Global Economic Outlook

U.S. Officials Say Recession 'Not Inevitable'

- The US economy contracted by 1.5% in the first quarter of this year, its first drop since 2020, and early indications point to a continued slowing in key sectors including manufacturing, real estate and retail sales.
- A recent survey of 750 company executives by the Conference Board found 76% believed a recession is looming, or has already begun. A recent analysis from the non-profit business group predicted a period of "stagflation" in 2023.

- Treasury Secretary Janet Yellen said that a recession in the United States is not "inevitable" but the economy is likely to slow. Yellen conceded that "clearly inflation is unacceptably high," attributing it partly to the war in Ukraine, which has pushed up energy and food prices.

IMF delegation visits crisis-hit Sri Lanka

- With its existing fuel stocks fast depleting, Sri Lanka is under intense pressure to get foreign exchange to pay for its imports, which has brought several sectors of the country’s economy to a grinding halt.
- An International Monetary Fund (IMF) team arrived in Sri Lanka on 20th June for talks on bailout programme.

UK economy contracts in April as inflation weighs

The consumer price inflation in the UK surged to a 40-year high of 9% in April, a leap from 7% in March, putting pressure on household budgets. Policy makers have a tough task ahead of achieving an inflation target of 2%, especially when the Bank of England foresees it to be in double digits by the fourth quarter of this year.

- The term ‘stagflation’ was a neologism coined in the 1960s to describe a peculiar economic condition—slow growth, a high inflation rate, high unemployment and an output gap. The 1970s saw the global economy, led by the US economy, experience its first bout of stagflation.

- Debt-sustainability concerns loom large for states: RBI bulletin

  - Stress tests show that the fiscal conditions of the most indebted state governments are expected to deteriorate further, the Reserve Bank of India (RBI), stated in its July 2022 bulletin. The overall risk rating of state governments, based on the sources, nature, and quantum of risks are summarised down below:

Domestic Economic Outlook

The inflation tightrope

- Even as retail inflation eased to 7.04% in May from an eight-year high of 7.79%, wholesale price index (WPI) inflation continued its upward trajectory, rising to its highest since 1991. The further increase in WPI inflation to 15.88% in May from 15.08% was in April mainly because of soaring prices of food articles, along with existing price pressures from raw materials and crude oil.

- Punjab is expected to remain in the worst position as its debt-GSDP ratio is projected to exceed 45% in 2026-27, with further deterioration in its fiscal position.
- Rajasthan, Kerala and West Bengal are projected to exceed the debt-GSDP ratio of 35% by 2026-27.

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Interest Rate Outlook
The Federal Reserve raised its benchmark interest rates three-quarters of a percentage point in its most aggressive hike since 1994.

- The US Federal Reserve hiked interest rates by three quarters of a percentage point on Wednesday (June 15), its most aggressive move since 1994, in a bid to tame runaway inflation.
- Fed Chairman Jerome Powell in his post-meeting news conference said that he expects the July meeting to see an increase of 50 or 75 basis points.
- Officials also significantly cut their outlook for 2022 economic growth, now anticipating just a 1.7% gain in GDP, down from 2.8% from March.

US Fed Reserve rate hike unlikely to impact India: Ajay Seth
Department of Economic Affairs Secretary Ajay Seth has stated that the government does not see an adverse impact of the United States (US) Federal Reserve rate hike on India. He mentioned that the Reserve Bank of India (RBI) has already taken adequate measures in their two meetings. Citing upside inflationary pressures, the central bank’s Monetary Policy Committee (MPC) raised interest rates by 40 basis points (bps) and 50 basis points respectively in May and June to 4.9%. Seth expects inflation to moderate in the coming months.

RBI to raise rates to 5.9 per cent by December 2022: Fitch Ratings
Given the deteriorating outlook for inflation, Fitch Ratings expects the Reserve Bank of India (RBI) to lift rates further to 5.9% by December 2022 and to 6.15% by the end of 2023. The apex bank would keep the rates unchanged in 2024, it added. The Indian economy is facing a worsening external environment, elevated commodity prices and tighter global monetary policy, according to Fitch.

Yield curve is indicating an improvement in long-term growth prospects: RBI Bulletin
The government securities yield curve contains important clues on the likely behaviour of the economy. The slope of the yield curve steepened with the onset of pandemic-related policy easing which has reversed in the recent policy tightening phase. The curvature increased sharply during the pandemic-related easing and after the Union Budget announcement of a large market borrowing programme for 2021-22 till the announcement of G-SAP in April 2021.

The yield curve is indicating an improvement in long term growth prospects and an upshift in ex-ante inflation expectations. At the same time, the fact that the yield curve has become steeper and concave reconfirms expectations of tighter monetary policy in the period ahead.

Market Operations
FPIs continue to withdraw
Data on NSDL showed that, so far this month as of June 17, FPIs outflow stood at ₹31,430 crore in the equity market. While, so far in 2022 up till today, the outflow has climbed to ₹1,98,585 crore in domestic equities. FPIs have been selling heavily in other emerging markets like Taiwan, and South Korea too. The strengthening of the dollar and rising bond yields in the US are the major triggers for FPI selling. Since the Fed and other central banks like the Bank of England and the Swiss central bank have raised rates, there is synchronised rate hikes globally, with rising yields. Money is moving from equity to bonds.

RBI Variable Rate Reverse Repo auctions
i. RBI held 14-day Variable Rate Reverse Repo auction held June 17, 2022 for ₹4,50,000 crore. Towards this, total amount of offers received and accepted was ₹1,65,184 crore at Weighted Average Rate of 4.89%.
ii. RBI held 28-day Variable Rate Reverse Repo auction held June 14, 2022 for ₹50,000 crore. Towards this, total amount of offers received and accepted was ₹33,456 crore at Weighted Average Rate of 4.88%.

Weekly Expectation

| Table 1: Weekly Benchmark Bond Yield Movement (%) |
| Date | 13-Jun | 14-Jun | 15-Jun | 16-Jun | 17-Jun |
| USA 10 year | 3.36 | 3.47 | 3.28 | 3.19 | 3.23 |
| India 10 year | 7.6 | 7.59 | 7.6 | 7.58 | 7.58 |
| India 5 Year | 7.37 | 7.37 | 7.39 | 7.38 | 7.37 |
| India 3 Month | 4.96 | 4.96 | 5.03 | 5.05 | 5.09 |

Government bond prices surged on 20 June, with yield on the 10-year benchmark paper dropping 10-basis points (bps). This comes as a sharp decline in global crude oil prices eased some worries over elevated domestic inflation. The India 10 Years Government Bond Yield is expected to trade in the range 7.40-7.55% in the current week (20-26 June).