



State of the Economy Report: RBI

For Prelims: Inflation, Equity Flow, War in Ukraine, Oil Prices, Base Effect, Debt Distress.

For Mains: State of the Economy Report: RBI.

Why in News?

Recently, the [Reserve Bank of India \(RBI\)](#) has released a report titled- “**State of the Economy**”, which warns of a **darkening global outlook**.

What are the Highlights of the Report?

- **Darkening Global Outlook:**
 - The **balance of risks gets increasingly tilted towards a darkening global outlook for 2023**, the year that will bear the brunt of monetary policy actions of this year.
- **Emerging Market Economies:**
 - Emerging market economies (EMEs) appear precarious, having **battled [currency depreciations](#) and [capital outflows](#) in addition to [slowing growth](#) and high [inflation](#).**
- **Energy Prices:**
 - An **unease hangs over energy prices**, for now, [Organisation of the Petroleum Exporting Countries \(OPEC\) plus](#) stayed its hand in cutting production, but **an oil price cap threatens to unleash disruptive financial forces**, with hedge funds already cutting net long positions in crude contracts.
 - Despite moderation in global commodity markets, climate change and the war in Ukraine are set to keep food prices at higher than pre-pandemic levels.
- **Debt:**
 - [Debt](#) distress is rising, with **a surge in default rates and an appreciating US dollar** – the principal currency in which debt is denominated – although more recently it has tumbled down from 20-year highs.
- **Indian Growth Outlook:**
 - **Inflation:**
 - Inflation may be slightly down, but it is certainly not out.
 - Inflation is likely to moderate in 2023 from current levels, but it would remain well above targets in most economies.
 - The easing of inflation is primarily driven by the **sharp moderation in food inflation**. The index declined by 11 bps month-on-month (m-o-m), which along with a favorable [Base Effect](#).
 - **Domestic Drivers:**
 - The near-term growth outlook for the **Indian economy is supported by domestic drivers**.
 - Domestic economic activity remained resilient in November and early December of 2022.
 - The **outlook for private consumption and investment is looking up**, although relatively higher inflation in rural areas is muting spending in those regions.

- Headline inflation moderated by 90 basis points to 5.9 % in November 2022 driven by **a fall in vegetables prices** even as **core inflation** remained steady at 6 %.
- **Equity Inflow:**
 - **Equity markets** touched a string of new highs during November **buoyed by strong portfolio flows to India.**
 - Waning input cost pressures, still buoyant corporate sales and turn-up in investments in fixed assets are **heralding the beginning of an upturn in the capex cycle in India** which will contribute to a **speeding up of growth momentum in the Indian economy.**
- **Future Prospects:**
 - In December 2022, as India engages in setting out its priorities and deliverables under its **G20 Presidency**, **there is a sense that perhaps it's time for India in the centre of the world's stage has arrived.**
 - As the **third largest economy in PPP (Purchasing power parities)** terms, and the **5th largest in terms of market exchange rates**, India accounts for 3.6 % of G20 GDP while its share in real (PPP) terms is much higher at 8.2 %.
 - In 2023, India is projected to be among the fastest growing economies within G20.
 - India's priorities under the G20 Presidency **encapsulate a vision of unity and interconnectedness.** They will also reflect **the priorities of the [global South: One Earth, One Family, One Future.](#)**

UPSC Civil Services Examination, Previous Years Question (PYQ)

Q.1 The Reserve Bank of India regulates the commercial banks in matters of (2013)

1. liquidity of assets
2. branch expansion
3. merger of banks
4. winding-up of banks

Select the correct answer using the codes given below:

- (a) 1 and 4 only
 (b) 2, 3 and 4 only
 (c) 1, 2 and 3 only
 (d) 1, 2, 3 and 4

Ans: (d)

Q.2 With reference to inflation in India, which of the following statements is correct? (2015)

- (a) Controlling the inflation in India is the responsibility of the Government of India only
 (b) The Reserve Bank of India has no role in controlling the inflation
 (c) Decreased money circulation helps in controlling the inflation
 (d) Increased money circulation helps in controlling the inflation

Ans: (c)

Q.3 Consider the following statements: (2020)

1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.
3. Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

Which of the statements given above is/are correct?

- (a)** 1 and 2 only
- (b)** 2 only
- (c)** 3 only
- (d)** 1, 2 and 3

Ans: (a)

Source: TH

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