DEAR
ECO WATCH
Issue 67/ 29 Aug - 2 Sep 2022

Global Economic Outlook

- Despite weakening growth prospects across multiple economies, the global economy is currently not in recession. Jobs in many economies are plentiful and business and household balance sheets are generally in good shape.
- Global leading indicators point to weakening momentum and global purchasing manager indices are sliding and nearing contractionary territory.
- Despite quarterly GDP contractions in China and the US, GDP reports elsewhere continue to beat expectations.
- It is expected that mild recessions may occur in the US and Europe later in 2022 and into early 2023. China may escape recession but will at best experience only a modest recovery as it is rebounding from lockdowns earlier in the year.
- Estimated and projected GDP growth and inflation of G7 nations along with emerging 7 (E7) nations are given in the table below:

GDP and Inflation projections

	Share in World GDP (%)	Real GDP growth (%)			CPI (%)		
	PPP	2021e	2022p	2023p	2021e	2022p	2023p
PPP	100.0	6.2	3.0	2.7	3.8	7.7	4.9
G7	30.8	5.1	2.3	1.1	3.4	6.7	3.7
E7	37.3	7.5	3.3	4.1	3.1	6.3	4.7
US	15.7	5.7	2.3	1.0	4.7	7.5	3.6
China	18.6	8.1	3.8	5.0	0.9	2.1	2.7
Japan	3.8	1.7	1.7	1.7	-0.2	1.9	1.6
UK	2.3	7.4	3.4	0.0	2.6	9.2	7.3
EU	10.5	5.4	2.5	1.3	2.5	6.9	3.9
India	7.0	8.8	7.2	6.1	5.5	6.8	5.7

Note: *e: Estimate, p: Projection;* ***Sources:*** *PwC UK and global analysis, national statistical authorities, EIKON from Refinitiv, IMF, Consensus Economics, the OECD, EBRD and The Economist Intelligence Unit.*

- Weakening demand and faster policy tightening in the US and Europe are negatively affecting other major Emerging Economies, but there are important differences among them.
- Russia has likely entered recessionary territory, and Turkey and Brazil are experiencing severe weakening in growth over the second half of the year.
- However, economic prospects for India, as well as other developing Asia, and economies in the Gulf Region are relative bright spots in an otherwise sombre outlook.

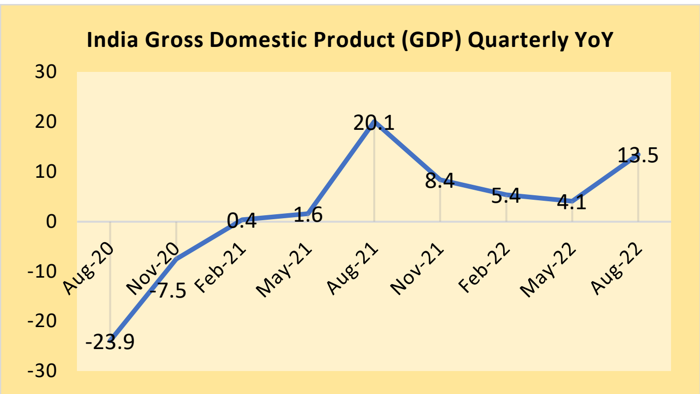
ECB policy and the impact on bond yields

- European Central Bank (ECB) initiated a program to purchase the bonds of highly indebted members, such as Italy, in order to reverse a rise in spreads.
- That is, political uncertainty in Italy contributed to a sharper rise in bond yields there than in Germany, creating higher spreads and the risk that ECB monetary tightening would be disproportionately felt in highly indebted countries.
- The ECB program initially led to a decline in Italian and other bond yields, reducing spreads and calming markets. Yet, in recent days, while all Eurozone members have seen a rise in bond yields, Italian yields have risen more, leading once again to higher spreads.

Domestic Economic Outlook

India's quarterly GDP result is suggesting strong recovery

- Real GDP in Q1 2022-23 is estimated to attain a level of ₹36.85 lakh crore, as against ₹32.46 lakh crore in Q1 2021-22, showing a growth of 13.5% as compared to 20.1% in Q1 2021-22.
- A base effect of 20.1% growth in the corresponding period a year ago along with the moderation in the impact of the Russia-Ukraine war and a pickup in service sector activity have supported growth.
- As per the data by the NSO, the GVA of public administration, defence & other services witnessed a rise of 26.3% while that of trade, hotels, transport, communication & services related to broadcasting climbed 25.7%.
- The construction segment grew 16.8% while electricity, gas, water supply & other utility services rose 14.7%. Agriculture, forestry & fishing segment witnessed a 4.5% rise in GVA. Quarter wise growth in last two years have been shown in the figure below.



