26 August 2022

India’s economic recovery remains resilient amidst negative global cues and inflationary concerns

- Global economic slowdown intensified with world output contracting in the second quarter amidst continued spillover from the protracted Russia-Ukraine war and synchronized monetary policy tightening by major central banks to combat inflationary pressures.
- The IMF has also downgraded global economic growth projections for 2022 and 2023 by 0.4 and 0.7 percentage points compared to the April forecast, to 3.2% and 2.9% in 2022 and 2023, respectively.
- India's economic recovery continues to hold up against the negative spillovers from global developments.
- High-frequency data indicate a continuation of catch-up in the services sector, and a recent improvement in manufacturing activity, while agricultural activity is impacted by uneven rainfall.
- On the demand side, data shows strong government spending, recovery in consumer confidence, and robust corporate sales numbers while the trade deficit situation deteriorated.
- Economic growth is estimated to be around 13.8% YoY in Q1 FY23, led by the services sector and supported by a favourable base.
- For FY23, the real GDP growth projection remains at 7% YoY, though it faces downside risks primarily due to global developments.
- CPI inflation moderated to a 5-month low of 6.7% YoY in July but remained elevated. The recent moderation in inflation is primarily driven by the base effect, which is likely to turn unfavourable in the coming months.
- In the context of resilient economic growth and elevated inflation, the RBI continued with front-loading of rate hikes and raised the repo rate by 50 bps to 5.40% in its August policy meeting, taking it above the pre-pandemic level.
- The RBI noted some moderation in the CPI inflation but retained its FY23 inflation forecast at 6.7% YoY.
- We continue to believe that the terminal rate in the current policy tightening cycle will be around 6%, which given RBI's inflation projection of 5.0% in Q1 FY24, would attain a positive real interest rate.

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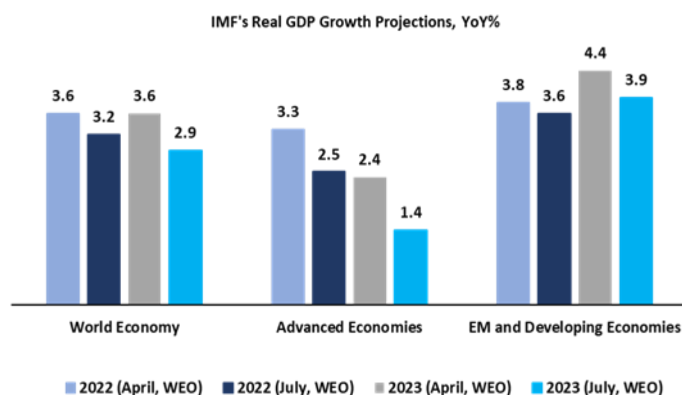
Global slowdown intensified in Q2 amidst continued elevated inflation; the IMF projects a weaker economic outlook

The global economic outlook remains marred with the fear of recession amidst spillover from the protracted Russia-Ukraine war, a slowdown in major economies, and the tightening of global financial conditions as a result of synchronized monetary policy tightening by major central banks to combat inflationary pressures. Economic data from major economies indicate that the global economic slowdown intensified. According to the IMF, global output contracted in Q2 2022 due to downturns in China and Russia, while US consumer spending weakened. The US economy entered a technical recession as the real GDP contracted for the second consecutive quarter by 0.6% (annualized rate) in Q2, following a contraction of 1.6% in the first quarter of 2022. Meanwhile, China's real GDP grew by a mere 0.4% YoY in Q2 CY2022 (2.6% sequential contraction), noting one of the worst quarterly performances since Q1 2020, as the stringent COVID containment strategy and the real estate crisis weighed on the economic activity. Looking at the high-frequency indicators, the global manufacturing PMI deteriorated further in July as it fell to a two-year low of 51.1 compared to 52.2 in June. A weakening of the manufacturing sector was largely noted in the developed nations, while in the case of emerging market economies, output expanded in China, India, and Brazil, while contraction was noted in countries like Russia, Mexico, Turkey, etc. The IMF has also downgraded global economic growth projections for 2022 and 2023 by 0.4 and 0.7 percentage points compared to the April forecast, to 3.2% and 2.9% in 2022 and 2023, respectively. The downgrades were primarily driven by a sharp downward revision for major economies (the US, Eurozone, China, and India) amidst elevated inflation, rapid monetary policy tightening, and spillovers from the Russia-Ukraine war.

