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STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग
कॉर्पोरेट कार्यालय, प्लॉट सं. 4, सेक्टर-10,
द्वारका, नई दिल्ली-110075

For any feedback or valuable suggestions: *Reach us at* ***eicsmead@pnb.co.in***

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Economic Scenario as we enter 2023

The New Year has brought with itself new uncertainties, new challenges and new hope for this year.

Global Scenario

The global economy in 2023 is marred with slowing growth, sticky inflation and rising interest rates. A mild recession in Europe is expected on the back of the energy crisis, and in the US due to the abrupt normalization of monetary and financial conditions. Stronger balance sheets, demand backlog, and fiscal support will help limit the damage.

The shift in China's containment measures will alleviate pressures on a slowing global trade.

The global economy is projected to grow by 1.7% in 2023 and 2.7% in 2024 as per the latest Global Economic Prospects by World Bank.

Inflation is likely to moderate in 2023 from current levels, but it would remain well above targets in most economies. It is now expected that the policymakers are likely to shift toward supporting growth and protecting against deep and prolonged economic downturns.

The combination of slow growth, tightening financial conditions, and heavy indebtedness is likely to weaken investment and trigger corporate defaults. Further negative shocks—such as higher inflation, even tighter policy, financial stress, deeper weakness in major economies, or rising geopolitical tensions—could push the global economy into recession.

Investment growth in Emerging Markets and Developing Economies is expected to remain below its average rate of the past two decades through the medium term.

Brent crude prices reversed a large part of the price gain during the initial months of Ukraine war, falling by around 34 per cent till January 31, 2023 from the peak of USD 129.3 per barrel recorded on March 8, 2022. **Oil prices are expected to soften during 2023 and to average around $ 90 per barrel.**

Domestic Developments

Growth in India is projected to slow to 6.9% in FY23, a 0.6 percentage point downward revision since June, highlighting that India is expected to be the fastest growing economy of the seven largest developing economies as per the Global Economic Prospect Report.

High frequency indicators suggest that underlying economic activity remains strong. India's manufacturing industry finished 2022 on a solid note as business conditions improved at the fastest rate in over two years. The manufacturing purchasing managers' index, compiled by S&P Global, was at 55.4 in January 2023.

Even though India's Services sector dipped slightly in January 2023 to 57.2 from 58.5 in December 2023, it is well above the 50-mark, which separates growth from contraction.

Private consumption registered an impressive growth of 9.7% in Q2:2022-23. This was due to faster resumption of contact-intensive services, restoration of consumer confidence and high festival season spending after two consecutive years of muted growth. Furthermore, double-digit growth in wages and salaries of firms provided an upward thrust to urban consumption.

The agriculture and allied sector is poised to perform well in the ensuing Rabi season. Despite a slow start, Rabi sowing has picked up pace, supported by congenial soil moisture, sufficient fertiliser availability and elevated open market prices.

India's CAD widened to 4.4% of GDP in Q2:2022-23 from 2.2% of GDP in the previous quarter and 1.2% in 2021-22. The rise in CAD was primarily on account of the widening of merchandise trade deficit reflecting the impact of slowing global demand on exports, even as growth in services exports and remittances remained robust. **CAD is expected to be in the range of 3-3.5% for FY23.**

With respect to India's trade Scenario, the share in global trade is still less than 2% and therefore, emerging scenario of slowdown in Global Trade may not affect India to great extent while certain steps taken up by the Government towards promoting export and containing the trade deficit will also help India in 2023.

Government's supply side focused policy measures to revive capex, stronger private sector balance sheet to help improve corporate sector risk appetite will strengthen India's growth outlook. Further, with capacity utilization on an improving trend in the manufacturing sector, investments are expected to gradually start picking up.

Scheduled commercial banks' (SCBs') credit, which has registered double-digit growth since April 2022, stood at 14.9% on December 30, 2022. Non-food credit growth has been broad-based across sectors, led by retail loans and loans to the services sector. Large industries credit off take posted a turnaround with positive momentum.

Lending and deposit rates of SCBs have continued to move higher since May 2022 in response to the 225 bps increase in the policy repo rate. **It is quite certain that the demand for credit may end with more than 15% (Y-o-Y) growth in FY23 and deposit growth for FY 23 will be around 10-11%.**

Going forward, the impact of high inflation on household savings/consumption and the effect of the increase in interest rates and servicing costs on vulnerable borrowers will remain monitorables. Banks need to be watchful of any irrational exuberance in the credit segment, ensuring credible underwriting.

Outlook

Cognizant of the global economic uncertainties and a possible slowdown, we remain **cautiously optimistic about growth, which may range between 6.8%-7.1% during FY 2022–23 and between 5.7%-6.1% the following year.**

The inflation numbers are also moderating and going forward the inflation will be within the RBI's tolerance band. **The average CPI is expected to be in the range 5.3%-5.5% in Q4'FY23 and 5%-5.2% in Q1'FY24.** RBI is **expected to raise repo rates by 25 bps** in its upcoming Monetary Policy Review in February and conclude the terminal repo rate at 6.50%.

Deepak Singh
(Deputy General Manager)

EXCERPTS: FINANCIAL STABILITY REPORT, DECEMBER 2022

CHAPTER 1: MACRO FINANCIAL RISKS

- ❖ Global economic outlook has deteriorated. Risks to financial stability have become accentuated as central banks have aggressively front-loaded monetary policy tightening synchronously across countries.
- ❖ Indian Economy remains vulnerable to formidable global headwinds, which act as a drag on the domestic economic recovery.

Key Takeaways for the Banking Sector

1. Bank credit growth (y-o-y) by SCBs reached 17.5% in Sept'22.
2. Loan books of PSBs grew at their fastest pace since Sept'13. Lending by private sector banks (PVBs) continued to outpace that of PSB counterparts.
3. Accumulation of deposits in the past few years has enabled banks to fund the growing credit demand. Banks have also been drawing down their high-quality-liquid assets (HQLAs) to fund credit growth.
4. The GNPA ratio stood at 5.0% in Sept'22, down from 5.7% a quarter ago. Reduction in slippages or fresh accretions to NPAs was a major contributor to the reduction in overall NPAs.
5. With the rise in risk-weighted assets, capital levels have reduced; both CRAR and CET1 ratios have declined, though they remain well above regulatory requirements.
6. MSME sector turned around in H2:2021-22 and sustained this momentum in H1:2022-23. Lending by PVBs grew strongly, whereas PSBs recorded a relatively moderate growth.

CHAPTER 2: FINANCIAL INSTITUTIONS: SOUNDNESS AND RESILIENCE

1. Credit and Deposit Growth: SCBs' credit growth (y-o-y), which started picking up during H2:2021-22, sustained its momentum and gathered pace to touch a decadal high of 17.4% as on Dec 16, 2022, a level last observed during 2011. Aggregate deposits recorded some moderation, growing at 9.4% as on Dec 16, 2022.
2. Asset Quality: The GNPA Ratio of SCBs continued to decline and stood at a seven-year low of 5.0% in Sept'22. All SCBs' Net NPA ratio also declined by 70 bps in Mar'22 to 1.7%. PCR has been increasing steadily since Mar'21, and reached 71.5% in Sept'22.
3. Sectoral Asset Quality: The asset quality of all SCBs improved across sectors and broad based improvement in GNPA ratio in respect of the industrial sector, though it remained elevated for gems and Jewellery and construction subsectors.

4. Credit quality of large borrowers: The share of large borrowers in gross advances of SCBs has been on a declining path and their share in total GNPA has come down to 62.2% in Sept'22 from 75.6% two years earlier.

5. Capital Adequacy: The capital to risk weighted assets ratio (CRAR) of SCBs declined by 77 bps from Mar'22 level on account of increase in risk weighted assets (RWAs) as lending activity picked up during H1:2022-23.

6. Earnings & Profitability: Net interest margin (NIM) of SCBs witnessed an improvement of 20 bps between Sept'21 and Sept'22. Profit after tax (PAT) grew 40.7% in Sept'22, led by strong growth in net interest income (NII) and significant lowering of provisions.

CHAPTER 3: REGULATORY INITIATIVES IN THE FINANCIAL SECTOR

1. The extant regulatory framework on ARCs has been amended to strengthen governance norms, enhance transparency and disclosures, strengthen prudential requirement and increase the efficacy of Asset reconstruction companies (ARCs).
2. Based on internal and external review process, the Regulations Review Authority 2.0 (RRA) made recommendations on reduction of regulatory burden, rationalization of reporting mechanism and streamlining of regulatory instructions and communication.

3. CICs brought under the Internal Ombudsman (IO) framework.

4. Exports and Imports may be denominated and invoiced in INR; the exchange rate between the currencies of two trading partner countries may be market determined; and settlement of trade transactions under this arrangement shall take place in INR.

5. A pilot for e₹ in the wholesale segment (e₹-W) for settlement of secondary market transactions in government securities, was launched on Nov 1, 2022 with the participation of nine banks. The first pilot e₹ in the retail segment (e₹-R) was launched on Dec 1, 2022 in select locations in a closed user group comprising customers and merchants across the country.

6. Pilot project on digitalisation of KCC lending is expected to play a pivotal role in facilitating credit flow to the unserved and underserved rural population by making the credit process faster and more efficient.

7. Standard operating procedure (SOP) for Interoperable Regulatory Sandbox (IoRS) issued to facilitate testing of innovative products/services whose business models/activities/features fall within the regulatory ambit of more than one financial sector regulator.

KEY HIGHLIGHTS OF ECONOMIC SURVEY 2022-23

Economic Survey for the Financial Year 2022-23 has been tabled on 31.01.2023. The key highlights of the Economic Survey are given as under:

State of the Economy and external sector

- India's FY23 GDP growth seen at 7.0%
- Economic Survey pegs FY24 GDP growth at 6.0-6.8%
- Economic Survey pegs FY24 base-line nominal GDP growth at 11%
- Economic Survey pegs FY24 base-line real GDP growth at 6.5%
- CAD may widen on high global commodity prices
- India to remain the fastest growing major economy in the world
- India's economic resilience has helped it withstand the challenge of mitigating external imbalances caused by the Russia-Ukraine conflict without losing growth momentum
- The central banks across economies led by the Federal Reserve responded with synchronized policy rate hikes to curb inflation
- The rate hike by the US Fed drove capital into the US markets causing the US Dollar to appreciate against most currencies. This led to the widening of the Current Account Deficits (CAD) and increased inflationary pressures in net importing economies
- India withstood extraordinary set of challenges better than most economies
- Growth driven by private consumption, higher capex, strengthening corporate balance sheet, credit growth to small businesses and return of migrant workers to cities
- Challenge to rupee depreciation persists with the likelihood of further interest rate hikes by the US Fed
- CAD may continue to widen as global commodity prices remain elevated, economic growth momentum stays strong
- If CAD widens further, rupee may come under depreciation pressure
- India has sufficient forex reserves to finance CAD and intervene in forex market to manage rupee volatility
- Elevated downside risks to global economic outlook as inflation persisting in advanced economies and hints of further rate hikes by central banks
- In general, the year 2022 was marked by a return of high inflation in the advanced world after three to four decades, depending on the country. In India, the government and the central bank took decisive measures to cap the rise in prices. India's retail inflation rate peaked at 7.8 per cent in April 2022
- The growth in exports has moderated in second half of current fiscal; the surge in growth rate in 2021-22 and first half of current fiscal led to production processes shifting gears from 'mild acceleration' to 'cruise mode'
- Slowing world growth, shrinking global trade led to loss of export stimulus in the second half of current year

- Schemes like PM KISAN, PM Garib Kalyan Yojana significantly contributed to lessening impoverishment
- Credit disbursal, capital investment cycle, expansion of public digital platform and schemes like PLI, National Logitics Policy and PM Gati Shakti to drive economic growth
- Inflation did not "creep too far above" tolerance range compared to several advanced nations

Fiscal Health

- Government capex driving economic growth in FY23
- Government capex crowding in private investment
- Housing prices firming up after release of pent-up demand, decline in inventories
- Central govt. capex grew 63.4 pc in April-November of current fiscal
- The Gross Tax Revenue registered a YoY growth of 15.5 per cent from April to November 2022, driven by robust growth in the direct taxes and Goods and Services Tax (GST). The growth in direct taxes during the first eight months of the year was much higher than their corresponding longer-term averages
- The GST has stabilized as a vital revenue source for central and state governments, with the gross GST collections increasing at 24.8 per cent on YoY basis during April - December 2022
- Private consumption, capital formation led economic growth in current fiscal has helped generate employment; urban employment rate declined, while Employee Provident Fund registration rose