Source: MOSPI, GoI

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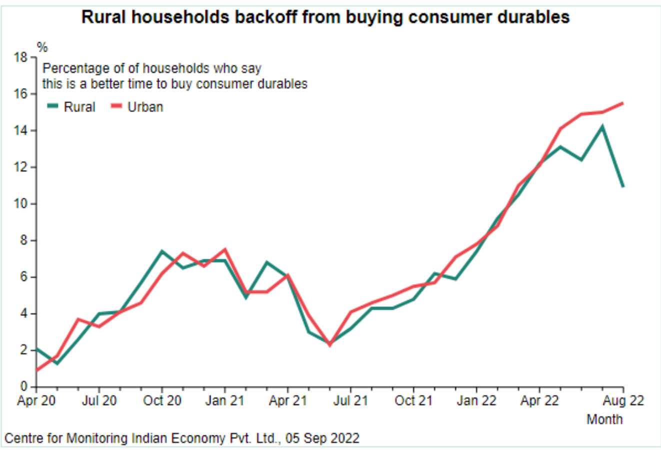
Moody's slashes India's economic growth forecast

- Moody's Investors Service on Thursday slashed India's economic growth projection for 2022 to 7.7%, saying that rising interest rates, uneven monsoon, and slowing global growth will dampen economic momentum on a sequential basis.
- In its update to Global Macro Outlook 2022-23, Moody's said India's central bank is likely to remain hawkish this year and maintain a reasonably tight policy stance in 2023 to prevent domestic inflationary pressures from building further.

Robust GST revenues indicative of growth in Indian economy

- The Ministry of Finance has recently released the gross GST collections made in August 2022. As per the press release, the collections have risen 28% on year-on-year basis to ₹1.43 lakh crore.
- The States / Union Territories of India like Mizoram and Ladakh, have recorded the highest growth in collection with 73%, and 34%, respectively.
- The sharp increase in GST collections in these areas are indicative of increased consumption of goods/ services in these areas, which in turn can be said to be indicative of development in these regions.

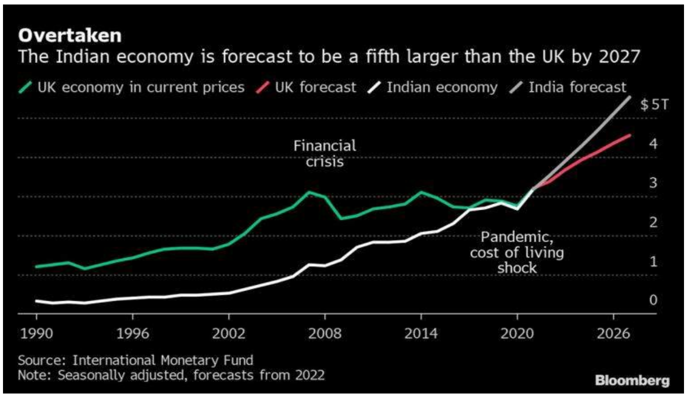
Households hesitant to spend



- The above figure shows that consumer sentiments in India deteriorated in August 2022 after having improved substantially in the previous month. The Index of Consumer Sentiments (ICS) shrunk by 0.5% in August after having risen by an impressive 6.7% in July.
- The weakening of consumer sentiments in August reflects, largely, a sharp fall in sentiments in the last week of July and the first week of August.

India overtakes the UK as world's fifth-largest economy

- On an adjusted basis and using the dollar exchange rate on the last day of the relevant quarter, the size of the Indian economy in 'nominal' cash terms in the quarter through March was \$854.7 billion. On the same basis, UK was \$816 billion.
- According to *Bloomberg's* forecast, there is likely to be a huge gap between India and the UK within the next few years (see graph below).



Interest Rate Outlook

Expectations rise for a large interest rate hike by central banks of major economies

Central Bank	Current rate (Last change)	Expectation	Next meeting
Federal Reserve	2.25-2.50% (July 2022)	Gradual increase in rates over 2022	Sep 20-21
European Central Bank	0.50% (July 2022)	Gradual increase in rates over 2022	Sep-08
Bank of England	1.75% (August 2022)	Gradual increase in rates over 2022	Sep-15

Source: *PwC UK and global analysis*

Weekly Benchmark Bond Yield Movement (%)					
Date	**29-Aug**	**30-Aug**	**31-Aug**	**01-Sep**	**2-Sep**
USA 10 years	3.11	3.11	3.18	3.26	3.19
India 10 years	7.25	7.21	7.19	7.23	7.21
India 5 years	7.04	7.00	6.99	7.04	7.04
India 3 months	5.58	5.58	5.65	5.60	5.61

Source: CMIE, worldgovernmentbonds.com

- The yield on the government benchmark 10-year bond for the period (05 Sep-09 Sep 2022) is expected to be in the range 7.20% to 7.26%. Underlying sentiment remains strong as investors expect some progress in terms of Indian bonds being included in global indexes, which could spur inflows.