



ਪੰਜਾਬ ਨੈਸ਼ਨਲ ਬੈਂਕ
punjab national bank



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MONTHLY BULLETIN

ਪੀਐਨਬੀ ਈਕੋਲੈਂਸ ਮਾਸਿਕ ਬੁਲੇਟਿਨ



STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

ਕਾਰਜਨੀਤੀ ਪ੍ਰਬੰਧਨ ਏਵੰ ਆਰਥਿਕ ਪਰਾਮਰਸ਼ ਪ੍ਰਭਾਗ



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Strategic Management & Economic Advisory Division (SMEAD)

Corporate Office, Plot No. 4, Sector 10,

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पंजाब नेशनल बैंक

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

कॉर्पोरेट कार्यालय, प्लॉट सं. 4, सेक्टर-10,

द्वारका, नई दिल्ली-110075

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RBI's off cycle monetary policy meet – An Imperative Intervention

RBI in its off cycle meet hiked the repo rate by 40 bps and CRR by 50 bps, thus surprising the markets with its timings. The hike was inevitable given the elevated inflationary pressures and tightening global financial conditions.

Inflation

The CPI was near to 8 year high at 7.79% and WPI hit alarmingly high at 15.08% in April 2022. The WPI grew at double digits rate for 13th month in a row. The upward movement in WPI and CPI prints signals an inherent, sticky price pressures. Both the numbers are alarming, as they transgressed the accepted inflation band of 2-6%, and do not augur well for an economy that has just started rebounding after being rammed by the Covid-19 pandemic.

There are many factors posing risk to the inflation numbers – prolonged supply chain disruptions globally, higher commodity prices, elevated crude oil prices and continuous depreciation of rupee. Food inflation might come at even higher levels in the coming few months due to lingering geo political tensions and Indonesia's export ban of vegetable oil, rising cost of farm inputs like fertilizers, increased transportation cost of fruits & vegetables because of elevated fuel prices, and heat wave impacting the crops adversely. However, the early onset of monsoon could bring some relief. The June-September monsoon is vital for farm output and economic growth as about 60% of India's farmland depends on rainfall.

Since the domestic inflation in India is driven by global supply-side rigidities and high petroleum prices, it is likely to persist for at least two to three quarters.

Given all the risks, inflation will remain sticky for the next 4-6 months with a very slow descent and all prints remaining above 6%. It may peak in September 2022 to around 8%, thereafter declining marginally. We expect average CPI inflation at 6.5% for FY2023 with 7.1% in Q1, 7.4% in Q2, 6.0% in Q3 and 5.8% in Q4.

Monetary Policy Measures

Consequently, I do foresee an additional 35-60 basis points of rate hikes in the remaining half of the current financial year. RBI may go for a 30-35 bps hike and an upward revision of inflation projections for the current financial year in the June monetary policy review. If a de-escalation in geopolitical tension cools commodity prices, then there might be a pause by RBI to reassess the impact on growth, followed by another 25-50 bps of rate hikes in calendar year 2023 to reach at 5.15% (the pre –pandemic level) or above. We expect repo rate to reach at 5.20-5.25% by the end of FY 2023.

The RBI may also hike the CRR by another 50 bps to absorb the excess liquidity in the system as high government borrowings have constrained the Open Market Operations.

Fiscal Policy Measures

Amidst the turbulence, the GoI's revenue collections remain strong. India's GST collections in April hit an all-time high of Rs.1.67 lakh crore on the back of better compliance and faster economic recovery. I expect the GST collections for FY 22-23 to remain robust as the economic activity recovers. The average collection per month may be around Rs.1.5 lakh crores.

Thus, the government has the capacity and needs to step up. GoI may consider how import duty and tariffs on imports and excise duty on fuel can be reduced to support RBI in its fight against inflation.

Rupee vs Dollar

Aside from handling inflationary pressure at a time when growth remains weak, the RBI is also managing volatility in the currency market. The Indian rupee is hitting lifetime lows against the US dollar amid risk aversion in the global markets and a strong US dollar.

There are a number of reasons why the pressure on rupee will continue in the near term. Higher global commodity prices are pushing up India's trade deficit. Also, foreign portfolio investors are selling Indian assets due to a general risk aversion towards Emerging Markets. Further, increasing interest rates in the US is strengthening the dollar. The dollar index is at a near two-decade high. All such conditions are likely to persist in the foreseeable future.

