# The RBI Bulletin

**Economic Update| 24th November 2022**

## Global Economy:

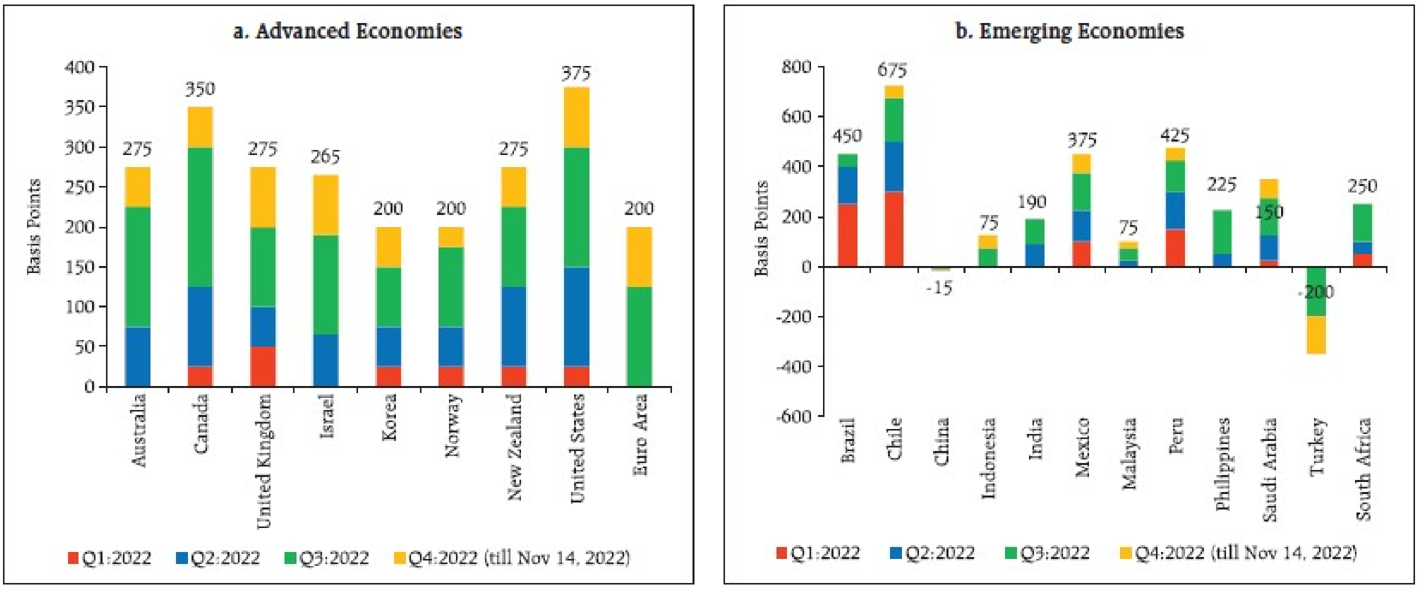
The outlook for the global economy remains clouded with downside risks. The International Monetary Fund (IMF) predicts that a third of the global economy is going into contraction this year or next. Global financial conditions have been tightening and deteriorating market liquidity is amplifying financial price movements.

However, recent data are showing some uptrend with Consumer price index (CPI) inflation has somewhat eased across BRICS economies and in several other emerging market economies (EMEs), benefiting from lower commodity prices, especially food. GDP releases have also surprised on the upside, with a slender upturn in economic activity defeating the market's pronouncement of a so called technical recession. A relief rally swept across the world on November 11 following the release of US consumer prices for October.

Illustratively, between October 27 and November 11, the Indian rupee appreciated by 2.2% against the US dollar; by 1.2% against the pound sterling and; by 0.5% against the Euro. In the recent period, the US dollar's rally to successive highs has sent currencies across the world into a downward spiral; but a closer look reveals that EME currencies are posting only half the losses seen in advanced economy (AE) currencies.

0n policy front, the market is now pricing in moderate increases in rate. There is a turn in the thinking of central banks – some of them have slowed rate increases, and indicated that the end of rate raising is in sight. Some of them are delivering '75s' but assuaging them with dovish pivots. Lags in the transmission of monetary policy create the risk that they may ease off too soon as they see the outlook becoming darker.

**Fig 1: Synchronous Policy Hikes**




Source: Bloomberg.

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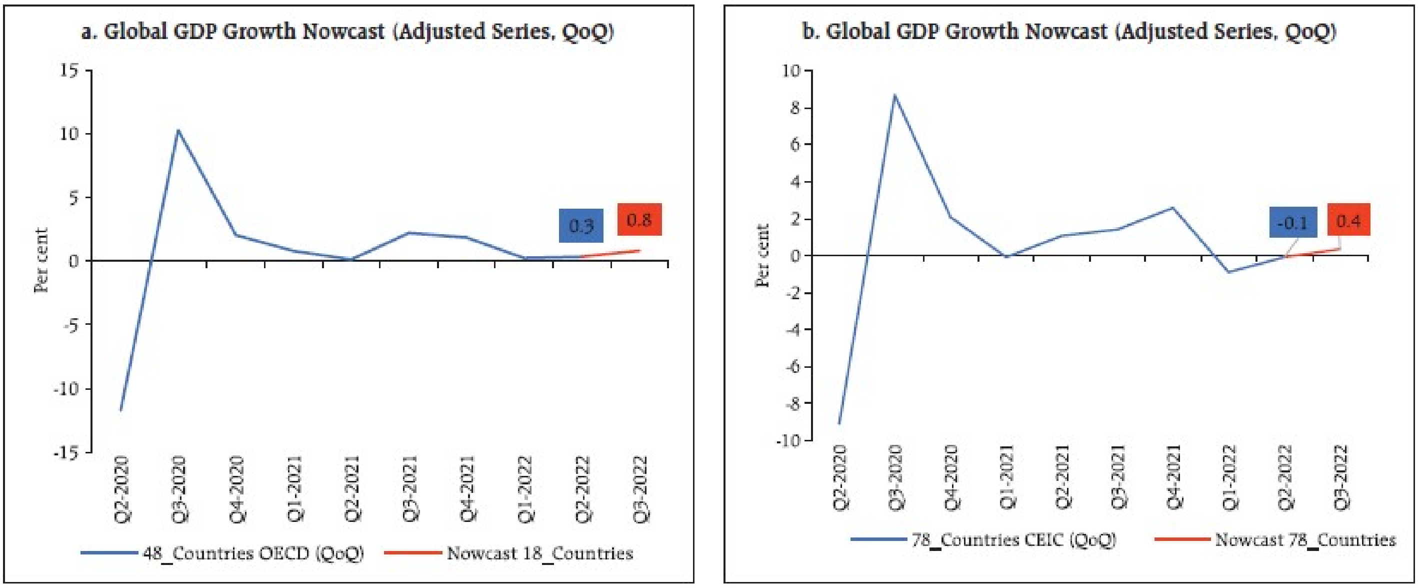
Among high frequency indicators, the global composite PMI signalled a downturn for the third consecutive month in October 2022, the lowest since June 2020, with both manufacturing output and services business activity declining. World merchandise trade volume rose by 5.3% YoY in August 2022, up from 5.1% in July on positive momentum offsetting an unfavourable base effect. Waning demand for vessels caused the Baltic Dry Index, a measure of shipping charges for dry bulk commodities, to slide down by 16.9% by end October, after rising for a short period in the early part of the month. This treading down has extended into early November. PMI sub-indices indicate lower levels of new export business and receding volumes of international trade flows for the eighth successive month.

