20 September 2022

The Indian economy continues on a recovery path amidst a bleak global outlook; inflation worry lingers

- The global economic slowdown intensified and broadened as high inflation, tighter financial conditions, geopolitical tensions, and a strict COVID containment policy in China continued to weigh on activity.
- Despite the faltering global economic recovery, central banks worldwide remain steadfast in their resolve to bring down inflation by frontloading policy rate hikes.
- India's economic recovery continues to hold its ground against global headwinds. Real GDP grew by 13.5% YoY in Q1 FY23, close to our projection of 13.8%, buoyed by a favourable base effect.
- Economic growth in Q1 FY23 was led by private consumption and investment, while net exports dragged down overall growth. On the supply side, the growth was led by services and industry segments, reflecting the normalization of economic activity.
- High-frequency data in early Q2 FY23 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, private consumption recovery is supported by urban demand and festivals, while the investment is driven by a strong government CAPEX. The widening trade deficit situation remains a drag.
- Considering these factors, we retain our real GDP projection of 7.0% YoY for FY23, with downside risk primarily emanating from global developments.
- Consumer price inflation quickened to 7% in August, after easing for three consecutive months, due to the waning of a favourable base effect and a build-up of food price pressures.
- Inflation is likely to remain elevated in the near term and see a firmer moderation in Q3 FY23 and onwards, with the catching up of the favourable base effect and spillover from ongoing moderation in WPI and global commodity prices.
- Given elevated inflation and lower than the RBI's projected growth in Q1 FY23, we expect that the RBI will continue to hike rates but could temper the size of rate action going forward.
- As such, we expect the RBI to hike the policy rate by 35 bps in its September meeting. However, we do not rule out the possibility of a 50 bps hike in the event of larger-than-expected rate hike by the US Fed.

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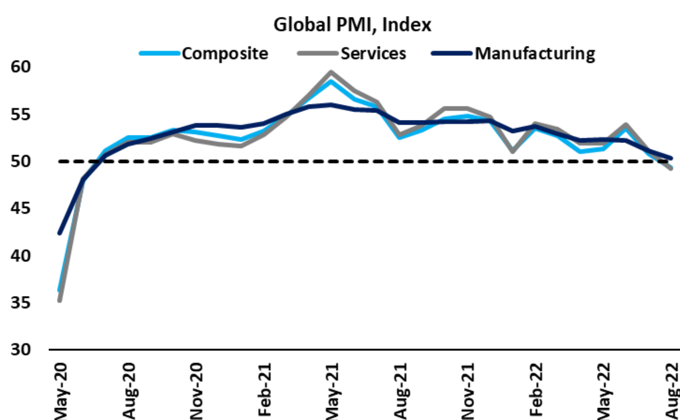
The global economic slowdown intensified and broadened in August

The global economic slowdown intensified over the past month. Economic activity decelerated in August as high inflation, tighter financial conditions, geopolitical tensions with Russia, and a strict COVID containment policy in China continued to weigh on activity. High-frequency data for August point to a contraction in economic activity led by developed economies. The global manufacturing PMI in August fell to a 26-month low of 50.3 compared with 51.1 in July, as production slowed in 20 out of 30 countries included in the global manufacturing PMI. Among the large economies, the US, the Euro Area, Japan, and the UK saw a contraction in manufacturing production. Looking at the services sector PMI, the global index fell below 50, into the contractionary territory, for the first time since June 2020, dragged by a reduction in activity in the US, Japan, Germany, and Russia. Given the concurrent downturns in manufacturing and services in August, the Global Composite PMI fell to 49.3 in August from 50.8 in the prior month, the lowest since June 2020. Moreover, August surveys pointed to the slowdown becoming more broad-based both by sector and region, with activity falling in five out of the six industries covered and in five out of 14 economies covered in Composite PMI calculations. The World Bank flagged recession risks. In a study, it stated, *"as central banks across the world simultaneously hike interest rates in response to inflation, the world may be edging toward a global recession in 2023"*.

