The RBI Bulletin

Economic Update| 25th January 2023

Key Highlights:

- **State of the Economy:** Emerging markets are appearing more resilient than in the year gone by, but their biggest risks in 2023 stem from US monetary policy and the US dollar. In India, the softening of commodity prices and other costs amidst strong revenues appears to have boosted corporate performance. Macroeconomic stability is getting bolstered with inflation being brought into the tolerance band and lead indicators suggesting that the current account deficit is on course to narrow through the rest of 2022 and 2023.

- **Productivity Growth in India:** Productivity growth can be achieved either through resource reallocation or technological progress. Reallocation of resources from low to high productive sectors accounted for 63% of aggregate productivity growth and 5% of output growth during 2001-2019. A sub-period analysis shows that the aggregate total factor productivity growth increased from 1.33% during 2001-10 to 2.72% during 2011-19 mainly driven by within industry improvement in technological progress. The top-performing sectors that contributed to aggregate productivity are textiles, machinery equipment, and financial and business services.

- **What Drives Startup Fundraising in India?** There has been an upward level shift of fundraising by the Indian start-ups post-2014. This has been contributed to by the Startup India initiative, along with other enabling policies and the increasing digitalisation of the economy. COVID-19 provided a temporary boost to fundraising. At the aggregate level, long-run start-up funding is largely driven by the excess return offered by the domestic equity market over the global benchmark, and by the level of domestic economic activity. At the firm level, unconventional factors like the educational background of founders, pre-existing relationships with institutional investors and popularity matter for fundraising, in addition to the scale already achieved and the sector of operation.

- **Open Market Operations in India:** In a modern market-based monetary policy operating framework, open market operation (OMO) is the principal instrument of liquidity management by central banks. Globally, the scale and extent of OMOs – both sales and purchases – have increased significantly over the past fifteen years. By augmenting/ mopping up systemic liquidity, OMOs help in modulating yields which transmit to other financial market instruments. In the Indian context, OMOs are instruments for altering durable liquidity conditions in the system barring special transactions such as Operation Twist (OT). OMO purchases increase the domestic assets in the balance sheet of the Reserve Bank, and also the reserve money, and vice versa for OMO sales.

Sutapa Biswas
Research Analyst (Economy)
9836020612
sutapa.biswas@smifs.com

State of the Economy—Global:

Weakening demand conditions, some lingering supply bottlenecks and resurgent COVID infections characterise the global outlook for 2023. Central banks are moderating the pace of monetary policy tightening as inflation eases grudgingly across the globe in sync with moderating commodity prices, although it remains in high reaches and well above targets. Accordingly, their forward guidance has reiterated their commitment to break inflation and anchor inflation expectations.

The IMF expects one-third of the world to be in recession in 2023. In its latest Global Economic Prospects (GEP) released on January 10, 2023 the World Bank points to a prolonged slowdown in the global economy with growth pegged at 2.2% in 2023 – the third lowest in three decades. For advanced economies (AEs), growth has been revised downwards by 170 basis points relative to June 2022 projections to 0.5% whereas for emerging market economies (EMEs), it has been lowered by 80 basis points to 3.4%.

Fig 1: GDP Growth Projections – Select AEs and EMEs

(Per cent)

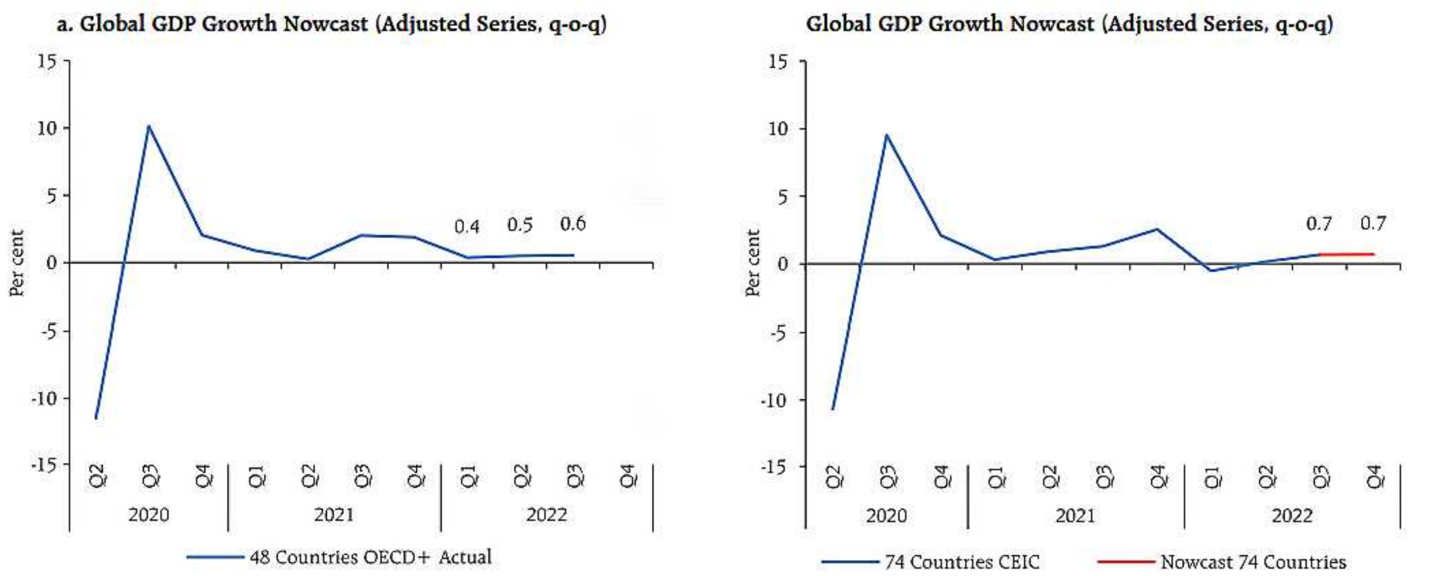
↓ Country / Region Month of projection→	2022		2023	
	Jun-2022	Jan-2023	Jun-2022	Jan-2023
World*	3.1	3.1	3.4	2.2
Advanced Economies				
US	2.5	1.9	2.4	0.5
Euro area	2.5	3.3	1.9	0.0
Japan	1.7	1.2	1.3	1.0
Emerging Market Economies				
Brazil	1.5	3.0	0.8	0.8
Russia	-8.9	-3.5	-2.0	-3.3
India[#]	7.5	6.9	7.1	6.6
China	4.3	2.7	5.2	4.3
South Africa	2.1	1.9	1.5	1.4

Sources: World Bank

During Q3:2022, growth in the OECD countries remained flat at 0.6%. Against this backdrop, RBI's model based nowcast projects global GDP growth momentum to remain unchanged in Q4:2022.

Among high frequency indicators, the global composite purchasing managers' index (PMI) at 48.2 in December continued to contract as output decreased for the fifth successive month. World merchandise trade volume growth slowed to 3.2% YoY in October 2022 due to negative momentum as well as an unfavourable base effect. Global commodity prices remained range bound in December, as slowing global growth dampened demand while Russia-Ukraine tensions posed upside risks. Crude oil prices traded at an average of US$ 80.9 per barrel in December, taking cues from demand concerns and imposition of the price cap by G7.