Banking and financial sector

- The change in RBI's policy stance in FY23 led to a moderation of surplus liquidity conditions that prevailed during the pandemic years
- Monetary policy transmission is well underway as lending and deposit rates increased following the hike in policy rates
- In the government securities (G-sec) market, bond yields were on an upward trajectory until June 2022 on concerns of high inflation and policy rate hikes. These yields moderated in November and December 2022, aided by lower crude oil prices, a slower pace of rate hikes, and general moderation in global sovereign bond yields
- Bank credit growth likely to be brisk in FY24 on back of benign inflation, moderate credit cost
- Credit growth to small businesses remarkably high at over 30.5 pc in January-November, 2022
- Non-food credit offtake by Scheduled Commercial Banks (SCBs) has been growing in double digits since April 2022, with the increase being broad-based. Credit disbursed by Non-Banking Financial Companies (NBFCs) has also been on the rise
- The balance sheet clean-up exercise has been vital in enhancing the lending ability of financial institutions
- The Gross Non-Performing Assets (GNPA) ratio of SCBs has fallen to a seven-year low of 5.0%, while the Capital-to-Risk Weighted Assets Ratio (CRAR) remains healthy at 16.0% and well above the regulatory requirement of 11.5%
- The health of NBFCs has continued to improve as well
- The recovery rate for the SCBs through Insolvency and Bankruptcy Code (IBC) was highest in FY22 compared to other channels

EXCERPTS: REPORT ON TREND AND PROGRESS OF BANKING IN INDIA 2021-22

1. There is an ongoing highly uncertain global environment caused by globalization of inflation, energy and food shortages, and synchronized tightening of monetary policy worldwide. But amid all these the Indian economy is exhibiting signs of a gradual strengthening of the growth momentum, drawing from macroeconomic fundamentals.
2. Report outlined that the Indian banking sector remains robust and resilient with improved asset quality and strong capital buffers, however, the policymakers remain mindful of dynamically evolving macroeconomic conditions that may impinge on the health of regulated entities. It will be the intent of the Reserve Bank to encourage the use of technology and innovation in this space, while containing the possible systemic risk.
3. On the global front, banking sector remained financially sound in 2021 and 2022 so far on the back of implementation of various regulatory and macro-prudential reforms post-global financial crisis (GFC).
4. The aggressive tightening of monetary policy adopted by the Central Banks across the globe led to more austere financial conditions, posing risks to the global banking system. The medium-term challenges include effective regulation of technological innovations in the financial sector and risks emanating from climate change.
5. The Reserve Bank's policies in 2021-22 aimed at assuaging the impact of the pandemic and nurturing economic recovery. During 2022-23 so far, the policy focus has shifted to securing price stability characterized by policy rate action and gradual withdrawal of accommodation. The regulatory and supervisory policy measures of the Reserve Bank were undertaken to ensure level playing field across regulated entities, enhance consumers' convenience and expand the reach and quality of financial services.
6. The Indian banking sector remained resilient in 2021-22 and 2022-23 so far, as banks witnessed healthy balance sheet growth on broad-based acceleration in credit. Deposit growth moderated from the COVID-19 induced precautionary surge. Augmented capital buffers, better asset quality and enhanced profitability indicators reflected their robustness. Going forward, fuller transmission of increased policy interest rate to deposit rates may augment deposit growth to meet credit demand. Slippages in restructured assets need to be monitored closely.
7. The consolidated balance sheets of scheduled commercial banks (SCBs) in India registered double-digit growth in 2021-22 after a gap of seven years. This is led by credit growth, which accelerated to a ten-year high in the first half of this financial year ending March 2023.
8. The capital-to-risk weighted assets ratio (CRAR) of SCBs strengthened from 16.3% at end-March 2021 to 16.8% at end-March 2022, with all banks meeting the regulatory minimum capital requirement of 11.5% as also the common equity tier-1 (CET-1) ratio requirement of 8%.
9. The gross non-performing assets (GNPA) ratio of SCBs has been declining sequentially from its peak in 2017-18 to reach 5.8% at end-March 2022, led by lower slippages as well as reduction in outstanding GNPAs.
10. An acceleration in income and contraction in expenditure boosted the profitability of SCBs in 2021-22, measured in terms of return on equity and return on assets.
11. The financial performance of urban co-operative banks (UCBs) showed improvement in 2021-22, characterized by augmented capital buffers, a decline in GNPA ratio and improved profitability indicators.

GREEN BONDS TOWARDS GREENER ECONOMY

Purpose of Green Bonds

With the growing importance of clean and green energy and the determination to significantly reduce the carbon intensity of the economy, the Union Budget 2022-23 announced the issue of Sovereign Green Bonds. In line with the same, RBI announced calendar for the issuance of the Sovereign Green Bonds of Rs. 1600 crore.

The objective of Green Bonds are issued for mobilizing resources for green infrastructure and using the fund so mobilized for the projects which help in reducing the carbon intensity of the economy.

It is for the first time that Sovereign Green Bonds (SGrB) have been launched in India. These bonds have been fairly successful in western developed countries. The funds raised from investors are only used to support initiatives that have a good influence on the environment, such as green construction and renewable energy. Primarily these aim to contribute to the planet and its sustainability.

Salient features

The key feature of the green bonds include uniform price auction, eligibility for Repo as well as SLR and tradeable. Even NRIs are allowed to invest in them.

Further, Payments of principal and interest on the issuances under Framework for Sovereign Green Bonds are not conditional on the performance of the eligible projects. Investors in bonds issued under this Framework do not bear any project related risks.

Use of the proceeds

The proceeds raised from Sovereign Green Bonds (SGrB) will be used to finance and/or refinance expenditure for eligible green projects falling under 'Eligible Categories' such as Renewable Energy, Energy Efficiency, Climate Change Adaptation, Clean transportation, Sustainable Water and Waste Management, Pollution Prevention and Control, Green Buildings, Sustainable Management of Living Natural Resources & Land Use and Terrestrial and Aquatic Biodiversity Conservation.

Evaluation

To evaluate the success of the projects in which the funds mobilized through green bonds has been deployed, there is a project evaluation mechanism. A green finance working committee has been constituted to select public sector projects for green financing from those submitted by government departments. The committee will identify fresh projects each year and ensure the proceeds from the bond sale within 24 months from the date of issuance. Further the proceeds will be managed in line with the treasury policy of the Government.

Reporting and Review

Transparent reporting on the allocation of proceeds of Sovereign Green Bonds as well as on the environmental impact of projects funded by the proceeds will be provided to all the investors.

The external review will be conducted to verify that utilization of proceeds is in accordance with stated objectives of use of proceeds as mentioned in the Framework and assess the management of proceeds and of unallocated proceeds, if any.

Conclusion

The Sovereign Green Bonds of Rs.1600 crore have already been declared and will be launched soon. However, the success of such a plan is highly dependent on the creation of a conducive ecosystem for such securities including foreign investments, where 'green' investing is quite a rage. The stage has been set for such bonds already in India.

CLASSROOM: CAPITAL AND ITS PLANNING PROCESS IN BANKS

Capital: Capital is the portion of bank's assets which have no associated contractual commitment for repayment i.e. owners own contribution. It is, therefore, available as a cushion to absorb losses or Risk, which may arise from future or existing bad loans. Capital act as a loss absorber.

Banks are required to maintain minimum Capital Requirements as standardized by regulatory authorities. Also known as regulatory capital, these standards are set by regulatory agencies, such as the **Bank for International Settlements (BIS)** through international accords of Basel I, Basel II, and Basel III. These standards provide a definition of the regulatory bank capital that market and banking regulators closely monitor.

Basel III guidelines were released in 2010. Basel III is part of the continuous effort to enhance the banking regulatory framework and seeks to improve the banking sector's ability to deal with financial stress, improve risk management, and strengthen the banks' transparency. The three pillars of Basel accord are:

- **Pillar-I: Minimum Capital Requirements**: Banks should maintain a minimum capital adequacy requirement of 8% of risk assets.
- **Pillar-II: Supervisory Review & Evaluation Process:** According to this, banks were needed to develop and use better risk management techniques in monitoring and managing all the three types of risks that a bank faces, viz. credit, market and operational risks.
- **Pillar-III: Market Discipline**: This need increased disclosure requirements. Banks need to mandatorily disclose their CAR, risk exposure, etc to the central bank.

Regulatory capital

Level of capital required to be maintained by a bank as per the directives of the regulator. It is at present 11.50% (including CCB @2.50%) of the risk weighted assets in India as against 8% of risk weighted assets prescribed by Basel accord. Basel III capital regulations was fully implemented by March 31, 2019 wherein the minimum regulatory capital required would be 11.50% (including CCB @2.50%). To ensure smooth transition to Basel III, appropriate transitional arrangements have been provided for meeting the minimum Basel III capital ratios.

Minimum Capital Ratios (% of RWAs)	31.03.2023
Minimum Common Equity Tier I (CET I)	5.5
Capital Conversation Buffer (CCB)	2.5
Minimum CET 1+CCB	8
Minimum Tier 1 Capital	7
Minimum Total Capital	9
Minimum Total Capital + CCB	11.5

Components of Regulatory Capital: The regulatory capital (CRAR) will consist of the sum of the Tier-I Capital and Tier-II Capital defined as below:

a) Tier-I Capital:

- **Common Equity Tier 1 Capital (CET1) :** The **Common Equity** component of Tier - I capital will comprise of Common shares (Paid up equity capital), Stock surplus (share premium), Statutory Reserves, Capital Reserves, Other disclosed free reserves (if any), Balance in Profit & Loss Account at the end of the previous financial year,

- **Additional Tier- I (AT1)** : **AT1** capital consists of Perpetual Non-Cumulative Preference Shares (PNCPS), Stock Surplus (share premium) resulting from issue of instruments included in Additional Tier-I capital, Debt capital instruments eligible for inclusion in Additional Tier-I capital, Any other type of instruments generally notified by the RBI from time to time for inclusion in Additional tier-I capital, Minority Interest

b) Tier-II Capital: It consists of General Provisions and loss Reserves, Debt capital instruments issued by the banks, Preference Share Capital instruments, Perpetual Cumulative preference Shares(PCPS), Redeemable Non-Cumulative Preference Shares, Stock surplus (share premium) resulting from the issue of instruments included in Tier-II capital, Revaluation reserves at a discount of 55%, Minority Interest.

Capital planning Process in Banks

The capital planning meeting is conducted to discuss the Capital position of the bank and identify the shortfall that may arise keeping in view the Risk Weighted Assets, increase in NPA, recovery , Net profit , stress testing that may have a direct impact on the CRAR.

- Risk Weighted Assets of the bank comprise of Credit, Market and Operational Risk. Credit Risk Bank endeavors to generate healthy internal accruals and conserve capital through RWA optimization. Bank plans to link performance appraisal to risk adjusted return generated.
- **Analysis of Portfolio Mix**: Desired portfolio mix eg. Low, Average/Medium and High Risk categories are re-aligned with the actual portfolio distribution with desired one.
- **NPA Management** - Steps for reduction / containment of NPA through robust monitoring of borrowers' financial health.
- **Data Correction:** Proper Data capturing helps in optimizing capital in the long run, by addressing following areas:
  - i) Updating the information in the system related to
    - a. CGTMSE / ECGC etc.
    - b. Financial Collaterals
    - c. External Rating
  - ii) Focus on generating Non Fund Based Business.

GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of Circular	**23-Jan-2023**
Ref. No.	RBI/2022-23/168 CO.CEPD.PRS.No.S1233/13-01-018/2022-2023
Subject	**Safe Deposit Locker/Safe Custody Article Facility provided by banks**

Gist: Banks were required to renew their locker agreements with existing locker customers by January 1, 2023. However, it has come to the notice of the Reserve Bank that large number of customers are yet to execute the revised agreement and are facing difficulties in doing the same. In many cases, the banks are yet to inform the customers about the need for renewal of agreements before January 1, 2023. Further, there is a need for revision in the Model Agreement drafted by the Indian Banks' Association (IBA) to fully comply with the revised instructions.

Considering the above aspects, the deadline for banks is being extended in a phased manner to December 31, 2023. Banks are advised to notify all their customers of the revised requirements by April 30, 2023 and ensure that at least 50% and 75% of their existing customers have executed the revised agreements by June 30 and September 30, 2023 respectively. Banks shall report the status of compliance with these instructions on the DAKSH supervisory portal of the Reserve Bank on a monthly basis.

