

Global Economic Outlook

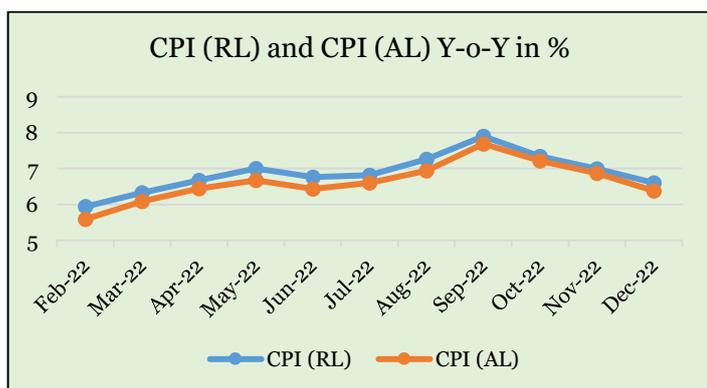
- **ILO expects global employment growth to slow down to 1% in 2023-** Global employment growth is expected to slow down to 1% in 2023 from 2% in 2022, as per International Labour Organization (ILO). The number of unemployed people in the world is expected to rise by 3 million to 208 million in 2023.
- ILO attributed the sharp decline in jobs growth to the economic fallout of the war in Ukraine, high inflation and tighter monetary policy.
- **Japanese Inflation at 41 years high in December 2022-** Core consumer prices in Japan for the month of December 2022 rose by 4% from a year earlier, double the Bank of Japan's (BOJ) target level of 2%.
- The BOJ governor, after the inflation data release, stated that the current inflation is led mainly by import-price increases, and that it's likely to start cooling from January 2023.
- The Bank of Japan on 18 January 2023, despite the high inflation forecast, left its ultralow rate policy unchanged leaving its negative interest rate at -0.1% and the target for 10-year yields under its curve-control programme around 0%.
- **UK Inflation cools for second straight month-** As per the estimates released by the Office for National Statistics, annual consumer price inflation in UK fell to 10.5% in December 2022 from November 2022 figure of 10.7%. This is for the second straight month that inflation figure has eased after hitting a 41-year high of 11.1% in October 2022.
- However, while lower prices for petrol and clothing pushed down the headline rate, the cost of food and non-alcoholic beverages was 16.8% higher than a year earlier, the sharpest increase since September 1977, led by eggs, milk and cheese.
- **US data for the week-** Initial claims for state unemployment benefits dropped by 15,000 to a seasonally adjusted 1,90,000 for the week ended 14 Jan 23, the lowest level since September 2022, defying the economist forecast of 2,14,000 claims for the week.
- As per the data released by Census Bureau, retail sales fell 1.1% in December 2022 (M-o-M), following a revised 1% drop in November 2022. The Fed raised its key interest rate in December 2022 for the seventh

time in 2022 for exactly the same reason as it tries to cool spending and inflation.

Domestic Outlook

- **RBI expects FY-24 GDP growth to decelerate to 6.5%-** India's real GDP growth may fall from 7% in 2022-2023 to 6.5 % in 2023-24, the Reserve Bank of India (RBI) stated in its January 2023 bulletin. At current prices and exchange rates, India's economy would be worth USD 3.7 trillion in 2023. The economy would be world's fourth largest in 2025 and world's third largest in 2027, when it would be worth USD 5.4 trillion.
- The objective during 2023 is to tether inflation therein so that it aligns with the target by 2024. Lead indicators also suggest that the current account deficit is on course to narrow through the rest of 2022 and 2023, it added.
- **Ernst & Young (EY) forecasts India to become USD 26 trillion economy by 2047-** India is likely to become a USD 26 trillion economy by 2047 with per capita income growing six times from current level to more than USD 15,000 during the period, as per EY report. The country would have a significant advantage owing to its strong domestic demand, digitalisation, largest talent pool globally, financial inclusion, global competitiveness and sustainability transition.
- EY recommended that India must ensure macro-economic stability and resilience and continue to lay thrust on reforms, which would be especially relevant in the backdrop of ongoing geo-political conflicts, inflationary pressures and slowing global growth.
- **Record e-way bills in December 2022-** Monthly generation of e-way bills or electronic permits required for shipments of goods within and across states surged to a record in Dec 2022, indicating a likely robust GST collection in Jan 2023.
- The e-way bills generated shot up to 84.1 million in Dec 23, crossing the 84 million permits raised in Sept 23 (Oct 2022 GST revenue, which reflects transaction in Sept 2022 was the second highest at ₹ 1.52 trillion)
- **States' gross fiscal deficit set to fall in 2022-23-** Gross fiscal deficit (GFD) of states is budgeted to narrow to 3.4 % of GDP in 2022-23 from 4.1 % in 2020-21, helped by broad-based economic recovery and higher revenue collections, as per the Reserve Bank of India (RBI).

