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INDIA

Economy

Weekly wrap-up, 19 – 23 April 2021

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Key takeaways from RBI Weekly Statistical Supplement

RBI's balance sheet stands at Rs 58trn

- On 16 Apr 2021, the RBI's balance sheet stood at Rs 57.97trn, up 12% from Rs 51.3trn on 17 April 2021. In absolute terms, the increase in balance sheet was Rs 6.3trn.
- From the liabilities side, 'Notes in Circulation' increased by Rs 3.9trn while 'Deposits of Scheduled Commercial Banks' increased by Rs 1.23trn and 'Other Deposits' increased by Rs 1.12trn.
- From the assets side, 'Foreign Currency Assets' increased by Rs 6.45trn while 'Rupee Securities' increased by Rs 2.8trn. Loans and Advances to central government and scheduled commercial banks collectively declined by Rs 3.2trn.

Reserve Money grows 18% y/y to Rs 35.5trn

- Reserve Money increased by 18% y/y during the week ended 16 Apr 2021 and 17 Apr 2020. In absolute terms, the increase in reserve money was Rs 5.3trn. On 16 Apr 2021, reserve money stood at Rs 35.5trn.
- From the sources side, 'Net foreign exchange assets' increased by Rs 6.5trn while RBI credit to banks and commercial sector declined by Rs 1.17trn.
- From the component side, increase in 'Currency in Circulation' amounted to ~Rs 3.9trn, followed by 'Bankers' Deposits with the RBI' (Rs 1.3trn).

Table 1: Reserve Money

	17th Apr 2020	16th April 2021
Components (INR mn)		
Reserve Money	3,01,60,597	3,54,73,365
Currency in Circulation	2,50,62,985	2,89,97,144
Bankers' Deposits with RBI	47,08,690	60,18,652
Others Deposits with RBI	3,88,922	4,57,569
Sources (INR mn)		
Reserve Money	3,01,60,597	3,54,73,365
Net RBI Credit to Government	1,21,19,950	1,21,48,654
RBI Credit to Banks and Commercial Sector	-42,69,250	-54,47,007
Net Foreign Exchange Assets of RBI	3,65,84,052	4,30,99,476
Government's Currency Liabilities to the Public	2,63,475	2,68,194
Net Non-monetary Liabilities of RBI	1,45,37,630	1,45,95,952

Source: RBI, I-Sec Research

Deposit growth at 11%; non-food credit growth falls to 5.4%

- As of 9 Apr 2021, aggregate deposits stood at Rs 152trn, up 10.9% YoY. On the other hand, non-food bank credit grew just 5.4% YoY to Rs 108trn.

Forex reserves at $582bn; LAF liquidity surplus at Rs 4.3trn

- Forex reserves for the week ended 16 Apr 2021 stood at $582bn, up 21% YoY.
- Daily average LAF liquidity surplus during the week (excluding bank holiday on 21 Apr) stood at Rs 4.3trn.

Key domestic developments during the week

- **MPC minutes throw light on shift to state-based guidance**

  The RBI released minutes of monetary policy review held during 5-7 April. While the review was largely a non-event, the MPC shifted to state-based forward guidance from time-based forward guidance. The minutes throw light on the reason behind the same. Firstly, some committee members felt time-based forward guidance had failed to flatten the yield curve. Secondly, forecasting economic variables has become more difficult in post Covid-19 world, making model forecasts less reliable. Hence, committee members felt shifting to state-based forward guidance will give them more flexibility to respond quickly to possible surprises.

- **EPFO adds 12.37 lakh net subscribers in the month of February, 2021**

  The provisional payroll data of EPFO shows an addition of 12.37 lakh net subscribers during the month of February, 2021. During the current financial year, EPFO has added around 69.58 lakh net subscribers despite COVID-19 pandemic. In Feb 2021, the net subscriber addition was 3.52% higher than Jan 2021 and 19.63% higher than Feb 2020. The growth may partly be attributed to various initiatives taken by EPFO for seamless and uninterrupted service delivery as well as policy support for formalization of the economy.

- **RBI allows banks to pay dividend for FY21**

  In a circular issued on 4 Dec 2020, the RBI had prohibited banks from declaring dividend for FY20 in order to ‘conserve capital to support the economy and absorb losses’ amidst the Covid-19 pandemic. However, it has now allowed banks to pay dividend for FY21 subject to certain guidelines.