We foresee the Indian rupee trading in the range of 76-79 per US dollar in the first half of FY23. However, large forex reserves, narrowing inflation differentials and the likely stemming of FII debt outflows would prevent a further sharp depreciation from the recent record-low. In the second half of FY 23 rupee may appreciate and reach 73-75 per US dollar.

Economy & Banking

The entrenched inflation and consequent hikes in the repo rate will extinguish the nascent recovery in Consumption and Investment demand and thus poses a threat to the economic recovery.

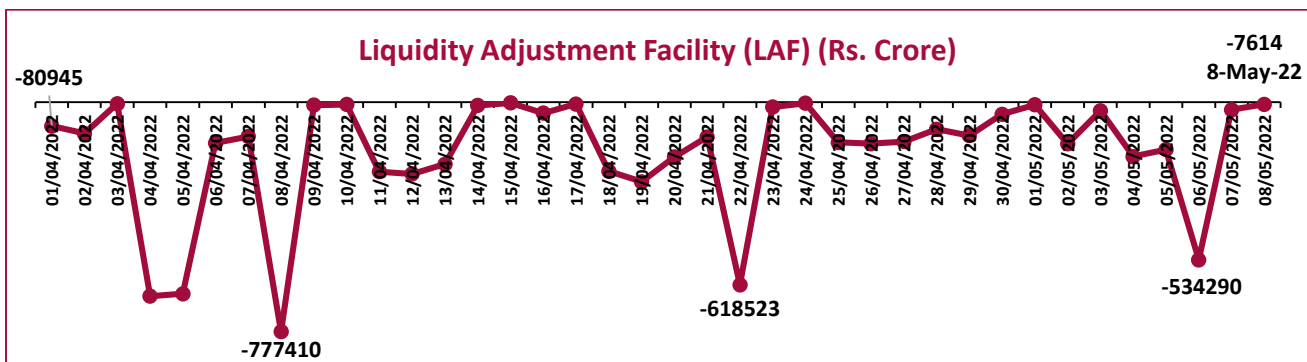