Composite PMI slipped into the contractionary territory for the first time since June 2020



Source: IHS Markit

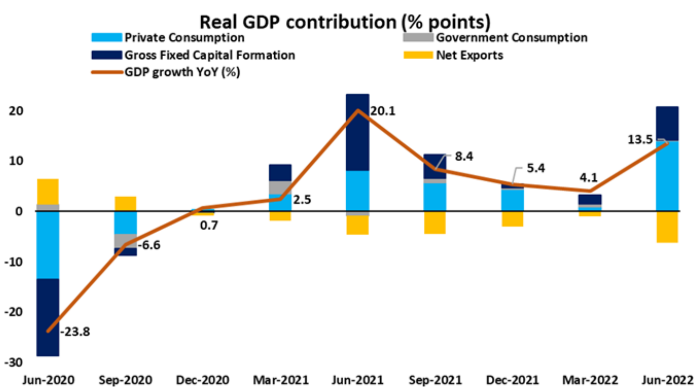
Despite the faltering global economic recovery, central banks worldwide remain steadfast in their resolve to bring down inflation by frontloading policy rate hikes. An address by the US Fed Chair Jerome Powell in late August where he pledged to "*reduce inflation even if it increases unemployment*" and a higher than expected US inflation data (8.3% YoY in August) have raised market expectations of a jumbo rate hike of 75bps-100bps by the US Federal Reserve in its next monetary policy meeting. The resolve to bring inflation under control quickly is not specific to the US. The ECB raised its key interest rates by 75 bps in early September, larger than the 50-bps hike in July. According to a flash estimate, inflation in the Euro Area quickened further to 9.1% in August (compared with 8.9% in July). While the interest rate decision in the UK has been postponed to September 22, the Bank of England is likely to raise policy rates by another 50 bps (following August's rate hike) given elevated inflation levels (9.1% in August). Meanwhile, China cut its key policy rates by 10 bps in August (following a 15-bps cut in May) as COVID-19 lockdowns, and a property market-related downturn continued to hurt economic growth. Given underwhelming prospects for the global economy, commodity prices have remained under pressure over the past few weeks. Brent oil price fell to ~US$92/bbl (average as of September 16), compared with the average of US$98/bbl in August and US$105/bbl in July. Food prices fell slightly in August by 1.6% MoM while base metals (excluding iron ore) grew by 4.2%. Increased global uncertainty was also reflected in a stronger US dollar, as it averaged 110 in the first half of September (compared with an average of 107 in August), boosted by safe-haven demand and a hawkish US Fed's policy outlook. Going ahead, a continued bearish sentiment around global economic growth and prospects of sharper rate hikes by the US Fed to control runaway inflation are likely to continue to exert pressure on emerging market capital flows and currencies.

Indian economy remained resilient amidst the global headwinds

India's economic recovery remains broadly resilient amidst the ongoing global headwinds and geopolitical uncertainties. In Q1 FY23, real GDP grew by 13.5% YoY, close to our projection of 13.8% YoY, buoyed by a favourable base effect. On the demand side, growth was primarily led by private consumption and investment, while the net exports dragged down overall growth. On the supply side, real GVA grew by 12.7% YoY in Q1 FY23, led mainly by a rebound in the services sector, especially the contact-intensive services trade, hotels, transport, communication, etc., and public administration and other services facilitated by the normalization of the economic activity as the COVID cases remain contained. The industrial sector, on the other hand, was supported by the electricity and utility services, while the manufacturing sector remained somewhat a laggard, potentially reflecting the impact of input cost pressures which weighed on the profit margins of the corporates in Q1 FY23. Meanwhile, the growth in the agricultural sector continues to remain robust. Economic activity in Q2 FY23 is likely to gain traction as reflected in some of the high-frequency indicators (discussed below), primarily supported by the continued

traction in the services sector and festival-related boost in demand conditions. **We retain our projection of FY23 GDP growth at 7.0% YoY, with downside risk primarily emanating from global developments**.

