Monetary policy transmission is the process through which policy action of the central bank is transmitted to meet the ultimate objectives of inflation and growth. Policy transmission is considered to be a two-stage process. In the first stage, the policy shock impacts different segments of the financial markets. In the second stage, it gets transmitted to the real economy. The policy transmission mechanism hinges crucially on how changes in monetary policy affect household, firm and bank behaviours. While households and firms are on the demand side, banks supply credit and facilitate efficient resource allocation. In this paper, the authors have analysed how monetary policy shocks are transmitted to the banks and, in turn, are transmitted to the firms. They have used unique firm-bank matched data to understand the mechanisms of monetary policy transmission by exploiting bank and firm heterogeneity.

The authors have compiled four separate pieces of information to construct the data set for their analyses: monetary policy rates and spreads, bank balance sheet data, firm balance sheet data, and data on lending relationships of firms. Data on policy rates and spreads, as well as detailed information on assets and liabilities, profit and loss, and key ratios of Scheduled Commercial Banks (SCBs) in India are publicly available on RBI’s Database on Indian Economy. Balance sheet data are reported annually from 2005 through various statutory returns submitted to the RBI at the level of individual banks. The sample contains all SCBs active in India between FY2005 and FY2019. Firms’ annual financial statement data are maintained by CMIE Prowess dx. The latter also provides data on the banks that the firms borrowed from in a particular year. The authors have used the available information to create an annual register for every firm by matching SCBs in the RBI database with lenders for each firm in Prowess. The final sample consists of both listed and unlisted firms matched with all creditor SCBs for each fiscal year between 2005 and 2019.

The main objective as mentioned in the paper is to identify the monetary policy transmission mechanism to the real economy. To begin with, the authors have studied the effect of changes in policy rates and spreads on the growth of key banking variables, using term loans and liquidity variables. Liquidity gives a sense of how promptly banks may mobilise their liquid funds in response to monetary policy changes. These variables are intricately related to the bank-lending channel. Next, they have investigated whether monetary policy directly impacts firms’ short-term (current) and long-term (investment) borrowings. This is the balance sheet channel wherein an increase in policy rate can directly affect firms’ balance sheets by increasing their liabilities through interest payments, thereby adversely affecting their capacity to invest. Leverage ratio measured by debt-equity ratio has been used to indicate firms' dependence on external finance.

The authors are able to use bank balance sheets specific to each firm-year to determine whether bank-level heterogeneity plays a role in the transmission of policy changes to borrowers. Ideally, a change in the policy rate may have a differential effect on bank lending based on the...
liquidity positions of the respective banks. The firms that are borrowing from these liquid banks, which are more likely to increase lending, may respond positively relative to the firms that are attached to less liquid banks. On the other hand, banks may lend favourably to firms that have low leverage ratios via the balance sheet channel.

The paper contends that faced with a monetary policy shock, liquidity ratio of a bank influences its credit creation. The more liquid bank would be less stressed by a contractionary monetary policy, and would be relatively comfortable with issuing credit for longer-term investment purposes. In order to distinguish such a channel at the bank level, the authors have separately studied transmission for the most and least liquid lenders in the corporate credit market.

Empirical analyses conducted with the aforementioned variables indicate that an increase in credit may not always find its way towards increasing investments. Firms may use their credit lines to finance their current liabilities rather than undertaking capital formation. By analysing the reaction of policy measures on banks' and firms' balance sheets separately, the study indicates that in the banking sector partial monetary policy transmission happens with a lag. Further, banks respond to changes in money market spreads faster and better than changes in policy rate. Empirical findings underline quick and significant bank loan expansion resulting from a change in term spread.

At the firm level, in some cases, the paper has found counter-intuitive results of a change in monetary policy on the firm's balance sheet. This may be because firms' investment decisions may be correlated with the demand conditions in the economy, which may in turn be correlated with the monetary policy cycle. Thus, the effect of monetary policy on firms may not reflect the true effect of the policy itself. It is further found that firms who borrow from relatively more liquid banks are more responsive to increasing their capital spending when the lenders increase their supply of credit.

The paper concludes by underling the policy implications of the above findings. It mentions that policies directed at influencing the term spread could complement policy rate changes in strengthening rate transmission. Further, in the presence of a weak balance sheet channel of policy transmission, an expansionary monetary policy could help firms in meeting their current liabilities rather than raising their fixed capital expenditure. Thus, capital infusion in banks can make critical difference in improving credit supply and capital formation. Finally, the paper also highlights the importance of segregating credit demand and supply sides in analysing effective policy transmission.

