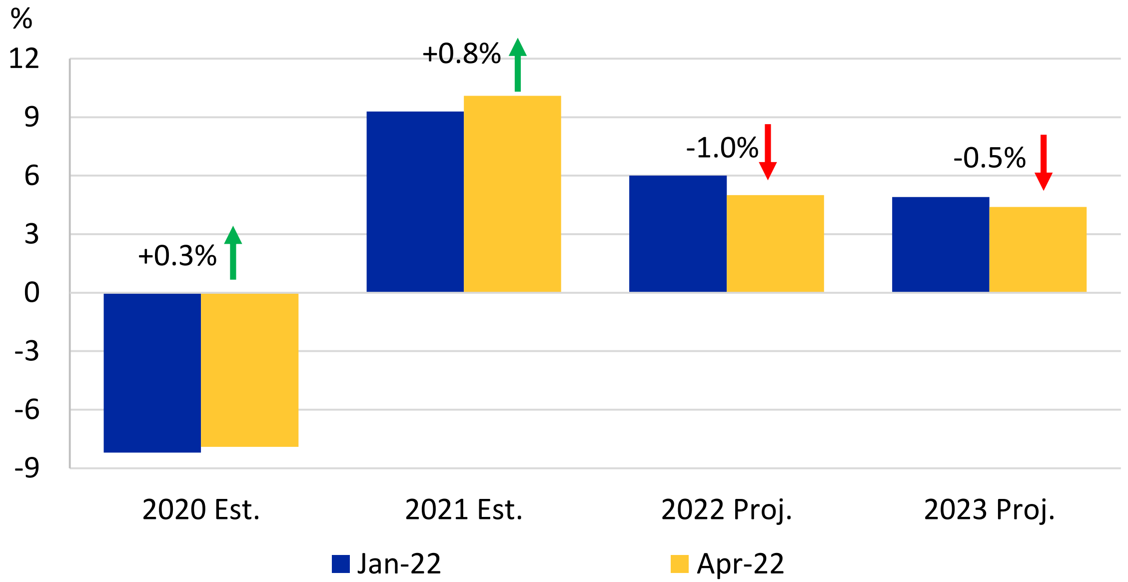
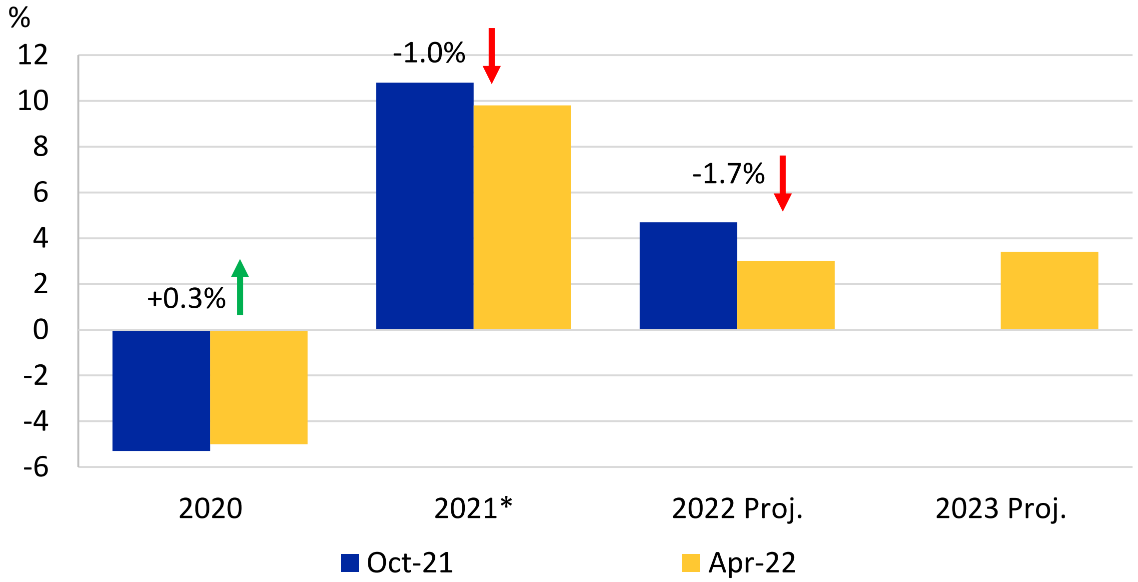
EXHIBIT: IMF growth projections in world trade volumes of goods and services as per January 2022 and April 2022 World Economic Outlook (WEO)



Est.: Estimates; Proj.: Projections; Source: World Economic Outlook; IMF; ICRA Research

EXHIBIT: World Trade Organisation (WTO) growth projections in volume of world merchandise trade as per October 2021 and April 2022



**Oct-21 shows 2021 projections, while Apr-22 shows actual 2021 estimates; Est.: Estimates; Proj.: Projections; Source: WTO; ICRA Research*

- In the April 2022 WEO, the IMF revised its growth projections for world trade volumes of goods and services downwards to 5.0% (as per Jan 2022 WEO: +6.0%) and 4.4% (Jan 2022: +4.9%) in CY2022 and CY2023, respectively. This was led by the ongoing geopolitical tensions and the consequent global spillovers as well as elevated commodity prices. Additionally, China's stringent 'zero-Covid' policy, implemented as a result of a steep surge in Covid-19 infections in March 2022 has led to considerable factory shutdowns, thereby impacting global trade.
- On a similar note, the WTO pared its growth projections for world merchandise trade volume to 3.0% in April 2022 from 4.7% projected in October 2021. Further, the WTO expects world trade volumes to record a YoY growth of 3.4% in CY2023. It also mentioned that the current estimates are less certain than usual due to the changing nature of the conflict.

India's merchandise exports and imports rose sharply in April 2022, boosted by elevated commodity prices

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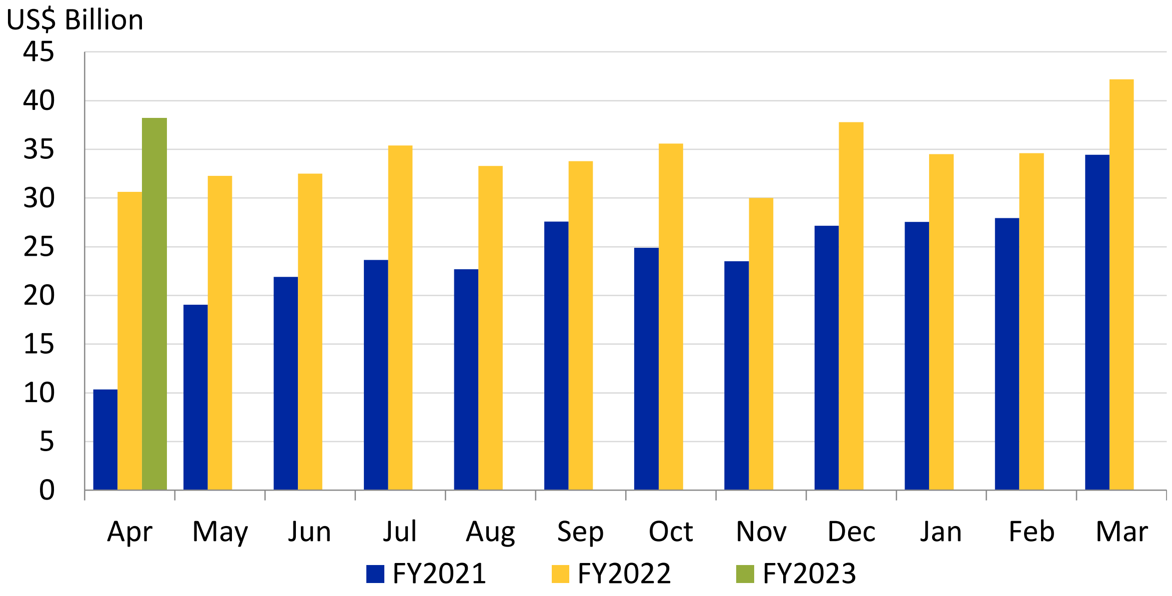
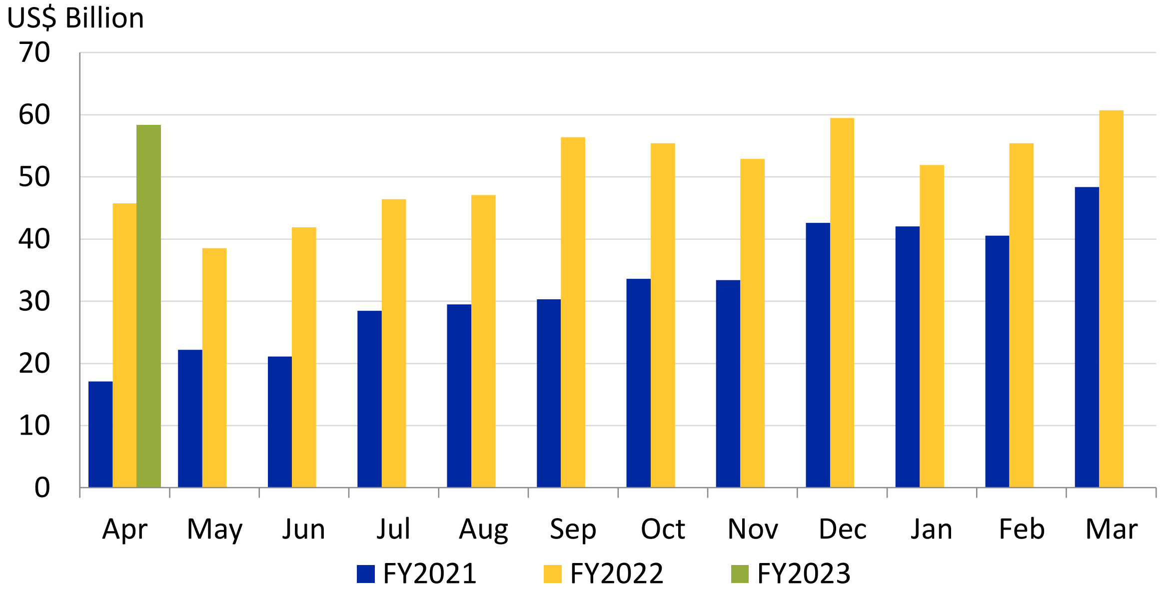
EXHIBIT: Monthly merchandise exports (in US$ billion) in FY2021, FY2022 and FY2023



