

India better placed than most to face turmoil: RBI report

'Core inflation defies softening of input costs'

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The Indian economy has remained resilient amid high tides of uncertainty and is better positioned than many parts of the world to head into a challenging year ahead, the Reserve Bank of India (RBI) said in its State of the Economy report on Tuesday. "Even as global growth is set to slow down or even enter a recession in 2023...India has emerged from the pandemic years stronger than initially thought," it said.

The report said a direct impact of the US banking crisis on India's economic activity could be limited, but markets were bracing for tighter financial conditions. "This could present a trade-off between financial stability concerns and the conduct of disinflationary monetary policy."

The report, however, raised inflation concerns. While the consumer price index (CPI)-based inflation softened marginally in February, it remained elevated, the report noted, adding that core inflation "continues to defy the distinct softening of input costs".

The report also red-flagged a slowdown in private consumption. "Private consumption may edge down further, going by high-frequency indicators, including and perhaps mainly due to elevated inflation," it said.

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ECONOMIC OUTLOOK

▶ **Direct impact of US banking crisis on India's economic activity** could be limited, but markets are bracing for tighter conditions

▶ **Fear is creeping back.** The future looks darker than it did just a few weeks ago

▶ **Risks to financial stability in many economies** may divert policy attention away from inflation

▶ **RBI's nowcast model projects real GDP growth at 5.3% for Q4FY23**

▶ **Growth impulses getting strengthened by easing supply chain pressures and rebound in services activity**

Source: RBI report



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▶ **RBI SNAPS 2 MONTHS OF \$ BUYS, NET-SELLS \$384 MN IN MKT IN JAN**

▶ **FLOWS INTO NRI DEPOSITS MORE THAN DOUBLE IN APR-JAN PERIOD OF FY23**

▶ **OUTWARD REMITTANCES IN APR-JAN SURPASS FY22**

is double that of listed equity shares held for a year. Tax on private stock investment is 20 per cent, while that on public stock investment is 10 per cent. “As a policy measure it would be ideal if parity was brought in taxing long-term capital gains on listed as well as unlisted shares,” said Sudhir Kapadia, national tax leader, EY India.

RBI report...

Retail inflation in February moderated to 6.44 per cent year-on-year, from 6.52 per cent in January. The moderation in headline inflation by 8 basis points (bps) between January and February was driven by a favourable base effect. Core inflation softened to 6.1 per cent in February from 6.2 per cent in the previous month.

CPI inflation has stayed above the RBI's upper tolerance level of 6 per cent for nine of the 11 months in the current financial year, despite a 250-bp hike in the repo rate between since May 2022. The RBI's Monetary Policy Committee will review and announce its policy on April 6. “Over the financial year ahead (2023-24), inflation is expected to range tightly between 5.0 and 5.6 per

cent if India survives an El Nino event adversely affecting the south west monsoon, given global uncertainties,” the report said. On the growth front, the central bank has sounded more sanguine even if GDP growth slowed to 4.4 per cent for the October-December period. The report attributed the slowdown in Q3 to “unfavourable” base effects. The report said the Q3 data offered “valuable information content” for the rest of the year. In particular, it pointed out further slowdown in private consumption.

The RBI's nowcast model projects real GDP growth for the fourth quarter of FY23 at 5.3 per cent. The report noted that growth impulses were getting further strengthened by easing of supply chain pressures and a rebound in services activity.

“The deceleration in government final consumption expenditure counteracted the upside from the deceleration in imports. Private consumption also lost speed and so did fixed investment, although public spending on infrastructure provided a cushion. On the supply side, agriculture and services offered a silver lining against the backdrop of moderation in industry,” the report said.

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