Source: www.rbi.org.in
Regional Economic Convergence in the Manufacturing Sector: An Empirical Reflection; Madhuresh Kumar; RBI Working Papers, January 2021

This paper uses data on registered manufacturing from the Annual Survey of Industries (ASI) for the post global financial crisis (GFC) period (2008-09 to 2017-18) and examines the convergence pattern of 21 major states in India and their key drivers. The neoclassical growth theory (NCGT) presumes that the poorer economies should converge to their richer counterparts benefitting from higher marginal productivity of capital. The empirical findings however do not show any systematic propensity for convergence and at best what one can find is conditional convergence. It is theorized that the convergence in manufacturing activities may not lead to overall convergence because non-manufacturing activities do not exhibit unconditional convergence; poor economies have little employment in manufacturing, depressing the contribution of manufacturing to overall growth; the share of employment in manufacturing rises over the course of development, giving less-poor economies a growth boost; and the reallocation effect is neither sizeable nor systematically larger at lower income levels. Empirical evidence on convergence of the Indian states has been mixed.

India’s organised manufacturing sector rebounded impressively after slowing down during 2007-09 at the height of the GFC. But that revival has been short-lived, reflecting sluggish employment and output growth conditions. Analysis of foreign direct investment (FDI) data shows that after the boom period of 2004-05 to 2008-09, the growth rate of FDI inflows tapered off subsequently. To put it in perspective the nominal yearly growth rate of FDI during 2000-01 to 2008-09 was 34% which moderated to 4.3% in the 2008-09 to 2017-18 periods. This slowdown in FDI inflows is expected to affect the more industrialised states since they are the major beneficiaries of the FDI inflows.

The theoretical foundation for the methodology adopted in this study is derived from the NCGT model. According to this framework, convergence in terms of both growth rate and income level requires what is called β convergence. This follows from the assumption of diminishing returns, which implies higher (lower) marginal productivity of capital in a capital-poor (rich) economy. With similar savings rates, poorer economies, therefore, grow faster. If this scenario holds, there should be a negative correlation between the initial income level and the subsequent growth rate.

An alternative to the above approach is popularly known as β convergence. This is a proposition regarding the dispersion of the cross-sectional distribution of income, and a negative coefficient from the growth-initial income level regression does not necessarily imply a reduction in this dispersion. Thus, instead of judging indirectly and perhaps erroneously through the sign of β, convergence should be judged directly by looking at the dynamics of dispersion of income level across the economies. The symbol β is the notation for standard deviation of the cross-sectional distribution of either income level or growth rate. It can be shown that β convergence, although a necessary condition doesn’t necessarily imply β convergence.

For calculation purposes in the paper, the growth
in GVA has been decomposed into total factor productivity growth and the growth from capital and labour inputs. Labour (total number of persons engaged) growth, capital (real fixed capital) growth and NVA growth are computed using ASI data. For estimating the total factor productivity growth (TFPG), the growth accounting (GA) method, which is widely used in India for estimating TFPG of the manufacturing sector, has been considered. This approach measures TFPG as the difference between the rate of growth of output and the weighted rates of growth of factor inputs. In the growth accounting framework, information about the share of each factors of production in the value added is required. The share of emoluments in gross value added is considered as the share of labour.

Empirical analysis is conducted dividing 21 states into three groups based on their net value added per capita (NVApc). It is found that the poorer states converged to the average NVApc, while the other two diverged. The rich states diverged by increasing their share in NVA and the middle-income states by ceding their share in NVA. Nevertheless, at the all-India level, the sample of 21 major states exhibited both β and β convergence. Further, the growth rate of poorer income states was found to be the highest among the groups, buoyed by the high growth of capital. The double-digit growth in capital formation overshadowed the relatively weaker rise in labour growth and productivity decline. On the contrary, the rich states owe their growth to labour and productivity growth. Their capital growth was the least as compared to the other groups. The middle-income states lost out primarily due to the productivity decline, even though their labour and capital growth was moderate.