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Monthly merchandise imports (in US$ billion) in FY2021, FY2022 and FY2023

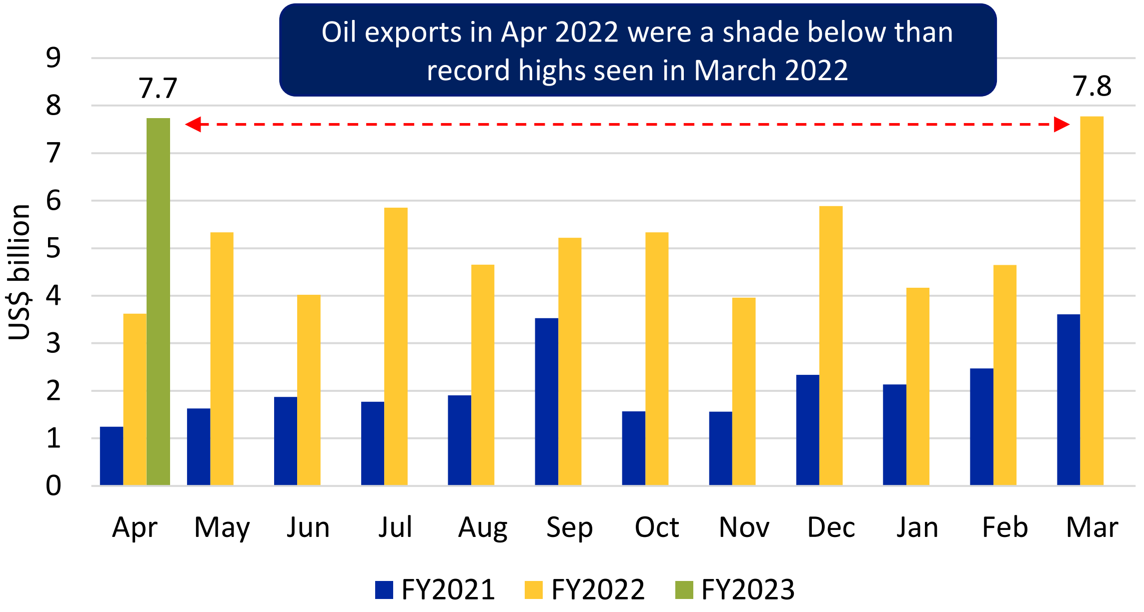


Source: Ministry of Commerce and Industry, GoI; ICRA Research

- In April 2022, merchandise exports surged by 24.2% YoY to US$38.2 billion, recording the highest-ever value witnessed in the month of April. This was primarily led by oil exports (YoY: +113.2%; to US$7.7 billion in April 2022 from US$3.6 billion in April 2021), followed by non-oil exports (+12.3%; to US$30.5 billion from US$27.1 billion).
- Additionally, merchandise imports rose by a higher 26.5% to US$58.3 billion in April 2022, chiefly led by oil imports, which expanded by 81.2% to US$19.5 billion in April 2022 from US$10.8 billion in April 2021. Moreover, non-oil non-gold imports rose by 27.7% to US$37.1 billion in April 2022 from US$29.0 billion in April 2021.

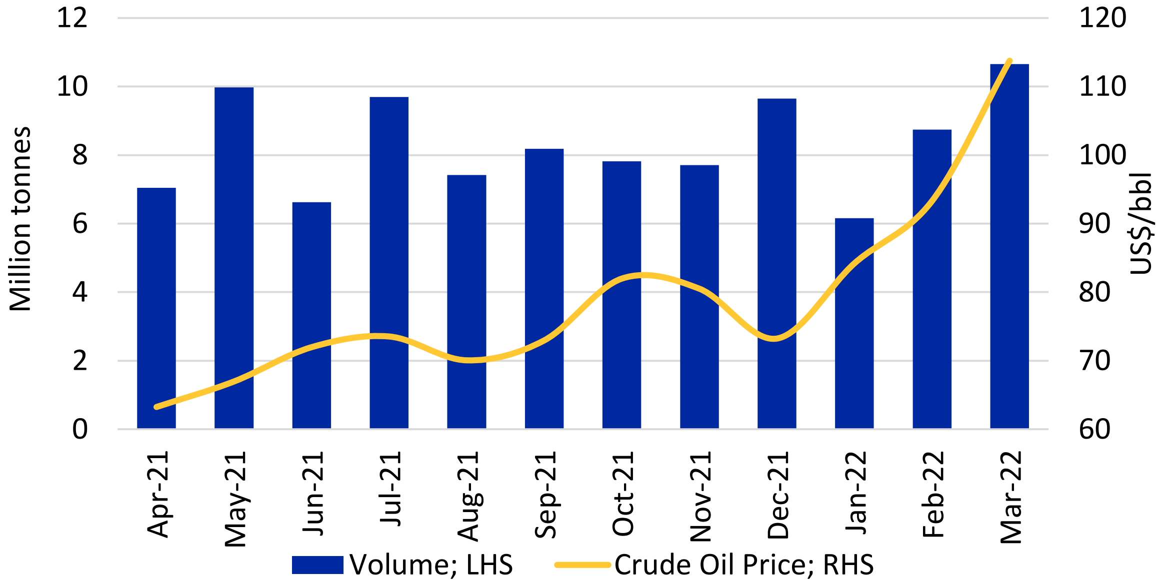
ICRA expects oil exports to grow by 31% YoY to US$85 billion in FY2023, twice as high as the FY2020 level

EXHIBIT: Monthly trends in oil exports (US$ billion)



Source: Ministry of Commerce and Industry; ICRA Research

EXHIBIT: Monthly Crude Oil Price (Indian Basket) and Exported volume of petroleum products



Source: DGCI&S; Ministry of Commerce and Industry; ICRA Research

- Oil exports more-than-doubled to US$7.7 billion in April 2022 from US$3.6 billion in April 2021, on a low base related to the impact of second Covid wave in India and associated state-level restrictions, as well as the YoY increase of 62.7% in international crude oil prices engendered by the Russia-Ukraine conflict.
- In volume terms, India exported 10.7 million tonnes of petroleum products in March 2022, up from 8.7 million tonnes in February 2022, and the subdued 6.2 million tonnes in January 2022.
- **If crude oil averages US$101/bbl, ICRA expects oil exports to expand to US$85 billion in FY2023, twice as high as the FY2020 level, while indicating a YoY expansion of 31%.**

Non-oil exports remained healthy in April 2022; expected to grow by modest ~5% in FY2023