Date of Circular	**09-Jan-2023**
Ref. No.	RBI/2022-23/162 DOR.STR.REC.94/21.06.008/2022-23
Subject	**Basel III Capital Regulations - Eligible Credit Rating Agencies**

Gist: On a review, banks are advised to use the ratings of the following domestic credit rating agencies (arranged in alphabetical order) for risk weighting their claims for capital adequacy purposes:

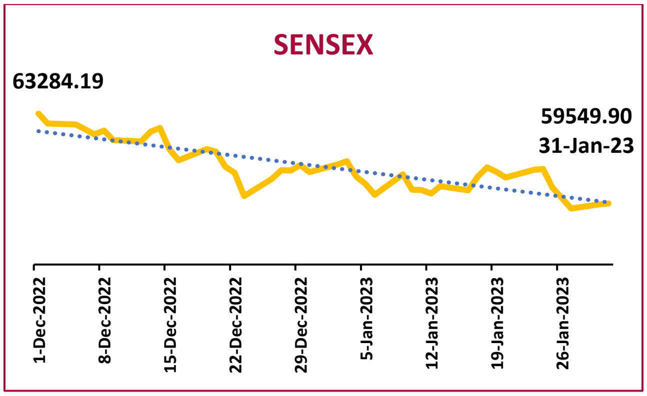
a. Acuite Ratings & Research Limited (Acuite)
b. Credit Analysis and Research Limited (CARE);
c. CRISIL Ratings Limited;
d. ICRA Limited;
e. India Ratings and Research Private Limited (India Ratings); and
f. INFOMERICS Valuation and Rating Pvt Ltd. (INFOMERICS)

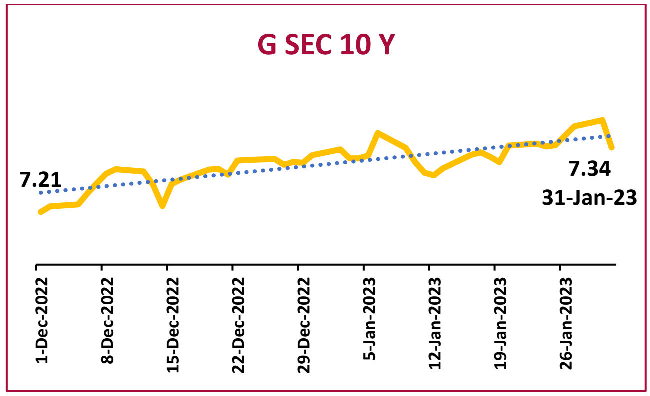
Date of Circular	**26-Dec-2022**
Ref. No.	CO.DPSS.OVRST.No.S1619/06-08-005/2022-2023
Subject	**Central Payments Fraud Information Registry – Migration of Reporting to DAKSH**

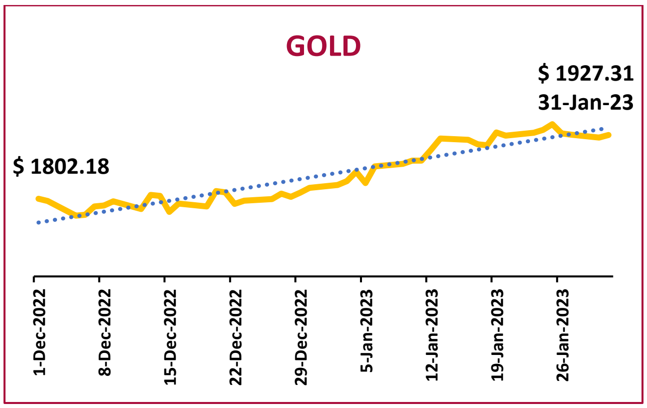
Gist: In order to streamline reporting, enhance efficiency and automate the payments fraud management process, the fraud reporting module is being migrated to DAKSH – Reserve Bank's Advanced Supervisory Monitoring System. The migration will be effective from January 01, 2023, i.e., entities shall commence reporting of payment frauds in DAKSH from this date. In addition to the existing bulk upload facility to report payment frauds, DAKSH provides additional functionalities, viz. maker-checker facility, online screen-based reporting, option for requesting additional information, facility to issue alerts / advisories, generation of dashboards and reports, etc.

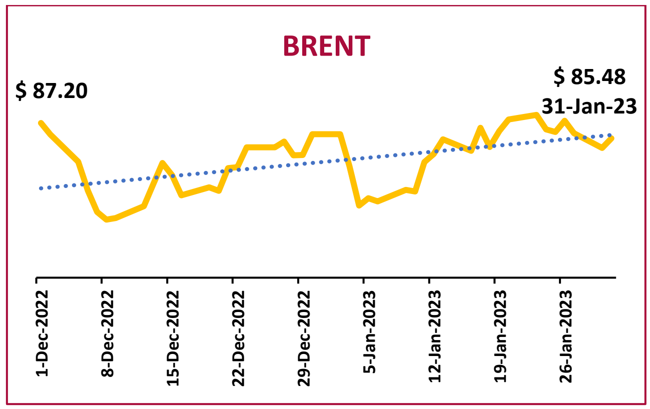
(Duration: 21 Dec'22 to 23 Jan'23)

