DEAR
ECO THINK
Issue No.59/ August 2022

ECONOMY

State of the Indian Economy

Indian GDP forecast revised downwards

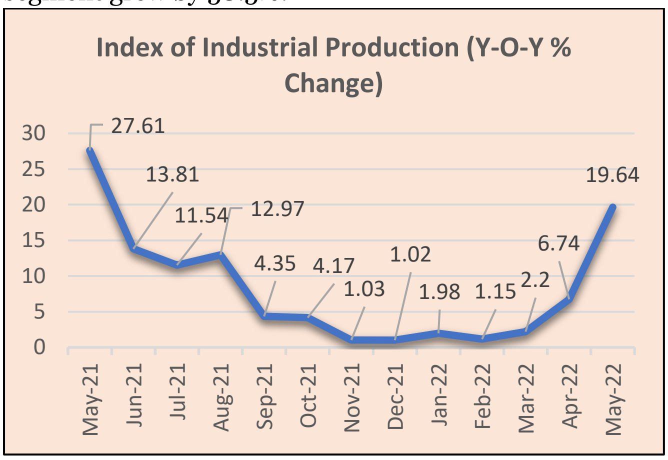
- India's GDP forecast for FY23 has been revised downwards by major financial institutions and credit rating agencies (Table 1).
- The reasons given for the downward revision include higher oil prices, slowing of export demand, high inflation, slower global growth and monetary policy tightening.
- According to CRISIL, the only bright spots are the uptick in contact intensive services and forecast of a normal and well-distributed monsoon.

Table 1: Recent Changes to India's FY23 GDP Forecast (in %)

Agencies	Previous	Current
IMF	8.2	7.4
ADB	7.5	7.2
CRISIL	7.8	7.3
Nomura	5.4	4.7
Morgan Stanley	7.6	7.2
FICCI Economic Outlook Survey	7.4	7.0

Index of Industrial Production (IIP) hits 12-month high in May

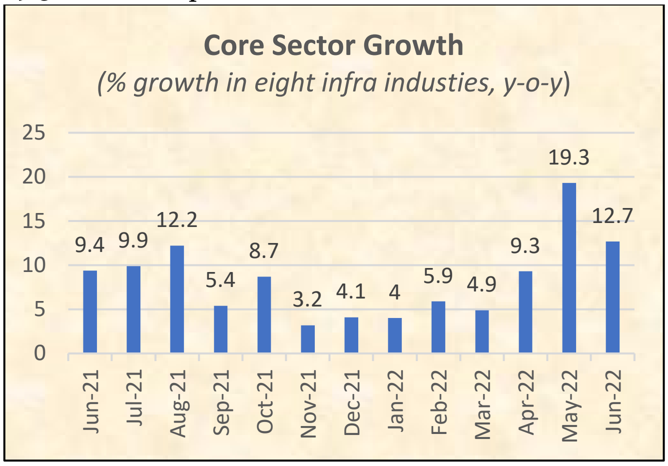
- India's factory output, which is measured in terms of IIP witnessed a growth of 19.6% year-on-year during the month of May compared to 6.7% in April.
- The growth in IIP data during May was on account of manufacturing, power and mining sectors which rose by 20.6%, 23.5% and 10.9%, respectively compared to the previous year.
- Capital goods, a barometer of investment, showed a growth of 54% in May 2022 and consumer durables segment grew by 58.5%.



- The primary goods segment, which accounts for nearly 34 percent of the index, expanded by 17.7% in May compared to 15.8% a year ago. The consumer non-durable segment grew by 0.9% in May compared to a growth of 0.2% in the same month a year ago.

Core sector output expands by 12.7% in June

- India's core sector output growth moderated to 12.7% in June from 18.1% (revised later to 19.3%) in May, with all sectors except crude oil registering an uptick in production.
- Coal, Cement, Electricity and refinery products rose 15% or more, compared to June 2021 output levels, while natural gas (1.2%), steel (3.3%) and fertilisers (8.2%) grew at a milder pace. Crude oil output dropped 1.7% from a year ago.
- The Commerce and Industry Ministry revised the index of eight core industries for the months of March and May. March core sectors' growth was reduced to 4.8% from 4.9% estimated earlier, while May's output growth from these sectors was revised higher at 19.3% from the previous estimate of 18.1%.



