

1. Global Economic Outlook

US Economy: Credit rating agency Fitch downgraded the US sovereign rating from AAA to AA+. The major rationales for the decision by rating agency were - a worsening in the fiscal metrics over the coming three years, a high and rising government debt burden and a deterioration in governance that shows in the repeated standoffs and last-minute resolutions on the debt-limit between the two political parties. It created disturbances in Indian market and NSE's India VIX, a gauge of the market expectation's volatility over the near term, jumped 9.67% to 11.28.

UK Economy: The Bank of England (BoE) made its 14th consecutive increase in interest rates, making it their highest level since early 2008. The central bank raised interest rates by 25 basis points, setting them at 5.25%. BoE has hinted that borrowing costs will be high for some time as British inflation hit a 41-year high of 11.1% last October and has fallen more slowly than elsewhere, standing at 7.9% in June, the highest of any major economy.

IMF raises global growth forecast: The International Monetary Fund raised its growth forecast for the global economy, turning slightly more positive despite slowing momentum from China. In the recent update to its World Economic Outlook, the IMF raised its 2023 global growth prediction by 0.2 percentage point to 3%, up from 2.8% in its April assessment. The IMF kept its 2024 growth forecast unchanged at 3%.

Global food price index reaches 12 year high: Food and Agriculture Organisation's (FAO) rice price index rose 2.8% in July from a month ago to reach 129.7 points, their highest level since 2011 as prices in key exporting countries jumped due to strong demand and India's move to curb the exports. The July score of rice price index was almost 20% higher than 2022 July's score of 108.4 points. In July, Government of India has amended the export policy of Non-Basmati White Rice from 'Free with export duty of 20%' to 'Prohibited' to ensure adequate domestic availability and to allay the rise in prices in the domestic market.

2. Domestic Economic Outlook

India to grow at average 6.7% per year from FY24 to FY31: India to grow at an average of 6.7% per year between FY24 and FY31, driven by capital

expansion (S&P Global). This will catapult GDP to \$6.7 trillion from \$3.4 trillion in FY 2023 and per capita GDP will rise to about \$4,500, as per the report.

The report titled 'Look Forward: India's Moment' by S&P Global retains its earlier forecast of 6% growth for FY 2024 due to a global slowdown and the lagged effect of policy rate hikes by the RBI. Even so, India will be the fastest growing economy in the G20. It added that success will primarily depend on India's ability to reap its demographic dividend; increase labour force participation, including upskilling; boost private investment, with structural reforms in land, logistics and labour; and increase competitiveness, driven by foreign direct investment.

India's service sector surged to a 13-year high

in July: The S&P Global India services Purchasing Managers' Index (PMI) rose to 62.3 in July, from 58.5 in June and 61.2 in May. This is its highest index since June 2010. India's services PMI has held firm in the expansion zone every month since August 2021, its longest such stretch since August 2011. This has confounded the forecast by Reuter's poll, which predicted 58.0 for July.

GST council is firm on imposing 28% tax on

online gaming: GST Council retained the decision of imposing a 28% tax on the full face value of bets placed on online gaming from 1 October 2023. However, it has exempted the winnings redeployed on online gaming and casinos from the 28% tax on face value. The Council also recommended to insert a specific provision in IGST Act, 2017 to provide for liability to pay GST on the supply of online money gaming by a supplier located outside India to a person in India. It also recommended for blocking of access by the public to any information generated, transmitted, received or hosted in any computer resource used for supply of online money gaming by such supplier in case of failure to comply with provisions of registration and payment of tax.

Total employment in India fell by close to 3 million in July 2023:

According to Centre for Monitoring Indian Economy (CMIE), India's labour force shrunk by 5.7 million and stood at 440.3 million in July. The drop was a combination of a 3 million fall in employment and a 2.7 million fall in number of unemployed. Also, the drop in labour force from rural area is more than thrice the drop

from urban area. Labour participation rate (LPR) inched down from 39.9% in June to 39.3% in July.

