NABARD

DEAR
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Global Economic Outlook

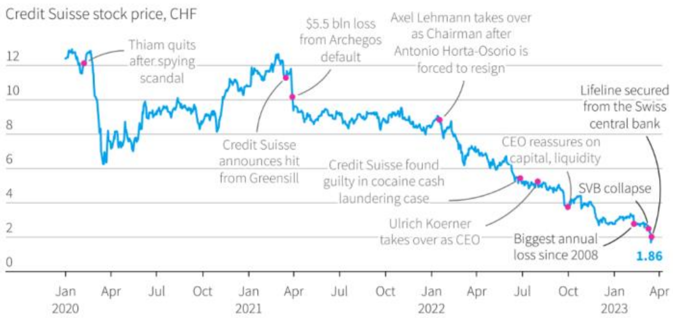
1. Global growth is projected at 2.6% in 2023 *(OECD released its interim Global Economic Outlook)*

Global growth is projected to remain at below trend rates in 2023 and 2024, at 2.6% and 2.9% respectively, with policy tightening continuing to take effect. Headline inflation is declining, but core inflation remains elevated, held up by strong service price increases, higher margins in some sectors and cost pressures from tight labour markets.

Inflation is projected to moderate gradually over 2023 and 2024 but to remain above central bank objectives until the latter half of 2024 in most countries. Headline inflation in the G20 economies is expected to decline to 4.5% in 2024 from 8.1% in 2022. Core inflation in the G20 advanced economies is projected to average 4.0% in 2023 and 2.5% in 2024.

2. Credit Swiss goes off piste

A string of scandals over many years, top management changes, multi-billion-dollar losses and an uninspiring strategy has led the 167-year-old Swiss lender to crisis.



Source:Reuters

3. The US Producer Price Index (PPI) decreased by 0.1% in February after increasing by 0.3% in January on monthly basis, the U.S. Bureau of Labor Statistics reported. On yearly basis PPI increased by 4.6% in February 2023 after advancing by 5.7% in January 2023. The U.S. retail sales fell moderately in February 2023 at 0.4%. Data for January was revised higher to show retail sales rising 3.2% instead of 3.0% as previously reported. Economists polled by Reuters had forecasted that the retail sales would fall by 0.3%.

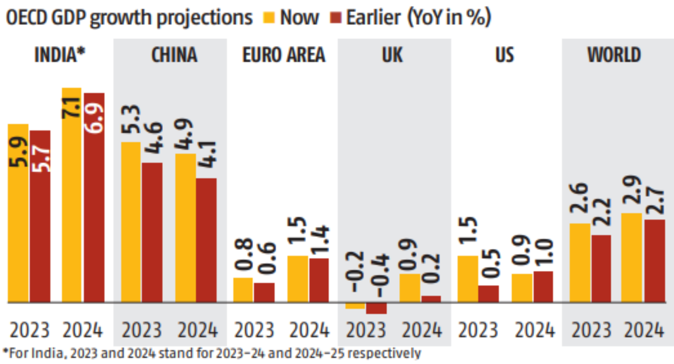
4. US Core CPI tops estimates

US consumer prices rose in February 2023, forcing a tough choice for Fed weighing still rapid inflation against banking turmoil. The overall CPI climbed 0.4% and 6% y-o-y. The Fed's quest to tame inflation will be a bumpy one as the economy has largely proven resilient to a year's worth of interest rate hikes so far.

Domestic Outlook

1. OECD raises India's growth forecast to 5.9%

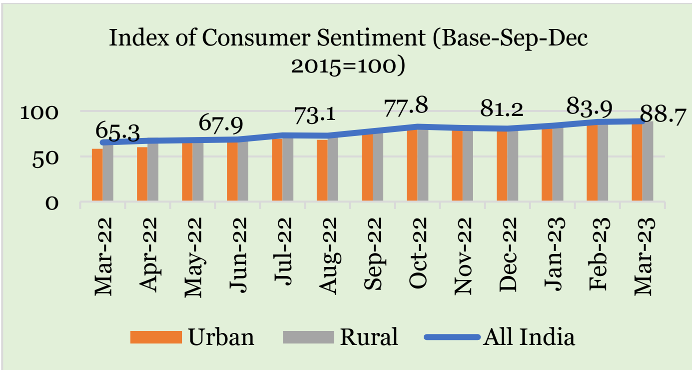
The OECD has revised upwards the growth estimate by 20bps to 5.9% in FY24 amid tighter inflation conditions.



The grouping of rich nations with business and improved consumer sentiments show positive signs. However, sharp changes in market interest rates and in current market value of bond portfolios could further expose duration risks in FIs as highlighted by the failure of Silicon Valley Bank.

2. Consumer sentiments high on expectations

Consumer sentiment *(an indicator that measures how optimistic consumers feel about their finances and the state of the economy)* in India improved quite well during January and February 2023. The relatively better sentiments in urban India were due to increase in labour force participation rate (LFPR) and a fall in unemployment (employment rate increased to 35% in Feb23). However, in rural India, LFPR fell to 40.9% in Feb 23 (41% in Jan 23) and the unemployment rate raised from 6.5% in Jan 23 to 7.2% in Feb 23. Sustained higher inflation and an increase in unemployment rate in rural India have contributed to the lower growth in consumer sentiments.



