

**भारतीय रिज़र्व बैंक**
RESERVE BANK OF INDIAवेबसाइट : www.rbi.org.in/hindiWebsite: www.rbi.org.inई-मेल/email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

Department of Communication, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 022- 22660502

June 16, 2021

RBI Bulletin - June 2021

The Reserve Bank of India today released the [June 2021](#) issue of its monthly Bulletin. The Bulletin includes Monetary Policy Statement, three Articles and Current Statistics.

The three articles are: I. State of the Economy; II. A Macroeconomic View of the Shape of India's Sovereign Yield Curve; and III. Fiscal Framework and Quality of Expenditure in India.

I. State of the Economy

The Indian economy continues to wrestle with the second wave of the pandemic, though cautious optimism is returning. By current assessment, the second wave's toll is mainly in terms of the hit to domestic demand. On the brighter side, several aspects of aggregate supply conditions - agriculture and contactless services are holding up, while industrial production and exports have surged compared to last year amidst pandemic protocols. Going forward, the speed and scale of vaccination will shape the path of recovery. The economy has the resilience and the fundamentals to bounce back from the pandemic and unshackle itself from pre-existing cyclical and structural hindrances.

II. A Macroeconomic View of the Shape of India's Sovereign Yield Curve

Considering macroeconomic determinants of the yield curve, the study finds that the level of the yield curve has undergone a downward shift from the second quarter of 2019, reflecting the ultra-accommodative stance of monetary policy. The slope of the yield curve is found to have steepened with abundant liquidity depressing short-term interest rates more than proportionately alongside a pick-up in issuances of ultra-long dated paper. Out of sample forecasts indicate scope for moderation of longer-term yields from current levels.

III. Fiscal Framework and Quality of Expenditure in India

The COVID-19 pandemic necessitated an overwhelming fiscal response from governments across the world. As India unwinds the fiscal stimulus and embarks on the path of fiscal adjustment, it is necessary to emphasise on 'how' over 'how much'. This article proposes a few quantifiable indicators, viz., ratios of revenue expenditure to capital outlay and revenue deficit to gross fiscal deficit along with threshold levels for them that can be suitably blended into the fiscal fabric for a sustainable growth trajectory. Some of the highlights of this study are as follows:

- Cross-country experience suggests that expenditure reductions, especially the ones associated with permanent reduction in current expenditure, have been found to be more effective in achieving durable fiscal consolidation than revenue raising measures.
- The article has analysed the quality of expenditure of centre and states using six indicators of quality of government expenditure, both individually as well as through a composite indicator.
- The threshold level of ratio of revenue expenditure to capital outlay (RECO) is found to be around 5.0, while the threshold of share of revenue deficit in gross fiscal deficit (RD-GFD) is found to be 40 per cent for general government (centre *plus* states) in India.
- Finally, the article projects some key fiscal indicators that could be achieved by blending the quality of expenditure considerations with the GFD target of 4.5 per cent of GDP by 2025-26 as outlined in the Union Budget 2021-22.

Press Release: 2021-2022/374

(Yogesh Dayal)
Chief General Manager