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निम्न द्वारा प्रकाशितः
पंजाब नैशनल बैंक
कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग
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Major economic events in the year gone by

The calendar year 2023 was expected to be a turbulent year due to slowing global growth and fresh geopolitical uncertainties but India managed to sail through. India emerged successfully from the series of economic disasters like the pandemic, Ukraine war and inflation and consequent interest rate hikes. Following a successful moon mission and hosting the G20 summit, India is positioned to emerge from 2023 with increased stability and optimism for its growth and future prospects. As the year ends, we recall the major economic events that happened this year:-

GDP Growth

The Indian economy grew robustly in the year with Q1'FY24 growth at 7.8% and Q2'FY24 growing surprisingly at 7.6%. This took the half year's GDP to an impressive 7.7%. With this, India retained its crown of the fastest growing economy in the world. The economy is primarily driven by domestic consumption and investment growth led by government's high capex. Government, in its budget, announced a 33% increase in capex spending, amounting to the highest investment outlay at Rs.10 trillion. The private investments showed positive growth in GDP numbers of Q2'FY24 and is expected to further pick up pace in 2024.

Inflation

Inflation was pretty much controlled as it remained within the RBI's tolerance band of 2-6% for 7 out of 11 months of 2023. Inflation peaked at a 15 month high in July'23 at 7.44% due to sharp increase (temporary) in tomato prices. Below normal monsoon kept inflation fears alive throughout the year and food prices continued to remain sticky. RBI paused its interest rate hikes after a cumulative interest rate hike of 250 bps till February'23. Though food prices were sticky, core inflation glided downwards as high interest rates played out in the economy. Food prices are likely to remain volatile going ahead in 2024 due to low kharif production and continued lag in rabi sowing due to El Nino conditions. Core inflation is expected to moderate and will likely keep headline inflation in RBI's tolerance band. RBI remains watchful of the evolving price situations.

Trade

The fragile state of the global economy in 2023 due to escalation of geopolitical tensions, high interest rates, surging inflation and lingering effects of Covid-19, cast its shadow on India's goods exports which faltered after a steady performance in the previous year. The launch of the Foreign Trade Policy 2023, with a vision of $2 trillion exports by 2030, has been a positive development, particularly given the emphasis on cross border e-commerce trade and promoting exports from districts. The Current Account Deficit of India also remained balanced at around 1% of GDP. CAD is expected to be 1.5-1.7% of GDP next year as well and poses no major threat.

Crude Oil

During January 2023, Brent crude oil hovered around $82 per barrel. In April 2023, OPEC+ announced oil production cuts of around 1.16 million barrels per day (bpd) in a surprise decision that immediately drove crude oil prices 8 per cent higher to $83.95 a barrel. By the end of September 2023, crude oil prices had risen 30 per cent in three months, with Brent staring at the $100/bbl-mark, over the supply cuts by the oil producing majors. In October 2023, the Israel-Hamas war drove crude oil prices further up, however, the momentum could not be sustained as global demand concerns outweighed the impact of supply cuts.

Since then, Brent has come down to an average of $80/bbl-mark and is expected to hover between $80-$85/bbl. The relief in crude oil prices is expected to continue in 2024 as global demand remains weak amidst adequate supplies. Slowdown is expected in European economies next year and China – the biggest consumer of crude oil, is also undergoing a structural growth slump. Also adoption of electric vehicles is dragging the demand for crude oil. On the supply side, booming US production along with Iran and Brazil supplies have nullified the effect of supply cuts announced by OPEC countries.

Rupee vs. Dollar

Rupee emerged as one of the most stable Asian currency against US dollar. Even though US dollar witnessed an upsurge due to sharp rate hikes by Fed in 2023, rupee held its ground strongly. The rupee has fallen only 0.65% against the US dollar in 2023, against the 10.25% value it lost in 2022. It traded, range bound, between Rs.80 – 83 per dollar. Rupee is expected to remain stable and trade in range of Rs.81 – 84 per dollar in 2024.

Market Sentiments

The Indian markets showcased impressive resilience in 2023. Key benchmark indices – Nifty 50 and S&P BSE Sensex hit the 21,000 and 70,000 milestone respectively. India also overtook Hong Kong to become the seventh largest stock market in the world. The sentiment underlying the bullishness is optimism about India's growth potential. The signalling effect of a bull market is necessary. As interest rates normalize and investments pick up, a bullish market will help corporates raise funds cheaply.

Government Finances

Government kept the fiscal deficit target at 5.9% of the GDP for FY'2023-24. The Central government has collected ₹13.7 trillion in corporate and personal income taxes till 17 December, an improvement of 20.66% from the collections made in the same period a year ago. The highest-ever revenue from Goods and Services Tax (GST) was recorded in April 2023 at ₹1.87 lakh crore. The average gross monthly GST collection in the FY 2023-24 now stands at ₹1.66 lakh crore, 11 per cent higher than the year-ago period. High tax collection is the result of efforts made by government to widen the tax base and enhance compliance. Monthly GST collection in FY'25 is expected to be Rs.1.7- 1. 8 trillion.

Banking Industry

2023 proved to be the best year in a decade for banking industry in terms of business performance, profitability and asset quality. Bank credit grew rapidly in 2023. Deposit growth also caught up and the credit deposit gap narrowed in 2023. Profitability of the banking sector remained robust with cumulative profits of PSBs crossing Rs.1 trillion mark. Asset quality of Indian banks improved to decadal low levels. Asset quality is anticipated to remain in positive trajectory in 2024-25. In another event, RBI withdrew the Rs.2,000 notes from circulation that constituted 10% of notes in circulation. Also, biggest financial transaction in Indian history took place with HDFC Ltd. mega reversal merger with HDFC Bank Ltd. creating a banking mammoth. Going forward in 2024, banking industry is expected to continue its robust performance though banks might witness compression of Net Interest Margins as deposits are repriced at higher rates.

The year 2023 saw several positive development for the Indian economy and going ahead, 2024 posits a healthy outlook for the economy.

Deepak Singh

(Deputy General Manager)

2. CARBON CAPTURE & SEQUESTRATION – A STEP FORWARD?

The recently concluded COP28 meeting in Dubai that witnessed participation from 200 countries arrived at a historic consensus. For the first time the participating nations called it upon themselves to transition away from fossil fuels and operationalized a loss and damage fund to aid emerging and developing nations tide over climate-related disasters and continue on their path of economic growth. Earlier COP decisions had never acknowledged the role of fossil fuels that contribute to nearly 80 percent of the total greenhouse gas emissions worldwide.

Two other key measures towards restricting the global rise in temperatures to under 1.5 degrees Celsius included tripling of global renewable energy capacity and doubling the current annual rate of energy efficiency improvements by 2030. Consensus was also reached on accelerating the deployment of low-emission technologies including renewable energy, nuclear energy, and carbon capture and sequestration (CCS).

Nations that have been the hardest hit by climate change (especially poor and island nations) had called for a complete "phase-out" of fossil fuels as opposed to a mere "transition away" as this may not suffice in reaching the goal of the Paris Agreement.. In this regard, deployment of CCS technology as an alternative to a complete "phase out" of fossil fuels has recently emerged as a highly debated topic.

Carbon Capture and Sequestration encompasses a range of technologies that allow for the reduction of carbon dioxide (CO2) emissions from significant emission sources like power plants, refineries, and various industrial establishments. It also involves the extraction of CO2 already present in the atmosphere.

A CCS application is comprised of three stages: CO2 capture, transport, and storage (or usage). The primary methods for capturing CO2 include post-combustion, pre-combustion, and oxy-fuel combustion. In post-combustion technology, CO2 is separated from the flue gas after the fuel is burned, typically using a chemical solvent. Pre-combustion methods involve converting the fuel into a gas mixture of hydrogen and CO2 before combustion. Once the CO2 is separated, the remaining hydrogen-rich mixture can be utilized as fuel. Lastly, oxy-fuel technology involves burning a fuel with nearly pure oxygen to generate CO2 and steam, with the captured CO2 subsequently stored. CCS, till now is being largely employed by oil producing and marketing companies to enhance the extraction of fossil fuels deep underground.

The International Energy Agency (IEA) stated in its report on Carbon Capture, Utilisation and Storage that power and industrial facilities equipped with advanced CCS technologies can effectively capture approximately 90% of the CO2 emissions. However, critics argue that the extensive infrastructure required to facilitate CCS implementation serves as a significant deterrent to its adoption, especially in emerging and developing economies.

The United States already possesses one of the most advantageous setups for the deployment of CCS. There is an abundance of facilities available for CO2 capture, along with existing CO2 pipelines, and onshore locations where CO2 can be securely stored deep underground. The U.S. also possesses a skilled workforce to support these activities. Such a favorable situation does not exist in other regions.

Among other nations, Norway is currently undertaking one of the largest investments in CCS. Its Northern Lights project aims to capture emissions from industrial facilities or power plants. If successful, the liquefied CO2 will be transported via ships to the northern part of the country, where a pipeline will facilitate its offshore storage deep underground. Northern Lights is also actively seeking customers beyond Norway to share the costs of the project. However, the level of coordination required to achieve this, involving multiple countries and companies across a vast geographical area, will be significantly more complex than any project undertaken in the United States.

According to a recent study conducted by the University of Oxford, net-zero pathways that heavily rely on carbon capture and sequestration will incur an additional annual approximate cost of USD 1 trillion compared to cases that prioritize renewable energy sources. In contrast, transitioning to renewables in order to achieve net-zero emissions would result in savings of at least USD 30 trillion. This implies that there is a significant underestimation by countries advocating for CCS technology as a substitute for immediate reductions in emissions. Furthermore, the report cautions against the detrimental economic consequences of excessive dependence on CCS and urges governments to increase investment in renewable energy while reserving CCS for essential use cases. By transitioning to renewables, the goal of achieving net-zero emissions by the middle of the century can be accomplished at a significantly lower cumulative cost of at least USD 30 trillion.

These are primarily the reasons why CCS is not a viable alternative to switching to cleaner/ renewable energy sources. The final agreement of COP28 also no longer includes an earlier draft requirement for countries to implement CCS technology when constructing new coal-fired power plants. This decision was taken because it was perceived to be detrimental to the interests of developing nations in the Global South.

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3. KEY TAKEAWAYS: GROSS DOMESTIC PRODUCT Q2 FY24

Gross Domestic Product (GDP) for Q2 FY24 grew by 7.6% as compared to a growth of 7.8% in the previous quarter (Q1 FY24) and a growth of 6.2% in Q2 FY23.

Highlights

- *Indian Economy remained resilient with a GDP growth of 7.6% in the second quarter of FY24, surpassing all the expectations.*
- *GVA growth, which excludes indirect tax and subsidies, was pegged at 7.4% in Q2 FY24.*
- *The growth was mainly driven by the manufacturing sector, which expanded by 13.9% as compared to a growth of 4.7% in the previous quarter.*

Components of GDP

- Growth in Private Final Consumption Expenditure, the largest constituent of the gross domestic product, is showing a declining trend, with a figure of 3.1% in Q2 FY24, as compared to a growth of 6.0% in Q1 FY24 and 8.3% in Q2 FY23.
- Government Final Consumption Expenditure sky-rocketed to 12.4% in Q2 FY24 from the negative territory in both the previous quarter and the same quarter a year ago.
- Investment in the economy, denoted by Gross Fixed Capital Formation, grew further from 8.0% in the first quarter to 11.0% in the second quarter of FY24.
- YoY Growth of exports also came out of the negative zone in the previous quarter and grew by 4.3% in Q2 FY24.

