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RESERVE BANK OF INDIA

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RBI Bulletin – July 2023

Today, the Reserve Bank released the [July 2023](#) issue of its monthly Bulletin. The Bulletin includes three speeches, six articles and current statistics.

The six articles are: [I. State of the Economy](#); [II. When Circumspection is the Better Part of Communication](#); [III. A Prototype Dynamic Stochastic General Equilibrium Model for India](#); [IV. Quality of Public Expenditure and Economic Growth: An Empirical Assessment at Sub-National Level](#); [V. India @ 100](#); and [VI. Perspectives on the History of the Reserve Bank of India](#).

I. State of the Economy

Global growth momentum appears to be stalling, especially manufacturing and investment, amidst moderating headline inflation with a stubborn core. Market expectations of future interest rates have gone up in response to the hawkish policy stance; equity prices have flattened; and bond yields have hardened. In India, the rain deficit is rapidly closing amidst a highly cyclone-skewed distribution. Manufacturing and services activity remains in expansion albeit with some sequential moderation in June. The overall balance of payments improved in Q1:2023-24, indicating that financial flows comfortably exceeded the current account again on a quarterly basis.

II. When Circumspection is the Better Part of Communication

By Michael Debabrata Patra, Indranil Bhattacharyya and Joice John

This article examines the role of monetary policy communication in the form of forward guidance, particularly in a rate tightening cycle, through an auto regressive conditional heteroscedastic (ARCH) model using overnight indexed swap rates.

Highlights:

- Forward guidance is a useful instrument of monetary policy communication in extraordinary times that warrant ultra-accommodation because of its influence on longer-term interest rate expectations. It is less useful, however, in a rate tightening cycle.

III. A Prototype Dynamic Stochastic General Equilibrium Model for India

By Shesadri Banerjee, Harendra Behera and Michael Debabrata Patra

This article estimates a prototype Dynamic Stochastic General Equilibrium (DSGE) model for India to assess the structural changes in the economy and shifts in key

parameters of monetary policy before the shock of the pandemic and the war in Ukraine, and after them.

Highlights:

- Aggregate demand has become more elastic to changes in the real rate of interest after the twin shocks.
- The Phillips curve has become flatter pointing to disinflation getting costlier in the future.

IV. Quality of Public Expenditure and Economic Growth: An Empirical Assessment at Sub-National Level

By Ipsita Padhi, Ranjeeta Mishra, Samir Ranjan Behera and Deba Prasad Rath

A sustained improvement in the quality of public spending through a higher share of productive expenditure can play a conducive role in supporting growth. This article deploys a dynamic factor model to obtain a composite index of the quality of government expenditure for 14 major Indian States over the period 2005-06 to 2019-20 and examines its relationship with gross state domestic product (GSDP) growth in a pooled ordinary least squares (OLS) framework.

Highlights:

- With States accounting for 60 per cent of general government expenditure and 70 per cent of general government capital outlay (adjusted for defence spending), they have an important role to play in India's growth story.
- Empirical findings suggest that an improvement in the expenditure quality of States leads to higher GSDP growth, highlighting the pivotal role of States' expenditure quality in fostering growth.

V. India @ 100

By Harendra Behera, Dhanya V, Kunal Priyadarshi and Sapna Goel

This article provides an indicative roadmap for India to become a developed (high-income) country by 2047-48.

Highlights:

- India's real GDP needs to grow at 7.6 per cent annually over the next 25 years to achieve the per capita income level to become a developed economy.
- India must rebalance its economic structure by strengthening its industrial sector so that its share in GDP rises from the current level of 25.6 per cent to 35 per cent by 2047-48. Agriculture and services activity would have to grow at 4.9 per cent and 13 per cent per annum, respectively, in the coming 25 years with their sectoral shares in GDP at 5 per cent and 60 per cent, respectively, in 2047-48.

- India needs to follow a multipronged approach for absorbing the large pool of labour force productively and harnessing growth opportunities in knowledge-oriented sectors, through sustained policy focus on structural reforms, infrastructure, logistics, digitalisation of the economy and upskilling the labour force.

VI. Perspectives on the History of the Reserve Bank of India

By Ashutosh Yashwant Raravikar

This article takes a bird's eye view of the history of the Reserve Bank through the five volumes of the RBI history, in the context of the recent release of the fifth volume covering the period 1997-2008.

Highlights:

- The Reserve Bank's history spanning over five volumes offers a comprehensive and insightful account of its policies, operations, and institutional evolution. It covers the formative phase of the Reserve Bank, its policy initiatives, transformative reforms in the financial sector, deft management of crises, dynamic changes in internal processes, and the introduction of wide-ranging reforms that led to the building of a modern monetary and financial system.

The views expressed in the Bulletin articles are of the authors and do not represent the views of the Reserve Bank of India.

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(Yogesh Dayal)
Chief General Manager