Global commodity prices remained volatile in October and early November as slowing global growth dampened demand in spite of the war in Ukraine providing unrelenting upsides. Crude oil prices traded at an average of US$ 93 per barrel in October and US$ 97 in the first half of November (up to November 14, 2022) on the back of slowing global demand and the strengthening US dollar.

Against this backdrop, RBI's model based nowcast of global GDP indicates stagnant growth momentum during Q3:2022.

**Fig 2: Global GDP Nowcasts**



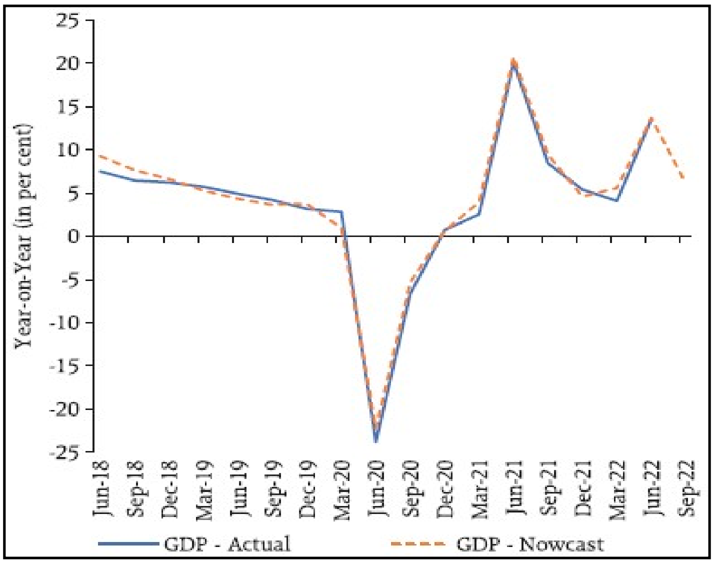

Sources: OECD; CEIC; and RBI staff estimates

## Domestic Economy:

Lead indicators of economic activity point to sustained resilience of the Indian economy in an uncertain and increasingly hostile global environment. RBI's economic activity index with 27 high frequency indicators nowcasts GDP growth for Q2: 2022-23 at 6.1%.

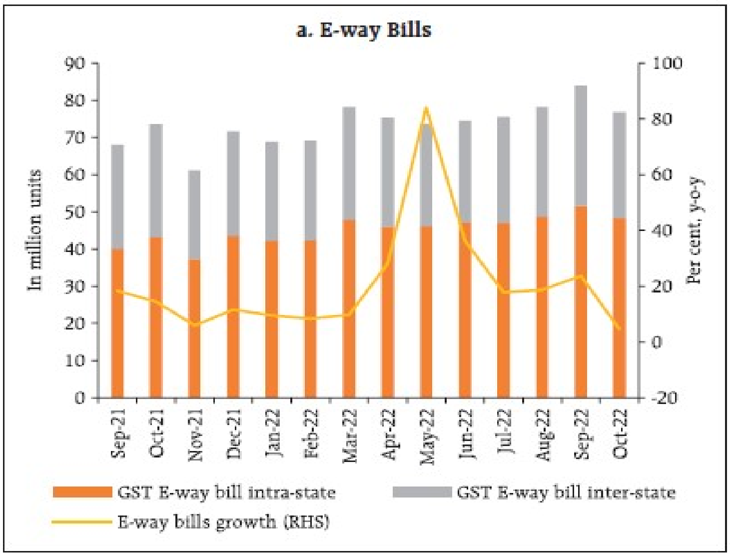
Among the major lead indicators, GST collections (Centre plus states) in October 2022 stood at `1.52 lakh crore, the second highest since the inception of the regime, buoyed by the festival season. E-way bills generation was sustained above the 75 million mark, albeit moderating from a series high recorded in September. Toll collections strengthened both in volume and value terms.

