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RBI Bulletin – December 2023

Today, the Reserve Bank released the [December 2023](#) issue of its monthly Bulletin. The Bulletin includes Monetary Policy Statement December 8, 2023, two speeches, seven articles and current statistics.

The seven articles are: [I. State of the Economy](#); [II. Government Finances 2023-24: A Half-Yearly Review](#); [III. 'Low' Stagflation Risk in India](#); [IV. Assessing Oil Price Trajectory: An Evaluation of Alternate Sources of Information](#); [V. Government Borrowing and G-Sec Yields – An Analytical Enquiry](#); [VI. Recent Inflation Dynamics in India: Role of Supply vis-à-vis Demand](#); and [VII. Monetary Policy Report as a Communication Tool: Evidence from Textual Analysis](#)

I. State of the Economy

The pace of global growth may slow further in 2024 while disinflation at varying pace in different geographies may pave the way for interest rate reductions. In India, the broad-based strengthening of economic activity that is under way will likely be sustained by easing input costs and corporate profitability. CPI inflation rose to 5.6 per cent in November as the recurrence of food price spikes punctured a brief respite in September and October, but it is expected to ease to 4.6 per cent in the first three quarters of 2024-25. Domestic financial markets have been lifted by the abiding strength of the real economy.

II. Government Finances 2023-24: A Half-Yearly Review

By Harshita Yadav, Kovuri Akash Yadav, Rachit Solanki, Saksham Sood, Anoop K Suresh, Samir Ranjan Behera and Atri Mukherjee

This article presents a half yearly review of Government finances for 2023-24. It analyses the receipt and expenditure of the Centre and States and discusses the outcomes in terms of key deficit indicators and their financing. Estimates on general government (Centre *plus* States) finances for Q1 and Q2 of 2023-24 and projections for the second half (H2) of 2023-24 are presented along with near-term fiscal outlook.

Highlights:

- The fiscal position of the Centre and States remained resilient during H1:2023-24.
- Major Central direct and indirect taxes such as income tax, corporation tax and goods and services tax (GST) recorded impressive growth in H1:2023-24. While

revenue expenditure of the Centre remained modest in line with the Budget estimates, capital expenditure witnessed a robust growth.

- With strong growth in tax and non-tax revenues in H1:2023-24, the States have frontloaded their capital spending, aided by the Centre's scheme for 'Special Assistance to States for Capital Investment'.
- Improved revenue mobilisation by the Centre and States has helped to contain gross fiscal deficit of the general government within 7 per cent of GDP in Q1 and Q2 of 2023-24.

III. 'Low' Stagflation Risk in India

By Deba Prasad Rath, Silu Muduli and Himani Shekhar

This article analyses stagflation risk in India - a portmanteau of economic stagnation with high inflation - using two approaches. In the first approach, stagflation risk is assessed based on phases of lower economic growth coinciding with high inflation. The second approach uses the 'at-risk' frameworks *i.e.*, "Inflation at Risk" (IaR) and "Growth at Risk" (GaR) by employing quantile regression to assess the likelihood of stagflation.

Highlights:

- Based on data spanning from Q1:1996-97 to Q2:2023-24, empirical findings suggest that supply-side shocks such as spikes in commodity prices coupled with tighter financial conditions and relatively higher depreciation of the domestic currency turn out to be the major determinants of stagflation risk in India.
- Elevated risks of stagflation were experienced during specific episodes like the Asian Crisis, the Global Financial Crisis, the taper tantrum, and the COVID-19 pandemic. Latest estimates, incorporating data up to Q2:2023-24, however, assign a very low probability of only 1 per cent to the risk of stagflation.

IV. Assessing Oil Price Trajectory: An Evaluation of Alternate Sources of Information

By Deba Prasad Rath, G V Nadhanael and Shobhit Goel

This article analyses the extent of forward-looking information contained in various sources of information such as futures prices, adjusted futures prices, Survey of Professional Forecasters (SPF) and those provided by the US-Energy Information Administration (EIA), about the trajectory of crude oil prices. It also examines whether market conditions¹ have an impact on the ability to predict oil prices.

Highlights:

- Qualitative information, such as the forecasts available from the SPF, tends to outperform forecasts of oil prices merely on the basis of futures prices. The forecast accuracy of futures prices, however, improves once we account for trends

¹ Market conditions are assessed based on whether futures prices are higher or lower than the current prevailing prices.

in real economic activity, such as capacity utilisation in key oil consumer economies.

- Forecast accuracy tends to improve for all forecast methods including when the futures trajectory is lower than the current price (backwardation), highlighting the role of market conditions in making forward-looking assessment of oil prices.

V. Government Borrowing and G-Sec Yields – An Analytical Enquiry

By Ipsita Padhi, Priyanka Sachdeva, Samir Ranjan Behera, Atri Mukherjee, and Indranil Bhattacharyya

This article revisits the debate on the “Conventional” *versus* the “Keynesian” view on the key drivers of G-sec yields. The study employs an event study framework as well as an autoregressive distributed lag (ARDL) model to analyse the immediate to long-term effects of government borrowings on G-sec yields after controlling for the relevant domestic and global factors.

Highlights:

- Event study analysis finds a significant instantaneous impact of budget and monetary policy announcements on G-sec yields.
- The regression analysis suggests that 1 percentage point increase in government borrowing (as a proportion of G-sec volume) can translate to an increase of around 0.19 percentage point in 10-year G-sec yields in the long-run. Monetary policy actions and domestic inflation dynamics also play an important role; an increase of 1 percentage point in the weighted average call rate can raise 10-year yields by around 0.20 percentage point over time.
- The spillover impact of global factors such as US treasury yields on domestic bond yields is considerable in both the short and the long run.

VI. Recent Inflation Dynamics in India: Role of Supply *vis-à-vis* Demand

By Himani Shekhar, Vimal Kishore and Binod B. Bhoi

This article assesses the relative importance of supply and demand factors in driving inflation, which can be a valuable input for a forward-looking monetary policy. It uses consumer price index (CPI) subgroups as indicators of prices and deflated CMIE consumption expenditure data as proxy for quantity to disentangle the role of demand and supply. By employing a bivariate vector auto regression (VAR) framework, the estimated residuals from one period ahead forecasts of price and quantity with the same signs are interpreted as reflective of demand factors, and with the opposite signs as indicative of supply factors.

Highlights:

- The results show that the inflation surge during the first wave of COVID-19 was supply driven, while demand driven inflation attained importance post the Russia-Ukraine conflict.

- A 9-month rolling window analysis on contributions of demand and supply to inflation shows that demand drivers of inflation increased and remained elevated post April 2022. The analysis further suggests that the commencement of monetary tightening in April-May 2022 in India was timely.

VII. Monetary Policy Report as a Communication Tool: Evidence from Textual Analysis

By Sangita Misra and Aastha

This article uses a semi-automated textual analysis to study the Reserve Banks' flagship half-yearly publication - the Monetary Policy Report (MPR) - to decode its tone, focus, objectivity, and clarity over the years.

Highlights:

- Textual analysis shows that words mentioned in the MPR broadly align with the objectives in the remit and move in line with incoming data and outlook.
- The tone of MPR has been neutral, barring a few instances of unprecedented shocks like the COVID-19 pandemic and the Russia-Ukraine conflict.
- The sentiment in MPR moves in tandem with key macroeconomic variables and uses objective language.
- Readability scores indicate that a high school education or higher is required to comprehend the MPR, though there are signs of improvement in recent years.

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