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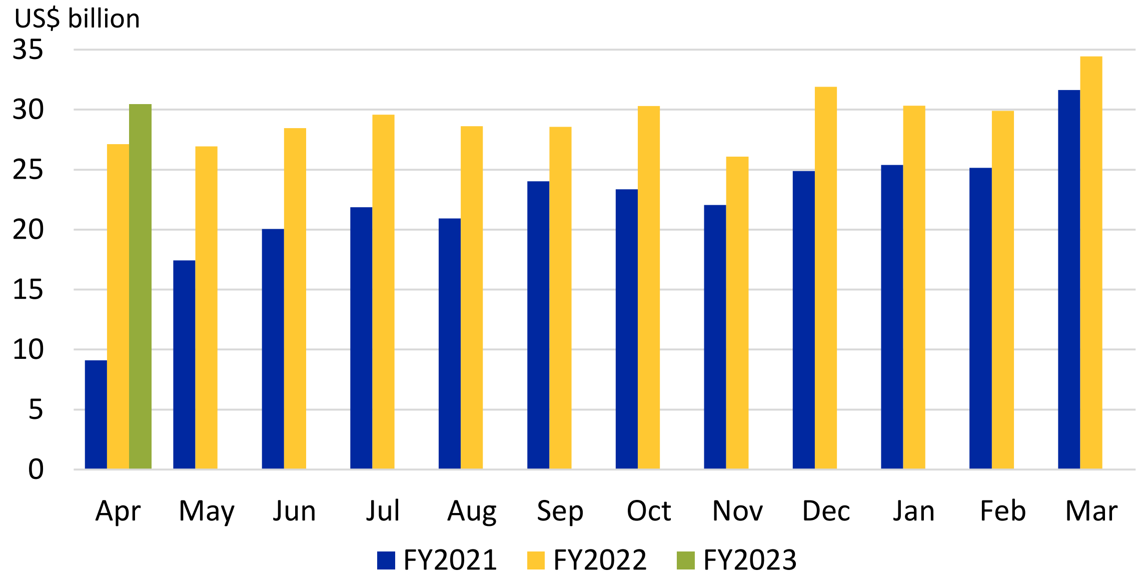
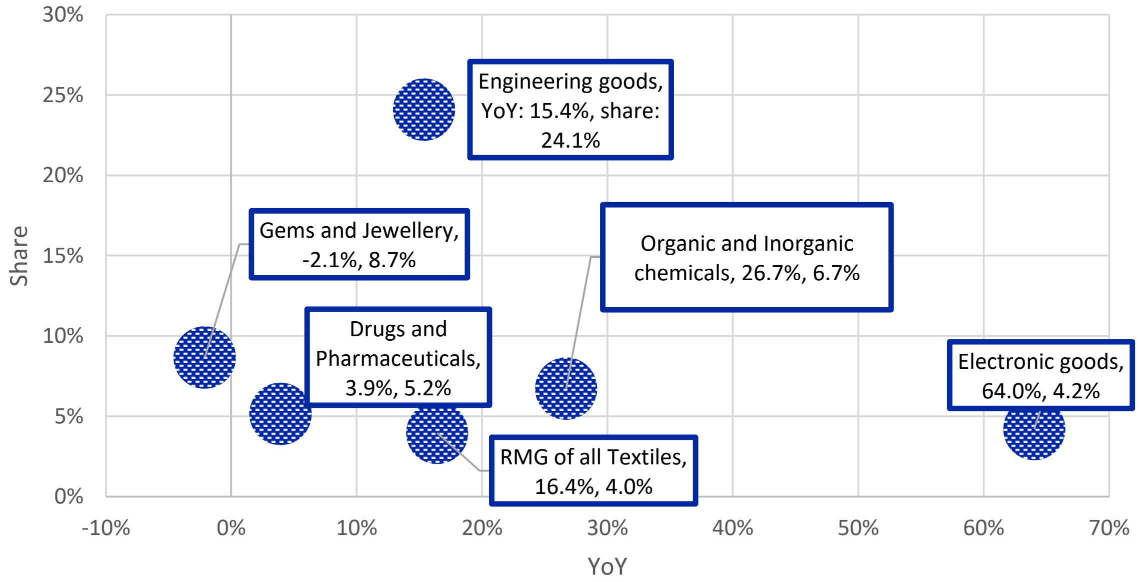
EXHIBIT: Monthly trends in Non-oil exports (US$ billion)



Source: Ministry of Commerce and Industry; ICRA Research

EXHIBIT: Exports of Commodity Groups having major share in overall exports during April 2022 and their YoY growth rates



Source: PIB; Ministry of Commerce and Industry; ICRA Research

- Non-oil exports moderated by 11.6% MoM to US$30.5 billion in April 2022 from US$34.4 billion in March 2022. This nevertheless translated to a YoY expansion of 12.3% in April 2022 and exceeded the pre-Covid level of April 2019 by a considerable 36.0%, boosted by higher commodity prices.
- Major commodities including electronic goods (YoY: +64.0%), organic and inorganic chemicals (+26.7%), RMG of textiles (+16.4%), engineering goods (+15.4%), and drugs and pharma (+3.9%) contributed to a healthy YoY expansion in exports in April 2022, covering 44% of total exports in the month.
- **On a high base, ICRA expects non-oil exports to rise by a modest 5% to US$370-375 billion in FY2023 from US$354 billion in FY2022 amidst a weak growth in global trade related to the geo-political conflict and the renewed lockdowns in China. The impact of these factors would be partly offset by elevated commodity prices, higher exports of certain goods such as wheat to take advantage of high prices, and PLI-support from government to some sectors.**

Oil imports to expand by ~42% in FY2023 amid conflict-driven surge in prices

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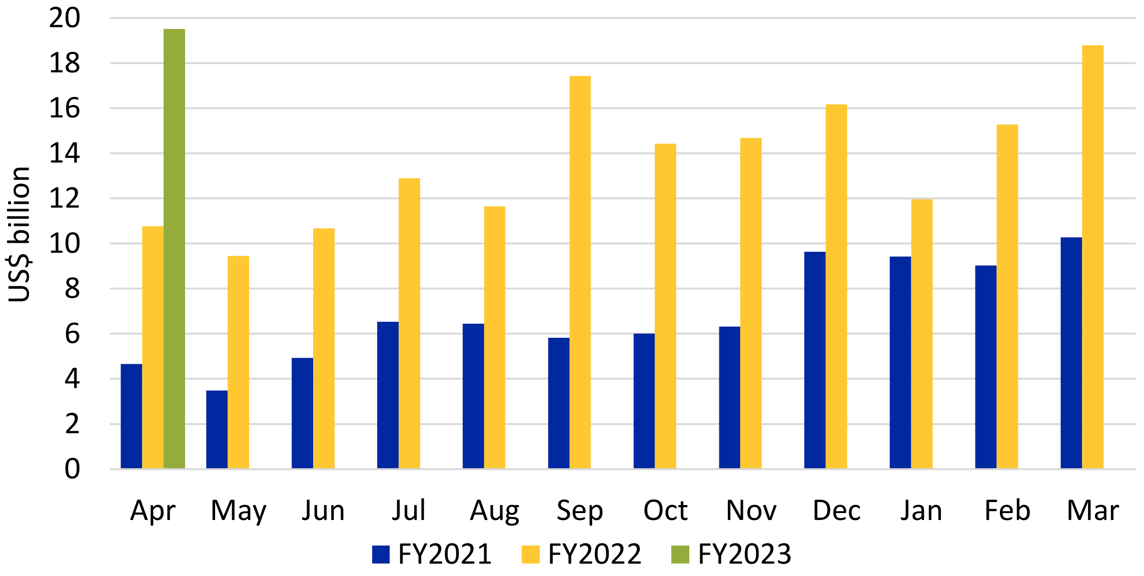
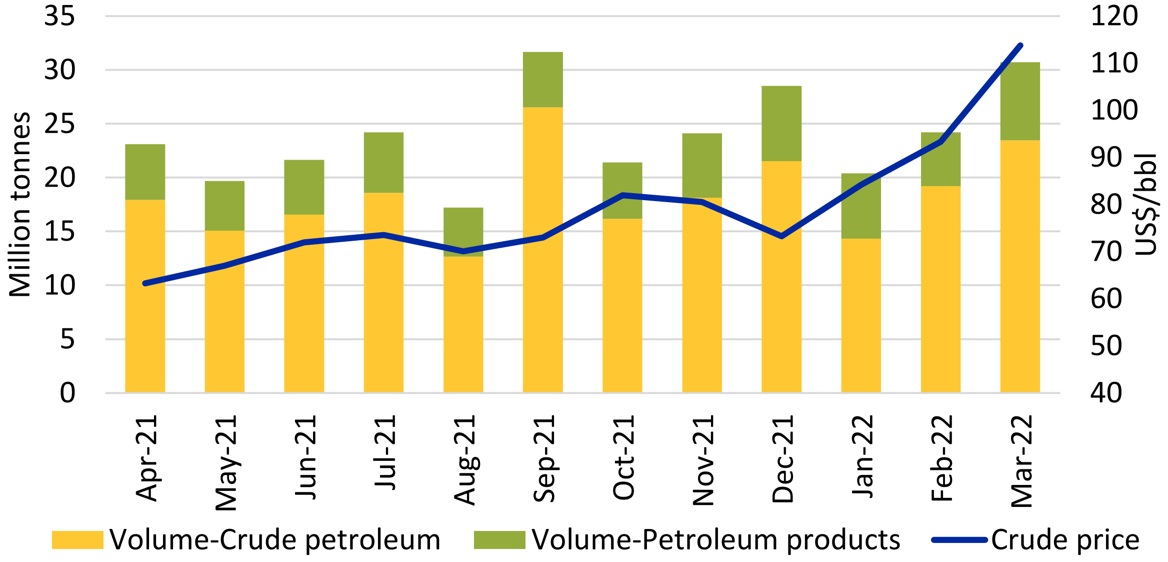
EXHIBIT: Monthly trends in oil imports (US$ billion)



