

RESEARCH

BOB Economics Research | RBI Annual Report

RBI expects gradual recovery

SUMMARY

India Economics: RBI Annual Report

RBI's balance sheet expanded by 30% in FY20 to Rs 53tn led by FX intervention, higher gold prices and OMOs. On the liabilities side, notes in circulation increased by 22%. We expect balance sheet to increase by 11% in FY21 in the context of negative GDP growth. This will support transmission through OMO purchases. On growth, RBI believes growth will turn positive in Q4FY21 (Page 24). The negative impact of lockdowns on inflation will also be neutral by then. However, it would keep a vigil on price movements.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	780

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.65	3bps	7bps	(88bps)
India 10Y yield (%)	6.17	8bps	34bps	(32bps)
USD/INR	74.32	0.7	0.7	(3.2)
Brent Crude (US\$/bbl)	45.13	1.8	4.1	(23.1)
Dow	28,308	1.4	6.9	9.3
Shanghai	3,386	0.1	5.9	18.2
Sensex	38,799	0.9	1.8	3.5
India FII (US\$ mn)	21 Aug	MTD	CYTD	FYTD
FII-D	129.3	(30.7)	(14,558.3)	(4,798.8)
FII-E	58.5	5,558.0	4,269.8	10,872.8

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



RBI ANNUAL REPORT

25 August 2020

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Sameer Narang

Dipanwita Mazumdar | Sonal Badhan

chief.economist@bankofbaroda.com

RBI's surplus falls: RBI's surplus fell to Rs 571bn in FY20 (Jul-Jun) from Rs 1,760bn last year. This can be explained by Rs 434bn decline in income and Rs 755bn increase in expenditure. In FY19, RBI had written back Rs 526bn from contingency fund (CF) for transfer to Centre as part of Bimal Jalan Committee report and this formed part of its income. This year, RBI has transferred Rs 736bn to CF because of which its expenditure is up by 443%.

Forex accretion drove balance sheet: RBI's balance sheet increased by 30% (Rs 53tn) in FY20 versus 13% (Rs 41tn) in FY19. The increase on the asset side was led by FX intervention which drove investment in foreign securities to Rs 35.45tn (27% YoY). With OMOs (net purchase) of Rs 1.8tn (Rs 3.6tn in FY19), domestic securities increased to Rs 11.7tn (18.4 % YoY). On the liabilities side, notes in circulation have increased by 22% to Rs 26.35tn followed by Currency and Gold Revaluation Account which is up by Rs 3.1tn to Rs 9.77tn. This is on account of unrealized gains on gold prices. Apart from this, the surplus liquidity with SCBs deposited with RBI under reverse repo increased to Rs 7tn from Rs 2.15tn last year.

Inflation and growth outlook: RBI's inflation outlook is best summarized in Page 48 of Annual Report "Disruptions in food and manufactured items' supply chains could amplify sectoral price pressures thus posing an upside risk to headline inflation. Monetary policy has to be on constant vigil on price movements". On the growth front, RBI believes discretionary demand will pick up with a lag. Rural will do better. Investment spending will remain anemic. Further, ability of government to support demand is not the same as 2008-09. Hence, it recommends monetisation of assets to crowd in private investment, strengthening of non-bank credit, improvement in Ease of Doing Business, and higher exports as part of India integrating in global value chains.

KEY HIGHLIGHTS

- Net financial savings of households at 7.6% versus 6.4% last year led by decline in financial liabilities at 2.4% versus 4.0% last year.
- Rural demand a positive as seen in tractor sales and two wheeler demand.
- Structural reforms and monetisation of assets way forward for growth revival.



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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