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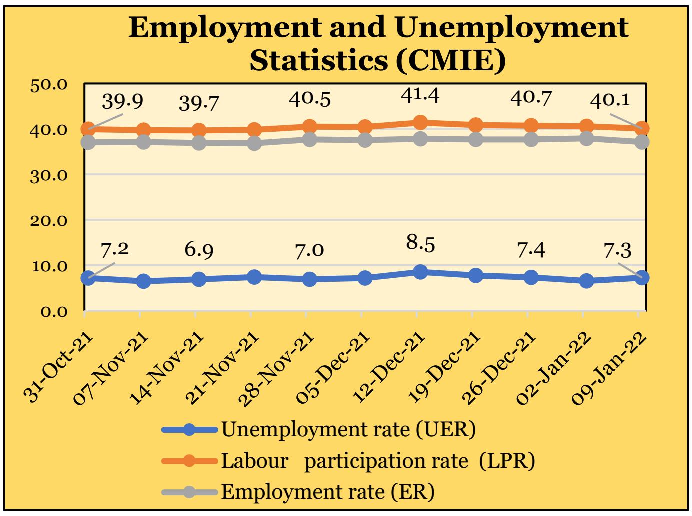
Global Economic Outlook

- **World Bank slashes global growth forecast:** World Bank slashed its global growth forecast for 2022 and 2023, and cautioned that a rise in inflation, debt and income inequality could jeopardize the recovery in emerging and developing economies.
- Global growth is expected to slow to 4.1% in 2022 and 3.2% in 2023 as more nations start unwinding unprecedented levels of fiscal and monetary policy support to tackle the fallout from the coronavirus pandemic.
- Growth in emerging and developing economies is expected to drop to 4.6% in 2022 from 6.3% in 2021, edging lower to 4.4% in 2023, which means their output would remain 4% below the pre-pandemic trend.
- As per World Bank estimates, the world economy grew 5.5% in 2021.
- **Eurozone Growth Likely to Slow, Inflation Potentially Nearing a Peak:** Consumer prices in the 19 countries that use the euro currency soared at a record rate, led by a surge in food and energy costs. Inflation rose to 5% in December compared with a year earlier. That is the highest level in the Eurozone since record keeping began in 1997.
- ECB leadership has consistently taken the view that the recent surge in inflation is temporary and that, as supply chains return to normal, inflation is expected to diminish. Recent reductions in shipping costs and increases in industrial output in Asia suggest some improvement in supply chain efficiency.

Domestic Outlook

- **Consumer sentiments fell in December:** Consumer sentiments declined in December 2021 after registering five consecutive months of increases. The Index of Consumer Sentiments fell by 4.4 per cent in December. The fall erased all the gains made during October and November. This sudden fall in consumer sentiments in December is surprising.
- The richest half celebrated the relaxations in December 2021. The bottom half were despondent and the rest were unimpressed either ways. With the arrival of the Omicron in January, sentiments may get dampened across the income spectrum. That could delay the recovery of the Indian economy from the hit of Covid-19 and its variants.
- **Former CEA projects 9.5% GDP growth for 2021-22:** Former chief economic adviser (CEA) Arvind Virmani has projected India's GDP growth rate for 2021-22 at 9.5%. According to him, this decade's average growth will be 7.5% plus minus 0.5%. Noting that Covid-19 pandemic has hit the economic recovery, he suggested that revenue negative Goods and Services Tax (GST) simplification is needed to provide a consumption stimulus to the economy and quickly restore lost jobs and wages.
- **The conundrum of unemployment and falling LFPR:** In India, unemployment rate has risen to 7.4% during the week ending 9th January 2022 from 6.5% in the previous week. And the labour participation rate has fallen dramatically in the past two weeks from 40.6% to 40.1% as on 9 January 2022.



- **Meeting GFCF target for FY22 could be challenging:** Experts remain sceptical over the forecast on gross fixed capital formation (GFCF), part of the 2021-22 GDP advance estimates released by National Statistical Office (NSO).
- In nominal terms, GFCF is expected to come in at ₹68.8 trillion in the current fiscal year, or 29.6% as share in GDP, compared with ₹53.5 trillion (27.1%) in 2020-21 and ₹58.5 trillion (28.8%) in 2019-20.
- Experts opine that meeting the GFCF target this year could be challenging given that private sector investment is still weak due to continued uncertainty over the pandemic. In addition, states have been cautious in their capex given the uncertainty on their fiscal balances. Also, states are likely to spend more on healthcare and welfare schemes than on new or brownfield infrastructure.