**Fig 3: GDP Actual and Nowcasts**




Source: RBI staff estimates

**Fig 4: E-way Bills**

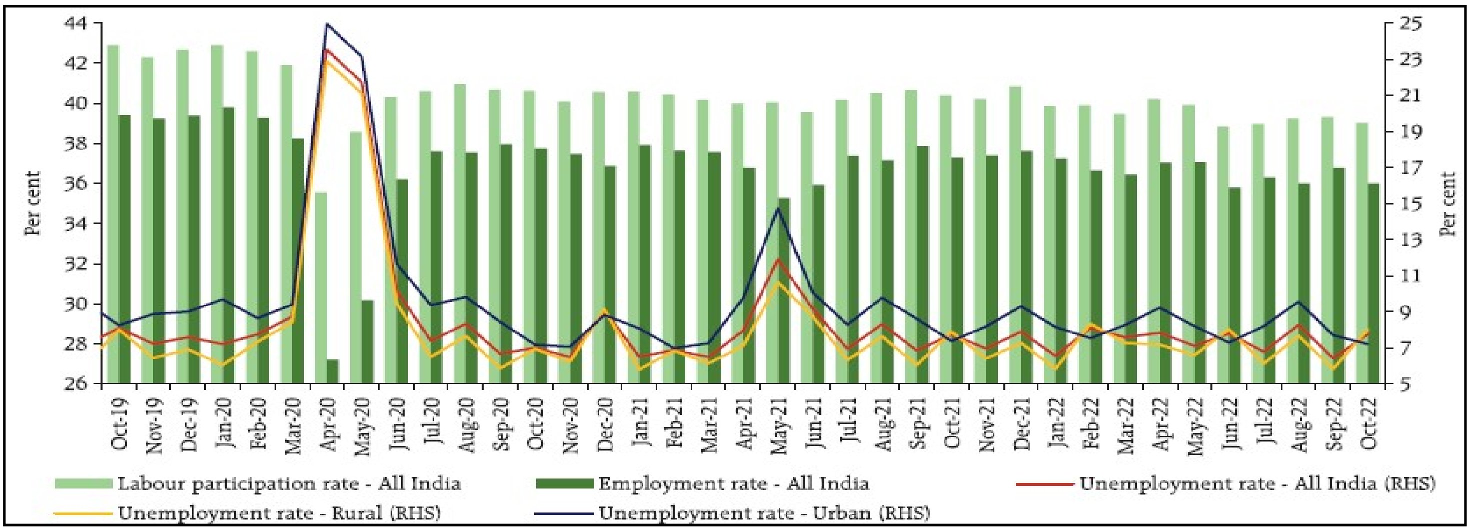



Source: GSTN; RBI; and RBI staff estimates

Aided by festival season demand, rural demand sustained above pre-pandemic levels for the second consecutive month. The farm sector remained positive, with domestic sales of tractors recording growth even as sales of two wheelers and motorcycles remained muted due to price hikes dampening demand. Sales of three wheelers increased by 30% over pre-pandemic levels and by 70.4% YoY.

As per the household survey of the Centre for Monitoring Indian Economy (CMIE), the all India unemployment rate increased to 7.8% in October 2022 from 6.4% in the previous month, driven by a spike in the rural unemployment rate. Similarly, the all-India labour force participation and employment rates came down marginally in October, even though they improved in urban areas. In terms of the organised sector employment outlook, PMI employment sub-index for manufacturing accelerated to a 33-month high as higher sales and production requirements during the festival season encouraged firms to expand their payrolls.

**Fig 5: Employment, Unemployment and Labour Participation**




Sources: CMIE

Fuel consumption increased in October, with a surge in festival season led travel, pick-up in agricultural activity and a generalized rise in demand. Sales of automobiles remained robust in October, propelled by demand for sports utility vehicles (SUVs) and mid-segment cars, even as it moderated sequentially as the festival season concluded. Sales in the entry level vehicle segment reversed to below pre-pandemic levels. Retail sales increased in October, as reflected in decadal high registrations, particularly in the passenger vehicles segment.

India's merchandise exports fell to a 20-month low at US$ 29.78 billion in October 2022. The MoM contraction of 19.4% was the sharpest since April 2020 reflecting the knock-on effects of worsening global economic outlook. Imports contracted by 11.4% sequentially MoM to US$ 56.69 billion, the lowest monthly level in the current financial year. The increase of imports by 5.7% on YoY basis was also the lowest since January 2021.

Commodity-wise, electronic goods, oil seeds and meals contributed to export growth positively. Major export items such as engineering goods and petroleum products, however, turned out to be drags. Non-oil exports at US$ 25.03 billion declined for the fourth consecutive month in October. Regarding imports, petroleum and its products, fertilizers and iron and steel contributed positively whereas gold, electronic goods, pearls, precious and semi-precious stones pulled imports down .

**Table 1: High Frequency Indicators- Services**

| Sector | Indicator | High Frequency Indicators- Services Growth (y-o-y, per cent) | | | | Growth over 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Jul-22 | Aug-22 | Sep-22 | Oct-22 | July-22/ July-19 | Aug-22/ Aug-19 | Sep-22/ Sep-19 | Oct-22/ Oct-19 |
| Urban Demand | Passenger Vehicles Sales | 11.1 | 21.1 | 91.9 | 28.6 | 54.6 | 48.7 | 42.9 | 7.1 |
| Rural Demand | Two Wheeler Sales | 9.6 | 17.0 | 12.9 | 2.3 | -8.6 | 2.9 | 4.7 | -10.2 |
| | Three Wheeler Sales | 72.8 | 65.3 | 73.4 | 70.4 | -43.8 | -34.8 | -23.7 | -19.2 |
| | Tractor Sales | -15.3 | -1.9 | 23.0 | 6.8 | 21.2 | 42.2 | 34.3 | 15.6 |
| Trade, hotels, transport, communication | Commercial Vehicles Sales | | 39.4 | | | | 38.6 | | |
| | Railway Freight Traffic | 8.3 | 7.9 | 9.1 | 1.4 | 22.5 | 31 | 30.6 | 26.8 |
| | Port Cargo Traffic | 15.1 | 8.6 | 14.9 | 3.7 | 6.9 | 8.6 | 13 | 9.1 |
| | Domestic Air Cargo Traffic | 18.8 | 4.8 | 6.8 | | -1.6 | -9 | -5.9 | |
| | International Air Cargo Traffic | -1.5 | -5.0 | -4.9 | | -9.4 | -10.2 | -3 | |
| | Domestic Air Passenger Traffic | 97.9 | 54.9 | 49.0 | | -17.1 | -12.9 | -8.2 | |
| | International Air Passenger Traffic | 487.7 | 256.9 | 164.0 | | -18.1 | -19.8 | -17.8 | |
| | GST E-way Bills (Total) | 17.8 | 18.7 | 23.7 | 4.6 | 44.9 | 52.7 | 60.3 | 45.4 |
| | GST E-way Bills (Intra State) | 19.8 | 22.5 | 28.9 | 12.0 | 51.5 | 62.6 | 71.5 | 57.5 |
| | GST E-way Bills (Inter State) | 14.7 | 12.9 | 16.2 | -5.9 | 35.2 | 38.7 | 45.3 | 28.6 |
| | Tourist Arrivals | 783.9 | -37.8 | | | -21.7 | -37.8 | | |
| Construction | Steel Consumption | 13.0 | 14.3 | 11.3 | 10.7 | 5.9 | 2.3 | 11.3 | 14 |
| | Cement Production | 0.5 | 1.8 | 12.1 | | 5.8 | 18.6 | 20.4 | |
| PMI Index | Manufacturing | 56.4 | 56.2 | 55.1 | 55.3 | | | | |
| | Services | 55.5 | 57.2 | 54.3 | 55.1 | | | | |