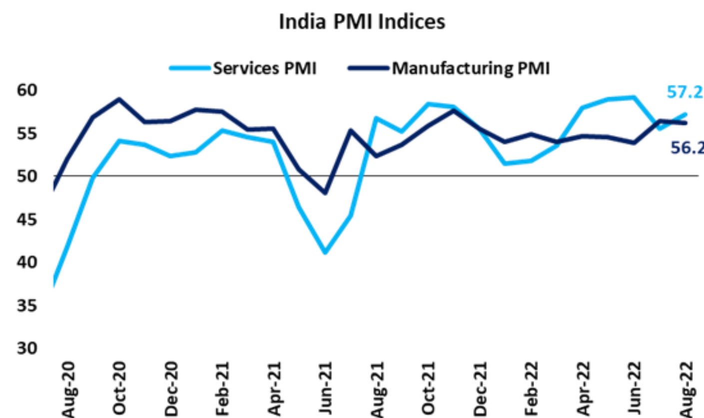
Growth in Q1 FY23 was led by private consumption while net export was a drag



Source: CMIE

The high-frequency data for the industrial sector paints a mixed picture. The Index of Industrial Production (IIP) slumped to its four-month low of 2.4% YoY in July, partially driven by the normalization of the base effect. With a sequential decline of 2.7% MoM in July, the index moderated to 103.2% of the pre-pandemic levels (CY 2019) compared to ~105% in Q1 FY23. The deterioration in the industrial sector output was mainly attributed to the mining sector, which contracted by 3.3% YoY and slid below its pre-pandemic levels for the first time since October '21, potentially reflecting the impact of heavy rainfalls. Even though the seasonal impact of the monsoon was not a surprise, the extent of moderation was larger than anticipated as core sector data reflected double-digit growth in coal sector output in the same period. On the other hand, despite sequential moderation, the electricity and manufacturing sectors remained above the pre-pandemic levels at ~120% and ~103%, respectively. As per the lead indicator, the PMI suggests a continued recovery in the manufacturing sector as the index remained broadly steady at 56.2 in August (vs 56.4 in July), much higher than 54.4 (average) in Q1 FY23, buoyed by both domestic and international demand. The input cost inflation slipped to the lowest in the last year as the global commodity prices continued to moderate. With receding inflationary concerns, the business sentiment jumped to its highest levels observed in the last six years. Other high-frequency indicators remained mixed, with GST collections noting a sequential decline while E-way bills remained robust, reflecting an acceleration in shipments as the festive season begins. Electricity generation noted a sequential uptick in August. Furthermore, credit growth to the industrial sector accelerated further to 10.5% YoY in July, up from 9.5% in June. Going ahead, the momentum in the industrial sector is likely to gather pace amidst correction in global commodity prices and strengthening domestic demand conditions; however, a weakening external demand could pose a downside risk.

PMI surveys reflect an uptick in the services sector while the manufacturing sector remains steady



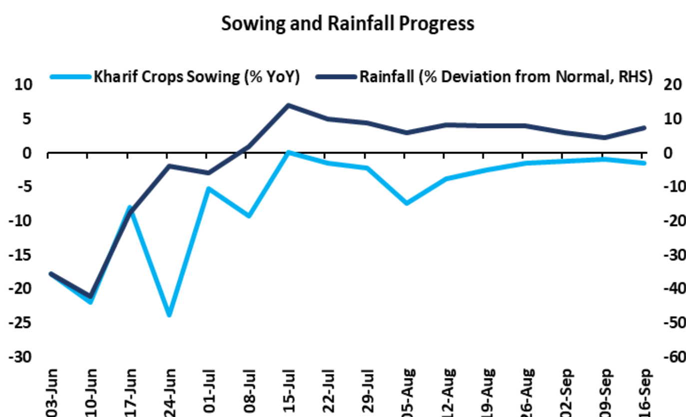
Source: IHS Markit

Meanwhile, the services sector continues to gain traction, boosted by the release of pent-up demand, contained COVID cases, and near-universal vaccination coverage. The services PMI bounced back in August as it improved to 57.2 from 55.5 in July, although it continues to trail the Q1 FY23 average of 58.7. Nonetheless, the index remained well above its long-term average, buoyed by resilient demand conditions ahead of the festive season. The uptick was led by a rebound in new businesses and the sharpest rise in the employment generation in the last 14 years. While the overall rate of charge inflation remained similar to the prior month, the input cost inflation softened to an 11-month low. Other indicators also show robust services sector activity. Bank credit to the services sector remained strong, posting a double-digit growth of 16.5% YoY in July, led by the credit to NBFCs (27.4% YoY), credit to trade (14.2% YoY), and credit to tourism, hotels & restaurants (8.7% YoY). Domestic air passenger traffic picked up sequentially in August. Meanwhile, other high-frequency indicators like freight traffic and port traffic, declined marginally on a sequential basis but remained robust on an annualized basis in August. Going ahead, we expect the services sector activity to gain momentum with the onset of the festive season.

