# LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

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## NATIONAL

### Indian economy likely to register 8-8.3% growth in FY25, says PHDCCI

India's economy is estimated to grow at 8-8.3 per cent in the current fiscal, industry body PHDCCI said on Wednesday.

The country's GDP will grow at an average of 6.7 per cent over the next 23 years to become a $34.7 trillion economy by 2047, with a per capita income of $21,000, it added.

"We are projecting a growth rate of 8 to 8.3 per cent for India's economy for the current financial year," PHDCCI Chief Economist SP Sharma said.

Addressing a press conference, he said India's economy has robust growth fundamentals.

"Gradually after 2035, the growth rate will start decelerating from the peak, and on an average, our growth rate, the real GDP (gross domestic product), will be 6.7 per cent overall in the next 23 years," Sharma noted.

India's economy will attain the size of $34.7 trillion by 2047 with a per capita income of $21,000, the industry body said.

The chamber has suggested 10 key enablers for the country to become a developed economy by 2047 in a report.

It has recommended reducing the cost of doing business and enhancing the global scalability of promising sectors like fintech, information technology, automobile and renewable energy to boost the economy.

The chamber has suggested a special focus on the development of the semiconductor industry.

It has called for continued handholding to the startup ecosystem to become the second largest in the world by 2030.

The recommendation also includes capacity building for exports -- with a potential 75 products to be focused on to enhance export volumes in global trade.

The chamber has suggested reform measures for the agriculture and food processing sector, besides filling the vacant positions at the national and state levels, including the judiciary, police, medical and para-medicals, military and paramilitary and education, among others.

It has also pitched for a greater push to digital transformation to be among the top five countries in the Government AI Readiness Index by 2047.

The 10-pronged approach also suggests bolstering the renewable energy segment to enhance its installed capacity to 1,500 GW by 2047.

"Physical infrastructure, including road, rail, port, airport, education intuitions and hospitals, should be focused along with targeted outcomes annually," it said.

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**Operating margins of cotton yarn spinners to improve by 150-200 bps this fiscal, says CRISIL**

The cotton yarn spinning industry is expected to witness a breather this fiscal with operating margins of cotton yarn spinners set to improve by 150-200 bps this fiscal after hitting decadal lows of 8.5-9 per cent last fiscal, said a report by CRISIL Ratings.

In fiscal 2024, it added, profitability was affected by lower cotton yarn spreads and inventory losses. However, this fiscal holds better promise. "Stable cotton prices due to better availability of cotton during cotton season 2024 and improved cotton yarn spreads this fiscal will support improvement in margins," the report stated.

Revenue, too, will rise up by 4-6 per cent this fiscal and this will be driven by moderate growth in downstream demand amid stable yarn prices, after a 5-7 per cent decline last fiscal due to a sharp reduction in yarn prices.

Per the CRISIL report, credit profiles, which were impacted by lower cash accrual last fiscal, will also improve with better operating performance and moderate capex on deleveraged balance sheets. CRISIL analysed 95 cotton yarn spinners, which account for 35-40 per cent of the industry revenue, to reach these conclusions.

“Better availability of domestic cotton and continued downstream demand growth will drive recovery in cotton yarn spreads to Rs 90-92 per kg this fiscal from ~Rs 87 per kg last fiscal. The improvement was already visible in the second half of fiscal 2024 as higher cotton arrivals resulted in normalisation of cotton prices, thereby improving the margins of spinners. With cotton prices expected to stay benign and likely to remain below international prices, the operating margin is expected to recover 150-200 bps to 10.5-11 per cent this fiscal,” said Gautam Shahi, Director, CRISIL Ratings Ltd.

In terms of revenue, while yarn prices are expected to remain flat, CRISIL said that the domestic sales volume, which forms 70-75 per cent of the industry pie, is set to grow 4-6 per cent this fiscal, backed by orders from key end-user segments – readymade garments and home textiles. However, exports are likely to grow only 3-4 per cent this fiscal, given sluggish global economic growth. Exports had staged a recovery last fiscal with 80-85 per cent growth. With recovery in demand and operating performance, capacity utilisation level for the industry has reached 80-85 per cent and is expected to improve further this fiscal, it said.