Source: Ministry of Commerce and Industry; ICRA Research

EXHIBIT: Monthly Crude Oil Price (Indian Basket) and Imported volume of Crude petroleum, and Petroleum products



Source: Ministry of Commerce and Industry; ICRA Research

- Imported crude oil and petroleum volumes had surged by 10.5% YoY in Q4 FY2022, despite rising oil prices following the abatement of Omicron across the globe, aided by a low base (Q4 FY2021: -13.0%).
- In value terms, oil imports reached an all-time high US$19.5 billion in April 2022, translating to a YoY expansion of 81.2%, partly boosted by elevated prices and a relatively low base of second wave in April 2021.
- **At an average crude oil price of US$101/bbl in FY2023, oil imports are set to reach all-time high of US$225-230 billion in the ongoing fiscal, a YoY expansion of 42% relative to US$161.1 billion in FY2022.**

Elevated prices dampened gold imports in April 2022, to below pre-Covid levels; ICRA expects gold imports to moderate in FY2023

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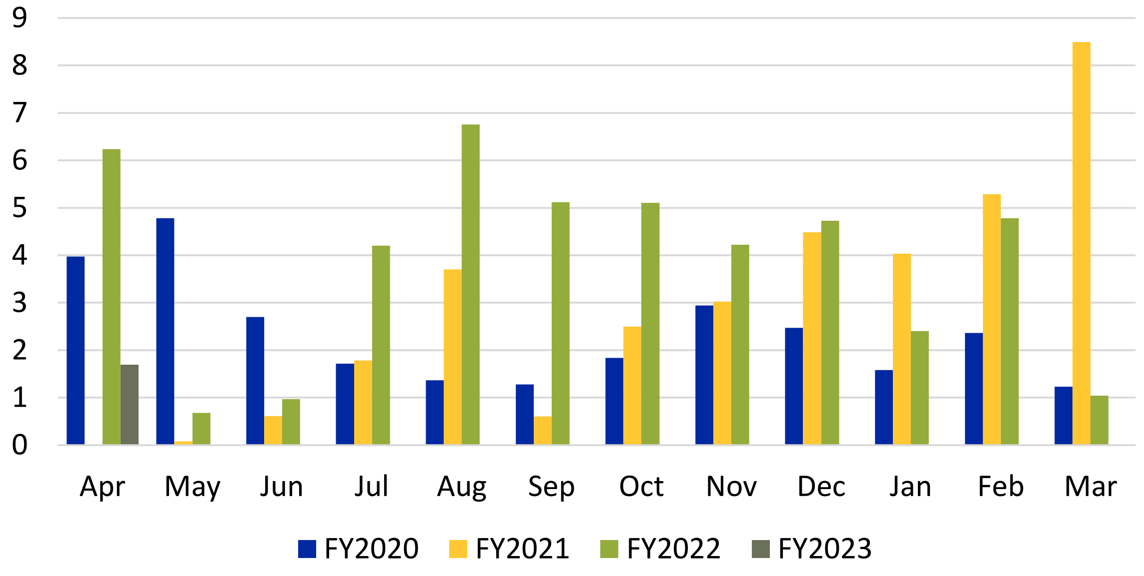
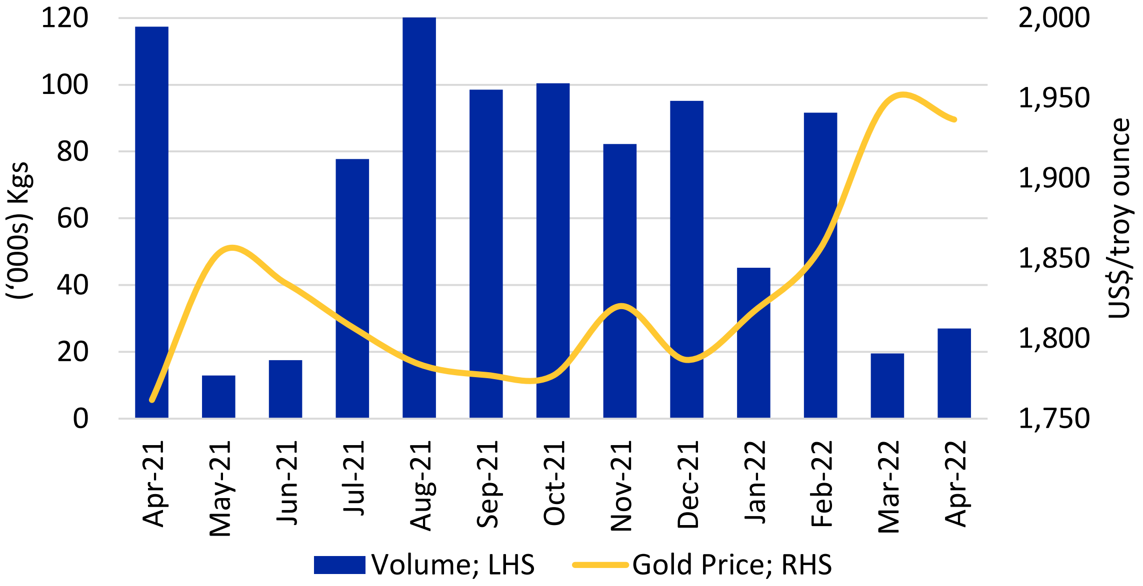
EXHIBIT: Monthly trends in Gold imports (US$ billion)



Source: Ministry of Commerce and Industry; ICRA Research

EXHIBIT: Monthly Gold prices and Imported Volumes

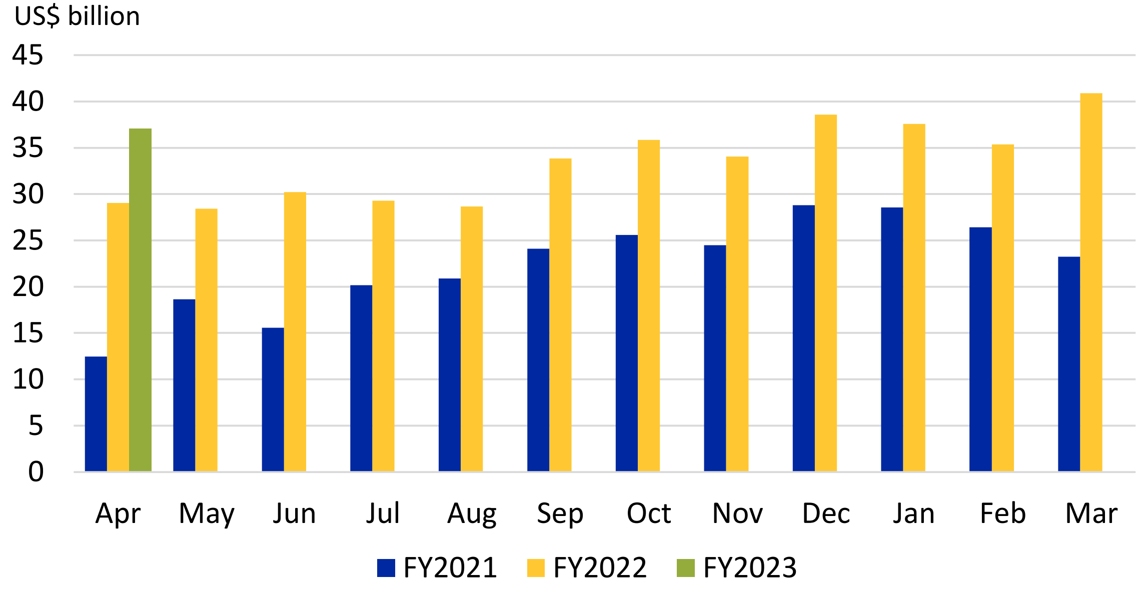


**Included our estimates for April 2022 based on early data released by the Ministry; Source: Ministry of Commerce and Industry; WGC; CMIE; ICRA Research*

