DEAR
ECO THINK
Issue No.58/ July 2022

In this issue, we cover…

-Economy review

- Dashboard on Nutricereals

-Highlights of World Bank Findex Report 2021

ECONOMY

State of the Indian Economy

- **GDP forecast downgraded due to inflation and geopolitical tensions-** Inflationary pressures and geopolitical tensions have prompted most global rating agencies to downgrade their economic growth forecast for India this fiscal. The World Bank lowered its forecast from 8% to 7.5%, while the OECD lowered its forecast from 8.1% to 6.9%.

Recent Changes to India's FY 23 GDP forecast (in %).

Agencies	Previous	Current
Moody's Investors Service*	9.1	8.8
Fitch Ratings	10.3	8.5
IMF	9.0	8.2
World Bank	8.0	7.5
S&P Global	7.8	7.3
OECD	8.1	6.9

* Moody's forecast is for calendar year 2022
Source-Mint

- Despite these challenges, Indian economy is returning to pre-pandemic levels according to the Nomura India Normalization Index (NINI). The growth is largely driven by broad-based improvements in consumption, investment, industry, and the external sector.
- However, the firm predicts that the impending growth slowdown in the United States will impede India's growth trajectory in the medium term.

Oil prices witnessed increase in June 2022

- The average price of Indian crude oil basket increased for the second month in a row, to USD 115.3 per barrel in June 2022, up from USD 109.3 per barrel in May 2022. In April 2022, the average price was USD 102.9 per barrel.
- On June 9, 2022, oil prices reached a near 3-month high of USD 121.3 per barrel, supported by robust demand in the world's top consumers, the United States and China, as COVID-19 curbs in major cities were relaxed.
- On June 20, 2022, oil prices fell sharply to USD 111.2 per barrel due to concerns about slowing global economic growth and fuel demand. However, investors refocused on tight supplies, causing oil prices to rise again towards the end of June. The price of Indian basket of crude oil as on 30 June, 2022 was USD 115.1 per barrel.

Kharif sowing down 5.3% as on 1 July 2022

- As of 1 July 2022, the area sown under kharif crops was reported to be nearly 27.9 million hectares. This is approximately 5.3 % less than the area covered during the same period last year. In comparison to the previous year, the area sown under rice, oilseeds, cotton, and sugarcane decreased by nearly 27%, 8%, 3.8%, and 1%, respectively. This could be attributed to the slow progress of monsoon in the first half of June 2022.
- But as predicted by Indian Meteorological Department (IMD), normalisation of monsoon has begun in many parts of the country. During the week ending July 6, 2022, India received 70.9 millimetres of rainfall. This was 27.5% higher than the long-period average (LPA). The total rainfall from 1 June to 6 July 2022 was 213 millimetres, 0.1% less than the LPA.
- With normalisation of monsoon the area under kharif crops have improved, it is 5.3% lower than the area covered last year as on 1 July compared to 24% lower as on 24th June 2022.

Inflation Outlook

Inflation eased but still on higher side

- Retail inflation for June 2022 eased marginally to 7.01% from 7.04% in May 2022, a second consecutive month which showed decreasing inflation. However, inflation at wholesale level continued its upward trajectory, rising to its highest since 1991. The increase in WPI inflation to 15.88% in May 2022 from 15.08% in April 2022 was driven mainly due to soaring prices of food articles, along with existing price pressures from raw materials and crude oil.
- Point to point rate of inflation based on the CPI-AL and CPI-RL stood at 6.67% & 7.00% in May, 2022 compared to 6.44% & 6.67%, respectively in April, 2022.
- The food group, accounting for sizeable proportion of the consumption basket, saw inflation rise to 5.44% and 5.51% in May 2022 compared to 5.29% & 5.35% respectively in April 2022.

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- According to RBI latest assessment, the average annual inflation in the current year (2022-23) is expected to be 6.7%, with the first three quarters remaining above 6%. Inflation will fall back to below 6% by the fourth quarter of 2022-23. In 2023-24, it should moderate to 4%. It further added that headline inflation levels will remain high across the world for some time.

Interest Rate Outlook

FPIs net seller for the month of June 2022

- Foreign Portfolio Investors (FPIs) net selloff for the month of June 2022 stood at USD 6.59 billion from the Indian markets. It is for the ninth consecutive month since October 2021 that FPIs have been net seller in Indian Markets. The selloff in June 2022 was the worst selloff seen after the March 2020.
- Tightening monetary policy globally across central banks, rising inflation, better yields in the US market, ongoing Russia-Ukraine war and its impact on oil prices are the major factors that can be attributed to the FPI selloff. The FPIs have been net sellers in all the emerging markets and the selloff is not specific to India.

