

# Inflation momentum softer than anticipated: RBI report

Q1 GDP to be driven by private consumption, rural demand

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Mumbai, 22 May

Consumer price index-based inflation, which dropped below 5 per cent in April — the first time since November 2021 — vindicated the central bank's monetary policy decision and the stance of April and the momentum of inflation is turning out to be softer than anticipated, the Reserve Bank of India's (RBI's) State of the Economy report said.

In the April review of the monetary policy, the six-member monetary policy committee (MPC) decided to keep interest rate unchanged while maintaining the withdrawal of accommodation stance.

"The CPI inflation print for April 2023 indicates that momentum is turning out to be softer than anticipated on account of a fall in wheat prices, the fifth consecutive monthly decline in prices of oils and fats and the third consecutive monthly decline in the prices of eggs," the report, which is authored by the RBI staff, including Deputy Governor Michael Patra said.

Headline inflation moderated sharply to 4.7 per cent in April 2023 from 5.7 per cent in March. "The most heartening development is the easing of headline inflation below 5 per

## \$27.14 bn sent under LRS in FY23, up 38%

Indians remitted \$27.14 billion in 2022-23 under the Reserve Bank of India's (RBI's) liberalised remittance scheme (LRS), a steep rise from \$19.61 billion a year earlier, latest data released by the central bank showed.

Reflecting buoyancy in travel, spending on relatives, the outward remittances saw a substantial jump for the second year on the trot. The remittance amount in FY21 was \$12.68 billion, when there was a sharp drop during and after the first wave of the pandemic. In FY20, Indians had sent \$18.76 billion abroad. Remittances in March 2023 stood at \$2.95 billion, up from \$1.96 billion in March 2022 and \$2.1 billion in February 2023.

cent in April 2023, occurring as it has for the first time since November 2021, vindicating the monetary policy decision of April 8, 2023 and the stance. This has come as a welcome relief," the report said.

Commenting on growth, the report pointed out that GDP growth in the first quarter of the current financial year will be driven by private consumption and rural demand.

"In the first quarter of 2023-24, growth is expected to be driven by private consumption, supported by reviving rural demand, and renewed buoyancy in manufacturing on easing of input cost pressures," it said.

The report said revival in rural demand is underway on the back of the encouraging developments in both kharif

marketing season of 2022-23 and the rabi marketing season of 2023-24, the sustained buoyancy in services, especially contact-intensive sectors, and moderating inflationary pressures.

It said investment activity is also expected to improve, drawing strength from the thrust on capital expenditure in public spending and moderation in commodity prices.

The report said in April and the first half of May 2023, domestic economic conditions have sustained the quickening of momentum seen in the last quarter of 2022-23.

Observing that the Indian economy has sustained momentum in 2023-24, and based on partial data available for April 2023 and assuming an implied GDP growth of 5.1

International travel remained the largest component of the entire outward remittance by Indians under the scheme. Spending on foreign travel was \$1.14 billion in March. In 2021, it was marred by Covid-related curbs but slowly picked up later and remained strong in 2022 and early 2023.

The next highest expenditure was maintenance of close relatives, at \$630 million, followed by investment in debt and equity, at \$232 million this March, the RBI data showed.

After international travel, Indians spent most on maintenance of close relatives, followed by gifts, investment in equity and overseas education.

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## Flows into NRI deposits top \$8-bn mark

The bank accounts of non-resident Indians (NRIs) held in the country received \$7.99 billion in 2022-23, more than twice the \$3.23 billion in FY22. The outstanding amounts in NRI deposits rose sequentially from \$135.54 billion in February 2023 to \$137.88 billion at the end of March 2023, according to the Reserve Bank of India (RBI) data. However, the outstanding NRI deposits fell from \$139.02 billion at the end of March 2022 to \$137.88 in March 2023.

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resilience in construction activity," it said.

The report pointed out that corporate earnings are beating consensus expectations, with banking and financial sectors posting strong revenue performance, aided by robust credit growth.

The report observed that the global economy is transfixed in the cross-currents of slowing growth and high inflation, and an uneasy calm prevails in the global financial markets as they await clearer signals from policy authorities on banking regulation and supervision, and contours of deposit insurance.

The report concluded by saying that the policy frameworks have to be forward-looking, given the lags in the transmission of policy impulses to the rest of the economy.

per cent for Q4, 2022-23, the economic activity index now casts GDP growth for Q1 of 2023-24 at 7.6 per cent.

The report also highlighted that with capacity utilisation in manufacturing straining at trend levels and above it in some industries, private capital spending will need to get stronger to add additional capacity as demand picks up. The manufacturing sector as a whole is expected to gain from softening input cost pressures, the report noted.

"If services exports maintain their recent high profile, the drag from net external demand should moderate through April-June 2023. Domestic service sector activity will continue to be led by the rebound in contact-intensive services and the