- Gold imports plunged to a nine-month low of US$1.0 billion in March 2022, a YoY contraction of 87.7% owing to a sharp 13.4% increase in gold prices following the geopolitical developments in Eastern Europe.
- Subsequently, they improved to US$1.7 billion in April 2022, while sharply trailing the US$4.0 billion seen during April 2019 and US$6.2 billion in April 2021.
- In our view, the surge in gold imports in FY2022 was driven by the spillover of the pent-up demand from FY2021. **We believe gold imports are likely to moderate to US$36-40 billion in FY2023 from US$46.2 billion in FY2022, although the demand from wedding and festive seasons is likely to be similar to pre-Covid levels.**

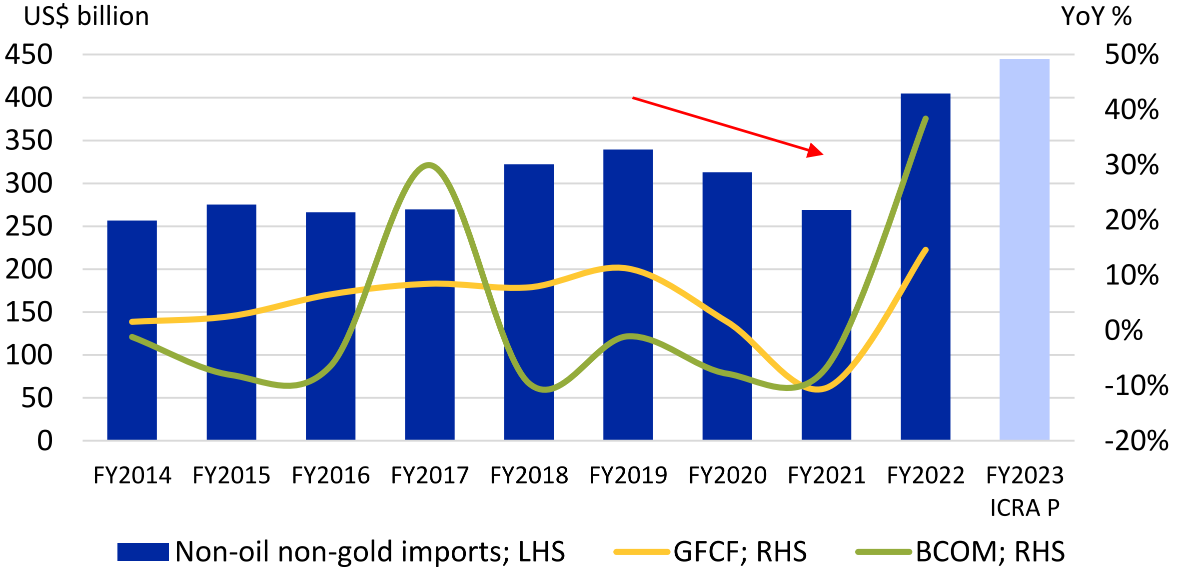
Non-oil non-gold imports expected to grow by 10% to US$443-447 billion in FY2023, partly boosted by commodity inflation and a back-ended rise in domestic demand

EXHIBIT: Monthly trends in Non-Oil Non-Gold imports (US$ billion)



Source: Ministry of Commerce and Industry; ICRA Research

EXHIBIT: Annual Trends in Non-oil Non-gold imports, GFCF, and BCOM index

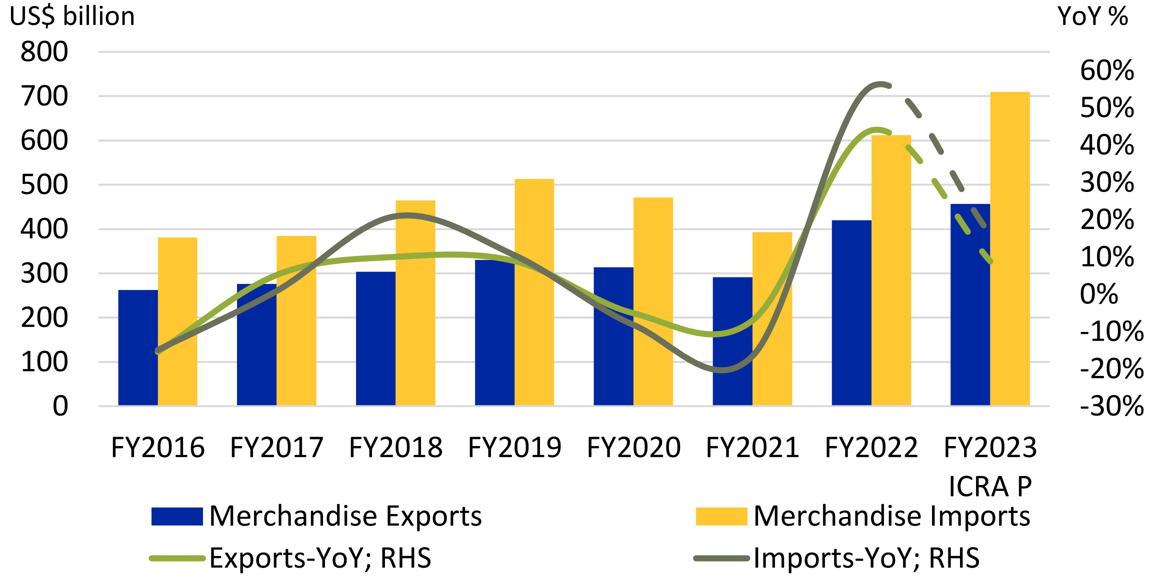


GFCF: Gross fixed capital formation; BCOM; Bloomberg Commodity Index; Source: PIB; Ministry of Commerce and Industry; ICRA Research

- Non-oil non-gold imports in April 2022 moderated by 9.4% MoM to US$37.1 billion, while reporting a healthy YoY growth of 27.7%. Moreover, they exceeded the pre-Covid level of April 2019 by a significant 29.4%, boosted by higher commodity prices.
- The commodity prices played a larger role in bloating non-oil non-gold imports in FY2022, and this trend is expected to continue in the near term given the supply disruptions engendered by the geopolitical conflict. The de-escalation of such tensions, however, is likely to lead to a correction in the prices of key commodities, and accordingly, subsequently moderate the non-oil non-gold imports, in value terms, to some extent.
- **At present, ICRA estimates the non-oil non-gold imports to grow by ~10% to US$443-447 billion in FY2023 from US$404.7 billion in FY2022, partly boosted by commodity price inflation, a back ended pick-up in investment activity, and modest recovery in domestic consumption.**

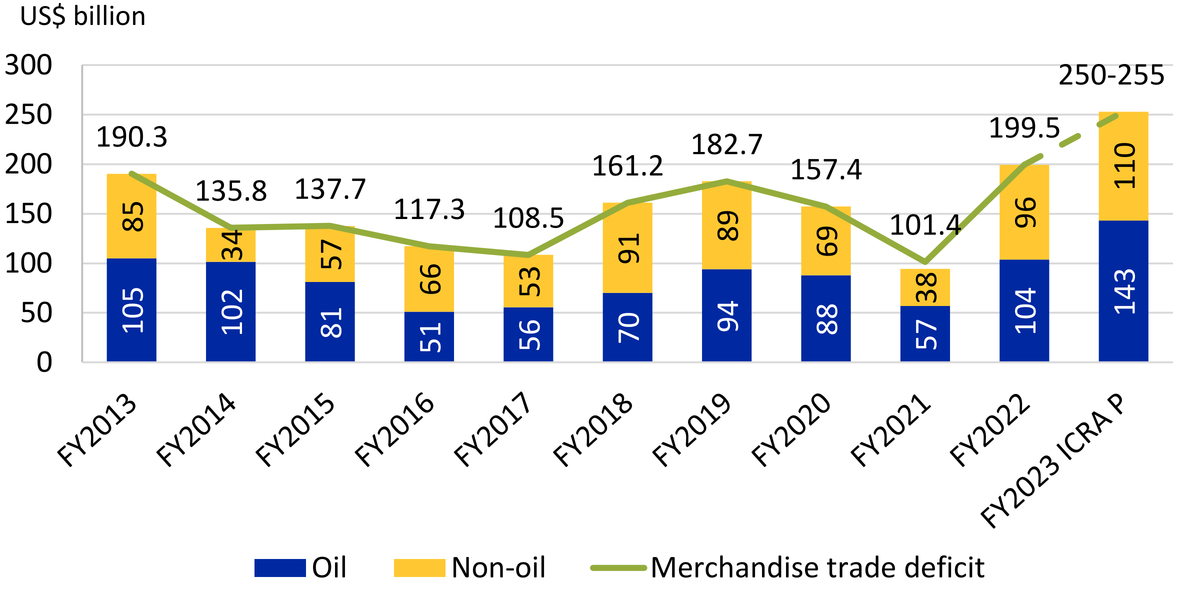
India's merchandise exports and imports to grow by ~9% and ~16%, respectively, in FY2023; merchandise trade deficit expected to widen to ~US$250-255 billion in FY2023

