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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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RBI Bulletin – January 2024: Press Release

Today, the Reserve Bank released the January 2024 issue of its monthly Bulletin. The Bulletin includes seven speeches, six articles, current statistics. Financial Stability Report December 2023 and Report on Trend and Progress of Banking 2022-23 are supplements to the January 2024 Bulletin.

The six articles are: I. State of the Economy; II. Are Food Prices the 'True' Core of India's Inflation?; III. Dynamics of Credit Growth in the Retail Segment: Risk and Stability Concerns; IV. Stock-Bond Correlation and the Macroeconomy: Evidence from India; V. Agriculture Supply Chain Dynamics: Evidence from Pan-India Survey; and VI. Climate Stress Testing and Scenario Analysis: Navigating Uncharted Waters.

I. State of the Economy

The world economy faces divergent near-term growth prospects. Emerging market economies led by Asia are poised to outperform the rest of the world. The Indian economy recorded stronger than expected growth in 2023-24, underpinned by a shift from consumption to investment. The government's thrust on capex is starting to crowd-in private investment. Headline inflation recorded a marginal uptick in December, driven by higher food inflation due to unfavourable base effects.

II. Are Food Prices the 'True' Core of India's Inflation?

By Michael Debabrata Patra, Joice John and Asish Thomas George

In the context of the recent experience of prolonged elevated food prices in India, this paper examines the core-like properties of food inflation, namely volatility, persistence, spillovers and cyclical sensitivity to understand its implications for monetary policy.

Highlights:

- Large and persistent changes in food prices have the potential to affect headline inflation lastingly, as prices of some components of the food group are seen to satisfy core inflation properties.
- Policy makers need to determine the sources and nature of food price shocks to minimise the risks of over-reacting to transitory shocks as well as of looking through persistent shocks.

III. Dynamics of Credit Growth in the Retail Segment: Risk and Stability Concerns

By Vijay Singh Shekhawat, Avdhesh Kumar Shukla, ACV Subrahmanyam and Jugnu Ansari

This article analyses retail credit flows and asset quality dynamics therein across the supervised entities on an inter-temporal basis using supervisory data. This article also uses data from a credit bureau to analyse the risk dynamics in the retail credit portfolio at a granular level.

Highlights:

- The post-pandemic behaviour of the retail credit portfolio has improved both in terms of growth and risk parameters. Empirical tests indicate a significant improvement in asset quality parameters coupled with broad based growth across retail loan segments.
- The recent surge in credit flows has not resulted in stress build up in the retail credit segment, *albeit* a few sub-segments in the unsecured space show signs of weakness, warranting close monitoring by the financial service providers.
- As supervised entities are increasingly focused on retail credit, the recent pre-emptive macroprudential measures by the Reserve Bank augur well for the financial stability both at systemic and entity-level.

- The policymakers may also consider using structural prudential tools, *viz*., debt-service ratio and debt-to-income ratio of retail borrowers. Policy makers are encouraging lenders to use emerging technology ecosystem, *viz*., account aggregators, to seek requisite consent from the borrowers; strengthen credit underwriting; and strengthen monitoring of models. Such frameworks facilitate monitoring of borrower leverage in a holistic fashion. This can be further extended by prescribing debt-to-income (DTI) limits for certain borrower or product categories. DTI limits along with restrictions on loan-to-value (LTV) ratios are found to be effective macro prudential tools, that can be synchronized to contain systemic risks. Also, such macro prudential tools can be quickly calibrated in line with the evolving macro-economic situations to support or dampen the credit growth.

IV. Stock-Bond Correlation and the Macroeconomy: Evidence from India

By Amit Pawar, Mayank Gupta, Palak Godara and Subrat Kumar Seet

This study examines the time-varying stock-bond correlation under different inflation, and output regimes in India from April 2004 to August 2023.

Highlights:

- It is observed that spells of negative stock-bond correlation are found to be ephemeral in India compared to episodes of positive correlation highlighting low diversification benefits between bonds and equities. However, bonds can act as a useful vehicle for reducing equity portfolio volatility.
- Risk aversion in financial markets may lead to switching of correlation from a positive to negative sign amid flight to safety episodes.
- Results indicate that when inflation is moderate, and the economy is growing, investors are more likely to buy both stocks and bonds resulting in a positive stock bond correlation.

V. Agriculture Supply Chain Dynamics: Evidence from Pan-India Survey

By D. Suganthi, Rishabh Kumar and Monika Sethi

This article examines the dynamics of agriculture supply chain through a pan-India survey of farmers, traders and retailers. The survey, covering 15 *Kharif* crops, was undertaken in select production (the primary producing centres of the chosen commodities) and consumption centres (the major cities) during December 2022- February 2023.

Highlights:

- The survey finds that the average share of farmers in consumer prices ranges from 33 to 70 per cent across various crops with perishables on an average having a lower farmer share.
- The mark-ups observed at the retail level were generally greater than those of the traders, indicating that product loss in the supply chain contribute to the wedge (difference between retailers' and wholesalers' mark-ups), particularly with regard to perishables.
- Cash remained the dominant mode of payment for transactions at mandis, as per the survey respondents. In electronic payments, the usage was the highest among traders, followed by retailers. The usage of electronic payments registered a more than 3-fold increase in the case of traders and a 5-fold increase for retailers relative to the 2018 survey.
- According to traders, quality assessment facility in the mandis was the most important policy benefiting them, followed by procurement at Minimum Support Price (MSP) and e-National Agriculture Market (e-NAM). In their view, free international trade, commodity futures trade and easing stocking limits would improve agricultural marketing.
- Empirical analysis indicates that increasing agriculture market density at the district level reduce traders' mark-ups through enhanced spatial competition.
- Overall, the survey findings suggest that further development of agricultural markets, warehouses, pre-processing facilities, ripening units and cold storage are critical. These would help in improving competition, supply management and also reduce supply chain wastages. These measures could also help in containing the frequent spikes in food prices that have been observed in recent years.

VI. Climate Stress Testing and Scenario Analysis: Navigating Uncharted Waters

By Amit Sinha and Shivang Bhanvadia

Climate-related financial risks are increasingly being recognised as emerging risks for financial institutions. This article details the objectives, methodology and findings of the pilot climate vulnerability assessment and stress test (VAST) exercise conducted by the Reserve Bank to measure the impact of climate risk on financial institutions. The exercise was exploratory in nature and did not have any regulatory or supervisory implications.

Highlights:

- The exercise highlighted that banks are vulnerable to climate-related financial risks and there is a need for them to strengthen their capabilities to identify, assess, measure, monitor and manage the climate-related financial risks.
- The VAST exercise revealed that there would be an increase in the credit loss potential[1] of the participating banks due to climate-related risks under different scenarios.
- Climate scenario analysis and stress testing initiatives are in an embryonic phase, owing to the intricacies involved in the scenario analysis and modelling of climate hazards, as well as the dearth of requisite data. Nevertheless, it is noteworthy that the banks and other stakeholders concur that such initiatives should continue to be refined, and periodically refreshed in order to identify, assess, measure, monitor and manage climate-related financial risks, and to facilitate informed policymaking in the years ahead.

[1] Credit loss potential indicates the product of gross fund-based exposure, probability of default and loss given default.