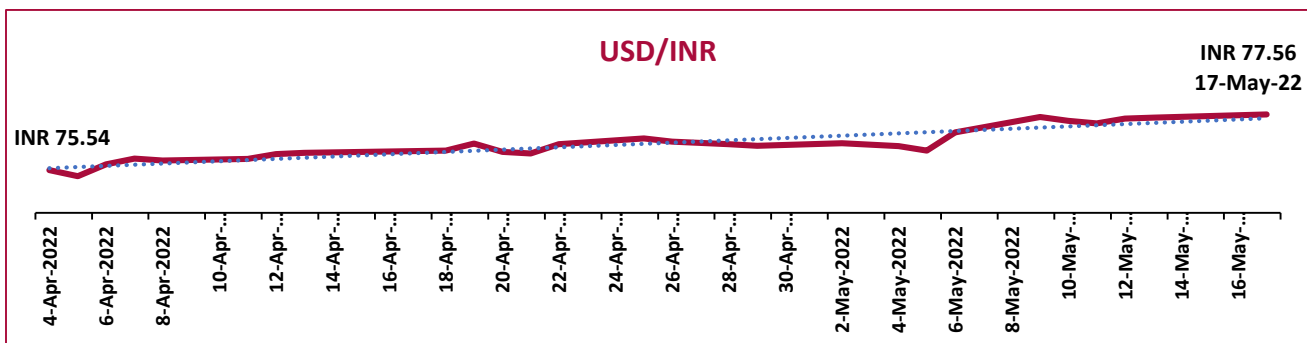
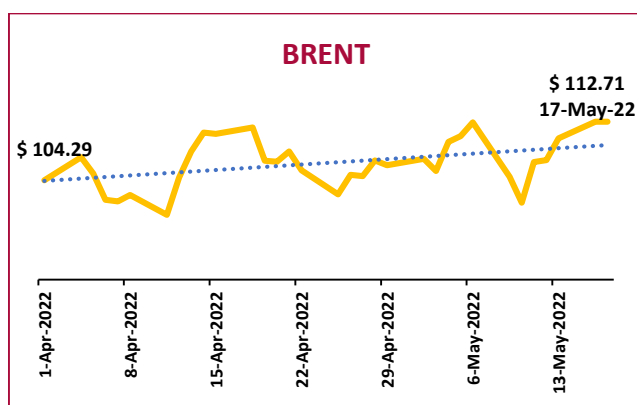
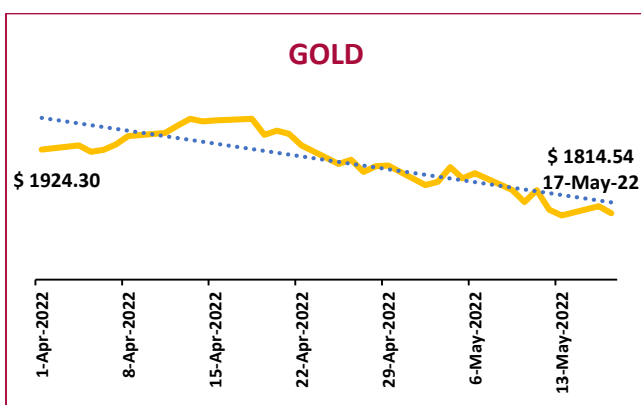
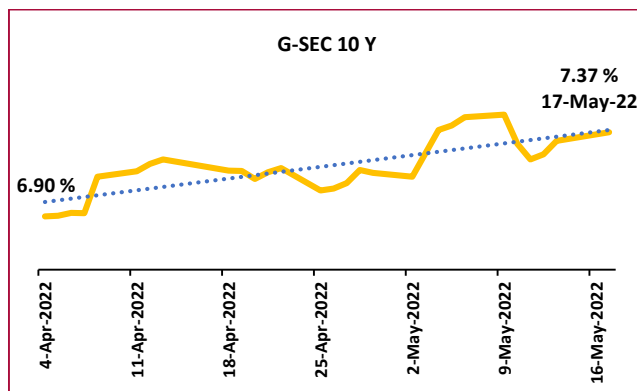
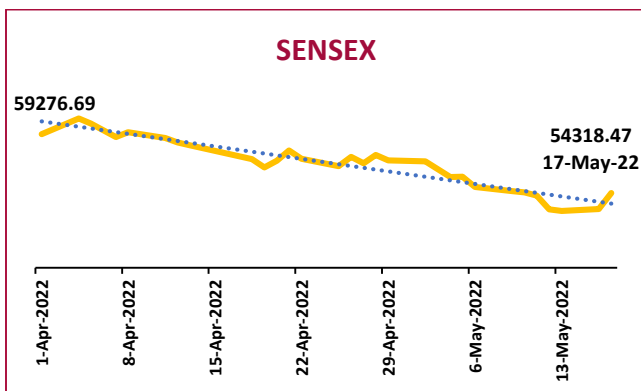
Banks will raise the lending rates that will lead to EMIs on loans getting dearer and thus contracting the credit demand. According to SBI, 39.2% of loans are linked to EBLR as on Dec'21. Thus, these loans will immediately get re-priced as the repo rate increases. The rates on deposits will be raised leading to growth in savings. We expect credit growth at 9-11% and deposits growth in the range of 13-14% for FY23.

