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RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
ई-मेल/email : helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400 001
Department of Communication, Central Office, Shahid Bhagat Singh Marg, Fort, Mumbai - 400 001 फोन/Phone: 022 - 2266 0502

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RBI Bulletin – July 2024

Today, the Reserve Bank released the July 2024 issue of its monthly Bulletin. The Bulletin includes six speeches, five articles, and current statistics.

The five articles are: I. State of the Economy; II. Updating Estimates of the Natural Rate of Interest for India with Post-Pandemic Evidence; III. Estimating the Financial Wealth of Indian Households; IV. Measuring the Contribution of Labour Composition in Gross Value Added in India – The Human Capital Approach; and V. Fiscal Performance of Himalayan States/ Union Territories.

I. State of the Economy

Global economic activity appears to be strengthening across advanced economies (AEs) and emerging market economies (EMEs) and global trade in goods and services is gathering momentum. Monetary policy divergence is setting the tone for global economic developments. In India, the second quarter of 2024-25 has begun with signs of quickening momentum in the economy. The improvement in the outlook for agriculture and the revival of rural spending have turned out to be the bright spots in the evolution of demand conditions. Consumer price inflation ticked up in June 2024 after three consecutive months of moderation as a broad flare-up in vegetables prices halted the overall disinflation that had been underway.

II. Updating Estimates of the Natural Rate of Interest for India with Post-Pandemic Evidence

By Harendra Kumar Behera

Monetary policy divergence across jurisdictions has reignited the debate about the level of the natural rate of interest. This article provides updated estimates of the natural rate of interest for India.

Highlights:

- The core estimates of the natural rate for Q4:2023-24 stand at 1.4-1.9 per cent, compared with earlier estimates of 0.8-1.0 per cent for Q3:2021-22 in the second year of the pandemic.
- These estimates are centred in wide bands of uncertainty, warranting careful interpretation in any assessment of the monetary policy stance therefrom.

III. Estimating the Financial Wealth of Indian Households

By Anupam Prakash, Suraj S, Ishu Thakur and Mousumi Priyadarshini

This article presents an endeavour to compile quarterly estimates of financial wealth of Indian households for the period June 2011 to March 2023 while also incorporating household investments in listed equity accounting for asset price appreciation. Major highlights of the article are as follows:

Highlights:

- As at end-March 2023, households' financial assets stood at 135.0 per cent of GDP while their financial liabilities were 37.8 per cent of GDP; accordingly, their net financial wealth was placed at 97.2 per cent of GDP.
- The spike in financial assets during the Covid-19 pandemic led to an increase of 12.6 percentage points in net financial wealth between end-March 2020 and end-March 2023.
- The listed equity wealth of households rose to a peak of 19.4 per cent of GDP as at end-Dec 2021, subsequently moderating to 14.9 per cent of GDP as at end-March 2023. The compilation is restricted to the listed equity holdings in the absence of estimates on unlisted equity investments.
- While households have leveraged up, their debt to financial assets ratio has remained stable.
- It may also be noted that a significant proportion of wealth in India is held in terms of non-financial assets such as housing, which are not covered in this article.

IV. Measuring the Contribution of Labour Composition in Gross Value Added in India – The Human Capital Approach

By Sreerupa Sengupta and Vineet Kumar Srivastava

Labour productivity plays a key role in sustained high economic growth. The article examines the composition of labour, including labour quality, and their contribution to gross value added (GVA) growth in India during 1980-81 to 2021-22.

Highlights:

- There has been a shift in employment from agriculture to construction and services with increased workforce regularisation in the manufacturing sector.
- The workforce distribution across education categories shows an increase in education levels for all workers, especially in India's capital-intensive manufacturing and services sectors.
- Labour quality growth has been fastest in capital-intensive manufacturing such as chemicals, machinery, transport equipment, and health and social work in the services sector.
- The growth accounting decomposition shows that, on an average, labour input contributed thirty per cent to output growth, of which, employment contributed twenty-five per cent and labour quality contributed an additional five percent to output growth.

V. Fiscal Performance of Himalayan States/ Union Territories

By P.S. Rawat, Ettem Abhignu Yadav, Atri Mukherjee

With governments across the world struggling with high levels of debt and deficit, this study takes up an in-depth analysis of the fiscal performance of 11 Himalayan states/ Union Territories (UTs) in the recent period. The fiscal performance of these states/UTs has been analysed in terms of their key deficit indicators, revenue mobilisation efforts, expenditure quality, and debt position. A Fiscal Health Index has been constructed for each of these states/UTs to assess their performance over the last decade.

Highlights:

- Fiscal Health Index reveals that the overall fiscal position of the Himalayan states/UTs has remained under pressure in the recent years driven by sharp widening of fiscal deficit and worsening of the debt sustainability indicators.

- As the capacity of these states/UTs to mobilize own revenue resources remains limited, they continue to receive large transfers from the centre even after the discontinuation of their special category status in 2015. These states/UTs need to identify new sources of revenue, leverage existing sources more effectively and improve their tax administration to garner higher resources.
- The quality of expenditure of the Himalayan states/UTs has seen some improvement in the last few years as reflected in a sharp decline in their revenue expenditure to capital outlay ratio (RECO) as well as an increase in developmental expenditure, particularly in the post-Covid period.
- The debt levels of the Himalayan states/UTs remain consistently higher than the other states of India due to factors like high fiscal deficit, lower economic growth and higher cost of borrowing.

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

(Puneet Pancholy)
Chief General Manager

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