Fig 2: Global GDP Nowcasts



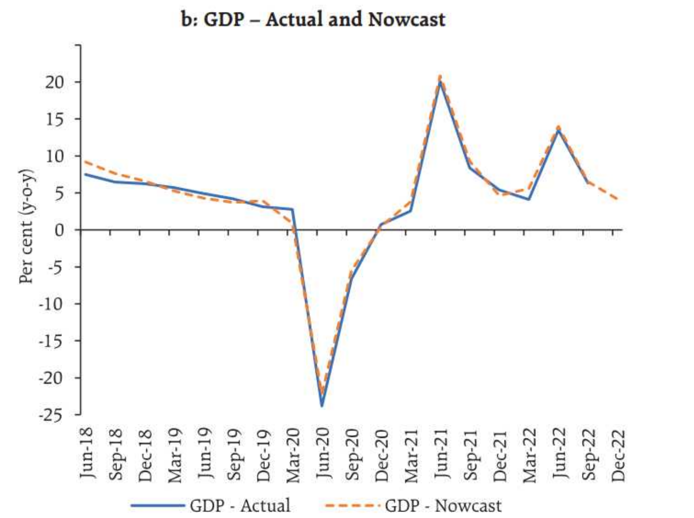
Sources: OECD; CEIC; and RBI staff estimates

State of the Economy—Domestic:

The Indian economy exhibited resilience, with growth impulses stemming from domestic drivers. Supply responses are improving with index of supply chain pressure for India (ISPI) declining to below historical average levels since August. In consonance, the economic activity index extracted from high frequency indicators (HFIs) in a dynamic factor model showed an uptick in activity in November 2022. Accordingly, RBI's nowcast of GDP growth for Q3:2022-23 is placed at 4.5%.

As per the first advance estimates of national income, the Indian economy is projected to clock a growth of 7.0% in 2022-23. Consequently, real GDP surpassed its pre-pandemic level by 8.6%. Private final consumption expenditure (PFCE) – the mainstay of aggregate demand – staged an uptick, registering a growth of 7.7% on the back of a buoyant revival in contact -intensive activity, including travel and tourism, and an upbeat festival season. Growth of government final consumption expenditure (GFCE) at 3.1% remained muted as the fiscal consolidation was accompanied by a reorientation of focus on capital expenditure. Gross fixed capital formation (GFCF) remained strong with double-digit growth, primarily aided by the government's thrust on infrastructure. Accordingly, the real GFCF to GDP ratio increased to 33.9% in 2022-23 from 32.5% in the preceding year. On the other hand, multiple headwinds – commodity price shocks; tightening financial conditions; and resurgence of COVID-19 in some economies – thwarted external demand in 2022-23. India's exports, after exhibiting a remarkable recovery post-COVID with growth of 24.3% in 2021-22, moderated to 12.5% in 2022-23. With the growth in imports at 20.9% outpacing the growth in exports, the drag from external demand was at an unprecedented high of 7.1% of GDP.

Fig 3: GDP Actual and Nowcasts



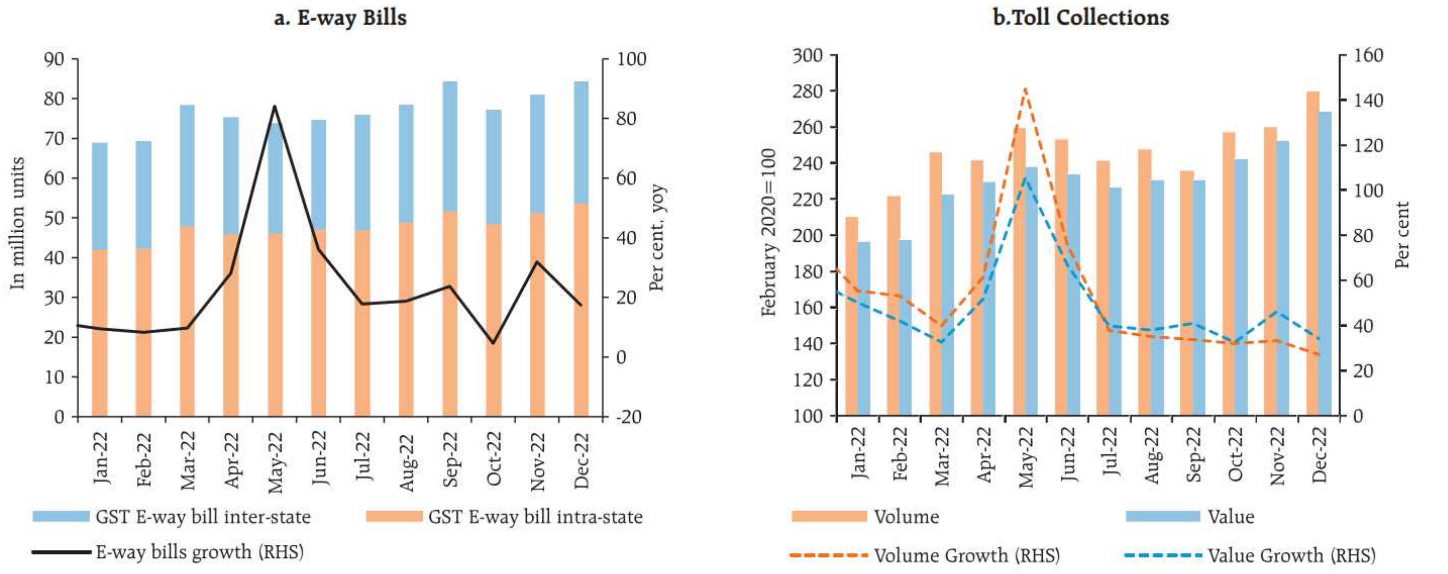
Source: RBI staff estimates

Fig 4: Economic Activity Index

Source: RBI staff estimates

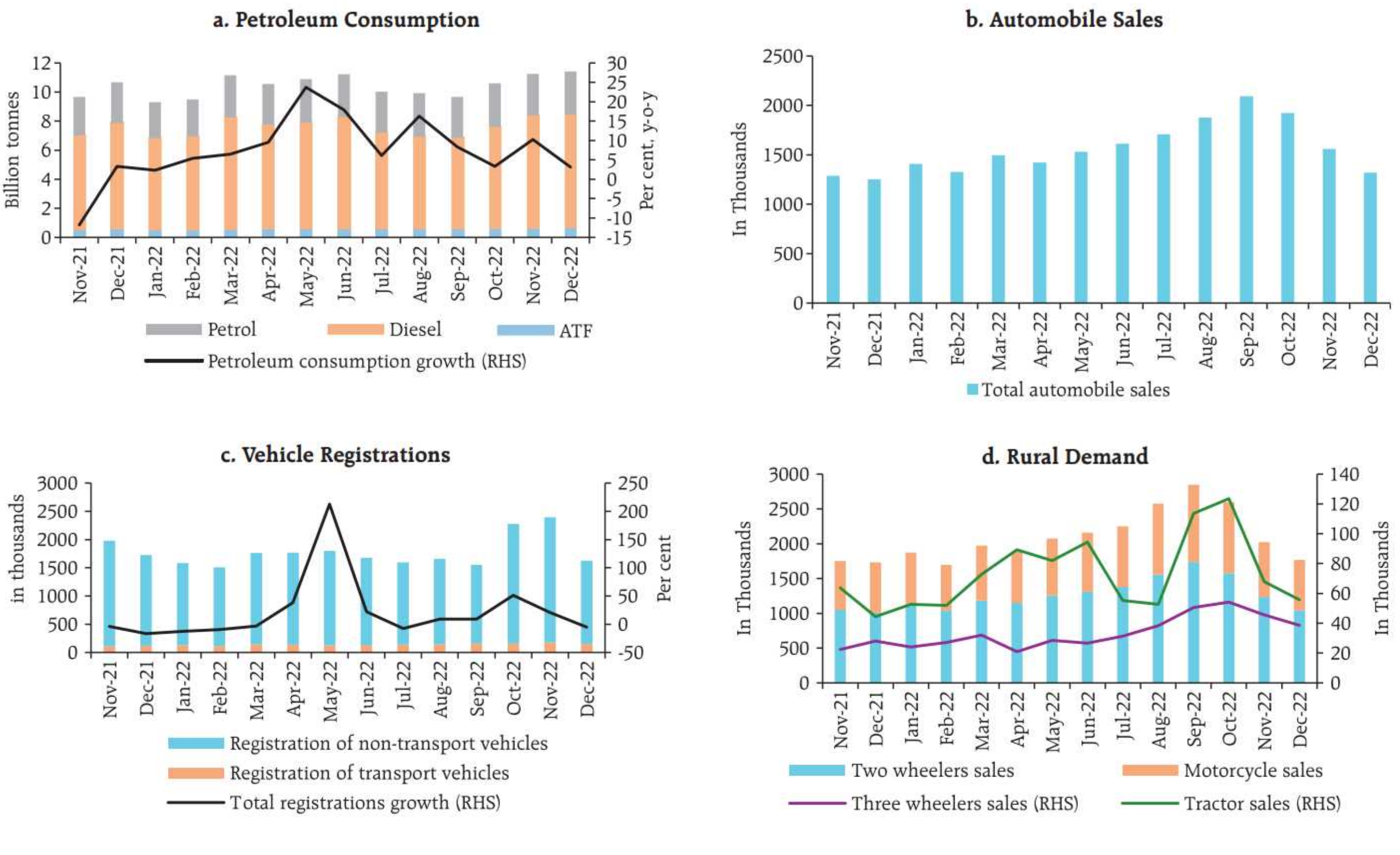
In recent developments, E-way bill volumes reflected sustained growth in underlying economic activity, breaching the 80 million mark in December for the second consecutive month. This was led by an increase in the movement of goods within States. Toll collections strengthened both in volume and value terms, recording a high of 4,939.8 crore in December 2022. Lead indicators for the transport sector, however, paint a mixed picture. Fuel consumption rose in December, with petrol and diesel consumption remaining elevated, aided by agricultural demand from rabi sowing. Sales of automobiles recorded a sequential drop, in spite of strong demand for sports utility vehicles (SUVs) and mid-segment cars. Vehicle registrations declined for both transport and non-transport vehicles as pentup demand lost steam. Even though the festival season brought some respite, sales of two wheelers, three wheelers, motorcycles and tractors remained muted due to weak rural demand.