**Sources:** CMIE; CEIC; IHS Markit; SIAM; Airports Authority of India; and Joint Plant Committee.

**Financial Conditions:**

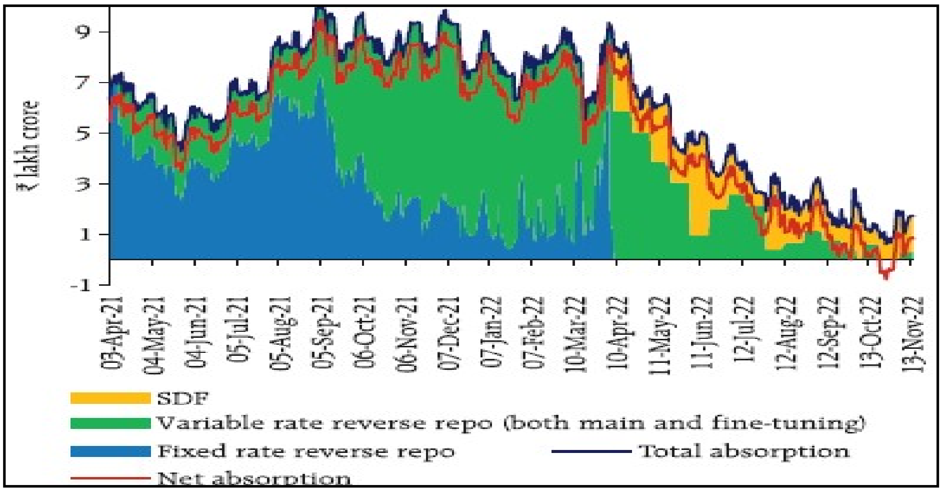
Higher festival season currency demand, goods and services tax (GST) and other tax related outflows, forex market operations, and robust credit demand further moderated surplus liquidity conditions. Subsequent government spending in the beginning of November eased liquidity strain in the banking system. Accordingly, the average daily absorptions under the liquidity adjustment facility (LAF) declined to Rs.1.3 lakh crore during the second half of October through November 14, 2022 from Rs.1.6 lakh crore during mid-September to October 13. Of the daily average surplus liquidity during this period, Rs.1.0 lakh crore was absorbed through the overnight standing deposit facility (SDF), while the remaining was mopped up through variable rate reverse repo (VRRR) auctions. On a net basis, liquidity slipped briefly into deficit during the second half of October which led to certain banks taking recourse to the marginal standing facility (MSF), which averaged Rs.0.18 lakh crore during the period under review. Additionally, two fortnightly variable rate reverse repo (VRRR) auctions conducted during this period elicited subdued response with offers of Rs.5,648 crore and `32,483 against the notified amount of `1.0 lakh crore and `1.5 lakh crore, respectively. As currency returns to the banking system alongside renewed FPI inflows, pressure on liqudity is expected to ease. Furthermore, deposit growth has shown signs of an uptick in recent period, thus bridging the gap with credit growth. Additionally, excess statutory liquidity ratio (SLR) holdings also provide cushion to banks in meeting potential liquidity requirements.

The depletion of liquidity at a faster pace pushed the weighted average call rate (WACR) towards the upper band of the corridor in late October with passthrough to other money market rates. However, it eased somewhat thereafter as government spending in the beginning of the month augmented liquidity. After briefly breaching the MSF rate, the WACR eased thereafter to average 6.03% during the period under review. In tandem, rates in the collateralised segment also firmed up, with triparty and market repo rates trading, on an average, 4 bps and 2 bps, respectively, above the policy repo rate. Across the term money segment, rate on 3-month treasury bill (T-bill), 3-month certificates of deposit (CDs) and 3-month commercial paper (CPs) traded on average 24 bps, 79 bps and 112 bps, respectively, above the MSF rate (Chart 40b). In the primary market, fund mobilisation through CD issuances has been robust this year at Rs.3.5 lakh crore during the year so far (up to October 21), higher than Rs.0.62 lakh crore for the corresponding period a year ago, reflecting banks' demand for funds to meet the buoyant credit offtake. On the other hand, CP issuances have declined to Rs.8.0 lakh crore during the year so far (up to October 31) from Rs.11.2 lakh crore for the corresponding period a year ago, as the appetite for bank credit improved.

In the fixed income market, bond yields largely tracked the movement in US treasury yields. During the second half of October, the 10-year G-sec yield came under pressure as the yield on the benchmark 10- year US treasury topped 4 per cent mark, rising to 4.24 per cent, its highest level since 2008. Subsequently, the yield on the 10-year US treasury eased, more so after the release of lower than expected CPI inflation reading, with a concomitant impact on domestic bond yields. The Indian benchmark yield on the 10-year G-sec softened from a high of 7.51% at the close on October 21 to 7.29 per cent on November 14, 2022. Across the curve, G-sec yields generally softened.