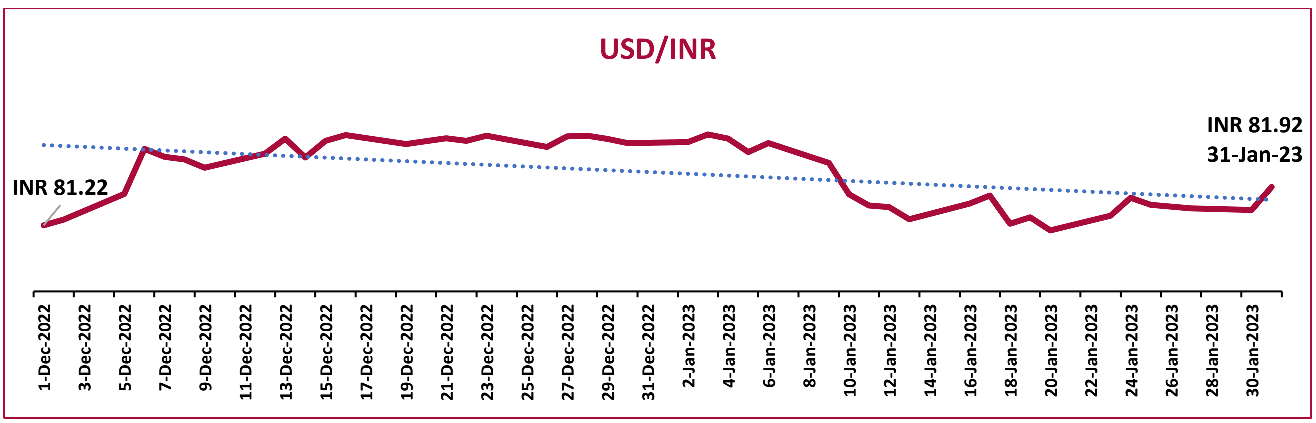
DAILY ECONOMIC INDICATORS

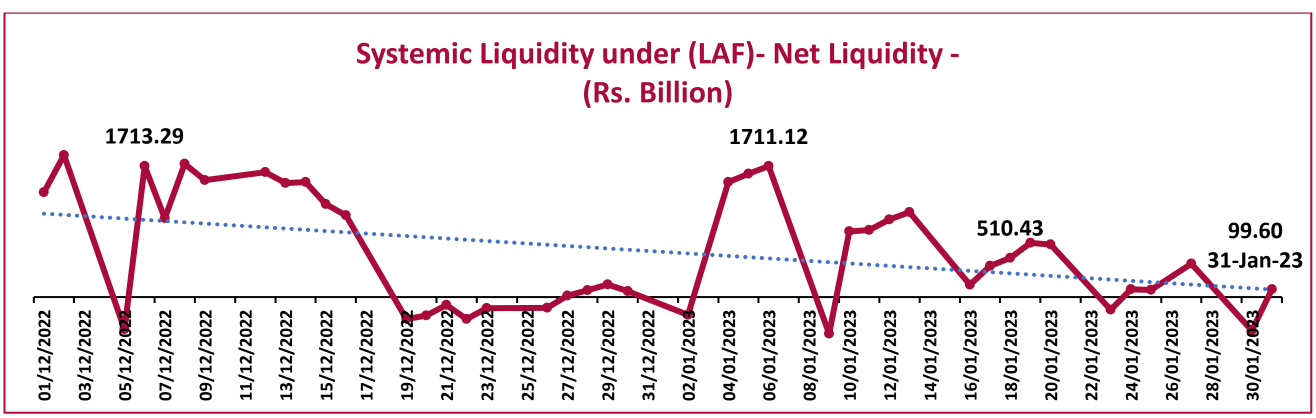








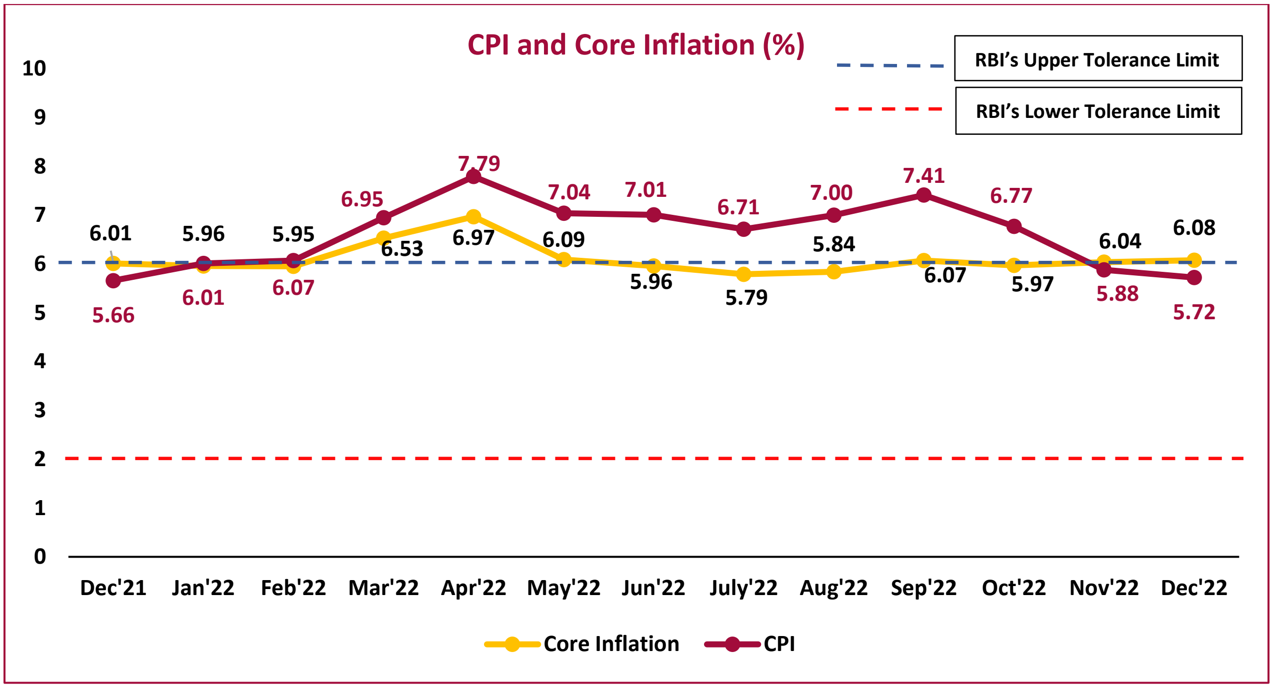


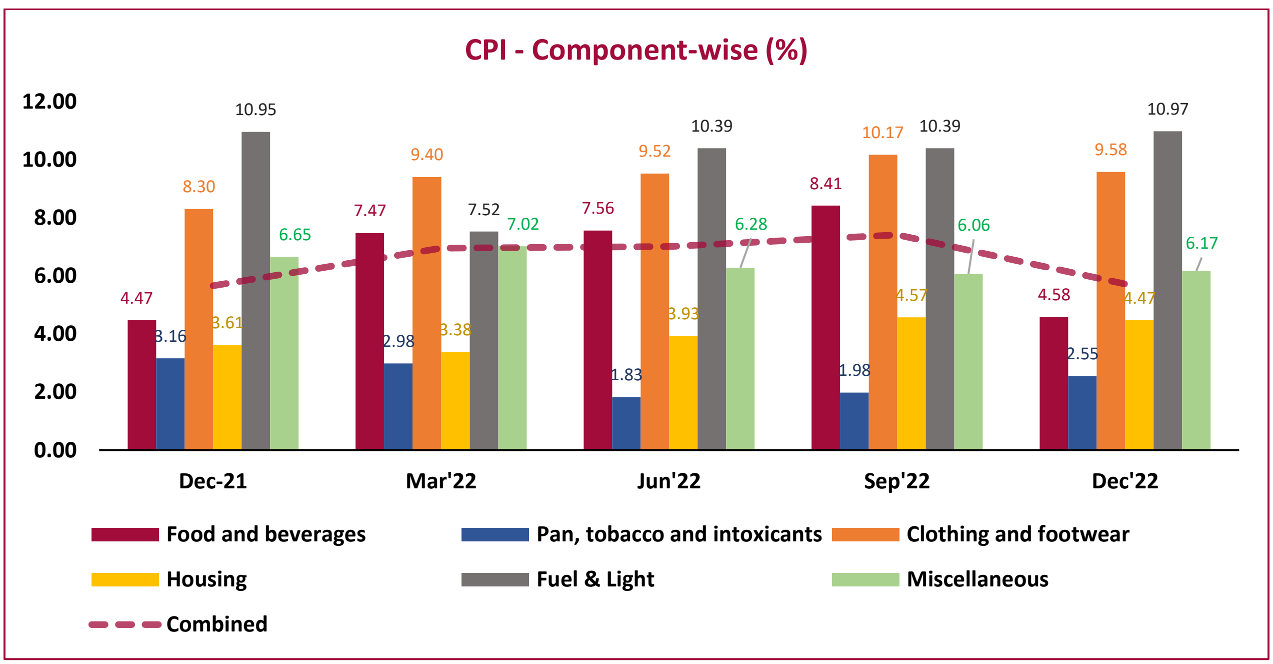


MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation eases further to 5.72% continues to be within the tolerance level



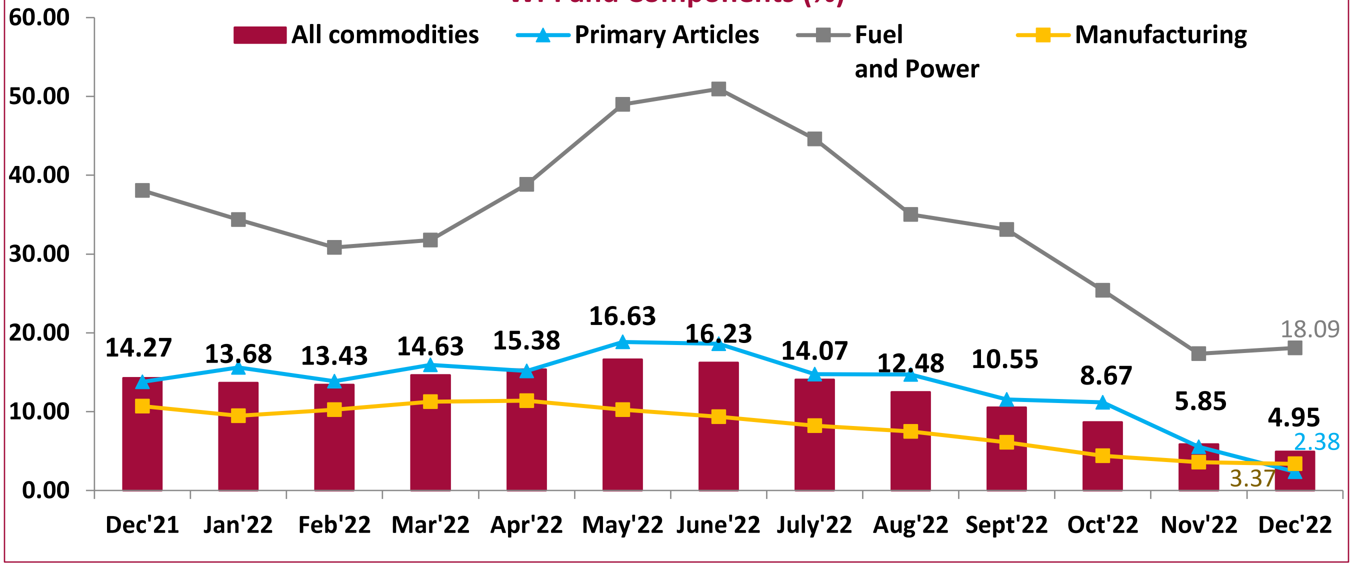


India's retail inflation for December eased on the back of relaxation in the food prices. Moving ahead, the retail inflation growth figures are likely to remain within the band and be around 5%.

WHOLESALE PRICE INDEX (WPI)

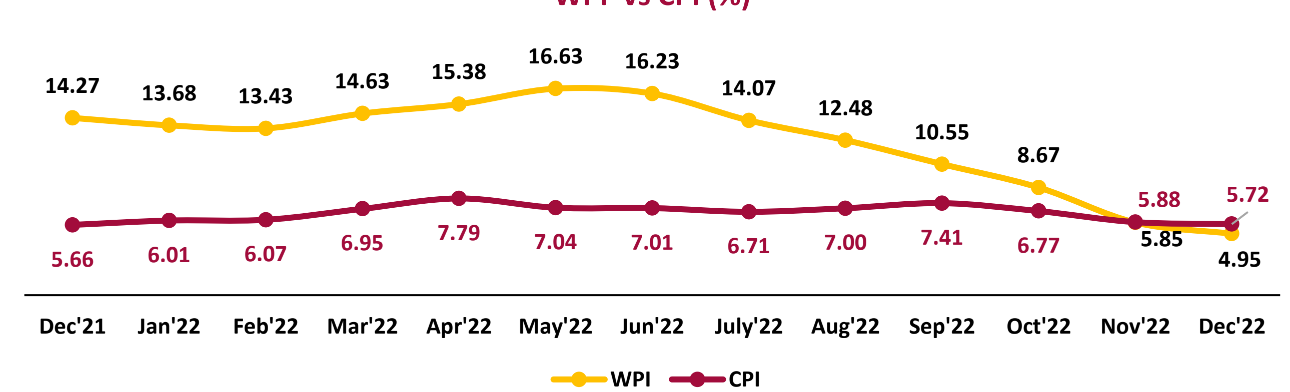
WPI eases to 4.95% showing low of 22 months

WPI and Components (%)



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%	
	2021	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Oct	7.38	**11.17**	38.61	**25.40**	12.87	**4.42**	0.06	**8.45**	13.83	**8.67**
Nov	10.21	**5.52**	44.37	**17.35**	12.34	**3.59**	4.82	**1.07**	14.87	**5.85**
Dec	13.78	**2.38**	38.08	**18.09**	10.71	**3.37**	9.68	**-1.25**	14.27	**4.95**

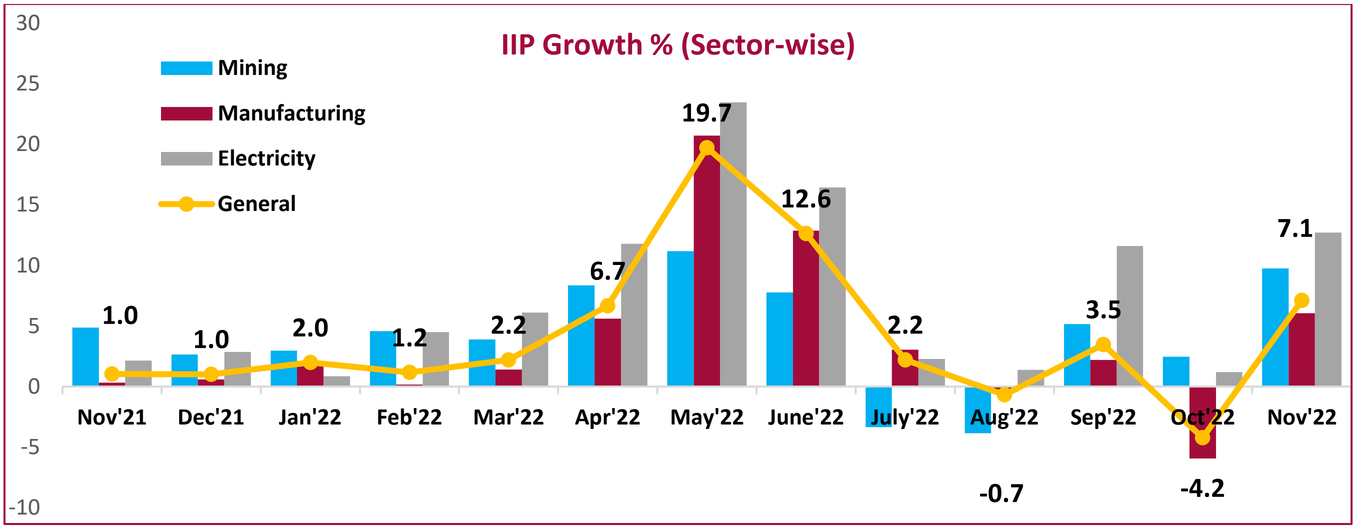
WPI vs CPI (%)



The decline in WPI continued during Dec'22 duly supported by fall in food prices and crude petroleum.

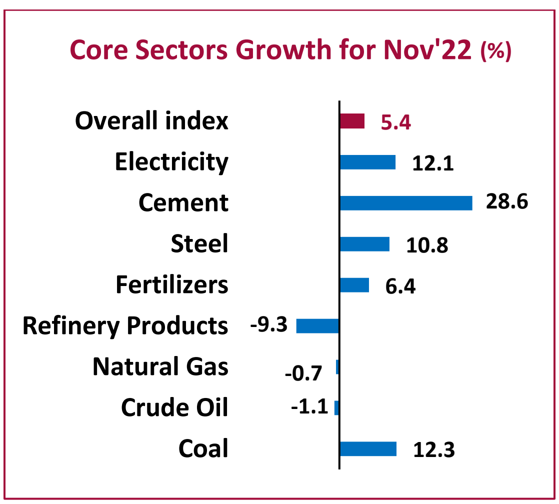
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

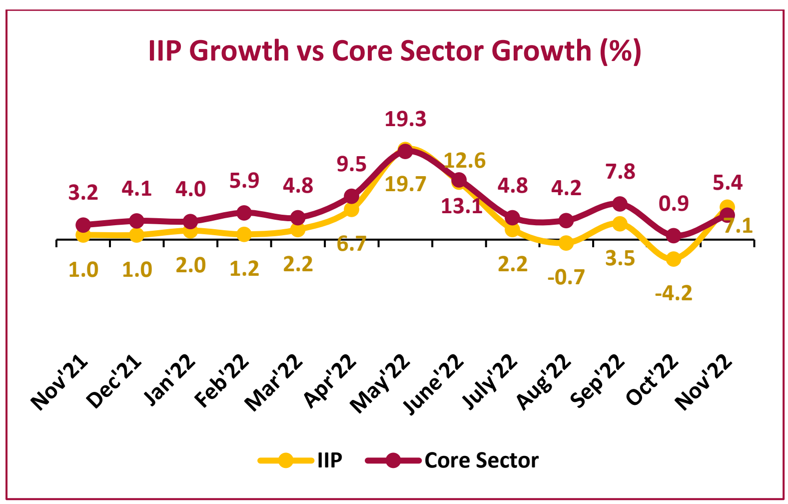
Index of Industrial Production bounces back to positive territory



IIP growth % (Usage-wise)

Component	Weight	Nov'21	Nov'22	April-Nov'21	April-Nov'22
Primary Goods	34.05%	3.5	**4.7**	13.2	**7.7**
Capital Goods	8.22%	-2.6	**20.7**	29.3	**14.9**
Intermediate Goods	17.22%	2.1	**3.0**	24.1	**5.0**
Infrastructure/ Construction Goods	12.34%	3.1	**12.8**	27.6	**7.4**
Consumer Durables	12.84%	-5.7	**5.1**	24.6	**5.7**
Consumer Non- Durables	15.33%	-0.8	**8.9**	6.1	**-2.5**