An interesting finding of this study is that the poorer and middle-income states are now using more capital-intensive techniques of production than the richer states. Additionally, the rising capital intensity was negatively correlated with productivity, which runs contrary to the widespread empirical evidence. Also, the source of growth for the poorer states is a concern, as their growth is driven by intensive use of capital, not by labour or productivity enhancement. Mere increases in inputs, without an increase in the efficiency with which those inputs are used - investing in more machinery - must run into diminishing returns; input-driven growth is inevitably limited. Furthermore, this growth is not fuelled by labour, which the poorer states are more abundantly endowed with.

Source: www.rbi.org.in
This study provides a measure of the degree of monetary policy transparency in India using text-mining techniques and, examines the impact of transparency on anchoring of inflation expectations. It follows the methodology developed by Eijffinger and Geraats, hereafter referred to as 'EG Methodology', and construct a monthly index which measures the monetary policy transparency in India. Big data technique has been deployed to help in the reading of policy statements and other relevant documents.

The paper has used the information in the Monetary Policy Statements, Monetary Policy Reports (MPR), Minutes of Monetary Policy Committee (MPC) meetings, erstwhile Macroeconomic and Monetary Developments (MMD) Reports and Minutes of Meeting of Technical Advisory Committee on Monetary Policy (TACMP) etc., which was analysed for construction of Transparency Index (TRP Index). The period of analysis spanned from October 2009 to February 2019.

After construction of the transparency index, the authors have attempted to examine how well the inflation expectations are being anchored in India from time to time, particularly during the period when the degree of transparency remained reasonably stable around a high level. They have employed survey-based quantification of inflation expectations in India, and due to non-availability of any medium-to-long-term forecasts from surveys, have restricted their analyses only to one-year ahead expectations from two of the RBI's surveys, viz., Inflation Expectations Survey of Households (IESH) and Survey of Professional Forecasters (SPF).

Based on the data and the empirical analyse that followed, the authors have found that, as India moved towards an inflation targeting regime, the degree of transparency has enhanced greatly. Based on the timing and magnitude of changes in the transparency index, the study period consists of three distinct transparency/policy regimes: transition, pre-transition and post-transition periods. These transition phases are observed to broadly coincide with the periods of RBI's adoption of self-imposed disinflationary glide path since 2014 and implementation of flexible inflation targeting (FIT) in 2016. Starting from a low value before 2014, transparency index increased substantially on two occasions during the policy transition period, and during the post-transition period, the degree of transparency continued to remain high and stable.

The inflations expectations anchoring aspect has been categorised into three types, viz., weak-form, semi-strong-form and strong-form. Empirical analysis on weak-form suggests that the participants of SPF could anchor their inflation expectations slightly above the central value of inflation target post-adoption of the FIT framework by the RBI and policy transparency index improved substantially during this period. Households' inflation expectations were also found to be anchored in weak-form during this period, as they do not appear to be influenced by realised inflation, though the anchoring point remains above the upper limit/band of the RBI's inflation target.
It is further observed that during the pre-transition period, expectations of both households and professionals were reasonably anchored in weak-form, albeit at a higher level, when compared with the post-transition period. Though actual inflation declined gradually, neither professionals nor the households appear to have taken feedback from falling inflation to form their expectations.

Interestingly, during the transition phase, when transparency improved substantially on a few occasions, both the realised and expected inflation declined in tandem resulting in a case of no anchoring of inflation expectations.

Source: www.rbi.org.in
The article presents a discussion on the updated series of the broad indices of nominal/real effective exchange rate (NEER/REER) of the Indian rupee. The new REER indices have remained around the benchmark for most of the sample period from 2004-05 to 2019-20, reflecting India’s external competitiveness better than the old series. It is found that inflation differentials between India and its major trading partners have declined and stabilized since the adoption of the flexible inflation targeting (FIT) framework, boding well for India’s external competitiveness.

Reflecting India’s changing foreign trade pattern, the coverage of NEER/REER indices for the new base year, 2015-16, was expanded from 36 to 40 currencies. The selection of currencies for the new NEER/REER series was based on two major criteria. Trading partners with extremely high and volatile inflation are excluded as their currencies tend to experience rapid nominal declines, undermining the stability of the NEER/REER indices and obscuring their usefulness in the assessment of external competitiveness. Taking into account these caveats, the authors work out bilateral merchandise trade shares as three-year arithmetic means of trade flows with major trading partners for the period from 2014-15 to 2016-17 (centred around 2015-16).