Fig 5: E-way Bills & Toll Collection



Source: GSTN; RBI; and RBI staff estimates

Fig 6: Auto Mobile Sector Indicators



Sources: ISIAM, TMA and RBI staff estimates

Prevailing surplus liquidity conditions were interrupted by outflows in the banking system via payments under goods and services tax (GST) and quarterly advance tax, before increased government spending towards the end of the month helped ease the strain. Refl ecting these developments, average daily absorption under the liquidity adjustment facility (LAF) narrowed to 1.5 lakh crore during December 12 through January 15, 2023 from 1.9 lakh crore during mid-November through December 11, 2022. The overnight standing deposit facility (SDF) absorbed 1.3 lakh crore, while variable rate reverse repo (VRRR) auctions accounted for the rest.

Declining surplus liquidity prompted a few banks to take recourse to the marginal standing facility (MSF), which rose to 33,224 crore on December 30, the highest in nearly two months. On a net basis (adjusted for repo and MSF), average absorption declined to 0.6 lakh crore during the period under review from 1.0 lakh crore in the preceding period. Reflecting the tightness in liquidity conditions, the fortnightly variable reverse repo rate (VRRR) auction fetched a lower amount of 13,453 crore on December 16 and 27,084 crore for the fortnight beginning December 30, 2022.

In the primary market, fund mobilisation through CD issuances has been robust at 4.9 lakh crore during the year so far (up to December 30), considerably higher than 0.9 lakh crore for the corresponding period last year. This reflects banks' additional demand for funds to bridge the funding gap between buoyant credit off take and modest deposit growth. Furthermore, banks also raised funds through bond issuances, which surged to 0.9 lakh crore in the first nine months of 2022-23, as against 0.7 lakh crore during 2021-22. On the other hand, CP issuances have declined to 10.5 lakh crore during the year so far (up to December 31) from 16.2 lakh crore for the corresponding period a year ago, as the appetite for bank credit improved.

In the fixed income market, the yield on the 10- year G-sec benchmark gradually firmed up in tandem with rising US treasury yields, which surged after Japan unexpectedly raised its cap on 10-year Japanese government bond yields, triggering a sell-off in global bond markets. The yield on the 10-year G-sec benchmark hardened from a low of 7.22% at the close on December 14 to 7.3% on January 13, 2023.

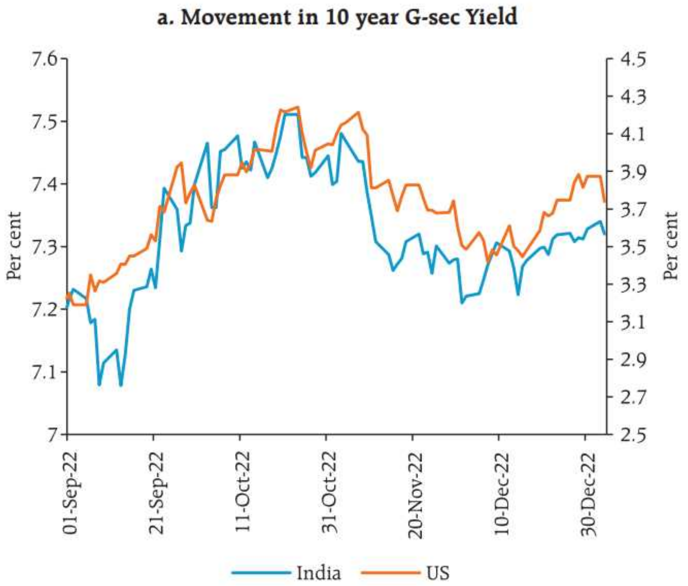
Across the term structure, G-sec yields moderated sharply at the short-end of the yield curve, which is indicative of lower rate hike expectations. While long-term yields are more influenced by global factors during the current policy tightening cycle, domestic policy measures seem to have a larger bearing on short-term rates. Corporate bond yields and spreads remained stable across the rating spectrum.

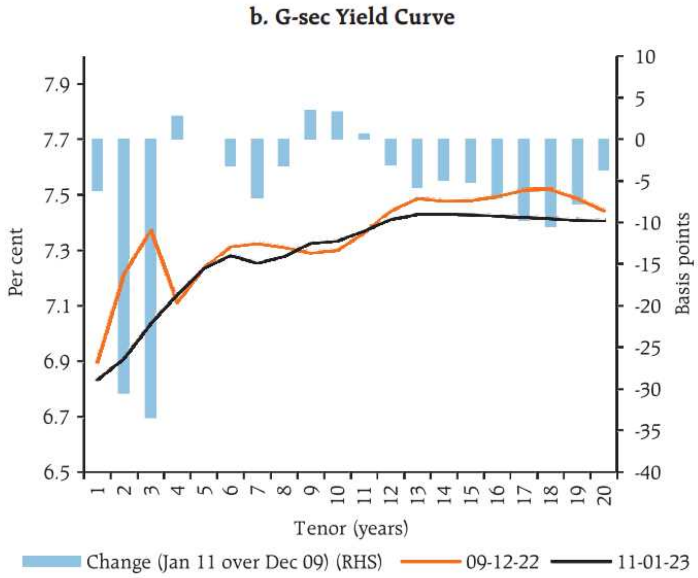
Reserve money (RM) excluding the first-round impact of change in cash reserve ratio (CRR) increased by 9.3% on a YoY basis as on January 6, 2023 (7.7% a year ago). Currency in circulation (CiC) – the largest component of RM – recorded a growth of 7.9% same as a year ago. Money supply (M3) grew by 8.7% as on December 30, 2022 (9.9% a year ago), primarily driven by its largest component – aggregate deposits with banks – which grew by 8.7% (10.3% a year ago). Scheduled commercial banks' (SCBs') credit, which has registered double digit growth since April 2022, stood at 14.9% on December 30, 2022 (9.3% a year ago).