The agricultural sector activity remained affected due to the uneven rainfall in the country. As per the data till September 16, the cumulative rainfall in the country was 7.3% above the long period average; however, the spatial distribution continues to remain uneven. The southern region of the country noted above-normal rainfall while northern Indian states received below-normal rainfall leading to a sowing deficit for the crops like rice and pulses. Meanwhile, the sowing of fiber crops and coarse cereals partially offset the

shortfall in rice. Overall, the sowing trend remains weak, with Kharif sowing tracking 1.6% YoY lower until September 16. With rice sowing being hit by the deficient rainfall, the government recently stated that rice production for the current Kharif season could drop by 10-12 million tonnes. However, we do not anticipate this to lead to a major sustained rise in the price of rice as rice buffer stocks remain at comfortable levels (approximately double the stocking norms). Additionally, the government recently banned the export of broken rice and imposed a 20% export duty on some rice varieties to ensure enough domestic availability. With the Kharif season nearing completion, the acreage is likely to remain lower than the last year, but the comfortable level of reservoirs will likely bode well for the Rabi sowing ahead.

Despite catch-up in monsoon, the Kharif season tracks sowing lower than last year



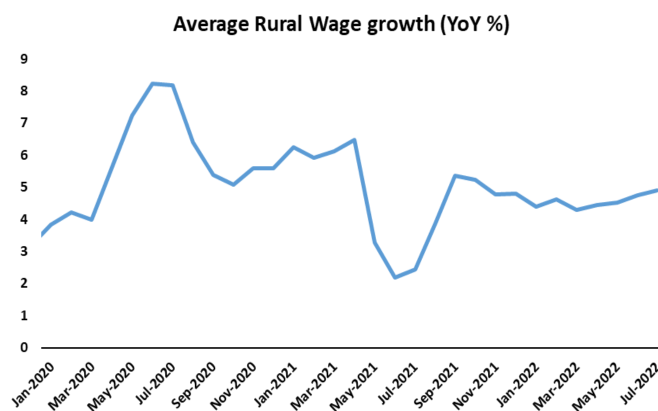
Source: CMIE

Private consumption shows tentative signs of a pickup in August

Private consumption demand was the largest contributor to the GDP growth in Q1 FY23 (14 pp) despite the multi-year-high inflation and tightening financial conditions in the last few months. The consumption growth is aided mainly by the urban demand as the rural demand indicators point to a lagging recovery. Incoming high-frequency data for consumption demand continues to reflect an uneven recovery as the labour market indicators remain highly volatile (discussed below). The IIP consumption index (weighted average of consumer durables and consumer non-durables) declined marginally on a sequential basis by 2.4% in July (after an 8.1% MoM increase in June) and dropped to 97.1% of its pre-COVID levels (CY 2019 average). On the other hand, the retail credit demand has continued its upward trajectory as it grew sequentially for the eleventh consecutive month. In July, the credit demand grew sequentially by 2.1% vs 1.5% in June. The automobile sector has observed uneven recovery since the second half of the last year, with passenger vehicle demand (a proxy for urban demand) remaining above the pre-pandemic levels while two-wheeler demand (a proxy for rural demand) was significantly lower than the CY 2019 average. With the easing of the semi-conductor shortage and strengthening of the demand, the automobile registrations (a proxy for retail auto sales) for passenger vehicles, two-wheelers, and three-wheelers combined increased by 3.3% MoM after two consecutive months of contraction, while the wholesale dispatches picked up 10% MoM. With the onset of the festive season, private consumption is expected to pick up in the coming months; however, the uneven recovery in the labour market could impinge on the pace of growth.

Meanwhile, the labour market data has been volatile hitherto, raising concerns over the sustainability of the consumption revival. The greater unemployment rate has remained in double digits since February '22. In August, the greater unemployment reached its highest level at 11.7%, higher than the average of 11.0% in the first seven months and significantly above the pre-pandemic average of 9.8%. While labour force participation has been much closer to the pre-pandemic levels, inadequate job creation has been the driver of the high employment rate. A total of ~11.4 mn jobs have been lost till August since the beginning of the year, a large chunk of which is concentrated in rural areas (~10 mn). Further, the rural wage growth has remained modest, averaging only 4.6% (much lower than current inflation) since the beginning of the year, dampening the rural consumption activity. On a positive note, the work demanded by the household under MNREGA declined sequentially for the third straight month and slid below its pre-pandemic levels for the first time, indicating nascent signs of recovery in the rural job market.

