

Global Economic Outlook

U.S. services activity gaining steam

- U.S. services industry activity picked up in March, boosted by the rollback of pandemic restrictions, but higher prices for fuel and other commodities because of Russia's war against Ukraine are creating uncertainty for many businesses.
- The ISM's non-manufacturing activity index rebounded to a reading of 58.3 in March from a one-year low of 56.5 in February, ending three straight monthly declines.

Inflation in USA at decades high

- In the month of March 2022, the CPI is forecast to shoot upto 8.4%. That would be the largest year-on-year gain since January 1982 and would follow a 7.9% jump in February. It would be the sixth straight month of annual CPI readings north of 6%.

Euro Zone's economic activity slows down

- S&P Global's final composite Purchasing Managers' Index (PMI), seen as a good guide to economic health, dipped to 54.9 in March from February's 55.5 but was ahead of a preliminary 54.5 estimate.
- March's final euro zone PMI surveys confirmed that output expectations fell sharply, with Germany experiencing the biggest drop.

Unemployment claims at record low level

- Initial claims for state unemployment benefits in USA dropped 5,000 to a seasonally adjusted 166,000 for the week ended April 2.
- A severe shortage of workers is keeping layoffs low and boosting hiring. Worker demand is being driven by a sharp decline in COVID-19 infections, which has resulted in restrictions being lifted across the country.

UK Services PMI rebounds

- The S&P Global/CIPS UK Services PMI rose to 62.6 in March from 60.5 in February, an upward revision from a preliminary "flash" reading of 61.0 and far above the 50 threshold for growth.

Domestic Economic Outlook

ADB retains the GDP forecast

- The Asian Development Bank (ADB) on Wednesday projected the Indian economy to grow at 7.5 % in FY23 on the back of strong investment growth.
- The projection factors in the impact of the Russian invasion of Ukraine, which will be largely felt

indirectly through higher oil prices. It also assumes that the severity of the Covid-19 pandemic will subside and vaccination rates will further rise in the country.

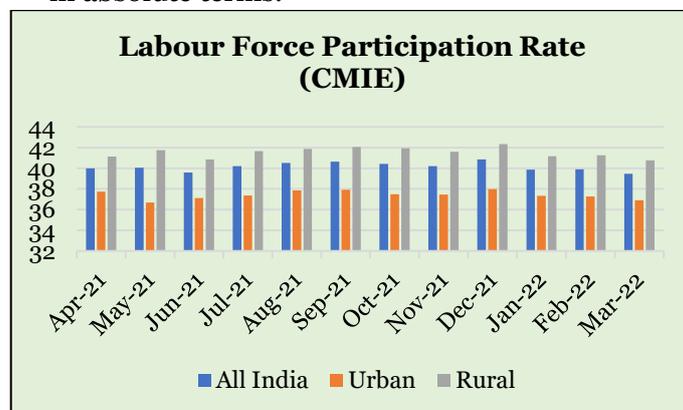
- The upturn reflected the removal of pandemic health restrictions and increased spending on leisure and entertainment services, but the survey pointed to tougher times ahead for Britain's economy.

Modest rise in bank credit

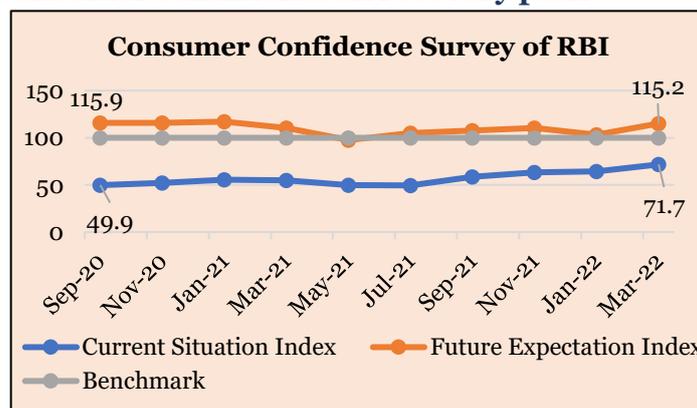
- Bank credit failed to record a significant increase in February 2022 after the decline in January. Outstanding non-food credit disbursed by scheduled commercial banks (SCBs) increased by 0.5 per cent by end-February over the preceding month. This was a modest recovery after the decline of 0.8 per cent in January.