Non-food credit growth has been broad-based across sectors, led by retail loans and loans to the services sector. Credit to agriculture and allied activities grew sequentially, aided by a higher agriculture lending target and the priority sector push.

Industrial credit outstanding rose to `32.9 lakh crore in November 2022 as against the pre-Covid level of `28.7 lakh crore in February 2020. Micro, small, and medium enterprises' (MSMEs) share in industrial credit increased to 23.7% from 17.7% during the period. This also benefi tted from the policy focus on MSME lending in the wake of the pandemic. Large industries credit off take posted a turnaround with positive momentum. Among sectors, metal products and construction were the key drivers. Contribution to momentum by the services sector has been strong during the current financial year, boosted by non-banking financial companies (NBFCs).

Fig 7: Developments in the G-sec Market





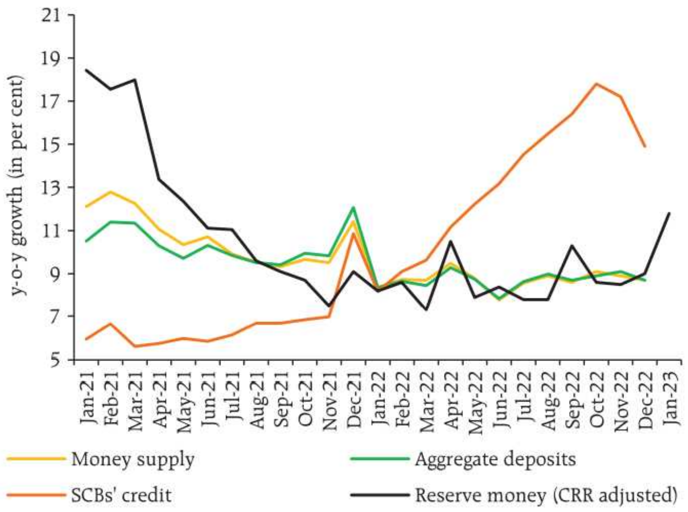
Source: Bloomberg; CCIL; and RBI staff estimates.

Fig 8: Financial Markets - Rates and Spread

Instrument	Interest Rates (per cent)			Spread (bps) (Over Corresponding Risk-free Rate)		
	Nov 15 – Dec 12, 2022	Dec 13, 2022 – Jan 10, 2023	Variation (in bps)	Nov 15 – Dec 12, 2022	Dec 13, 2022 – Jan 10, 2023	Variation (in bps)
1	2	3	(4 = 3-2)	5	6	(7 = 6-5)
Corporate Bonds						
(i) AAA (1-year)	7.82	7.88	6	88	91	3
(ii) AAA (3-year)	7.69	7.77	8	43	57	14
(iii) AAA (5-year)	7.78	7.77	-1	48	40	-8
(iv) AA (3-year)	8.40	8.48	8	115	129	14
(v) BBB-(3-year)	12.06	12.14	8	481	494	13

Source: Bloomberg

Fig 9: Monetary and Credit Aggregates



Note: 1. Data pertain to last reporting Friday of every month for money supply, aggregate deposits, and bank credit; and last Friday of every month for reserve money.
2. Latest data for reserve money pertain to January 06, 2023; whereas for money supply as on December 30, 2022.

Source: RBI

Overall, the Indian equity market outperformed most global peers during 2022, on the back of sustained support from domestic institutional investors (DIIs). It has been found that in the recent period the sensitivity of equity returns in India to FPI flows has declined.

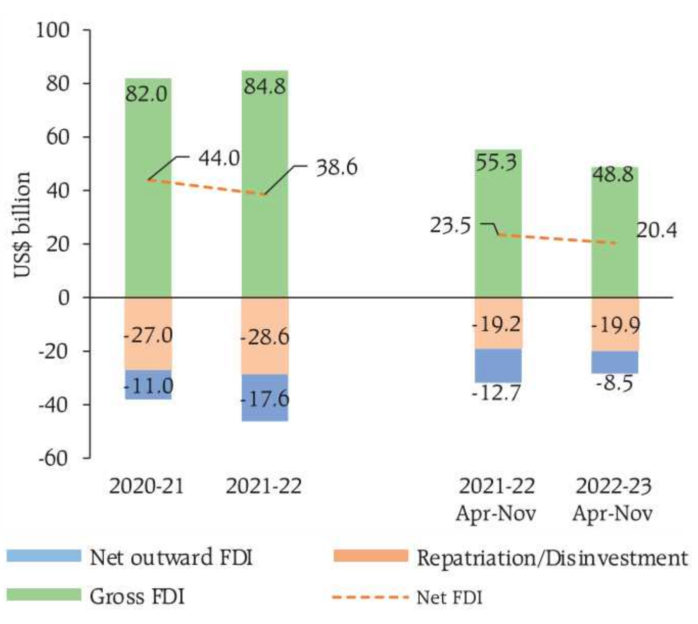
In the beginning of January 2023, Indian equities were volatile ahead of the release of the US FOMC minutes. The benchmark indices bounced back, subsequently, taking positive cues from global market expectations of slower policy rate hikes in the US. The gains could not be sustained, however, and the BSE Sensex and Nifty 50 declined by 1.2 per cent each during January 2023 so far to close at 60,093 and 17,895, respectively, on January 16, 2023.

Gross inward foreign direct investment (FDI) moderated to US$ 48.8 billion during April-November 2022 from US$ 55.3 billion a year ago. The majority of FDI equity inflows was received by manufacturing, computer services, financial services, retail and wholesale trade and communication services. Singapore, Mauritius, and the US were the major source countries of FDI during this period. Net FDI decreased to US$ 20.4 billion during this period from US$ 23.5 billion a year ago, mainly due to a moderation in gross FDI flows and an increase in repatriation of FDI.

FPIs turned net sellers in domestic financial markets in December 2022, with net outflows to the tune of US$ 0.6 billion in that month alone, equally distributed between equity and debt segments. Within equity, outflows were reported in information technology (IT), oil, gas and consumable fuels, and power sector stocks whereas fast-moving consumer goods, consumer services and realty sectors attracted fresh investments. In January 2023 (up to 13th), net sales by FPIs were to the tune of US$ 1.9 billion.

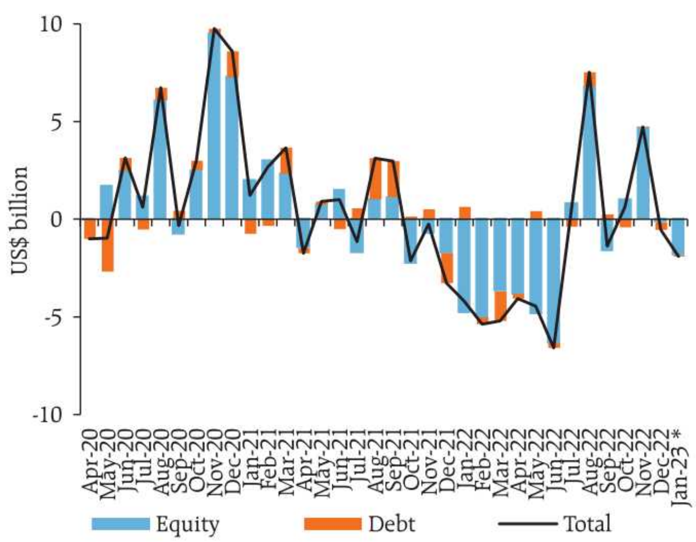
Gross disbursements of external commercial borrowings (ECBs) to India at US$ 13.4 billion during April-November 2022 moderated from US$ 17.0 billion a year ago. On a net basis, ECBs recorded outflows of US$ 2.9 billion as against net disbursement of US$ 6.2 billion in the previous year. The share of ECB used for new projects and import of capital goods increased during 2022-23 so far as compared to the previous year. During November 2022, ECBs were mainly raised for local sourcing of capital goods, import of capital goods and new projects.