Despite all the current challenges, India is the world's fastest-growing major economy in the world according to IMF. Lending credence to this projection, the fiscal year 2022-23 has begun with a strong growth in economic activity in April as seen in the robust performance of e-way bill generation, Electronic toll collection, electricity consumption, PMI manufacturing and PMI services. I strongly believe that India is relatively better-placed than most other nations to weather the storm and achieve steady growth at 7.2 - 7.5% for 2022-23.

Deepak Singh

(Deputy General Manager)

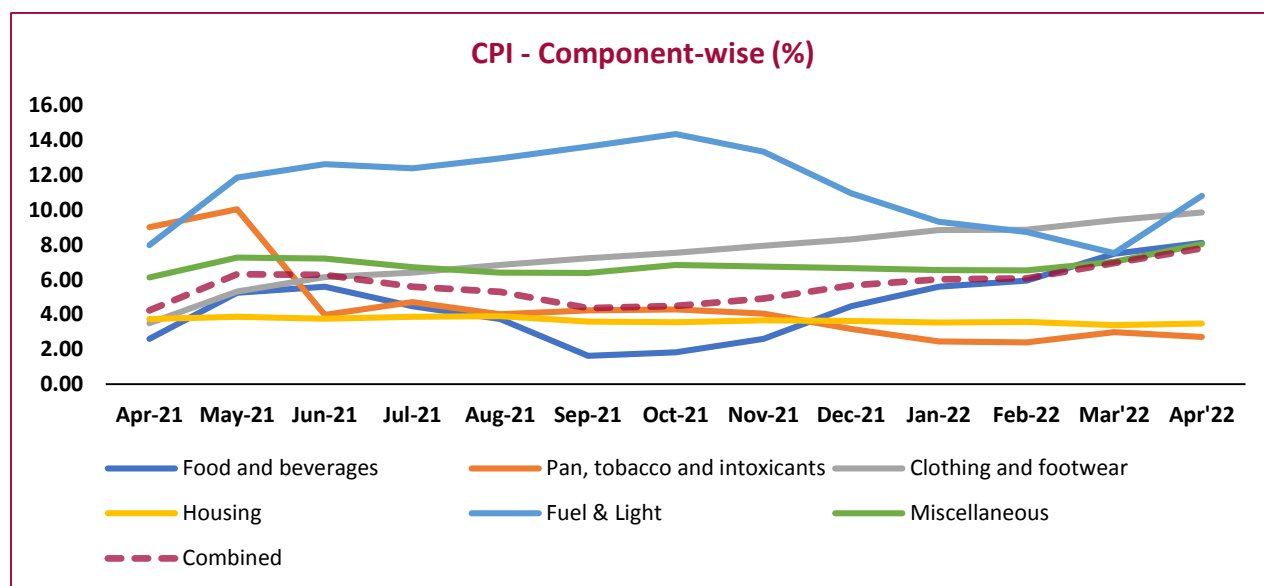
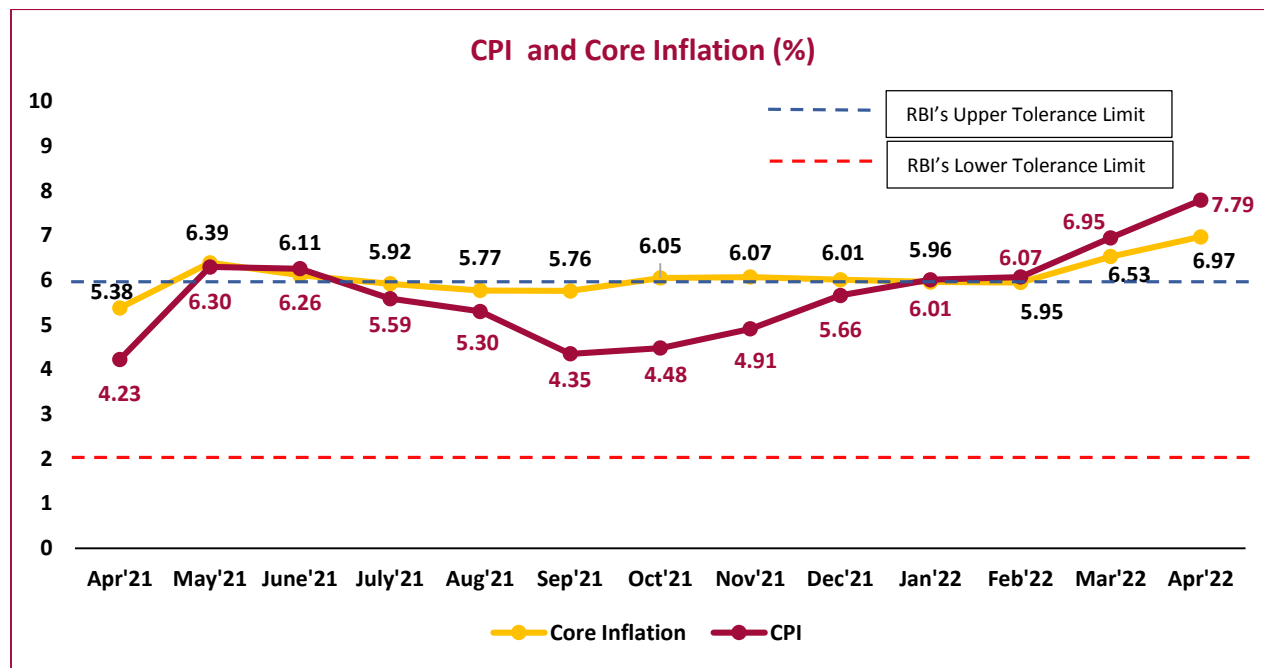
DAILY ECONOMIC INDICATORS



MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

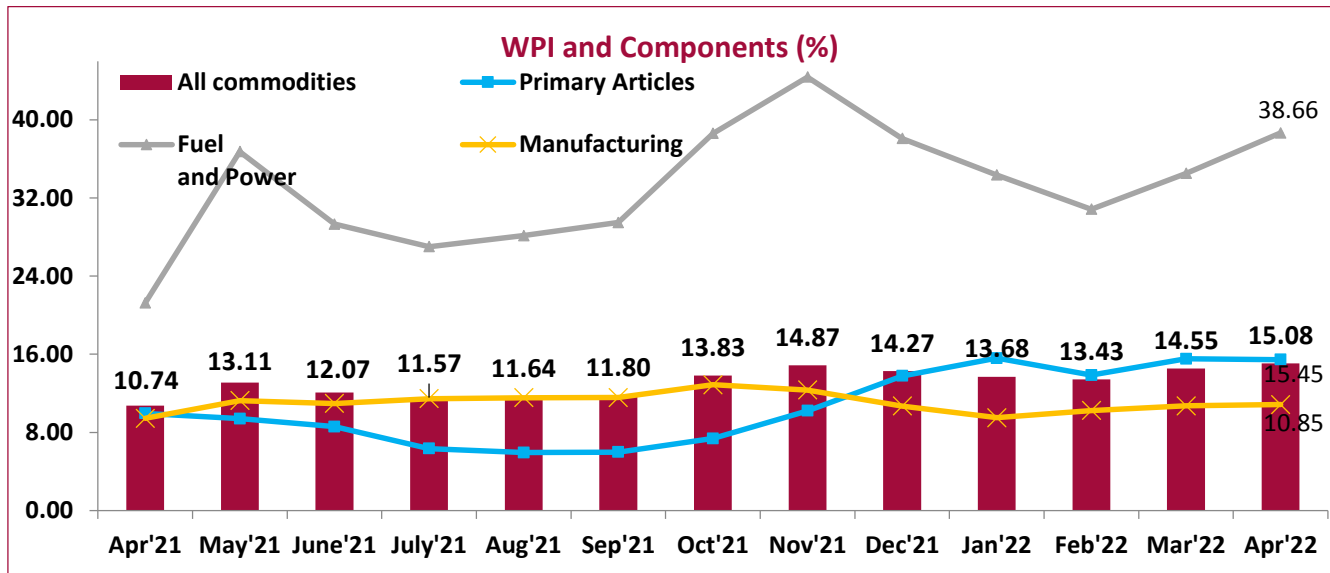
CPI Inflation jumps to 8-year high



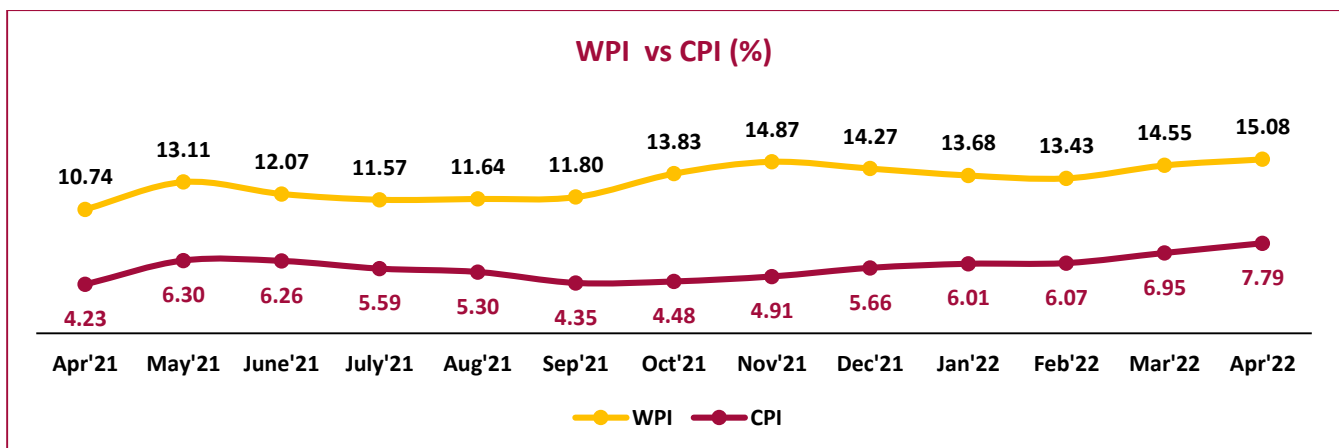
Retail inflation escalated to 7.79% in April 2022 on a broad based rise in price pressures across food, fuel, and core segments. CPI stood at 6.95% in the previous month i.e. March 2022 and 4.23% in April last year.

