

September 18, 2023

RBI Bulletin – September 2023

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

The five articles are: [I. State of the Economy](#); [II. Fiscal Costs of Reverting to the Old Pension System by the Indian States – An Assessment](#); [III. An Analysis of the Recent Performance of NBFC Sector](#); [IV. Inflation and Inflation Expectations: A Distributional Mapping](#); and [V. Private Consumption Drivers in India: A Thick Modelling Approach](#).

I. State of the Economy

India's G20 Presidency and its outcomes with the ethos of *Vasudhaiva Kutumbakam* as the vision of global progress assume significance in an environment where global economic activity is experiencing a loss of momentum with a dichotomy in macroeconomic conditions across regions. Amidst weakening global prospects, the Indian economy is gaining strength led by domestic drivers – private consumption; and fixed investment with strong public sector capex. Supply responses are improving and headline inflation has softened in August from the previous month's peak.

II. Fiscal Cost of Reverting to the Old Pension Scheme by the Indian States – An Assessment

By Rachit Solanki, Somnath Sharma, R. K. Sinha, Samir Ranjan Behera and Atri Mukherjee

As part of the pension reforms initiated in India during the first decade of this century, most State governments adopted the National Pension System (NPS), which is a defined contribution scheme. Against the backdrop of recent discussion in public space about reversion to the Old Pension Scheme (OPS) and with some States actually doing so, this study has been undertaken. It analyses the NPS contribution data of State government employees to estimate the likely fiscal costs that could arise if all State governments revert to the OPS.

Highlights:

- Short-run reduction in States' pension outgo on account of reverting to the OPS would be eclipsed by the huge rise in future unfunded pension liabilities in the long-run. Pension burden in case of OPS will outpace the NPS contribution for most of the States by the 2030s.
- Under OPS, the estimated actual pension burden will increase by around 4.5 times of the estimated pension outgo under the NPS, with the additional OPS burden rising to 0.9 per cent of GDP annually by 2060.

- At a time when most of the countries are moving towards defined contribution plans, reverting to OPS by the Indian States will be a major step backwards, undermining the benefits of past fiscal reforms.
- Any reversion to OPS by the States would be fiscally unsustainable.

III. An Analysis of the Recent Performance of NBFC Sector

By Abhyuday Harsh, Nandini Jayakumar, Rajnish Kumar Chandra, and Brijesh P.

Using supervisory data, this article evaluates the performance of the NBFC sector in 2022-23 (up to Q3:2022-23). For this article, NBFCs have been grouped in one of the four layers (*i.e.*, Base, Middle, Upper or Top), based on their size, activity and perceived level of riskiness in terms of the scale-based regulatory framework which took effect from October 1, 2022.

Highlights:

- The consolidated balance sheet of the NBFC sector exhibited double digit year-on-year growth as at December 2022.
- NBFCs' reliance on banks increased, particularly for NBFCs in the upper layer (NBFCs-UL), whose direct bank borrowings have grown steadily, accounting for nearly half of their total borrowings as at the end of December 2022.
- The sectoral credit distribution reveals that government-owned NBFCs in the middle layer (NBFCs-ML) lend primarily to infrastructure. All NBFCs-UL, which are privately-owned, lend overwhelmingly to the retail segment.
- With economic recovery underway, non-performing assets (NPAs) of the sector as per cent of total advances declined on account of lower accretion of fresh NPAs and better recoveries. NBFCs continue to maintain strong capital position and adequate buffers.

IV. Inflation and Inflation Expectations: A Distributional Mapping

By R. K. Sinha

This article identifies suitable statistical distributions, which help explain the behaviour of actual inflation and survey-based inflation expectations. The identified distributions facilitate measuring Inflation-at-Risk.

Highlights:

- The variability, measured in terms of standard deviation, of both micro-level inflation datasets *i.e.*, survey-based inflation expectations and actual inflation is found to be noticeably higher than the aggregate inflation dataset.
- The Burr distribution is found to be appropriate in explaining statistical characteristics of both the datasets.

V. Private Consumption Drivers in India: A Thick Modelling Approach

By Deepmala, Sunil Kumar and Bipul Ghosh

This article examines the macroeconomic drivers of private consumption – the dominant component of aggregate demand in India – over short and long horizons. The

effect of monetary policy easing and tightening cycles on private consumption is also explored.

Highlights:

- The findings reveal a strong co-movement of consumption and income as evident from the presence of a long-run co-integrating relationship between real private consumption and income (real personal disposable income) and wealth, with income elasticity estimated at close to unity.
- Amongst the short-run drivers, income, interest rate, inflation, indebtedness of households and government, and uncertainty are found to influence private consumption.
- Empirical findings indicate an asymmetric impact of interest rate changes, with monetary tightening dampening private consumption more than the expansionary effect of an equivalent easing of interest rate.

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

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