

# Upturn in capex cycle on horizon, says RBI report

'Can't let our guard down on inflation'

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**W**aning input cost pressures, buoyant corporate sales, and a turn-up in investments in fixed assets suggest the beginning of an upturn in India's capital expenditure cycle, which could help improve earnings in the coming quarters and speed up "the momentum of growth in the Indian economy", the Reserve Bank of India (RBI) said in its monthly bulletin for December.

The State of the Economy article in the Bulletin, authored by RBI staff, including Deputy Governor Michael Patra, however, flagged inflation concern. "[Global] Inflation may be slightly down, but it is certainly not out. If anything, it has broadened and become stubborn, especially at its core," it said.

The report said that if the Monetary Policy Committee's (MPC's) projections given in its December meeting hold, then retail inflation would probably fall within the official tolerance band of 2-6 per cent in the next financial year. "Yet, with inflation projected to turn

## STATE OF THE ECONOMY

▶ **Lower input cost pressures, buoyant corporate sales, higher investment** in fixed assets to boost capex

▶ **Earnings to improve in coming quarters, push up economic growth**

▶ **Inflation may be within 2-6% tolerance band in FY24**

▶ **Withdrawal of accommodation needed** as core inflation pressure persists

▶ **Banks making efforts to attract more deposits, emphasis on retail schemes**

Source: RBI bulletin for Dec 2022



up in the second quarter of next year, there can be no letting down of the guard. The moderation in the size of the policy rate change also provides the space to assess the cumulative impact of tightening undertaken so far on macroeconomic and financial conditions and outlook," it said.

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## RBI report...

India's retail inflation rate unexpectedly decelerated to an 11-month low of 5.88 per cent in November, even as core inflation, which excludes food and fuel prices, inched up to 6.3 per cent from 6.2 per cent in the previous month.

In its December policy review, the MPC raised the repo rate by 35 basis points (bps), taking the cumulative quantum of rate hikes in 2022 to 225 bps. Prior to the December policy, the last three rate hikes were of 50 bps each. One bps is one-hundredth of a per cent. "Seeing pressure points in some categories of food, and persistence and generalisation across the core constituent, however, the MPC decided that further withdrawal of accommodation is warranted," the RBI staff wrote. The authors noted that amid expectations of a slowing in the pace of rate hikes globally, foreign portfolio investors (FPIs) remained net buyers in Indian markets for a second month in November.