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RBI Bulletin – May 2024

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

The four articles are: [I. State of the Economy](#); [II. Decentralised Finance: Implications for Financial System](#); [III. Currency Swaps of the Reserve Bank of India: Role in the GFSN and Fostering International Financial Cooperation](#); [IV. Consumer Confidence in India: A Regional Perspective](#).

I. State of the Economy

The outlook for the global economy is turning fragile as the descent of inflation is stalling, re-igniting risks to global financial stability. Capital flows have become volatile as nervous investors turn risk averse.

There is a growing optimism that India is on the cusp of a long-awaited economic take-off. Recent indicators are pointing to a quickening of the momentum of aggregate demand. Non-food spending is being pushed up by the green shoots of rural spending recovery. A modest easing of headline inflation in the reading for April 2024 confirms the expectation that an uneven and lagged pace of alignment with the target is underway.

II. Decentralised Finance: Implications for Financial System

by Srijashree Sardar, Dipak R. Chaudhari and Sangeeta Das

Decentralised finance (DeFi) seeks to disintermediate the traditional financial system. However, developments such as the FTX crypto exchange collapse, decline in Binance and episodes of instability in stablecoins have created trust deficit in the entire crypto system. This article assesses DeFi and its interlinkages with the traditional financial systems by employing an Exponential General Autoregressive Conditional Heteroskedastic (EGARCH) model.

Highlights:

- Volatility in DeFi returns is far greater than traditionally higher yield providing asset classes such as equity returns.
- Major global financial institutions have direct exposure to the crypto system, although the overall exposure to total assets under management is estimated to be low.

- The empirical analysis indicates that DeFi returns and volatility in the returns are mainly driven by speculative motive.
- The empirical evidence suggests increasing volatility in DeFi with respect to the volatility of foreign exchange market and stock market.
- On account of the borderless feature of DeFi, spillover by liquidity linkages across countries is a major risk.
- As DeFi continues to evolve and mature, and its interaction with the traditional financial system grows, its utility against risks demands further analysis.

III. Currency Swaps of the Reserve Bank of India: Role in the GFSN and Fostering International Financial Cooperation

by Ajesh Palayi

Central bank currency swaps are an integral part of the Global Financial Safety Net (GFSN) and have played a crucial role in the global financial system since the Global Financial Crisis. This article examines various central bank currency swap arrangements of the Reserve Bank of India and their role in fostering international financial cooperation.

Highlights:

- Through the SAARC Currency Swap Framework and the BRICS Contingent Reserve Arrangement, the RBI plays a key role in the GFSN.
- Since the inception in 2012, the Reserve Bank extended swap support aggregating US \$ 6.1 billion under the SAARC Currency Swap Framework. During the COVID-19 pandemic, the Reserve Bank's swap support rose significantly.
- Supported by healthy level of forex reserves, central bank currency swaps have potential to strengthen and deepen India's external financial cooperation.

IV. Consumer Confidence in India: A Regional Perspective

by Sourajyoti Sardar, Aditya Mishra, Manu Swarnkar, and Tushar B. Das

This article uses qualitative data from the Reserve Bank of India's Consumer Confidence Survey (CCS) to study regional trends in consumer sentiments in India. It introduces the "Regional Sentiment Indicator" (RSI) and employs qualitative data analysis techniques like coherence analysis and ordered logistic regression to examine variations in survey responses across different regions.

Highlights:

- The study analysed regional variations in consumer confidence, with the south and west regions showing higher levels compared to the national average, while the northern region exhibited intermittent optimism.

- Coherence analysis highlighted the significant impact of price levels on consumers' perceptions of the general economic situation, particularly in the eastern region.
- The study found that the relationship between households' sentiment on their own income and their view on the overall employment scenario has returned to pre-pandemic levels for all regions, with the strongest link observed in the northern region.
- Overall spending is primarily driven by essential expenditures, which are mostly price inelastic. The study also revealed that higher income groups displayed more optimism post-pandemic.

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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