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RESERVE BANK OF INDIA

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RBI Bulletin – April 2023

Today, the Reserve Bank released the April 2023 issue of its monthly Bulletin. The Bulletin includes Monetary Policy Statement April 3, 5 and 6, 2023, Monetary Policy Report April 2023, one speech, five articles and current statistics.

The five articles are: I. State of the Economy; II. Recent Regime Reversal in Inflation: The Indian Experience; III. Capital Outlay of Indian States: An Empirical Assessment of its Role and Determinants; IV. Industrial Relations Code and Labour Productivity: A Cross-Country Meta-Analysis; and V. A Composite Indicator of Realty Sector Activity in India

I. State of the Economy

Global economic conditions are beset by heightened uncertainty as financial conditions remain volatile and financial markets are on edge. In India, aggregate demand conditions remain resilient, supported by a rebound in contact-intensive services. Expectations of a bumper *rabi* harvest, the fiscal thrust on infrastructure, and the revival in corporate investment in select sectors augur well for the economy. In response to monetary policy actions and supply side measures, headline CPI inflation has gradually declined from its peak of 7.8 per cent in April 2022 to 5.7 per cent in March 2023 and is projected to ease further to 5.2 per cent in Q4: 2023-24.

II. Recent Regime Reversal in Inflation: The Indian Experience

By Michael Debabrata Patra, Joice John and Asish Thomas George

This article examines recent regime shifts in inflation in India.

Highlights:

- Since the second half of 2022-23, the Indian economy is showing signs of transiting to a low inflation regime, as indicated by a decline in inflation persistence, softening of its underlying trend, reduction in broad-basing and a fall in the contribution of imported inflation.

- The contribution of cyclically sensitive inflation emanating from categories such as household goods and services, education and housing is picking up in the recent period. Hence, monetary policy has to be in readiness to act pre-emptively to ensure that inflation weathers demand pull and is guided to the target.

III. Capital Outlay of Indian States: An Empirical Assessment of its Role and Determinants

By Deba Prasad Rath, Bichitrananda Seth, Samir Ranjan Behera and Anoop K Suresh

This article investigates the relationship between States' capital outlay and gross state domestic product (GSDP) while also identifying the factors that influence the States' capital outlay decisions. The analysis brings out the need for balancing the requirement for higher capital outlay with the goal of keeping the overall debt levels low and sustainable.

Highlights:

- There is a significant and positive association between States' capital outlay and GSDP.
- Higher levels of debt hinder States' ability to invest in capital outlay, especially when the levels of debt are in the higher quantiles.
- States exhibit a counter-cyclical behaviour in their allocation of capital outlay. However, they respond more aggressively during periods of negative output gap.

IV. Industrial Relations Code and Labour Productivity: A Cross-Country Meta-Analysis

By Shruti Joshi and Rakhe P. Balachandran

India recently codified the 29 Central labour laws into four labour codes *viz.,* codes on (i) wages, (ii) industrial relations, (iii) social security, and (iv) occupational safety, health and working conditions. The code on industrial relations has also introduced fixed term employment (FTE). Using a meta-regression analysis, this article evaluates the impact of FTE on labour productivity across countries.

Highlights:

- Though FTE is new to India, it has been in operation in many European countries for several years, increasing firms' flexibility in labour management.

- FTE has a positive and significant effect on labour productivity.

V. A Composite Indicator of Realty Sector Activity in India

By Dipak R. Chaudhari, Akanksha Handa, Priyanka Upreti, and Saurabh Ghosh

The realty sector plays a crucial role in India in terms of being a major employment provider, an essential avenue for savings in physical form for households, a key contributor to the country's gross value added (GVA), and as an early warning indicator. However, construction GVA data are available on a quarterly basis with 2-month lag. The article aims to reduce the information gap by constructing a realty sector activity indicator using a variety of high-frequency indicators and a dynamic factor model.

Highlights:

- A mix of conventional (*e.g.*, housing prices, steel and cement production, rail-freight, index of industrial production) and unconventional indicators (*e.g.*, NIFTY realty index adjusted for broad market movements and the Google search propensity indicator) related to the realty sector are used to construct the composite indicator of realty sector activity.

- The estimated *dynamic factor housing* (DFH) tracks the construction GVA, and realty related data released by private agencies.

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