“However, capex for cotton yarn spinners will remain moderate over the near term as they recover from lows of last fiscal, thus obviating the need for significant debt additions on already deleveraged balance sheets. As a result, interest coverage ratio is expected to improve to 5-5.5 times this fiscal from ~4 times in fiscal 2024. Gearing, too, is expected to improve moderately to 0.55 time from 0.64 time, said Pranav Shandil, Associate Director, CRISIL Ratings Ltd.

Any further slowdown in demand from the downstream segments (such as readymade garments), and any adverse movement in domestic cotton prices vis-à-vis international prices in the near term will be the key monitorable, CRISIL said.

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## GLOBAL

### Why the US dollar is causing chaos across Asia

Emerging-market currencies have tumbled this year as the dollar has gone from strength to strength. Taiwan's currency dropped to the lowest level in almost eight years this week, India's rupee slumped to a record, and Malaysia's ringgit is close to the weakest since the Asian financial crisis in 1998. All except one of the 23 main developing-nation currencies tracked by Bloomberg have fallen against the greenback this year.

**What's behind the dollar rally this year?**
The big tailwind behind the dollar has been US "exceptionalism." While much of the world economy is only seeing moderate growth, American data from employment to retail sales to **inflation** has frequently beaten analysts' forecasts. This has led traders to trim back bets on Federal Reserve interest-rate cuts, which has helped fuel gains in the greenback. The Bloomberg Dollar Spot Index, which tracks the US currency against 12 of its major peers, has risen by more than 4% this year.

**Why have emerging-market currencies been falling?**
The rampaging dollar and the prospect of higher-for-longer US interest rates have been the main drivers. The upper bound of the Fed's **benchmark** is currently at 5.5%, meaning investors can get attractive returns from holding dollars without needing to take the exchange-rate risk of sending funds to emerging markets.

While a number developing nations do offer a **yield** advantage over the US, in many cases this has been shrinking. At the start of last year, Brazil's policy rate was 13.75%, Chile's was 11.25% and Hungary's was 13%. Since then, central banks in the three economies have collectively trimmed their key rates by more than 12 percentage points.

Policymakers across the region have also unleashed a number of tools to bolster their currencies. China has used its daily currency fixing to support the yuan, while state-owned banks have sought to boost the currency by selling dollars. Bank Indonesia has dipped into its foreign-exchange reserves to buy rupiah, while Malaysia's central bank has been encouraging state-linked firms to **repatriate foreign investment** income and to convert it into ringgit.

But central banks know they are treading a fine line. If they deplete foreign reserves too quickly, this may lead to concerns about their long-term financial stability. Even the Bank of Japan, which has plenty of firepower to defend the yen, only intervened directly in the market **three times in 2022** to prop up its currency.

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**Global growth projected to continue at 3.2% in 2024, 2025: IMF WEO**

Global growth, estimated at 3.2 per cent in 2023, is projected to continue at the same pace in 2024 and 2025, according to the International Monetary Fund's (IMF) World Economic Outlook (WEO) April 2024.

The forecast for this year is revised up by 0.1 percentage point (pp) from the January 2024 WEO Update, and by 0.3 pp from the October 2023 WEO.

The pace of expansion is low by historical standards, owing to both near-term factors, such as still-high borrowing costs and withdrawal of fiscal support, and longer-term effects from the COVID-19 pandemic and Russia's invasion of Ukraine; weak growth in productivity; and increasing geoeconomic fragmentation.

Global headline inflation is expected to fall from an annual average of 6.8 per cent in 2023 to 5.9 per cent in 2024 and 4.5 per cent in 2025, with advanced economies returning to their inflation targets sooner than emerging market and developing economies, the report said.