Source: CMIE

Other indicators for the month of July

- Merchandise trade deficit for the month of July widened sharply to a record $31.02 billion as per preliminary trade estimates. Imports during the month have been pegged at $66.26 billion, i.e. 43.6% higher than a year earlier. Goods exports declined 0.8% year-on-year to $35.24 billion and were 12.8% lower than June's exports.
- As per the S&P Global India Manufacturing Purchasing Managers' Index, India's manufacturing sector rebounded in July with sales and production growing at the fastest pace since November 2021 and the index touched 56.4 from a nine-month low of 53.9 in June.
- According to CMIE, the country's unemployment rate fell to 6.8% in July from 7.8% in June. This is the lowest figure in six months, amid rising agricultural activity during the monsoon. Rural unemployment declined to 6.14% from 8.03% in June while urban unemployment jumped to 8.21% in July from 7.8% in June due to falling number of jobs in industry as well as services sectors.

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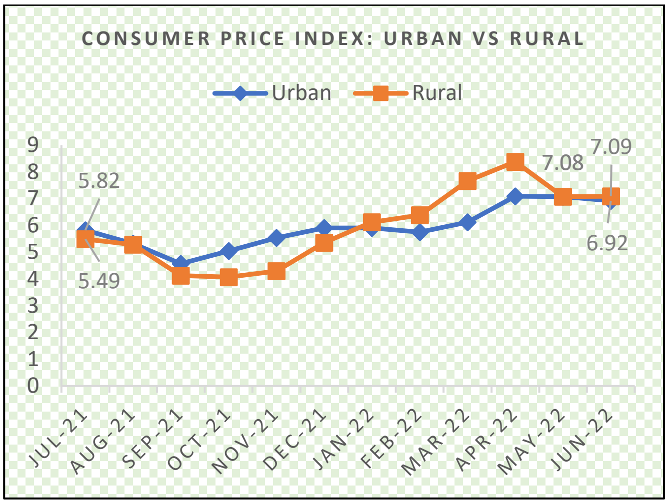
Published by Department of Economic Analysis and Research, NABARD Head Office, Mumbai

Inflation Outlook

Retail inflation eased to 7.01% in June

- The country's retail inflation, which is measured by the Consumer Price Index (CPI), eased to 7.01% in June from 7.04% in the month of May due to moderation in food inflation.
- The inflation rate continued to remain above the 7% mark for the third consecutive month and marked the completion of the second quarter of it being higher than RBI's target of 2 +/- 4% for the medium term.
- Food inflation eased to 7.75% in June from 7.97 % in May, mainly due to sharp decline in oil and fat inflation. Core inflation (the non-food, non-fuel component of inflation) was at 5.95%, declining to less than 6% after a gap of three months.
- Rural inflation was recorded at 7.09% in June, while urban inflation was at 6.92% as against 7.08% each in May. Rural inflation became higher than urban inflation after a gap of one month. In five out of the last six months, rural inflation has remained higher than urban inflation.



Source: CMIE

Inflation expected to ease

- A Mint analysis based on the Bloomberg Commodities Index reveals that commodity prices have fallen by an average of 10% on MoM basis in July, after having risen in each of the last six months due to fears of a looming global recession.
- Economists feel that the impact of an uneven monsoon on food inflation and robust demand for services on inflation for that category would need to be closely watched.

Interest Rate Outlook

Interest rate hikes of developed country central banks

- The European Central Bank (ECB) raised its interest rates for the first time since 2011 on 21st July 2022 and unveiled a new bond buying programme to keep borrowing costs in check for the Euro zone's most indebted countries.
- The ECB raised its deposit rate by 50 basis points to zero, in an effort to curb record-high inflation in the Euro zone. ECB also raised its weekly and daily cash auctions by 50 basis points to 0.50% and 0.75%, respectively and signalled that further increases in the three rates were likely to come this year.
- With the US economy grappling with record high inflation, an uptick in imports and supply chain disruptions since Russia's war with Ukraine started, the US Federal Reserve raised the Federal Funds Rate (FFR) by another 75 basis points on 27.07.2022. Since March, the Fed has steadily pushed up the targeted FFR from zero to almost 2.5% now.
- With the UK inflation at a 40-year high of 9.4% and rising, the Bank of England (BoE) increased the rate of interest to 1.75% from 1.25% on 04.08.2022. This was the largest hike since 1995 and the first half-point increase since the bank was granted independence in 1997. The BoE warned that the UK economy would fall into recession in the later part of this year which would last for five consecutive quarters.