Fig 10: Foreign Direct Investment



Sources: RBI

Fig 11: Net Foreign Portfolio Investment

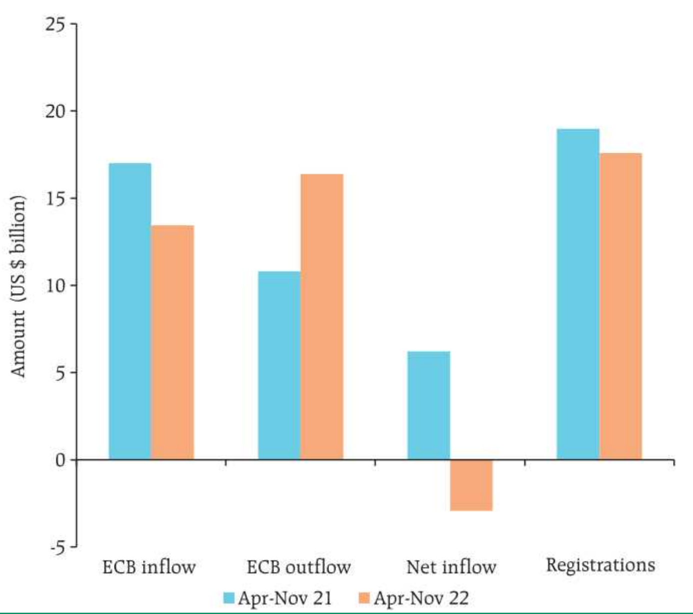


*: Up to January 13, 2023.

Note: Debt includes investments under voluntary retention route (VRR) and hybrid instruments.

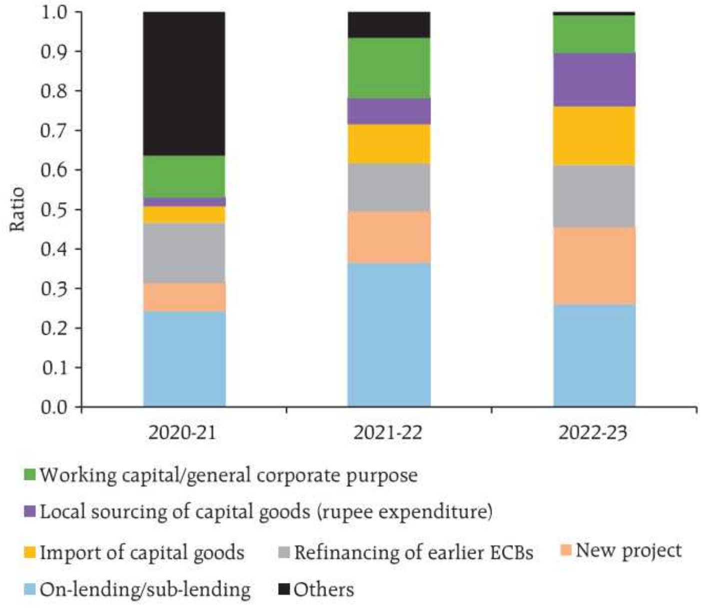
Sources: National Securities Depository Limited

Fig 12: ECB - Registration, Inflow and Outflow



Source: RBI

Fig 13: End –use of the registered ECBs (April-November)



Source: National Securities Depository Limited

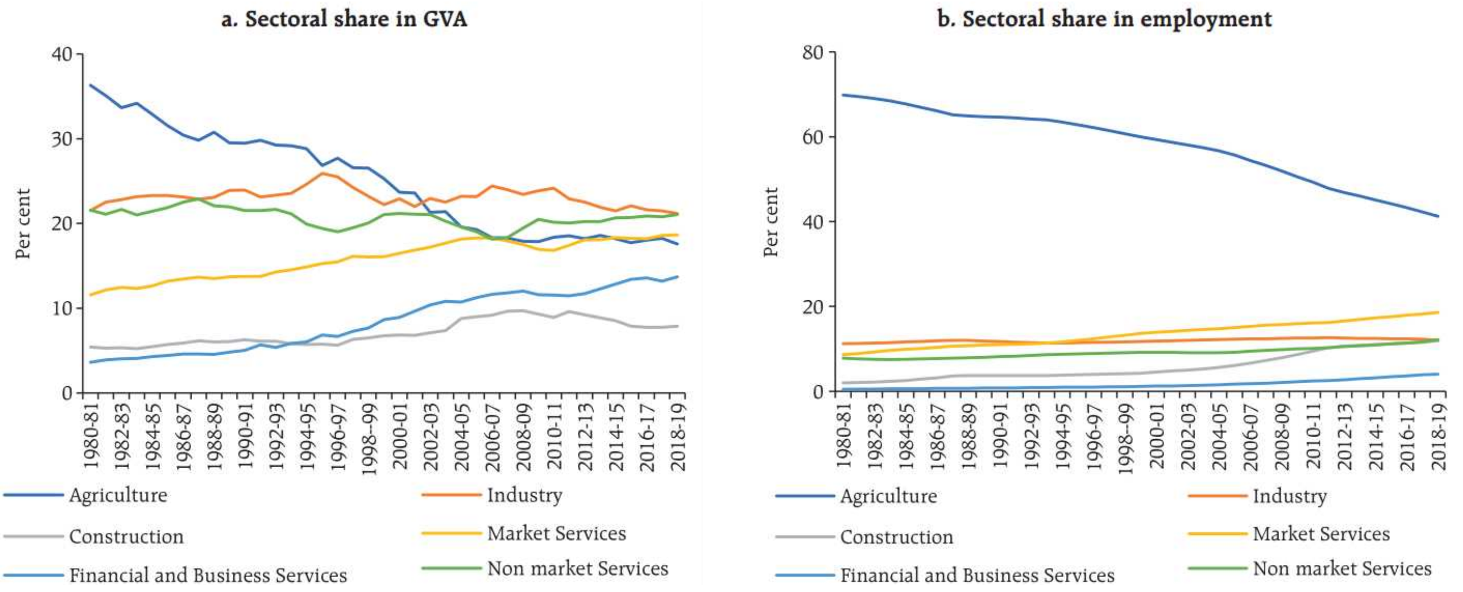
Productivity Growth in India:

India is characterized by large productivity gaps across sectors. From 2011 to 2019, agriculture TFP grew at 2.8% per annum, whereas within the manufacturing sector, industries like textiles, nonmetallic mineral products and transport equipment witnessed more than 4% TFP growth during the same period. Market services, on the other hand, witnessed lower productivity growth than non-market services from 2011 to 20191 . The large productivity differentials are indicative of allocative inefficiencies between the sectors. If these allocative inefficiencies are improved, then it could be a potential engine of growth and GDP can be increased by shifting resources from low to high-productive sectors.

Share of agriculture in total GVA has declined from 36.3% in the 1980s to 18.6% during 2018-19. The fall in agriculture share is associated with a rapid increase in output in services sectors, especially market services and finance & business services. The share of industry in GVA remains stagnated. In terms of employment, the share of the agriculture sector has also decreased from 69.4% in the 1980s to 41.3% during 2018-19. Till now, the agriculture sector remains the largest employment-generating sector for the Indian economy. The decline in the employment share of the agricultural sector has not been reflected in the equivalent rise of that in the industrial share. The stagnancy of employment in the industry was associated with a rapid increase in construction sector jobs from 2% in the 1980s to 12% in 2018-19. Employment share in the business and financial services increased from 0.5% in 1980 to 4% in 2018-19. In other market services like trade, hotel restaurants, transport and storage employment share increased from 8.6% in 1980 to 18.6% in 2018-19. Services in 2018- 19 accounted for more than 50% of value-added and one-third of employment share in India.