The evolution of bilateral trade shares of major trading partners warranted the inclusion of eight new countries in the 40-currency basket, while four countries included in the earlier 36-currency basket, were replaced in the analysis. The eight new entrants accounted for 5.4 percent of India’s total merchandise trade vis-à-vis 1.4 percent by the exiting countries. The authors use time-varying bilateral trade weights to compute indices of NEER/REER of the rupee to reflect the dynamically changing pattern of India’s foreign trade. To derive the trade-based currency weights, the geometric means of India’s trade (exports plus imports) with trading partners during the preceding three years are computed and then normalized to 100. It is found that while the euro area retained its top position in the trade basket, the US was assigned the highest weight in the export basket in 2015-16.

In terms of the performance of the new NEER/REER indices, it is found that the new 40-currency NEER and REER indices and the old series, the 36-currency series move closely. The new REER indices show a modest appreciation/higher depreciation relative to the old series from November 2015 to May 2019. The decomposition of REER into NEER and weighted average shows that the inflation differentials remained broadly stable in recent years, following a steady increase during 2008-09 to 2014-15. This may be attributed to the formal adoption of the flexible inflation targeting (FIT) framework by the Reserve Bank in June 2016. NEER is found to be negatively correlated with inflation differentials during the sample period. The new REER indices have shown an appreciating trend since 2004-05, reflecting India’s rising productivity vis-à-vis its trading partners.

The authors observe that since the adoption of floating exchange rates, EERs have become a
prominent summary measure of the external competitiveness of an economy's tradable sector relative to foreign tradables. For policymakers, movements in REER serve as a useful guidepost of the overall misalignment of the exchange rate of home currency. The issue relating to the under/over-valuation of currencies has been at the core of several global trade disputes. Since the global trade environment is undergoing a shift, it is important that the NEER/REER basket of the rupee is reviewed regularly.

In the case of India, the relative importance of trading partners had shifted mainly towards EMDEs since 2004-05. Taking cognizance of these factors, the broad basket of NEER/REER indices of the rupee was expanded from 36 to 40 currencies and rebased to 2015-16. The new REER, on average, was 0.8 percent above its base year level during 2016-17 to 2019-20, a period coinciding with moderate inflation observed since the adoption of the FIT framework. This implies that the inflation differentials between India and its trading partners were less of a concern for the former's external competitiveness under the FIT regime.

Going forward, large capital inflows unless fully absorbed through the current account deficit can cause an appreciation of the rupee and potentially undermine the export competitiveness. In such a milieu, focus on price stability under the FIT regime should remain a policy priority to offset the erosion in external competitiveness which may emanate from an appreciation of the rupee in nominal terms.

Source: www.rbi.org.in
The article analyses the performance of Small Finance Banks (SFBs) with specific reference to their objective of financial inclusion and viability of their business models. SFBs are a new entrant into the Indian banking system with a differentiated focus on financial inclusion. They have witnessed rapid growth in their branch network and asset base while maintaining healthy asset quality and generating a high return on assets. These banks have been reasonably successful in reaching out to under-served sectors, such as the Micro, Small, and Medium Enterprises (MSMEs), and have an impressive coverage of borrowers with small credit needs. In this context, the authors examine SFBs’ compliance to various regulatory guidelines and throw light on the way the operations of these institutions are shaping up.

The authors use data taken from various supervisory returns, Basic Statistical Return of credit and deposits of Scheduled Commercial Banks (SCBs) (BSR-1 and BSR-2) as well as Branch Banking Statistics. The study period starts from June 2016, when the first SFB began its operations. Since 2005, India had actively pursued the policy of financial inclusion. As part of this policy, the Reserve Bank had undertaken several measures such as opening bank branches in unbanked areas, roping in business correspondents and facilitators for ensuring last-mile connectivity of banking and opening small business accounts linked to debit cards to promote financial inclusion along with financial literacy. The specific mandate assigned to SFBs is to further the cause of financial inclusion by providing savings vehicles, and supplying credit to small business units, including small and marginal farmers, micro and small industries; and other unorganized sector entities, and various low-income groups and the migrant workforce through high technology-low cost operations. These can be defined as differentiated financial institutions, considering their focus on serving the population with small finance needs. They have been set up in the private sector, and thus, differ from Regional Rural Banks (RRBs) - banking institutions created to include the under-served sections with predominant government shareholding.

