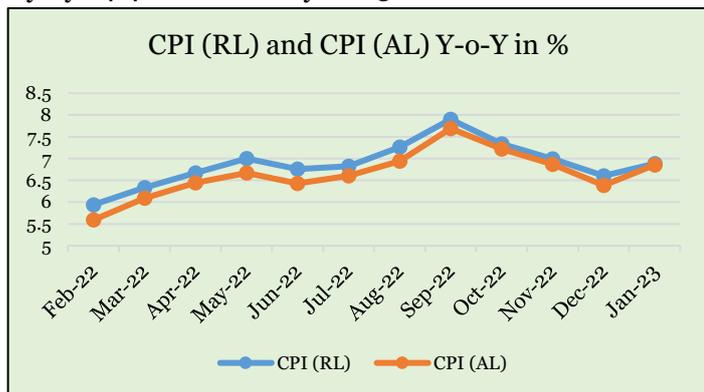


Global Economic Outlook

- **US GDP grew 2.7% in Q4 2022:** According to the second estimate released by the Bureau of Economic Analysis (BEA), real gross domestic product (GDP) increased at an annual rate of 2.7% (Q-o-Q) in the fourth quarter of 2022, lower than 2.9% increase originally reported. In the third quarter, real GDP increased by 3.2%.
- The updated estimates primarily reflected a downward revision to consumer spending that was partly offset by an upward revision to non-residential fixed investment. GDP growth for 2022 remains unchanged at 2.1%.
- **U.S. business activity rebounds to eight-month high in February 2023:** U.S. business activity rebounded in February 2023, reaching its highest level in eight months. Flash U.S. Composite PMI Output Index, which tracks the manufacturing and services sectors, increased to 50.2 in Feb 2023 from a reading of 46.8 in Jan 2023.
- Chief economist at S&P Global said, "Despite headwinds from higher interest rates and the cost-of-living squeeze, the business mood has brightened amid signs that inflation has peaked and recession risks have faded".
- **Eurozone Inflation cools down to 8.6% in Jan 2023:** The consumer price index in the eurozone cooled down to 8.6% in January 2023 compared to 9.2% in December 2022.
- Despite this drop, consumer prices grew slightly faster than initially estimated. The core inflation, which does not consider more volatile categories of food and energy, came at 5.3%, compared to the preliminary estimate of 5.2%.
- **Inflation in US saw an increase in January 2023:** Inflation in the US, as measured by the Personal Consumption Expenditures (PCE) price index, rose to 5.4% on a yearly basis in January 2023 from 5.3% in December 2022.
- The annual Core PCE Price Index, the Federal Reserve's preferred gauge of inflation, edged to 4.7% in Jan 2023 from 4.6% in Dec 2022. On a monthly basis, Core PCE inflation and PCE inflation both rose 0.6% (M-o-M), with core PCE witnessing biggest gain since August 2022.
- **Domestic Outlook**
- **GDP grows by 4.4% in Q3-FY23:** India's real gross domestic product (GDP) grew by 4.4 % in the third quarter of 2022-23 as compared to the same quarter a year-ago.
- Private final consumption expenditure (PFCE), the single largest component of India's GDP, grew by 2.1%, while government final consumption expenditure (GFCE) declined by 0.8%.
- Gross fixed capital formation (GFCF), an indicator of investment demand, grew by 8.3% during the December 2022 quarter.
- Imports grew by 10.9% and exports by 11.4%. As a proportion of GDP, the trade deficit, at 2.4%, was almost constant when compared to the September 2022 quarter.
- **GVA to grow by 6.6% in FY23: NSO's 2nd Advance Estimates:** In its 2nd Advance Estimates, the Ministry of Statistics & Programme Implementation revised its estimate of India's real gross value added (GVA) growth for 2022-23 from 6.7% to 6.6%. According to the second advance estimates, agriculture GVA will grow by 3.3% in 2022-2023.
- **Inflation for agricultural and rural labourers rises in January 2023:** Rural India witnessed higher inflation in January 2023 compared to the preceding month. Retail price inflation for agricultural labourers, measured by the CPI-AL, rose to 6.8% in January 2023 from 6.4% in December 2022. The food group, which accounts for 69.15 % of the consumption basket of agricultural labourers, saw inflation rise to 6.6% from 5.9%.
- Inflation for rural labourers, measured by the CPI-RL, rose to 6.9% in January 2023 from 6.6% in December 2022. Food inflation for rural labourers rose to 6.5% in Jan 2023 from 5.8% in Dec 2022.
- **Non-food credit growth improves to 16.7% in January 2023-** Year-on-year growth in outstanding non-food credit disbursed by scheduled commercial banks (SCBs) improved to 16.7% by end January 2023 from 15.3% at the end of December 2022. Credit offtake by industry grew by 8.7% at the end January 2023.
- The growth in credit disbursed to the service sector accelerated to 21.5% in January 2023 from 19.6% in December 2022. Size of personal loans portfolio of SCBs increased year-on-year by 20.4% in January 2023. The portfolio had grown at the same pace in December 2022 too. Agricultural loans, the smallest