WHOLESALE PRICE INDEX (WPI)

WPI surges to an alarming rate of 15.08%



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
Feb	3.01	13.87	2.03	30.84	6.06	10.24	1.81	8.19	4.83	13.43
Mar	7.28	15.54	9.75	34.52	7.84	10.71	3.44	8.06	7.89	14.55
Apr	9.94	15.45	21.27	38.66	9.44	10.85	4.60	8.35	10.74	15.08

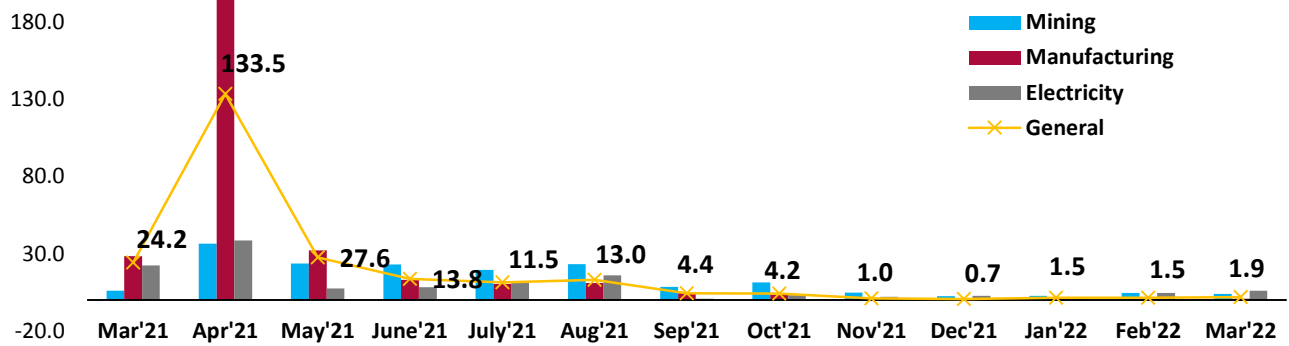


Wholesale inflation measured by WPI rose to 15.08% in April 2022, compared to 14.55% in the previous month i.e. March 2022, while it was 10.74% in April 2021.

INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP continues to exhibit slower growth

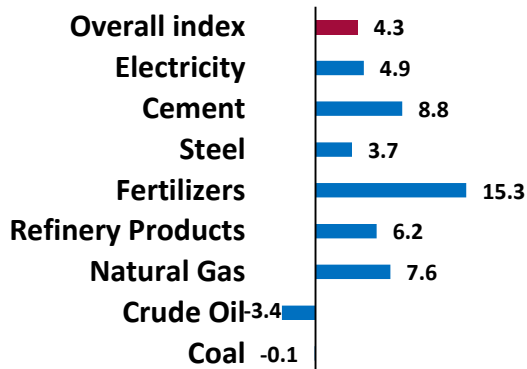
IIP Growth % (Sector-wise)



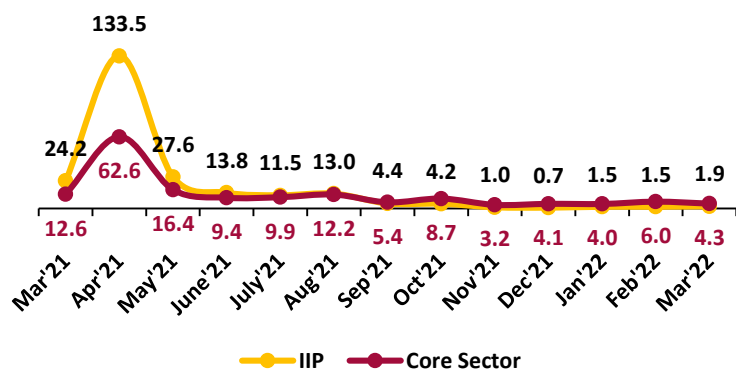
IIP growth % (Usage-wise)