Change in the share of Major Components in GDP

- Share of Private Final Consumption Expenditure declined by 250 bps from 59.3% in Q2 FY23 to 56.8% in Q2 FY24.
- Share of Government Final Consumption Expenditure increased by 30 bps from the previous year to 8.9% in the current quarter.
- Share of Gross Fixed Capital Formation also increased to 35.3% in Q2 FY24 from 34.2% in Q2 FY23.
- Share of Exports, however, declined by 70 bps while the share of imports increased by 230 bps when compared to the last year. The major role of the domestic economy in India’s growth is supported by this data.

Components of GVA

- The GVA growth in the farm sector declined from 3.5% in Q1 FY24 to 1.2% in Q2 FY24.

- The growth in the Industry Sector jumped from 5.5% in Q1 FY24 to 13.2% in Q2 FY24.
- The Services sector registered a growth of 5.8% in the second quarter, however, the growth is lower than its growth in the first quarter and the second quarter a year ago.

Closer look at Industry and Services

- The Manufacturing industry, a major part of the industry sector, grew the highest among all the industries by 13.9% in Q2 FY24. The growth of the industry was in negative region a year ago.
- Mining & Quarrying, Construction Industry and the 'Electricity, gas, water supply and other utility services' segment all grew over 10% in Q2 FY24, with construction industry registering a 13.3% growth. The growth in these sectors were higher than both its previous quarter and the same quarter a year ago.
- Growth of all the three segments was below the previous quarter.
- However, 'Public Administration, Defence & Other Services' segment marked a growth of 7.6% in Q2 FY24, which is higher than the growth it showed in Q2 last year.

Way forward

- **With China's economic growth at 4.9% in July-September 2023, India remains the fastest growing major economy.**
- The growth in GDP for the second quarter of FY24 exceeded the expectations, and was well above the RBI's projection of 6.5% in its October Monetary Policy Committee meeting.
- The Industry Sector, mainly aided by Manufacturing and the Construction Industry, showed a robust performance.
- The Government Spending and Investment Activities also displayed healthy growth.
- However, there are some concerning areas where the economy needs to perform better. Firstly, the growth of Agriculture Sector slipped from the previous quarter to 1.2%. Secondly, the Services sector growth slowed down with sluggish performance in 'Trade, Hotel, Transport, Communication and Services related to broadcasting' segment. Lastly, the private consumption growth also showed signs of deceleration.
- **Going forward, even though there are expectations of slowdown in the economy in the second half of the financial year due to factors like the global slowdown, lagged impact of domestic interest rate hikes, adverse impact of El Nino, etc., the strong foundation set by the first two quarters is expected to push the full year growth estimate upwards.**

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4. HIGHLIGHTS OF RBI'S BI-MONTHLY MONETARY POLICY

Policy Rate	Existing	Now	Change
Policy Repo Rate	6.50%	6.50%	No Change
Standing Deposit Facility (SDF)	6.25%	6.25%	
MSF Rate	6.75%	6.75%	
Bank Rate	6.75%	6.75%	
Cash Reserve Ratio (CRR)	4.50%	4.50%	
Statutory Liquidity Ratio (SLR)	18.0%	18.0%	

Reserve Bank of India's (RBI) monetary policy commission (MPC) kept the repo rate unchanged at 6.50% for the 5th time in a row.

RBI maintains its **stance of withdrawal of accommodation** in order to ensure that inflation progressively aligns to the target, while supporting growth.

Growth and Inflation Outlook

RBI's Growth Outlook

RBI Projection GDP	Q3 FY'24	Q4 FY'24	FY'24	Q1 FY'25	Q2 FY'25	Q3 FY'25
06.10.2023	6.0%	5.7%	6.5%	6.6%	-	-
08.12.2023	6.5%↑	6.0%↑	7.0%↑	6.7%↑	6.5%	6.4%

Upsides	Downsides
✓ Easing of inflation in advanced economies ✓ Buoyant domestic demand ✓ Robust investment activity and government spending ✓ Two-thirds of Rabi sowing completed ✓ Easing input cost pressures ✓ Resilient services sector ✓ Festive demand boost	✓ Growing protectionism ✓ World trade decelerating ✓ Elevated global debt levels ✓ Geopolitical hostilities prevail ✓ Extreme weather conditions remain on fore.

RBI's Inflation Outlook

RBI Inflation Projection	Q3 FY'24	Q4 FY'24	FY'24	Q1 FY'25	Q2 FY'25	Q3 FY'25
06.10.2023	5.6%	5.2%	5.4%	5.2%	-	-
08.12.2023	5.6%↔	5.2%↔	5.4%↔	5.2%↔	4.0%	4.7%

Upsides	Downsides
✓ Vegetable prices correcting ✓ Fall in LPG prices ✓ Reduction in cost-push pressures ✓ Agricultural commodity prices softening ✓ Domestic milk prices stabilizing	✓ Food prices remain uncertain ✓ Rabi sowing to be closely watched ✓ Elevated global sugar prices ✓ Crude oil prices remain volatile

Liquidity and Financial Markets

- System liquidity, as measured by the net position under the liquidity adjustment facility (LAF), turned into deficit mode for the first time in September 2023 after a gap of nearly four and a half years since May 2019. Deficit liquidity conditions persisted during October and November prompting large recourse to the marginal standing facility (MSF) by banks. In parallel, utilization of the standing deposit facility (SDF) has also been high.

- Under the LAF, simultaneous high utilization of both MSF and SDF has taken place by banks **RBI has decided to allow reversal of liquidity facilities under both SDF and MSF even during weekends and holidays with effect from December 30, 2023.**

- The Indian rupee has exhibited low volatility compared to its EME peers in the calendar year 2023, despite elevated US treasury yields and a stronger US dollar. **The relative stability of the Indian rupee reflects the improving macroeconomic fundamentals of the Indian economy** and its resilience in the face of formidable global tsunamis.

External Sector

- In October 2023, both merchandise exports and imports came back into the expansionary zone. Services exports remained buoyant during Q2:2023-24. India has remained the top remittance-receiving country. The net balance under services and remittances is expected to partly offset India's current account deficit and keep it within the parameters of viability.

- Portfolio flows have seen a significant turnaround in 2023-24 with net FPI inflows of US$ 24.9 billion (up to December 6, 2023) as against net outflows in the preceding two years. Net FDI, however, moderated to US$ 10.4 billion in April-October 2023 from US$ 20.8 billion a year ago.

- India's external vulnerability indicators exhibit higher resilience in comparison with EME peers as well as since the taper tantrum period. **India's foreign exchange reserves stood at US$ 604 billion as on December 1, 2023.**

Other Regulatory & Developmental Measures

Regulatory Measures

1. **Review of the regulatory framework for hedging of foreign exchange risks**: This has been refined to enhance operational efficiency and ease access to foreign exchange derivatives, especially for users with small exposures. It will ensure that a broader set of customers with the necessary risk management expertise are given the flexibility to manage their exposures efficiently.
2. **Framework for Connected Lending**: RBI has decided to come out with a unified regulatory framework on connected lending for all the regulated entities of the Reserve Bank.
3. **Regulatory Framework for Web-Aggregation of Loan Products (WALPs)**: RBI has decided to bring loan aggregation services offered by the Lending Service Providers (LSPs) under a comprehensive regulatory framework. This will help in enhancing the transparency in the operations of WALPs, increase customer centricity and enable the borrowers to make informed choices.

Payments Systems

1. **Enhancing UPI transaction limit for Specified Categories:** To encourage the use of UPI for medical and educational services, it is proposed to enhance the limit for payments to hospitals and educational institutions from ₹1 lakh to ₹5 lakh per transaction.
2. **e-Mandates for recurring online transactions – Enhancement of limit for specified categories:** The limits for execution of e-mandates without Additional Factor of Authentication (AFA) which currently stands at ₹15,000/- (last updated in June 2022) has been proposed to be raised to ₹1 lakh for the following categories, viz., subscription to mutual funds, payment of insurance premium and payments of credit card bills.
3. **Establishment of Cloud Facility for the Financial Sector in India:** The Reserve Bank is working on establishing a cloud facility for the financial sector in India. The proposed facility would enhance the security, integrity and privacy of financial sector data, facilitate scalability and business continuity.
4. **Setting up of Fintech Repository**: For better understanding of the developments in the Fintech ecosystem with an objective to appropriately support the sector, it is proposed to set-up a Repository for capturing essential information about Fintech, encompassing their activities, products, technology stack, financial information etc.

5. GIST OF SPEECH: WINNING IN UNCERTAIN TIMES – THE INDIAN EXPERIENCE

Inaugural Speech by Shri Shaktikanta Das, Governor Reserve Bank of India
Delivered at FIBAC 2023 organised jointly by FICCI and IBA at Mumbai on November 23, 2023.

Today the world is grappling with an unending string of challenges such as geopolitical conflicts & geo-economic fragmentations, volatile commodity prices, uncertainty in trajectory of monetary policies and their macro-financial implications and increasing frequency and ferocity of climate shocks.

The Conduct of Monetary Policy in the Year Gone By

- The RBI's monetary policy actions in the last 18 months, focusing on curbing inflation over growth, tightening the LAF corridor, raising the policy repo rate by 250 bps, and reducing excess liquidity, combined with governmental supply-side measures, have notably led to a considerable decline in headline inflation & a significant moderation in core inflation.
- Recent indications show a stabilization in household inflation expectations, yet headline inflation remains susceptible to recurrent food price shocks from global influences and adverse weather events, both increasing in frequency and intensity. In such a scenario, monetary policy should vigilantly focus on disinflation while bolstering growth.
- Over the past 18 months, RBI measures have not posed financial stability risks, unlike the challenges observed in certain advanced economies in early 2023. This can be credited to the regulatory guidelines set by the RBI, which banks adhere to for managing interest rate risk during an interest rate upturn.
- Regarding the exchange rate, the Indian rupee has demonstrated minimal volatility and well-ordered movements compared to other currencies, despite elevated US treasury yields and a stronger US dollar. The INR's fluctuations align with robust macro-fundamentals and the presence of reliable reserves.

Growth Drivers and Opportunities

- The Indian economy saw a robust rebound in the last two fiscal years after a sharp contraction in 2020-21 due to COVID. The forecasts indicate a healthy 6.5% growth for both 2023-24 and 2024-25, positioning India among the fastest-growing large economies globally.
- Despite global slowdown, India's resilience and growth are attributed to its reliance on domestic demand, which has shielded it from multiple global challenges. Structural reforms in banking, taxation, and manufacturing have set the stage for sustained growth.
- Moving from a period of twin deficits & balance sheet stress to a phase of twin balance sheet advantage, banks and corporates exhibit healthier financials due to improved asset quality and profitability.
- Results of Q2 FY2023-24 showcase enhanced corporate performance, indicating substantial growth in profitability and staff costs among listed non-government and non-financial firms.
- Manufacturing firms are optimistic about demand conditions in Q3 of FY2023-24, backed by an upsurge in capacity utilization, signaling positive trends for investment activities.
- Government emphasis on capital expenditure further supports investment prospects, prompting businesses to evaluate and capitalize on India's current and future potential.

