LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

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News Highlights

NATIONAL

What Modi 3.0 could mean for Indian economy: Experts bet on policy continuity, all eyes on RBI announcement on June 7

It has been a rather busy fortnight for the Indian economy. Close on the heels of robust **corporate** earnings and an **enduring 7 percent** GDP growth, the nation awaits ballots getting counted in less than 24 hours followed by the verdict on the interest rates from the Reserve Bank of India on June 7. While the election results may not impact the economy directly, nonetheless a prospect of an NDA Government led by BJP coming back to power, as signalled by Exit Polls, could have a direct bearing on the economic policy or, to some, a sign of continuity.

LOK SABHA ELECTION RESULTS 2024

The Indian economy is poised at a critical point and the momentum in terms of GDP growth continues. While the fineprint on the state of the economy would emerge after the formation of the new government and announcement of the Budget in 2024, the general consensus is that no steps should be undertaken that could have the potential to derail the GDP trajectory.

Policy Continuity a big factor

According to Motilal Oswal report on the economy after the exit polls were made public, "The victory of PM Modi/BJP augurs well for the economy and capital markets as it provides stability and continuity in policymaking with a single-party majority government, which will be expected to continue pushing its economic agenda. Fundamentally, India is witnessing its own mini-Goldilocks moment with excellent macros, solid corporate earnings. This verdict and consequent political stability and continuity in policy-making will act like an icing on the cake, in our view."

100-day plan a key aspect to watch

Garima Kapoor, Senior Vice President, Economist, Elara Securities retained the FY25 growth projection at 7% and explained that "The announcement of final Budget in July 2024 by the new government (we project a comfortable victory for Modi-led BJP) with the announcements of 100-day plan may offer further policy clarity and direction as to next growth levers. The key risk to India's growth outlook, in our view, comes from potential slowdown in the global economy due to lower-than-expected rate cuts by the central banks and continued geopolitical tensions. A delay in rate cuts in the US and volatile food inflation suggest that India's rate cut cycle is unlikely to commence before Q4FY25. We expect a 25bps cut in FY25E."

Private capex cycle crucial

A likely upside is also anticipated if the private capex cycle gets entrenched firmly. The 48-day long 7-phase election process no doubt saw a significant moderation of the capex cycle and based on the pipeline of approvals/sanctions, one can only expect that there is a gradual pickup after the results announcement. The smart uptick in GST collection and surplus dividend receipts from the RBI are also expected to boost the capex cycle.

According to Rumki Majumdar, Economist, Deloitte India, "The strong growth in this quarter bodes well for investors, who are waiting for sustained cues in consumer demand, to invest. Strong capital investment by the government is already crowding in private investments. One of the biggest drags was exports which contracted by -7.7% YoY. The contraction in exports after eight quarters of double-digit growth is a concern. While the contraction was broad-based, the good news is that exports in electronics goods remained strong. The accelerated digitization around the globe and India's determination to accelerate efforts towards self-sufficiency in the electronics space aided in the growth. The pick-up in capex spending by the government, the rise in demand for new residential properties, and falling input prices (WPI and fuel prices) boosted these sectors. But the biggest boost came from the services sector. This was fueled by strong growth in the 'financial, real estate and business services' sector."

RBI rate decision on June 7

Experts however highlighted that in terms of events that can impact the economy, a significant attention is on the RBI as the Monetary Policy Committee begins its quarterly meeting on rates a day after the results announcement. The RBI's stance and interest rate outlook coupled with inflation expectations are key factors to watch out for.

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DBS retains India GDP growth forecast at 7% for FY24-25

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RBI Policy: Rising US Fed rate cut hopes, India GDP, inflation, exit polls - What changed since last RBI policy meeting?

The Reserve Bank of India's (RBI) is expected to keep the benchmark repo rate unchanged at its upcoming monetary policy review meeting, analysts said. The meeting of the RBI Governor Shaktikanta Das headed Monetary Policy Committee (MPC) is scheduled for June 5 to 7.

This will be the first RBI MPC meeting after the Lok Sabha elections results will be announced on June 4. The upcoming RBI policy meeting also comes amid robust domestic economic growth and headline inflation remaining above the central bank's 4% target, but within the tolerance band.

The central bank last hiked the benchmark repo rate to 6.5% in February 2023 and since then it has maintained status quo on the rates.

"In the upcoming credit policy meeting of RBI, we expect MPC to maintain a status quo. No change in stance is also expected, as RBI will keep liquidity tight to keep short term rate higher and support INR. Liquidity deficit may ease as elections come to an end government spending will see a pick up in the coming months. Further, upward revision to RBI's GDP forecast for FY25 can be expected. CPI forecasts may not change as of now," said Sonal Badhan, Economist at Bank of Baroda.
However, a lot has changed since the last RBI policy announcement. Since the last policy, RBI will be evaluating performance of economic activity, trends in inflation, arrival of monsoon, movement of domestic high frequency indicators and international oil prices, and global developments.

