

Economy reviving, but renewed surge of Covid-19 infections poses risk: RBI



India's economic activity is gaining steam, but considerable uncertainty surrounds the outlook owing to the renewed surge in coronavirus infections, the [Reserve Bank of India](#) (RBI) said in its State of the Economy report on Monday.

"...the gathering strength of the recovery and its broadening ambit hold out optimism and the will to survive and revive," said the report, part of the RBI bulletin. "All engines of aggregate demand are starting to fire; only private investment is missing in action and the time is apposite for it to come alive. Broader measures of liquidity reflect the easing of monetary and financial conditions in the system."

Real gross domestic product (GDP) came positive in the third quarter, as against a contraction in the previous two quarters of 2020-21. Advanced estimates also suggested that food grain production could be at a record high of 303 million tonnes in 2020-21, spread across all principal crops.

As businesses reopen and consumers venture back to offices and shops, “the Indian economy has turned a corner”, said the report.

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Although the renewed vigour puts some pressure on inflation, with pulses production 6 per cent higher than a year ago, “inflationary pressures on the food front are set to ebb, but core inflation will warrant deft and dogged attention”, it said.

High excise duties on petroleum products are a concern, but buoyancy in other heads of revenue could ease the pressure. This may “bring down pump prices of petrol, diesel, and of cooking gas to more internationally comparable levels, improve the inflation outlook, and expand consumer welfare”.

From an internationally competitive perspective, it is important for India to recover from inflation and turn to structural reforms to increase productivity and efficiency. The government, meanwhile, will have to stimulate the economy, and at the same time, ensure sustainable finances.

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“Monetary authorities encounter a similar dilemma of conflicting pulls — ensuring an orderly evolution of the interest rate structure in the face of still enlarged borrowing needs against the need to remain accommodative and support the recovery,” the report said.

While the policy authorities “exhibit resoluteness in their commitment”, markets are showing volatility due to uncertainties.

“A shared understanding and common expectations will likely be the anchor in this turbulence. Markets have to rely on the track record of authorities during the most trying year in a century — of keeping markets and institutions functioning; of easing borrowing costs and spreads; of keeping finance flowing — in fact, there is very little else to hang a hat on,” it said.

The RBI reiterated what the RBI governor has said time again, that an “orderly evolution of the yield curve serves all”. “There is little doubt today that a recovery based on a revival of consumption is underway,” it said.

Highlights:

Aggregate demand is coming back

Recovery gathering strength, with considerable uncertainty

Inflation pressure may get evident as activities pick up

Record food grain production should temper food inflation

Private investment must pick up pace

Fuel prices likely to come down

A shared understanding between bond markets and RBI needed

Orderly evolution of yield curve serves all

[Reserve Bank of India](#)