The IMF lowered global growth projections further



Source: IMF, Projections as per World Economic Outlook reports of April and July 2022.

Meanwhile, monetary policy tightening continues as central banks across the globe fight elevated inflation. The IMF revised its inflation projections upward to 8.3% in 2022 on a fourth quarter-over-fourth-quarter basis, from 6.9% in its previous report in April 2022. In response to surging inflation, the US Fed raised the interest rate by another 75 bps in July following a 75 bps hike in the previous meeting. As per Fed Chair Powell, a similar move could be expected in the next meeting, but it will largely depend on the economic conditions between now and then. In its latest meeting, the Bank of England raised its policy rate by 50 bps to 1.75%. The ECB also raised its interest rate for the first time in the last 11 years to fight inflationary pressures. In contrast, the People's Bank of China cut its key lending rates for the second time in the year as the economic growth loses momentum. With the global economy slowing, the commodity prices, which were already off their post-Russia-Ukraine war peaks, fell further. As such, average Brent oil prices have cooled off to $105/bbl in July and $97 bbl in August (till August 24) compared to an average of $118/bbl in the previous month. Low oil inventories amidst tight supply conditions and OPEC+ indicating possible cuts to oil production prevented a sharper correction. As per World Bank data, the food price index has also declined by 8.5% MoM, and the base metal (excluding iron ore) price index decreased by 12.8% MoM sequentially in July. If the weakening of global commodity prices and the easing of supply chain disruptions continue, inflation pressures could ease in the coming months, which might help central banks to soften the pace of the monetary policy tightening. At present, the data for inflation remains a mixed bag. The headline inflation for the US has moderated to 8.5% YoY in July from 9.1% in the prior month. On the other hand, inflation print in the UK accelerated to a double-digit of 10.1% YoY in July from 9.4% in June and inflation in Eurozone also edged up to 8.9% YoY from 8.6% during the same period. While declining commodity prices provide some respite to surging inflation, the downside risks emanating from tight labour market conditions in various countries and any escalation of geopolitical tensions leading to further supply shock to the commodity prices persist.

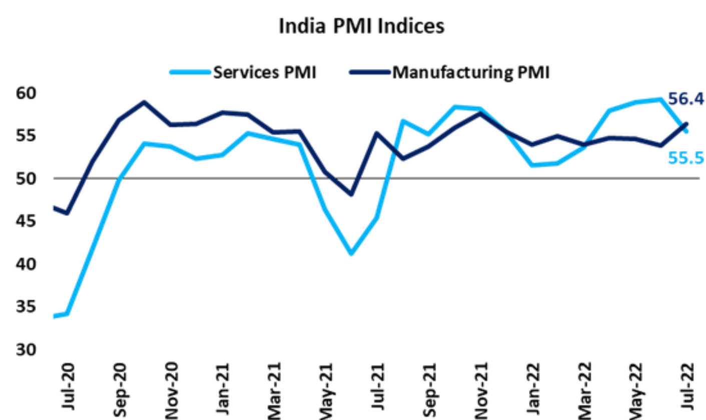
India's economic recovery remains on track; downside risks persist

India's economic recovery continues to hold up against the negative spillovers from global developments. High-frequency data indicate a continuation of catch-up in the services sector, and recent improvement in the manufacturing activity, while the agricultural activity is impacted by uneven rainfall. On the demand side, data shows strong government spending, recovery in consumer confidence, and robust corporate sales numbers while the trade deficit situation deteriorated. We estimate real GDP to be around 13.8% YoY in the Q1 FY23, led by the services

sector and supported by a favourable base. For FY23, the real GDP growth projection remains at 7% YoY, though it faces downside risks primarily due to global developments.

The COVID situation in the country is largely contained, with tentative signs of improvement in early August. Daily COVID cases fell to around 12K (7-DMA) by August 23 from ~18.5K at the start of the month. Fatalities have remained at unalarming levels. The vaccination coverage remains very good (with 92.3% of the eligible population fully vaccinated). A free booster dose scheme of the government will also help improve the uptake of the third dose of the COVID vaccine. Accordingly, the risk of disruption to economic activity continues to stay low as long as hospitalization and fatality rates remain contained.