Labour force participation rate falls

- The unemployment rate fell in March 2022 to 7.6 per cent from 8.1 per cent in February.
- The decline in the LPR reflects the inadequacy of the growth in employment opportunities. A decline in the labour force in absolute terms reflects a shrinkage in employment opportunities in absolute terms.



Consumer sentiments on recovery path



- Consumer sentiments index as released by RBI continue to improve steadily. Future Expectation Index has rebounded to pre pandemic level whereas current situation index is improving slowly and steadily.

GST collection hit record high

- Marking a new high since its rollout in July 2017, gross collections of Goods and Services Tax (GST) rose to ₹1.42 lakh crore in March, for sales in February, according to data released by the Union Finance Ministry— a 14.7% rise from March 2021 and a 45.6 per cent spike from March 2020.
- The sharp surge has come on the back of anti-evasion measures, “especially action against fake billers”, and a pick-up in economic activity. The average monthly gross GST collections for FY22 now stands at ₹1.23 lakh crore, which is 30.5% higher than the monthly average seen in the previous fiscal.

Direct Tax collection record steep increase

- The Centre’s gross tax receipts (GTR) grew by a steep 34% on year in 2021-22, beating the revised estimate (RE) put out in the Budget for 2022-23 by ₹1.91 trillion or 7.6%.
- Direct tax collections grew by a massive 49% on year, and indirect taxes by 20%. Interestingly, the direct tax collections in FY22 of Rs 14.1 trillion is almost the same as the target for the current financial year.

Interest Rate Outlook

Federal Reserve eyes consecutive interest rate hike

- A strong majority, or 85 of 102 economists in Reuters, forecast 50 basis points in May, and a still-solid majority of 56 said the Fed would follow up with 50 basis points as well in June.
- Given the shift in official commentary to a more hawkish tone and with inflation pressures visible throughout the economy, we believe the Fed will deliver half-point interest rate increases at the May, June and July policy meetings.
- A US Federal Reserve official has said its interest rate policy has been “behind the curve” and it is ready to raise rates faster to curb inflation.

Higher inflation forecast poses multiple challenge to RBI

- Retail inflation in India has been rising since September 2021, touching 6.07% in February 2022, up from 6.01% in January. This is the second consecutive month inflation has crossed

- RBI’s threshold of 6%. Inflation is expected to touch 6.5% for the month of March 2022.
- RBI’s challenge is to balance inflation in the economy while supporting the government’s borrowing; that is, keeping sovereign borrowing costs in check and enabling economic growth.

RBI’s Monetary Policy Review

- Forecast for economic growth decreased by 60 basis points lower at 7.2% for the current financial year against its February policy’s projections.
- Amid changed geo-political developments, projections for retail price inflation rate to 5.7%, against 4.5% estimated in the previous policy review.

RBI’s policy normalisation in full swing

- In its first bi-monthly monetary policy meeting for FY 2023, the Reserve Bank of India announced a new tool to absorb excess liquidity from the system – **Standing Deposit Facility (SDF)**. Through this new tool the central bank can absorb excess liquidity from the commercial banks, without an exchange of collateral like government-backed securities (G-Secs).
- RBI’s SDF at 3.75% (25 bps lower than repo rate) will be the floor of the LAF corridor. Indirectly, the reverse repo rate hike is at 40 bps as overnight rates will now be pegged at 3.75% apart from VRRR (variable reverse repo rate) that is variable in nature and currently hovers around repo rate levels.

Weekly Expectation

Table 1: Weekly Benchmark Bond Yield Movement (%)					
Date	4 Apr	5 Apr	6 Apr	7 Apr	8 Apr
USA 10 year	2.39	2.55	2.60	2.66	2.70
India 10 year	6.90	6.90	6.92	6.91	7.12
India 5 Year	6.18	6.17	6.19	6.17	6.47
India 3 Month	3.90	3.85	3.88	3.84	3.98

Source: CMIE, world governmentbond.com

- Government 10 year bond may trade in the range of 7.10-7.25% (11th April-13th April 2022) given the higher forecast for CPI in India and USA inflation.