EXHIBIT: Annual merchandise exports and imports (US$ billion and YoY growth)



P: Projected; Source: Ministry of Commerce and Industry; ICRA Research

EXHIBIT: Annual oil, non-oil and merchandise trade deficit (US$ billion) and ICRA's forecasts for FY2023



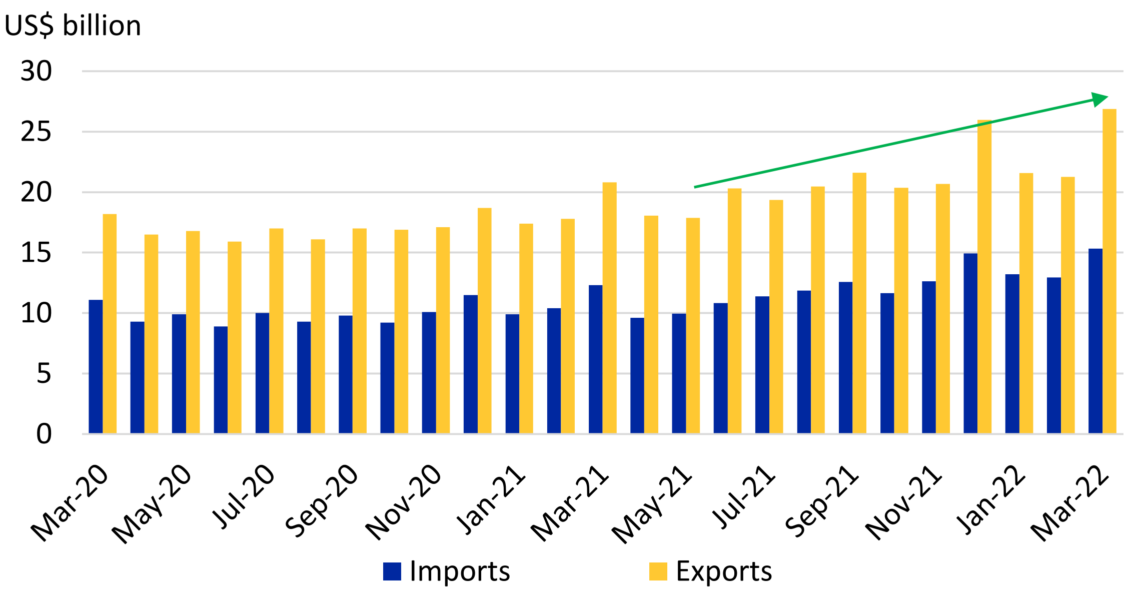
P: Projected; Source: Ministry of Commerce and Industry, GoI; ICRA Research

- ICRA estimates merchandise exports to grow by 9% YoY to US$455-460 billion in FY2023 from US$419.7 billion in FY2022, driven by the anticipated surge in oil exports and a modest increase in non-oil segment. Exports of certain goods such as wheat are expected to improve in taking advantage of rising global prices.
- We project merchandise imports to expand by a relatively higher 16% to US$708-713 billion in FY2023 from US$611.9 billion in FY2022, boosted by elevated commodity prices due to geopolitical tensions, a recovery in domestic demand and a back ended pick-up in investment activity.
- **Unless commodity prices recede appreciably, we expect the merchandise trade deficit to print above US$20 billion in a majority of the months of FY2023. Overall, we estimate the merchandise trade deficit to widen to ~US$250-255 billion in FY2023 from US$199.5 billion in FY2022, led chiefly by oil.**

Surplus on account of services trade is expected to rise further in FY2023 after a sharp increase in FY2022, owing to expectations of robust services exports

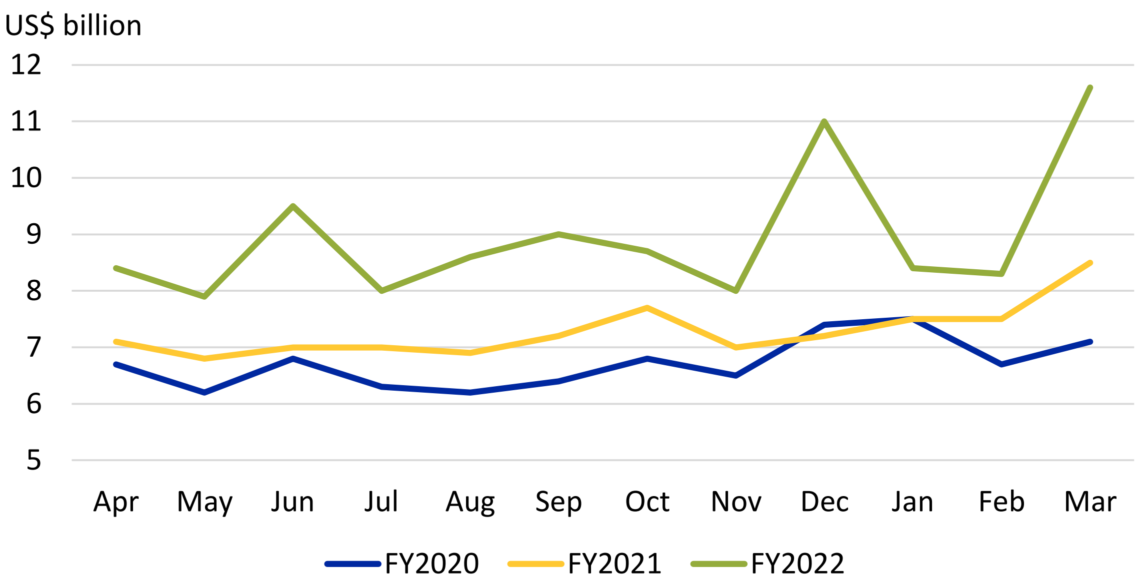
ICRA

EXHIBIT: Monthly services imports and exports (US$ billion) in FY2021 and FY2022



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: Monthly services trade balance (US$ billion) in FY2020, FY2021 and FY2022

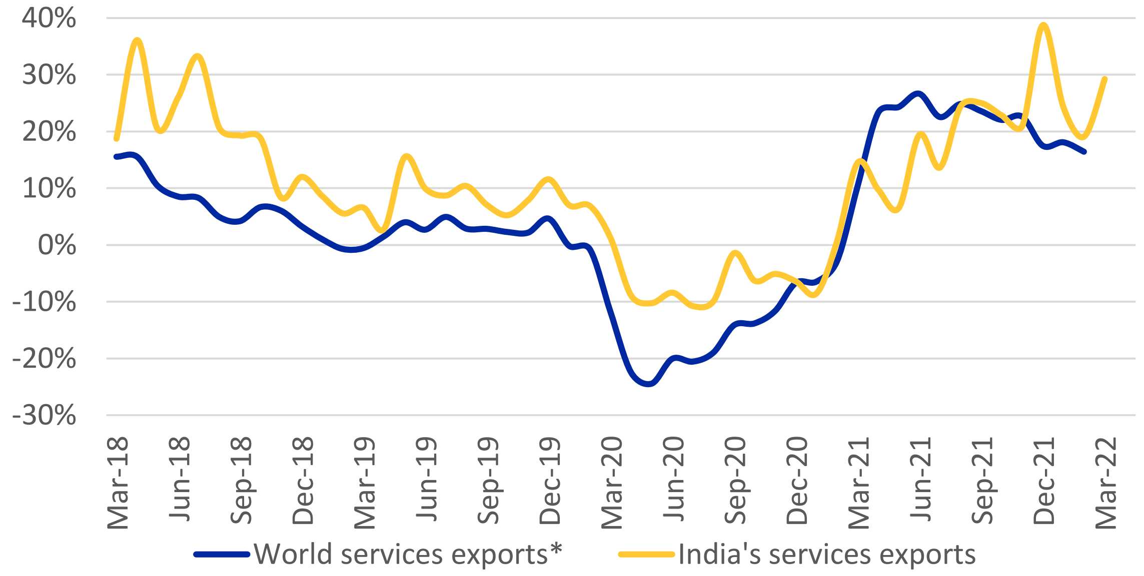


Source: Ministry of Commerce and Industry, GoI; ICRA Research

- Services trade balance surged to an all-time high US$11.6 billion in March 2022 from US$8.3 billion in February 2022 and US$8.5 billion in March 2021.
- The average monthly surplus on account of net services trade has increased sharply to US$9.0 billion during FY2022 from US$6.7 billion in FY2020 and US$7.3 billion in FY2021. This has been led by a larger rise in services exports vis-à-vis imports in FY2022.