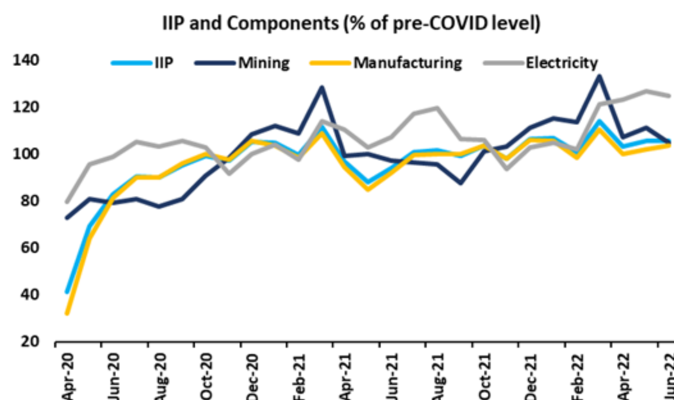
Manufacturing PMI picked up while services remained above its long-term average despite moderation



Source: IHS Markit, S&P Global

Economic recovery continues to hold its ground in July, as reflected in the high-frequency indicators, with a continued catch-up in the services sector activity. Services PMI in July was recorded at 55.5, compared with over 11-year high of 59.2 in June. Despite the moderation, PMI reading in July was much above the long-term average of 51.3, indicating a continued strong pace of recovery. New work intakes continued to increase in July, although the rate of increase softened to a four-month low. Meanwhile, the RBI's latest services outlook survey noted a sharp improvement in the overall business situation, with Net Response increasing from 17.3% to 32.2% (Net Response is the difference between the percentage of the respondents reporting optimism and that reporting pessimism). Services credit growth also remained strong in June at 12.8% YoY, much stronger than 8.7% at the end of March, driven by credit demand in the trade and NBFC segments. Credit to the Tourism, Hotels and Restaurants sub-sector continued to improve. Meanwhile, other high-frequency indicators like air passenger traffic, railway freight, and port cargo signalled a flattening of activity in sequential terms, which could be due to seasonal monsoon-related disruptions. Going ahead, with the ongoing release of pent-up demand for contact-intensive services, we expect service sector activity to continue to gain traction; however, a catch-up of services inflation may weigh on the sector's momentum.

Manufacturing picked up in June; monsoons affected electricity and mining activity

