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RESERVE BANK OF INDIA

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RBI Bulletin – February 2024

Today, the Reserve Bank released the February 2024 issue of its monthly Bulletin. The Bulletin includes monetary policy statement, five speeches, four articles, current statistics.

The four articles are: I. State of the Economy; II. The Shape of Growth Compatible Fiscal Consolidation; III. Headline and Core Inflation Dynamics: Have the Recent Shocks Changed the Core Inflation Properties?; and IV. Evolving Business Sentiments of Indian Services and Infrastructure Enterprises - A Deep Dive.

I. State of the Economy

The likelihood of the global economy exhibiting stronger than expected growth in 2024 has brightened in recent months, with risks broadly balanced. The Indian economy continues to sustain the momentum achieved in the first half of 2023-24, going by high frequency indicators. Expectations of a fresh round of capex by the corporate sector is likely to fuel the next leg of growth. Consumer price inflation came off its November-December spikes in its January 2024 reading, while core inflation is at its lowest since October 2019.

II. The Shape of Growth Compatible Fiscal Consolidation

By Michael Debabrata Patra, Samir Ranjan Behera, Harendra Kumar Behera, Shesadri Banerjee, Ipsita Padhi and Saksham Sood

Medium-term complementarities between fiscal consolidation and growth in India argue for prioritising the composition of government expenditure towards developmental expenditure (*viz*., health, education, skilling, digitalisation and climate risk mitigation). Employing a dynamic stochastic general equilibrium (DSGE) model, this article charts out the fiscal consolidation trajectory if government expenditure is directed towards employment-generating sectors, climate risk mitigation and digitalisation.

Highlights:

- The Interim Budget for 2024-25 places the gross fiscal deficit of the Union government at 5.1 per cent of GDP in 2024-25, in line with the target of 4.5 per cent of GDP by 2025-26. The impetus provided to capital expenditure in the post-pandemic period has been sustained by increasing its share to 3.4 per cent of GDP.

- Empirical findings show that medium-term complementarities between judicious fiscal consolidation and growth outweigh the short-run costs.

Spending on social and physical infrastructure, climate mitigation, digitalisation and skilling the labour force can yield long-lasting growth dividends.

- Using a dynamic stochastic general equilibrium model, we find that if government expenditure is directed towards the above-mentioned segments, the debt-GDP ratio of the general government can decline substantially to 73.4 per cent of GDP by 2030-31.

III. Headline and Core Inflation Dynamics: Have the Recent Shocks Changed the Core Inflation Properties?

By Asish Thomas George, Shelja Bhatia, Joice John and Praggya Das

Against the backdrop of large supply-side shocks to the inflation process since 2020 brought about by COVID-19, the war in Ukraine and adverse climatic events, this article compares the desirable properties of various Consumer price Index (CPI) core inflation measures – namely ease of communication, equality of means, lower variance, predictability, co-integration, unbiasedness and attractor condition – during the full sample period (January 2012 to December 2023) *vis-à-vis* the pre-COVID period for their suitability in capturing underlying inflation movements.

Highlights:

- The desirable properties of various core inflation measures – exclusion based, trimmed means, reweighted CPI, and the trend CPI – held up *vis-à-vis* the pre-COVID period.

- Since early 2020, multiple supply side shocks, particularly in food and energy, have led to some degree of persistence in headline inflation. This led to spillovers from non-core to core inflation weakening some properties of core inflation, although in the long-run, non-core inflation still converges to core inflation.

IV. Evolving Business Sentiments of Indian Services and Infrastructure Enterprises - A Deep Dive

By Abhilash Arun Satape, Nivedita Banerjee and Supriya Majumdar

Business tendency surveys, known as forward-looking expectations surveys, aim to extract signals about potential movements in related macro variables. One such survey, the Services and Infrastructure Outlook Survey (SIOS) conducted by the Reserve Bank of India reflects the sentiments of the domestic services and infrastructure sectors. This article provides a glimpse of behavioural changes in various qualitative parameters captured in SIOS during the period of Q1:2014-15 to Q2:2023-24.

Highlights:

- Results show that the SIOS has demonstrated its efficacy as a tool for forward looking assessment by establishing a robust connection between survey parameters and macroeconomic variables. The survey responses provide a useful lead information for comprehending the evolution of output and prices in the services and infrastructure sectors.

- Respondent assessments on overall business situation can play a crucial role in nowcasting sector-specific growth trajectories, while expectations on selling prices offer valuable inputs for inflation forecasting.

- Despite the challenges emanating from the pandemic and the subsequent external shocks, both the services and infrastructure sectors gradually rebounded as businesses reopened and restrictions eased. The perception of business entities captured by the survey indicates that despite differences in their nature of business, post-COVID, both sectors covered in the SIOS exhibited a recovery of confidence in the economy.

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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