Global Economic Outlook

Global Economy still Hooked to Oil

The world may be less dependent on oil now than it was during the energy shocks of the 1970s, but the roaring back of oil demand in 2021 and the spike in oil prices triggered by the Ukraine conflict has highlighted again the size of the effort that will be needed to wean the global economy from an oil habit ingrained over decades. From the petrochemicals used in plastics or crop fertilizers to the fuel burned simply to ship goods around the world, crude oil derivatives are a big part of the higher prices that consumers are now paying for all kinds of essential goods.

In the United States, the Fed estimates that every $10 per barrel rise in oil prices cuts GDP growth by 0.1% point and increases inflation by 0.2% point. In the euro zone, every 10% rise in the oil price in euro terms increases euro zone inflation by 0.1 to 0.2 points, according to European Central Bank research. Asia, as the region with not only the world’s largest demand for oil but also the fastest growth in demand, is also badly hit (Source: Reuters).

Domestic Outlook

Obstacles in Economic Recovery

After staying resilient during third wave, the Indian economy appears to have struggled again in February 2022 as per Mint’s monthly tracker (launched in Oct 2018, the tracker provides a comprehensive monthly report on the state of the economy based on trends in 16 high-frequency indicators across four segments: consumer economy, producer economy, external sector and ease of living. Red, green, and amber are the colour coding used based on the performance relative to the 5-year average trend). Half of the 16 high-frequency indicators considered in the tracker were in red, only three were in green, five were in amber zone. (Source: Mint)

India’s Growth Forecast for FY23 @8.5% by Fitch

Rating agency Fitch slashed India’s growth forecast for the next fiscal to 8.5% from 10.3%, citing sharply high energy prices on account of the Russia-Ukraine war (post-COVID-19 pandemic recovery is being hit by a potentially huge global supply shock that will reduce growth and push up inflation). The agency expects inflation to remain elevated throughout the forecast horizon, at 6.1% annual average in 2021 and 5% in 2022 (Source: BS, Mint).

As per the UN Conference on Trade and Development (UNCTAD) report India’s projected economic growth for 2022 has been downgraded by over 2% to 4.6% (earlier forecast for FY 22 was 6.7%), a decrease attributed to the ongoing war in Ukraine (Source: ET).

Exports Zoom to $400 Billion

India’s merchandise exports exceeded an ambitious target of $400 billion for FY22, staging a smart rebound after a 7% slide last fiscal in the wake of the Covid-19 outbreak. The top five export destinations are the US, the UAE, China, Bangladesh and Netherlands. The latest rise will raise India’s share in global merchandise exports from 1.6% in 2020 to 1.7% in pre-pandemic year of 2018 (Source: Ministry of Commerce, GoI, WTO, FE).

Imports touched $589 billion, driven by a spike in oil prices and massive purchases of coal and gold, leading to a trade deficit of about $189 billion.

On the other hand, agri-exports are set to exceed the target of $23 billion in FY22 due to sharp spike in shipments of rice, wheat, fresh & processed fruits and vegetables, live-
stock products. Export of commodities under the Agricultural and Processed Food Products Export Development Authority (APEDA) have crossed $21.45 billion during FY22 ($20.39 billion in FY 21).

Govt’s FY23 Food Subsidy bill may be ₹60,000 crore or less than Budget Estimate

The food subsidy expenses in the next financial year may be lower than the BE by around ₹60,000 crore as high mandi prices and brightened prospects of exports will allow the government to cut procurement of rice and wheat by 20 MT tonne or 20% of the target set. The likely reduction of 10 MT procurement (Centre’s rice and wheat procurement target for 2022-23 is 103 MT) of both cereals would result in savings on subsidy of ₹26,000 crore and ₹36,000 crore for wheat and rice, respectively in FY23. Due to war in Ukraine, international wheat prices have shot up. As a result, rice prices have also started hardening as countries look for alternatives. In the recent article by Dr. Ashok Gulati in FE, he has indicated the need for Amrit Kaal is to be self-reliant not just in missiles but also in meals (food). Self-reliance in food does not mean we have to produce everything, but specialize in commodities in which we have comparative advantage and export them and vice-versa (Source: FE).

Govt sets ₹1 Trillion Infrastructure Lending Target for DFI

The Centre has set a target of about ₹1 trillion for government-backed National Bank for Financial Infrastructure and Development (NaBFID) for sanctioning loans to the infrastructure sector in the next financial year. The government has infused ₹20,000 crore as equity in the DFI, and an additional ₹5,000 crore has been given as grants to NaBFID. (Source: BS)

Fall in Unemployment Rate

As per the Periodic Labour Force Survey (PLFS) data released on 22 March 2022, the unemployment rate has further fallen to 9.8% in July-Sep 2021 from 12.6% in April-June 2021. From the data analysed, it has been observed that Labour Force Participation Rate (LFPR) has fallen to 46.9% from 47.2% whereas Worker Population Ratio (WPR) has improved to 42.3% from 40.9% in last one year.