In terms of the productivity gap across sectors, it is observed that agricultural labour productivity in 2017-18 has been 0.67 times lower than the overall labour productivity of the economy. However, labour productivity in mining is observed to be higher due to higher capital intensity in the sector. Other sectors, where sectoral productivity is higher than the national average, include manufacturing, financial and business services and utilities. It is worth mentioning that the labour productivity in the financial and business services sectors is 5.5 times higher than the average labour productivity of the economy, whereas labour productivity in manufacturing is only 58 per cent higher than the average labour productivity. This indicates that there exists a large productivity differential across sectors.

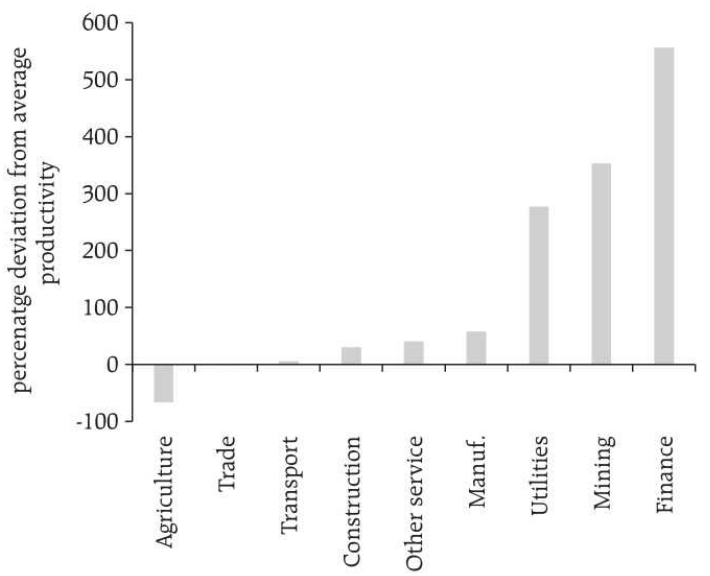
Fig 14: Sectoral Share in GVA and Employment



Source: RBI

The income distribution across sectors shows that the average labour income share in construction is 40% higher than in the agriculture sector. In fact, the construction sector is considered to be a low-skill intensive sector and therefore, the sector provides an easy channel for agriculture workers to relocate. Migration from the agriculture sector to construction takes place due to higher wages in the latter with the same level of skill formation of the labourers. On the other hand, as industry is capital intensive in nature, the labour income share in the industry is much lower than the economy-level wage share.

Fig 15: Labour Productivity Gaps across Sectors in India



Source: RBI

Fig 16: Relative Labour and Capital Income Share in Sectors

Sectors	2001-10	2011-19	2001 -10	2011 - 19
Total Economy	100	100	100	100
	Relative labour income share		*Relative capital income share*	
Agriculture	132	126.8	77.1	79.4
Industry	76.8	76.4	116.6	118.2
Construction	185	176.4	39.3	41.2
Market Services	101.6	105.9	98.8	95.5
Nonmarket services	156.9	157.2	59.3	55.9

Source: RBI

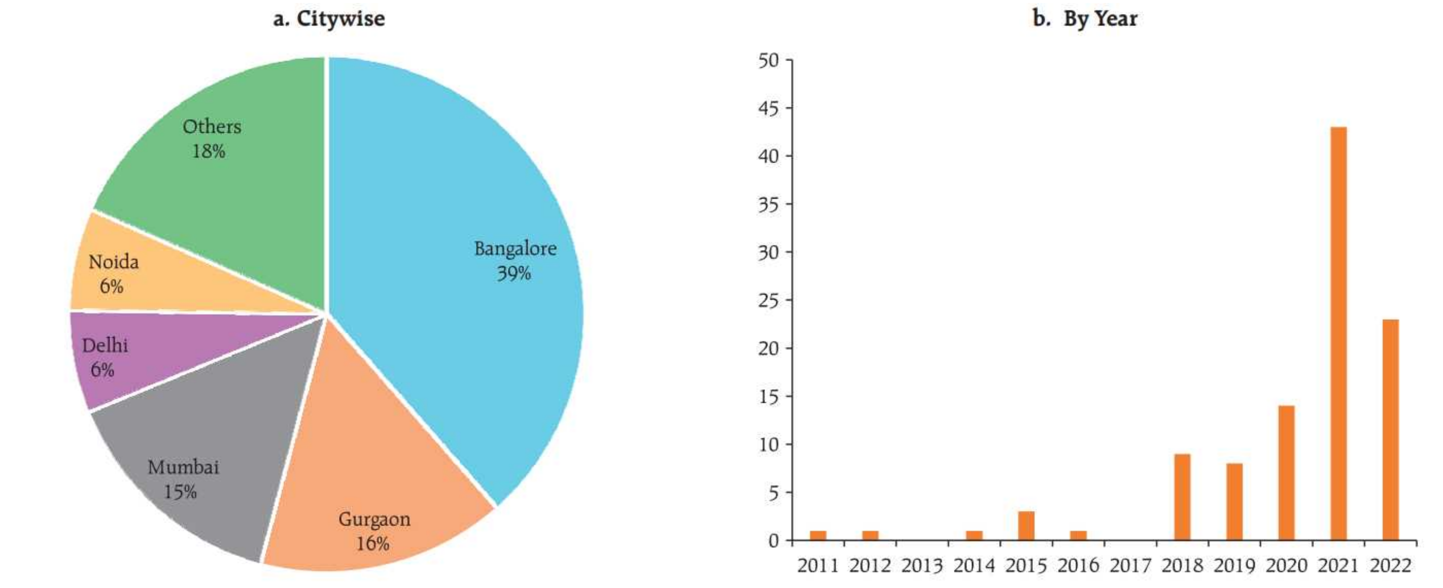
What Drives Startup Fundraising in India?

Over the past decade, startup culture has found its way into various facets of Indian economy in an unprecedented manner. There are 87,988 startups recognised by the Department for Promotion of Industry and Internal Trade (DPIIT)1 , making India the third largest startup ecosystem in the world.

A fast-paced expansion has been the defining feature of India's startup space in the post-pandemic era with 107 unicorns as of September 2022, with an aggregate valuation of US$341 billion. Bangalore, Gurgaon, and Mumbai are the top three cities with the highest number of unicorns in India. FinTech (driven by the regulatory and governmental push to digital payments along with inception of services like digital brokerages, insurance, and robo-advisory services), Software-as-a Service (by the virtue of India's historical dominance in providing backend IT support) and e-commerce (due to the lockdown) startups are the most abundant in the unicorn club.

2021 was a crucial year for the unicorn landscape in India. The average time taken to become a unicorn dropped to 7.8 years from 9.9 years a year ago. Additionally, many of the new entrants to the unicorn club in 2021 were from non-traditional areas (cloud kitchens, gaming, data management and analytics, and content). Rising membership of the unicorn club post-pandemic was driven by the shift to digitalisation that permeated across regions, sectors, and socioeconomic classes and by the abundant liquidity created across the globe by accommodative monetary policy. This led to investors ploughing their money in these emerging businesses for better returns.

Fig 17: Unicorns Created in India



Source: Tracxn accessed on January 11, 2023

The vibrant activity in the startup ecosystem is a manifestation of the country's young spirit. The average age of startup founders was reported to be 32 with around 14% having at least one female founder. According to the DPIIT, startups have proved to be major employment providers in recent years with more than 7.67 lakh jobs created by 72,993 startups as of 30th June 2022. Startup dynamism is pervasive across sectors including IT services (12%), healthcare and life sciences (9%), education (7%), professional and commercial services (5%) and agriculture (5%).