- In its report titled, 'State Finances: A Study of Budgets of 2022-23', the central bank stated that states' debt is budgeted to ease to 29.5% of GDP in 2022-23 as against 31.1% in 2020-21.
- However, this is higher than the 20% recommended by the Fiscal Responsibility and Budget Management (FRBM) Review Committee, 2018, warranting prioritisation of debt consolidation.
- **Inflation for agricultural and rural labourers falls in December 2022-** Rural India witnessed lower inflation in December 2022 compared to the month of Nov. 2022. Retail price inflation for agricultural labourers, measured by the CPI-AL, fell to 6.4% in December 2022 from 6.9% in November 2022. The food group, which accounts for 69.15% of the consumption basket of agricultural labourers, saw inflation fall to 5.9% from 6.2%.
- Inflation for rural labourers, measured by the CPI-RL, fell to 6.6% in Dec 2022 from 7% in Nov 2022. Food inflation for rural labourers fell to 5.8% in Dec 2022 from 6% in Nov 2022.



Source: CMIE

- **Inflation likely peaked in 2022: Economists** Economists opine that inflation is likely to have peaked in 2022. However, still there is no end in sight for the cost-of-living crisis. Those on low income and in the developing world would be struggling with high prices for years to come.
- If inflation and the cost-of-living crisis are to be tackled effectively, knee-jerk reaction of the re-shoring industry in response to the supply chain shock of Covid-19 pandemic must be averted, economist suggested.

Interest Rate Outlook

- **Indian government could borrow a record ₹ 16 lakh crore in FY-24-** According to a Reuters poll of economists, Indian government is expected to borrow a record 16 trillion rupees (\$198 billion) in the fiscal year ending March 2024.

- Economists in a separate Reuter's poll forecast that the government would bring the budget deficit down to 6% of GDP in FY 24, it will still be well above the average of 4% to 5% seen since the 1970s and far from the target of reaching 4.5% by 2025-26.
- India's foreign exchange reserves rose by USD 10.4 billion to USD 572 billion during the week ended 13 January 2023.
- **Government bond prices ended lower in the week ending 20 Jan-** The prices of the government bond ended lower in the week ending 20 January 2023. Yield of the benchmark 10-year bond (7.26%-GS 2032) closed at 7.35% on 20 January 2023 compared to 7.30% on 13 January 2023.
- Concerns that the government will announce higher borrowing in the upcoming budget (due on February 1, 2023) kept yields elevated this week (16 Jan -20 Jan 2023). However, bond prices got support, following the Bank of Japan (BoJ) announcement of maintaining its ultra-easy monetary policy.
- In the debt sale held on 20 January 2023, the RBI auctioned 7.38% government securities (GS) 2027, 7.26% GS 2032, and 7.36% GS 2052 for a total notified amount of ₹28,000 crore.
- **Dollar hovers around seven-month low mark-** During the week, the dollar hovered near a seven-month low (the Dollar Index hit a seven-month low on January 18, 2023) as a slew of data feeds concern among investors that an economic slowdown could be unavoidable.
- The index fell 2.3% in 2023, following a 7.7% drop in the last three months of 2022, when investors began to attach a higher chance of the Federal Reserve slowing the pace of interest-rate rises.

Weekly Benchmark Bond Yield Movement (%)					
Date	16-Jan	17-Jan	18-Jan	19-Jan	20-Jan
USA 10 years	3.49	3.55	3.37	3.39	3.48
India 10 years	7.33	7.33	7.32	7.31	7.35
India 5 years	-	7.24	7.30	7.17	7.20
India 3 months	6.40	6.40	6.42	6.39	6.41

Source: CMIE, worldgovernmentbonds.com

- We expect benchmark 10-year bond to trade in a range of 7.33%-7.38% during the week (23-27 Jan 2023) ahead of debt supply worth ₹ 63,650 crore in the week.