Rural wage growth continues to remain subdued



Source: CMIE

In contrast to the rural labour market, the urban labour market has remained relatively steady since the beginning of CY 2022, as relatively lower, ~1.6 mn jobs have been lost during Jan-August. This was further reaffirmed by the hiring trends in the organized sector. The Naukri JobSpeak index picked

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up in January '22 and has remained significantly above the pre-pandemic average. The hiring activity remained supported by professional services like IT, insurance, real estate, banking, and medical services. As per the latest data, employment in contact-intensive sectors like hospitality and travel, and consumer durables continues to recover. Moreover, the corporate earnings reports also note the resilience of the urban job market. According to a sample of over ~3.1K companies in the non-financial sector sourced from CMIE, the wage cost increased by 16.0% YoY in Q1 FY23 after observing an increase of 13.4% YoY in the previous quarter. The wage cost increased by double-digits in all the deciles except the smaller size firms. Going ahead, we expect consumer demand to get a boost from a pickup in temporary jobs amidst the festive season and continued recovery in the formal job sector; however, downside risks persist in the form of elevated inflationary pressures.

Listed companies report a rise in wage costs

Non-financial Sector - Salaries and Wages % YoY							
Decile	Mar-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Total	**3.9**	**5.7**	**15.5**	**13.2**	**13.5**	**13.4**	**16.0**
Decile 1	4.5	5.9	14.5	12.3	13.0	13.8	15.5
Decile 2	3.5	6.6	18.4	19.2	17.4	13.8	18.7
Decile 3	-1.1	4.5	21.7	14.4	13.7	9.5	15.4
Decile 4	0.3	1.0	20.1	15.2	12.8	13.4	17.7
Decile 5	-3.5	0.4	25.5	17.4	12.4	4.7	16.9
Decile 6	3.1	3.5	24.8	14.9	12.9	14.0	19.5
Decile 7	-10.1	-6.2	19.8	12.9	7.9	11.6	15.4
Decile 8	-6.6	0.4	28.5	16.5	12.9	7.3	14.2
Decile 9	-10.6	-0.5	13.4	13.2	0.7	-12.0	12.3
Decile 10	-7.4	-20.7	-54.2	-5.3	6.6	-2.0	-4.0

Source: CMIE

On the investment activity front, broader private investment revival continues to elude amidst high economic uncertainty and elevated inflation. As per the investment-related indicators of IIP data, the production indices of capital goods contracted by 4.1% QoQ while infrastructure goods declined by 5.6% QoQ in the quarter ending June. Further, in July, capital goods output observed sequential moderation of 6.7%, while infrastructure/construction goods declined marginally by 0.4% MoM. Nonetheless, the overall investment index (average of capital goods and construction) has remained above the pre-pandemic average, led by the construction output. This could potentially reflect the increased focus of the central government on capital spending to boost economic growth. Going ahead, an improvement in other high-frequency indicators like credit to large industries, capacity utilization, etc. bodes well for the private sector investments; however, challenges on account of the global developments and the monetary policy tightening leading to an increase in borrowing costs are likely to delay a broader-pick up in investments.

