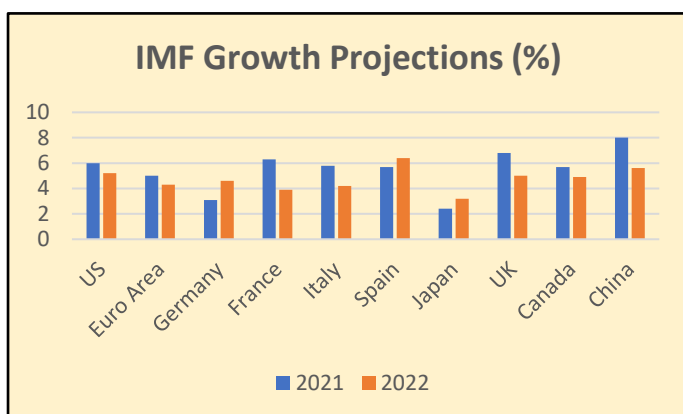


## Global Economic Outlook

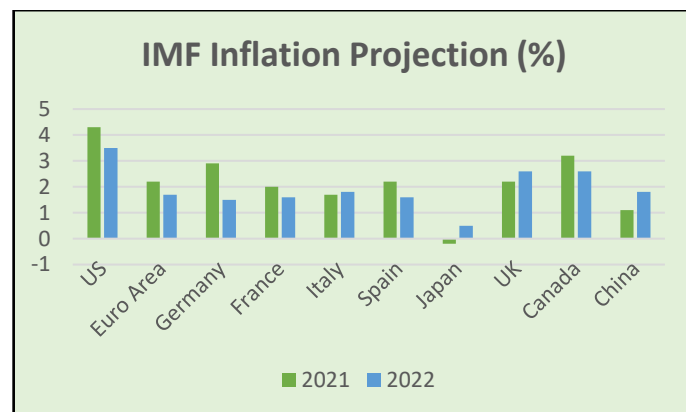
- The International Monetary Fund (IMF) released its World Economic Outlook (a survey of global economic developments in the near and medium term by IMF staff, published twice a year) on 12<sup>th</sup> October. As per the report, global economic recovery is continuing even as the pandemic resurges. Vaccine access and policy support would be the key going forward.
- As per IMF, the global economy is projected to grow 5.9 percent in 2021 and 4.9 percent in 2022, 0.1 percentage point lower for 2021 than in the July forecast.
- The downward revision for 2021 is said to reflect a downgrade for advanced economies—in part due to supply disruptions—and for low-income developing countries, largely due to worsening pandemic dynamics (rapid spread of delta and threat of new variants). This is partially offset by stronger near-term prospects among some commodity-exporting emerging market and developing economies. The growth projections of major advanced economies and China is given below.



Source: IMF World Economic Outlook

- As per the WEO report, headline inflation rates have increased rapidly in the United States and in some emerging markets and developing economies. In most cases, rising inflation reflects pandemic-related supply-demand mismatches and higher commodity prices compared to their low base from a year ago.
- In some emerging market and developing economies, price pressures are expected to persist driven by elevated food prices, lagged effects of higher oil prices, and exchange rate depreciation lifting the prices of imported goods.

- There is uncertainty surrounding inflation prospects which can be attributed to the path of the pandemic, the duration of supply disruptions, and how inflation expectations may evolve in this environment.