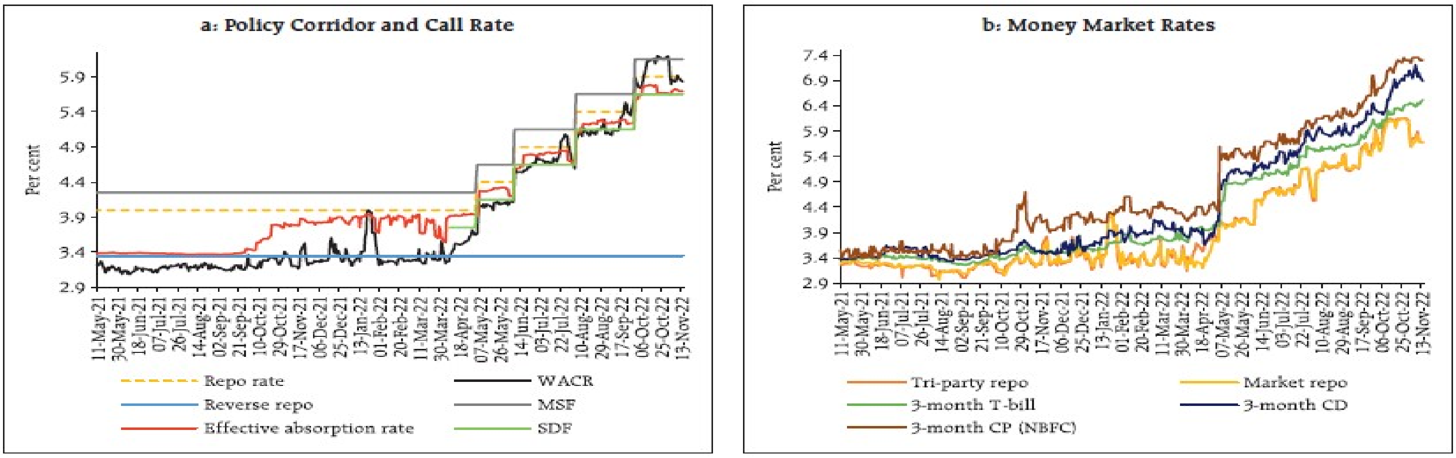
Corporate bond yields hardened and risk spreads rose across the ratings and tenor spectrum. The increase has been particularly sharp for short tenor paper (AAA 1-year), reflecting the pass-through from higher money market rates amidst tightened liquidity conditions. Increased supply of corporate bonds as borrowers shifted to rupee denominated debt in an environment of tightening external financial conditions has also likely contributed to the rise in credit risk premiums. Fund raising through corporate bond issuances jumped to Rs.83,690 crore during September 2022 (the highest so far in the current financial year) and dropped to Rs.34,699 crore in October 2022 amidst higher interest rates.

### Fig 6: Liqudity Conditions



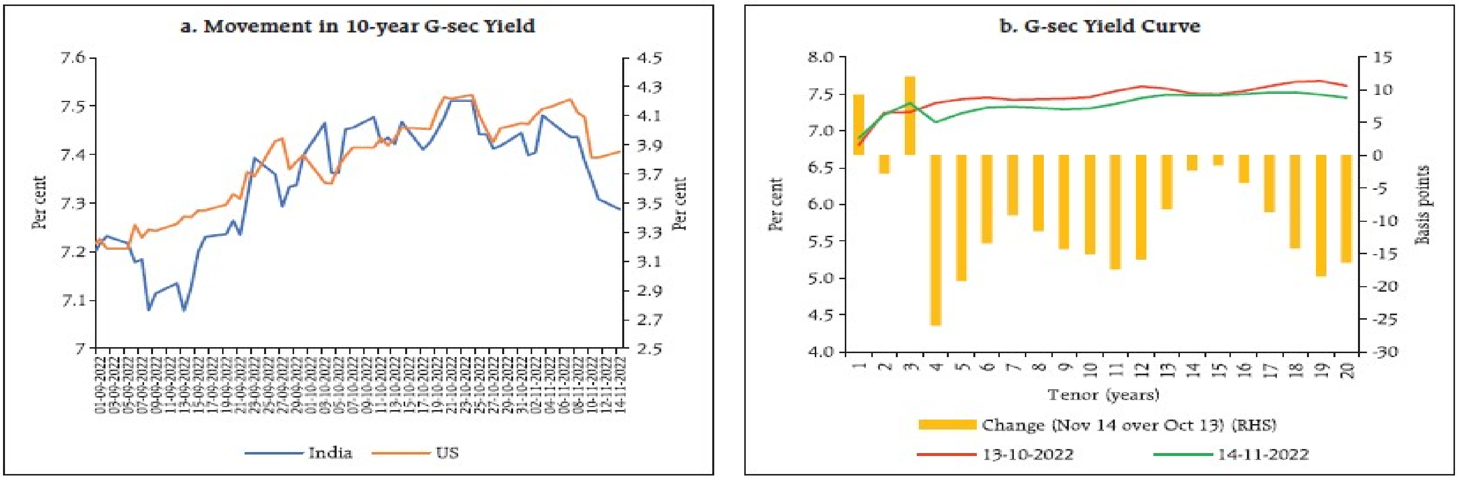

Source: RBI

### Fig 7: Policy Corridor and Money Market Rates




Sources: RBI, Bloomberg; and RBI staff estimate

### Fig 8: Developments in G-sec Market




Sources: RBI, Bloomberg; and RBI staff estimate

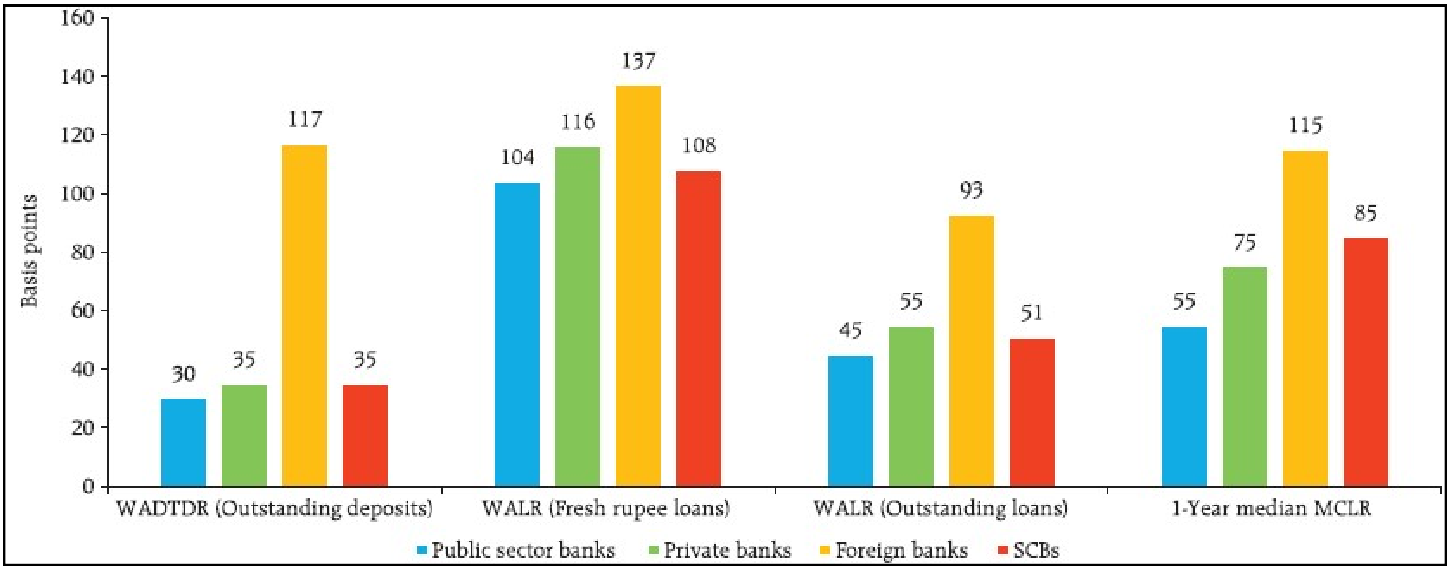
By end-October 2022, 29 out of 32 domestic banks have increased their external benchmark-based lending rates (EBLRs) by 190 bps in tandem with the increase in the policy repo rate since May 2022. SCBs have also increased their 1-year median marginal cost of funds-based lending rate (MCLR) by 85 bps during the period May to October 2022. In the current tightening period, i.e., May to September 2022, the WALR on fresh rupee loans of SCBs increased by 108 bps in response to the 140 bps increase in the policy repo rate.8 The increase in share of EBLR-linked loans (46.9% as at end-June 2022), coupled with shorter reset periods (within 3 months in case of EBLR linked loans as compared with 1 year in case of the majority of MCLR linked loans) has significantly improved the pace of transmission to WALR on outstanding loans, which had remained muted in the earlier internal benchmark regimes (base rate and MCLR regime). The pass-through to WALR on outstanding rupee loans stood at 51 bps during May to September 2022. Banks have also raised their deposit rates in recent months.