India's economic landscape showcases resilience and growth

- Agriculture: Despite challenges like erratic monsoons, agricultural sector maintains stability through record production levels. Export diversification and substantial employment generation remain key factors.
- Challenges & Reforms: Productivity gaps, water issues, and changing consumer preferences necessitate significant investments in modernizing agriculture. Urgent reforms in marketing and value chains are crucial, urging private sector participation.
- Manufacturing: Holds potential for increased growth and employment. Participation in global supply chain realignments is vital. Successful initiatives like the PLI scheme have spurred growth in electronics, pharma, and auto components, with more opportunities in emerging sectors like aerospace and electric vehicles.
- Services Sector: Embraces technological advancements, witnessing a rise in start-ups and a shift towards tech-driven services. There's a growing need for Indian businesses to adapt to meet external demands.
- External Position: India's strong external position is buoyed by resilient services exports, providing a cushion against declining global merchandise exports. Diversification in services beyond IT is a notable trend, contributing to the current account stability.
- Overall Outlook: India's growth trajectory, powered by manufacturing, services sectors, and robust domestic demand, promises self-sustaining growth in the future.

Some Reflections on Financial Sector Issues

- Banking Resilience: The Indian banking system demonstrates resilience with improved capital ratios and robust earnings. However, continued success demands enhanced risk management practices and the establishment of additional buffers to tackle potential adversities in the future.
- Regulatory Strength: The Reserve Bank of India has bolstered regulation and supervision, implementing pre-emptive macro prudential measures. Emphasis remains on governance, risk management, and vigilant supervisory practices using various tools.

Precautionary Suggestions

- Credit Growth and Management: Banks and NBFCs must ensure sustainable credit growth, sync expansion, and pricing with risk expectations, while fortifying asset-liability management.
- Interconnectedness and Contagion Risk: Attention is warranted on the interlinkages between banks and NBFCs, urging diversification of funding sources and careful evaluation of exposure.
- Microfinance Prudence: Microfinance institutions should exercise judicious interest rate practices, prioritizing borrower affordability and transparency.
- Fintech Collaboration and Model-based Lending: Collaboration with fin-techs necessitates careful reliance on model-based lending, ensuring robustness, periodic testing, and recalibration to prevent undue build-up of risk due to information gaps.

Conclusion

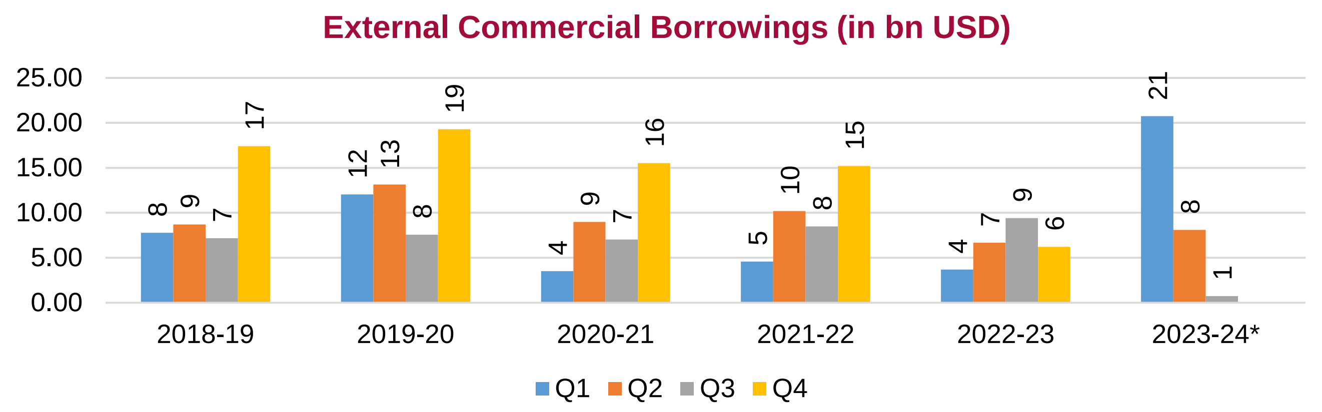
- In an interconnected world with high uncertainty, new sources of risks are emerging from time to time.
- New opportunities are knocking at the doors of businesses. It is for them to capitalize on it. There needs to be greater focus on investment in capacity building, skilling of human resources and adoption of newer technology by all players.
- The international confidence in India’s prospects is at an all-time high. It is an opportune time to make this India’s moment and work towards strong, sustainable and inclusive growth.

6. RISING EXTERNAL COMMERCIAL BORROWINGS - A CONCERN?

External commercial borrowings (ECB) refer to the borrowing of funds by Indian companies from foreign sources in the form of loans, bonds, or other financial instruments. ECBs can be used to finance a variety of purposes, including the expansion of business, the acquisition of assets, and the repayment of existing debt. As per RBI guidelines, all entities except a Limited Liability Partnership are allowed to raise ECBs.

ECBs can be obtained through either the automatic route or the approval route. In the automatic route, the Authorized Dealer (AD) Category-I bank assesses the case. Alternatively, in the approval route, the borrower submits a request to the Reserve Bank of India (RBI) through the AD for evaluation. Although the regulatory provisions are largely alike, distinctions between the two routes encompass the borrowing amount, borrower eligibility, and permissible end-uses.

It is to be noted that the data available on the RBI is based on applications made for ECB or foreign currency convertible bonds (FCCB), against which registrations are allotted during that period. This may or may not be the same as the actual amount brought into the country through the ECB route. It, however, does reflect the trend in demand for such borrowings.



**includes data only until October 2023*; *Source- RBI*

Key Takeaways

- In January 2019 RBI relaxed the guidelines for approval of ECB applications. These relaxations included expanding the range of qualified borrowers, increasing the limit on such borrowings from \$500 million to \$750 million for all applicant categories, and up to \$10 billion for OMCs (Oil Marketing Companies), along with a reduction in the minimum maturity period for such borrowings. As a result, total ECB registrations in the fourth quarter of 2018-19 increased sequentially by 143% over Q3 FY19. Further, they went on to record a 27% growth in the subsequent year, 2019-20.
- In the year 2020-21, ECB registrations fell by 33% in the aftermath of the pandemic, before growing by 10% in the following year.

- Total ECB registrations fell by a third (32%) in 2022-23, on the back of rising global interest rates and tightening liquidity conditions. They stood at a 5 year low of $25.98 billion. During this period, the US Fed raised interest rates by 500 bps- the most aggressive tightening cycle in 4 decades, to combat high inflation, which resulted in a spike in the cost of funds globally. Additionally, volatility in rupee increased the risks of borrowing funds from overseas markets. Another reason for the drop in volume in 2022-23 was the strong growth in bank credit in the domestic economy.
- In the current financial year (2023-24), while ECB registrations picked up in the first quarter, rising to 20.73 billion USD, the highest in last 5 years, they have declined subsequently due to evolving geopolitical conditions.
- According to RBI, nearly two thirds of new ECBs in the April-July period this year were raised for capital expenditure.
- Going forward, as long as the macroeconomic uncertainties persist, and the interest rate differential is not substantial, the ECB registrations are expected to continue to remain measured.
- The average maturity profile for the ECBs in the 10 months of 2023-24, up to October 2023, was 6.95 years, down from 7.01 years in 2022-23.
- As per data, NBFCs make up for approximately 25-35% of the total ECB registrations in any given year. In 2022-23, 30% of total borrowings were made by NBFCs. This figure stood at 21%, up to October 2023.
- The end uses for NBFCs can broadly be categorized in the following areas- refinancing, working capital needs and on-lending/sub lending and micro finance activities.
- In November 2023, as a prudential measure, RBI increased the risk weightage on bank credit to NBFCs by 25%, over and above the risk weight associated with the external rating, in all cases where the extant risk weight as per external rating of NBFC is below 100%. This is expected to impact the domestic cost of funds for NBFCs, which may them affect their fund raising plans from the domestic and global markets in the remaining year.
- Notably, the maturity profile for the borrowings raised by NBFCs has been considerably shorter compared to the average for all corporations taken together. The average maturity for NBFCs in the current financial year up to October 2023 stood at 4.68 years compared to 6.95 years for all the borrowers during this period.
- Going forward, we expect the external commercial borrowings by NBFCs to rise as the cost of funds in domestic markets is impacted, given the changes in regulatory environment domestically. In this backdrop, given the relatively short-term nature of borrowings undertaken by NBFCs, it will expose them to exchange rate risks emanating from volatility in the global currency markets. A strengthening US dollar will impact the ability of these firms to finance their debt, forcing them to undertake even greater borrowings for refinancing purposes.
- In 2019, RBI relaxed the norms for ECBs by reducing the mandatory hedging requirement to 70% from the then existing 100%. The relaxed norms were to apply to ECBs with a maturity period between 3 and 5 years. This move was aimed at lowering the final cost of overseas borrowings in the light of increasing costs of hedging. However, in the present context, it is advised that NBFCs voluntarily undertake hedging of their overseas borrowings, over and above the prescribed limits, to ensure mitigating exchange rate volatility, and maintaining healthy balance sheets.

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7. AN OVERVIEW OF STATE FINANCES

Budget of state finances published by the RBI to analyse the fiscal position of the Indian states, including the trends and challenges in their revenue and expenditure.

The improvement in State finances achieved in 2021-22 was sustained in 2022-23 by containing gross fiscal deficits (GFDs) within the budget estimates (BE) for the second consecutive year.

Some of the key fiscal indicators of states are-

States' consolidated gross fiscal deficit to GDP (GFD-GDP) ratio fell from 4.1 percent in 2020-21 to 2.8 percent in 2021-22 (within the Centre's 4% limit), owing to a reduction in revenue spending and an increase in revenue collection. While the revenue shortfall shrank, the primary deficit remained significant.

Table: Major Deficit Indicators – All States and UTs with legislature (Rs. in lakh crore)

	2020-21	2021-22	2022-23 (BE)	2022-23 (RE)	2022-23 (PA)	2023-24 (BE)
Gross fiscal Deficit (Per cent of GDP)	8.05 (4.1)	6.55 (2.8)	8.83 (3.2)	9.24 (3.4)	7.53 (2.8)	9.48 (3.1)
Revenue Deficit (Per cent of GDP)	3.71 (1.9)	1.02 (0.4)	0.84 (0.3)	1.25 (0.5)	0.80 (0.3)	0.35 (0.1)
Primary Deficit (Per cent of GDP)	4.18 (2.1)	2.27 (1.0)	4.12 (1.5)	4.51 (1.7)	3.35 (1.2)	4.29 (1.4)

BE- Budget Estimates, RE- Revised Estimates, PA- Provisional Accounts
Source: State Finances- A study of budgets of 2023-24, RBI

States have budgeted a GFD-GDP ratio of 3.1 per cent in 2023-24, below the Centre's limit of 3.5 per cent for the year. State having the highest GFD for the year 2022-21(RE) is Bihar (9.2%). State revenue receipts went up considerably in 2021-22 as a result of the easing of lockdown measures and the ensuing recovery in economic activity. The increase in revenue collections was driven by an increase in tax revenue (both own taxes and tax devolution) as well as non-tax revenue, which offset the reduced funding from the Centre.

States have budgeted a significant increase in revenue receipts for 2023–24 compared to 2022–2023 (PA), assuming a widespread recovery in each of the major elements. Approximately 79% of the states' total tax revenue is collected through sales tax, SGST, and excise taxes.

Increased receipts from the auction of mines and renewal of existing mining licenses, power sector reforms, interest income, and general services are all expected to contribute to the rise in non-tax revenue. Enhanced forecast accuracy of revenue estimations, encompassing tax buoyancy, is vital for states to achieve superior fiscal management.

- Surge in revenue collection was driven by the increase in tax revenue.
- Within own tax revenue- stamp duty and registration fees, sales tax, and State Goods and Services Tax (SGST) contributed positively to revenue increment
- Several State governments are implementing measures to augment their revenues.
  - ➢ Himachal Pradesh's Sadbhavna Yojana addresses pending cases under different tax Acts.
  - ➢ Kerala and Karnataka are aiming to reduce disparities between property guidance values and market values to increase tax collection from registration and stamp duties.

