

**भारतीय रिज़र्व बैंक**
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RBI Bulletin - December 2020

The Reserve Bank of India today released the [December 2020](#) issue of its monthly Bulletin. The Bulletin includes Monetary Policy Statement, 2020-21: Resolution of the Monetary Policy Committee (MPC) December 2-4, 2020, one Speech, eight Articles and Current Statistics.

The eight articles are: [I. State of the Economy](#); [II. Indicator of Economic Activity to Capture Real-time Spatial Momentum](#); [III. Government Finances 2020-21- A Half-Yearly Review](#); [IV. Rural-Urban Inflation Dynamics in India](#); [V. Managing Exchange Rate Volatility in the time of COVID-19](#); [VI. Services and Infrastructure Outlook Survey: Recent Trends](#); [VII. Bank Lending Survey- Recent Trends](#); [VIII. Seasonality in India's Key Economic Indicators](#).

I. State of the Economy

Since the assessment presented in the last month's Article, more evidence has been turned in to show that the Indian economy is pulling out of COVID-19's deep abyss and is reflatting at a pace that beats most predictions. Economic conditions continued to improve through November 2020 on the back of the uptick in agriculture and manufacturing activity. Financial conditions embodied in interest rates are perhaps at their easiest in decades. Although headwinds blow, steadfast efforts by all stakeholders could put India on a faster growth trajectory.

II. Indicator of Economic Activity to Capture Real-time Spatial Momentum

This article aims to capture the dynamics of economic activity at state level in India by constructing a Coincident Index (CI) with daily high frequency variables.

Highlights:

- COVID-19 pandemic has completely altered how policymakers monitor economic data in the context of rapidly evolving economic activity and diverging sub-national trends to undertake appropriate and swift policy responses.
- This study aims to capture the dynamics of economic activity at state level in India by constructing a Coincident Index (CI) with daily high frequency variables. CI is constructed with four indicators representing a mix of demand and supply dynamics and based on availability of data at daily frequency at the state level: (i) total vehicle registrations; (ii) electricity consumption; (iii) air quality index; and iv) Google and Apple mobility data.

- States across all the regions saw a sharp fall in economic activity in April following the announcement of nationwide lockdown. Subsequently, CIs of all regions exhibited recovery, *albeit*, with intermittent downward movements.
- As per CIs, Northern region saw the sharpest recovery in June followed by positive momentum in July, while the Western states of Gujarat and Maharashtra saw the slowest recovery, which was prolonged till end-July and first week of August.
- Notably, CIs for states across regions registered sharp upturn in October. Even though some moderation was recorded in first half of November, momentum remained positive and revived in the second half in most states.
- Furthermore, CI has a positive and statistically significant relationship with growth in industrial output.

III. Government Finances 2020-21- A Half-Yearly Review

High-frequency reporting of fiscal statistics is a best practice globally and a requirement under the G-20 Data Gaps initiative. This article is the third in the series of compilation and analysis of government finances - Centre, states and combined, at half-yearly frequency.

Highlights

- Estimates of revenue and expenditure presented by Centre and states in their budget 2020-21 have been upended by the outbreak of COVID-19 and the resultant slowdown in economic activity.
- The impact of economic downturn has been severe on the revenue side, while expenditure has largely held up. The silver lining is that the impact seems to have bottomed out in Q1:2020-21 with signs of recovery in Q2.
- General Government (Centre plus states) fiscal deficit has seen a sharper than usual build-up in the first half of the current year.
- Going forward, with the severest impact of COVID-19 on government finances already realised in Q1, there is scope for Centre and states to continue with the counter-cyclical fiscal support which is necessary to sustain the momentum of recovery.

IV. Rural-Urban Inflation Dynamics in India

With a goal to validate the relevance of one inflation target as the nominal anchor for both rural and urban areas at all India as well as state level, this article studies the dynamics of rural and urban inflation for the new consumer price index (CPI) series in terms of their drivers, trend, volatility, persistence and convergence.

Highlights:

- Rural and urban inflation in India exhibit similar dynamics - in terms of trend, cycle, persistence and volatility - notwithstanding sporadic divergences, which do not last long.
- The rural-urban inflation differentials observed in the short-run are driven by different components of CPI and they are transient in nature, as revealed by the empirical findings on the presence of a long run cointegrating relationship between them, and a statistically significant error correction process restoring alignment.
- At the state level also, β convergence test results reveal that urban and rural inflation rates converge over time.

V. Managing Exchange Rate Volatility in the Time of COVID-19

This article attempts to assess the efficacy of the Reserve Bank's measures in containing exchange rate volatility observed in the time of COVID-19.

Highlights:

- In the wake of the outbreak of COVID-19, emerging market currencies witnessed considerable volatility, beginning with large risk-off outflows in March 2020 exerting massive depreciation pressure, including on the Indian Rupee (INR).
- As the pandemic posed a serious threat to financial stability and the real economy, the Reserve Bank's response was 'do whatever is necessary to shield the economy'.
- Specific measures undertaken by the Reserve Bank helped to curb exchange market volatility and mitigated potential threats to financial stability. Volatility, measured by a variety of indicators, normalised quickly after the surge in March and remained lower than in stress episodes in the past.

VI. Services and Infrastructure Outlook Survey: Recent Trends

This is the first article on the Reserve Bank's quarterly Services and Infrastructure Outlook Survey (SIOS), which is being conducted since Q1:2014-15. The survey provides the perceptions of the services and infrastructure sector companies about their own performance and business prospects in the near term. The article presents details of the survey and the movements in major parameters since its inception.

Highlights:

- For majority of parameters, the expectations expressed are in general higher than the assessments exhibiting optimism bias in business expectations.
- The sentiments on turnover showed optimism till the end of FY 2019-20 but fell during Q1:2020-21 due to the pandemic conditions.
- The services and infrastructure companies felt continued salary pressures till the outbreak of the pandemic. Subsequently, salary outgo was assessed to have declined as corporates perceived lower engagement of employees over one quarter.
- Respondents reported constant input cost pressures till 2019-20. With improved perceptions on input costs subsequently, the selling prices also showed a declining trend.
- The overall sentiments of the companies remained optimistic, though gradually moderated before the severe impact of COVID -19 pandemic was felt in Q1:2020-21. Business sentiments have moved to recovery path subsequently but are yet to reach the pre-pandemic levels.

VII. Bank Lending Survey- Recent Trends

This article presents the summary results of the Bank Lending Survey (BLS), which is a forward looking quarterly survey being conducted by Reserve Bank since July-September 2017. The survey aims to get advance information on credit market conditions and lending practices.

Highlights:

- The survey provides early indications regarding likely movements in credit by scheduled commercial banks.
- A broad corroboration is observed in the borrowers' perceptions from the Industrial Outlook Survey and lenders' sentiments reflected in BLS for the manufacturing sector.
- Bankers' sentiments on lending conditions have improved after the adverse situation witnessed during April-June 2020 quarter due to the COVID-19 pandemic.

VIII. Seasonality in India's Key Economic Indicators

The article presents monthly seasonal factors for 80 macroeconomic variables covering six broad sectors (*viz.*, money and banking, price, industrial production, merchandise trade, services and alternate modes of payment).

Highlights:

- Indicators of industrial production, monetary/banking, trade and services sector record a seasonal peak around March while the majority of price indicators record a seasonal trough in March-May.
- Within payment modes, instruments related to bulk transactions tend to peak during March, indicating heightened usage of online transfers on annual financial year closing whereas, in the case of retail payment instruments, seasonality peaks during festivals.

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