STATE OF THE ECONOMY

Inflation still high, focus on minimising risk: RBI report

Indicates 'significant per capita income shifts' underway

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KEY OBSERVATIONS

- The winter easing of vegetable prices has turned out to be shallow and short-lived
- Real per capita income is up 1.5x since 2011-12 at a CAGR of 4%
- FY24 will likely see the highest ever length of four-lane roads being constructed
- The NSO's GDP growth estimate for 2023-24 will be exceeded and a rate closer to 8% may be clocked
- GDP growth is likely to remain robust at 7.4% during 2024-25

With retail inflation gaining momentum in February, the monetary policy must remain in a risk-minimising mode to guide the trajectory towards the 4 per cent target, stated the Reserve Bank of India's State of the Economy report. It underscored an upward trend in per capita income, citing data from the Household Consumption Expenditure Survey.

The report noted that the recurring incidence of short-amplitude food price pressures is hindering a more rapid decline in headline inflation towards the 4 per cent target. "Inflation is on the ebb; the steady decline in core inflation would have taken down headline inflation towards the target of 4 per cent even sooner and faster, but for the repetitive incidence of short amplitude food price pressures," stated the report, which is authored by RBI staffers, including Deputy Governor M D Patra. The views of the report do not reflect the views of the central bank. "The CPI readings for January and February 2024 show that the winter easing of vegetable prices turned out to be shallow and short-lived. Cereal prices maintained strong momentum, and prices of meat and fish have registered a surge," it said.

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The authors said food price pressures on the headline have been capped by core disinflation to among its lowest prints in the series and that the softening of core inflation has been broad-based.

"Overall, headline inflation's momentum turned positive in February 2024, offsetting a favourable base effect. Accordingly, monetary policy has to remain in a risk minimisation mode, guiding inflation towards the target while sustaining the momentum of growth," it said. On the demand side, the report observed that private final consumption expenditure remained low, despite the third quarter coinciding with the festival season. However, it suggested that shifts in per capita income indicate a robust demand outlook for premium consumer businesses.

"New household consumption expenditure survey (HCES) information shows that per capita spending on durables and discretionary products has been rising in both rural and urban markets, with real per capita income up 1.5 times since 2011-12 at a compound annual growth rate of 4 per cent," the report said.

Citing market research, the report predicted moderate growth for the domestic fast-moving consumer goods (FMCG) sector over the next six months. It also noted a contraction in government final consumption during the October-December quarter.

Furthermore, the report emphasised that aggregate demand in the third quarter of 2023-24 was driven by investment, with signs of a revival in the private capex cycle. The report suggested that the high visibility of structural demand and healthier corporate and bank balance sheets are likely to be catalysts for new investments. "The current financial year will likely see the highest ever length of four-lane roads being constructed, along with the highest ever length of speed or access-controlled highways -- on course to create a world-class road network by 2037," it said. The report said real GDP, which expanded at a six-quarter high rate in October-December 2023, was powered by strong momentum, robust indirect taxes and lower subsidies. It was bullish on economic growth, which has been predicted closer to 8 per cent for the current financial year as compared to the National Statistical Office's (NSO's) estimate of 7.6 per cent (Second Advance Estimate). "Our nowcast of real GDP growth for January-March 2024, seen in conjunction with high-frequency indicators for the fourth quarter, suggests that the NSO's estimate for the full-year 2023-24 will be exceeded and a rate closer to 8 per cent may be clocked," the report said. For the next financial year, FY25, statistical models projected a growth of 7.4 per cent, it said.

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"We have signed up about 15 large conglomerates and business houses across automotive, pharmaceutical (pharma), and banking, financial services and insurance already, and the progress has been fast in India. We want to double the size of business in India in the next year," added Gaurav.