- After reaching a historic high in 2020-21, states' revenue expenditure (as a % of GDP) fell in 2021-2022, reflecting fiscal austerity measures and a reduction in the need for COVID-19-related expenditures**.**
- **Capital expenditures** (includes capital outlay and loans and advances by the State governments) recorded a robust growth of 28.7% in 2021-22.
  - Strong growth in tax and non-tax revenues and the advancement of payment by Centre for tax devolution and GST compensation provided the necessary fiscal space to accelerate capital outlay towards agriculture and allied activities, particularly food storage, and warehousing.
  - **Expenditure on research and development**- Available data for 10 States and UTs suggest that their consolidated expenditure on research and development (R&D) rose marginally from 0.07 per cent of their combined GSDP in 2020-21 to 0.10 per cent in 2022-23 (RE)

Outcome in 2023-34 so Far

- During H1:2023-24, States' consolidated GFD remained higher on a year-on-year (y-o-y) basis, due to the lower growth in revenue receipt and robust growth in capital expenditure. Within revenue receipts, growth in tax revenue and non-tax revenue decelerated from a high base.
- States' revenue expenditure growth decelerated to 8.9 per cent in H1:2023-24.
- Capital outlay increased by 52.6 per cent during H1:2023-24, driven by support from the Union Government's Scheme for Special Assistance to States for Capital Investment

Conclusion

- States' debt-to-GDP ratio fell to 27.5% at the end of March 2023, down from 31% at the end of March 2021. Individually, however, some states' debt-to-GDP ratios remain high. The Centre's assistance in the shape of 50-year interest-free capex loans has helped states reduce their interest cost. The overall fiscal picture for states in 2023-24 remains favourable, with ample fiscal space for increasing capex. The overall expenditure quality of the States has improved in the post-pandemic period
- Moreover, the Centre and the States are gradually modernizing their banking arrangements, cash management practices and funds transfer mechanisms through adoption of a Single Nodal Agency (SNA) system which would strengthen the public funds disbursal system in India.
- The implementation of goods and services tax (GST) has led to increased tax buoyancy for the States. Currently, the States finance only 58 per cent of their revenue expenditure from their own revenue sources

Way forward

- Internal estimates suggest that if all the State governments revert to OPS from the National Pension System (NPS), the cumulative fiscal burden could be as high as 4.5 times that of NPS, with the additional burden reaching 0.9 per cent of GDP annually by 2060.
- States need to scale up their initiatives for asset monetization in order to increase non-tax revenue.
- There is also a need to review the current system of grants from the Centre to the States. Currently, revenue deficit grants are disbursed to those States which are assessed to have high revenue deficits post tax-devolution. Such protected revenues could dis-incentivize the States from carrying out fiscal reforms.

8. MANAGING INFLATION AND FOOD SAFETY THROUGH EXPORT CONTROL

The agriculture sector, which employs around 45.5% of the Indian workforce and contributes to 18.3% of the GDP, holds a prominent place in the economy. This importance was seen during the COVID-19 pandemic, when both the services and manufacturing sectors were badly affected, exhibiting negative growth, while agriculture emerged as the bright spot, growing by 3.4%. Food security has become important in these challenging times of global conflicts and climate change adversely affecting the sowing and harvesting cycle. Between 2016 and 2019, there had not been any exports or imports bans on any major agricultural commodity, but there have been recent export bans put in place by the government to ensure food safety and curb food inflation, which is the major contributor to rising inflation and has a 45% weight in the Consumer Price Index (CPI).

The Central Government has taken many measures to minimize food inflation since last year, including limitations on sugar exports and a prohibition on wheat exports in May 2022, a ban on broken rice exports in September 2022, and a ban on non-basmati white rice exports in July 2023.

Restriction on sugar exports:

Restrictions on sugar exports have been further extended indefinitely until a new notification. This comes against the backdrop of the weakest monsoon in the last 5 years, casting doubt on this year's sugarcane production. India is currently the world's largest sugar producer and second-largest exporter, but also the largest consumer. El Nino effect (which lead to drier monsoons in India) has cast a doubt on this year's production, particularly in the states of Maharashtra and Karnataka. In the 2023–24 sugar season, sugar output is predicted to dip to 30 million tonnes (MT), compared to domestic demand of 27.5–28 MT. Currently, the country possesses 10.8 MT of sugar. This number is adequate to fulfill present demand as well as demand over the holiday season. According to Niti Aayog, India would need 1,400 crore liters of ethanol to meet its 20% blending objective by 2025. As a result, a significant increase in sugar output and a restriction on exports are necessary amid rising cereal prices. Average inflation in retail sugar prices in the past 10 years stood at around 2 percent per year. In the last six years, prices have remained almost stable, supporting the government's decision to restrict sugar exports.

Restriction on Wheat exports:

The ban on wheat exports came against the backdrop of the Russia-Ukraine war, which has pushed global wheat prices to rise, leading to higher exports from India. Russia and Ukraine together contribute to about a quarter of wheat exports. India, which is the world's 2nd largest wheat producer, accounts for less than 1% of global wheat trade.

The export ban was primarily to curtail the rising domestic prices in the backdrop of huge exports (exports in April 2022 were nearly six times more than in April 2021) and a heat wave that swept across the country in March and April during harvest time. Most of the wheat produced in the country is procured by the government through the Public Distribution System (PDS) to provide subsidized food grains to around 80 crore people under the National Food Security Act (NFSA, 2013). To provide a safety net to the vulnerable population during the COVID-19 pandemic, the government decided to give away 5 kg/person of free food grains to the beneficiaries of the NFSA in addition to the subsidized food grains already given. This took a toll on the buffer stocks with the government. The opening stock of food grains at the beginning of 2023 was the lowest since 2017, when these had declined to 13.7 MT. The discontinuation of PMGKY in 2023 and the export ban on wheat have led to a rise in government buffer stocks, which can be used as a cushion against rising wheat prices.

Restriction on Rice exports:

Restriction on rice exports comes against the backdrop of weak monsoons due to the El Nino effect and a delayed sowing season. India plays a significant role in the rice trade, accounting for around 40% of total rice exports in 2022. India's decision to ban the export of rice pushed world rice prices to a 15-year high. India decided to ban exports of rice on July 20th, and on that day, rice prices were 11.42% higher than a year ago. Rice is a staple food for almost half of the Indian population. PMGKY put a strain on the rice stock with FCI, and with wheat production hitting last year, rice was distributed instead of wheat. The monthly rice requirement under NFSA is 32 lakh MT, but taking different welfare schemes such as PM POSHAN and Integrated Child Development Services (ICDS) into consideration, it comes out to be 35 lakh MT a month. The latest rice export limitations in India might be seen as an extension of the country's wheat sector's troubles. Wheat shortages translate into rice shortages because wheat and rice are alternatives in India's grain inventories. This cycle resulted in a rapid increase in domestic food costs in mid-2022. Rice from Asia accounts for more than 90% of global production and is vulnerable to El Nino due to its high water requirements and underdeveloped irrigation systems in Asia. Going forward, rice prices are set to increase due to uncertain weather conditions, and the export ban on rice will help slow down the growth in rice prices.

India has been an outlier among global economies post-COVID-19. According to the IMF, India is to contribute 15% of global growth in 2023. This growth comes against the backdrop of sound fiscal and monetary policy, in addition to export restrictions and foreign diplomacy in place. Food and fuel inflation, which are the most volatile components of CPI, have to be managed to achieve stable and sound growth. Fuel inflation was managed to some extent by cheaper oil imports from Russia, and food inflation is being brought under control through export controls.

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9. GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of Circular	**19-Dec-2023**
Ref. No.	RBI/2023-24/90 DOR.STR.REC.58/21.04.048/2023-24
Subject	**Investments in Alternative Investment Funds (AIFs)**

Gist: Regulated Entities (REs) make investments in units of AIFs as part of their regular investment operations. However, certain transactions of REs involving AIFs that raise regulatory concerns have come to our notice. These transactions entail substitution of direct loan exposure of REs to borrowers, with indirect exposure through investments in units of AIFs.

In order to address concerns relating to possible ever greening through this route, it is advised as under:

(i) REs shall not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the RE.
(ii) If an AIF scheme, in which RE is already an investor, makes a downstream investment in any such debtor company, then the RE shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. If REs have already invested into such schemes having downstream investment in their debtor companies as on date, the 30-day period for liquidation shall be counted from date of issuance of this circular. REs shall forthwith arrange to advise the AIFs suitably in the matter.
(iii) In case REs are not able to liquidate their investments within the above-prescribed time limit, they shall make 100 percent provision on such investments.

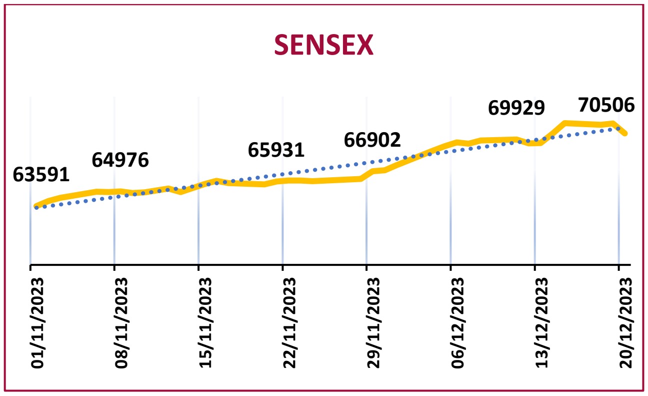
In addition, investment by REs in the subordinated units of any AIF scheme with a 'priority distribution model' shall be subject to full deduction from RE's capital funds.

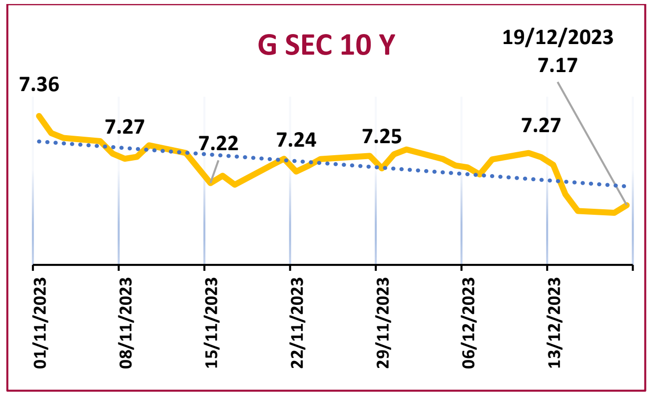
Date of Circular	**12-Dec-2023**
Ref. No.	RBI/2023-2024/88 CO.DPSS.POLC.No.S-882/02.14.003/2023-24
Subject	**Processing of e-mandates for recurring transactions**

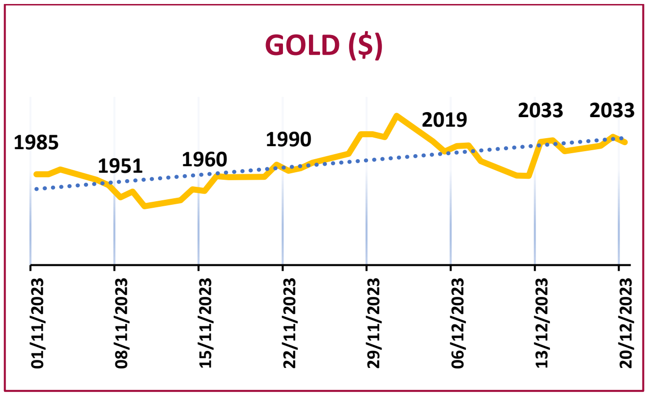
Gist: With respect to Processing of e-mandates for recurring transactions, as announced in the Statement on Developmental and Regulatory Policies dated December 08, 2023, it has been decided to increase the limit from ₹15,000/- to ₹1,00,000/- per transaction for the following categories: (a) subscription to mutual funds, (b) payment of insurance premiums, and (c) credit card bill payments.

