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RBI Bulletin – December 2022

The Reserve Bank of India today released the [December 2022](#) issue of its monthly Bulletin. The Bulletin includes four speeches, eight articles and current statistics.

The eight articles are: [I. State of the Economy](#); [II. Anatomy of Inflation's Ascent in India](#); [III. Assessing Inflation Expectations Adjusting for Households' Biases](#); [IV. Government Finances 2022-23: A Half-Yearly Review](#); [V. Measuring India's Digital Economy](#); [VI. A Composite Coincident Index for Unorganised Sector Activity in India](#); [VII. Agriculture in 2022-23: Kharif Performance and Rabi Outlook](#); and [VIII. Financial Inclusion through Microfinance – An Assessment of the North-eastern Region of India](#).

I. State of the Economy

The balance of risks is increasingly tilted towards a darkening global outlook and emerging market economies (EMEs) appear to be more vulnerable, even though incoming data suggest that global inflation may have peaked. The near-term growth outlook for the Indian economy is supported by domestic drivers as reflected in trends in high frequency indicators. Equity markets touched a string of new highs during November buoyed by strong portfolio flows to India. Headline inflation moderated by 90 basis points to 5.9 per cent in November driven by a fall in vegetables prices even as core inflation remained steady at 6 per cent. Waning input cost pressures, still buoyant corporate sales and turn-up in investments in fixed assets are heralding the beginning of an upturn in the capex cycle in India which will contribute to a speeding up of growth momentum in the Indian economy.

II. Anatomy of Inflation's Ascent in India

by Michael Debabrata Patra, Asish Thomas George, G V Nadhanael, Joice John

This paper attempts to provide a detailed analysis of the inflation trajectory in India post February 2022. It explores disaggregated data, sources of (month to month) price pressures, the distribution of inflation and its moments, and other statistical measures against the backdrop of the global and domestic macroeconomic setting.

Highlights:

- The initial inflationary pressure was delivered by successive supply shocks but as their impact waned, a revenge rebound in spending and especially a swing from goods to contact-intensive services is generalising price pressures and making them persistent. Transitory shocks, particularly in vegetables, however, imparted some volatility in headline numbers.

- The contribution of cyclically sensitive components of headline inflation seems to be rising in recent months, indicating demand pressures.
- Historical decomposition of contributors to inflation shows that in the most recent period (Q2 of 2022-23), second-round effects of commodity prices on core inflation contributed significantly to the deviation of inflation from its target.

III. Assessing Inflation Expectations Adjusting for Households' Biases

by Silu Muduli, G V Nadhanael, and Sitikantha Pattanaik

Household inflation expectations usually exhibit significant biases. This article attempts to generate a bias adjusted inflation expectation series for India to examine its usefulness to assess risks to the future inflation trajectory. It also constructs an inflation expectation anchoring (IEA) index to understand the evolution of expectations anchoring over time, especially after the adoption of Flexible Inflation Targeting (FIT).

Highlights:

- There are multiple sources of bias - ranging from the overwhelming influence of own consumption basket of a household in influencing expectations, to individual assessment of the outlook for one's income and employment and ability to sustain consumption and savings, which could be influenced by the level of inflation, state of economic growth, interest rates, and supply shocks facing the economy.
- When the household inflation expectations data series is adjusted for estimated biases, such a series exhibits better alignment with headline CPI inflation, with higher predictive power for forecasting headline inflation than the unadjusted inflation expectations series.
- The inflation expectation anchoring index, which captures the dimensions of sensitivity, consistency and stability of inflation expectations, shows that anchoring improved in the FIT period even though repeated supply shocks that are being encountered post-COVID pose the risk of de-anchoring expectations.

IV. Government Finances 2022-23: A Half-Yearly Review

by Aayushi Khandelwal, Rachit Solanki, Saksham Sood, Ipsita Padhi, Anoop K Suresh, Samir Ranjan Behera and Atri Mukherjee.

This article presents a half yearly review of Government finances for the year 2022-23. 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 2022-23 along with projections for the second half (H2) of 2022-23 are presented along with near-term fiscal outlook.

Highlights:

- The finances of the Central government as well as the States improved significantly in H1:2022-23 with receding negative spillover effects induced by the pandemic, even as the war in Europe has led to targeted fiscal measures.
- The Centre had recorded robust tax collections, both direct taxes and GST, reflecting sustained recovery of the economy, improved tax governance and administration as well as healthier balance sheet of the corporate sector.