The latest forecast for global growth five years from now—at 3.1 per cent—is at its lowest in decades. The pace of convergence toward higher living standards for middle- and lower-income countries has slowed, implying a persistence in global economic disparities.

The relatively weak medium-term outlook reflects lower growth in gross domestic product (GDP) per person stemming, notably, from persistent structural frictions preventing capital and labour from moving to productive firms.

Risks to the global outlook are now broadly balanced. On the downside, new price spikes stemming from geopolitical tensions, including those from the war in Ukraine and the conflict in Gaza and Israel, could, along with persistent core inflation where labor markets are still tight, raise interest rate expectations and reduce asset prices, a UNCTAD release said citing the WEO report.

Amid high government debt in many economies, a disruptive turn to tax hikes and spending cuts could weaken activity, erode confidence, and sap support for reform and spending to reduce risks from climate change, the report added.

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**Lower economic growth, trade disruptions to hit development: UNCTAD**

While the global economic slowdown last year was less severe than originally projected, further growth deceleration could be expected this year, cautions the UN Conference on Trade and Development (UNCTAD) in a new report.

Market expectations for lower interest rates raise hope for mitigating the pressure on private and public budgets worldwide this year, the report notes.

However, monetary policy alone cannot provide solutions to key global challenges, it says, pointing to the ongoing crises linked to sovereign debt, ever-growing inequalities and climate change.

UNCTAD secretary general Rebeca Grynspan, ahead of the Spring Meetings of the Internatioonal Monetary Fund and the World Bank that she will participate in, strongly urged concerted multilateral action and a balanced policy mix, underlining that global policy coordination remains the key to safeguarding the global economy amid shifting trade patterns, soaring debt and mounting cost of climate change all of which disproportionately affect developing countries.

Grynspan highlights two critical areas. “We call for coordinated multilateral efforts to address the asymmetries of international trade and market concentration,” she said.

“Borrowing countries need more fiscal flexibility to reach the Sustainable Development Goals. This can only be achieved through an inclusive and global reform of the global financial safety net,” she was quoted as saying by a UNCTAD release.

In 2023, despite stable employment, inflation decreased, indicating that supply-related issues, not just demand, contributed to earlier inflation. The report found no evidence of a feared cycle where rising wages drive up prices, with real wages still below pre-pandemic levels and lagging behind productivity growth.

The global economy grew by 2.7 per cent last year, but international trade in goods decreased by 1 per cent. Although there has been some recovery in 2024, it is unlikely that merchandise trade will be a significant driver of growth this year, the UCTAD report notes.

Despite some improvement, subdued growth is expected in global merchandise trade this year.

Prospects for services trade are relatively better, it adds, cautioning that rising protectionism, trade tensions and geopolitical uncertainty not only hamper economies, but also imperil concerted multilateral solutions at a time when international trade collaboration is needed more than ever.

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**Bangladesh to extend incentives to exporters post-LDC period**

After Bangladesh's anticipated graduation from least developed country (LDC) status in 2026, the government pledged to extend incentives to exporters, ensuring their sustained competitiveness in the global markets even as state minister for commerce, Ahsanul Islam Titu, emphasised the necessity of the incentives.

He however underlined that direct cash subsidies on export receipts would not be possible once the country transitions to a developing nation and highlighted adherence to the World Trade Organization's guidelines in deciding the framework for these subsidies, indicating a commitment to international trade standards.

While specifics about subsidy mechanisms were withheld, reports hinted at potential avenues such as subsidies on electricity bills or allocations for technology upgrades and skill development.

The minister also noted that even developed and developing nations offer similar support to exporters.

The Commerce Ministry is also proactively identifying sector-specific challenges post-graduation, ensuring targeted interventions.

The minister further disclosed the formation of a high-powered committee under the cabinet division tasked with identifying challenges while also recommending solutions.

This proactive approach underscores the government's commitment to mitigating adverse effects on exporters post-graduation.

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