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RBI Bulletin - September 2020

The Reserve Bank of India today released the [September 2020](#) issue of its monthly Bulletin. The Bulletin includes one speech, three Articles and Current Statistics.

The three articles are: [I. Microfinance: Reaching out to the Bottom of the Pyramid](#); [II. Derived Inflation Forecasts from Recent Inflation Expectations: An Ex Post Facto Analysis](#); and [III. Efficacy of Import Measures: An Analysis of Select Commodities](#).

I. Microfinance: Reaching Out to the Bottom of the Pyramid

Microfinance fulfils credit needs of people at the bottom of the economic pyramid and acts as a potent tool for empowering women. Microfinance sector has evolved over the years, having endured credit and liquidity distress in the past. The article provides an overview of the microfinance sector in India and studies credit delinquencies and funding patterns of Microfinance Institutions (MFIs). It also attempts to examine the new challenges posed by COVID-19 and its implications for microfinance.

Highlights:

- It is observed that early credit delinquencies of MFIs spiked during past risk events. However, recovery was pronounced with microfinance loan portfolio remaining buoyant, *albeit*, with increased credit costs.
- On the liquidity front, Infrastructure Leasing & Financial Services (IL&FS) event disproportionately affected small and medium sized Non-banking Financial Company MFIs (NBFC-MFIs), which faced funding constraints while large NBFC-MFIs were able to diversify their sources of funds and sustain credit growth.
- While COVID-19 may afflict the microfinance sector with financial risks in the near term, it also presents an opportunity to build long term resilience.
- Efforts towards digitizing loan collections, leveraging data analytics, and diversifying loan portfolio across geographies, among other measures, can help the sector in transforming the pandemic into new possibilities.

II. Derived Inflation Forecasts from Recent Inflation Expectations: An Ex Post Facto Analysis

The Reserve Bank's Inflation Expectations Survey of Households captures near to medium term inflationary sentiments of about 6,000 households across eighteen cities on a bi-monthly basis. It provides directional information on near-term inflationary

pressures as expected by the respondents and may reflect their own consumption patterns. Hence, they should be treated as households' sentiments on inflation.

This article presents variations in the households' sentiments with emphasis on their behavioral aspects of recent inflation experiences, especially characterised by their demographic features. Recent inflation forecasting methods using the households' expectations have been explored empirically and a comparative picture has been presented.

Highlights:

- Households' inflation expectations broadly reflected the realised inflation trajectory during 2019-20 on the back of inflation shocks from food and fuel constituting a major portion of their consumption basket. This led to a shift in the distribution of responses in most of the cities.
- The fluctuations in expectations were driven by financial sector employees and respondents in the higher age groups.
- A simple average of inflation forecasts obtained by two different methodologies was found to perform better in predicting future inflation.

III. Efficacy of Import Measures: An Analysis of Select Commodities

According to the Global Trade Alert, nearly 15 per cent of the total trade protectionist measures implemented at the global level directly or indirectly impact India's merchandise trade. India has undertaken a number of import-related measures primarily in response to *inter alia* unfair trade practices adopted by trade partners. Motivated by this trend, this article attempts to examine whether these import tariff and non-tariff measures have impacted import volumes and inflation in the case of India.

Highlights:

- Using difference in differences approach based on panel data for the period 2013 to 2019 and covering 119 commodities, the study finds that import measures (both tariff and non-tariff) reduce import volumes in the post-implementation period.
- However, the impact of import measures on inflation is in line with theory but the relevant coefficient is not statistically significant.