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Global Economic Briefs

- *Global economic growth is projected to be 2.3% in 2023, up 0.4 percentage points from a January forecast, and the prediction for 2024 has dropped 0.2 percentage points to 2.5%, according to a United Nations report released on May 16th. The UN forecasts are lower than the IMF forecasts.*
- *The UN sees dim prospects for a robust global recovery, as the lingering effects of covid-19 pandemic carry on. There could be a prolonged period of low growth amid stubborn inflation, rising interest rates, and heightened uncertainties, in addition to the ever-worsening impact of climate change.*
- *Logistics service providers from the Central and Eastern European Countries (CEECs) are enhancing their ties with the Chinese market under the high-quality development of the Belt and Road Initiative (BRI), ensuring bilateral trade growth despite the sluggish global economy and weakened international trading environment.*
- *The US President Joe Biden and top Republican Kevin McCarthy have called their latest talks on the debt ceiling productive but no deal has yet been reached. The debt ceiling is a spending limit set by Congress which determines how much money the government can borrow. Failure to raise it beyond the current cap of roughly \$31.4tn (£25.2tn) by June could result in the US defaulting on its debt. This would mean the US government could not borrow any more money or pay all of its bills. It would also have a significant impact on the global economy, affecting prices and mortgage rates in other countries.*
- *China's industrial output, retail sales and fixed investment grew at a much slower pace than expected in April. A major worry was the jump in the unemployment rate for young people to a record high of 20.4%. On the other hand, Japan's economy expanded at a faster pace than expected as a further easing of pandemic regulations boosted consumption. The European Commission has raised its euro-zone inflation outlook and warned of "persistent challenges" even as it acknowledged the resilience of the region's economy.*
- *According to Project Syndicate, "Three clear winners emerged from the Hiroshima G7 Summit. Ukrainian President Volodymyr Zelensky received a powerful demonstration of the continuing solidarity between the G7 and Ukraine; the G7's determination to punish Russia was reaffirmed; and Japanese Prime Minister Fumio Kishida strengthened his support among the Japanese public".*

Indian Economy: Agriculture & Rural Belts

- *As of May 23rd, the southwest monsoon remained over south Bay of Bengal and the IMD said conditions are likely to become favourable for its further progress to more parts of the region over the next two days.*
- *Pulses like green gram and coarse cereals such as bajra and jowar have continued to gain acreage in the ongoing summer cropping season, while paddy and oilseeds acreages have remained at last year's levels, so far.*
- *India's wheat procurement during 2023 could fall by a fifth from the initial estimate as government purchases have slowed down in the last few days after local prices jumped, government officials and traders told Reuters. The wheat prices hit a record high earlier this year. As a result, the ban on export of wheat and wheat products will continue in the current financial year, as per the government sources.*
- *The probability of El Nino, causing weather changes around the world has increased considerably this year. However, according to the CareEdge Ratings, the shape of the rural economy is changing*

and there is more to it than agriculture. Two-thirds of rural income now comes from non-agricultural sectors such as manufacturing, construction and services, says CareEdge Ratings. This limits the ability of El Nino, often associated with depleted monsoon rains, and other extreme weather events to hurt rural growth.

- Encouraged by volume growth, margin improvement and recovery in rural sales, India's top FMCG companies are now back to their normal growth cycle as they step up investments as well as spending on advertising and marketing.