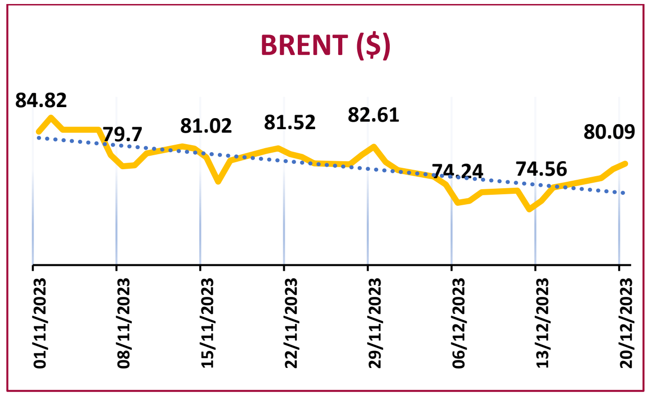
(Duration: 17th Nov'2023 to 19th Dec'2023)

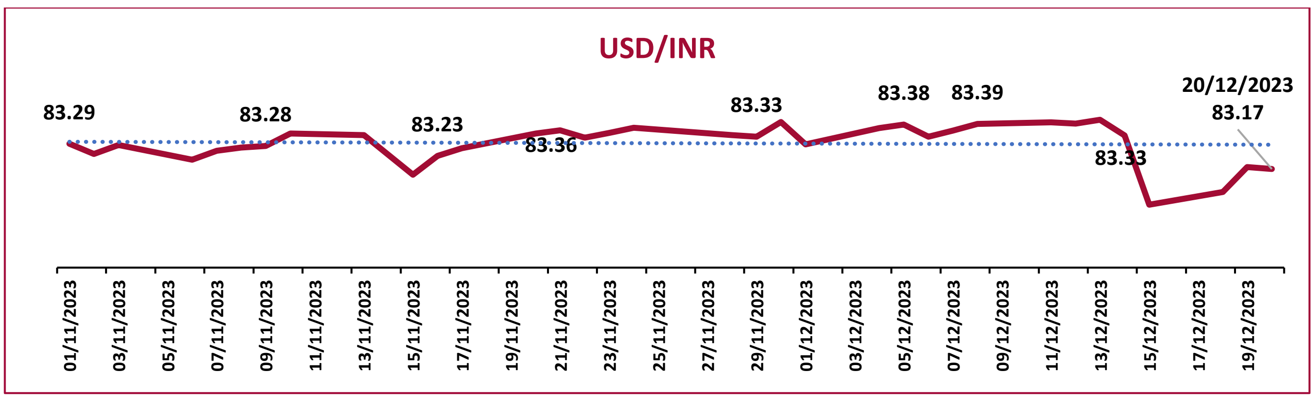
10. DAILY ECONOMIC INDICATORS

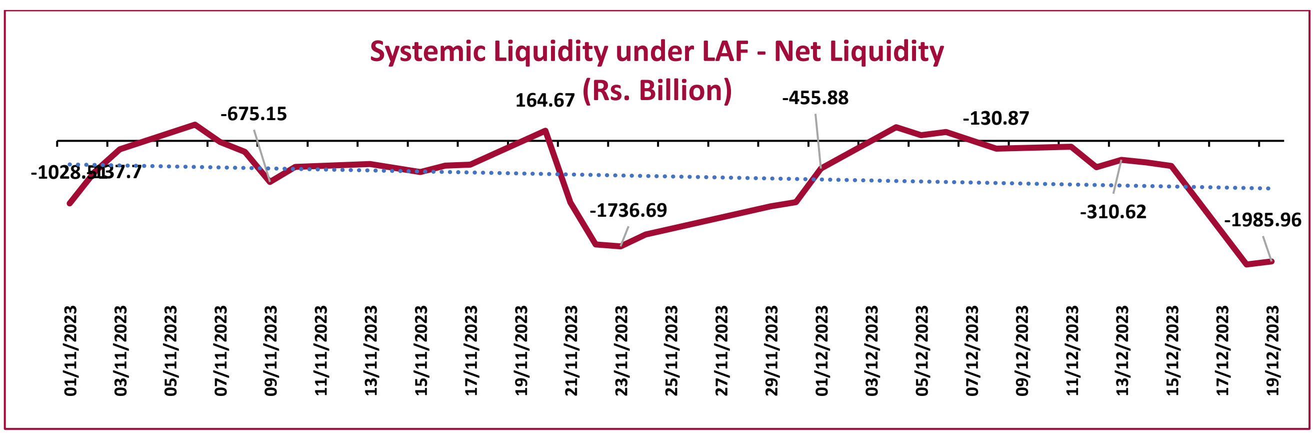








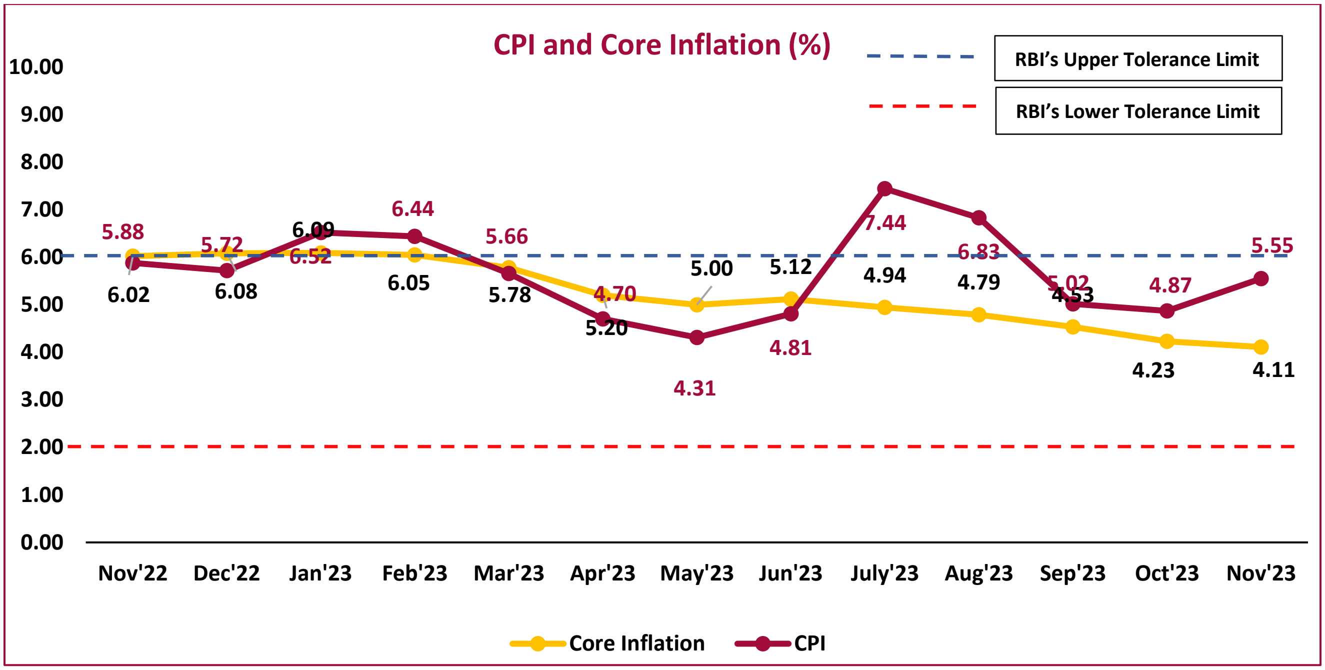


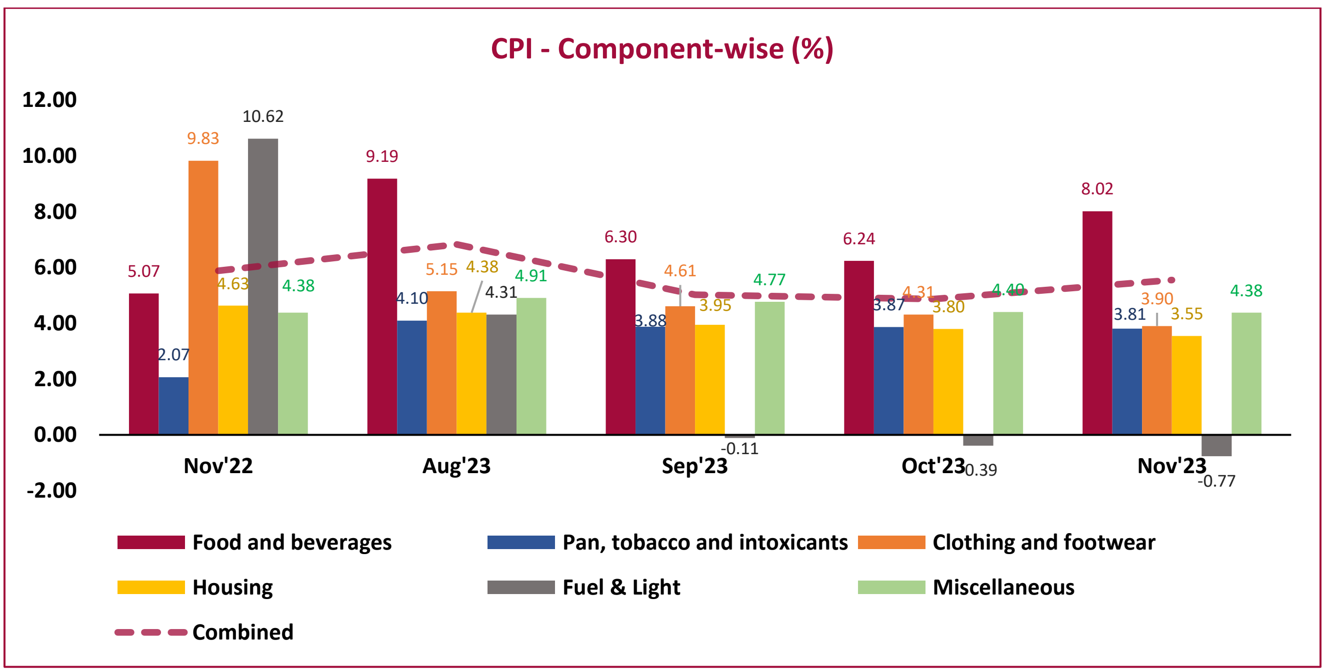


11. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation rises to 5.55%

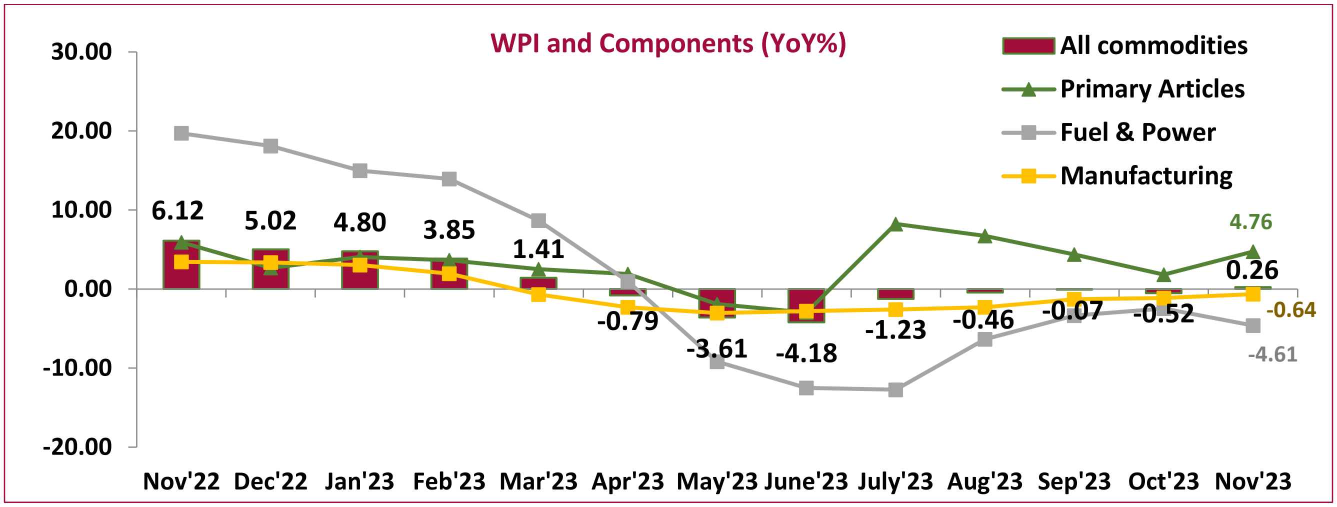




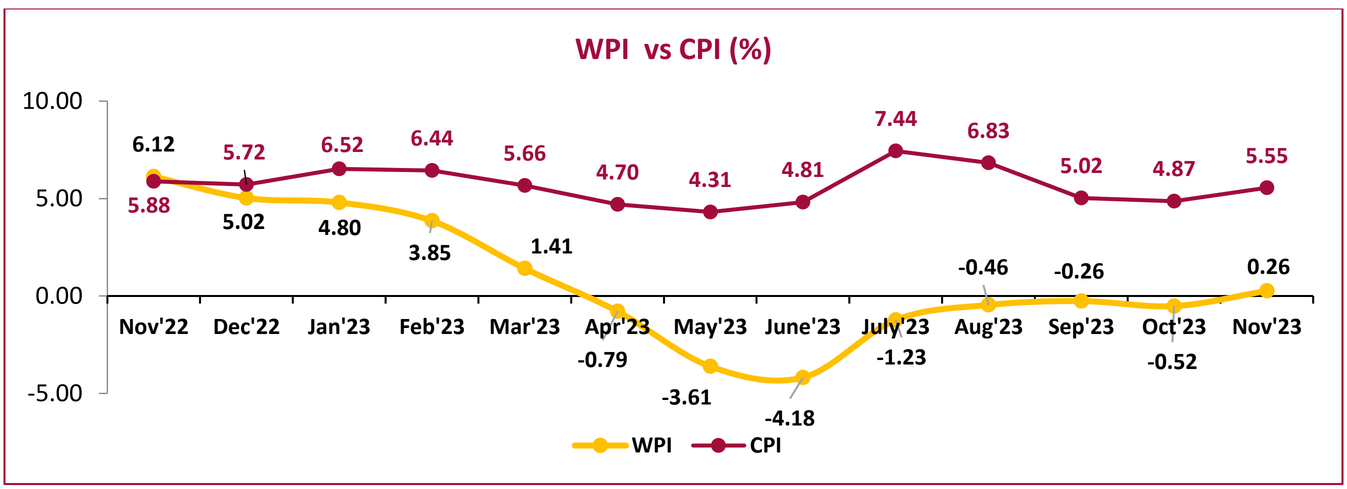
India's retail inflation escalated in November 2023 to 5.55%, due to high food inflation. Food Price Index increased to 8.70% due to high inflation witnessed in cereals, fruits & vegetables and spices.

WHOLESALE PRICE INDEX (WPI)

WPI inflation turns positive for November at 0.26%



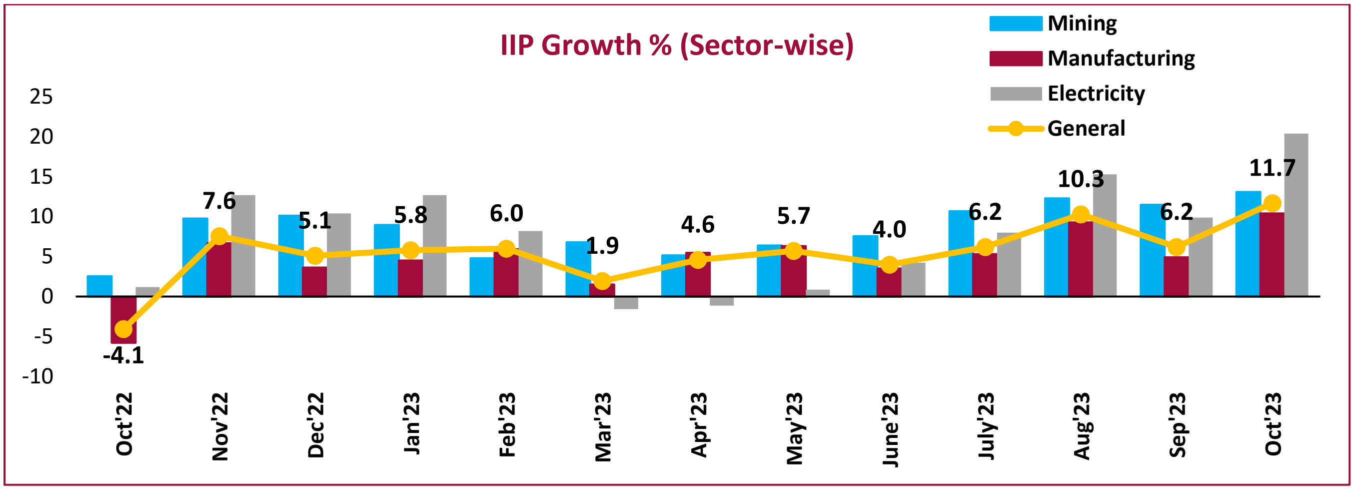
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	**22.62%**		**13.15%**		**64.23%**		**15.26%**		**100%**	
	2022	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
September	11.54	**3.70**	33.11	**-3.35**	6.12	**-1.34**	11.03	**3.35**	10.55	**-0.26**
October	11.17	**1.82**	25.40	**-2.47**	4.42	**-1.13**	8.45	**2.53**	8.67	**-0.52**
November	5.94	**4.76**	19.71	**-4.61**	3.44	**-0.64**	1.51	**8.18**	6.12	**0.26**