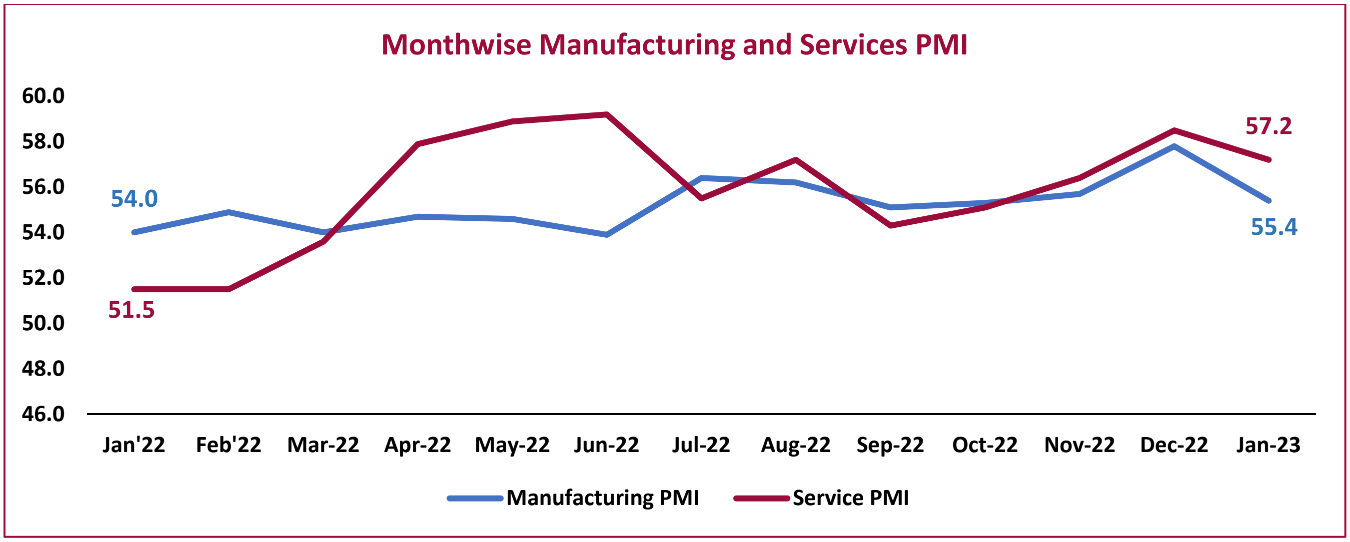




The Index of Industrial Production rose to 7.1% in Nov'22 which is highest in 5 months, it was backed by a good growth in electricity followed by mining and manufacturing. Going forward, the IIP growth is likely to remain in single digit in December also.

PURCHASING MANAGERS' INDEX (PMI)

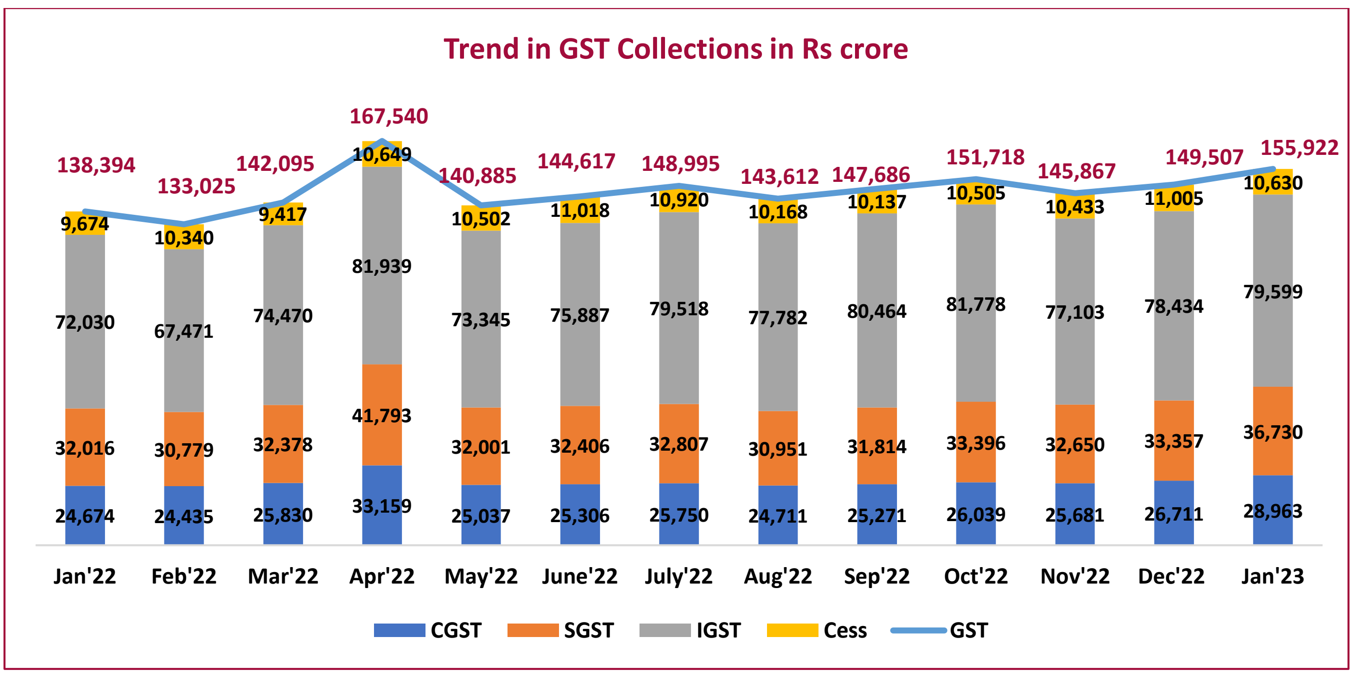
Both Manufacturing and Services PMI dips



Services PMI dipped slightly in January but remained above its long run average. On the other hand, India's manufacturing sector activity moderated in January amid a slower increase in total sales, according to a monthly survey.

GOODS AND SERVICES TAX (GST)

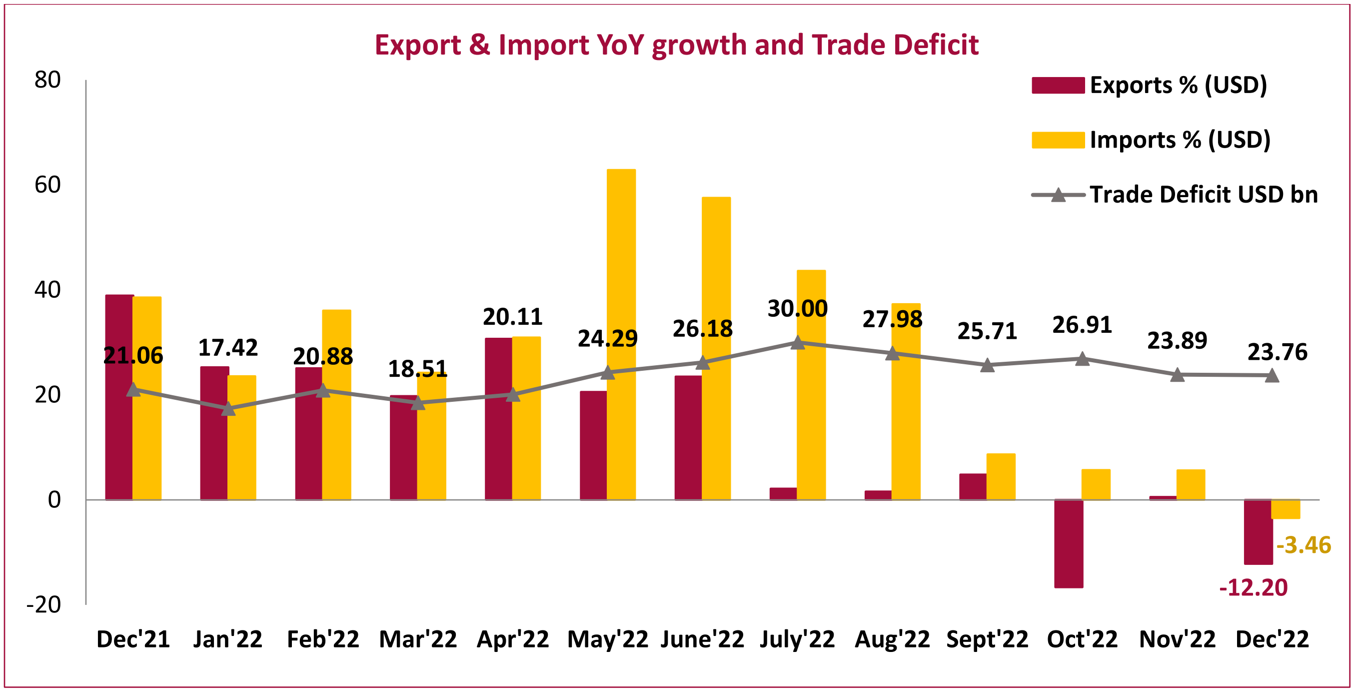
GST Collection, second highest ever

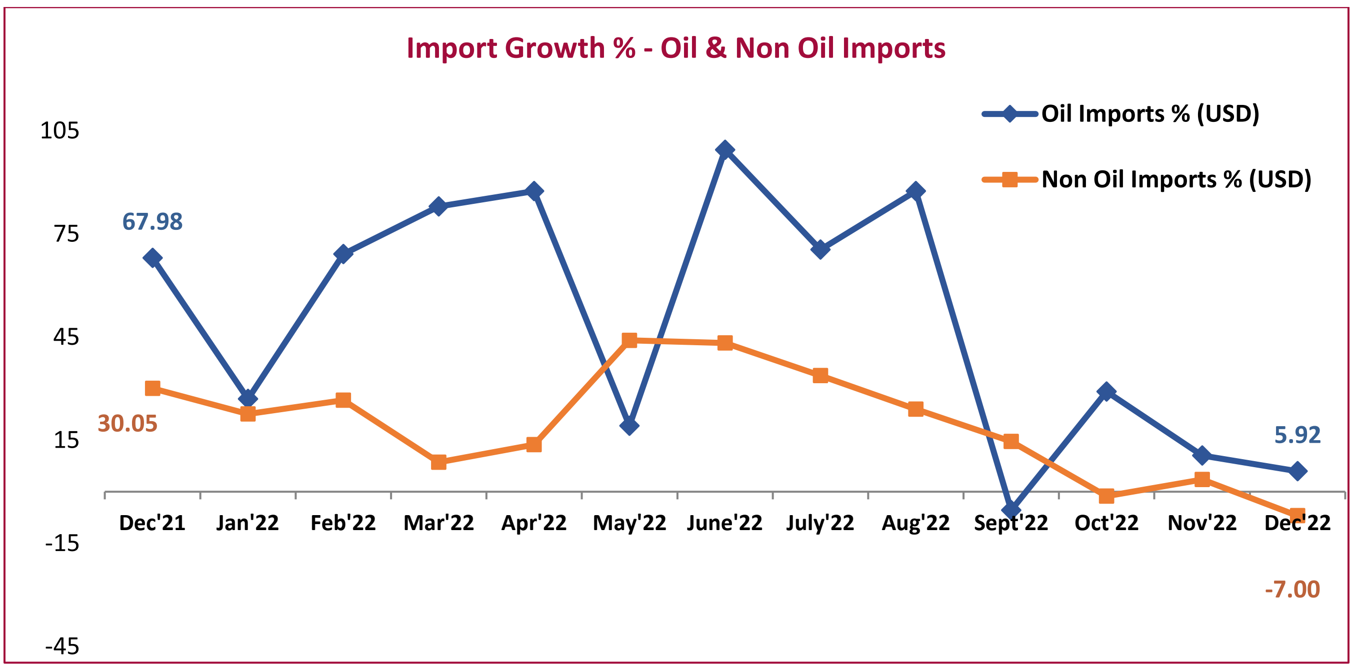


The gross GST revenue collected is Rs.1,55,922 Crore in January 2023. GST collection was more than Rs.1.50 lakh crore third time in Financial Year 2023.