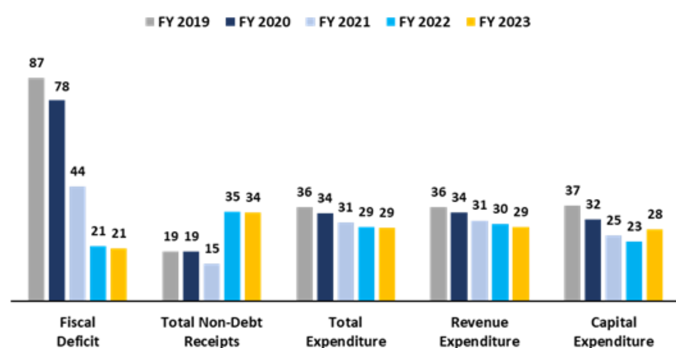
Net exports weighed on the headline GDP growth in Q1 FY23 as it stripped 6.2 pp from the real GDP growth, much higher than the Q4 FY22 (negative 1.0 pp). This was driven by a weak export performance amidst the global slowdown, while the higher crude oil prices and domestic demand kept the import bill elevated. In August, India's merchandise trade deficit widened further as import growth of 37.3% YoY continued to outpace the export, which grew modestly by 1.6% YoY. Accordingly, the total merchandise trade deficit in the first five months of FY23 swelled by 132% above last year's levels to $125 bn. On a sequential basis, the exports noted a larger contraction of 11.7% in August (vs 9.3% MoM in July) due to a weaker external demand and imposition of the export duties by the government, while imports contracted by 6.6% MoM (vs 0.1% contraction in July). The near-term outlook for exports is expected to remain negative, keeping the trade deficit at elevated levels amidst the weakening of the external demand conditions.

Fiscal slippage risks ease on buoyant revenue growth; spending on track

The government spending for FY23 is on track with the full-year targets, supporting overall economic growth. In July, total expenditure contracted by 2.2% YoY, led by a 12.4% decline in revenue expenditure (due to incidental movement in GST compensation amounts). While the pace of revenue expenditure has slowed over June and July, for the four months of FY23 combined, it grew by 4.8% YoY and reached 28.7% of the FY23 budgeted estimate. Capital expenditure growth has been very impressive since the start of FY23, a trend that continued in July, with CAPEX growing by 98.5% YoY. For FY23 till July, CAPEX has grown by 62.5% YoY, much higher than the full-year budgeted growth of 24% (over FY22 revised estimate), reflecting frontloading to support growth and crowd-in private investment. On the earnings side, the government's total receipts grew by 39.7% YoY in July, compared with an increase of 11.2% YoY in June, buoyed by an extraordinary increase of non-tax revenue to the tune of 117% YoY, reflecting mainly higher dividend and profits (from public sector units, RBI, nationalized banks and financial institutions). Gross tax revenues also remained buoyant as it noted a robust growth of 33.3% YoY in July, led by sharp growth in direct taxes. Accordingly, in the first four months of FY23, government receipts achieved ~34.4% of its target, faring much better than the previous year's trends (5-year pre-COVID average) of 18.7% of BE during this period. Going ahead, the revenue growth will be further aided by the tax on exports of diesel and aviation turbine fuel (ATF) and additional excise duty on domestic crude. Owing to the strong revenue growth and decline in expenditure in July, the government recorded its first monthly surplus since the onset of the pandemic, causing the FY23 fiscal deficit to date to

narrow slightly, although it has remained steady at ~20.5% of the BE. Fiscal slippage risks for FY23 have eased, with a higher-than-expected revenue growth and broadly on target expenditure growth.

Fiscal deficit has been contained by robust revenue growth between April-July'22

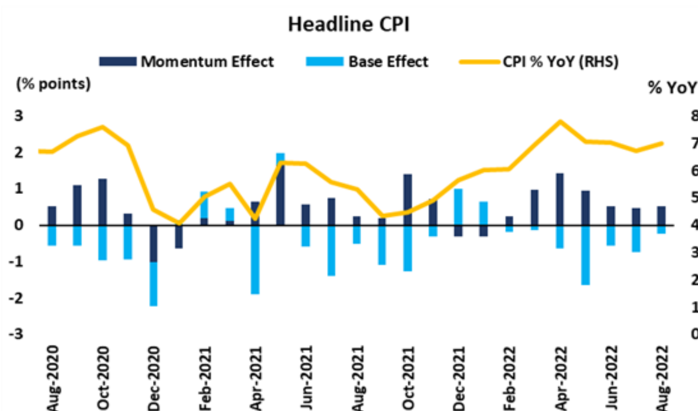


Source: CMIE

Inflation picked up in August; easing expected from Q3 FY23; RBI likely to hike repo rate by 35 bps in the September meet

