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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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RBI Bulletin – November 2023

Today, the Reserve Bank released the November 2023 issue of its monthly Bulletin. The Bulletin includes five speeches, four articles and current statistics.

The four articles are: I. State of the Economy; II. Reading the Market's Mind: Decoding Monetary Policy Expectations from Financial Data; III. Transitioning India's Power Sector: Repurposing of Coal-Fired Power Plants; IV. Monetary Policy Transmission in India: Recent Dynamics.

I. State of the Economy

The global economy shows signs of slowing down in the final quarter of 2023 as manufacturing languishes while services sector activity appears to have reached the end of its post-pandemic expansion. Going forward, tightening financial conditions is a significant risk to the global outlook. In India, the momentum of the change in GDP is sequentially expected to be higher in Q3:2023-24, with festival demand remaining ebullient. Investment demand appears to be resilient with the government's infrastructure spending, an uptick in private capex, automation, digitalisation, and indigenisation providing a boost. Headline inflation came down to 4.9 per cent in October from the average of 6.7 per cent in 2022-23 and 7.1 per cent in July-August 2023.

II. Reading the Market's Mind: Decoding Monetary Policy Expectations from Financial Data

By Joice John, Bhimappa A. Talwar, Priyanka Sachdeva, and Indranil Bhattacharyya

This article uses the Overnight Index Swaps (OIS) rate to decode the near-term market expectations of changes in the monetary policy rate during 2016 to 2023. Further, this article also analyses the impact of anticipated and unanticipated changes in the policy rate on interest rates across market segments and maturities.

Highlights:

- During 2016-2023, unanticipated changes in policy rate or monetary policy surprises have been rare suggesting that the RBI's communication has been effective in guiding market expectations.

- The anticipated changes in policy rate are found to have no immediate impact on longer term interest rates as those were already factored in by the markets.

- In contrast, the few instances of monetary policy surprises had an instantaneous impact across market segments and maturities on the day of the policy announcement.

III. Transitioning India's Power Sector: Repurposing of Coal-Fired Power Plants

By Brij Raj and Amit Kumar

As India navigates the dual challenge of balancing its growing energy demands with environmental sustainability, this article explores the potential risks associated with stranded assets in the coal and fossil fuel sectors, as well as their probable impact on banks and financial institutions (FIs) that have exposure to these sectors.

Highlights:

- Globally, there is an observable trend of tightening financing conditions for coal projects, reflecting a heightened awareness of risks associated with the energy transition.
- Repurposing coal-fired power plants is a complex endeavor, but emerging climate finance tools like coal transition mechanisms can expedite the shift towards cleaner energy, despite being in a nascent stage.
- Banks and FIs can contribute to the decarbonization of the power sector by improving their Environmental, Social, and Governance (ESG) practices and providing transition financing to help producers meet environmental and emission norms.
- A balanced approach is recommended for a smooth transition from coal and fossil fuel financing, considering India's developmental requirements.

IV. Monetary Policy Transmission in India: Recent Dynamics

By Yuvraj Kashyap, Avnish Kumar, Anand Prakash and Shubhangi Latey

Against the backdrop of the shift in the monetary policy cycle, this article reviews recent monetary policy transmission dynamics in India. It estimates the degree of pass-through to lending and deposit rates and attempts to delineate the potential determinants of the pass-through.

Highlights:

- The external benchmark-based lending rate (EBLR) system of loan pricing, calibrated normalisation of surplus liquidity and robust credit growth strengthened transmission during the current tightening phase although it is still not complete.
- The transmission to term deposit rates has been strong while savings deposit rates have remained largely unchanged. Therefore, the pace of increase in deposit rates (term deposits and savings account deposits taken together) has lagged the pace of increase in lending rates in the current tightening cycle, which is reflected in an improvement in NIMs of banks during 2022-23.
- An empirical bank-level analysis in a panel framework indicates that surplus liquidity in the banking system and a higher share of CASA deposits in total deposits has a softening impact on lending rates. The pass-through to lending rates is found to be higher during the tightening cycle.

- High credit-deposit (CD) ratio raises deposit and lending rates. Surplus liquidity and excess SLR lower the pass-through to deposit rates.

The views expressed in the Bulletin articles are of the authors and do not represent the views of the Reserve Bank of India.

(Yogesh Dayal)
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