Open Market Operations in India:

Open market operation (OMO) is the process by which the central bank purchases (sells) government securities (G-secs) or other financial assets from (to) banks and financial institutions. In a modern market based financial system, central banks use OMOs as one of the tools for implementing monetary policy. Generally, OMOs are conducted to adjust the supply of primary liquidity (base money) in an economy, thus influencing total money stock. The advantage of OMOs is that they can be flexibly used by the central bank and are easily reversible, thus considerably reducing the lags of monetary policy. Moreover, OMOs fi t seamlessly into all monetary policy frameworks spanning inflation targeting, monetary targeting, currency boards, and exchange rate targeting.

In the Indian context, OMOs emerged as a key instrument with the progressive liberalisation of the economy and reforms in the G-sec market viz., the introduction of auctions and the shift towards market-based pricing of G-secs. In this regard, OMOs – both outright and reversible transactions – were conducted frequently, particularly with the introduction of the liquidity adjustment facility (LAF) in June 2000. Against the backdrop of India's increasing integration with global financial markets, OMOs gained additional prominence in sterilising the liquidity impact of large capital inflows, which surged on account of search for yields and policy spillovers from AE central banks. Moreover, OMOs were also used to calibrate systemic liquidity1 in sync with the monetary policy stance and were used extensively to inject durable liquidity2 when systemic liquidity was in deficit. Thus, OMOs gradually supplanted the cash reserve ratio (CRR) as a flexible tool for management of durable liquidity. Furthermore, OMOs can assuage market sentiments and facilitate the orderly evolution of the yield curve, which is deemed as a public good (RBI, 2020). This objective was, for example, met through the (i) introduction in December 2019 of special OMOs – the simultaneous purchase and sale of G-secs – commonly referred as operation twist (OT); and (ii) the announcement of the secondary market government securities acquisition programme (G-SAP) in April 2021.

When the GFC flared up in 2008, the RBI, inter alia, undertook large scale OMO purchases to offset capital outflows triggered by financial market panic and "flight to safety". The RBI issued an indicative calendar for OMOs in 2009-10 to address the liquidity requirements of the economy. During the last decade, RBI conducted two-way OMOs extensively to inject (absorb) durable liquidity.

Fig 18: Open Market Operations

(₹ crore)

	Auction			NDS-OM			Total		
	Purchase	Sale	Net Purchase	Purchase	Sale	Net Purchase	Purchase	Sale	Net Purchase
2013-14	54,535	2,532	52,003	44	45	-1	54,579	2,577	52,002
2014-15	0	29,268	-29,268	10	34,160	-34,150	10	63,428	-63,418
2015-16	71,409	8,270	63,139	16,715	27,530	-10,815	88,124	35,800	52,324
2016-17	1,10,014	0	1,10,014	500	20	480	1,10,514	20	1,10,494
2017-18	0	90,000	-90,000	1,235	10	1,225	1,235	90,010	-88,775
2018-19	2,98,502	0	2,98,502	780	50	730	2,99,282	50	2,99,232
2019-20*	1,32,500	28,276	1,04,224	13,190	3,845	9,345	1,45,690	32,121	1,13,569
2020-21*	3,02,132	1,90,545	1,11,587	2,05,588	3,880	2,01,708	5,07,720	1,94,425	3,13,295
2021-22**	2,30,000	40,000	1,90,000	48,061	24,085	23,976	2,78,061	64,085	2,13,976

*: Includes OT.
**: Includes OT and purchases under G-SAP.

Source: RBI

With a view to improving monetary policy transmission and enabling a stable and orderly evolution of the yield curve, the RBI implemented G-SAP during April-September 2021. Under the G-SAP, an upfront commitment was provided on the size of G-sec purchases. As in regular OMOs, G-SAP was confined to the purchase of G-secs from the secondary market. During Q1, three auctions were conducted under G-SAP 1.0 with purchases – including SDLs – amounting to `1.0 lakh crore. Under G-SAP 2.0, six auctions were conducted in Q2 aggregating to `1.2 lakh crore, of which the last two auctions were liquidity neutral. Overall, net OMO purchases (net of sales) injected liquidity of `2.1 lakh crore during 2021-22, including `1.9 lakh crore through G-SAP. Under the G-SAP, both on the run (liquid) and off the run (illiquid) securities were purchased across the maturity spectrum. About two-thirds of the purchases were made in the mid-segment of the yield curve, thereby imparting liquidity to these maturities.

Fig 19: Purchases under the G-SAP

(Amount in ₹ crore)

	Announcement Date	Auction Date	Settlement Date	Amount Notified	Amount of Bids Received	Amount Accepted	Bid-Cover Ratio
G-SAP 1.0	08-04-2021	15-04-2021	16-04-2021	25,000	1,01,671	25,000	4.1
G-SAP 1.0	05-05-2021	20-05-2021	21-05-2021	35,000	1,21,696	35,000	3.5
G-SAP 1.0	04-06-2021	17-06-2021	18-06-2021	40,000	1,36,829	40,000	3.4
G-SAP 2.0	05-07-2021	08-07-2021	09-07-2021	20,000	80,835	20,000	4.0
G-SAP 2.0	15-07-2021	22-07-2021	23-07-2021	20,000	49,803	20,000	2.5
G-SAP 2.0	06-08-2021	12-08-2021	13-08-2021	25,000	1,02,289	25,000	4.1
G-SAP 2.0	18-08-2021	26-08-2021	27-08-2021	25,000	72,822	25,000	2.9
G-SAP 2.0#	20-09-2021	23-09-2021	24-09-2021	15,000	78,841	15,000	5.3
G-SAP 2.0#	23-09-2021	30-09-2021	01-10-2021	15,000	77,560	15,000	5.2
Total				**2,20,000**	**8,22,346**	**2,20,000**	**3.7**

#: These auctions were liquidity neutral as they were accompanied by a simultaneous sale of G-secs worth an equal amount.

Source: RBI

All OMOs have a bearing on the balance sheet of the central bank, altering either its size or composition. The following discussion illustrates how these operations impact the balance sheet of the RBI and hence base (reserve) money . The liquidity injection operations of the RBI against the collateral of G-secs leads to an expansion in its balance sheet and reserve money. These operations qualify as loans to banks and the corresponding liability (first step) is the increase in banks' deposits with the RBI10. On the other hand, standing deposit facility (SDF) and collateral based liquidity absorption measures11 are treated as deposit of funds and only entail a transfer from banks' deposits to accounts earmarked for absorption operations. Therefore, the size of the balance sheet remains unchanged as the adjustment is within liabilities in the balance sheet. By its very design, liquidity injection by the RBI creates reserve money and absorption extinguishes it.

When the RBI undertakes a collateralized lending operation, the loans to banks will increase by the amount injected through repo, variable rate repo or the long term repo operation, while the money would be credited into the deposit accounts of the participating banks with the RBI.