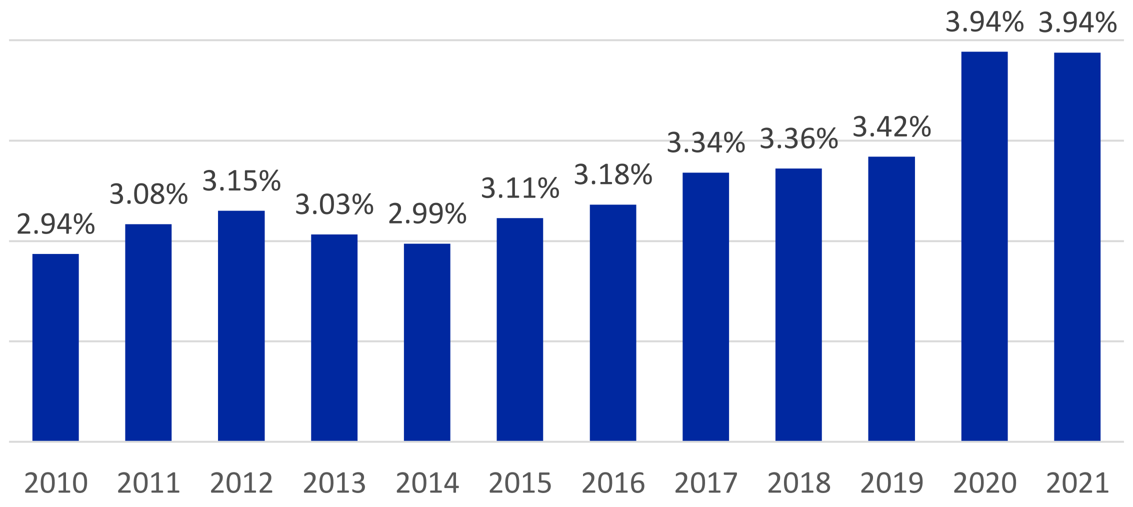
Indian services exports gained market share in 2020; have grown in line with the growth experienced across aggregate services exports of major economies in 2021

EXHIBIT: Growth in Indian and global services exports (YoY %)



**Total services exports for 32 major economies for which monthly data is available; Source: WTO, ICRA Research*

EXHIBIT: India's share in global services trade (%)

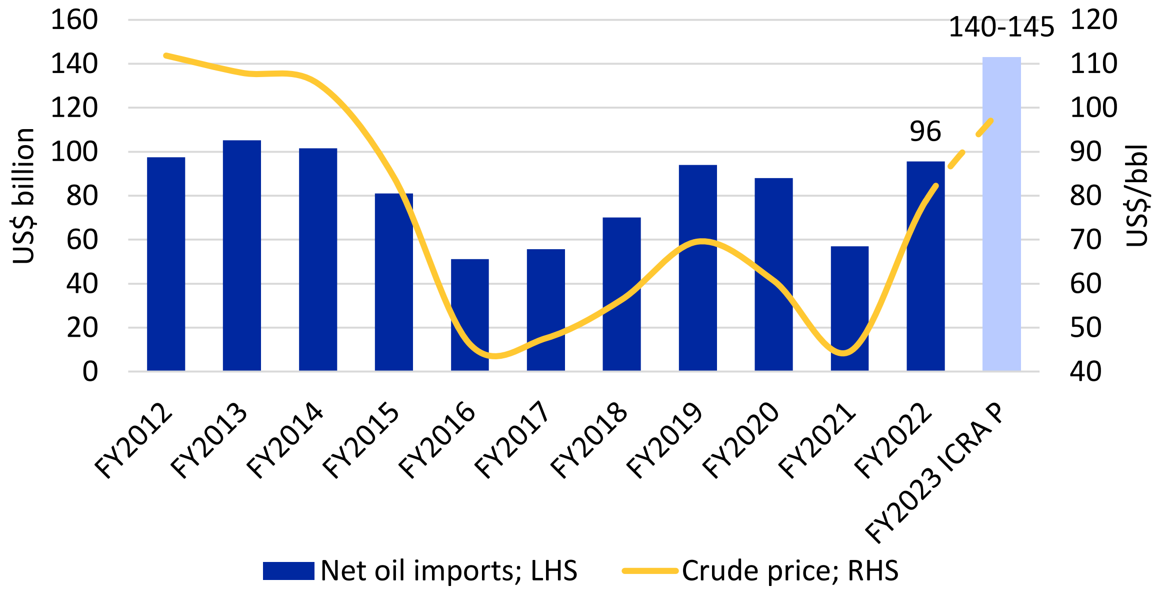


Source: WTO, ICRA Research

- While India's services exports had outperformed the aggregate services exports of major economies through 2020, the growth was largely similar on an average in 2021.
- India's services exports witnessed continuous market share gains between 2014 and 2020. In 2020, the share surged to an all-time high of 3.94% from 3.42% in 2019 and remained steady at those levels in 2021.
- **We expect the services trade balance to rise to US$116 billion in FY2023 on back of robust services exports and a weaker INR, even if there is some recovery in outbound tourism.**

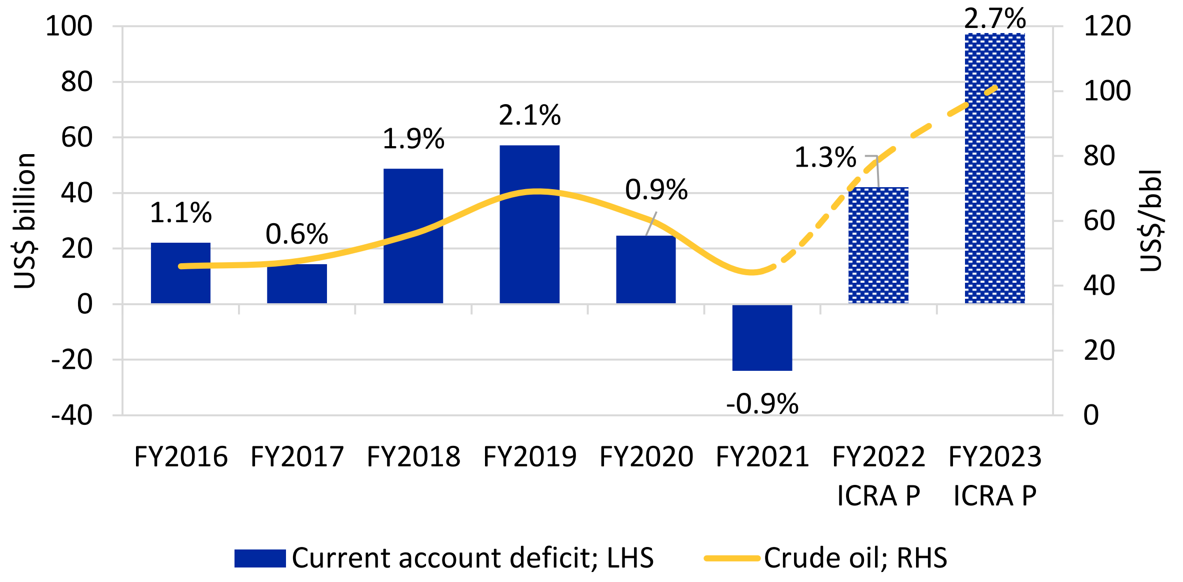
ICRA projects CAD to rise to 2.7% of GDP in FY2023 on account a sharp widening in net oil imports to US$140-145 bn in FY2023 from ~US$96 bn in FY2022

EXHIBIT: Annual Net oil imports and Crude oil Price of Indian basket



P: Projected; Source: Ministry of Commerce and Industry; ICRA Research

EXHIBIT: Trends in Current Account Deficit (US$ billion and % of GDP) and crude oil prices of Indian basket (in US$/bbl)



