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RESERVE BANK OF INDIA
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RBI Bulletin – October 2023

Today, the Reserve Bank released the [October 2023](#) issue of its monthly Bulletin. The Bulletin includes two speeches, six articles and current statistics.

The six articles are: I. State of the Economy; II. Measuring Uncertainty: An Indian Perspective; III. Impact of G-Sec Yield Movements on Bank Profitability in India; IV. Production Weighted Rainfall Index and Agriculture Production: Relationship Re-visited; V. Housing Finance Companies and the COVID-19 Pandemic: Does Size Matter?; and VI. COVID-19 Pandemic and the Resilience of India's R&D Expenditure.

I. State of the Economy

Global growth lost pace from Q3:2023 on the back of weak manufacturing activity and tight financial conditions in advanced economies even as several emerging market economies posted growth surprises. Surging yields and soaring crude oil prices have emerged as proximate risks to global growth. In India, a broad-based gaining of momentum is discernible in high frequency indicators. Deleveraging and higher capacity utilization have enabled capital-heavy industries to gain traction. The Indian rupee (INR) is exhibiting low volatility. Inflation has moderated from its July peak, bolstering macroeconomic fundamentals.

II. Measuring Uncertainty: An Indian Perspective

By Michael Debabrata Patra, Renjith Mohan, Joice John and Indranil Bhattacharyya

This article measures uncertainty surrounding macroeconomic developments from the RBI's professional forecasters' survey responses. The measure incorporates a common temporal component, which is the perception of uncertainty affecting all forecasters during a specific time period such as the COVID-19 pandemic; and idiosyncratic uncertainty, which is specific to a particular forecaster and is reflected in disagreements between forecasters.

Highlights:

- Common temporal uncertainty - rather than idiosyncratic uncertainty - caused overall uncertainty to rise during the period 2008-14, decline during 2014-20, rise again during the COVID-19 pandemic and ebb from 2022.
- During periods of high uncertainty, the measure provides valuable lead indication of slowing growth and increase in inflation but it also poses a dilemma - should the slowdown be addressed by easing monetary policy or should policy be tightened to contain inflation?

III. Impact of G-Sec Yield Movements on Bank Profitability in India

By Radheshyam Verma and Rakesh Kumar

The article estimates empirically the impact of changes in government security (G-sec) yields on bank profitability during Q1:2015-16 to Q1:2022-23.

Highlights:

- In a period of rising yields, the mark-to-market valuation of the trading portfolio of banks increases the trading losses. Net interest margin (NIM) is expected to increase in the short-term as assets are repriced faster than liabilities depending on composition and maturity profile of assets and liabilities of banks.
- Empirical findings suggest that a rise in the yield of 3-month T-bill has a negative impact on trading income, but it has a positive impact on NIM. In case of larger banks, trading income losses are relatively lower while NIM is marginally higher reflecting better management of their asset-liability profile. The regression results suggest that larger banks have managed the impact of rising yields better.

IV. Production Weighted Rainfall Index and Agriculture Production: Relationship Re-visited

By Shivangee Misra, Rajendra Raghumanda and Sanjay Singh

Given the importance of rainfall for agricultural production in India, the Reserve Bank staff has been preparing Production Weighted Rainfall Index (PRN) which takes into account the state-wise rainfall and their respective contributions in all-India foodgrain production. This article attempts to modify the PRN (MPRN) to strengthen its performance in forecasting *kharif* foodgrain production.

Highlights:

- Among the south-west monsoon (SWM) months, July rainfall has the highest impact on *kharif* foodgrain production followed by June, September and August, indicating that the adverse impact of delay in onset or subdued performance of monsoon in June on *kharif* production may be somewhat mitigated if the monsoon picks-up in July.
- Further, excess rainfall was found to have a significant and negative impact on *kharif* foodgrain production.
- While PRN performs better than India Meteorological Department (IMD) rainfall index in terms of better in-sample fit and lower forecast error, MPRN improves upon PRN.

V. Housing Finance Companies and the COVID-19 Pandemic: Does Size Matter?

By Nandini Jayakumar, Rajnish Kumar Chandra, Brijesh P., and Prayag Singh Rawat

This article empirically examines the performance of the HFC sector for the period between June 2016 and September 2022 using quarterly supervisory data filed by Housing Finance Companies (HFCs) with the National Housing Bank (NHB).

Highlights:

- HFCs, with around 36 per cent market share at end-March 2022, are the second-largest player in the housing finance space after scheduled commercial banks (SCBs).
- The sector recovered from the COVID-19 shock, aided by policy and regulatory support and exhibited robust credit growth and low GNPA ratio. The pandemic, however, had a heterogeneous impact on credit growth of HFCs, as credit disbursements by small HFCs declined *vis-à-vis* big HFCs in the post-COVID period.

VI. COVID-19 Pandemic and the Resilience of India's R&D Expenditure

By Siddhartha Nath, Shruti Joshi and Sadhan Kumar Chattopadhyay

This article looks at the determinants of Research and Development (R&D) activities for companies operating in India. It also examines the effects of COVID-19 pandemic on R&D.

Highlights:

- Firm-level characteristics such as size, age, digitalization, and promotional (product and marketing research) expenses are significant drivers of firm-level R&D.
- No significant adverse impact of COVID-19 on firm level R&D activities was observed.
- The results suggest that investments in knowledge-based intangible capital, including R&D, are generally resilient to the crisis due to their large sunk costs borne at the initial stages of the investment.

The views expressed in the Bulletin articles are of the authors and do not represent the views of the Reserve Bank of India.