

1. Global Economic Outlook

Economists expect weakening of global economy in 2024: WEF- According to the latest 'Chief Economists Outlook' released on 15 January 2024, at the World Economic Forum (WEF), over 56% of chief economists expect the global economy to weaken in 2024. About 43% of the economists foresee conditions remaining unchanged or getting better. A large majority anticipate labour markets (77%) and financial conditions (70%) to relax in 2024. There are expectations of regional variations in growth forecasts, but no region is expected to witness very strong growth in 2024. Further, as per the Future of Growth Report released at WEF 2024, most economies in the world are growing in ways that are neither sustainable nor inclusive. The report lays emphasis on GDP growth that balances efficiency with sustainability, resilience and equity in the long run. It also highlights the need for economies to have the ability to absorb and generate innovation for the future.

2. Domestic Economic Outlook

Rabi sowings catch up- Sowing activity during the ongoing rabi season is catching up to match last year's level. Area brought under rabi crops expanded by a mere 0.2 % to 68.7 million hectares (mha) as on 19 January 2024 compared to 68.6 mha a year ago. Area is likely to expand further as sowing is expected to continue for another two weeks. By the end of last year's rabi sowing season as on 3 February 2023, 72.1 mha was brought under cultivation of rabi crops. Wheat was sown on 34 mha compared to 33.7 mha last year. Area under rapeseed & mustard is at 10 mha recording an increase of 2.3 %. Sowing of pulses have not recovered as they recorded a significant decrease of 4.6 %. Pulses were sown on 15.5 mha. On credit flow to agriculture the government is expected to set target at Rs.22 trillion for 2024-25. Agriculture credit in 2023-24 is expected to exceed the targeted Rs.20 trillion. Of this, commercial banks, cooperative banks, and regional rural banks (RRBs) have disbursed Rs.16.4 trillion. This was achieved in the first three quarters of 2023-24 indicating towards a robust growth.

India's GDP to grow by 6.9% in FY24: Reuters poll- India's gross domestic product (GDP) is expected to grow by 6.9% in the current fiscal year 2023-24, according to a poll of 54 economists conducted by Reuters between 10-23 January 2024. This forecast is an upward revision from the 6.7% GDP growth predicted earlier in a December poll. India is expected to remain the fastest-growing economy in this fiscal, supported by strong government spending. For fiscal year 2024-25, the Reuters poll predicts India's GDP growth to moderate to 6.3%, on account of a weakness in private consumption demand.

According to Reserve Bank of India (RBI), India's GDP will grow by 7% in fiscal year 2024-25. The RBI Governor, at the World Economic Forum Annual Meeting, commented that the growth momentum in India is strong, supported by both urban and rural demand. Governor added that robust growth in government capital expenditure along with signs of a pickup in private investment, as well as healthy aggregate demand, are likely to buoy up GDP growth to 7% in the next fiscal.

WPI inflation rises to 0.7% in December 2023

The annual rate of inflation based on all India Wholesale Price Index (WPI) number saw an increase of 0.73% for the month of December 2023 (over December 2022). Positive rate of inflation in December 2023 is primarily due to increase in prices of food articles, machinery & equipment, other manufacturing, other transport equipment and computer, electronics & optical products, etc.

Inflation figure for the month of December 2023 was the highest wholesale inflation registered in the past nine months, primarily due to a rise in food prices. The manufactured products group reported deflation in December 2023, at (-0.7%) from -0.6% in November 2023.

RBI Governor at the WEF annual meeting noted that Inflation in India is moderating and approaching the target of 4% while growth prospects are robust. India's economic growth prospects continue to remain robust, noting signs of sustained growth momentum in coming years. The reduction in exchange rate volatility in India in recent years has renewed investors' confidence in the economy, he added.

Inflation for agricultural and rural labourers rises in December 2023- Rural India witnessed higher inflation in December 2023 compared to the preceding month. Retail price inflation for agricultural labourers, measured by the CPI-AL, rose to 7.7% in December 2023 from 7.4% in November 2023. The food group, which accounts for 69.15% of the consumption basket of agricultural labourers, saw inflation rise to 9.9% from 9.4%. Inflation for rural labourers, measured by the CPI-RL, rose to 7.5% in December 2023 from 7.1% in November 2023. Food inflation for rural labourers rose to 9.8% in December 2023 from 9.1%.

3. Interest Rate Outlook

10-year govt bond yield at a 4-month low: The 10-year government bond yield on 15 January 2024, closed at 7.15%, the lowest since 26 September 2023. 10-year yields fell at a four-month low leading to lower borrowing costs. This was due to India's inflation number, which was lower than what was predicted along with a simultaneous rise in US bonds.

Traders in the markets expected the Consumer Price Index (CPI) to be around 5.9%. However, December's CPI number released on 12 January 2024, arrived at 5.7%, lower than market expectations (Economic Times).

Inflation to close at 4.5% in FY25: RBI Governor

RBI Governor at WEF stated that India's retail inflation will likely close at 4.5% in fiscal year 2024-25. He added that food prices would substantially influence inflation, but the monetary policy would have to be 'actively disinflationary' to ensure inflation aligns with the 4% target. The statement hints at a status quo on policy rates in the upcoming Monetary Policy Committee (MPC) meeting in February 2024.

RBI to conduct VRR auction for Rs.2.5 trillion due to widening liquidity deficit

RBI will be conducting a 15-day variable rate repo (VRR) auction on 25 January 2024, infusing Rs.2.5 trillion. This is due to the widening liquidity deficit in the banking sector. The deficit amounted to Rs.3.3 trillion on 23 January 2024 as compared to Rs.1.3 trillion as on 01 January 2024.

So far, January saw the RBI infusing a maximum liquidity of Rs.1.75 trillion on 12 January 2024, via a 13-day VRR auction.

Date	15 Jan	17 Jan	19 Jan	23 Jan	24 Jan
USA 10 yr	3.98	4.11	4.13	4.14	4.16
Ind 10 yr	7.15	7.16	7.18	7.18	7.18
Ind 5 yr	7.02	7.04	7.10	7.10	7.10
Ind 3 M	6.95	6.90	6.98	6.96	6.95

Source: worldgovernmentbonds.com, CMIE

CP rates harden in Jan 2024- Yields on commercial papers (CPs) rose by 10-30 basis points (bps) across tenures in January 2024, as liquidity deficit in the system has widened, stated market participants. The rate impact was sharper for non-banking financial companies (NBFCs). CPs issued by NBFCs rose by 20 bps for 6-month and 12-month tenures, while the same for three-month and one-month CPs rose by 30 bps.

RBI not contemplating rate cuts yet: The RBI Governor stated that the Central Bank will not contemplate interest rate reductions until inflation is well within the 4% objective and that policymakers have not even brought up the subject. According to Das, RBI anticipates that inflation in the upcoming fiscal year will average about 4.5%. The governor stated that while there might be reason for concern, he 'would not like to give any kind of forward guidance' regarding when a rate cut would occur. Economists predict that this year, RBI will lower interest rates after the Federal Reserve starts easing on rates.