Some Important Domestic Statistics:

Fig 20: Deployment of Gross Bank Credit by Major Sectors

(₹ Crore)

Sector	Outstanding as on				Growth (%)	
	Mar.25, 2022	2021	2022		Financial year so far	Y-o-Y
		Nov.19	Oct.21	Nov.18	2022-23	2022
	1	2	3	4	%	%
I. Bank Credit (II+III)	**11891314**	**11162193**	**12889117**	**12947735**	**8.9**	**17.2**
II. Food Credit	**55011**	**82415**	**25655**	**52240**	**-5.0**	**-36.6**
III. Non-food Credit	**11836304**	**11079778**	**12863462**	**12895495**	**8.9**	**17.6**
1. Agriculture & Allied Activities	**1461719**	**1402221**	**1590138**	**1595185**	**9.1**	**13.8**
2. Industry (Micro and Small, Medium and Large)	**3156067**	**2913713**	**3290584**	**3294514**	**4.4**	**13.1**
2.1 Micro and Small	532792	465058	551961	556127	4.4	19.6
2.2 Medium	213996	173181	221072	224624	5.0	29.7
2.3 Large	2409279	2275474	2517551	2513763	4.3	10.5
3. Services	**3017258**	**2733821**	**3321383**	**3315747**	**9.9**	**21.3**
3.1 Transport Operators	155352	145451	160819	161037	3.7	10.7
3.2 Computer Software	20899	19827	22337	21210	1.5	7.0
3.3 Tourism, Hotels & Restaurants	64378	62223	63753	65092	1.1	4.6
3.4 Shipping	8436	7825	8690	7206	-14.6	-7.9
3.5 Aviation	23979	26773	23955	24445	1.9	-8.7
3.6 Professional Services	116742	111138	124531	124321	6.5	11.9
3.7 Trade	696301	632601	746578	733730	5.4	16.0
3.7.1 Wholesale Trade	351213	320889	372358	353789	0.7	10.3
3.7.2 Retail Trade	345088	311712	374220	379941	10.1	21.9
3.8 Commercial Real Estate	291168	283775	305139	304276	4.5	7.2
3.9 Non-Banking Financial Companies (NBFCs)[1] *of which,*	1022399	916662	1255742	1218791	19.2	33.0
3.9.1 Housing Finance Companies (HFCs)	282048	264887	305430	307661	9.1	16.1
3.9.2 Public Financial Institutions (PFIs)	137084	94720	168466	178024	29.9	87.9
3.10 Other Services [2]	617603	527544	609839	655639	6.2	24.3
4. Personal Loans	**3381699**	**3174145**	**3770285**	**3800330**	**12.4**	**19.7**
4.1 Consumer Durables	27628	23581	34727	35658	29.1	51.2
4.2 Housing	1684424	1587475	1825900	1843862	9.5	16.2
4.3 Advances against Fixed Deposits	78730	70558	98302	96188	22.2	36.3
4.4 Advances to Individuals against share & bonds	6161	5807	6806	6758	9.7	16.4
4.5 Credit Card Outstanding	147789	138688	179178	173424	17.3	25.0
4.6 Education	82723	80631	90410	91069	10.1	12.9
4.7 Vehicle Loans	402689	382221	461375	468088	16.2	22.5
4.8 Loan against gold jewellery	73942	71174	83620	83755	13.3	17.7
4.9 Other Personal Loans	877613	814008	989967	1001529	14.1	23.0
5. Priority Sector (Memo)						
(i) Agriculture & Allied Activities [3]	1484923	1414893	1623409	1631458	9.9	15.3
(ii) Micro & Small Enterprises [4]	1377848	1241000	1430352	1457114	5.8	17.4
(iii) Medium Enterprises [5]	351900	283769	369542	369403	5.0	30.2
(iv) Housing	616814	580962	631708	613395	-0.6	5.6
(v) Education Loans	58118	59354	59415	58887	1.3	-0.8
(vi) Renewable Energy	3538	1961	4191	4177	18.1	113.0
(vii) Social Infrastructure	2483	2787	2402	2394	-3.6	-14.1
(viii) Export Credit	23621	22466	16909	15506	-34.4	-31.0
(ix) Others	37159	38725	43969	50219	35.1	29.7
(x) Weaker Sections including net PSLC- SF/MF	1180928	1097232	1337739	1361042	15.3	24.0

Source: RBI

Some Important Domestic Statistics:

Fig 21: Industry-wise Deployment of Gross Bank Credit

(₹ Crore)

Industry	Outstanding as on				Growth (%)	
	Mar. 25, 2022	2021	2022		Financial year so far	Y-o-Y
		Nov. 19	Oct.21	Nov. 18	2022-23	2022
	1	2	3	4	%	%
2 Industries (2.1 to 2.19)	3156067	2913713	3290584	3294514	4.4	13.1
2.1 Mining & Quarrying (incl. Coal)	49135	49229	51904	52338	6.5	6.3
2.2 Food Processing	173246	148117	157632	159064	–8.2	7.4
2.2.1 Sugar	26307	17388	17878	16868	–35.9	–3.0
2.2.2 Edible Oils & Vanaspati	18246	15964	15581	16710	–8.4	4.7
2.2.3 Tea	5728	5784	6124	5985	4.5	3.5
2.2.4 Others	122965	108981	118049	119501	–2.8	9.7
2.3 Beverage & Tobacco	18176	16123	19403	20057	10.3	24.4
2.4 Textiles	224026	205449	213205	211566	–5.6	3.0
2.4.1 Cotton Textiles	90384	81286	81801	81723	–9.6	0.5
2.4.2 Jute Textiles	3509	2668	3698	3731	6.3	39.8
2.4.3 Man-Made Textiles	38371	37036	39173	38689	0.8	4.5
2.4.4 Other Textiles	91761	84460	88533	87423	–4.7	3.5
2.5 Leather & Leather Products	11573	10684	11556	11311	–2.3	5.9
2.6 Wood & Wood Products	16294	15264	17587	17697	8.6	15.9
2.7 Paper & Paper Products	40565	38991	41959	41565	2.5	6.6
2.8 Petroleum, Coal Products & Nuclear Fuels	107333	89814	157974	148211	38.1	65.0
2.9 Chemicals & Chemical Products	196363	181288	222461	215902	10.0	19.1
2.9.1 Fertiliser	33160	29611	36990	33894	2.2	14.5
2.9.2 Drugs & Pharmaceuticals	61093	55363	66725	65792	7.7	18.8
2.9.3 Petro Chemicals	19622	23460	21986	23121	17.8	–1.4
2.9.4 Others	82486	72853	96761	93095	12.9	27.8
2.10 Rubber, Plastic & their Products	72013	64140	76543	75954	5.5	18.4
2.11 Glass & Glassware	5952	5951	6547	6607	11.0	11.0
2.12 Cement & Cement Products	47910	46424	51558	51177	6.8	10.2
2.13 Basic Metal & Metal Product	288531	270026	310563	311249	7.9	15.3
2.13.1 Iron & Steel	187584	179249	210102	211112	12.5	17.8
2.13.2 Other Metal & Metal Product	100946	90777	100460	100137	–0.8	10.3
2.14 All Engineering	167966	153056	172239	170101	1.3	11.1
2.14.1 Electronics	38179	36880	40596	40027	4.8	8.5
2.14.2 Others	129787	116176	131643	130074	0.2	12.0
2.15 Vehicles, Vehicle Parts & Transport Equipment	89896	85899	94684	93061	3.5	8.3
2.16 Gems & Jewellery	80512	74654	77970	73749	–8.4	–1.2
2.17 Construction	117724	116147	118452	118548	0.7	2.1
2.18 Infrastructure	1195027	1117467	1238260	1234559	3.3	10.5
2.18.1 Power	611410	579586	628330	624479	2.1	7.7
2.18.2 Telecommunications	130318	104851	131426	128906	–1.1	22.9
2.18.3 Roads	270395	249601	279031	283074	4.7	13.4
2.18.4 Airports	6646	7574	8987	9072	36.5	19.8
2.18.5 Ports	8886	9728	8360	8188	–7.9	–15.8
2.18.6 Railways	10512	13818	11844	11290	7.4	–18.3
2.18.7 Other Infrastructure	156860	152309	170283	169550	8.1	11.3
2.19 Other Industries	253823	224989	250088	281798	11.0	25.2

Source: RBI

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Contact us:
SMIFS Limited. (https://www.smifs.com/)

Compliance Officer:
Sudipto Datta
5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.
Contact No.: +91 33 4011 5414, +91 33 6634 5414
Email Id: compliance@smifs.com

Mumbai Office:
206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India
Contact No: (D) +91 22 4200 5508, (B) +91 22 4200 5500
Email Id: institutional.equities@smifs.com

Kolkata Office:
Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.
Contact No: (D) +91 33 6634 5408, (B) +91 33 4011 5400
Email Id: smifs.institutional@smifs.com