

1. Global Economic Outlook

US Economy: US headline inflation in July 2023 rose just 0.2% from June 2023. The inflation figures the government reported showed that consumer prices increased 3.2% from a year earlier, which marked the slowest pace since March 2021. The July inflation figure remained far below last year's peak of 9.1%, though still above the Federal Reserve's 2% target. The increase in the annual CPI rate picked up for the first time in 13 months, as it was calculated from a lower base after prices subsided last July following a jump that had boosted inflation to its highest level in four decades.

UK Economy: Gross domestic product (GDP) increased by 0.2% in the April-June quarter of the year, compared with a 0.1% expansion in the first quarter of 2023, according to the Office for National Statistics (ONS). In June alone it rose by 0.5%. Falling raw material prices contributed to the growth in manufacturing sector and increase in hospitality activities as well as government expenditure on public administration, defence and health helped to keep the economy moving. The Bank of England (BoE) has forecasted that the UK will likely avoid recession in 2023, but suggested the economy will effectively flatline for the next few years.

Chinese Economy: China's economy has fallen into deflation after consumer prices fell year-on-year in July 2023 for the first time in more than two years, as slowing domestic spending hampers the country's post-Covid economic recovery. As per National Bureau of Statistics of China (NBS), the consumer price index fell 0.3% in July 2023 compared to July 2022. CPI has recorded a monthly increase of a mere 0.2% in July 2023. In addition to this, the value of exports, measured in US dollars, fell 14.5% in July 2023 from a year ago, the biggest drop since February 2020 when the initial Covid-19 outbreak adversely impacted the trade and production, according to Chinese customs statistics.

2. Domestic Economic Outlook

RBI Monetary Policy Committee keeps repo rate unchanged at 6.5%: The RBI kept the repo rate unchanged at 6.5% in its third bi-monthly monetary policy meeting. Since May 2022, the central bank has raised the repo rate by 250 basis points (bps). It is estimated that headline inflation is

likely to witness a spike in the coming months on account of supply disruptions due to adverse weather conditions and geopolitical hostilities. CPI inflation is projected at 5.4% for FY 2024, with second quarter at 6.2%, third quarter at 5.7% and fourth quarter at 5.2%. Real GDP growth projection for FY 2024 was retained at 6.5% with first quarter at 8.0%, second quarter at 6.5%, third quarter at 6.0%, and fourth quarter at 5.7%.

RBI stipulated all scheduled banks to maintain an incremental cash reserve ratio (ICRR) of 10% on the increase in their net demand and time liabilities (NDTL) between May 19, 2023 and July 28, 2023. This measure aims to absorb the surplus liquidity generated by various factors including the return of ₹2000 notes to the banking system.

Rice and coarse cereals acreage increased:

Area coverage under rice as on 18 August 2023, stands at 360.79 lakh hectares compared to 345.79 lakh hectares in corresponding time of the last year. Total coarse cereals have also increased its area coverage by 1.6%, whereas other major crops like pulses, oil seeds, cotton have witnessed a decline compared to last year.

Area Coverage Under Kharif Crops (As On August 18, 2023 compared to one year ago)

Crops	Diff in Area coverage (in Lakh Hectare)	% of increase/decrease
Rice	15.00	4.34
Pulses	-11.60	-9.16
Coarse cereals	2.79	1.61
Oilseeds	-3.17	-1.68
Sugarcane	0.74	1.34
Jute and mesta	-0.39	-5.61
Cotton	-2.35	-1.89
Total	1.02	0.10

Source: National Food Security Mission

Seven states/UTs in rainfall 'deficient' category:

According to Indian Meteorological Department (IMD), seven states/UTs fall in the "deficient" category for the rainfall received from 01 June 2023 to 21 August 2023. While cumulative rain received in the period has been normal in 23 states/UTs, Ladakh and Chandigarh have been included in the "Large Excess" category. Total 264

and 20 districts in the country have been included in the “Deficient” and “Large Deficient” categories respectively. While 305 districts have received normal rainfall, 96 and 30 districts are included in the “Excess” and “Large Excess” categories.

Shift in employment composition: In July, total employment fell by close to 3 million. This fall was concentrated mostly among businesspersons and salaried employees. Both groups combined, their share in total employment dropped from 43.4% in June 2023 to 40.9% in July 2023. Conversely, the number of small traders and wage labourers increased substantially in the same month. As the kharif crop sowing picked up, employment in the agricultural sector improved, adding close to 7.9 million jobs in July 2023. Decrease in the salaried employees from 9.2 crore in June 2023 to 8.6 crore in July 2023 and businesspersons from 8.4 crore to 7.9 crore in the same period, and the rise in small traders and wage labourers imply an increase in informal jobs.

Remittances to India grew 26% to \$112.5 billion in FY 2023: India retained the position of the top recipient of remittances globally. Remittances to the country by non-resident Indians rose 26% on year and stood at \$112.5 billion in FY2023, highlighting the surge in demand for Indian professionals in the post-pandemic global economy. In FY 2022, remittances to India were \$89.1 billion.

Decline in foreign exchange reserves: India’s foreign exchange reserve declined by \$2.4 billion, to \$601 billion as of 04 August 2023, as per the latest data by the Reserve Bank of India. The fall in the reserves for the third straight week was mainly on account of a drop in the foreign currency assets, which declined by \$1.9 billion to \$533 billion in the previous week. The gold reserves, SDRs, and the reserve position in the International Monetary Fund (IMF) experienced a fall of \$224 million, \$171 million, and \$86 million, respectively.

India’s industrial production growth declined to a three-month low: The data released by the National Statistical Office (NSO) showed that India’s industrial production (IIP) growth declined to a 3-month low of 3.7% in June 2023 mainly due to poor showing by the

manufacturing sector. The factory output growth measured in terms of the IIP stood at 12.6% in June 2022 on account of a lower base effect. The previous low of IIP was at 1.9% in March 2023, it rose to 4.5% in April and further to 5.3% in May 2023. The manufacturing sector's output increased by 3.1% in June 2023, while the mining output rose to 7.6%. Power output grew 4.2% in June 2023 compared to 16.4% a year ago. During the first quarter of FY 2024, the IIP growth turned out to be 4.5%, down from 12.9% in the corresponding period a year ago.

Govt keeps its thrust on increasing capital spending: The Government of India stepped up its capital expenditure by a robust 59.1% in the quarter ended in June 2023, compared to the quarter ended in June 2022. CMIE evaluates that government made room for this increase by reining in its revenue expenditure at the year-ago level. A sharp 149.3% increase in non-tax revenue receipts, owing to higher dividend distribution by the Reserve Bank of India (RBI) and Central Public Sector Enterprises (CPSEs) have also helped the government in increasing its capital expenditure.

3. Interest Rate Outlook

Indian bond yields rise tracking US peers: Indian government bond yields surged on 17 August 2023, tracking U.S. peers. Indian government 10-year bond yield rose to 7.25% on 17 August and closed at 7.22% on 18 August. U.S. yields have been rising on growing expectations that Fed will hike interest rates to keep inflation within the 2% target.

Date	07 Aug	09 Aug	11 Aug	14 Aug	17 Aug	18 Aug
USA 10 yr	4.09	4.01	4.17	4.20	4.28	4.25
Ind 10 yr	7.20	7.17	7.20	7.20	7.25	7.22
Ind 5 yr	7.18	7.15	7.18	7.19	7.24	7.20
Ind 3 M	6.73	6.74	6.77	6.75	6.85	6.83

Source: worldgovernmentbonds.com, CMIE