India's WPI turned positive in November 2023, after remaining negative for seven consecutive months. Inflation was primarily led by rise in prices of food articles, mineral, machinery, computer, electronics, as well as those of motor vehicles, other transportation equipment and other manufacturing.

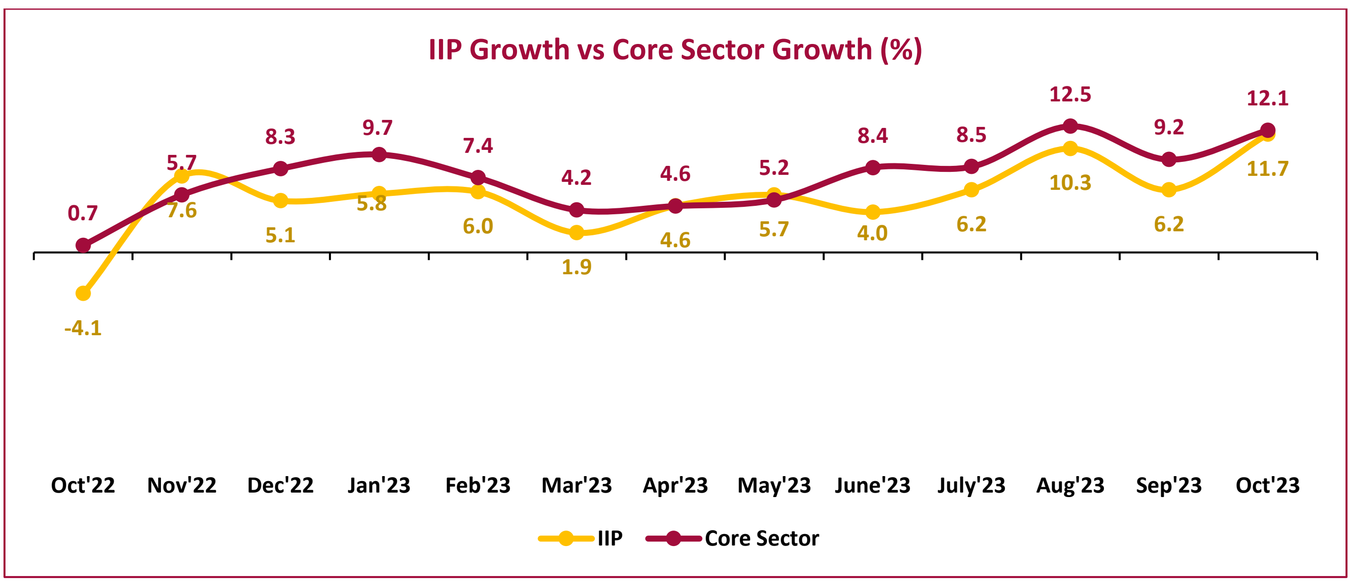
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth witnesses huge jump in Ocotber'23



IIP growth % (Usage-wise)

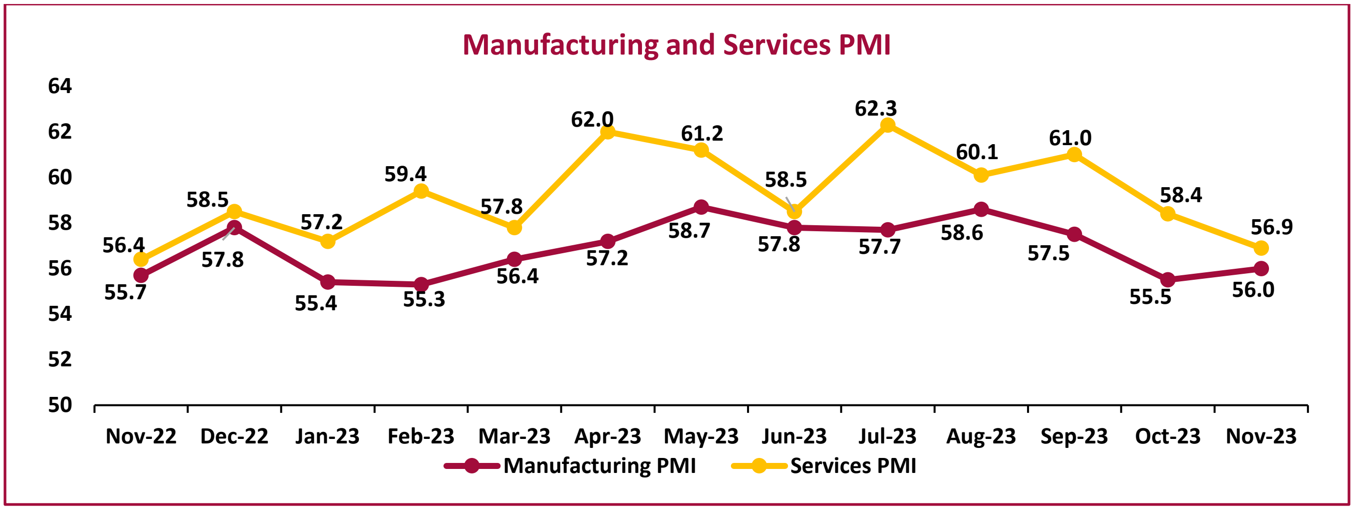
Component	Weight	Oct'22	Sep'23	Oct'23	Apr-Oct'22	Apr-Oct'23
Primary Goods	34.05%	2.1	8.0	11.4	8.2	7.0
Capital Goods	8.22%	-2.9	7.4	22.6	14.0	9.0
Intermediate Goods	17.22%	-2.3	5.8	9.7	5.4	5.1
Infra/Construction Goods	12.34%	1.7	7.5	11.3	6.8	12.3
Consumer Durables	12.84%	-18.1	1.0	15.9	5.4	1.4
Consumer Non- Durables	15.33%	-13.0	2.7	8.6	-4.0	7.1



IIP growth jumped to 11.7% in October 2023. In sector wise performance, electricity sector showed the highest growth of 20.4% followed by mining and manufacturing. In use based, highest growth has been observed in capital good (22.6%), followed by consumer durables (15.9%).