FOREIGN TRADE

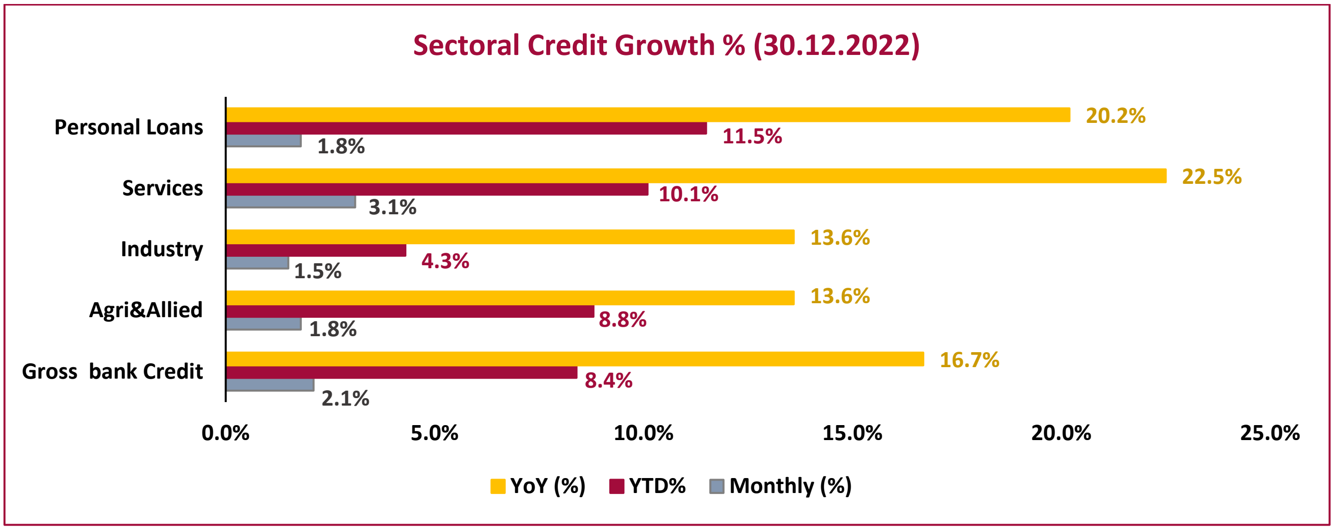
Merchandize export shrinks by 12.20 per cent





Merchandise exports declined to $34.48 billion, down 12.20% year-on-year in December 2022, which was the second contraction in 3 months. Meanwhile Merchandise imports also declined to $58.24 billion, down by 3.46 per cent year-on-year in December 2022. India's Merchandise trade deficit was at $23.76 billion in December 2022 as against $21.06 billion in December 2021.

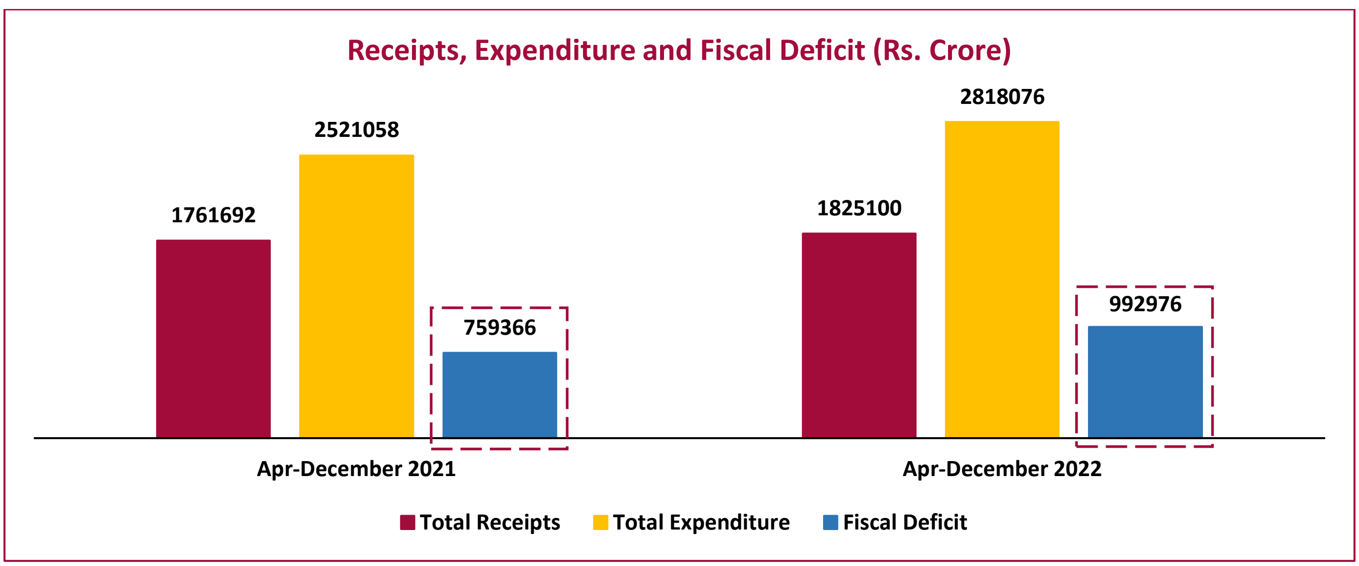
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	14.01.22	25.03.22	30.12.22	13.01.23	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	159.83	164.65	177.34	176.74	**10.6%**	**7.3%**	**-0.3%**
Advances	113.99	118.91	133.06	132.81	**16.5%**	**11.7%**	**-0.2%**
Business	273.82	283.56	310.40	309.56	**13.1%**	**9.2%**	**-0.3%**

FISCAL DEFICIT

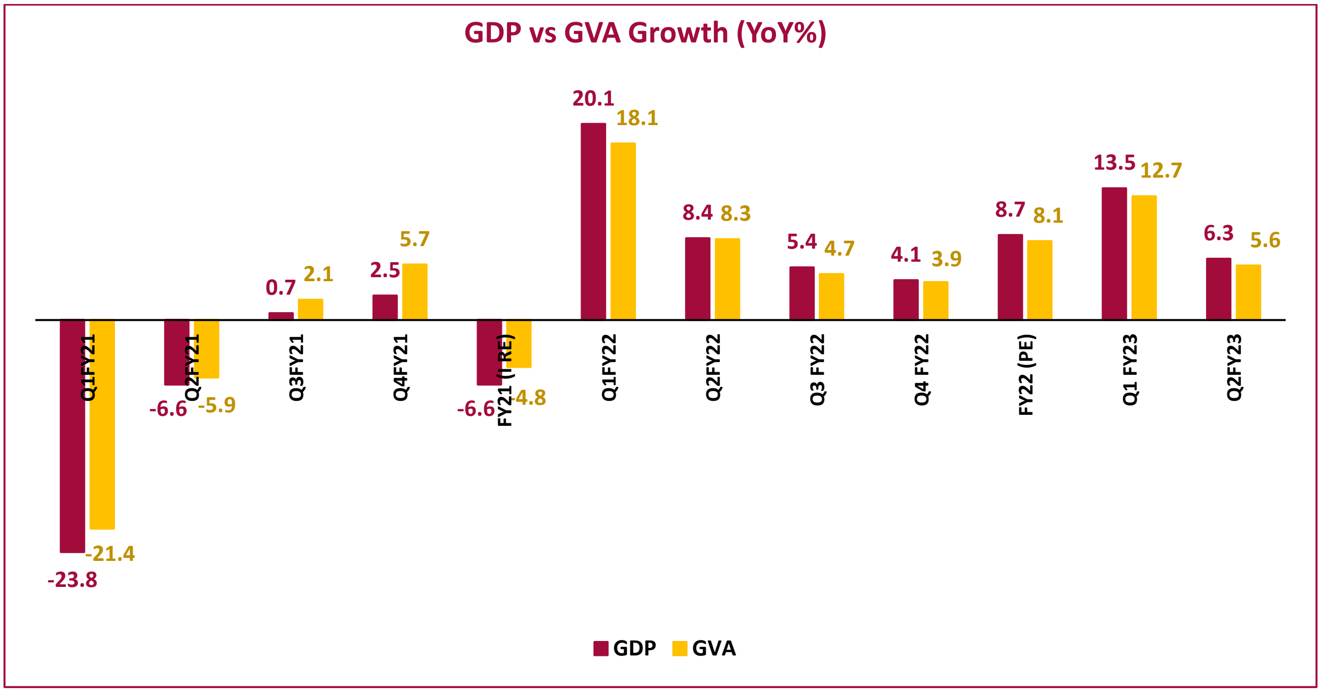


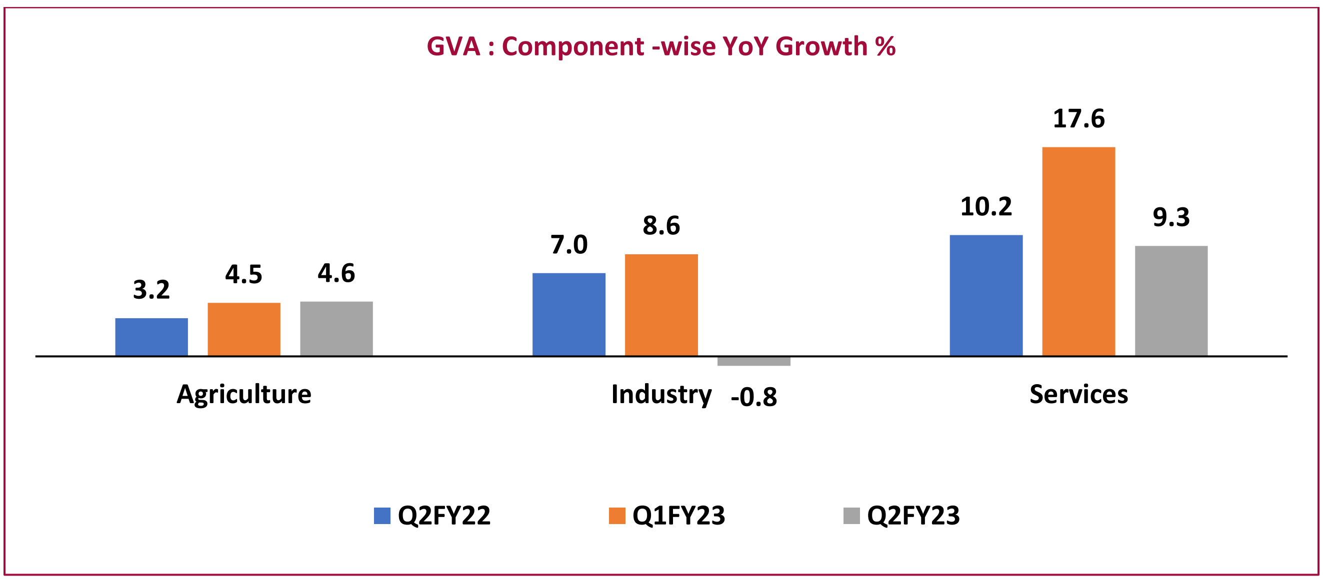
The fiscal deficit for the nine months till December'22 is 59.8% of annual estimates.

QUARTERLY ECONOMIC INDICATORS

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

Economic Growth slows to 6.3%



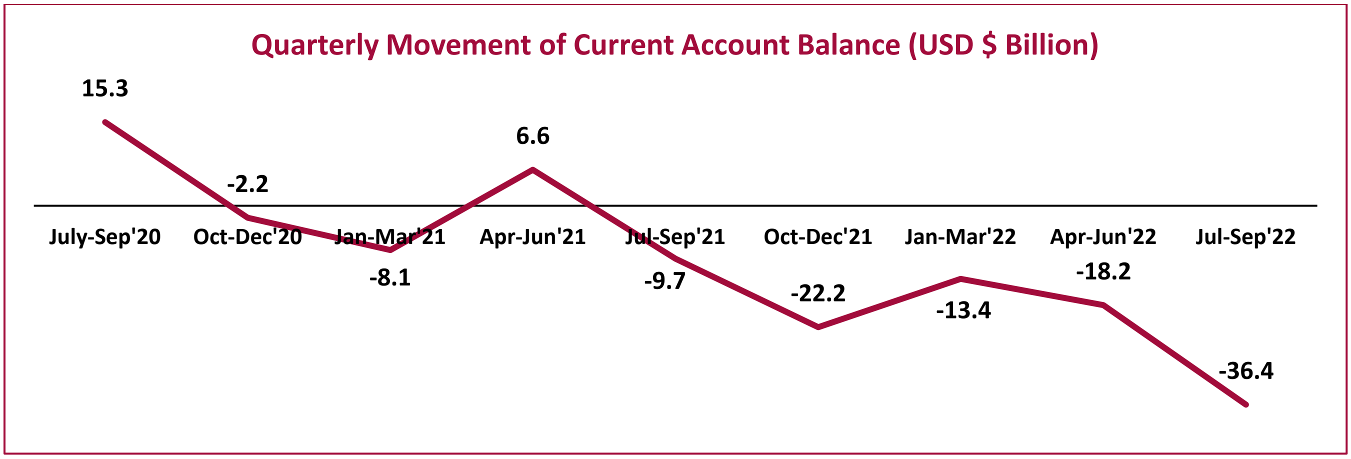


GDP for Q2 FY23 grew by 6.3% as compared to a growth of 13.5% in the previous quarter (Q1 FY23) and a growth of 8.4% in Q2 FY22. Also, Real **Gross Value Added (GVA)** at basic prices (which captures what accrues to the producer/service provider before a product or service is sold) **in Q2 FY23 grew by 5.6%** in comparison to a growth of 12.7% in Q1 FY23 and a growth of 8.3% in Q2 FY22. For H1FY23 the GVA growth at basic price was 9.0% (GDP 9.7%) as compared to 12.8% in H1FY22 (GDP 13.7%).

