Global Economic Outlook

- About one-third of the global economy risks contracting next year, with the US, European Union and China all continuing to stall: IMF’s World Economic Outlook
- IMF warns of worsening global economic outlook: The IMF warned of a worsening outlook for the global economy, cutting its forecast for global growth next year to 2.7%, from 2.9% seen in July.
- United States: A closely watched measure of consumer prices rose by more than forecast to a 40-year high in September, pressuring the Fed to raise interest rates even more aggressively to stamp out persistent inflation.
- Europe’s energy crunch will likely trigger a contraction in the German economy next year for only the third time since the financial crisis.
- Bloomberg Economics has sketched out four scenarios for China’s economy over the decades ahead, with a base case of 4.6% growth on average over the next decade.
- Brazil’s consumer prices fell for the third consecutive month, the monthly inflation rate fell 0.29% in September, and the largest drop for the month since the start of the data series in 1980.

Domestic Outlook

- IMF cuts India's GDP growth forecast for 2022-23 to 6.8%: The International Monetary Fund (IMF) has revised India’s real GDP growth projection for 2022-23 downwards to 6.8 per cent from 7.4 per cent estimated in July 2022, citing a weaker-than-expected 13.5 per cent GDP growth in the June 2022 quarter and more subdued external demand.
- As per IMF, Retail inflation is projected to rise to 6.9 per cent in 2022-23, before easing to 5.1 per cent in 2023-24. The IMF has forecast current account deficit (CAD) to widen to 3.5 per cent of GDP in 2022-23 from 1.2 per cent in 2021-22 and narrow down to 2.9 per cent of GDP in 2023-24.
- India’s CPI inflation surges to 5-month high of 7.41% in September; above RBI threshold for 9th month in a row: India’s retail inflation surged to a five-month high of 7.41 per cent in September, remaining above the Reserve Bank of India’s upper threshold of 6 per cent for three full quarters. This could prompt a formal explanation from the RBI to the government on why the inflation has breached the target limit. RBI has a mandate to keep CPI inflation at 4 per cent, with a range of +/-2 per cent. September retail inflation was sharply higher than the 7 per cent in August, 6.71 per cent in July. September CPI inflation was also markedly higher than a Reuters poll estimate of 7.3 per cent
- WPI inflation hits 18-month low at 10.7%: Inflation based on the wholesale price index (WPI) dropped to an 18-month low of 10.7% in September on a broad-based decline in price pressure across food, fuel and manufactured products segments. WPI inflation has dropped steeply by close to 6 percentage points in the past four months from an over 30-year high of 16.63% in May 2022. With the base effect remaining favourable and global commodity prices easing amid slowdown concerns, WPI inflation will likely moderate to single-digit in October and further narrow a gap with retail inflation.
- Slowdown in Industrial production: India’s industrial production as per the Index of Industrial Production (IIP) decreased 0.8 per cent in August, against a marginal rise of 2.2 per cent in July, defeating analysts’ expectations. The broad based slowdown resulted in India’s industrial growth contracting for the first time in 18-months. Heavy rains experienced in various parts of the country also contributed to dampening of the production by reducing construction activity and electricity demand. Manufacturing output, down by 0.7 per cent and mining output, with a decline of 3.9 per cent, were the primary factors that dragged the industrial growth in the month of August.
- Number of poor people in India fell by about 415 mn between 2005-06 and 2019-21: The new Multidimensional Poverty Index (MPI) released by the United Nations Development Programme (UNDP) and the Oxford Poverty and Human Development Initiative (OPHI) at the University of Oxford said that in India, 415 million people exited poverty between 2005/06 and 2019/21. It demonstrates that the “Sustainable Development Goal” ‘Target no. 1.2’ of reducing at least half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions by 2030 is possible to achieve.

Expert Insights

- Global economic outlook a concern- Hon’ble FM Nirmala Sitharaman: Finance minister has said that even though the Indian economy is projected to grow as much as 7% this fiscal, India remains concerned about the global economic outlook and geopolitical environment. External headwinds have mainly subdued global growth rate

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and risks emanating from the Ukraine war, remain a key challenge for the Indian economy, as its export growth has started slowing down and commodity prices remain volatile.

- **MPC members call for slower repo rate hike:** Concerned about “fragile” growth, two external members of Monetary Policy Committee (MPC) of the Reserve Bank of India have called for slower repo rate hikes and a pause at 6%. MPC member professor Jayanth Varma has called for a pause at 6% because monetary policy acts with lags.

- **Market players expect rate hike to continue:** Madhavi Arora, lead economist at Emkay Global Financial Services, also echoed an up to 50bps repo rate hike in December. In her opinion, RBI would practice caution on turning too restrictive. The terminal rate could hover near the estimated neutral real rates, implying future hikes totalling a maximum of ~50bps. But the extent of global disruption will remain key to RBI’s reaction function going ahead. October inflation is likely to remain above 6.3 per cent, with moderation expected to reflect in the second half of this fiscal.

- **Economists expect inflation to ease from Oct 2022:** Economists opine that retail inflation will start moderating from October 2022. Capital Economics India economist Shilan Shah is of the view that late recovery in the monsoon has boosted prospects for agriculture production, which should help in controlling prices. He expects the Reserve Bank of India (RBI) to revert to hikes of 25 basis point increments from December 2022. Morgan Stanley expects India’s inflation rate to moderate to a tad below six per cent mark by February 2023 or March 2023, aided by a fall in commodity prices and easing food inflation. Credit Suisse stated that the October 2022 inflation rate would likely be one per cent lower given a higher base, especially for food prices.

- **Slew of factors may shake India's sovereign ratings:** S&P Global Ratings has flagged risks that may impact India’s sovereign credit ratings. These include falling foreign exchange reserves (forex), rising current account deficit, prolonged high inflation and tightening monetary policy conditions. However, the rating agency believes that a robust economic growth rate and external balance sheet may neutralise the risks inherent in the global environment.

### Interest Rate Outlook

- **Inflation keeps U.S. yields high:** U.S. yields rose, with the 10-year yield staying above the 4.00% mark, as elevated inflation raised market expectations that the Federal Reserve’s target interest rate will peak in 2023 close to 5%. The U.S. Fed fund futures are pricing in two more 75 basis points rate hikes in November and December, on top of the 300 bps hikes since March.

- **Dissent notes in RBI’s MPC meeting minutes cool fears of aggressive rate hikes:** The minutes of the latest monetary policy meeting are expected to be interpreted to be softer in guidance, cooling fears of aggressive rate hikes. Two external members, Ashima Goyal and Jayant Varma, showed their preference for a tapering of the rate-hike cycle going ahead. Nomura said the minutes signal “some probability” that MPC may choose to undertake final rate hike in December and then pause.

- **Meanwhile, Barclays expected a case for further rate tightening but possibly less than 50 bps.** QuantEco Research also expected another 35 bps rate hike before the central bank turns reactive rather than proactive, they said. Kotak Mahindra Bank said the minutes have restated the view for softer rate hikes given uncertainties emanating from the global outlook.

- **Indian bond yields trade in narrow range:** The benchmark Indian government bond yield ended at 7.4696% on Friday (14 Oct), 5 basis points (bps) above its previous close. The yield rose 1 basis point on the week, after adding an aggregate 29 bps over the last four weeks. Market participants, however, do not expect the benchmark bond yield to break 7.50% in a major way.

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*Source: CMIE, worldgovernmentbonds.com*

- The yield on the government benchmark 10-year bond for the period (17-21 October 2022) is expected to be in the narrow trading range of 7.40%-7.50% next week as we do not have any major scheduled events.