PURCHASING MANAGERS' INDEX (PMI)

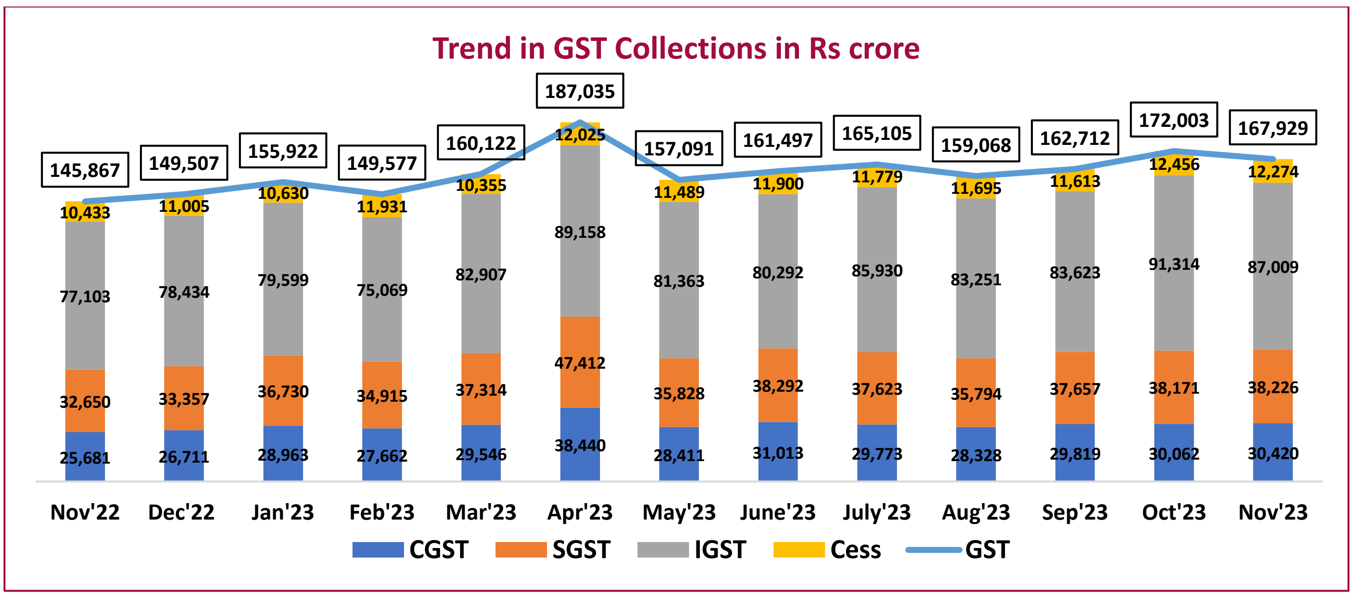
Manufacturing PMI rises in November'23



Manufacturing PMI in November'23 rose from its lowest in last 8 months in October'23 due to strengthening demand and low input costs. India's services sector PMI witnessed a drop owing to slowing growth for both new orders and output across key services but they were nevertheless sharp and well above their respective long-run averages. Composite PMI declined due to slowing services activities while manufacturing PMI showed signs of recovery and prevented a steeper decline of composite PMI.

GOODS AND SERVICES TAX (GST)

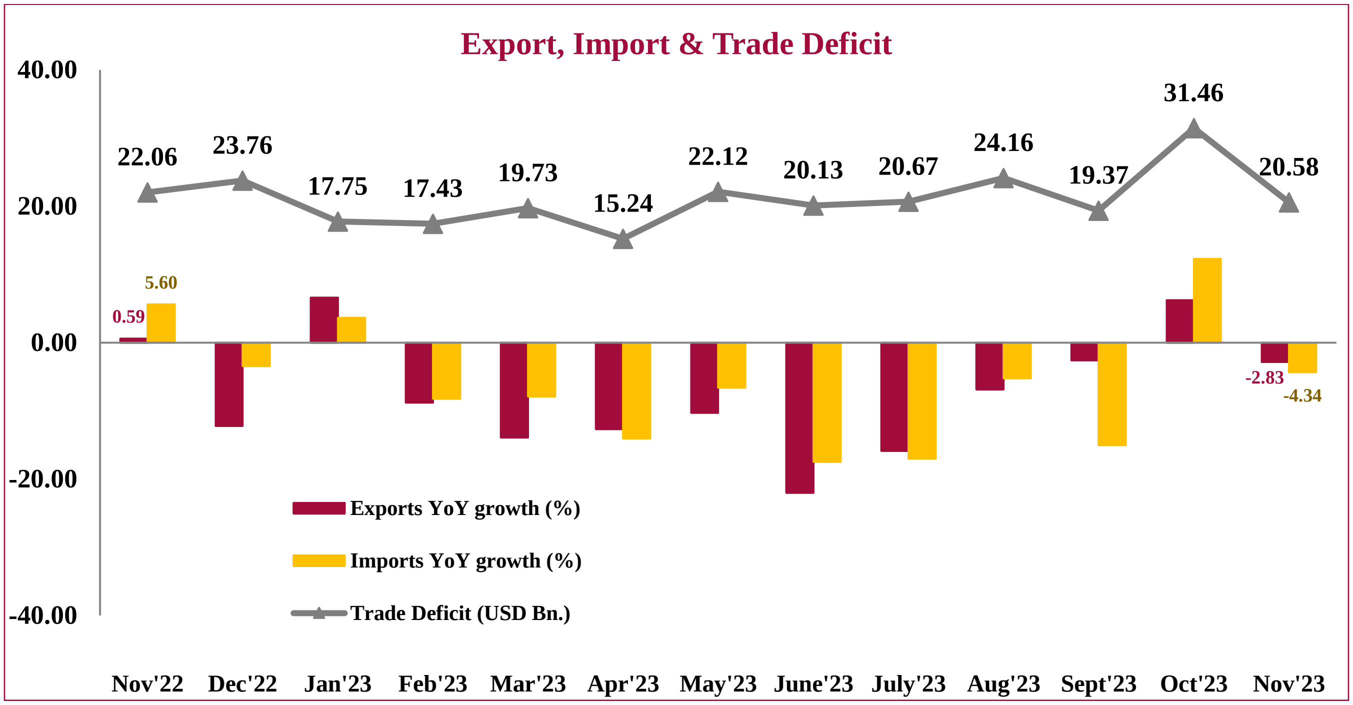
GST Collections rise by 15% in November'23

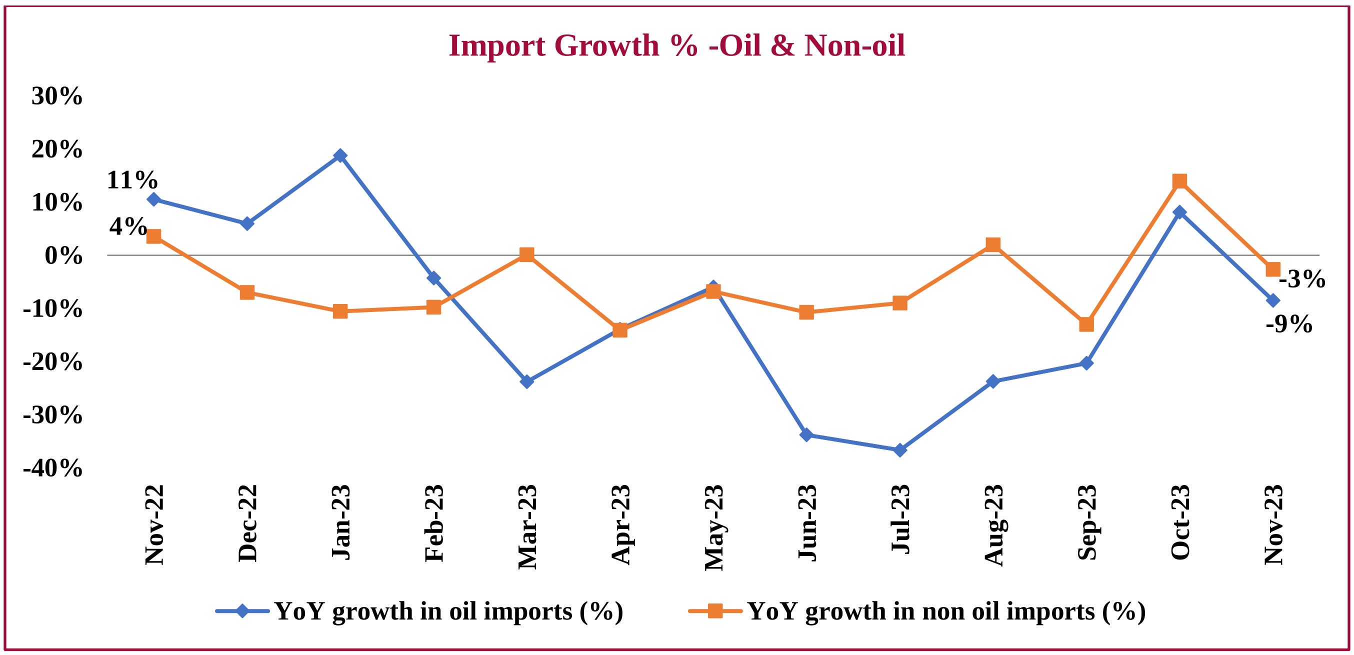


GST Collections for November 2023 was Rs.1,67,929 Crore showing a growth of 15.12%. Monthly average GST receipts are now at ₹1.66 trillion, a notch above policy makers' initial estimate of ₹1.65 trillion.