Component	Weight	Mar'21	Dec'21	Jan'22	Feb'22	Mar'22	Apr-Mar'22
Primary Goods	34.05%	7.9	2.8	1.6	4.6	5.7	9.7
Capital Goods	8.22%	50.4	-3.0	1.4	2.0	0.7	16.7
Intermediate Goods	17.22%	22.4	1.0	0.7	3.7	0.6	15.1
Infrastructure/Construction Goods	12.34%	35.1	2.0	6.1	8.8	7.3	19.0
Consumer Durables	12.84%	59.9	-1.9	-3.6	-8.7	-3.2	12.5
Consumer Non- Durables	15.33%	29.2	0.3	2.1	-5.8	-5.0	3.2

Core Sectors Growth for FY'22 (%)



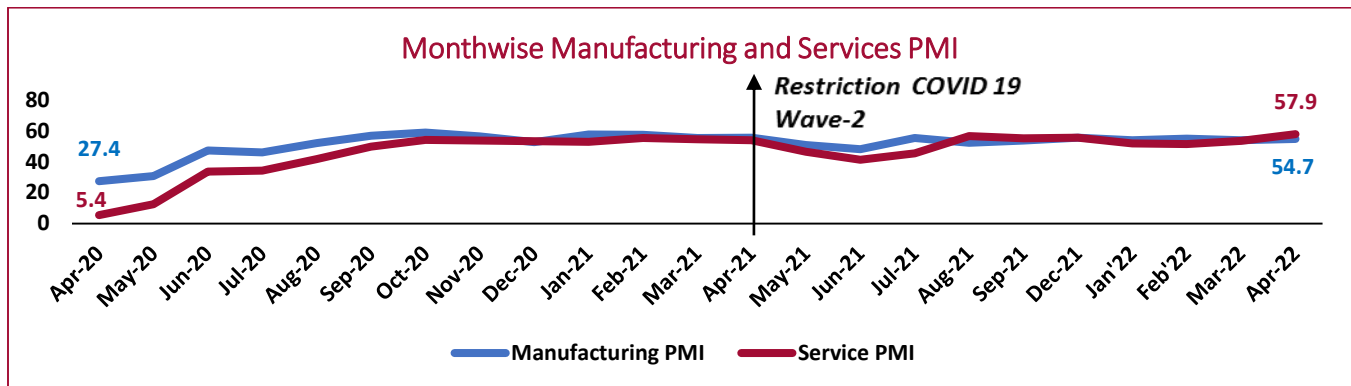
IIP Growth vs Core Sector Growth (%)



Index of Industrial Production (IIP) grew by 1.9% in Mar'22 after growing by 1.5% in Feb'22. IIP had grown by 24.2% in Mar'21.

PURCHASING MANAGERS' INDEX (PMI)