- The States too have strengthened their fiscal parameters as is evident from the decline in their consolidated GFD and net market borrowings. However, the capital expenditure of the States has remained weak.

V. Measuring India's Digital Economy

by Dhirendra Gajbhiye, Rashika Arora, Arham Nahar, Rigzen Yangdol, Ishu Thakur

India has emerged as a leader in the digital revolution taking place globally but there are few credible estimates on the size of digital economy which hampers evidence-based policy making. This article tries to fill that void by measuring the size of India's digital economy using Input-Output tables and provides estimates on employment generated by the digital economy.

Highlights:

- India's core digital economy (hardware, software publishing, web publishing, telecommunication services, and specialized and support services) increased from 5.4 per cent of Gross Value Addition (GVA) in 2014 to 8.5 per cent in 2019. Including the sectors that have witnessed digital disruptions, the share of digitally dependent economy hover around 22 per cent in 2019.
- India's digital economy grew 2.4 times faster than the Indian economy, with strong forward linkages to the non-digital sectors. The digital output multiplier has increased over time, highlighting the role of digital economy investments to drive growth.
- The employment estimates show that 4.9 million people were employed in the core digital sector. Considering the total digitally dependent economy, around 62.4 million workers are employed in digitally disrupted sectors.

VI. A Composite Coincident Index for Unorganised Sector Activity in India

by Chaitali Bhowmick, Sapna Goel, Satadru Das and Gautam

Nearly half of the measured economic activity in India takes place in the unorganised sector where there are gaps in terms of high frequency information. This article aims to bridge the existing information gap on unorganized sector economic activity by systematically combining various proxy indicators to construct a composite coincident index for the unorganised sector (UNCCI).

Highlights:

- Since the cyclical pattern and seasonal variation in agriculture and non-agriculture activity differ substantially, separate UNCCIs are developed for agricultural and non-agricultural activity. An overall UNCCI is then generated by taking a weighted average of the two, where respective sectoral share in overall GVA are used as weights. A total of fourteen high frequency indicators (HFIs) were identified for construction of the UNCCI. The UNCCIs have been developed using a dynamic factor model to derive the common trend from the constituent indicators.

- The UNCCIs depict an uptick in unorganised activity since July 2022. The overall as well as the sectoral (agriculture and non-agriculture) UNCCIs showed reasonable co-movement with growth in unorganised Gross Value Addition (GVA) published annually by the National Statistical Office (NSO).

VII. **Agriculture in 2022-23: *Kharif* Performance and *Rabi* Outlook**

by Rishabh Kumar, Kirti Gupta and N. Arun Vishnu Kumar

Agricultural production in India continues to be predominantly dictated by the cumulative amount of rainfall and its temporal and spatial distribution during both the South West Monsoon and North East Monsoon seasons; access to irrigation; timely and adequate availability of quality seeds, chemical fertilisers, pesticides and labour; expectations of price; and finally, the minimum support price (MSP) and procurement policies announced by the government. In this light, the two primary objectives of the article are to: (i) undertake a review of the performance of the agriculture sector during the *Kharif* season (June to September 2022) across Indian States and (ii) provide a preliminary outlook for the upcoming *Rabi* season (October 2022 to March 2023).

Highlights:

- In 2022-23, though the cumulative southwest monsoon rainfall was above normal, its uneven temporal and spatial distribution and heavy rains towards the end of the season could have an adverse impact on the standing *Kharif* crop production.
- As regards the *Rabi* outlook, the prospects for wheat production are good with higher MSP, adequate reservoir levels and soil moisture conditions, and climatic factors supporting higher acreage and yield.

VIII. **Financial Inclusion through Microfinance – An Assessment of the North-eastern Region of India**

by S. Chinngaihlian and Pallavi Chavan

This article analyses the regional distribution of microfinance in India, and its contribution to financial inclusion, with a special focus on the north-east.

Highlights:

- Microfinance, which took roots in the southern region, has over time spread to the historically under-banked eastern and north-eastern regions, thus, partly bridging the regional banking divide. However, there are state-level differences in the access and usage of microfinance within the north-eastern region.
- Going forward, the focus on the north-east needs to be sustained, while giving greater attention to States that are relatively underserved within this region to further the cause of financial inclusion.