Rupee hits record low, dollar index rise in June 2022

- The USD INR exchange rate depreciated by 1% in the month of June 2022 to average at Rs.78.07 per dollar. The Indian rupee had also depreciated by 1.5% in May 2022 too. Overall, the rupee has depreciated 4.9% from the end of January 2022.
- Persistent selling by FPIs in the domestic market, widening trade deficit, rise in crude oil prices and talks of imposing more sanctions on Russia have put pressure on the rupee.
- The US Dollar Index, a measure of the value of the US dollar relative to the value of a basket of currencies of the US's most significant trading partners, rose by 2.8% during June 2022.

Surplus liquidity inching closer to pre-pandemic levels

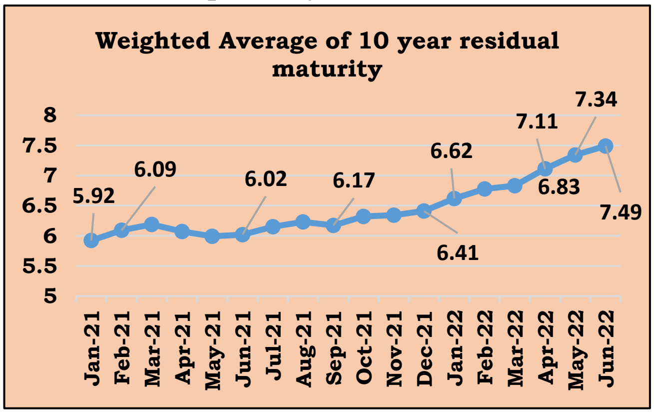
- Surplus liquidity as measured by the average daily reverse repo operations including term and standing deposit facility (SDF) was Rs.4.2 trillion in June 2022 compared to Rs.5.6 trillion in May 2022. Surplus liquidity is inching closer to the level seen during the pre-pandemic level. During Jan and February 2020, average daily surplus liquidity stood at Rs.3.4 trillion (CMIE).

Liberalisation of Forex Flows

- The Reserve Bank of India on 7th July 2022, announced a series of measures to attract foreign flows. The announcement came on the backdrop when emerging market economies (EMEs) are facing retrenchment of portfolio flows and persistent downward pressures on their currencies.
- Among steps taken to attract dollars, banks have been exempted from maintaining the cash reserve ratio (CRR) and statutory liquidity ratio (SLR) for incremental NRE (non-residential external) and FCNR (B) (foreign currency non-resident-bank) deposits. Banks also have been allowed to raise fresh FCNR (B) and NRE deposits.
- Moreover, the RBI has relaxed FPI investment norms in government bonds. New bond issuances of 7-year and 14-year maturity would be made eligible for the Fully Accessible Route.

Yield continues to rise

- The yield curve continued its upward journey on account of rate hikes by the Fed and the RBI. The RBI's Monetary policy Committee (MPC), in its meeting held during 6th - 8th June, 2022 hiked the repo rate by 50 basis points taking the lending rate of the government to 4.9%. Repo rate before March 2020 (pre-covid) was 5.15 %.
- The weighted average yield on G-Secs with 1 year and with 3-year residual maturity rose by 44 bps and 30 bps to end the month at 6.38 % and 7 %, respectively. Similarly, the yield on G-sec with 7 year and 10-year residual maturity rose by 19 and 15 basis points to end the month at 7.38% and 7.49%, respectively.



Source: CMIE

- The weighted average call money rate increased for the 5th consecutive month to end the month of June 2022 at 4.4%. It averaged nearly 4% in May 2022 as compared to 3.44% in April 2022.

