IAS GS World PCS

Committed To Excellence

exclusive Editorial Simplified

27 October 2023

RENEWED RISKS : ON THE RBI AND HOW GLOBAL UNCERTAINTIES HAVE COMPOUNDED

The Hindu

Paper - III (Indian Economy)

On October 6, the Reserve Bank of India (RBI) stuck to its 6.5% GDP growth projection for the year, with risks from geopolitical tensions, economic fragmentation, volatile financial markets and an uneven monsoon, evenly balanced out by strengthening domestic demand. There was a belief that a period of heightened uncertainties was ebbing but as the central bank Governor signalled last Friday, new uncertainties have emerged over the fortnight since. The Israel-Hamas conflict that erupted a day after the monetary policy review has widened, and Finance Minister Nirmala Sitharaman has flagged worries about implications on global food, fuel and fertilizer supplies. Given India's dependence on fuel and fertilizer imports, disruptions or price spikes could hurt the macro-economic framework, even if the government refrains from passing on higher prices to consumers and farmers in the election season. The RBI chief also pointed to rising U.S. bond yields, which hit a 16-year high of 5% this week, mixed data points and signals from central banks around the world, as the new unknowns — even as known unknowns such as financial market turmoil — have got more pronounced. A glimpse of this anxiety was visible this week, with the sharpest sell-off on Indian bourses since July.

There is no certainty that the RBI would still uphold its 'evenly balanced' outlook towards the risks to growth. However, the Finance Ministry, while acknowledging that global uncertainties have compounded, seems largely sanguine for now in its outlook for the economy. Its monthly economic review released on Monday asserts that growth "remains on track", inflation is easing after a "temporary" seasonal surge in July-August, consumption demand is strengthening and investment demand is "also firming up". On the "imminent fears" of rising crude oil prices, it noted that July-September quarter prices were still "way lower" than the \$109.5 and \$97.9 averages in the first and second quarter of 2022-23. The weak foreign trade picture is expected to recover and industrial job creation prospects are high for the next two quarters, while higher demand for housing and vehicle loans reflects bolstered confidence levels in households, it added. India's macro fundamentals may well hold up through the latest global storm, but the government would do well to drill a little deeper into consumption and hiring trends. The last quarter has seen a sharp slump in small car sales, consumer non-durables producers reporting weak rural demand and IT firms scaling down growth and hiring hopes. There is still much to be done to correct an uneven recovery, which would eventually hamper a broader investment revival.

Expected Question

Que. Consider the following statements-

1. RBI has changed its estimate of growth in gross domestic product (GDP) to 6.5 percent for this financial year.
2. US bond yields have reached the highest level in the last one and a half decade.

Which of the statements given above is/are correct?

(a) Only 1

(b) Only 2

(c) Both 1 and 2

(d) Neither 1 nor 2

Answer : b

Mains Expected Question & Format

Que.: "India's 'macro fundamentals' may hold up well despite the latest global uncertainties, but the government would be wise to look a little deeper at consumption and job creation." Comment.

Answer Format :

- In the first part of the answer, discuss the state of India's 'macro fundamentals' and the possible impact of current global uncertainties on the Indian economy.
- In the second part, discuss what efforts need to be made by the government on consumption and employment generation.
- Finally give a conclusion showing the way forward.

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.