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## RBI STATE OF THE ECONOMY REPORT

# Inflation 'slowing down' consumption

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Inflation is slowing down personal consumption expenditure, which, in turn, is moderating corporate sales and holding back private investment in capacity creation, a Reserve Bank of India (RBI) report said on Friday.

The monthly state of the economy report also said the Indian rupee was turning out to be one of the most stable currencies with implied volatility at its lowest

level since 2008. Implied volatility is the metric that captures the market's view of the likelihood of fluctuations in its value.

“The INR has emerged as one of the least volatile among major currencies, with the least one-month implied volatility in 2023 so far,” said the report,

authored by RBI staffers, including Deputy Governor M D Patra. The article does not represent the views of the RBI. Turn to Page 6 ▶



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FOREX RESERVES UP \$2.35 BN

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largest party, Congress' Kharge and Gandhi said they would rather listen to the rest and speak last.

Gandhi said “flexibility” was the need of the hour, as was shaping the public discourse and holding meetings with a goal-oriented agenda.

## Inflation...

After declining 7.8 per cent against the dollar in FY23, mainly due to the war in Europe and monetary policy tightening by global central banks, the Indian rupee has stabilised this financial year, as the currency has moved in a narrow band while strengthening by 0.2 per cent.

“During the calendar year 2023 [till June 9], India’s foreign exchange reserves increased by \$31 billion, which is the second highest among major foreign exchange reserves holding countries,” the report said.

Commenting on the RBI’s hawkish pause in the June review, the report said monetary policy had been effectively tightened in the near term in terms of the real policy rate while maintaining a positive real rate four quarters ahead over which policy was expected to work, given its lags.

“Recent national accounts data and corporate results, when read in conjunction, clearly show that inflation is slowing down personal consumption expenditure,” the report noted.

“This, in turn, is moderating corporate sales and holding back private investment in capacity creation. Bringing

down inflation and stabilising inflation expectations will revive consumer spending and boost corporate revenues and profitability, which is the best incentive for private capex,” it said.

Commenting on the credit market, the report said the wedge between growth rates of bank credit and deposits had started to narrow, suggesting that credit growth was rebasing to more durable sources of funding.

The growth in deposit mobilisation recorded a 27-month high of 11.8 per cent amidst continuing efforts by SCBs to bridge the funding gap, it said. Even if the central bank has not ruled out further interest rate hikes, bank lending and deposit rates have started to soften.

According to the report, on a month-on-month basis, the weighted average lending rate (WALR) on fresh rupee loans and weighted average domestic term deposit rates on fresh deposits declined by 23 bps and 12 bps, respectively, in April 2023.

The asset quality of banks seems to have improved further as loan-loss provisioning for banks continued to fall for the fifth consecutive quarter in January-March in an environment of sustained collection efficiency and improving asset quality.

The report also said gross inward foreign direct investment (FDI) flows, moderated to \$6.9 billion in April 2023 from \$8.4 billion in April 2022.

Net FDI declined to \$2.8 billion in April 2023 from \$5.3 billion a year ago.