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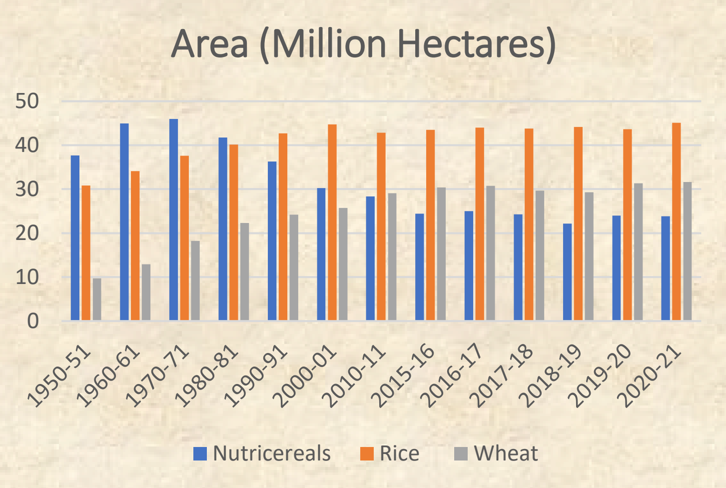
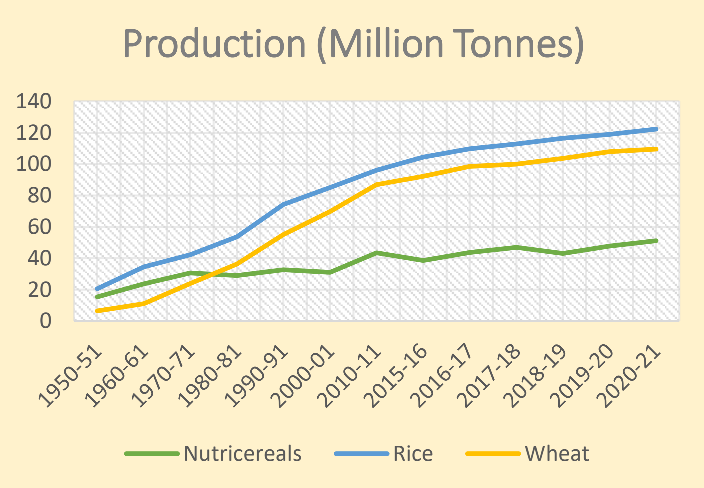
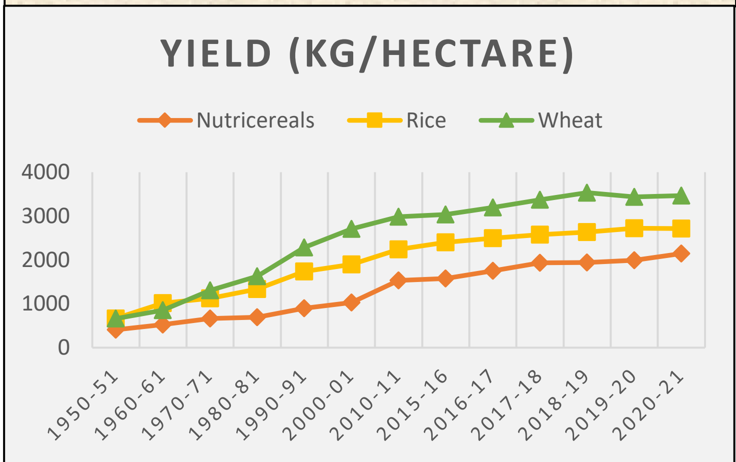
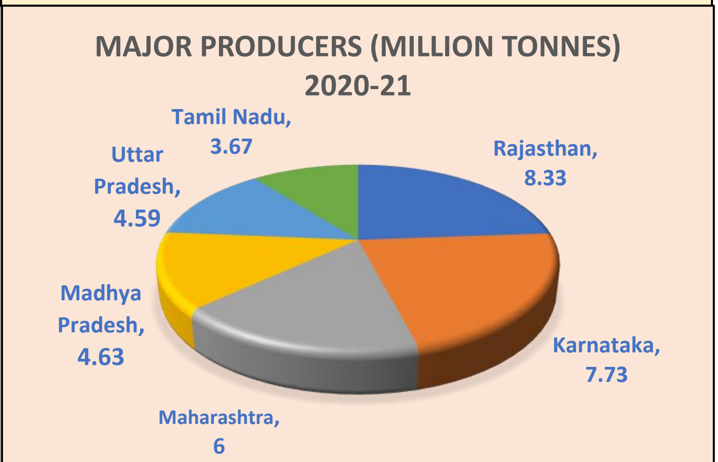
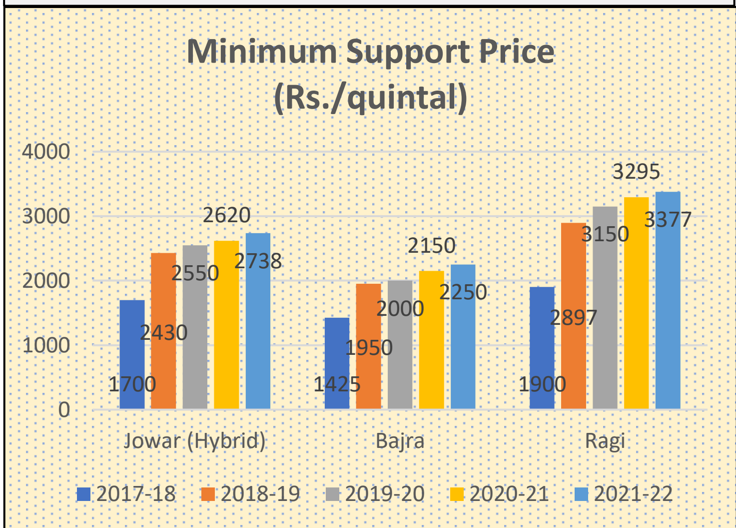
Dashboard on Nutricereals

