

Economic activity remains resilient, inflation to ease: RBI

EXPERTS' TAKE. India may be among the few economies left standing after the global hurricane has passed

Our Bureau
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Broader economic activity in India has remained resilient and is poised to expand further even as the fight against inflation will be dogged and prolonged, according to an article in the Reserve Bank of India's latest monthly bulletin.

"Domestic demand is accelerating, with auto sales having rebounded, real estate sales on the rise in spite of a pick-up in borrowing costs and the contact-intensive hospitality services experiencing a bounce-back," per the article "State of the Economy", put together by 28 RBI officials, including Deputy Governor MD Patra.

BANK CREDIT RISING

The authors observed that bank credit is increasing by double digits and the sustained surge in GST collections is signalling the growing formalisation of the economy.

"Indian equities are outperforming both advanced

STRONG SIGNALS

- RBI's economic activity index sees GDP growth for Q2 2022-23 at 6.4%
- Several high-frequency indicators remain buoyant
- Withdrawal of South-West monsoon has aided travel, hospitality and construction sectors
- Pick-up in bank credit growth was led by the term loans category
- In contrast to synchronised tightening of monetary policy worldwide, the RBI delivered a 'perfect 50' on September 30
- Rupee movement has been orderly compared with currencies of most other countries



and emerging peers. Selling by foreign portfolio investors is being more than matched by domestic institutional investors' buying," they said.

The RBI officials underscored that corporate and bank balance sheets have become fortified through the period of the pandemic, providing further strength to the economy. "There is a view that India is likely to be

among the few emerging economies that would be left standing after the global hurricane has passed," opined the authors.

INFLATION TO EASE

Headline inflation is set to ease from its September high, albeit stubbornly, on the back of easing momentum and favourable base effects, the authors said. They noted that while the

persistence of headline CPI inflation above the tolerance band (of 6 per cent) for three consecutive quarters (up to September) will trigger mandated accountability processes, monetary policy remains focussed on realigning inflation with the target.

This may involve two milestones — first, bringing it within the tolerance band and, second, lowering to around its mid-point.

According to the RBI officials, "This trajectory will likely be gradual in view of the repeated shocks to which inflation has been subjected by both epidemiological and geopolitical causes, but the easing of inflation will inject confidence into both consumers and businesses, recharge animal spirits and investment, and improve the international competitiveness of India's exports."

They emphasised that the fight against inflation will be dogged and prolonged, given the long and variable lags with which monetary policy operates and fraught with uncertainties. "Yet, if we succeed, we will entrench

India's prospects as one of the fastest growing economies in the world, enjoying a negative inflation differential with the rest of the world.

"This happy outcome will re-enthrone foreign investors, stabilise markets and secure financial stability on an enduring basis," they said.

IS INDIA DECOUPLING?

"Time will tell. For now, reasonably strong macro-fundamentals by comparator comparison are being tested by the twin whammies of rising international interest rates and an inexorably strengthening US dollar," opined the officials.

They noted that this is inflicting collateral damage — imported inflation and rupee depreciation.

"Financial market notwithstanding and despite periodic revisions of forecasts by various agencies in India and abroad, the consensus seems to be that real GDP growth in India will clock 7 per cent or close to it in 2022-23," the authors said.