Monetary Policy Committee Meeting (3-5 August 2022)

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) in its meeting decided to increase the policy repo rate by 50 basis points (bps) to 5.40%. This is the third consecutive rate hike after a 40 bps and 50 bps increase in May and June respectively. Other key announcements include:

- Standing Deposit Facility (SDF) rate has been adjusted to 5.15%. Marginal Standing Facility and bank rate revised to 5.65%.
- The MPC has retained its stance of 'withdrawal of accommodation' as it seeks to roll back pandemic-era measures against rising inflationary pressures.
- The inflation forecast for Q2, Q3 and Q4 is at 7.1%, 6.4% and 5.8%, respectively. In June policy, RBI had forecast inflation at 7.5% for Q1, 7.4% for Q2, 6.2% for Q3 and 5.8% for Q4.
- Growth projections for the first quarter of the ongoing fiscal have been retained at 16.2%, 6.2% for Q2, 4.1% for Q3 and 4% for Q4, with risks broadly balanced.

Bond Yield Movement

- Consequent of high retail inflation rate (7.01%) in June 2022 prompting expectations of rate hike and high retail inflation in USA, Indian 10 year bond yield was above 7.30% and touched 7.45% on 20th July. With high inflation and rate hikes by most developed country central banks, the bond yield is expected to remain elevated.

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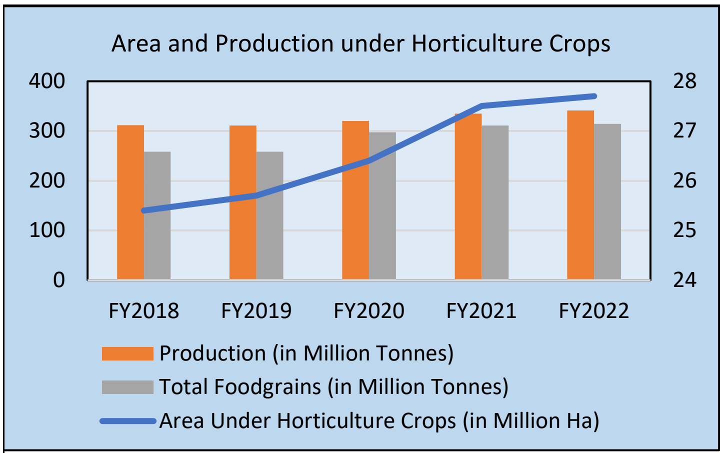
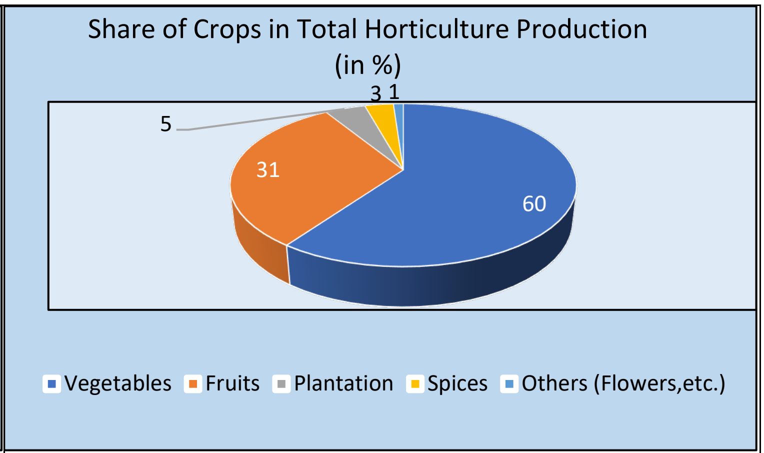
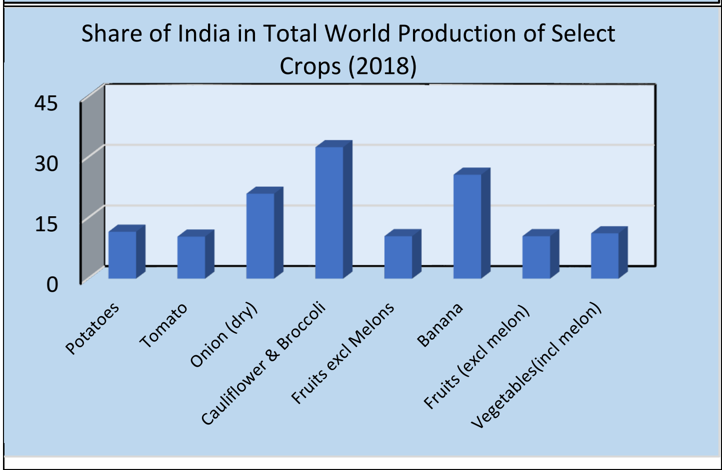
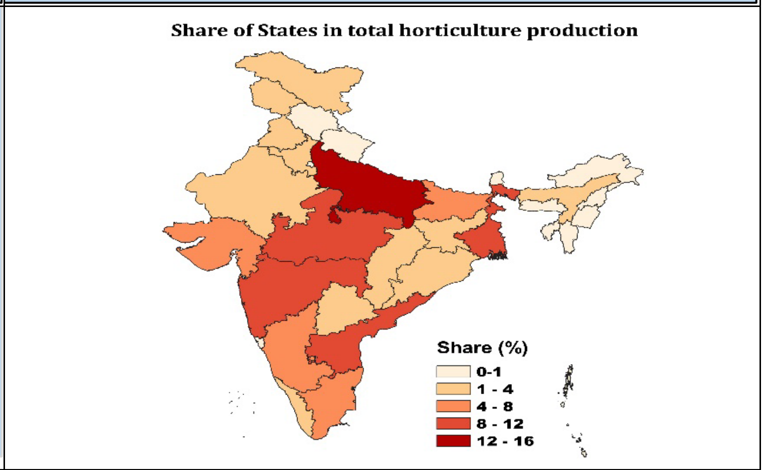
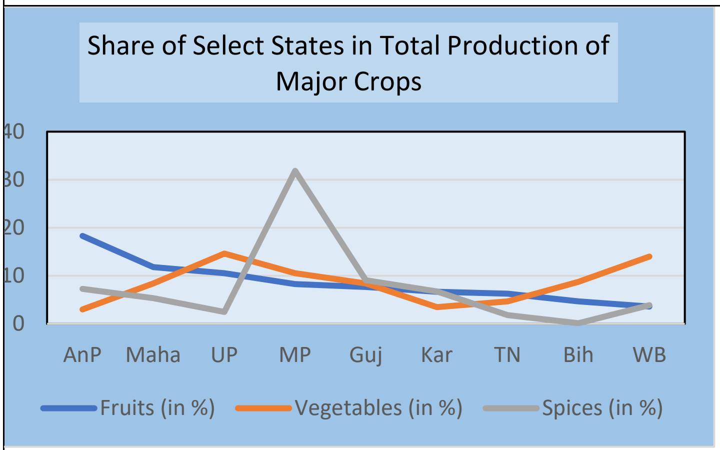
Dashboard of Horticulture Sector: Recent Trends

