

## 1. Global Economic Outlook

**US Economy:** Fourth quarter real gross domestic product (GDP) increased at an annual rate of 3.3% in the fourth quarter of 2023 exceeding expectations. Growth was in large part due to an increase in people making and spending more. In addition, the economy added 2.7 million jobs in 2023. Consumer confidence continues to remain strong. Official report shows consumer spending in both goods and services beat expectations in both November and December 2023. For the full year, retail sales, excluding auto and gas, increased by 4.9%. Inflation-adjusted disposal personal income rose by 4.2% in 2023. People are saving more, with the personal saving rate rising to 4.5% in 2023. Measured from the fourth quarter of 2022 to the fourth quarter of 2023, real GDP increased by 3.1% during the period compared with an increase of 0.7% from the fourth quarter of 2021 to the fourth quarter of 2022.

**UK Economy:** The Bank of England (BoE) kept interest rates at a nearly 16-year high, but opened the possibility of cutting them as inflation falls and one of its policymakers cast a first vote for a reduction in borrowing costs since 2020. The BoE reiterated that policy would need to stay "restrictive for sufficiently long." Despite chopping its inflation forecast for the coming months, considerably higher wage growth set Britain apart from its peers in driving longer-term inflation pressure. Consumer price inflation looks likely to return to 2% in the second quarter of 2024.

## 2. Domestic Economic Outlook

**IMF raises India's FY24 growth forecast to 6.7%:** The International Monetary Fund (IMF) has raised India's GDP growth projection for FY24 by 40 basis points (bps) to 6.7%, and for FY25 by 20 bps to 6.5%, in its latest 'World Economic Outlook' report, citing "resilient domestic demand". At 6.7% India would remain the fastest growing major economy in the world. However, the forecast for FY24 is still 60 bps lower than the National Statistical Office's (NSO) projection. The NSO projected India's economy to grow at 7.3% in the current fiscal, based on data extrapolated for the first seven to eight months. The IMF's estimate is also 30 bps lower than the RBI's estimate of 7.0% for FY24.

**Govt. projects Economy to grow at 7% in FY25:** Backed by reforms in the last ten years and

new reforms to be initiated, India's real GDP growth will likely be closer to 7% in FY25 for the fourth year in a row, the finance ministry reported. The optimistic forecast is notwithstanding the emergence of new geopolitical risks. It also predicted that Indian economy will become the third largest economy in the next three years with a \$5 trillion economy. Furthermore, under a reasonable set of assumptions with respect to the inflation differentials and the exchange rate, India can aspire to become a USD 7 trillion economy in the next six to seven years (by 2030). The economists said priority areas for future reforms include skilling, learning outcomes, health, energy security, reduction in compliance burden for MSMEs, and gender balancing in the labour force.

**CRISIL projects Indian economy to grow at 6.7% between fiscals 2024 to 2031:** The economy will grow at this rate between the financial years 2024 to 2031, a notch above the pre-pandemic average of 6.6 %. According to CRISIL, the key contributor to this trend will be capital. This is a result of the investment-driven strategy of the government when the private sector was shy of making investments. CRISIL said that after a robust 7.3 % growth this fiscal, there will be moderation to 6.4% in the next financial year.

**Farm-gate, inter-mandi e-NAM sales surge in FY24; 18 million farmers, across 1361 mandis on the platform:** With more states facilitating trade of agricultural commodities on the electronic - National Agriculture Market (eNAM), a spurt in trading among various markets within the state as well as at the inter-state level is being witnessed. While the volume of farm gate, inter-state and inter-mandi trade is still a small portion of total turnover of e-NAM at ₹63,530 crore in April-January (2023-24), up 4% on year, it indicates a gradual shift to the digital platform, being used for better price discovery by the farmers. The total traded value of commodities on the digital platform using the farmgate model during April – January 2023-24 has been ₹79 crore compared to a very small amount traded last fiscal. In the April-January period of the current fiscal, there has been a 151% spike in inter-mandi trade on e-NAM to ₹1299 crore. In terms of inter-state trade, which was not happening a year ago, there has been an increase since the beginning of the year.