Indian Economy: Economic & Policy Briefs

- S&P Global Ratings forecasts India's economy to grow by six per cent in FY24 and has maintained India's sovereign credit rating at 'BBB-' with a stable outlook. This stable outlook indicates S&P's belief that India's strong economic fundamentals would counterbalance the government's weak fiscal performance, ensuring the country's ability to meet its funding requirements and manage its high-interest burden for the next two years.
- While acknowledging India's superior economic growth run, Moody's Investor Services has warned that bureaucratic delays in licensing and approvals may discourage FDI inflows into India, potentially impacting India's competitiveness against Indonesia & Vietnam.
- Favourable statistical base & easing global commodity prices have begun to reflect on inflation in India, at both the consumer & wholesale levels. While CPI inflation eased to 4.7% in April, WPI inflation fell into negative territory (-0.9%) for the first time since July 2020. A lower WPI inflation will help pulling down CPI inflation further with its lagged impact on the core CPI inflation. However, a 60% probability of El Nino this year poses a major upside risk to food inflation in FY24. According to RBI, CPI inflation is expected to range tightly between 5.0-5.6% in FY24 if India survives an El Nino event without much disruption.
- On May 19th, the RBI announced that Rs 2,000 currency notes would be withdrawn from circulation with immediate effect even as they would continue to be a legal tender. The exchange of Rs 2,000 banknotes into banknotes of other denominations can be made up to a limit of Rs 20,000 at a time at any bank starting from 23 May 2023 until 30 September 2023. This is expected to increase the deposit base of the banking system by Rs 1.4 trillion to Rs 2 trillion.
- The RBI approved Rs 874.16 billion dividend payout to the Central Govt for the year FY23. The government had expected to receive Rs 480 billion in dividend. The RBI's dividend for FY23 jumped significantly on account of the massive foreign exchange gains it earned from its sales of foreign currency.
- Goldman Sachs has lowered its forecast of India's CAD in 2023 to 1.4% of GDP, down from the earlier estimate of 2.4%. This revision is driven by factors such as increased remittance inflows, a stronger surplus in services trade, and a reduced deficit in goods trade.
- India's foreign exchange reserves continue to rise and are edging towards US\$ 600 billion, hitting a nearly one-year high. For the week ended May 12th, the reserves rose by US\$ 3.553 billion to US\$ 599.529 billion.

Indian Economy: Industry & Services Sectors

- Steel companies in India as well as globally expect a 30.0% rise in production costs to manufacture 'green steel' for meeting their net-zero targets.
- The domestic air passenger traffic in India has increased from 10.54 million in April 2022 to 12.88 million in April 2023, observing a y-o-y growth of about 22.2%.
- The FMCG industry witnessed a strong double-digit growth in the e-commerce channel in FY23. This is witnessed by Dabur India, Tata Consumer Products, Nestle India, etc.

- *India's electronics exports rose by 26% to US\$ 2.11 billion in April 2023 as compared to a year ago. This growth was supported by a massive 80% rise in the exports of mobile phones to US\$ 1.08 billion. It accounted for 51% of the overall electronics exports in April 2023.*
- *India's IIP grew by just 1.1% (y-o-y) in March 2023. Among consumer goods, production of durables (proxy for urban demand) fell by 8.4% while that of non-durables (proxy for rural demand) declined by 3.1%. However, capital goods and infrastructure/construction goods put up a good performance with production growth of 8.1% and 5.4%, respectively.*

Indian Financial Markets

- *Liquidity in the banking system is currently estimated to be in a surplus of Rs 442.55 billion. However, due to a lower demand for funds, the overnight call rate is hovering near 6.10-6.15%.*
- *Liquidity surplus in the banking system has narrowed because of the outflows on account of GST payment and government bonds. The RBI has been injecting liquidity through variable rate repo auctions.*
- *The yield on GOI 10-Yr paper has declined to 6.99% today (May 24) compared to its level at 7.31% at the beginning of FY24. According to RBI, flattening of the yield curve signals that inflation expectations have been re-anchored and that financial conditions have become neutral for businesses to raise debt for investments.*
- *Issuances of corporate bonds by firms have become cheaper over the last month due to a sharp decline in government bond yields, which are the pricing benchmarks for corporate debt. Short-term bond yields have fallen more significantly than the long-term yields.*
- *Indian rupee has been quite range-bound against the US dollar in the month of May so far, hovering between 81.80 & 82.82. Dollar inflows into Indian assets and recovery of the Chinese yuan have been supportive of rupee. Investors are now waiting for updates on the US debt ceiling talks and the Fed policy minutes that will define future interest rate trajectory for the US. In the short-term, rupee may come under pressure, as US debt ceiling anxiety may lift safe-haven dollar.*
- *Already-richly valued India stock market indexes are forecast to scale new highs this year but a new bull run is unlikely, according to a Reuters poll of equity strategists who downgraded their year-end outlook from three months ago.*
- *Bet Apr 24 & May 24, the Brent crude price has fallen from \$82.73 per bbl to \$ 77.83 per bbl. On May 3rd, Brent crude price was at \$ 72.33 per bbl. During this period, India crude basket price declined from \$81.45 to \$75.40 per barrel. According to analysts, *there will be more volatility in crude oil prices in the coming months due to supply concerns led by a steep fall in US inventories and as production cuts by the OPEC countries begin to be felt.**

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