

India will do better than most of its Asian peers in 2023

Proactive policy in 2022 leaves India in a good position to benefit from easier conditions in 2023. India's lesser reliance on trade with China also provides a buffer, while a rethink on global bond market inclusion for government securities could see substantial capital inflows



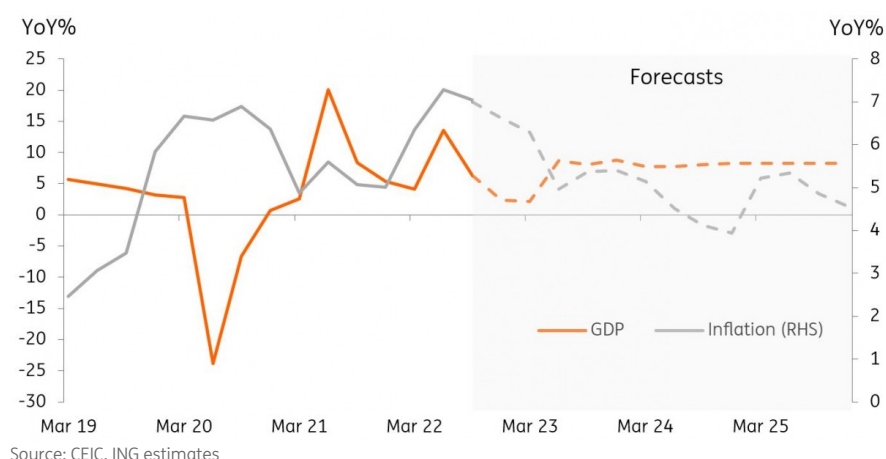
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India: At a glance

India's economy is bucking the global trend, showing signs of strength in the third quarter of 2022 as the annual growth rate slightly beat expectations to grow at 6.3%YoY. That leaves GDP on track to grow by 6.3% for the full calendar year of 2022 and a bit less than 6% for the fiscal year 2022/23.

While GDP remains relatively robust, inflation has shown clear signs of peaking out. The latest inflation print for November came in at just 5.88%YoY below the Reserve Bank of India's target and materially lower than the policy repo rate (currently at 6.25%) following a 35bp rate hike in December. The INR remains one of the region's weaker currencies and has not held on to earlier gains in November and December.

India GDP and inflation outlooks



3 calls for 2023

1 Nearing peak rates

Rates are close to a peak and will come down before the end of the year. Now that policy rates are positive in real terms (which will continue as the high inflation tide recedes), we're confident that the peak will be close even without further hikes from the RBI. There also remains a chance that we may already have seen it.

The next rate decision doesn't take place until 8 February and could still be influenced by an additional inflation release on 12 January. With inflation in India likely closing in on 4-5% by the middle of the year, we believe the central bank could start to tentatively take back some of its tightening before the end of 3Q23.

2 Global bond market inclusion

Indian bonds will be included in global indices in 2023. Both JP Morgan and FTSE Russell kept Indian bonds on their watch list for inclusion in 2022 and are expected to make a decision on inclusion early this year. Key reasons for excluding Indian government bonds from their indices in 2022 include tax treatment for foreign investors, which the government has not seemed in any hurry to change its stance on.

Lengthy settlement of INR bond transactions which takes place onshore is not helping, although moving settlement to Euroclear is not a deal-breaker given that neither Chinese nor Indonesian bonds are settled there. Adding Indian government bonds to these indices will fill a gap left by the exclusion of Russian bonds. At stake for India is an estimated \$40bn of capital inflows that will help pay for the current account deficit and support the INR.

3 India to benefit from FDI inflows

India will continue to climb the rankings of foreign direct investment destinations in 2023, even as the external economic outlook darkens and China re-opens. India is increasingly being seen as an alternative destination for investment following policy measures designed to ease FDI inflows and promote the manufacturing industry, as well as investment issues in China (trade wars, tech wars,

zero-Covid etc). India is the only economy in Asia to offer the potential for scalability, which was one of the main attractions of China. Its younger population and growing middle class also make it a sizable end-market for sales, in addition to being a site for export production.

India forecast summary table

	4Q22	1Q23	2Q23	3Q23	4Q23	FY2022	FY2023	FY2024	FY2025
GDP (YoY%)	2.4	2.2	8.6	8.1	8.8	6.3	6.8	8.0	7.8
Inflation (YoY%)	6.6	6.3	5.0	5.4	5.1	6.8	5.5	4.4	5.0

	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	4Q24	4Q25
Repo rate (%)	6.25	6.25	5.90	5.40	5.15	4.90	4.90	4.90	4.90
10Y bond yields (%)	7.20	7.10	6.80	6.50	6.30	6.30	6.50	6.60	6.80
USD/INR	82.0	81.0	80.0	80.0	82.0	83.0	84.0	84.0	84.0

Source: CEIC, ING estimates

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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