The median term deposit rates (i.e., average card rates on retail deposits) on fresh deposits increased by 48 bps during May to October 2022. Banks have increased their bulk deposit rates higher than retail deposit rates.

Across bank groups, transmission to lending and deposit rates of private sector banks (PVBs) has exceeded that of public sector banks (PSBs) in the current tightening period. The WALR on fresh rupee loans of PVBs increased by 116 bps, while that of PSBs increased by 104 bps. Credit growth for PVBs has been higher than for PSBs in the current tightening period. In view of the increase in credit demand, private banks have increased their lending and deposit rates to maintain higher net interest margins (NIMs).

Corporate earnings exhibited signs of loss of momentum during Q2:2022-23. Revenue growth of 1,944 non-financial companies, constituting around 92 per cent of the market capitalisation of all listed non-financial companies, remained strong. Expenditure growth driven by input cost pressures, however, outpaced revenue growth, exerting pressure on operating profit margins. Consequently, the growth rate of operating profits for the sample of companies slipped into negative zone. Other income, which includes income from treasury management of companies, recorded a decline in the quarter. Pulled by the fall in operating profits, aggregate net profits of non-financial companies contracted on a YoY basis during the quarter.

**Fig 9: Transmission to Lending and Deposit Rates across Bank Groups (May-September 2022)**



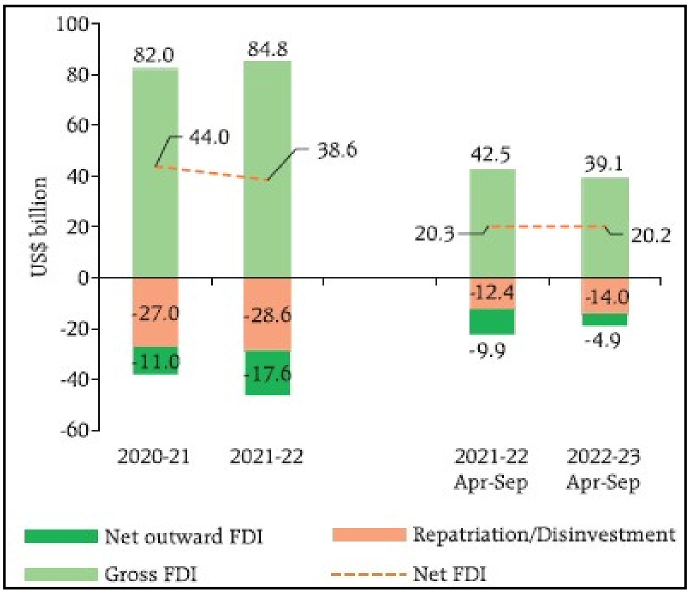

Sources: RBI, Bloomberg; and RBI staff estimate

The Indian equity market continued its momentum in November 2022, buoyed by strong PMI and GST collections data and persistent FPI buying. Domestic equity markets rallied further amid a strong rebound in global equity markets following the release of lower-than-expected CPI inflation data in the US. The BSE Sensex increased by 1.4 per cent during the month to close at 61,624 on November 14, 2022.

Gross inward foreign direct investment (FDI) at US$ 39.1 billion during April-September 2022 moderated from its level a year ago. Net FDI at US$ 20.2 billion during April-September 2022, however, remained almost at the same level as corresponding period a year ago, reflecting mainly a decrease in outward FDI from India. Manufacturing, retail and wholesale trade, computer services, communication services, and financial services received the major share of FDI equity inflows during April-September 2022.

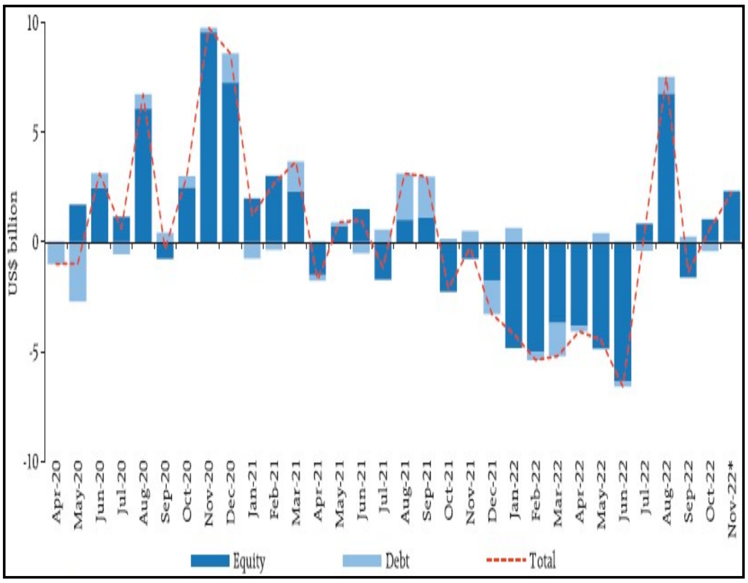
FPIs returned to the Indian market in October 2022, amidst market expectations that the US Federal Reserve would slow down the pace of rate hikes and the positive sentiment towards initial public offerings. Net purchases by FPIs in the equity market to the tune of US$ 1.0 billion prompted net inflows of US$ 0.6 billion in the month. FPIs were net purchasers in equity markets in major emerging market economies such as Brazil, Indonesia, and Thailand. In November 2022 (up to 11th), net purchases by FPIs were to the tune of US$ 2.3 billion.

