Trade war hit on India likely to be limited: RBI bulletin

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The Indian economy could remain less affected by global trade wars than other countries because the two engines of domestic growth — consumption and investment — are likely to face a limited impact from such headwinds, according to an article on the 'State of the Economy' in the Reserve Bank of India's (RBI's) bulletin, released on Tuesday.

The report said the liquidity measures taken by the central bank since the middle of January had helped to maintain orderly conditions in the money market with softening rates and spreads amid improving liquidity, also evident from softening short-term rates for certificates of deposits, commercial paper, and Treasury bills.

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With risk weightings for bank loans reduced from April 1, the report expects funding for non-banking financial companies to improve.

The report is authored by RBI staffers and the views are not of the central bank.

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RBI report: India's ability to withstand global headwinds stem from its robust growth

The report said India's ability to withstand global headwinds stem from its robust growth, fostered by a strong macroeconomic framework and moderating inflation, with robust domestic engines of growth.

"Although the weakening of global economic outlook could impact overall growth through weaker external demand, India's domestic growth engines, viz., consumption and investment, are relatively less susceptible to external headwinds," the report said while noting that India also had low external vulnerability as reflected in its modest external debt-gross domestic product ratio of 19 per cent and substantial foreign-exchange reserves.

India's foreign-exchange reserves were at $677.8 billion for the week ended April 11 — close to 11 months' import cover. India's consistent strength in services exports and remittance inflows continues to provide a buffer for the current account, it noted.

The report said India was preferred as an investment destination owing to stable macroeconomic conditions.

"India's position as the fastest-growing major economy, coupled with macroeconomic stability, makes it a preferable investment destination in a world characterised by growth slowdown and macro vulnerabilities," it said.

The report noted the agricultural sector in India was poised to sustain its momentum, supported by the bumper kharif and rabi harvests and higher summer sowing amid a comfortable reservoir position.

At the same time it cautioned against risks from the rise in temperatures above normal and the likelihood of heatwaves this summer (April-June), and said the impact needed to be monitored.

"Industrial and services activities continue to remain resilient. Results of the survey conducted among representatives from industry associations, including several industry bodies, credit rating agencies, and banks reveal optimism in economic activity supported by moderating inflation, sustained upswing in rural consumption and recovery in urban consumption," the report said.

Global uncertainties, however, act as downside risks to this outlook, the report noted.

"Going forward, India is poised to benefit from supply chain realignments, diversified FDI (foreign direct investment) sources, and engagement with global investors seeking resilience and scale, given its already established trade linkages. Calibrated policy support can help India turn global volatility into an opportunity and strengthen its position in the emerging world economic landscape," the report said.