Source: CMIE

Inflation Outlook

1. Trade policy solution, not monetary policy action, will tame Food Inflation

Over the last two decades India registered a robust growth of more than 6.5% and there is high chance that it will grow at this pace in the next decade as opined by Dr.Ashok Gulati in a recent article. As far as inflation is concerned (CPI @6.44% in Feb 2023), though it is widely spread across various commodity groups, food and beverages still carries the highest weight of 45.9% in overall CPI. Since much of our food inflation is a supply side phenomenon and affecting the poor most, tightening of monetary policy may not help in taming inflation much.

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Cereal inflation at 16.7% (wheat inflation alone is at 25.4%) is a worrying case which can be reduced through insulating free cereals through PDS. On the other hand, inflation of TOP vegetables is in the negative zone. The solution to help onion farmers during abnormal price drop is to set up dehydration units to provide large quantities of dehydrated onions in times of glut.

India is the largest producer of milk (221 MT in FY22). However, milk inflation has gone up to 9.6%. The basic import duty on skimmed milk powder (SMP) is 60% plus 10% cess (Indian SMP prices way ahead of global). Bringing down the basic import duty can augment the supplies of milk and keep a lid on consumer prices of milk.

Inflation in spices is surging @20% (jeera @39%, dry chillies @33%). The trade policy will help in lowering import duties to 15%. Instead of hiking repo rate, buffer stocking, trade and agro-processing policies will help in keep food inflation in the tolerance band.

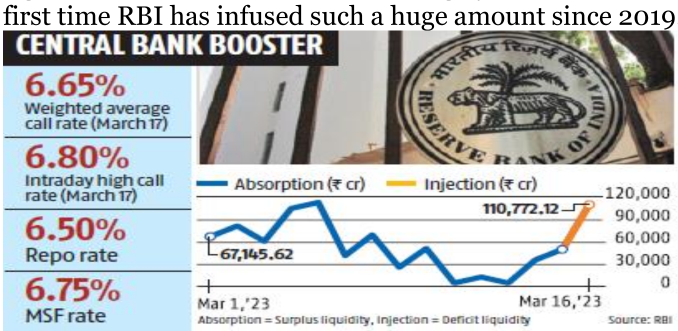
2. Retail inflation may moderate as per FINMIN

As per FINMIN monthly economic review, India's headline retail inflation is expected to moderate further in the coming months. Tightening of financial conditions by central banks to tame inflation has raised concern regarding worsening of corporate debt vulnerabilities. Despite global headwinds, economy is expected to grow at 7% in FY23 while retail inflation would moderate in line with wholesale inflation. Supported by the gains from high service exports, moderation in oil prices and recent fall in import-intensive consumption demand, India's current account deficit is estimated to fall in FY23 and FY24.

Interest Rate Outlook

1. As liquidity tightens, RBI injects ₹1.1 trn funds into banking system

The tighter liquidity conditions resulted in a sharp increase in money market rates, with the interbank call money rate *(overnight cost of funds for banks)* touching a high of 7%, much above the repo rate of 6.5% and higher than the MSF rate of 6.75%. The RBI's injections include the quantum of funds banks have borrowed from the MSF window, variable repo rate operation, borrowings through SLF. With the onset of corporate advance taxes leading to significant outflows from the banking system, this is the first time RBI has infused such a huge amount since 2019.



2. Fed raised interest rates by quarter of a percentage point

US treasury yields fell considerably during the week, as the collapse of few banks in USA led market participants to worry about the contagion effect. During the week under review, FOMC outcome holds the key for UST yields. Volatility is expected to remain in UST yields, and benchmark 10Yr paper may trade in the range of 3.30%-3.80%, with yield movement of sideways.

Government bond yields fell during the week, tracking significant fall in oil prices and UST yields. India's CPI print for February came in on expected lines. This week, U.S Fed delivered a small rate hike (by 25 bps) amid global banking turmoil.

Weekly Benchmark Bond Yield Movement (%)					
Date	13-Mar	14-Mar	15-Mar	16-Mar	17-Mar
USA 10 years	3.54	3.68	3.46	3.57	3.43
India 10 years	7.36	7.37	7.36	7.35	7.35
India 5 years	7.29	7.24	7.22	7.25	7.23
India 3 months	6.87	6.90	6.87	6.81	6.81

Source: CMIE, worldgovernmentbonds.com

We expect benchmark 10-Yr bond to trade in the range of 7.33%-7.40% during the week (20 March 2023-24 March 2023).

Resilience of Indian Banks amid global banking turmoil

- ✓ Indian banks' capital position has improved considerably (Banks CRAR well above RBI's mandate of 9%).
- ✓ The gross non-performing assets to total advances ratio for Indian banks have been on a declining trend since hitting a high of 10.8% in September 2018. It fell from 5.9% in March 2022 to 5% in September 2022.
- ✓ Indian Banks' bad loans on a declining trend (RBI estimates the gross NPA ratio of all Indian scheduled commercial banks to decline by 10bps to 4.9% by September 2023).
- ✓ Less pressure on bond portfolios compared to US (While the Federal Reserve has raised interest rates by 450 basis points since March last year, India's Monetary Policy Committee (MPC) has increased the policy repo rate by 250 bps since May).
- ✓ Indian banks' have a high proportion of low-cost current account savings account (CASA) deposits and high proportion of retail deposits, making them more resilient (While deposit growth has trailed credit growth in recent times, the credit-to-deposit (CD) ratio remains comfortable at 75.3%).
- ✓ Higher deposit insurance (India has raised the limit of insurance cover for depositors in insured banks from the earlier level of ₹100,000 ($1,211.23) to 500,000 per account in last three years).

Source: Reuters