FOREIGN TRADE

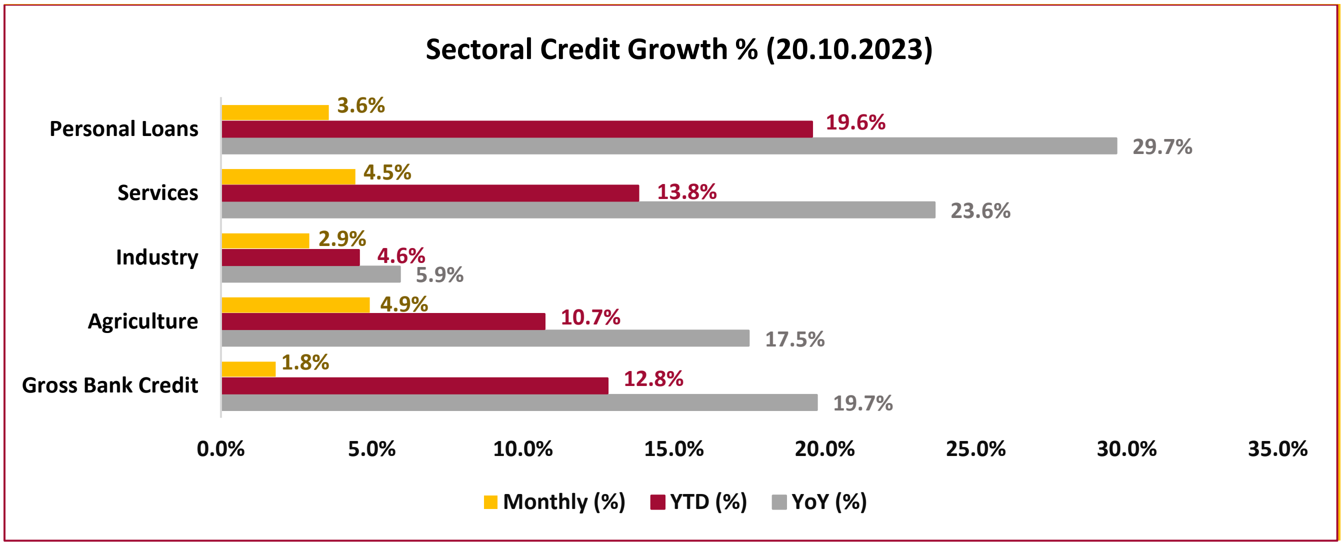
Trade deficit narrows to USD 20.58 Billion in November'23





Merchandise exports fell slightly to $33.90 billion, down 2.8% YoY in November'23. Meanwhile merchandise imports also fell to $54.48 billion, down by 4.3 % YoY in November'23. Both exports and imports contracted after rising in October'23 following eight consecutive months of contraction. India's merchandise trade deficit narrowed sharply to $20.58 billion in November'23 from the previous month's record levels as imports of gold, petroleum and electronic goods moderated.

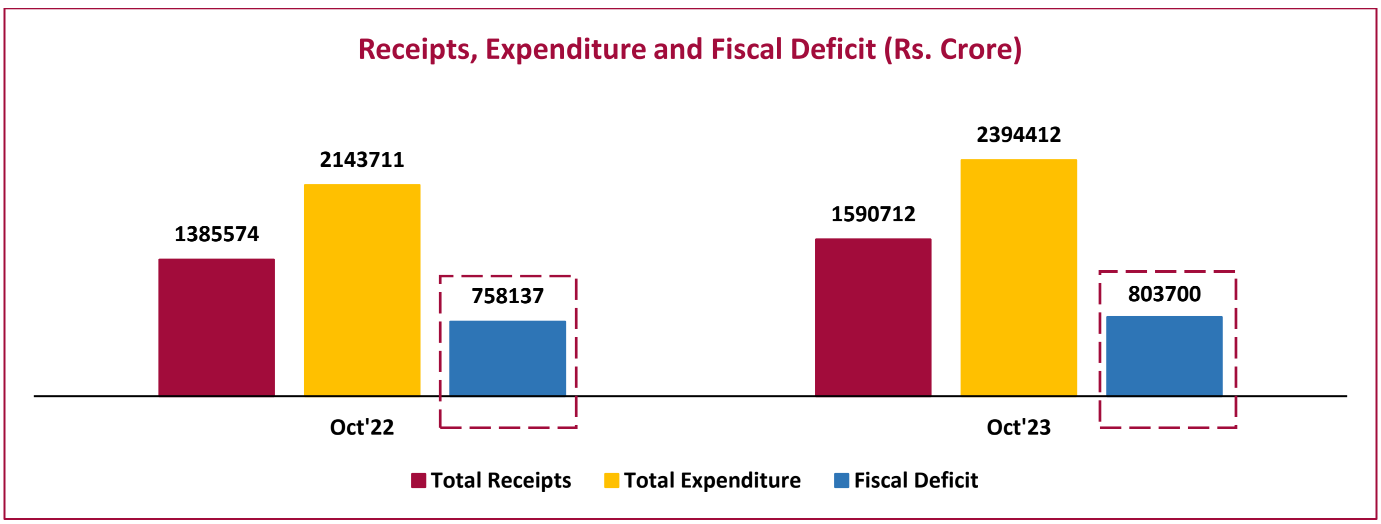
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	02.12.22	26.03.23	17.11.23	01.12.23	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	175.24	151.13	196.52	198.81	**13.4%**	**31.5%**	**1.2%**
Advances	131.06	109.52	156.21	158.30	**20.8%**	**44.5%**	**1.3%**
Business	306.30	260.65	352.73	357.11	**16.6%**	**37.0%**	**1.2%**

FISCAL DEFICIT

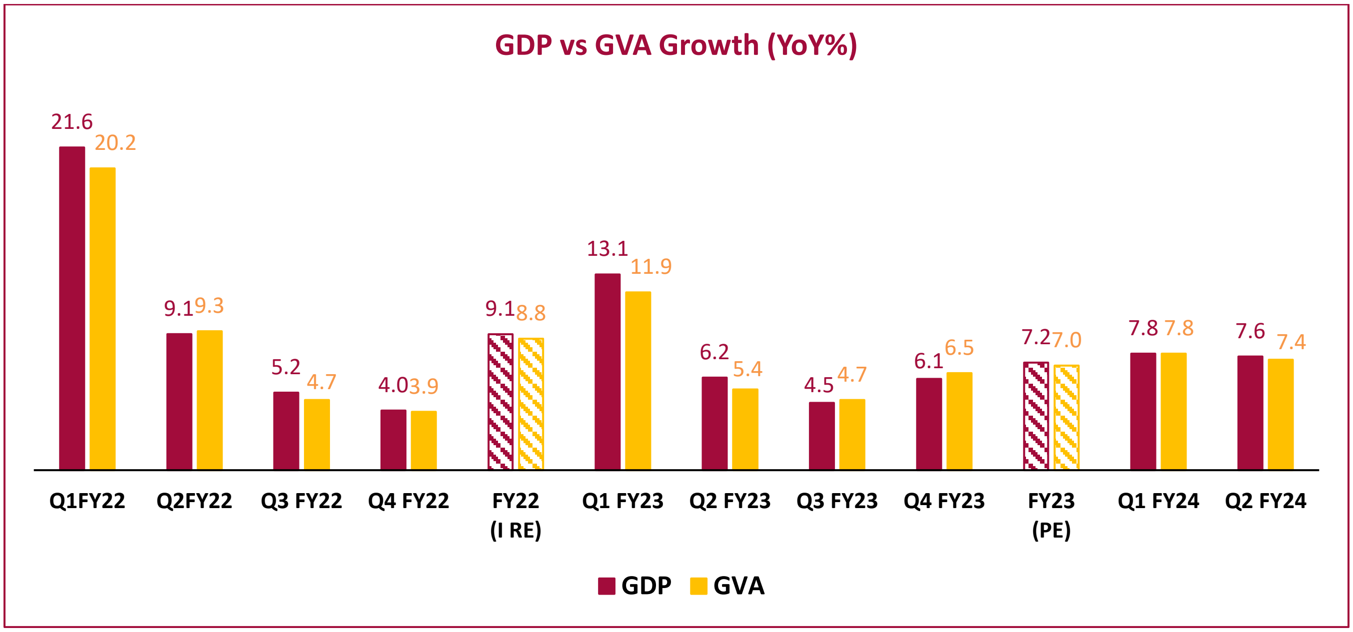


The government's fiscal deficit for the seven months ending October 2023 touched Rs.8.04 trillion- which is 45% of the Budget Estimates. This was almost at par with last year's achievement by this time.

12. QUARTERLY ECONOMIC INDICATORS

GROSS DOMESTIC PRODUCT (GDP) & GROSS VALUE ADDED (GVA)

Indian economy grows by 7.6%



GDP for Q2 FY24 grew by 7.6% as compared to a growth of 7.8% in the previous quarter (Q1 FY24) and a growth of 6.2% in Q2 FY23. GVA growth, which excludes indirect tax and subsidies, was pegged at 7.4% in Q2 FY24. The growth was mainly driven by the manufacturing sector, which expanded by 13.9% as compared to a growth of 4.7% in the previous quarter.

13. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	-0.10	Jan 29, 2016 (-20 bps)	Jan 23, 2024
European Central Bank (ECB)	Europe	4.50	Sep 14, 2023 (25 bps)	Jan 25, 2024
Federal Reserve	U.S.A	5.50	Jul 26, 2023 (25bps)	Jan 31, 2024
Bank of England	U.K	5.25	Aug 03, 2023 (25 bps)	Feb 01, 2024
Peoples Bank of China	China	3.45	Aug 21, 2023 (-10 bps)	-
Reserve Bank of India	India	6.50	Feb 08, 2023 (25 bps)	Feb 08, 2024

14. INDUSTRY OUTLOOK

Defence

With adversarial neighbors on two fronts and a turbulent world of geopolitics, India's defense industry holds more importance than ever. India has traditionally relied on Russia for its defence needs, but the conflict in Ukraine revealed this over-reliance with delays in the delivery of air defence systems and military hardware. The government of India has implemented significant reforms in the defence sector to lessen the reliance on imports and bolster the country's defence capabilities.

A total budget allocation of ₹5.94 lakh crore, or 13.18% of the overall budget, was given to the Ministry of Defence. India's military spending of US$ 76.6 billion ranked third highest in the world in 2021. The value of defence production in the country crossed Rs.1 lakh crore (US$ 12 billion) for the first time on the back of key reforms to spur growth in the sector that holds vast potential. The figure stood at Rs.1,08,330 crore (US$ 13.07 billion) in FY23 compared to Rs.95,000 crore (US$ 11.47 billion) in FY22 and Rs.54,951 crore (US$ 6.63 billion) five years ago. The Indian government has set the defence production target at US$ 25 billion by 2025.

It is anticipated that measures like streamlining the defence product procurement process, positive Indigenisation list, allowing the government to finance up to 70% of development costs, and increasing foreign direct investment (FDI) to 74% through the automatic route will encourage more investment in the field. The Indian private sector participation has grown since the opening of the defence sector and evolved from producing components and sub-systems to developing complete equipment and systems, system of systems, and platform-level solutions.

The three largest market segments of India's defence sector are fixed-wing military aircraft, naval vessels, and surface combat aircraft, and missiles and missile defence systems. As of October 2022, a total of 595 industrial licenses have been granted to 366 companies operating in the defence sector. Defence exports have increased by 334% over the past five years. More than 90% of the exports are by private defence companies. India has set an export target of USD 5 billion by 2025. The global demand for India's indigenous products, such as the LCA-Tejas, Light Combat Helicopters, Aircraft Carriers, and MRO activities, is also on the rise. Key defence stocks have jumped 30 to 145 percent so far outperforming the benchmark index.

India has also planned to make 2 defence industrial corridors, one in Uttar Pradesh and the other in Tamil Nadu. This will integrate the whole defence manufacturing ecosystem and bring in synergy. With the increased allocation of the defence budget towards R&D, the sector is expected to reap benefits in the coming years. *(Data Source: www.ibef.org)*

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15. DATA SOURCES

- *Reserve Bank of India (RBI)*
- *Ministry of Statistics and Programme Implementation (MOSPI)*
- *Office of Economic Adviser*
- *Ministry of Commerce and Industry, Department Of Commerce*
- *S & P Global*
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- *Websites of major Central Banks*
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- *Cogencis*

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QUOTE OF THE MONTH

"Books are the mirrors of the soul."

- Virginia Woolf

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