प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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September 16, 2021

RBI Bulletin – September 2021

The Reserve Bank of India today released the September 2021 issue of its monthly Bulletin. The Bulletin includes two Speeches, five Articles and Current Statistics.

The five articles are: I. State of the Economy; II. Changes in Sectoral Bank Credit Allocation: Developments since 2007-08; III. Private Corporate Investment: Growth in 2020-21 and Outlook for 2021-22; IV. Financial Inclusion Plan – Reflecting the Growth Trajectory; and V. Financial Inclusion Index for India.

I. State of the Economy

Prospects are brightening for the economy achieving escape velocity from the pandemic as the second wave wanes and preparedness for future remains on war-alert status. Aggregate demand is gaining firmer ground, while on the supply side, IIP and core industries mirror improvement in industrial activity and services sector indicators point towards sustained recovery. The trajectory of inflation is shifting down more favourably than anticipated. As pandemic scars heal and supply conditions are restored with productivity gains, a sustained easing of core inflation can be expected, which will reinforce the growth-supportive stance of monetary policy.

A highlight of this issue of the State of the Economy is an analysis of the divergences in monetary policy actions between emerging market economies and their correspondence with underlying macroeconomic performance. The broad findings are:

- Countries that have tightened monetary policy are also growing/forecast to grow rapidly, with several of them being commodity and services exporters benefiting from the boom in commodity prices and revenge tourism. A few EMEs are also beneficiaries of spillovers and trade advantages from better growth prospects in the US.
- Some of them are the most aggressive rate hikers of 2021 and have registered a near doubling of net exports in Q2 over Q1; a few of these EMEs recovered to their pre-pandemic level of output by Q2 itself.
- Countries that are on a pause despite medium to high inflation are those where economic rebound is not as sharp as the decline last year and/or compare unfavourably in terms of proportion of the population that is fully vaccinated.
- There are a few EMEs, which have undertaken further monetary stimulus or expected to follow suit include countries where inflation is low, *albeit*, rising; as also those which had fast recoveries from the pandemic but growth seems to be stalling, as per recent high frequency indicators.

II. Changes in Sectoral Bank Credit Allocation: Developments since 2007-08

The evolving patterns in credit allocation across sectors assume significance, as this can have implications for economic growth and employment generation. This article examines the changes in credit allocation, between industrial and non-industrial sectors (agriculture and allied activities, services, and personal loans segment), along with the lending behaviour of banks since 2007-08. It also empirically assesses the impact of COVID-19 pandemic on credit delivery and sectoral credit offtake.

Highlights

- The Indian economy witnessed a bank credit boom during the period 2007-08 to 2013-14, as non-food credit registered double-digit growth, primarily driven by robust credit growth to the industrial sector. An analysis of data for thirty-three select banks reveals that both dominant-group, comprising six leading banks on the basis of their share in non-food credit, and the other-group comprising the rest of the banks, lent aggressively to the industrial as well as other sectors.
- In the subsequent years, however, the credit cycle reversed along with a noticeable qualitative shift in the sectoral deployment of bank credit due to dismal credit offtake in the industrial sector, with credit growth almost entirely being driven by the non-industrial sectors, especially personal loans. Active participation of both the dominant-group and the other-group of banks is driving credit growth to the non-industrial sectors.
- An empirical exercise using fixed effects panel regression revealed that during the pandemic period, the industrial sector was affected the most. Credit extended by the other group to the industrial sector, especially large industries, was affected significantly due to COVID-19 pandemic.

III. Private Corporate Investment: Growth in 2020-21 and Outlook for 2021-22

In this article, the near-term private investment outlook is assessed based on the project proposals data on capex phasing plans indicated by the private corporate sector. The investment intentions of the Indian private corporates remained sluggish as reflected by lower numbers of new announcements and completions of projects. The article highlights that the pandemic uncertainties adversely impacted appetite for new projects during 2020-21 and posed impediments to timely completion of pipeline projects. In 2021-22, demand for new projects would shape the private investment outlook, along with the progress of the projects already in the pipeline.

IV. Financial Inclusion Plan – Reflecting the Growth Trajectory

Financial Inclusion Plan (FIP) mandates banks to have a planned and structured approach towards improving financial inclusion across the country, particularly in the unserved/underserved regions. This article highlights the progress made and trends observed in select access and usage indicators of financial inclusion across different bank group(s) and geographies during FY 2016 to FY 2020.

Highlights

- Though the growth in access indicators have remained tepid for Public Sector Banks (PSBs), they continue to dominate financial inclusion space, with more than 50 per cent share in rural branches. Private Sector Banks (PVBs) have registered higher growth (both in rural branches and Business Correspondent (BC) Outlets) as compared to PSBs and RRBs during the period under review.
- The Eastern and Central Regions, which have historically been faring poorly in the access indicators, have benefited with the BC model expanding significantly in these regions. During the period under review, the highest growth in Basic Savings Bank Deposit Accounts (BSBDAs) has been registered in the Eastern and Central Regions.
- The number of BC Outlets have increased in both the rural and urban parts of the country over the period, mainly on account of increased adoption of the BC model by PVBs.
- With expanding reach of the BC Model, its utility is also enhanced, which is reflected in more than 56 per cent of BSBDAs being opened through BCs. Further, both value and volume of transactions being carried out through BC outlets have risen manifold, thereby indicating the pivotal role played by BCs in furthering the goal of financial inclusion.

V. Financial Inclusion Index for India

Greater financial inclusion (FI) is crucial for a wider, inclusive and sustainable growth. Therefore, a measure of FI is necessary to effectively monitor the progress of the policy initiatives undertaken to promote FI. A multidimensional composite Financial Inclusion Index (FI-Index) has been constructed based on 97 indicators, which quantifies the extent of financial inclusion and is responsive to availability, ease of access, usage, inequality and deficiency in services, financial literacy, and consumer protection.

The article dwells on the creation of the FI-Index in terms of indicators for ‘Access’, ‘Usage’ and ‘Quality’ dimensions, weighting distributions, desired goals for the selected indicators, and methodology to combine these indicators into a composite index. FI-Index, thus constructed, captures information on various dimensions of financial inclusion in a single number ranging between 0 and 100 - where 0 represents complete financial exclusion and 100 indicates full financial inclusion. In a scale of 0 to 100, the annual FI-Index, with three sub-indices *viz*., ‘Access’, ‘Usage’, and ‘Quality’ computed for 2021 stood at 53.9, driven largely by Access sub-index, which stood at 73.3 reflecting substantial progress made so far in creating financial infrastructure in the country through combined efforts of all stakeholders.

The sections in the article review some of the existing studies on financial inclusion, discuss the methodology adopted for the FI-Index, capture outcomes and dwell on the way forward.

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Press Release: 2021-2022/872