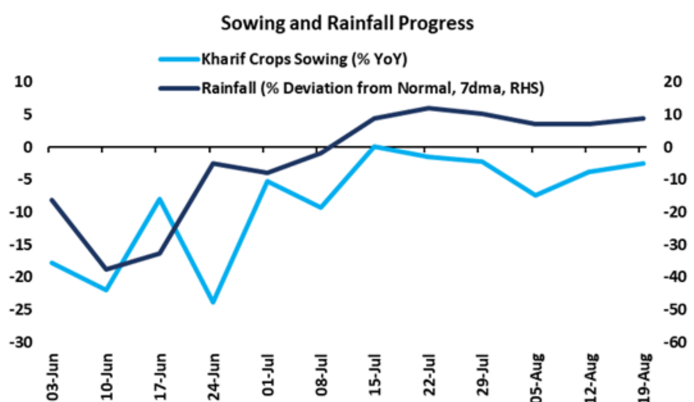


Source: CMIE. CY19 averages are taken as pre-COVID levels

On the industrial activity, incoming data is somewhat mixed. The Index of Industrial Production (IIP) eased to 12.3% YoY in June compared to 19.6% YoY in May, reflecting the waning of the favourable base effect. Manufacturing activity continued to recover in June, with the IIP manufacturing growing by 12.5% YoY, partly buoyed by a low base. Sequentially, the growth was healthy at 1.3% MoM (compared with the pre-COVID five-year average of 2.4% contraction in June). Momentum in the manufacturing sector seems to have picked up further in July. According to the latest survey data, PMI reading for the manufacturing sector, at 56.4 in July, was the strongest in the past eight months as both factory orders and production rose at the fastest pace seen in 2022. The jump in the index was aided by easing input price and charge inflation, which eased to eleven and four-month lows, respectively. While, on the one hand, manufacturing seems to be gathering pace, on the other hand, mining, electricity, and construction are exhibiting signs of moderation, possibly due to monsoon-related seasonal effects on these industries. Mining output in June continued to expand on a YoY basis (7.5% YoY) but weakened sequentially (5.8% contraction MoM), likely owing to the impact of monsoons on operations. Similarly, electricity production contracted sequentially but continued to show record strong growth on a yearly basis. Electricity production is likely to have dropped further in July in tandem with reduced demand due to the arrival of monsoons. In June, signs of a slowdown in the construction sector were observed as finished steel consumption fell by 8.8% MoM. That said, steel consumption recovered partially in July (4% MoM), possibly indicating that the slowdown in June might have been seasonal. Given softening global commodity prices,

continued positive impulses from the domestic economy, and the upcoming festival season, the near-term outlook for the industrial sector seems more promising than a month ago.

Despite surplus rainfall, uneven spatial rains weigh on crops sowing

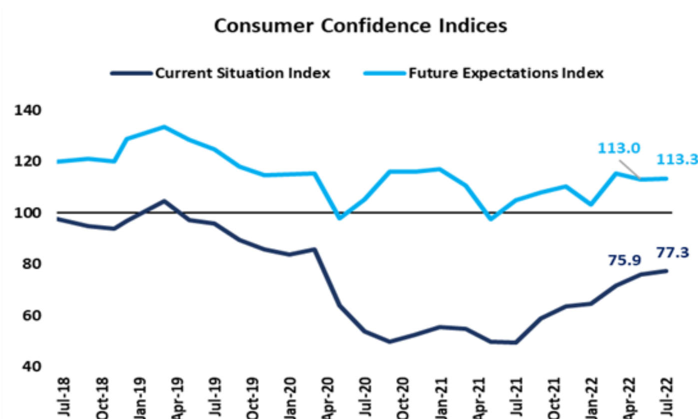


Source: CMIE

The activity in the agriculture sector has improved slightly in the past month. Credit growth to the agriculture sector continued to record robust growth of 13% YoY in June compared with 9.9% in the previous quarter. Following a weak start, Kharif sowing has improved as monsoon rains caught up. Overall, sowing for Kharif crops as of August 19 was down by 2.5% YoY, compared to a ~24% deficit at the end of June. Cumulative rainfall so far (by August 24) was 8.7% higher than the LPA; however, the distribution of rainfall across the country has been uneven. Cumulative rainfall in states like West Bengal and Uttar Pradesh (important rice-producing states) is still ~30-45% below LPA, which is the main reason for the continuing sowing deficit. Progress of rainfall in these states over the next few weeks will be crucial for this year's production and agriculture income, as rice is an important Kharif crop in terms of volume. That said, we do not expect potentially lower rice production this season to materially affect the price situation in the country as current rice stocks at ~28 mn MT sit comfortably above the minimum buffer requirement of 13.54 mn MT. However, uneven rain spatial distribution could still lead to higher vegetable and fruit prices. Overall, the recovery in crops sowing aided by improved monsoon progress bodes well for the sector's continued positive outlook, though uneven rainfall could weigh on growth in certain states and for some crops.

Private consumption recovery continues to be uneven, with the latest data turning broadly positive even as labour market data remains mixed. The consumer durable and non-durables sub-indices of the IIP improved sharply to almost reaching their pre-COVID levels (for the first time in three months). Credit impulse in the retail space improved further in June, growing by 18.1% YoY, much above the pre-pandemic (FY16-FY20) average of 16.8% for the month. Moreover, consumer confidence continues to recover. According to the RBI's latest consumer confidence survey, the current situation index improved for the sixth consecutive round in July on the back of improvement in perception regarding employment, price level, income, and spending, but overall sentiment remained in the pessimistic territory reflecting nervousness among consumers amid heightened economic uncertainty. One-year ahead expectation index also improved, but deterioration in the employment, price level, and income categories bring out a lack of sustained job growth and price concerns as constraining factors. Meanwhile, the latest labour market data was mixed. The greater unemployment rate inched up further to 11.5% in July from 11.3% in June, indicating the need for drivers of sustained job growth. The deterioration was due to a rise in the urban unemployment rate, while rural employment improved with monsoons' recovery. Encouragingly, organized sector job postings' data in July was the strongest in the past five months. The Naukri JobSpeak Index improved by 10.1% MoM in July after remaining flat for three months. A sustainable and broader improvement in labour market conditions remains critical for consumption recovery to become more sure-footed.