**India's factory growth hits four-month high in January on robust demand:** India's manufacturing industry improved substantially at the start of 2024 with factory activity expanding at its fastest pace in four months in January on robust demand and an upbeat year-ahead outlook. The India Manufacturing Purchasing Managers' Index, compiled by S&P Global, rose to 56.5 in January from December's 18-month low of 54.9. Although the final reading was a tad lower than a preliminary estimate of 56.9, it was comfortably above the 50-mark that separates expansion from contraction. It has been above breakeven since June 2021.

**Services PMI rises to 6-month high of 61.8 in Jan:** The services sector growth in India rose to a six-month high in January as new business expanded at a faster pace amid buoyant demand from domestic and external clients, a monthly survey reported. The India Services PMI Business Activity Index rose to 61.8 in January, up from 59 in December, pointing to the sharpest rate of expansion in six months. New export sales rose at the fastest pace in three months. Monitored firms signalled gains from clients across the globe, including Afghanistan, Australia, Brazil, China, Europe, the UAE and the US.

**Fiscal deficit at 55% of annual target till end of Q3:** The Centre's fiscal deficit came in at 55% of the budget estimate (BE) in the first nine months of the current financial year, compared with 59.8% of the respective target in the year-ago period, the data released by the Controller General of Accounts showed. While net tax revenues rose by 11.2% on year in April-December 2023, in line with the required growth rate of 11% to achieve the budget estimate of ₹17.3 trillion, non-tax revenues expanded by 46% to ₹3.1 trillion on the back of the robust RBI dividends. In December 2023, capex more than doubled on-year to ₹87,985 crore, offsetting the tepid performance in the previous two months. The Centre's capex expanded by 37.5% in April-December FY24, marginally higher than the required growth rate to meet the FY24 target of ₹10 trillion. However, the capex achievement could fall short of the target due to likely lower utilisation by states from a special capex loan facility of ₹1.3 trillion and a reduction in capital infusion into state-run oil firms.

**Forex reserves increase \$591 million to \$616.7 billion:** India's forex reserves increased USD 591 million to USD 616.73 billion for the week ended January 26, the Reserve Bank of India (RBI) reported. In the previous reporting week, the overall reserves had dropped USD 2.80 billion to USD 616.14 billion. The reserves took a hit as the central bank deployed the reserves to defend the rupee amid pressures caused majorly by global developments since last year. Gold reserves increased USD 269 million to USD 47.48 billion during the week. The Special Drawing Rights (SDRs) were up USD 27 million to USD 18.25 billion. India's reserve position with the IMF was up USD 6 million to USD 4.86 billion in the reporting week.

### 3. Interest Rate Outlook

**Indian bond yields seen rising tracking US peers:** Indian government bond yields ended higher on 5 Feb 2024, reversing some declines from last week, tracking a surge in U.S. Treasury yields after strong economic data dampened aggressive Federal Reserve's rate-cut bets. U.S. yields jumped, with the 10-year yield crossed the 4.10% handle, as by 353,000 jobs last month, nearly double the 180,000 that economists polled by Reuters had estimated. Domestic bond yields dropped last week after India said it will aim to reduce the fiscal deficit to 5.1% of gross domestic product, in the next financial year and will aim to gross borrow ₹14.13 trillion(\$170.21 billion) via bonds, sharply below expectations. India's benchmark 10-year yield ended at 7.09%, compared with the previous close of 7.06%.

Date	29 Jan	31 Jan	1 Feb	2 Feb	5 Feb
USA 10 yr	4.08	3.93	3.87	4.03	4.17
Ind 10 yr	7.17	7.14	7.06	7.06	7.09
Ind 5 yr	7.04	7.08	6.99	7.01	7.06
Ind 3 M	6.96	7.00	7.01	7.00	7.00

Source: worldgovernmentbonds.com, CMIE