Consumer price inflation picked up again in August after easing for three consecutive months due to the waning of a favourable base effect and a build-up of food price pressures. Headline inflation for August quickened to 7% YoY, compared with 6.7% in July, and remained above the RBI's tolerance level (6%) for the eighth consecutive month. A positive momentum of 52 bps in CPI (up from 46 bps in July) more than offset the base effect of 25 bps in August (down from 74 bps in July). Food and beverages price inflation jumped to 7.6% in August from 6.7% in July due to an unfavourable base effect and a seasonal spike in the prices of cereals, vegetables, pulses, spices, and fruits categories. Uneven monsoon rains (deficient rainfall in the northern belt states and floods in the southern part of the country) have also contributed to a rise in food prices. Meanwhile, fuel and light, and transportation and communication inflation moderated slightly in line with the easing of global oil prices. While there was a broadening of inflationary pressures, as 53% of the 299 categories in the basket recorded inflation higher than 6% in August, up from 50% in July and 45% in May, core inflation remained steady at 6%. On a positive note, the wholesale price index continued to ease in August, falling to an 11-month low of 12.4% YoY, down from 13.9% in July. The moderation in WPI was driven by easing in fuel & power (33.7% vs 43.8% in July) and manufactured products (7.5% vs 8.2% in July) inflation, partly offset by food inflation (9.9% vs 9.4% in the previous month). Going ahead, the headline CPI inflation is likely to be elevated in the coming months with the continued waning of the base effect, rise in certain food prices, and catching-up of the services inflation. We could see a firmer downward trend from Q3-FY23 and onwards as the favourable base effect catches up and moderation in WPI and global commodity prices feed into retail inflation. Any sustained rise in food inflation or a jump in global commodity prices could pose risks to the inflation trajectory.

The waning of a favourable base effect contributed to the pickup in headline inflation



Source: CMIE

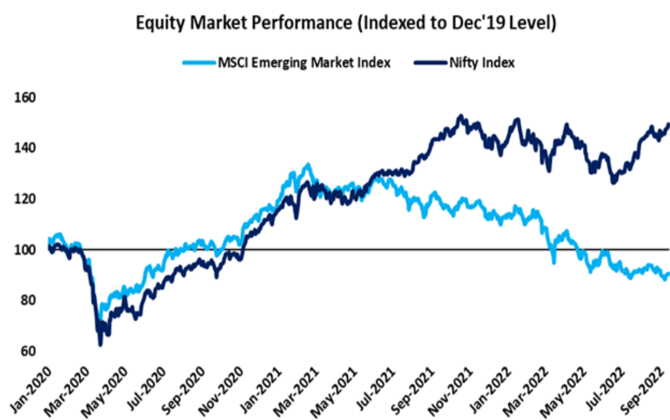
In the last monetary policy review in August, the RBI retained its view that inflation will average 6.7% in FY23, with Q2 at 7.1%, Q3 at 6.4%, and Q4 at 5.8%, and risks evenly balanced. While inflation has been more or less in line with the central bank's expectations, economic growth has been weaker at 13.5% YoY in Q1 FY23, well below the RBI's expectation of 16.2%. Meanwhile, the minutes of the MPC August policy meeting suggest that the MPC members remain committed to bringing inflation below the upper threshold of the RBI's tolerance band of 2-6% to avoid inflation expectations getting unhinged and high inflation entrenched. As such, in the context of the latest uptick in CPI inflation and growth outcome for Q1 missing the central bank's expectations, we expect the RBI to continue to tighten monetary policy but temper the size of rate hikes. As such, the RBI is expected to raise the repo rate by 35 bps in its September policy; however, we don't rule out a larger size rate increase given the possibility of a jumbo rate hike by the US Fed in its upcoming policy. Given rising external pressures as reflected in a widening current account deficit and falling FX reserves, the central bank is likely to become more cognizant of external/global developments in setting the policy going forward.

Market Section

The Indian equity market continued its upward rally for the second consecutive month as both the benchmark indices – NIFTY and SENSEX reported gains of 3.5% and 3.4%, respectively, in August (following substantial gains of over 8.5% in the previous month for both benchmarks). The positive momentum in the market was supported by a