The authors highlight that SFBs had shown high asset growth since their inception. At present, there is a considerable concentration of assets within the SFB group. Top-two SFBs accounted for 46% of total assets of all SFBs in March 2020 with top-three SFBs accounting for 60% share. However, the relatively big-sized SFBs displayed lower growth of assets in more recent years. Hence, the authors expect the concentration of assets within the SFB group to come down over time. In terms of regional features, it is found that a greater concentration of branch networks is found in relatively well-banked states. The rapid growth in the branch network of SFBs since their inception has been markedly concentrated in the southern, western, and northern regions, which are known as the relatively well-banked regions in the country. Their penetration in the north-eastern region, which is known to be the least banked region, remains low.

At the state level, while SFBs have made their presence felt in some of the under-served states of Madhya Pradesh and Rajasthan, they continue to be concentrated in Tamil Nadu, Maharashtra, Karnataka, Kerala, and Punjab - states with some of...
the lowest population per bank branch in the country. Among these, the states from the southern region have had a high concentration of microfinance institutions (MFIs) since the time microfinance originated in India in the early-1990s. SFBs too, many of which are MFIs turned into banks, have largely followed this pattern of branch expansion.

SFBs have seen a dominant presence of priority sectors in their lending portfolio. At the systemic level, priority sectors accounted for about 75% of the total credit of SFBs. At the bank level too, there was little variation with most SFBs reporting a share of over 75% of priority sectors. In terms of credit portfolio featuring a large share of small-sized loans, SFBs are meeting the regulatory requirement relating to the size-wise distribution of their loan portfolio. In March 2020, 99.9% and 83% of their total loan accounts and total loan amount, respectively, had a credit limit of up to Rs 25 lakh. Even within these, an impressive focus on very small-sized loans by these banks was evident with about 96% and 48% of their total loan accounts and total loan amount, respectively, had a credit limit of Rs 2 lakh, or what is called a small borrowal accounts. SFBs started with a high CD ratio which fell over time with the growth in deposits but was still high at 111% in March 2020. CD ratio varied widely across SFBs in 2017, after which the dispersion has come down.

SFBs have witnessed a rapid growth in terms of their balance sheet size and branch network. However, there is a high degree of concentration within the SFB group, with top-two and top-three banks accounting for about 46% and 60% of total assets of the group, respectively. There is a noticeable trend of dissipating concentration in more recent years, as some of the small-sized SFBs have been posting a higher asset growth as compared to their large-sized counterparts. These banks are catering to the economic sectors that are relatively under-served by other scheduled commercial banks (SCBs). The sectors include agriculture, (small scale) trade, and professional services. Moreover, even within the industrial and services sector credit, these banks have succeeded reasonably in reaching out to MSMEs. The return on funds of SFBs has been higher than other SCBs. Similarly, spread, which decides the return on funds, has been much higher. Consequently, the profitability of these institutions measured by Return on assets (RoA) is much higher than their peers in the banking segment. It is however lower than NBFC-MFIs, their counterparts in the non-banking segment.

Source: www.rbi.org.in
Green finance refers to the financial arrangements that are specific for projects that are environmentally sustainable or projects that adopt the aspects of climate change, sustainable waste and water managements, sustainable land use including sustainable forestry and agriculture, and biodiversity conservation (SEBI 2017). In order to meet the financial needs for these types of projects, new financial instruments such as green bonds; carbon market instruments (e.g. carbon tax); and new financial institutions (e.g. green banks and green funds) are being established. They together constitute green finance.

Rapid economic development is often achieved at the cost of environment. In order to protect and substantially improve the environment, nations around the world have been increasingly focusing on the use of eco-friendly technologies. However, it requires appropriate incentive structure for increased allocation of funds towards setting up or adopting environmentally sustainable projects. In order to achieve these objectives, targeted policies on green finance have been formed in major countries involving all stakeholders of economic growth, viz., corporates, governments and central banks.

Major flagship programmes like Principles for Responsible Investment (PRI), Equator Principles (EP) for financial institutions, United Nation's Environment Programme (UNEP) and Statement of Commitment by financial institutions on sustainable development suggest ways for implementing green finance among the signatories. However, it is possible to ensure a steady flow of finance into sustainable projects only if there is any reliable source of information on the entities' overall management of environmental and social risks, track record on entities' identification of opportunities that bring both a decent rate of return and environmental benefits. In this regard, Sustainable Stock Exchange is an initiative that recommends the signatory countries' stock exchanges to come up with stock price indices that track the stock performance of a set of companies operating in these countries, which are leaders in recognizing the Environmental, Social and Governance (ESG) principles into their financing aspects.