India's GDP Outlook Of Various Agencies

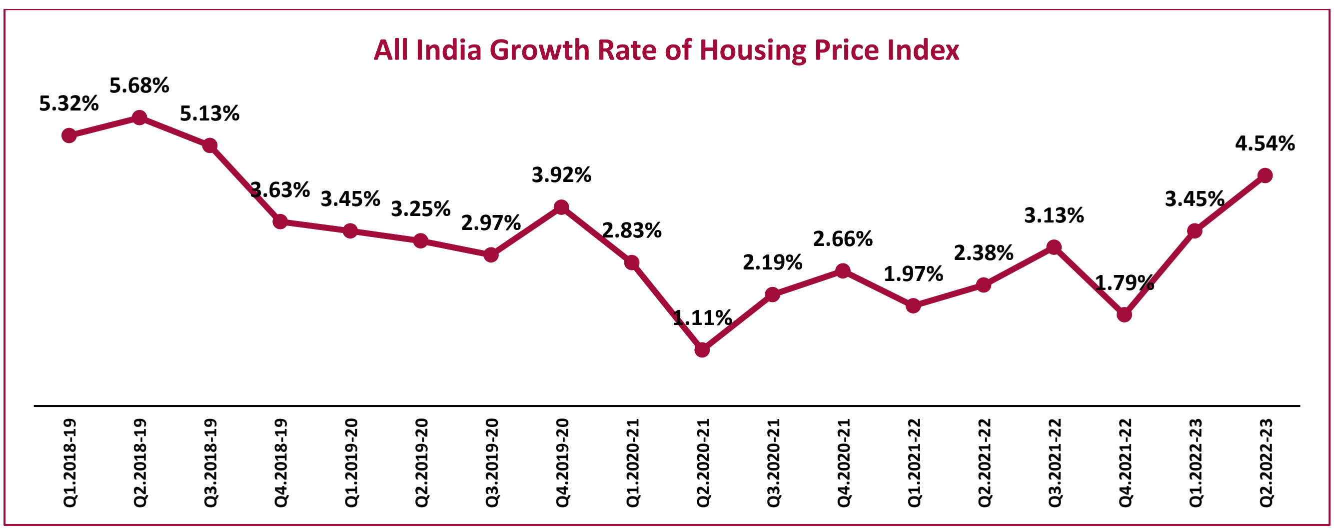
Agency	FY23
RBI	6.8%
World Bank	6.9%
IMF	6.8%
ADB	7.0%
Economic Survey	7.0%

CURRENT ACCOUNT DEFICIT



The Current Account Deficit swelled to $36.4 billion in the September quarter of FY23 against a deficit of $18.2 billion in the preceding three months. It is 4.4% of GDP.

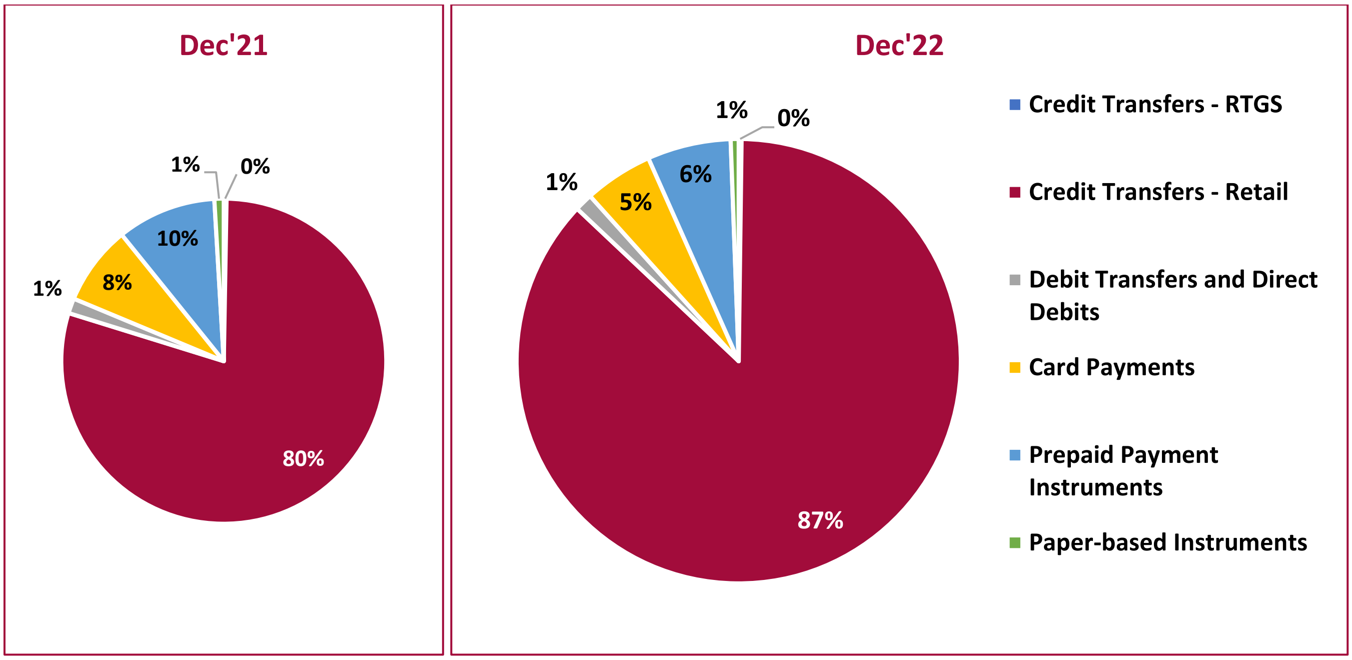
HOUSING PRICE INDEX



All-India HPI recorded 4.54% annual growth (y-o-y) in Q2:2022-23 (provisional data) as compared to 3.45% growth in the previous quarter and 2.38% a year ago.

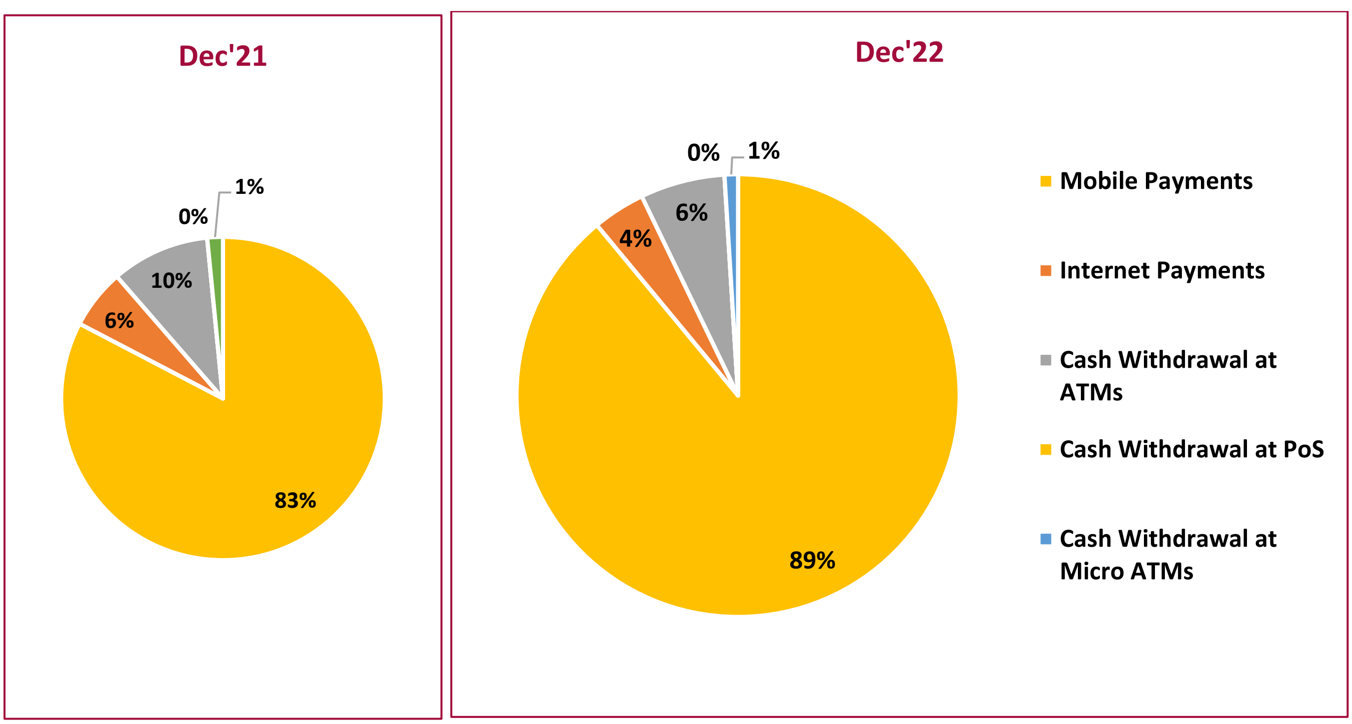
PAYMENTS

Payment & Settlement System Statistics (Share in Total Digital Payments) – Based on Volume



Growth in retail Credit transfers showing increasing adoption of digital mode.

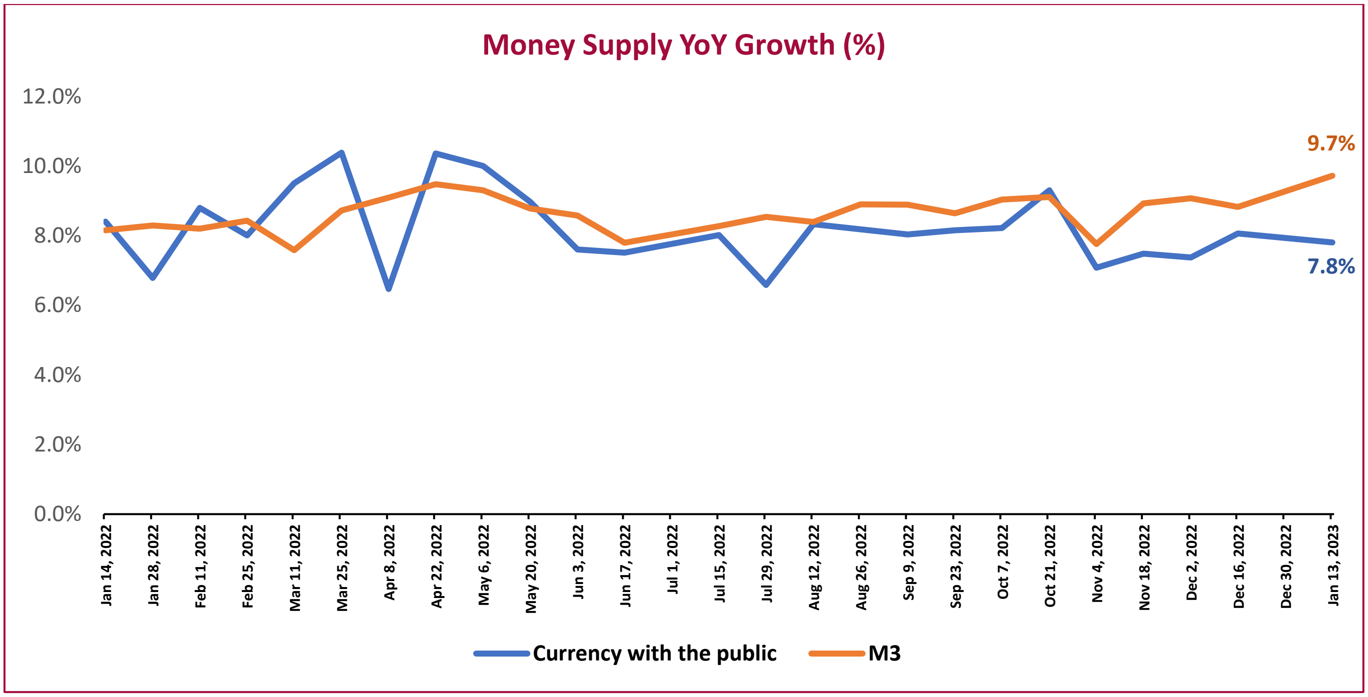
Payment Modes and Channels (Domestic) (Share) – Based on Volume



Growth in Mobile Payments showing increasing trend.