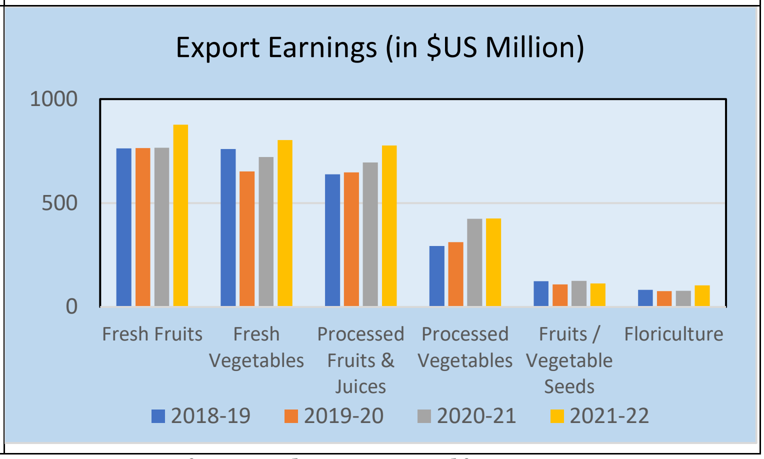












Source: Indiastat, CMIE, Horticulture Statistics at a Glance 2018, Ministry of Agri and Farmers Welfare, APEDA

Operation Greens Scheme

Ministry of Food Processing Industries launched Operation Greens scheme in November, 2018 for integrated development of Tomato, Onion and Potato (TOP) value chain with the objectives to enhance value realization of TOP farmers; reduction in post-harvest losses; price stabilization for producer and consumers and increase in food processing capacities and value addition etc. The scheme provides for short term intervention by way of providing transportation and storage subsidy @ 50% and long term intervention through value addition projects in identified production clusters with Grant-in-aid @ 35% to 70% of eligible project cost subject to maximum of ₹50 crore per project.