**Fig 10: Foreign Direct Investment**




Source: RBI staff estimates

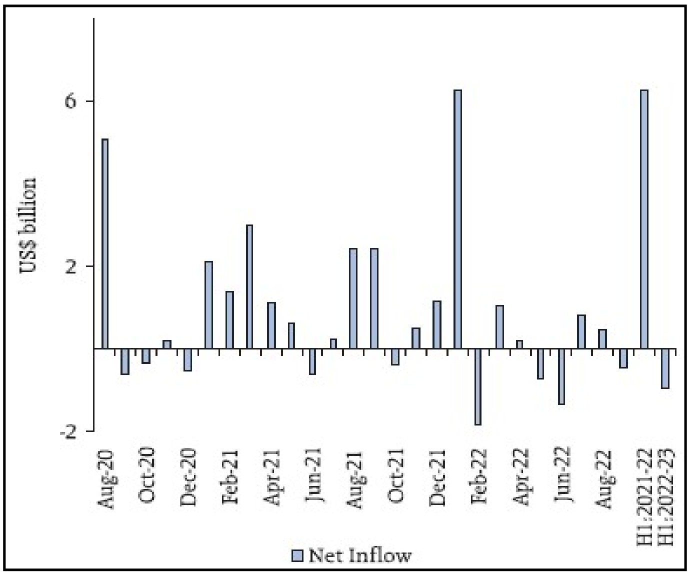
**Fig 11: Net Foreign Portfolio Investment**




Source: National Securities Depository Limited

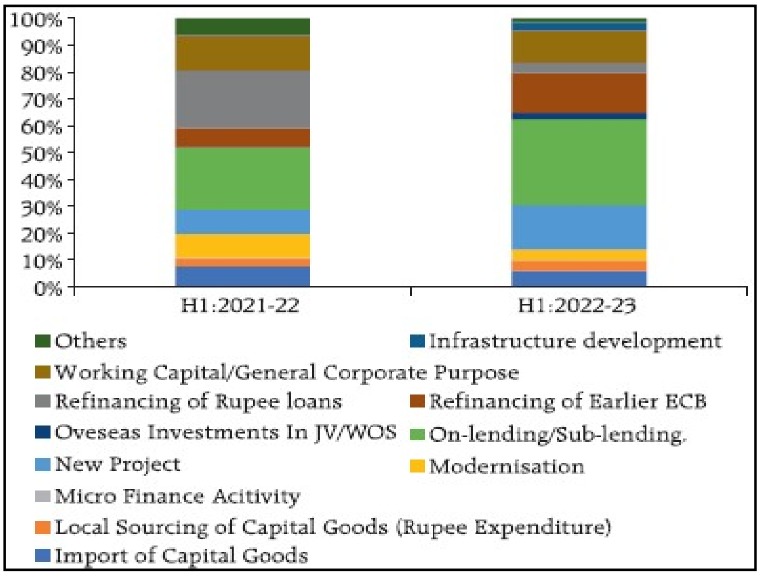
Net external commercial borrowing (ECB) flows turned marginally negative during H1:2022- 23, whereas gross ECB disbursements amounted to US$ 10.0 billion (US$ 13.5 billion during H1:2021- 22). Of the total ECBs registered during H1:2022-23, major agreements were for on-lending/ sub-lending (32.0%), new project (16.4%) and refinancing of earlier ECBs (14.9%). The weighted average maturity of ECBs registered during H1:2022-23 elongated to 5.6 years (4.9 years in H1:2021-22), that should expose borrowers to lower roll-over risk in times of tightening financial conditions.  Over 80 %of the agreement amount of ECBs remained effectively hedged in September 2022. in terms of explicit hedging, rupee denominated loans and loans from foreign parents, and the remaining ECBs included loans with natural hedges (i.e., borrowers' earnings are in foreign currency), limiting the exposure of foreign commercial borrowings to exchange rate risk.