Consumer confidence remains on a gradual recovery track



Source: CMIE; Note: Value above 100 means expansion.

External trade continues to exert a drag on economic growth as strong impulses of domestic demand recovery and higher commodity prices raised import bills while slowing global growth weighed on export growth. India's trade deficit widened rapidly from $54.4 bn in Q4 FY22 to $69 bn in Q1 FY23 as imports grew by almost 50% YoY while growth in exports was ~30%. The widening of the trade deficit continued in July, reaching a record high level of $30 bn. Exports have recently been impacted by the imposition of windfall taxes and export duties on fuel. The government has reduced/abolished the taxes/duties since it first imposed them on July 1. Accordingly, exports should recover at least partially in August. However, export growth is expected to

moderate sharply in the current year compared to last year, given slowing global growth. The IMF revised its world trade growth projection downward by 90 bps and 120 bps to 4.1% in 2022 and 3.2% in 2023, respectively.

Non- Financial Corporate Sector noted robust sales growth in Q1 FY23, but margins were hit due to input cost pressures

Despite the challenging operating environment, early corporate quarterly earnings results show a good start. Corporate aggregate sales (of ~3.1K companies) surpassed their pre-COVID levels by ~56% (vs June 2019) and grew by 52% YoY (low base of June 2021 due to the second COVID wave), reflecting the ongoing recovery in the demand conditions. Even after accounting for the inflationary impact, corporate sales noted a four-quarter high growth of 28.5% YoY. The improvement in sales was largely broad-based across sectors, with manufacturing, mining, services (other than financial), and real estate & construction sales growing by ~57%, ~59%, ~54%, and ~24%, respectively, above their respective pre-COVID (vs June 2019) levels. What is heartening to see is the recovery in the sales of the contact-intensive services, which were one of the hardest hit sectors during the pandemic. Sales for hotels & tourism, and transportation services improved to ~3% and ~21% above their pre-COVID levels. Encouragingly, the recovery in sales is also broad-based when we account for the size of the firm. Corporate sales have been improving across all deciles in Q1 FY23 (even though decile 10th continues to report contraction, but the extent of contraction has reduced significantly), which contrasts with the September and December quarters of FY22 when the recovery was skewed in favour of the larger firms.

Broad-Based recovery in corporate sales in Q1 FY23

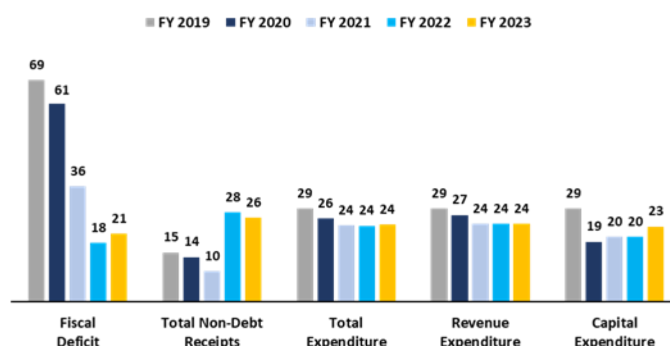
Non-financial Sector - Net sales % YoY							
Decile	Mar-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Total	**-9.9**	**19.2**	**64.73**	**36.12**	**30.16**	**25.31**	**52.01**
Decile 1	-8.4	19.1	64.32	37.34	32.14	27.13	53.86
Decile 2	-17.0	20.1	68.97	30.83	22.67	16.31	37.16
Decile 3	-16.1	24.0	66.79	30.81	18.58	18.3	37.25
Decile 4	-17.7	16.5	61.58	31	22.52	18.69	32.55
Decile 5	-21.7	19.9	65.61	30.76	14.6	15.21	33.37
Decile 6	-20.6	14.4	70.33	17.66	17.04	7.4	33.58
Decile 7	-26.2	4.5	68.61	14.26	17.78	12.86	25.45
Decile 8	-30.9	-0.6	64.27	17.4	7.77	-2.1	15.42
Decile 9	-42.4	-7.0	38.51	12.71	-27.51	0.86	18.11
Decile 10	-57.5	-50.0	-3.32	-33.89	-68.05	-53.03	-17.67