- **RBI extends higher WMA limit for state governments till 30 Sep 2021**

  As per the workings of Advisory Committee on Ways and Means Advances (WMA) to state governments, the WMA limit based on states’ total expenditure comes to Rs 470bn. However, given the effect of Covid-19 pandemic is still prevalent, the RBI decided to extend the higher limit of Rs 515bn till 30 Sep 2021. The central bank will review the limit thereafter, depending on the course of the pandemic.

- **India’s cumulative vaccination coverage stands at 13.54 crore**

  On 21 April 2020, India’s cumulative vaccination coverage crossed 13 crore people. Out of this, 86% people have received only first dose while 14% people have received two doses. Out of the 13 crore, 40% are people above 60 years of age, 35% are between the ages 45 to 60, 13% are frontline workers and 12% are healthcare workers. Maharashtra accounts for ~1.36cr (or 10% of the vaccinated people) followed by Rajasthan (8.7%), Uttar Pradesh (8.4%), and Gujarat (8.2%).

- **Govt to distribute free food to 80cr NFSA beneficiaries at a cost of Rs 260bn**

  The government announced that it will distribute free food @5kg per person per month to nearly 80cr beneficiaries in May and June 2021. It will cost the government Rs 260bn and the cost will be borne by central government.

- **Rabi Marketing Season FY22: 186 LMT wheat, 707 LMT paddy procured**

  As of 22 April 2021, the government has procured 186.58 LMT of wheat benefitting 17,87,633 farmers with MSP value of Rs 36,849cr and 707.44 LMTs of paddy benefitting 105.96 lakh farmers with MSP value of Rs 1,33,566cr.

Interesting research published research during the week

- **IMF blog dissects rise in US treasury yields; says short-term yields rising due to higher inflation expectations while long-term yields rising due to growth outlook and uncertainty**

  An IMF blog titled 'Understanding the rise in long term rates' published on 22 April analysed the recent increase in US treasury yields. The research split 10-yr yield into two different time horizons: the 5-year yield, and what markets call the "5-year-5-year forward," covering the second half of the bond's 10-year maturity. It added that the recent increase in the 5-year yield has been driven by a steep rise in short-term breakeven inflation and the Fed's reiterated intention to maintain an accommodative monetary policy stance. By contrast, the increase in the 5-year-5-year forward is primarily due to a sharp rise in real yields, pointing to an improvement in growth outlook with longer-term breakeven inflation appearing well-anchored.

  Hence, the rise in the 5-year inflation breakeven reflects an increase in both expected inflation and inflation risk premia. Meanwhile, the sharp rise in the longer-term real yield is primarily due to a higher real risk premium. This points to greater uncertainty about the economic and fiscal outlook, as well as the outlook for asset purchases by the central bank, in addition to longer-term drivers such as demographics and productivity.

- **Chicago Fed research suggests Biden stimulus won't affect inflation much**

  A recent research by Chicago Fed analysed the impact of the $1.9trn American Rescue Plan (henceforth referred to as Biden stimulus) on inflation using four Phillips Curve models. Three of the four modes suggest that the impact of Biden stimulus on inflation is likely to be modest and short-lived. Also, the research added that the only one model which predicted the largest and most persistent impact on inflation reflected older dynamics which seem unlikely to re-emerge.

Key international developments during the week

- **ECB status quo on policy rate, asset purchases**

  The ECB policy review was largely on expected lines. The central bank left policy rates unchanged, kept the size of Pandemic Emergency Purchases Programme (PEPP) unchanged at €1.85trn which will remain operational at least until Mar 2022, and continued net purchases under asset purchase programme at a monthly pace of €20bn.

- **Eurozone's public debt rises sharply in 2020**

  Data released by Eurostat shows that aggregate debt in 19 countries using Euro increased to €11.1trn in 2020, up €1.24trn from the preceding year. The debt stands at 98% of GDP in 2020 up from 84% in 2019. Budget deficit also increased to 7.2% of GDP in 2020 from 0.6% in 2019. At the end of 2020, Greece has the highest debt within the Eurozone (205% of GDP), followed by Italy (156%). The bloc's two most important economies, Germany and France, have debt-to-GDP ratios of 70% and 116% at the end of 2020.

- **Bank of Canada cuts purchases under quantitative easing**

  The Bank of Canada held its policy rate at 0.25% at its 21 April meeting. However, it tapered purchases under the quantitative easing programme to C$3bn a week from C$4bn previously, citing improving economic conditions. The central bank also warned that high housing prices could result in stretched borrowing and lending, leaving some households and financial institutions vulnerable to an economic downtown.

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