**Fig 12: Net ECB Inflows**




Source: RBI

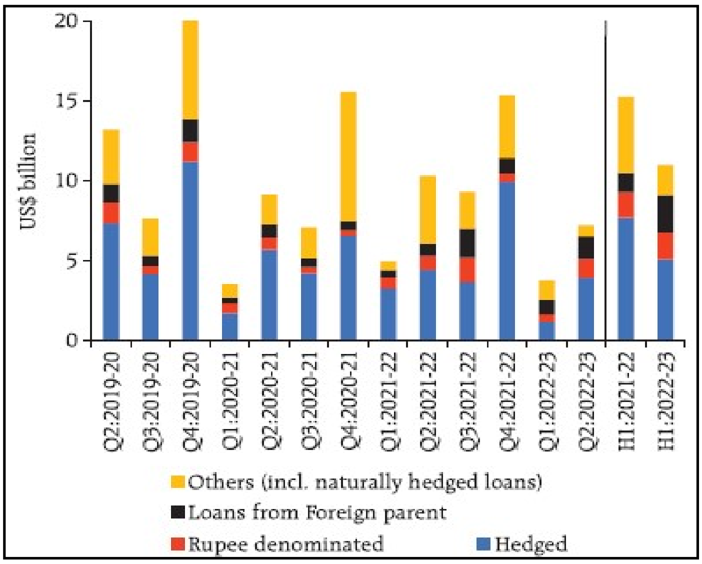
**Fig 13: ECB Fund Use Approvals**




Source: RBI

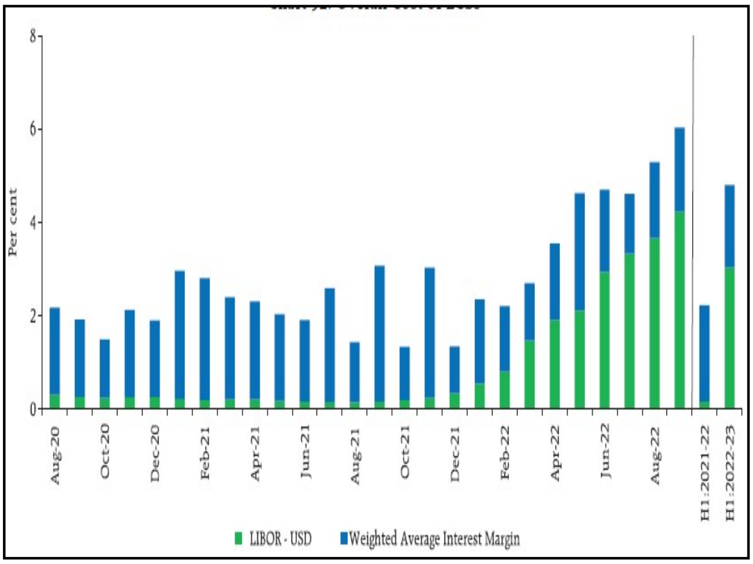
Benchmark global rates have been rising, with the London interbank offer rate (LIBOR) and the secured overnight financing rate (SOFR) increasing significantly by 369 bps and 291 bps, respectively, during January-September 2022. In comparison, the rise in overall cost of ECB loans has been relatively moderate as the weighted average interest rate spread of ECBs (over benchmark interest rate) was limited to 177 bps during April-September 2022.

**Fig 14: ECB Agreements - Hedging Position**




Source: RBI

**Fig 15: Overall Cost of ECBs**




Source: RBI

India's foreign exchange reserves, which were at US$ 530.0 billion as on November 4, 2022, recorded a decline of US$ 77.3 billion in 2022-23 so far, mainly on account of valuation loss due to the appreciation of US dollar against major currencies. This level of reserves covers 8.6 months of imports projected for 2022-23.

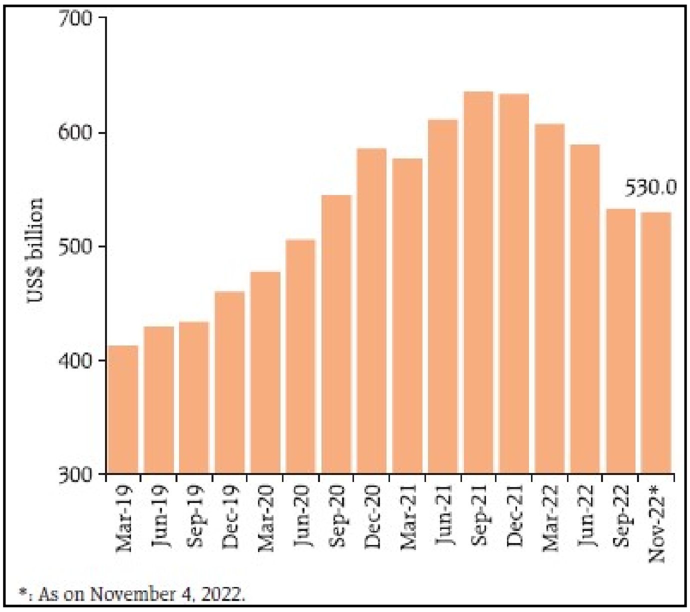
On July 6, 2022, the Reserve Bank released a circular on 'Liberalisation of Forex Flows' to enhance fresh inflows to the non -resident deposit accounts9 . Subsequent to the policy measures10, net flows in the non-resident deposit accounts have picked up at an aggregate level during Q2:2022-23.

Component-wise, NRE deposits recorded a modest accretion in Q2:2022-23, barring an outflow in August 202211. Moreover, after 16 straight months of outflows since March 2021, FCNR(B) deposits witnessed inflows during Q2:2022-23, albeit with a modest outflow in September 2022. The UAE, the US and the UK continued to constitute the major source countries of NRI deposits during September 2022, with their combined share at about 49%. Further, the US Dollar (USD) continued to be the key currency of FCNR(B) deposits, with its share at around 75 per cent, followed by the Japanese Yen (JPY) and Pound Sterling (GBP) together at around 20%.

In terms of the maturity pattern, more than onethird of the FCNR(B) deposits were above 3 years on an original maturity basis, followed by the deposits above 1 year and up to 2 years (30%.) In contrast, in the case of the NRE accounts, deposits up to 1 year constituted the largest share (47%) based on original maturity.

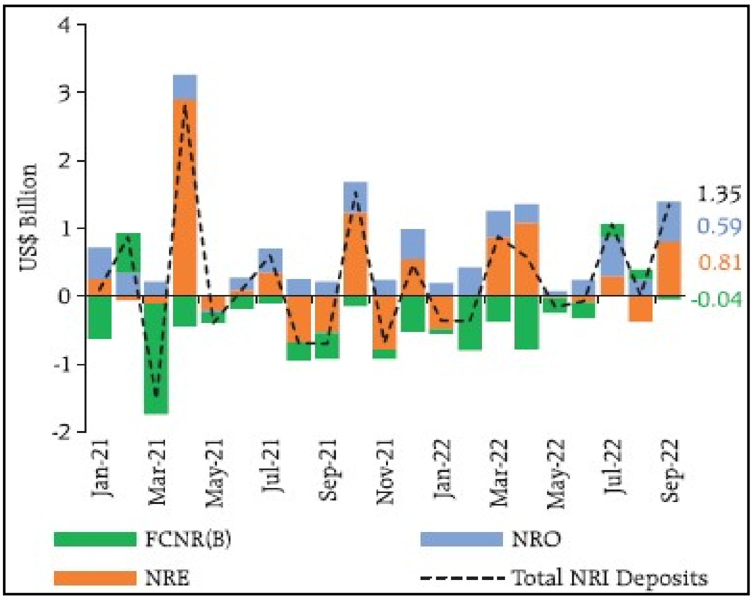
An assessment of the prevailing market dynamics reveals that the moderation in fresh inflows might be on account of (i) higher interest rates offered by overseas competitor banks and (ii) re-booking from saving deposits to time deposits to avail higher interest rates. Going forward, the outlook for NRI deposit flows would be conditioned by a host of factors which include the magnitude of expected slowdown in advanced economies as well as the pace and timing of further interest rate actions.

**Fig 16: Foreign Exchange Reserves**




Source: RBI staff estimates

**Fig 17: NRI Deposits – Net Flows**




Source: National Securities Depository Limited

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