Source: CMIE

Profit margins were impacted as expenditure grew faster than income. Based on the financial results of ~3.1K companies as per the CMIE, the non-financial sector reported a decline in profit after taxes (PAT) to the tune of 24% from its peak of Q4 FY22. The total expenditure increased because of high inflationary pressures in the form of higher raw material, fuel & power costs, and employment costs. Meanwhile, the total incomes also increased at a solid pace as the companies managed to pass on some cost burdens to the consumers. As such, the total expenditures increased by ~55% YoY, while the total income managed to grow by ~49% YoY. Consequently, the operating profit margins squeezed to a nine-quarter low of 13.06% in Q1 FY23. These pressures are likely to continue in the coming quarters.

Higher input cost pressures also impacted the business sentiment, as reflected in the Business Assessment Index (BAI) published by the RBI in the Industrial Outlook Survey. The BAI noted marginal deterioration from 111.5 in Q4 FY22 to 110.7 in Q1 FY23 but remained in the expansion territory. Encouragingly, as per the RBI's survey, capacity utilization for manufacturing companies improved further in Q4 FY22 to 75.3% (above its long-run average of 73.7%) from 72.4% in Q3 FY22, which bodes well for investment revival and credit demand. The bank credit to the industrial sector noted a robust growth of 9.5% YoY in Q1 FY23. Further, as per the IIP investment-related indices, capital goods IIP improved to 104% of the pre-COVID level in June (the second highest in the past year), while infrastructure and construction goods IIP and intermediate goods IIP weakened, giving mixed signals about investment activity. Broader private investment recovery is likely to be delayed by heightened global uncertainty and a high inflationary environment.

Fiscal spending led by CAPEX; deficit contained thanks to strong revenues collection



Source: CMIE

Government spending for FY23 is on track with its full-year targets, supporting overall economic growth. The fiscal deficit stood at 21.2% of the budgeted estimate (BE) in the first quarter of FY23, compared to 18.2% of BE in the same period last year and an average of 65% of BE in the five years pre-COVID. Revenue expenditure in Q1 FY23 as a % of BE remained constant at 24.2% but was lower than the pre-COVID five-year average of 27.7%. Revenue expenditure growth was limited owing to a reduction in subsidy expenses of the government pertaining to food and fuel. This is likely to

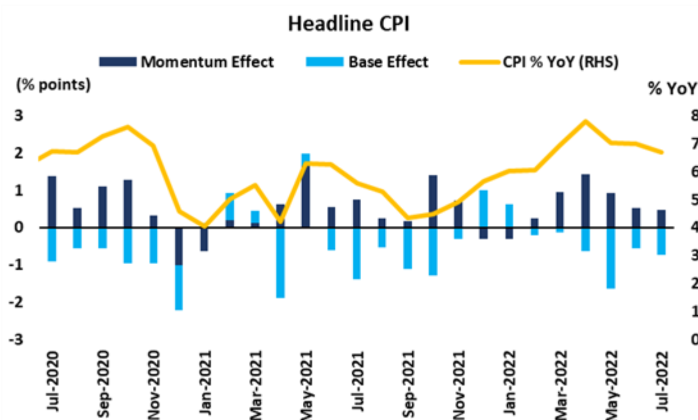
be short-term volatility in disbursement as subsidy is expected to overshoot budgeted allocations in FY23. In Q1 FY23, CAPEX reached 23.3% of BE compared with 20.1% last year and 22.7% in the five years pre-COVID, in line with the budget's focus on capital spending. Total receipts in the first three months of FY23 reached 26.1% of the full-year budgeted estimate, lower than last year's 27.7% but much higher than the pre-COVID five-year average of 13.4%. A cut in the fuel excise duty has impacted revenue collection in June. While the central government is on track toward its full-year fiscal goals, state governments' spending (especially CAPEX) seems to be falling behind, given uncertainty about the end/possibility of extension of the GST compensation framework beyond July 1 2022.