combination of factors, including optimism over India's economic growth amidst lurking global recessionary fears, softening of domestic inflation print in July, receding global commodity prices, and return of FPI inflows. After a long selling streak witnessed between Oct '21-Jun '22, August marked the second consecutive month of FPI capital inflows (~Rs 512 bn up from ~Rs 50 bn in July) in the equity market. However, in contrast, the domestic investors turned cautious in August, with net selling of ~Rs 71 bn. The upward rally in the domestic equity market continued in early September despite weaker global cues (1.4% gains till September 14). However, the market remained highly volatile as both benchmark indices fell in the last two sessions by ~2% (data till September 16) as fears of aggressive interest rate hikes in the US dampened investor sentiment. Nonetheless, the Indian equity market seems better than its counterparts. Overall, the Indian equity market (reflected by the NIFTY index) was higher by ~49% (till September 14) compared to pre-COVID levels (December 2019 average), outperforming other emerging markets (MSCI EM index at ~10% below pre-COVID levels). However, the valuations in the Indian equities market have remained higher than its peers, making the domestic market more susceptible to corrections. The outlook for the market remains volatile in the face of a rapidly shifting global environment and continued uncertainty over inflation and the pace of monetary policy tightening.

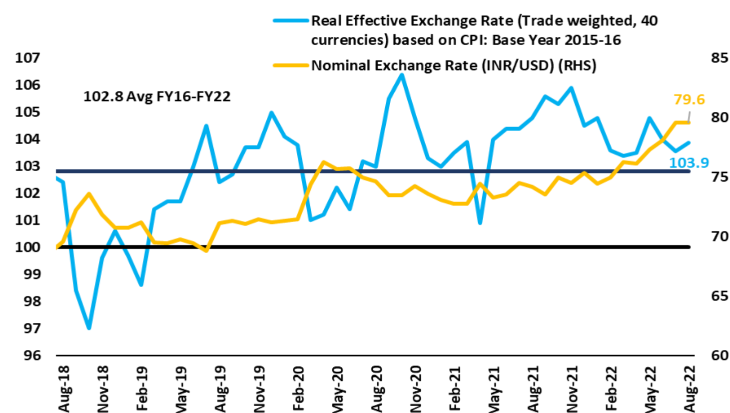
Indian equity markets ahead of other emerging markets



Source: Bloomberg; Note: Dec'19 levels refer to the average of Dec'19

Bond markets saw some respite in the second half of August across the maturity spectrum following a brief period of sharp surge led by the 50-bps hike in the repo rate announced in the August monetary policy meeting. The 10-year benchmark yield softened to an average of 7.26% in August compared to an average of 7.39% in July, aided by falling crude oil prices, cooling off inflation print in July, speculations about the inclusion of Indian government bonds in international bond indices and an expectation of no change in government market borrowing programme. However, the short-term yields remained elevated, leading to a narrowing of the 10-year and 1-year spread from 125 bps in July to 111 bps in August. The bond markets witnessed volatility in September as the effects of FPI inflows in the debt market (anticipating G-Sec inclusion in international bond indices) and reduced fiscal slippage risks are curtailed by an uptick in inflation and the expectation of RBI's larger policy rate hike. Accordingly, the 10-year G-Sec yield fell to 7.16% by September 14, then went back to around 7.27% in recent days (September 16). Going ahead, the near-term outlook for the market will be guided by the upcoming RBI monetary policy, the US Fed's policy stance, the announcement of the government's H2 market borrowing calendar, news on the inclusion of G-Sec in the international bond indices, and the inflation trajectory ahead. Overall, we expect volatility to persist, with some firm-up in yields.

Rupee's recent resilience owing to FPI inflows; depreciatory trend to continue



Source: CMIE; RBI

The Indian rupee has shown some resilience in August-September as Foreign Portfolio Investors continued to invest in the Indian markets, given the Indian economy's resilience even amid a highly uncertain global environment. The INR/USD exchange rate held ~79.6 in August on average (same as July average) amidst volatility. In September, the exchange rate volatility persisted as a stronger dollar weighed on the INR/USD rate while FPI capital inflows and RBI intervention supported the rupee. RBI's continued FX intervention is evident in the decline in forex reserves from $588 bn at the start of July to $551 bn as of September 9, 2022. Year to date, the rupee has depreciated by 7.2% (data till 16th) against the US dollar, which is more or less in line with the other emerging market peer currencies. In terms of the real effective exchange rate, the rupee remains overvalued by 1.1% compared to the FY16-20 average and by 3.9% when compared to the base 100 level. Looking ahead, we believe the currency will continue to face depreciatory pressures owing to a widening current account deficit, policy tightening in the developed world, and dollar strength.

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