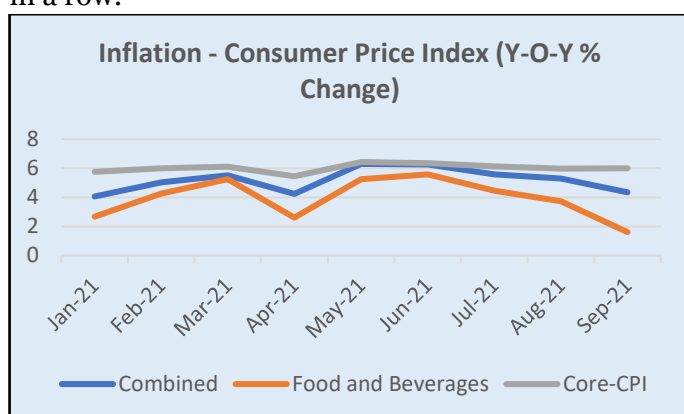
Source: IMF World Economic Outlook

## Domestic Outlook

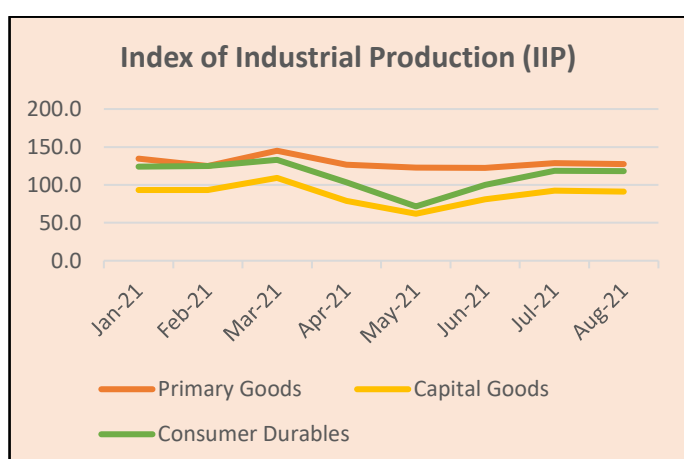
- The IMF has projected that India will grow at 9.5% and 8.5% in 2021 and 2022 respectively after having contracted by 7.3% in 2020. The forecast for India remains unchanged compared to that in July which had already incorporated a sizeable downgrade of 3% points from the preceding April forecast.
- The IMF has accorded top priority to vaccinate at least 40% of the population of every country by the end of this year and 70% by the middle of next year. IMF chief economist, Ms Gita Gopinath has appreciated India on its pace of vaccination. Incidentally, India is expected to cross 1 billion vaccinations this week which would mark a significant milestone in the fight against the pandemic.
- As on 17.10.2021, cumulative vaccine doses administered in India stood at 980 million. Approximately 74% of people above the age of 18 years have been vaccinated with the first dose. The weekly positivity rate is now at 1.42% and has remained below 3% for the past 114 days, while the daily positivity rate is 1.29%.
- The IMF raised its inflation forecast for India for 2021-22 to 5.6% from the 4.9% estimated in April citing growing inflationary risks worldwide. On sustainability of India's high fiscal deficit, the IMF believes that there is still room for support if needed, in case the pandemic takes a turn for the worse. The IMF has advised India to put in place a credible medium-term strategy to bring down the

debt to GDP ratio in order to create space for future infrastructure and development needs of the economy.

- The retail inflation data for September 2021 which was released on 12.10.2021 came in at a five-month low of 4.35% on sharply decelerating food inflation. Food inflation based on the Consumer Food Price Index (CFPI) fell to just 0.68% in September after having declined to a seven-month low of 3.1% in August.
- While vegetables recorded a negative inflation of 22.5%, price rise in oils and fats remained sticky at 34.2% and in the range of 7% to 8.75% for key protein sources such as pulses, eggs and meat. Core inflation which excludes food and fuel price trends, remained elevated around 6% for the third month in a row.



Source: CMIE



Source: MoSPI

- The IIP figures for August 2021 were released by the Ministry of Statistics and Programme Implementation (MoSPI) on 12.10.2021 which showed acceleration to 11.9% in August, driven largely by a statistical effect of a low base. August 2020 had seen a 7.1% contraction. Manufacturing grew 9.7%, electricity by 16% and mining output

rose 23.6% in August, but each of these sectors had recorded negative growth rates in 2020.

- Overall, the IIP declined in August compared to July. The improvement was limited to primary goods and consumer non-durables with all the other categories reporting a moderation in growth in August relative to July.

### Interest Rate Outlook

- Bank of England Governor, Andrew Bailey signalled on 17.10.2021 that BoE “will have to act” over rising inflation as energy prices would push inflation higher for longer than previously thought. This is being seen as a clear indication of the rates being increased from the current record low of 0.1%. Retail prices grew 3% y-o-y in August, sharply above BoE’s 2% target. The September numbers are due on 20.10.2021. BoE’s MPC (rate setting body) is due to meet next on 04.11.2021.
- RBI conducted an 8-day Variable Rate Reverse Repo auction last week in which the cut off yield came in 3.9% as compared to the cut-off for a 7-day VRRR that had come in at 3.61% in the first week of October. The higher rate is being seen as the central bank’s comfort in paying a higher rate to remove excess liquidity.
- The 10-year G-sec yield remained between 6.32% and 6.34% in the time period from 8<sup>th</sup> to 15<sup>th</sup> October 2021. Benchmark yield closed marginally higher this week despite positive inflation data even as rising crude prices, higher US treasury yields and domestic liquidity factor take precedence.
- During the same period the 10-year US treasury yield touched 1.61% before cooling to 1.575% on 15.10.2021.

Weekly Benchmark Bond Yield Movement (%)					
Date	11/10	12/10	13/10	14/10	15/10
<b>India 10year</b>	6.34	6.33	6.31	6.33	6.33
<b>India 5 year</b>	5.73	5.70	5.66	5.78	5.78
<b>USA 10year</b>	1.61	1.57	1.54	1.52	1.57

Source: CMIE, worldgovernmentbonds.com

- In the wake of our reading of the global and domestic situation, along with rising crude prices and hardening of US treasury yields, the bond yield for government benchmark 10-year is expected to remain in the range 6.30-6.40 for the week (18<sup>th</sup> Oct-22<sup>nd</sup> Oct 2021).