RBI continues to front-load rate hikes and takes the repo rate above the pre-pandemic level

The RBI continues to front-load the rate hikes to contain the elevated inflationary pressures. Accordingly, the central bank announced a second successive 50-bps repo rate hike in the August policy meeting, taking the repo rate to 5.40%. Consequently, the Standing Deposit Facility (SDF) Rate stands adjusted to 5.15% and the Marginal Standing Facility (MSF) Rate and Bank Rate to 5.65%. With a cumulative repo rate hike of 140 bps in FY23 so far, the policy rate is now above the pre-pandemic rate of 5.15% (Feb '20). As inflation is projected to remain above the RBI's upper threshold in Q2 and Q3 FY23, the MPC was of the view that the sustained high inflation could destabilize inflation expectations and trigger the second-round effects and therefore judged that further calibrated withdrawal of monetary accommodation was warranted to keep inflation expectations anchored. The MPC assessed that Indian economic recovery has remained resilient despite the various external headwinds. As per the RBI governor, a resilient economy has provided the RBI flexibility to act on inflation. Pressures on the currency have also likely played a role in the RBI's policy decision. Despite significant moderation in the system's surplus liquidity, the MPC maintained its stance of "focus on withdrawal of accommodation to ensure that inflation remains within the target going forward while supporting growth". The central bank said that it would continue to remain vigilant on the liquidity front and undertake two-way operations to manage liquidity.

The RBI governor, in a recent interview, stated that inflation has peaked and is expected to moderate going ahead. The MPC, however, erred on the side of caution as it retained its inflation forecast of 6.7% YoY for FY23 and projected it to ease to 5.0% YoY by Q1 FY24. The RBI noted that upside risks to inflation could materialize in the form of higher vegetable prices (in the event of unseasonal and excessive rainfall), the greater transmission of input cost pressures to selling prices across manufacturing and services sectors, and higher wage pressures (owing to persistently elevated living costs). The recent data does indicate a moderation in retail inflation though much of it is driven by the base effect, which will turn unfavourable for the next few months. After three consecutive months of the headline CPI inflation remaining above the 7% mark, it moderated to 6.7% YoY in July but remained above the RBI's upper tolerance threshold of 6% for the seventh consecutive month. Despite positive momentum of ~46 bps, which should have led to higher inflation, a favourable base effect of 74 bps led to the moderation of the inflation print in July. The moderation in CPI is primarily led by the softening of food & beverages inflation (to 6.7% YoY in July from 7.6% YoY in the prior month). Fuel & light inflation, on the other hand, accelerated to 11.8% YoY (v/s 10.1% in June), led by higher kerosene and LPG prices. Meanwhile, core inflation remained sticky at around 6.0% YoY, owing to the broadening of inflationary pressures to the clothes and footwear, education, and recreation & amusement categories.

Headline Inflation remains above the RBI's upper tolerance threshold for the seventh consecutive month



Source: CMIE

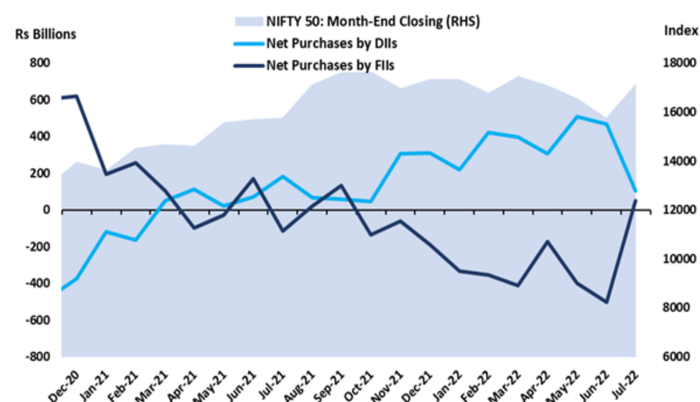
Furthermore, an analysis of 299 items of the CPI basket revealed that the share of items with inflation above 6% increased from 46% in June 2022 to 50% in July 2022, reflecting the broadening of the inflationary pressures. Meanwhile, wholesale price inflation moderated in July to 13.9% YoY (the second consecutive decline) from 15.2% in June, partly reflecting some easing in global commodity prices. However, input cost pressures domestically remain elevated, as is reflected by the double-digit growth in WPI. Going ahead, the headline CPI inflation is likely to be elevated in the coming months with the waning of the base effect, increased risk of imported inflation with the depreciation of the currency, elevated input cost pressures and catching-up of the services inflation. In a recent interview, the RBI governor stated that despite a recent moderation in inflation, there is absolutely no room for complacency. He added that the RBI would like to bring