MONEY SUPPLY

Growth Rate of Currency with the Public and M3 show divergence



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)	Mar 10, 2023
European Central Bank (ECB)	Europe	3.00	Feb 02, 2023 (50 bps)	Mar 16, 2023
Federal Reserve	U.S.A	4.75	Feb 01, 2023 (25bps)	Mar 22, 2023
Bank of England	U.K	4.00	Feb 02, 2023 (50 bps)	Mar 23, 2023
Peoples Bank of China	China	3.65	Aug 22, 2022 (-5 bps)	-
Reserve Bank of India	India	6.25	Dec 07, 2022 (35 bps)	Feb 08, 2023

INDUSTRY OUTLOOK

Logistics Industry

Logistics is considered as the backbone of an economy as it involves the management of flow of goods from the place of origination and production to the place of consumption. The logistics industry comprises all supply chain activities, mainly transportation, inventory management, flow of information and customer service.

India's logistics are estimated to account for about 14.4% of GDP. Currently, the industry employs more than 22 million people across roles in tier-I, II and III cities.

Spurred by policy changes and infra upgrade, the logistics industry is expected to grow at 10-12% CAGR in the near term, improving India's competitiveness. With a pick-up in demand, the logistics market, pegged at ~$250 bn, is expected to grow at 10-12% CAGR, to $380 bn by FY25. It is also expected to boost social and economic development through creation of job opportunities.

The India Logistics Market is segmented on the basis of Function, Transport Type, Application Type and End-User. These major market segments are further categorized into various sub-segments to study the market in detail. The Function Segment is sub-segmented into distribution, transportation, warehousing, purchasing, inventory management, consulting and services and others. The Transport Type segment of the Indian Logistics Market is further categorized into Waterways, Roadways, Railways, Airways and Others. Furthermore, the Application Segment of the market is sub-segmented into Residential, Industrial and Commercial. The End-User Segment of the regional market is categorized into Trade & Transport, Healthcare, Telecommunication and Information Technology, Retail, Energy & Utilities, Media & Entertainment, Manufacturing & Construction and Others.

Government initiatives to provide impetus to the sector include National Logistics Policy, National Logistics Law, Logistics Master Plan, National Multimodal Facilities and Warehousing, National Logistics Workforce Strategy as also a digitisation initiative to provide an integrated IT foundation that would boost productivity, reduce wasteful travel and provide a slick user experience.

The initiatives taken by the government will lead to the progress of the logistics sector. Based on the above, India intends to raise its ranking in the Logistics Performance Index to 25 and bring down the logistics cost, within the next five years as envisaged in the National Logistics Policy. This would enable the logistics industry to serve as a growth engine and a major factor in upgrading India to a US$ 5 trillion economy.

EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. **Bank credit growth to sustain and usher in virtuous investment cycle: Survey (BL, 31.01.2023)**

- Bank credit growth, which has been growing in double-digits since April 2022, is expected to sustain, and combined with a pick-up in private capital expenditure (capex), will usher in a virtuous investment cycle, according to the latest Economic Survey.
- The credit upcycle will also be aided by constant monitoring of the risks in the financial system by the regulators and their efforts to contain them.
- Referring to the year-on-year growth in non-food bank credit to 15.3 per cent in December 2022, the Survey emphasised that this not only shows an acceleration in the growth of current economic activities but also an anticipation of continued momentum in economic activity in the future.
- "As funds raised from the primary segment of domestic equity markets declined during FY23, reliance on bank credit for funding regular operations and capacity expansion increased.

2. **Banks get time till Dec end to renew safe deposit locker agreements (BS, 23.01.2023)**

- The Reserve Bank of India gave banks time till end of December 2023 to complete renewal of agreements for the existing safe deposit lockers of customers. Banks were earlier required to complete the process by January 01, 2023.
- The central bank has asked them to complete work in phases with intermediate milestones of 50 per cent by June 30, and 75 per cent by September 30.
- Further, lockers that have been frozen for non-execution of agreement by January 1 should be unfrozen with immediate effect, RBI said in a statement.
- On Aug 18, 2021, RBI had asked banks to enter into revised agreements with existing locker holders by Jan 1. However, it noticed that a large number of customers were yet to sign the revised agreement. In many cases, the banks were yet to inform customers about the need to do so before the stipulated date (Jan 1, 2023), RBI added.
- Banks should make necessary arrangements to facilitate execution of the revised agreements by ensuring the availability of stamp paper, etc.

3. **Finance Ministry ask banks to increase credit penetration in 112 aspirational districts (ET, 20.01.2023)**

- The Finance Ministry asked banks to further increase credit penetration in aspirational districts and ensure availability of at least one banking outlet within 5 km of all inhabited villages. Progress of 112 Aspirational Districts under Targeted Financial Inclusion Intervention Programme (TFIIP) was discussed in detail during a review meeting of Lead District Managers (LDMs) of aspirational districts and State Level Bankers' Committee (SLBC) convenors.

- The review meeting was also attended by senior officials of NITI Aayog, Panchayati Raj, and the Department of Financial Services (DFS) in the Union Ministry of Finance.

4. Finance Ministry exhorts banks to achieve targets of social security schemes for FY'23 (ET, 20.01.2023)

- The Finance Ministry asked banks to achieve targets given under the flagship financial inclusion and social security schemes for the current financial year. The advisory was given to heads of public sector banks (PSBs) and financial institutions during the review meeting headed by Financial Services Secretary Vivek Joshi here.
- During the meeting, the progress of various social security (Jan Suraksha) schemes, including Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Atal Pension Yojana (APY), Pradhan Mantri MUDRA and Prime Minister Street Vendor's AtmaNirbhar Nidhi (PMSVANidhi), and Agri credit etc, were reviewed, an official statement said.

5. Moody's affirms positive ratings on SBI, upgrades three other PSBs (ET, 20.01.2023)

- Rating firm Moody's Investors Service affirmed a positive rating on State Bank of India while upgrading long-term local and foreign currency bank deposit ratings Bank of Baroda, Canara Bank and Punjab National Bank. It maintained a stable outlook on all four banks' long-term ratings.
- It has upgraded the long-term local and foreign currency bank deposit ratings of Bank of Baroda, Canara Bank, and Punjab National Bank to Baa3 from Ba1. The BCAs of these three banks were also upgraded to ba3 from b1.
- Credit conditions in India have gradually improved, with a significant reduction in the banks' stock of legacy problem loans over the past three years, the firm said in a statement.
- However, it said that loans to small and medium-size enterprises continue to pose risks to these banks' asset quality as it expects this segment to be the most vulnerable to interest rate rises.

6. RBI tweaks norms related to share acquisition in banks (ET, 16.01.2023)

- India's central bank, the Reserve Bank of India, tweaked norms related to acquiring shares in banks in a bid to ensure ownership is well diversified and shareholders are "fit and proper."
- In the 'Master Direction - Reserve Bank of India (Acquisition and Holding of Shares or Voting Rights in Banking Companies) Directions, 2023' issued on January 16, the RBI said that it requires major acquisitions in banks to go through it first.
- To own a major shareholding in a banking company, the person making the acquisition will have to submit an application to the central bank.

7. **RBI proposes to bring in "expected credit loss" based provisioning for banks (ET, 16.01.2023)**

- The Reserve Bank of India is moving closer towards ring fencing the banking system from credit losses as it proposes to move to provisioning on the principles of 'expected losses' from 'incurred losses.'
- The move would be over a period of five years, RBI said in a discussion paper.

8. **Retail inflation falls to one year low of 5.72 pc in December (FE, 12.01.2023)**

- Retail inflation declined to a one-year low of 5.72 per cent in December 2022, mainly due to softening prices of food items, according to official data released.
- The Consumer Price Index (CPI) based retail inflation was at 5.88 per cent in November 2022 and 5.66 per cent in December 2021.
- As per the data released by the National Statistical Office (NSO), inflation in the food basket was at 4.19 per cent in Dec as against 4.67 per cent in Nov.

9. **Reserve Bank of India to auction green bonds in two tranches in Jan, Feb (mint, 07.01.2023)**

- The Reserve Bank of India will auction 160 billion Indian rupees ($1.93 billion of sovereign green bonds in two tranches, the central bank said.
- The RBI will auction 5-year and 10-year green bonds worth 40 billion rupees each on Jan. 25 and on Feb. 9, and this would be a uniform price auction, the central bank said.
- The Indian government's first-ever green bonds will focus on funding solar power projects, followed by wind and small hydro projects, as Asia's third-largest economy attempts to tap the domestic debt market to finance clean projects.

10. **No need to visit bank to update KYC, says RBI (ET, 06.01.2023)**

- Bank account holders are no longer required to visit their bank branches to update 'know your customer' (KYC) details provided they have already submitted valid documents and not changed their address, the RBI has said.
- Instead, if there is no change in KYC information, they can submit a self-declaration through email-id, registered mobile number, ATMs, or any other digital channels.
- Following up on Reserve Bank Governor Shaktikanta Das stating that banks should not insist on branch visits for KYC updation, the central bank issued guidelines for the same.

11. **Fresh KYC process can be done through video, says RBI (ET, 05.01.2023)**

- The Reserve Bank of India has released fresh guidelines for the know your customer (KYC) processes that allow for them to completed remotely.
- "Fresh KYC process can be done by visiting a bank branch, or remotely through a Video based Customer Identification Process (V-CIP) (wherever the same has been enabled by the banks), as provided in Section 18 of the Master Direction on KYC," the RBI said in a statement.

12. Banks gross NPA drops to 7-year low at 5%, net NPA at a decade low: RBI's FSR (29.12.2022)

- Banks' asset quality has shown significant improvement in the first half ending September 30, 2022 period for FY23. As per RBI's data, scheduled commercial banks' gross non-performing assets (GNPA) has dropped to a seven-year low, while net NPA has contracted to a decade low. Also, banks asset quality for the industrial sector improved, while there has been a massive decline in large borrowers' shares by end of September 2022.
- In its financial stability report for December 2022 that was released, RBI said, buoyant demand for bank credit and early signs of a revival in the investment cycle are benefiting from improved asset quality, return to profitability, and strong capital and liquidity buffers of scheduled.

13. Banks' balance sheet grows in double digits after 7 years: RBI report (BS, 28.12.2022)

- The health of Indian banks continued to improve in 2021-22 with their balance sheet growing at double digits after a gap of seven years and their asset quality and capital position bettering, the Reserve Bank of India (RBI) said in its annual report on trend and progress of banking in India.
- At the same time, the banking regulator flagged the issue of slippages from restructured accounts. "Going forward, it is imperative that banks ensure due diligence and robust credit appraisal to limit credit risk," the report said.
- Surplus liquidity in the banking system has been falling in recent months. Liquidity has even slipped into deficit on more than one occasion. However, the RBI has assured liquidity support to the productive sectors.

14. RBI to migrate payments fraud reporting module to Daksh on Jan 1 (BS, 27.12.2022)

- The Reserve Bank of India (RBI) said that it is migrating the payments fraud reporting module to Daksh, RBI's advanced supervisory management system, on January 1, 2023, to streamline reporting, enhance efficiency and automate the payments fraud management process.
- "In addition to the existing bulk upload facility to report payment frauds, Daksh provides additional functionalities, viz. maker-checker facility, online screen-based reporting, option for requesting additional information, facility to issue alerts / advisories, generation of dashboards and reports, etc," the RBI said in its circular to the top honchos of banks, non-bank payment system operators, and credit card-issuing NBFCs.

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*
- *Press Information Bureau*
- *GST Council*
- *Websites of major Central Banks*
- *Controller General of Accounts (CGA)*
- *Petroleum Planning & Analysis Cell (PPAC)*
- *Investing.com*
- *News from Business Standard, Financial Express, Economic Times, The Mint*
- *Cogencis*

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QUOTE OF THE MONTH

"A book is a gift you can open again and again."

- Garrison Keillor

Punjab National Bank
Strategic Management & Economic Advisory Division
Corporate Office, Plot No. 4, Sector 10,
Dwarka, New Delhi-110075

पंजाब नैशनल बैंक
कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग
कॉर्पोरेट कार्यालय, प्लॉट सं. 4, सेक्टर-10,
द्वारका, नई दिल्ली-110075