US Inflation

Data on Friday showed US inflation stabilised in April, as the personal consumption expenditures (PCE) price index increased 0.3% last month, matching the unrevised gain in March. The PCE price index rose 2.7% year-on-year (YoY), after advancing 2.7% in March.

Softer US inflation data raised bets of an interest rate cut by the Federal Reserve in September. Traders are currently pricing in about a 54% chance of a rate cut by September, according to the CME FedWatch Tool.

Moreover, price cuts by major US retailers and new data showing a slowdown in consumer spending may boost the Fed's confidence in falling inflation, Reuters reported.

European Central Bank

Investors will now watch out for the European Central Bank's (ECB) interest rate decision on Thursday, where the central bank is expected to cut borrowing costs by 25 basis points from its record-high levels, according to a Reuters poll.

India GDP

Latest data shows that Indian economic activity continues to remain resilient with annual GDP growth for FY24 revised upward from 7.6% as per second advanced estimates to 8.2% as per provisional estimates. This is also higher than 7% growth registered in FY23.

Inflation

Domestic CPI print for April 2024 shows that inflation remains broadly sticky at 4.8% versus 4.9% in March 2024. As per RBI's April policy statement, the central bank expects inflation to average at 4.9% in Q1 and then come down to 3.8% in Q2.

"Our study shows that a $10 per bbl increase in oil prices leads to 40-60 bps increase in CPI. It is to be seen if RBI will revise its current inflation forecast of 4.5% for FY25," said Badhan.

Transmission of rates

The BoB Economist also notes that the transmission of interest rates is better for PSU Banks relative to Private sector banks. In case of PSBs, the transmission on fresh term deposits has seen an increase of 240 bps. On the lending side, transmission still remains as WALR has risen by 208 bps. For private lenders, the increase on fresh deposits is lower at 218 bps and that on loans is at 160 bps.

System liquidity

On an average, liquidity remained in deficit in the month of May 2024 (till 30 May) at ₹1.42 lakh crore, compared with a surplus of ₹20,240 crore in April 2024.
“A part of the reason for pressure on liquidity is limited government spending during the period of general election. We expect RBI to maintain tight liquidity in the coming months as well, to maintain pressure on short-term yields, which may in turn support INR. Thus we expect RBI to keep its stance—“withdrawal of accommodation”—unchanged in the June policy,” Badhan said.

Bond Yields

Since the last policy, the Indian government 10-year bond yields have fallen by 14 bps and are currently trading around the 6.98% mark, compared with 7.09% before the April policy. Bond buyback announced by the central government, limited borrowing in weekly auctions, and improved prospects of normal monsoon in the country, have supported domestic yields so far

Looking at the factors mentioned above, analysts believe that growth fundamentals still remain strong.

“Under these conditions, we expect the RBI to maintain the status quo on rates and stance. We do not expect any significant announcement on the liquidity front either. We also do not expect any change in stance of “withdrawal of accommodation” by RBI,” Badhan said.

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India, UK begin talks onrecognising and mappingskill gaps

India, UK begin talks on recognising and mapping skill gaps - The Economic Times (indiatimes.com)

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Spinning Units Cut Production Due To Poor Demand

Reduced demand for yarn and low competitiveness in the international markets has forced spinning units in Madhya Pradesh to cut down output by more than 10 per cent.

Low demand from textile units and a sharp decline in yarn purchase from China and Bangladesh has dampened cotton prices in the local market, claimed industry players.

Manjeet Singh Chawla, owner of a spinning unit near Dhamnod said, “Demand for yarn has declined sharply and this has adversely impacted the market sentiment. Most spinning units have cut down on shifts and reduced production by over 10 per cent.”

Chwala said the annual consumption of cotton in MP is around 27 lakh bales.

Cotton prices in the spot market of MP is around Rs 54,000-55,000 per candy (1 candy is 356 kg each), said traders.

They said low cotton prices have reduced the viability of spinning units in the market forcing several units in the state to cut down production.

Spinners said rising input cost has also squeezed margins in the sector.

Industry players said, the 45 days payment rule for Micro, Small and Medium Enterprises has also dampened the garment market.

“Demand for garments has dropped. Mills have reduced purchases from mills on poor orders. Some improvement in prices is expected only when garment demand will improve,” said Animesh Bhargawa, cotton trader.

Industry players expect an uptick in demand from the upcoming season starting July.