inflation to 6% and later to 4% over a time cycle of about two years. We continue to believe that the terminal rate in the current policy tightening cycle will be around 6%, which given the RBI's inflation projection of 5.8% in Q4 FY23 and 5% in Q1 FY24, would attain a positive real interest rate closer to the real neutral rate (of 0.8%-1% as per the RBI study).

Market Section

Indian equity markets staged a sharp recovery in July, recouping the losses of the previous three months as NIFTY and SENSEX increased by 8.7% and 8.6% sequentially. A number of factors, including the softening in the global commodity prices, especially crude oil prices, receding inflationary concerns, and the less hawkish stance by the US Federal Reserve, supported the rally in the market. The foreign portfolio investors also returned to the Indian market after nine consecutive months of capital outflows as they invested ~Rs 50 bn of capital in July compared to Rs 502 bn of outflows in the prior month. Meanwhile, the market remained supported by domestic investors as DIIs pumped Rs 105 bn into the equity markets. Further, the equity markets continued to remain resilient in the month of August as the benchmark indices – NIFTY and SENSEX increased by 2.6% each (data till August 24), supported by the continued moderation in the crude oil prices and the FPI inflows (Rs 467 bn of inflows till August 24). However, the market outlook remains highly uncertain given global recession fears amidst the synchronized monetary policy tightening by the major banks and the risk of geopolitical tensions flaring up

Equity markets saw a comeback of foreign investors in July after nine consecutive months of capital outflows



Source: CMIE

The Indian bond market took a breather in July as the 10-year benchmark yield fell by 10 bps, averaging 7.39% compared to an average of 7.49% in the prior month. The respite in the bond yields was more pronounced for the longer tenor bonds compared to the shorter end of the curve. As a result, the 10-year and 1-year spread narrowed from 136 bps to 125 bps in July (based on average yields). This was led by a combination of factors, including softening global crude prices, moderation in the inflation print, and reduced fiscal slippage risks as the government introduced windfall taxes on fuel. Moving into August, the 10-year bond yields declined further to 7.16% (August 4) a day before the policy announcement as markets anticipated the RBI to deliver dovish guidance amidst the moderating crude oil prices and inflation print. However, with the RBI delivering a hawkish policy and hiking the repo rate by 50 bps, the markets sold off post the meeting, and the 10-year G-Sec yield surged to 7.3% on the day of the meeting (August 5). Since then, the yield has been rangebound, reaching 7.29% by August 24.

The Indian Rupee tested record lows as the USD/INR pair depreciated by 1.9% in July to trade at 79.6 levels on average (breaching the 80 levels on multiple days) v/s 78.1 in the previous month amidst a widening current account deficit, tightening of the global financial conditions and the stronger greenback on account of risk aversion. With the pressures on the currency remaining elevated, the RBI continued to intervene in the forex market to defend the rupee, as is evident in the declining forex reserves. The RBI reserves have declined by ~ $19 billion in a month to $574 billion as of July 29. Moving into August, the domestic currency continued to remain under pressure as the currency depreciated further by 0.6% on August 24, since the end of July largely led by the strengthening of the dollar amidst the elevated geopolitical tensions. Going ahead, while the continued tightening of monetary policy across the globe and a widening current account deficit will continue to exert pressures on the currency, the RBI's comfortable forex reserves will prevent any sharp volatility in the forex market.

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