Prepared by M. Dileep Chandra (AM)
Editorial team: Dr. K J S Satyasai (CGM), Dr. Vinod Kumar (GM), Dr. Ashutosh Kumar (DGM)
Published by Department of Economic Analysis and Research (DEAR), NABARD Head Office, Mumbai

- **India to become world's 3rd largest economy by 2030:** India's nominal GDP measured in USD terms is forecast to rise to USD 8.4 trillion by 2030 from USD 2.7 trillion in 2021, making it the third-largest economy in the world, as per IHS Markit.
- At present, India is the sixth-largest economy in the world, behind the United States (US), China, Japan, Germany and the United Kingdom (UK).
- IHS Markit has projected India's real GDP growth for 2021-22 at 8.2%. For 2022-23, GDP growth is forecast at 6.7%.
- **Centre may trim fiscal deficit target for 2022-23:** The central government may consider lowering the fiscal deficit target for 2022-23 by 30-50 basis points (bps) to 6.3-6.5 per cent of GDP.
- Government remain sceptical about achieving the disinvestment target of ₹1.8 trillion for the current fiscal. The government has so far raised ₹93.3 billion in receipts from privatisation in the current fiscal year.
- **CAD to touch 2.2% of GDP:** As the Indian economy started to slowly slip back into normalcy during the quarter of July-September 2021, imports increased to meet pent-up demand and so did India's trade deficit. The current account turned into a deficit from its positive balance in the earlier quarter. But, the deficit was easily manageable at 1.3% of GDP.
- India's foreign exchange reserves are comfortable at USD 635 billion as they are the equivalent of 11 months of imports. The comfort in these reserves and in the expectation that commodity prices are expected to remain relatively weak in the coming quarter, it is likely that the rupee will continue to depreciate very gradually.
- The expectation for fiscal 2022-23 is a similarly benign current account deficit of about 1.2 per cent of GDP. The rupee is expected to remain reasonably stable with a very gradual depreciation as the world adjusts to interest rates rising in the West.

Interest Rate Outlook

- **Benchmark yield surges to two-year high on US cues:** Rising US treasury yields are suggesting that the Fed is on course to contracting its balance sheet, and raising rates post that. This has weighed on local yields.
- US Treasury benchmark yields rose about 11 basis points to 1.63% when the local government bond market opened for trading this calendar year. This is the sharpest first-day increase since 2009, when the world was beginning to clamber out of the subprime sinkhole.
- **India's bond yields hit 2 year high:** India's benchmark yield jumped to the highest in two years as demand for bonds at recent auctions dwindled amid concern over the central bank's consistent sales of the nation's debt in the secondary market.
- The 10-year bond yield rose five basis points to 6.59%, highest since January 2020.
- Market sentiment has soured after the Reserve Bank of India began gradually ramping up its liquidity withdrawal via variable reverse repo operations while also becoming a net seller in the secondary market by offloading over ₹15,000 crore of bonds since mid-November.
- There has been upward pressure on bond yields in India for many months now, given the rise in bank credit-to-deposit ratio, higher inflation, and rise in bond yields in the US.
- The yield on the benchmark has been moving up by a few basis points during past few days, factoring in inflation concerns and the trend of hardening in the global market. The spike in US treasury yields has added to the momentum.
- State governments will likely borrow ₹3.24 lakh crore during January-March quarter, according to the RBI calendar.
- Trading volumes have not regained normalcy at the beginning of the year. Yields are also coming under pressure amid lacklustre trading sessions amid uncertainties.

Table 1: Weekly Benchmark Bond Yield Movement (%)

Date	03/01	04/01	05/01	06/01	07/01
USA 10 year	1.64	1.65	1.70	1.73	1.77
India 10 year	6.45	6.48	6.51	6.52	6.51
India 5 Year	6.13	5.94	5.93	5.94	5.99
India 3 Month	3.55	-	3.60	3.59	3.57

Source: CMIE, www.worldgovernmentsbonds.com

- We expect the 10 year benchmark bond to trade in the range of 6.55-6.62 in the week of 10-14th January 2021.