Report THINK

Global Economic Prospects: This edition of Report Think focuses on the captioned report released in June 2022 by the World Bank Group. The report has estimated that prospects of global economy is gloomy and more uncertain. Report has covered global outlook with special focus upon stagflation and implications of Russia-Ukraine war and regional outlooks.

Major Findings:

1. **Global outlook:** Following more than two years of pandemic, spillovers from the Russia-Ukraine war are set to sharply hasten the deceleration of global economic activity, which is now expected to slow to 2.9% in 2022. Due to Russia-Ukraine war, the growth in emerging market and developing economies (EMDEs) this year has been downgraded to 3.4%.

- Negative spillovers from the invasion of Ukraine, more than offset any near-term boost to some commodity exporters from higher energy prices.
- There is essentially no rebound projected next year: global growth is forecast to edge up only slightly to a still-subdued 3% in 2023, as many headwinds—in particular, high commodity prices and continued monetary tightening—are expected to persist.
- The global community needs to ramp up efforts to mitigate humanitarian crises caused by the war in Ukraine and conflict elsewhere and alleviate food insecurity, as well as expand vaccine access to ensure a durable end of the pandemic.
- Meanwhile, EMDE policymakers need to refrain from implementing export restrictions or price controls, which could end up magnifying the increase in commodity prices.
- With rising inflation, tightening financial conditions, and elevated debt levels sharply limiting policy space, spending can be reprioritized toward targeted relief for vulnerable households.
- Over the long run, policies will be required to reverse the damage inflicted by the dual shocks of the pandemic and the war on growth prospects, including preventing fragmentation in trade networks, improving education, and raising labour force participation.

i. **Global stagflation:** Global inflation has risen sharply from its lows in mid-2020, on rebounding global demand, supply bottlenecks, and soaring food and energy prices, especially since Russia-Ukraine war. Markets expect inflation to peak in mid-2022 and then decline, but to remain elevated even after these shocks subside and monetary policies are tightened further.

- Global growth has been moving in the opposite direction: it has declined sharply since the beginning of the year and, for the remainder of this decade, expected to remain below the average of the 2010s.
- In light of these developments, the risk of stagflation—a combination of high inflation and sluggish growth—has risen. The recovery from the stagflation of the 1970s required steep increases in interest rates by major advanced-economy central banks to quell inflation, which triggered a global recession and a string of financial crises in EMDEs.
- If current stagflationary pressures intensify, EMDEs would likely face severe challenges again because of their less well-anchored inflation expectations, elevated financial vulnerabilities, and weakening growth fundamentals.
- This makes it urgent for EMDEs to shore up their fiscal and external buffers, strengthen their monetary policy frameworks, and implement reforms to reinvigorate growth.

ii. **Implications for Russia's invasion of Ukraine:** Russia's invasion of Ukraine has disrupted global energy markets and damaged the global economy.

- In energy-importing economies, higher prices will reduce real disposable incomes, raise production costs, tighten financial conditions, and constrain policy space.
- Some energy exporters may benefit from improved terms of trade and higher commodities production. However, on net, model-based estimates suggest that the war-driven surge in energy prices could reduce global output by 0.8% after two years.
- The experience of previous oil price shocks has shown that these shocks can provide an important catalyst for policies to encourage demand reduction, substitution to other fuels, and development of new sources of energy supply.

2. **Regional prospects:** The adverse spillovers from the war will be most severe for Europe and Central Asia, where output is forecast to sharply contract this year.

- Output growth is projected to slow this year in all other regions except the Middle East and North Africa, where the benefits of higher energy prices for energy exporters are expected to outweigh those prices' negative impacts for other economies in the region.
- Risks for all EMDE regions are tilted to the downside and include intensifying geo-political tensions, rising inflation and food shortages, financial stress and rising borrowing costs, renewed outbreaks of COVID-19, and disruptions from disasters.

For full report, please visit the link below:
https://www.worldbank.org/en/publication/global-economic-prospects