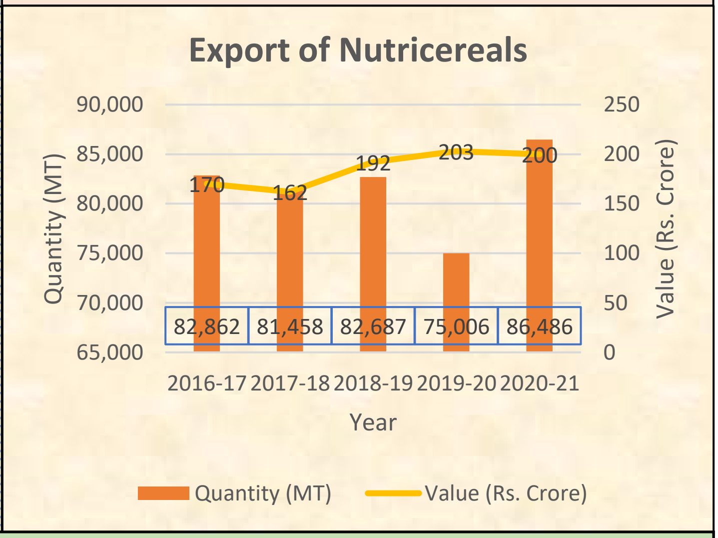












International Year of Millets – 2023

To create domestic and global demand and to provide nutritious food to the people, Government of India spearheaded the United Nations General Assembly (UNGA) resolution for declaring 2023 as International Year of Millets. India's proposal was supported by 72 countries and UNGA declared 2023 as International Year of Millets in March, 2021. *(Source: PIB)*

Source- https://eands.dacnet.nic.in/PDF/Agricultural%20Statistics%20at%20a%20Glance%20-%202021%20(English%20version).pdf

Report THINK

The Global Findex Database 2021: Financial Inclusion, Digital Payments and Resilience in the Age of COVID-19

The Global Findex Database 2021 has been released by the World Bank Group. The first round of this database was published in 2011 and subsequent rounds have followed in 2014 and in 2017. The 2021 edition, based on nationally representative surveys of about **1,25,000 adults in 123 economies** during the COVID-19 pandemic, contains updated indicators on access to and use of formal and informal financial services.

Major Findings

1. **Worldwide, account ownership has reached 76%**

- Globally, in 2021, 76% of adults had an account at a bank or regulated institution such as a credit union, microfinance institution, or a mobile money service provider.
- Between 2011 and 2021, account ownership increased by 50%; from 51 % of adults to 76% of adults. Between 2017 and 2021, in developing countries, the average rate of account ownership increased by 8 percentage points, from 63% of adults to 71% of adults.
- In India, the introduction of Aadhar Card contributed to a significant increase in financial inclusion, driving account ownership up to 80% of adults from 35% in 2011.
- Despite having relatively high rates of account ownership, China and India claim large shares of the global unbanked population (130 million and 230 million, respectively) because of their population size.

2. **Receiving payments into an account is a catalyst for using other financial services:** Receiving a payment directly into an account is a gateway to using other financial services.

- Nearly 83% of adults in developing economies who received a digital payment also made a digital payment, up from 66% in 2014 and 70% in 2017. Almost two-thirds of digital payment recipients also used their account to store money for cash management; about 40% used their account for saving; and 40% of payment recipients borrowed formally.

3. **COVID-19 catalyzed digital payments:** For example, in India more than 80 million adults made their first digital merchant payment during the pandemic.
4. **Users may not be able to benefit from account ownership if they aren't financially literate:** About two-thirds of unbanked adults said that if they opened an account (excluding mobile money) at a financial institution, they could not use it without help. Women are 5 percentage points more likely than men to need help using their mobile money account. Inexperienced account owners who must ask a family member or a banking agent for help using an account may be more vulnerable to financial abuse.
5. **Inactive Accounts in India high due to high distance from a financial institution, lack of trust, and having no need:** Each of these reasons was cited by about half of adults with an inactive account. As for other reasons, nearly 40% said they did not have enough money to use an account, and about 30% cited not feeling comfortable using an account by themselves.

Avenues for Improvement

1. **Scope for improving financial access by improving infrastructure:** Lack of money, distance to the nearest financial institution, and insufficient documentation were consistently cited by the 1.4 billion unbanked adults as some of the primary reasons they did not have an account. Addressing these issues can potentially increase financial inclusion.
2. **Utilising Mobile Phone Network:** Nearly 56% of all unbanked adults in South Asia have a mobile phone, including 51% of unbanked adults in India. The wide access to mobile phones could be leveraged by Governments and fintechs to increase account ownership for unbanked populations.
3. **Opportunities for further increase in digital payments:** Globally, 1 billion adults who have an account did not make a single digital payment in 2021, which means that about a quarter of account owners globally did not make any digital payments. That share is much higher in some major developing economies. In India, about 70% of account owners did not make a single digital payment.

Source:
https://www.worldbank.org/en/publication/globalfindex/Report