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RBI Bulletin – September 2024

Today, the Reserve Bank released the [September 2024](#) issue of its monthly Bulletin. The Bulletin includes eleven speeches, four articles, and current statistics.

The four articles are: I. State of the Economy; II. Synchronisation of Indian States' Business Cycle; III. Priority Sector Lending: The Indian Experience; IV. Peeling the Layers: A Review of the NBFC Sector in Recent Times.

I. State of the Economy

Global economic activity is slowing down while the pace of disinflation remains sluggish, provoking caution among monetary policy authorities. In India, domestic drivers – private consumption and gross fixed investment – were robust and net exports remained sequentially positive in their support to gross domestic product (GDP) growth in Q1:2024-25. The underperformance of agriculture was compensated for by a buoyant manufacturing sector and resilient services. Household consumption is poised to grow faster in Q2 as headline inflation eases, with a revival of rural demand already taking hold. Consumer price index (CPI) inflation came in below the Reserve Bank's target for the second consecutive month in August, although in light of the recent experience, food price volatility remains a contingent risk.

II. Synchronisation of Indian States' Business Cycle

By Satyananda Sahoo, Kunal Priyadarshi, Chaitali Bhowmick, Sapna Goel and Preetika

Given the distinct economic characteristics of the Indian states, this paper explores the growth dynamics and nature of co-movement of business cycles of the Indian states. Synchronisation of national and sub-national cycles over the last four decades has been analysed using Baxter-King's (B-K) band-pass filter and unobserved component model (UCM). Furthermore, influence of geographical proximity and economic structure of states on business cycle synchronisation has been examined through a regression framework.

Highlights:

- Synchronisation between national and regional business cycles has increased over time with the western and the southern regions showing stronger co-movement of economic activity with the national cycle since 2000s.
- High contemporaneous correlations among regional cycles imply larger bearing of common factors such as policy changes at the country-level or common weather-

related shocks or common global shocks such as crude oil prices impacting all regions simultaneously. At the same time, moderately high one-year lagged cross-correlations underscore the presence of spillover effects of idiosyncratic shocks across certain regions.

- Geographical proximity of the constituent states has a positive influence over the synchronisation of business cycles, *albeit* with a smaller magnitude in the relatively recent period.

III. Priority Sector Lending: The Indian Experience

By Sambhavi Dhingra, Arpita Agarwal, and Snehal S. Herwadkar

Priority sector lending (PSL) in India has been used as a policy intervention tool to direct credit to the needy sectors of the economy. This article evaluates the commercial viability of such loans and their impact on the overall financial health of banks using quarterly bank-level data from March 2006 to March 2023.

Highlights:

- The cross-country evidence suggests that directed lending programmes with a strong institutional framework, strict performance standards and effective monitoring are generally successful.
- The analysis of this article suggests that Indian banks' PSL share is influenced by the asset quality of their priority sector portfolio. The introduction of priority sector lending certificates increased lending to these sectors.
- Empirical findings indicate that banks with greater brick-and-mortar presence are better placed to extend priority credit at grass-roots level.
- Higher PSL growth is also found to improve banks' overall asset quality.

IV. Peeling the Layers: A Review of the NBFC Sector in Recent Times

By Abhyuday Harsh, Rajnish Kumar Chandra, Nandini Jayakumar and Brijesh P.

This article assesses the performance of the NBFC sector against the backdrop of the recent Scale Based Regulation (SBR) framework in 2023-24 (up to Q3) using supervisory data. It also provides an overview of the global Non-Banking Financial Institution (NBFI) landscape, with focus on India. Additionally, the article details the evolution of regulatory framework pertaining to India's NBFC sector.

Highlights:

- The SBR framework calibrates the regulatory framework for NBFCs keeping in view their changing risk profile and evolution in terms of size and complexity. However, significant differences continue to exist in the regulatory treatment of banks and NBFCs.
- In 2023, NBFCs exhibited steady double-digit credit expansion, adequate capital, and lower delinquency ratios, amidst the transition to the SBR.
- The asset quality of the sector continued to improve with decline in Gross Non-Performing Asset (GNPA) ratio across sectors.
- Regulatory measures like extending prompt corrective action norms to government NBFCs and increasing risk weights on certain categories of retail loans have made the sector resilient to potential shocks.

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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