

Indian economy still not out of the woods: RBI

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RETAIL INFLATION HAS moderated due to monetary policy action and supply side interventions but the Indian economy is still 'not out of the woods yet and have miles to go', said the Reserve Bank of India's (RBI) monthly bulletin on Thursday.

"We are not out of the woods yet and have miles to go, but (inflation) readings of around 5% and 4.9% in September and October, respectively, are a welcome relief from the average of 6.7% in 2022-23 and 7.1% in July-August 2023," the RBI said in its 'State of the Economy' article in the bulletin.

Retail inflation came down to 4.9% in October from the average of 6.7% in 2022-23 and 7.1% in July-August 2023 but remained above the RBI's 4% target.

The central bank expects inflation to average 5.4% in 2023-24.

The bulletin noted that tightening financial conditions is a significant risk to the global outlook going forward.

"In India, the momentum of the change in GDP is sequentially expected to be higher in Q3, 2023-24, with festival demand remaining ebullient," the article authored by a team lead by RBI deputy governor Michael Debabrata Patra said.

The demand appears to be resilient with the government's infrastructure spending, an uptick in private capex, automation, digitalisation and indigenisation providing a boost.

The RBI also said the calibrated normalisation of surplus liquidity and robust credit growth strengthened transmission during the current tightening phase, although the transmission is still not complete.

The transmission of rates to term deposits has been robust, while savings deposit rates have exhibited rigidity the central bank said.



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The article further said India's external sector has remained viable, with a modest Current Account Deficit (CAD) financed by resilient capital flows, one of the least volatile currencies in the world and a healthy level of foreign exchange reserves.

The momentum of growth has picked up, taking GDP well above pre-pandemic levels to becoming the fifth-largest economy in the world at market exchange rates, it added.

"Steadfast policy initiatives are showing results, with the financial sector exhibiting soundness and supporting the credit needs of a resurgent economy," it said.