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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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RBI Bulletin – April 2022

The Reserve Bank of India today released the April 2022 issue of its monthly Bulletin. The Bulletin includes Monetary Policy Statement, 2022-23, Resolution of the Monetary Policy Committee (MPC) April 6-8, 2022, Monetary Policy Report – April 2022, two Speeches, six Articles and Current Statistics.

The six articles are: I. State of the Economy; II. Measuring Supply Chain Pressures on India; III. Monetary Transmission to Banks' Interest Rates: Implications of External Benchmark Regime; IV. What Drives the Forward Premia – An Analytical Perspective; V. Foreign Exchange Reserves Buffer in Emerging Market Economies: Drivers, Motives and Implications; and VI. Digitisation in Urban Cooperative Banks: Depth and Differentiation.

I. State of the Economy

India enters Samvat 2079 having crested the third wave of the pandemic with economic activity returning to speed in several sectors. These gains are, however, at risk from disruptive spillovers from geo-political hostilities as increasingly evident in inflation prints, tightening financial conditions and a terms of trade shock accompanied by portfolio outflows. India faces these challenges with improving fundamentals and strong buffers. Going forward, spurring private investment remains a key thrust area for sustaining growth on a durable basis.

II. Measuring Supply Chain Pressures on India

An index of supply chain pressures for India (ISPI) has been developed by extracting common factors latent in 19 domestic and global variables for the period March 2005 through March 2022.

Highlights:

- The ISPI tracks supply pressures on the Indian economy efficiently.
- It contemporaneously predicts industrial production, GDP and input costs and displays lead indicator properties in respect of export volumes and inflation.
- The ISPI has started moving upward from May 2021, reflecting supply disruptions in the semiconductor sector, congestions in inbound port traffic movements and delivery delays in the US.
- These recent readings warrant careful monitoring of supply chain pressures.

III. Monetary Transmission to Banks' Interest Rates: Implications of External Benchmark Regime

This article reviews monetary policy transmission to deposit and lending rates of banks under different lending rate systems, with focus on external benchmark linked lending rate (EBLR) regime.

Highlights:

- Monetary policy transmission to lending and deposit rates has improved in the EBLR regime, facilitated by accommodative monetary policy stance, large surplus liquidity conditions and subdued credit offtake.
- Banks have extended the benefits to existing borrowers by reducing the WALR more than the repo rate cuts during the EBLR period.
- Empirical estimation based on autoregressive distributed lag framework establishes improvement in the pace and extent of monetary transmission to lending and deposit rates in the EBLR regime.
- Looking ahead, the proportion of loans linked to external benchmarks is expected to increase further along with a commensurate fall in the internal benchmark linked loans. Coupled with shorter reset periods, monetary transmission to banks' interest rates can, thus, be expected to strengthen further.

IV. What Drives the Forward Premia – An Analytical Perspective

The forward premia encapsulate key information on evolving macroeconomic and financial market developments and play an important role in conveying signals to both market participants and the central bank. This article examines the important determinants of the forward premia across the term structure during the pre-flexible inflation targeting (pre-FIT) period and the FIT regime separately while focusing on the impact of RBI's market operations.

Highlights:

- The forward premia have largely remained stable and closely aligned to the interest rate differential but experienced an uptrend in the beginning of 2021, particularly for the near month forwards.
- The interest rate differential turns out to be the dominant determinant of the forward premia across maturities in both the pre-FIT period and during the FIT regime. The other important determinants include global policy uncertainty, domestic banking system liquidity and RBI's intervention in forward markets.
- Inflation volatility has higher importance in determining the forward premia of longer tenor while system liquidity has also gained importance in the FIT period.
- During the FIT period, surplus liquidity had a sobering effect on the forward premia across tenors with greater uncertainty hardening the forward premia.

V. Foreign Exchange Reserves Buffer in Emerging Market Economies: Drivers, Motives and Implications

In line with the trend observed in major emerging market economies (EMEs), India's foreign exchange reserves increased sharply in 2019-20 and 2020-21 led by strong capital inflows *vis-à-vis* modest external financing requirements and special drawing right (SDR) allocation by the IMF. This article examines the drivers and implications of foreign exchange reserves for EMEs.

Highlights:

- Empirical analysis based on panel data for 16 EMEs shows that in the long-run, reserve accumulation of EMEs is determined by precautionary motive rather than mercantilist motive.
- On the implications, a probit model reveals that an increase in reserves reduces the probability of currency crisis. Further, foreign exchange reserves are found to be helping EMEs in curbing volatility of exchange rates.
- For India, increase in reserve cover of imports is observed to be associated with lower cost of foreign currency borrowings.

VI. Digitisation in Urban Cooperative Banks: Depth and Differentiation

In the recent decades, technological and digital advances have redefined banking in India. Using survey-based data on urban cooperative banks (UCBs) covering the period from 2016 to 2021, this article analyses (a) the overall digital depth in the UCB sector; (b) the progress achieved by UCBs in the adoption of various digital banking channels; and (c) the association between digitisation and depositor behaviour in these banks.

Highlights:

- UCBs have demonstrated a consistent increase in digitisation in recent years. However, even as in 2021, the digital index (DI) score for these banks, reflecting their digital depth, was estimated to be 41 against a maximum of 100, indicating the distance still to be travelled by these banks in order to be in the forefront of digitisation.
- There has been a marked differentiation in digitisation among UCBs by (a) type (scheduled UCBs enjoying a striking lead over the non-scheduled UCBs); (b) deposit base (Tier II UCBs ahead of Tier I UCBs); and (c) region (west zone UCBs ahead of UCBs from the other three zones).
- During the study period, UCBs have shown the maximum progress in the adoption of the retail payment channels, such as the IMPS, followed by the application-based channels, such as mobile banking.
- The estimated DI score shares a positive correlation with the amount and number of current and savings deposits of UCBs, indicating the influence of digitisation on depositor behaviour in these banks.

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