In India, while there have been improvements in public awareness and financing options about green finance, the major challenges could be high borrowing costs, false claims of environmental compliance, plurality of green loan definitions, maturity mismatches between long-term green investment and relatively short-term interests of investors. The cost of issuing green bonds has generally remained higher than the other bonds in India. The average coupon rate for green bonds issued since 2015 with maturities between 5 to 10 years have generally remained higher than the corporate and government bonds with similar tenure.

Most of the green bonds in India are issued by the public sector units or corporates with better financial health. Despite being relatively secured, the higher borrowing cost of green bonds in India could be on account of asymmetric information, higher risk perception and other governance issues. Absence of a universal definition of green finance and information asymmetry often result in "green-
washing", wherein the investors end up receiving false signals about the green bonds. Therefore, developing a better information management system in India may help in reducing maturity mismatches, borrowing costs and lead to efficient resource allocation in this segment.

Green finance is fast emerging as a priority for public policy. Existing literature suggests that a reduction in the asymmetric information regarding Green Projects through better information management systems and increased coordination amongst stakeholders could pave the way towards sustainable long term economic growth. The pandemic has offered an opportunity to all stakeholders to rethink about the policies, and financial and operational strategies that they have adopted so far and espouse an approach that is more environmentally sustainable in the long run. Green finance is definitely an important mean that can facilitate such a shift towards sustainable economic growth.

Source: www.rbi.org.in
State of the Economy
RBI Bulletin January 2021

The year 2021 commenced with countries across the world participating in the massive global vaccination drive. The recent shifts in the macroeconomic landscape in India brightened the outlook, with GDP in striking distance of attaining positive territory and inflation easing closer to the target. Financial markets remained ebullient with EMEs receiving strong portfolio inflows and India is seen to be on track for receiving record annual inflows of foreign direct investment. The shape of the recovery is expected to be v-shaped. Apart from vaccinations, e-commerce and digital technologies are likely to be the bright spots in India’s recovery.

At the sub-national level, growth in capital expenditure turned positive during October 2020 after having seen contractions consecutively for 8 months. This was a significant development because government final consumption expenditure (GFCE) had provided valuable counter-cyclical support to GDP continuously from Q4:2016-17. Merchandise imports finally emerged out of contraction over 9 consecutive months and grew by 7.6 percent (y-o-y) in December 2020. The rebound in imports was broad-based, with as many as 20 out of 30 major commodities registering expansion.

If these movements sustain, policy space could open up to further support the recovery. Merchandise trade had rebounded in early January, attesting to the slow healing of domestic demand and the unlocking of export energies. Current account surpluses are found to be ebbing as domestic activity regains vigour. Recent new highs scaled by equity markets are driven by optimism around early Q3 corporate earnings results, with IT majors recording strong growth.

In H1:2021-22, GDP growth is likely to be mostly consumption-driven. With Rabi sowing surpassing the normal acreage way before the end of the season, bumper agriculture production is expected in 2021. India being the global capital for vaccine manufacturing, pharmaceuticals export is expected to receive a big impetus with the start of vaccination drives globally. Agricultural exports remain resilient and under the recent production linked (PLI) scheme, the food processing industry has been accorded priority. Harnessing the synergies by transforming low-value semi-processed agro products through food processing would not only improve productivity but also boost India’s competitiveness.

Developments in 2020 ushered in a new digital transformation on the back of strengthening consumption demand and growing corporate sector business transactions. According to the World Economic Forum’s report, the pandemic presented a historic opportunity to build back better and create a new urban paradigm - one that enables Indian cities to be healthier, more inclusive, and more resilient. An urban reform agenda can be set up across seven thematic pillars: planning; housing; transport; environment; public health; gender; and vulnerable populations. The need to kick-start investment is now acquiring urgency to secure a durable turnaround and a sustainable growth trajectory. India must look for ways in which cash sitting idly in the balance sheets of corporations and banks finds its way into credit to productive sectors and into real spending on investment activity before it imposes a persistent deflationary weight on real activity.

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