The Cotton Association of India, an apex trade body, April estimate has put cotton pressing at Madhya Pradesh at 18 lakh bales (1 bale is 170 kg each) for the cotton year 2023-24 as against 19.5 lakh bales a year ago. TNN

We also published the following articles recently

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Centre to fund 150 startups with ₹50 lakh each for developing advanced technical textiles | Today News (livemint.com)

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GLOBAL

Bangladesh RMG Makers Seek Continuation Of Cash Support

Bangladesh Garment Manufacturers and Exporters Association (BGMEA) president SM Mannan emphasised the necessity of cash support and government policy support to achieve apparel export targets, warning that the industry would suffer without it. Addressing journalists in capital Dhaka recently, the BGMEA chair highlighted that the industry's competitiveness and investment prospects would be severely impacted if policy support faltered.

Prominent figures such as former BGMEA presidents Atiqul Islam, Salam Murshedi, Siddiqur Rahman, and current board members attended the meeting.

SM Mannan said, “We aim for $100 billion in garment exports by 2030, which requires sustained government policy support. Without this assistance, reaching our target will be impossible.”

He stressed the industry’s hope for continued government cooperation to achieve the goals while also pointing out that the number of factories directly exporting has declined from 5,000 to 2,200 and maintained that these factories are crucial for sustaining and expanding exports and creating new jobs.

As the largest employment-generating sector, the garment industry holds significant potential for economic revival and job creation in the country.

The BGMEA president further noted, “Our share in the global market is only 7.87 per cent, presenting immense opportunities. Continued government cooperation will enable the garment sector to play a leading role in building a poverty-free, Smart Bangladesh.”

He also urged the government to reduce the tax at source on exports to 0.5 per cent from 1.0 per cent in the upcoming 2024-25 budget, maintaining this rate for the next five years, to help the industry navigate crises.

Additionally, the BGMEA chair called for a reduction in the income tax deduction rate on incentive cash assistance from 10 per cent to 5 per cent, advocating for the continuation of incentives until 2029.

He also requested that raw materials for the garment industry be VAT-free while also demanding tax concessions on importing fire and safety equipment for export industries and subsidised import rates for replacing damaged equipment.

He further urged special funds for food rationing for workers and support for non-cotton garment export and investment.

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Proposed export policy offers various benefits for textile and RMG sector

The proposed 2024-27 export policy mentions a total of 14 facilities for the textile and ready-made garment sector. These include- steps will be taken to increase competitiveness by reducing the lead time of export of ready-made garments in coordination with all relevant authorities. Starting from improving the working environment of garment factories, the risk of fire and building accidents will be reduced.

Apart from this, initiatives will be taken to develop an integrated and rational compliance policy. In addition to increasing the efficiency and productivity of the workers and employees working in the garment industry, new technologies will be introduced.

Organizing individual indigenous textile and readymade garment fairs to expand and consolidate the readymade garment market from sending marketing missions to potential destination countries. Besides, international fairs will be organized and participated.

Besides, necessary steps will be taken to increase cotton production in the country to reduce dependence on imported cotton for export of readymade garments. Loans will be given on easy terms at low interest for setting up synthetic fiber based textile and garment industries as alternatives to cotton for diversification of readymade garments. At the same time, duty and tax exemption facilities will be provided.

Other benefits mentioned in the textile and apparel sector include- Special emphasis will be given to backward and forward linkage industries to increase export capacity. Support will be provided in research and development activities to increase competitiveness.

The Cabinet Committee on Economic Affairs (CCEA) on May 15 approved the draft Export Policy 2024-2027 with an export target of $110 billion in FY27.

The list of beneficiaries under the proposed 2024-27 export policy includes – textile and ready-made garments sector, leather industry, jute and jute-based industry, primary agricultural products, fish and fishery products, tea industry, pharmaceutical industry and medical equipment, plastics and toys, shipbuilding industry, light engineering products, agro-processed products, herbal products, handicraft products and other sectors.

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RMG prices down 16% in eight months: BGMEA

Bangladesh Garment Manufacturers and Exporters Association (BGMEA) said that the price of ready-made garments exported from Bangladesh has decreased from 8 percent to 16 percent in the last eight months. The organization said this happened because the global demand for Bangladeshi clothing decreased due to the pressure of global inflation.

According to the data provided by BGMEA, not only the prices of garments but also the volume of garment exports have decreased. Apparel exports to the US fell by 7 percent and apparel exports to the European Union by 13 percent during the July-April period of the 2023-24 fiscal year.

However, Apparel exports grew by 4.97 percent till April this year, compared to 9.9 percent in the previous fiscal.

BGMEA president SM Mannan Kochi said in an interaction with the media at Pan Pacific Sonargaon Hotel on Saturday (June 1) that the bank's interest rate has increased by 15 percent and the cost of production has increased by 50 percent in the last five years. The cost of producing garments has increased due to rising gas and electricity prices and workers' wages.

BGMEA president also said that Bangladesh will suffer in terms of foreign investment due to a lack of investment arrangements outside the export processing areas and special economic zones.

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