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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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RBI Bulletin – March 2022

The Reserve Bank of India today released the March 2022 issue of its monthly Bulletin. The Bulletin includes two speeches, five articles and current statistics.

The five articles are: I. State of the Economy; II. Union Budget 2022-23: Some Pleasant Fiscal Arithmetic; III. Green Transition Risks to Indian Banks; IV. Decoding Fair Value Hierarchy in Ind AS Financial Statements of NBFCs; and V. Herding Behaviour - Does it exist in Indian Stock Market.

I. State of the Economy

The ongoing geopolitical crisis has heightened the uncertainty clouding the global macroeconomic and financial landscape even as the world economy struggles to recover from the pandemic. As the conflict escalates, oil and other commodity prices are blazing to multi-year highs, and financial markets are on edge, driven by massive sell-offs. Amidst these testing times, the Indian economy is experiencing spillovers as it recovers from the third wave of the pandemic. Consumer and business confidence are rising alongside improvement in demand conditions. On the supply side, a resilient farm sector and a sustained retrieval in both industrial and services sectors are broadening the recovery.

II. Union Budget 2022-23: Some Pleasant Fiscal Arithmetic

This article presents an assessment of the Union Budget 2022-23, which calibrates the thrust to growth with feasible fiscal rectitude.

Highlights:

- As against the budgeted gross fiscal deficit (GFD) of 6.8 per cent of GDP for 2021-22, the revised estimates (RE) for GFD stood at 6.9 per cent of GDP. In 2022-23, GFD is budgeted at 6.4 per cent of GDP.
- Fiscal policy thrust on capital expenditure and infrastructure is reflected in the increase in capital expenditure by 24.5 per cent in 2022-23 (BE), which will boost GDP growth in the medium-term.
- Gross market borrowing through dated securities for 2022-23 is budgeted at ₹14.95 lakh crore. A reversion to the pre-pandemic pattern of financing is also envisaged with an increase in the share of net market borrowings in financing GFD. Debt sustainability analysis of the union government reveals that GDP growth will be the key to debt consolidation.

III. Green Transition Risks to Indian Banks

This article examines how the banking sector may be impacted by the transition to a net-zero carbon emission target. It examines banks' exposure to industries that are likely to face the high adjustment costs because of this transition and the associated spillover risks.

Highlights:

- India has set a target to reduce greenhouse gas (GHG) emission intensity within 2030. Some sectors have high emission intensities compared to global standards and may face adjustment costs in the future to meet emission targets.
- This article examines three such sectors, namely, electricity, chemicals, and automobiles, and concludes that banks' exposure to these sectors is low, as these sectors account for a relatively small proportion of outstanding credit.
- These industries, however, may have an indirect effect on other industries. In the future, such indirectly exposed sectors' interest coverage and non-performing loan ratios may be closely monitored to minimise the risk of spillovers to the banking sector.

IV. Decoding Fair Value Hierarchy in Ind AS Financial Statements of NBFCs

Ind As Accounting Standards brought in far reaching changes in capturing assets and liabilities on the financial statements of various entities at their fair values. This article examines a couple of financial statements of NBFCs with a view to understand how assets/liabilities are recognised, measured and disclosed at their fair values. In the process, the article attempts to delineate the precise differences between various fair value hierarchies on one hand and possible overlaps among them, on the other.

Highlights:

- A definite deduction from the study is that there may be an overarching need to understand business models followed by companies, valuation methods used to determine fair value of assets/liabilities and interplay of observable and unobservable inputs while determining such fair value, going forward.
- Among various fair value hierarchies, the Level 3 hierarchy which predominantly uses unobservable inputs will pose to be an interesting aspect for probe by auditors, supervisors and discerning analysts of financial statements.
- The study of Level 3 assets will also lead to an imminent study of the extent of illiquidity present in financial statements.

V. Herding Behaviour - Does it exist in Indian Stock Market

Herding is a process in which investors in the market trade in the same direction, mimicking the decisions and actions of other investors, without paying much attention to their own beliefs or information. This article examines the herd behaviour in the Indian stock market for the period January 2019 to March 2020. Most widely used methodology *viz.*, Cross-Sectional Absolute Deviation is used for testing the herding behaviour.

Highlights:

- Herd behaviour exists in the Indian stock market but is limited to mid-cap stocks.
- Herd behaviour is more prominent during the periods of negative market returns and days with net foreign institutional outflows.
- Greater individual decision making while investing in small and large-cap stocks is observed, in contrast to herd behaviour.

Current Statistics

Occasional Series

Table No. 50(a): Flow of Financial Assets and Liabilities of Households - Instrument-wise

Table No. 50(b): Stocks of Financial Assets and Liabilities of Households - Select Indicators

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