**P: Projected; Data labels correspond to CAD as % of nominal GDP; ICRA's nominal GDP projection has been used for FY2022 and FY2023; Source: PPAC; RBI; CEIC; ICRA Research*

- With OPEC and non-OPEC partners sticking to the existing strategy of gradually unwinding pandemic-driven supply cuts, crude oil prices are likely to remain elevated in the near term. The duration of the ongoing geopolitical disruptions and renewed lockdowns in China, and their impact on global supply and demand are expected to be key drivers of the crude price trajectory over next few quarters.
- We expect the net oil imports to widen by ~US$14-15 billion (0.4% of GDP) for every US$10/bbl increase in the average price of the Indian crude oil basket. However, a rise in the services trade surplus would reduce the deterioration in the CAD.
- **If the ongoing geo-political tensions between Ukraine and Russia result in an average price of the Indian crude oil basket in FY2023 of ~US$101/bbl, then the net oil imports are estimated to rise to US$140-145 billion in FY2023 from US$95.6 billion in FY2022. Consequently, the CAD is projected to widen to US$95-100 billion (2.7% of GDP).**

Higher CAD, global policy tightening, elevated crude oil prices and rising DXY to impart depreciating bias to the INR

EXHIBIT: Movement in USD/INR exchange rate

Source: Bloomberg; RBI; ICRA Research

EXHIBIT: Movement in Dollar Index (DXY)

Source: Bloomberg; ICRA Research

- The INR plunged to an all-time low ~77.5 on May 9, 2022, following the rise in US treasury yields and the rate hike by the US Fed. Going forward, global monetary policy tightening, elevated crude oil prices and general risk aversion towards EM assets would continue to put an upward pressure on the USD/INR pair.
- Meanwhile, the Dollar index crossed the 104.0 mark on May 9, 2022, driven by rising US treasury yields, protracted geopolitical tensions, elevated commodity prices, heightened volatility in global financial markets, and uncertainty amid fresh waves of Covid-19.
- Going forward, the policy tightening by the US Fed amid the risk aversion environment is expected to strengthen the US Dollar, thereby imparting a depreciating bias to the INR against the US$.

Large forex reserves to prevent a disorderly depreciation of the INR; ICRA expects US$/INR to trade between 75.0-79.0/US$ in H1 FY2023;

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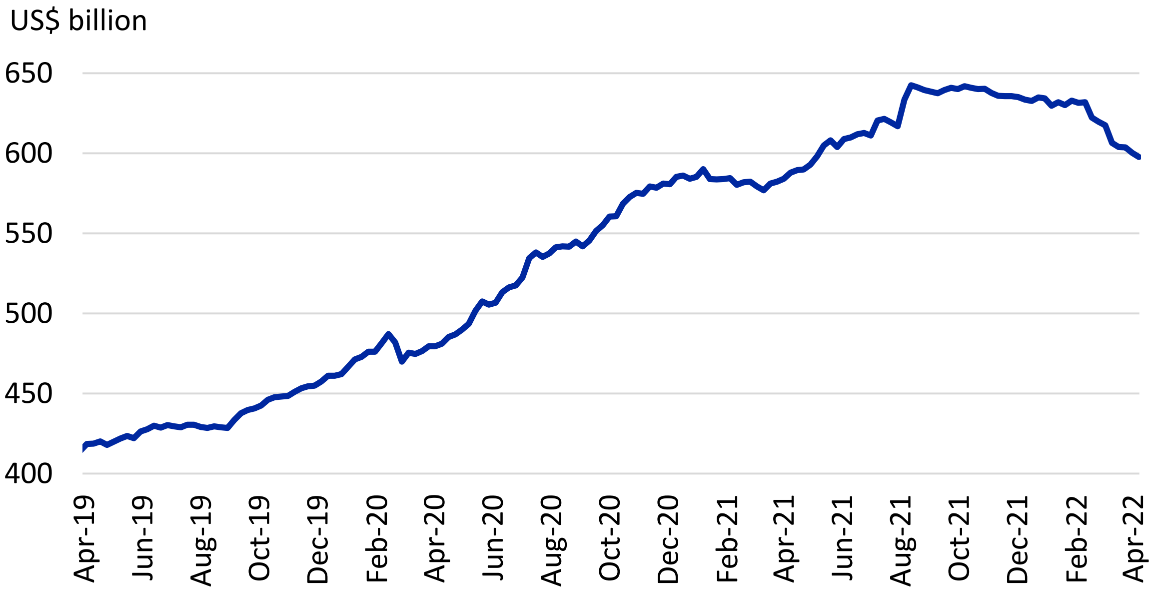
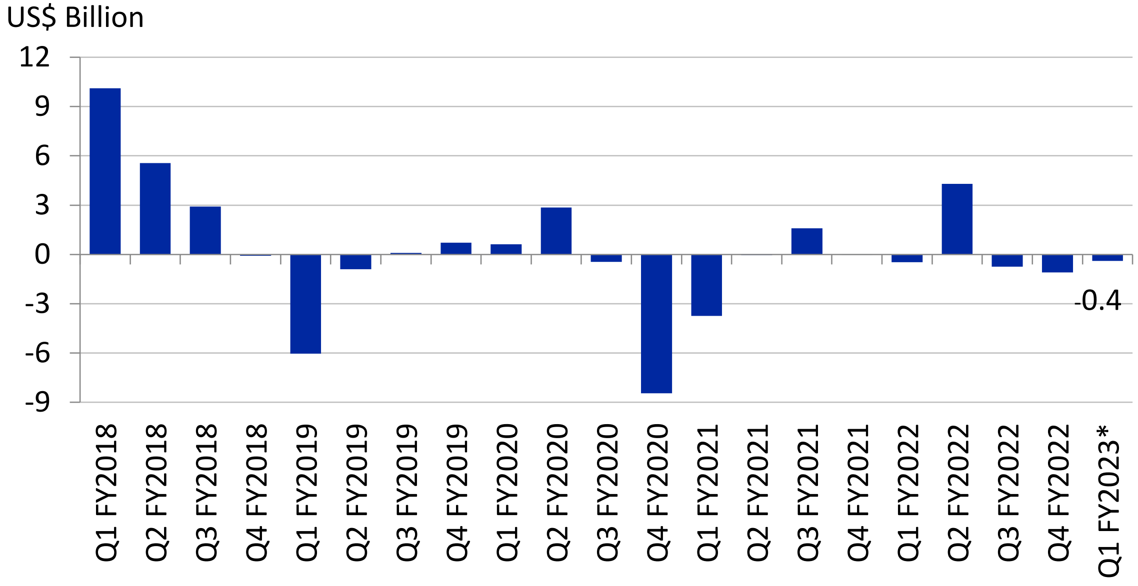
EXHIBIT: Trends in India's forex reserves (US$ billion)



Source: RBI; ICRA Research

EXHIBIT: Quarterly net FII Debt flows (US$ billion)



**Data for Q1 FY2023 is available till May 10, 2022; Including VRR segment; Source: NSDL, CDSL; ICRA Research*

- India's foreign exchange reserves eased from US$633.6 billion as on Dec 31, 2021 to US$597.7 billion as on Apr 29, 2022, on account of a decrease in foreign currency assets, with the RBI possibly having intervened to reduce the volatility in the INR. Nevertheless, the forex reserves remain large, and are likely to prevent a disorderly depreciation of the INR despite the global headwinds.
- After inflows of US$18.5 billion into the debt segment in FY2018, FIIs had withdrawn a total of US$13.8 billion between FY2019 and FY2021. Thereafter, the flows turned positive in FY2022, with net inflows of US$2.0 billion during the year. In our view, the further outflows from the FII debt segment in H1 FY2023 are likely to be limited, despite the sharp tightening expected from the US Fed. However, FII equity outflows may persist in H1 FY2023.
- The narrowing inflation differentials and the likely stemming of FII debt outflows would prevent a further sharp depreciation of the INR, although it may intermittently test the recent record-low. **Amidst the global headwinds, we expect the INR to trade between 75.0-79.0/US$ in H1 FY2023.**

Summary

FY2023 Outlook				
Merchandise Trade	Merchandise Trade Balance	Services Trade Balance	Current Account Deficit	INR/USD
Exports in FY2023: US$455-460 billion YoY: +9% Imports in FY2023: US$708-713 billion YoY: +16%	Merchandise trade deficit in FY2023: US$250-255 billion YoY: +26%	Services trade surplus in FY2023: ~US$116 billion YoY: +6.0%	CAD: FY2022: US$41.5-43.5 billion; 1.3% of GDP FY2023: US$95-100 billion; 2.7% of GDP	INR: 75.0-79.0/US$ in H1 FY2023

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