Month	LPR	ER	UR
Jul-22	38.94	36.29	6.83
Aug-22	39.24	35.99	8.28
Sep-22	39.31	36.78	6.43
Oct-22	39.31	36.20	7.92
Nov-22	39.64	36.46	8.03
Dec-22	40.48	37.12	8.30
Jan-23	39.80	36.97	7.11
Feb-23	39.93	36.96	7.45
Mar-23	39.77	36.57	8.06
Apr-23	40.71	37.23	8.54
May-23	39.59	36.55	7.68
Jun-23	39.88	36.51	8.45
Jul-23	39.29	36.17	7.95

Source: CMIE (LPR: Labour Participation Rate, ER: Employment Rate, UR: Unemployment Rate)

Inflation in July to hit 7%: CMIE estimates that CPI will reach 7% in July, a profound upsurge from 4.81% in June. The sudden hike in inflation in July is expected to be primarily driven by the food group; specifically, vegetables. Food inflation could enter double digits in July 2023. Inflation of vegetables is estimated to be around 36%, driven by tomato prices which increased by 234% on a month-on-month basis. In addition to this, onions, a significant commodity in the CPI basket, is expected to note an inflation of about 8.81% in July 2023, up from 1.65% in June 2023. CMIE also estimates that inflation in cereals & products to be around 13.55% in July 2023, from 12.71% in June 2023, carried by the increase in the prices of rice and wheat.

Sustained growth in non-food credit: During last quarter, increase in non-food credit of Scheduled Commercial Banks has hit an all-time high level of ₹7.1 trillion. Of this, ₹5.1 trillion or 72% was disbursed in the month of June 2023 alone. In the quarter ended in March 2023, the growth in non-food credit was ₹4.0 trillion.

The trend until two years back was that June quarter would usually record a decline in outstanding bank credit. This was because the surge in bank credit disbursements seen in the March quarter to achieve year-end targets would taper off and repayments would exceed fresh borrowings. However, since last year, robust demand for bank credit is leading to an increase in outstanding credit disbursements in the June quarter too. This year, it was led by services sector, followed by retail loans. Earlier, it was retail loans

that was driving demand for credit. Credit to agriculture & allied activities have also increased. Increase in credit to industry was mere 0.9% compared to 0.5% as on end of the quarter in March 2023.

3. Interest Rate Outlook

RBI may continue the pause on repo rate: As concerns on the inflation front and keeping the borrowing cost stable to maintain the economic growth momentum persist, experts gauge that RBI is likely to continue to hold repo rate. Monetary Policy Committee's (MPC) meeting will be convened from 08-10 August 2023. The borrowing cost, which started rising in May last year, has stabilised with the RBI keeping the repo rate unchanged at 6.5% since February when it was raised from 6.25%. Later, in the two bi-monthly policy reviews in April and June, the benchmark rate was retained.

Marginal Increase in bond yield in Indian bond market: The Indian bond market witnessed some traction last week as yields went up marginally in the background of Fitch downgrading the US debt rating from AAA to AA+. The 10-year Indian government bond yield closed at 7.19% on 04 August 2023, up from previous week's closing at 7.16%. The US treasury yields fell on 04 August's opening trading session after a report showed more than an anticipated slowdown by economists. It caused volatility in bond trade. Reserve Bank of India on 04 August 2023 announced its weekly auction of treasury bills and state development loans (SDLs). The indicative yield of T-bills for the three-month, six-month, and 364-day tenures are 6.76 %, 6.86%, and 6.94% respectively.

Date	24 July	26 July	28 July	31 July	02 Aug	04 Aug
USA 10 yr	3.88	3.88	3.96	3.97	4.09	4.04
Ind 10 yr	7.07	7.09	7.16	7.17	7.15	7.19
Ind 5 yr	7.06	7.08	7.15	7.15	7.13	7.16
Ind 3 M	7.03	7.05	7.11	7.12	7.12	7.16

Source: CMIE, worldgovernmentbonds.com