component of outstanding SCB loans, increased y-o-y by 14.4 % in January 2023.



Source: CMIE

Interest Rate Outlook

- Calibrated monetary policy action warranted to anchor inflation: MPC minutes-** The minutes of the Reserve Bank of India (RBI)'s monetary policy committee (MPC) meeting held on 6-8 February 2023, showed an increasing degree of concern among most members over persistent inflationary pressures.
- The six-member panel decided to hike the repo rate by a mandate of four in favour while two against it. Repo rate was increased by 25 basis points to 6.5%.
- RBI Governor Shaktikanta Das highlighted considerable uncertainty on the trajectory of inflation in the country due to geopolitical tensions, global market volatility, rising non-oil commodity rates, swings in crude oil prices and weather-related events.
- He further stated that the 25-bps rate increase would provide space to calibrate future monetary policy actions and stance based on evolving macroeconomic conditions. RBI deputy governor Michael Patra voiced that the monetary policy stance would need to remain disinflationary till inflation is returned to target.
- The two other external members of the MPC Ashima Goyal and Jayanth Varma both of whom had voted against the rate hike, emphasised risks to economic growth posed by tighter monetary policy.
- Fed resolved to fight inflation with rate hikes-** Federal Reserve approved a 0.25 percentage point hike in its 31 Jan – 01 Feb 2023 meeting, following larger moves of a half percentage point increase in Dec 2022 and 0.75 percentage point in Nov 2022.
- Minutes from the meeting released on 22 Feb 2023, showed officials seeing a slower rate hike the best way to manage the risks of raising rates too much or

too little. However, officials were concerned about stopping or slowing their inflation-fighting campaign too soon. Few members even supported a half percentage point, or 50 basis points, increase that would show even greater resolve to get inflation down.

- RBI to hike repo rate by 25 bps in April 2023: Reuters' poll-** RBI is expected to hike repo rate by 25 basis points (bps) in April 2023 and then pause until the end of 2023, as per a poll of 55 economists conducted by Reuters' between 14 and 21 Feb 2023.
- Since May 2022, the central bank has raised rates by 250 basis points. The current repo rate stands at 6.5%. The survey also showed inflation to likely remain sticky at 6% in the March 2023 quarter, higher than the RBI's projection of 5.7%.

Weekly Benchmark Bond Yield Movement (%)					
Date	20-Feb	21-Feb	22-Feb	23-Feb	24-Feb
USA 10 years	3.82	3.96	3.92	3.89	3.95
India 10 years	7.37	7.39	7.42	7.39	7.42
India 5 years	7.36	7.39	7.44	7.40	7.43
India 3 months	6.70	6.78	6.85	6.88	6.88

Source: CMIE, worldgovernmentbonds.com

- Reserve Bank of India conducted the auction of three government securities, namely, 7.10% GS 2029, 7.41% GS 2036 and 7.40% GS 2062 for a notified amount of Rs.26,000 crore on 24 February 2023, which was completely accepted.
- RBI on the same day, conducted a variable rate reverse repo auction for a total notified amount of Rs.50,000 crore against which it received offers amounting to Rs.12,752 crore.
- Yield on the 10-year benchmark paper (7.26% GS 2032) closed at 7.42% on 24 February 2023 compared to 7.39% on 17 January 2023.
- India's foreign exchange reserves fell by USD 5.7 billion to USD 561.3 billion during the week ended 17 February 2023. Foreign currency assets, the largest component of India's foreign exchange reserves, decreased by USD 4.5 billion to USD 496.1 billion.
- Due to liquidity deficit in the banking system and persistent inflationary pressure, we expect benchmark 10-year bond to trade in a range of 7.42% -7.48% during the week (27 February - 03 March 2023).