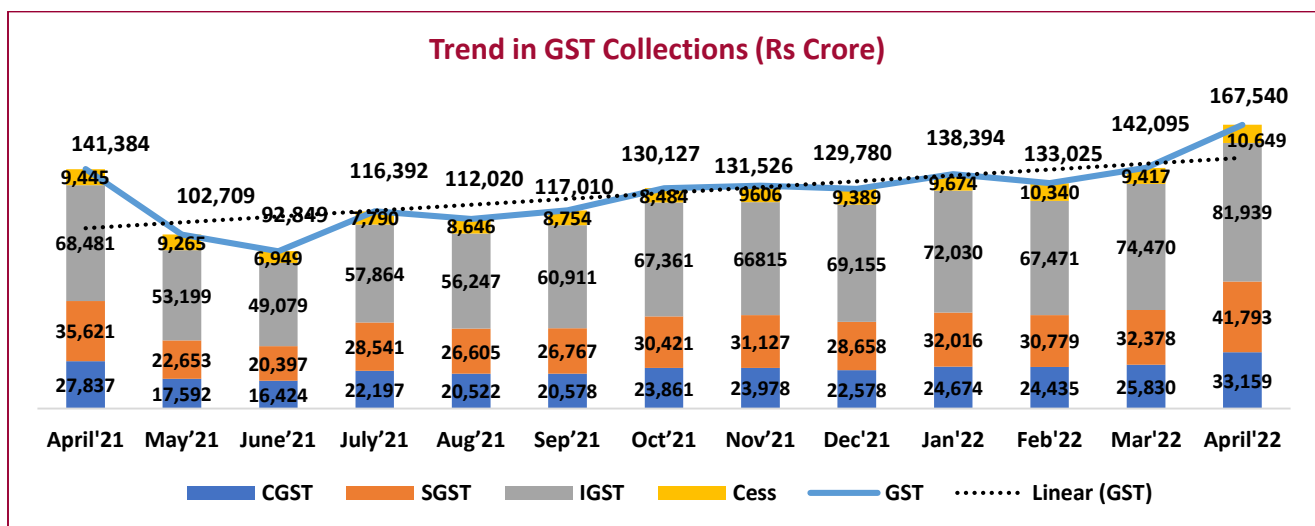
Services PMI at 5-month high, while Manufacturing PMI witnesses sustained growth amid price pressures



India's services sector activity improved in April 2022 due to the relaxation of COVID-19 restrictions. The S&P Global India Services Purchasing Managers' Index (PMI) raised to 57.9 in April 2022 from 53.6 in March 2022. It was the highest during last 12 months. India's manufacturing PMI increased from 54.0 in March 2022 to 54.7 in April 2022. The numbers reflect that business confidence has strengthened on account of faster expansions in output, meanwhile, acceleration in cost push inflation, global uncertainty from the war in Ukraine and persistent supply chain issues pose risk.

GOODS AND SERVICES TAX (GST)

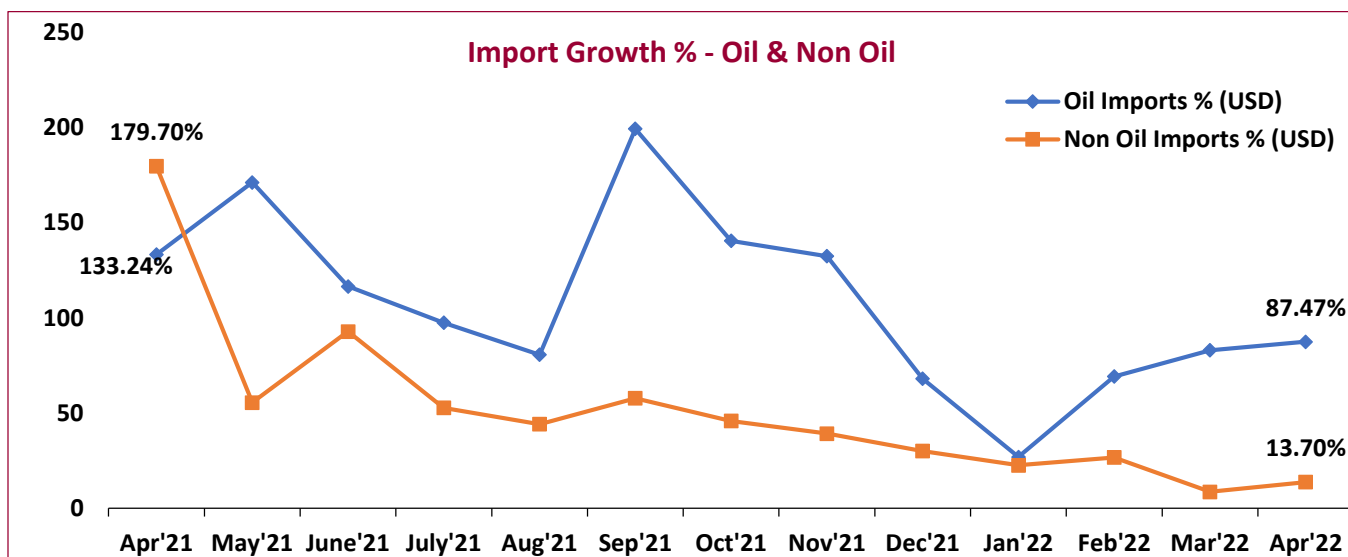
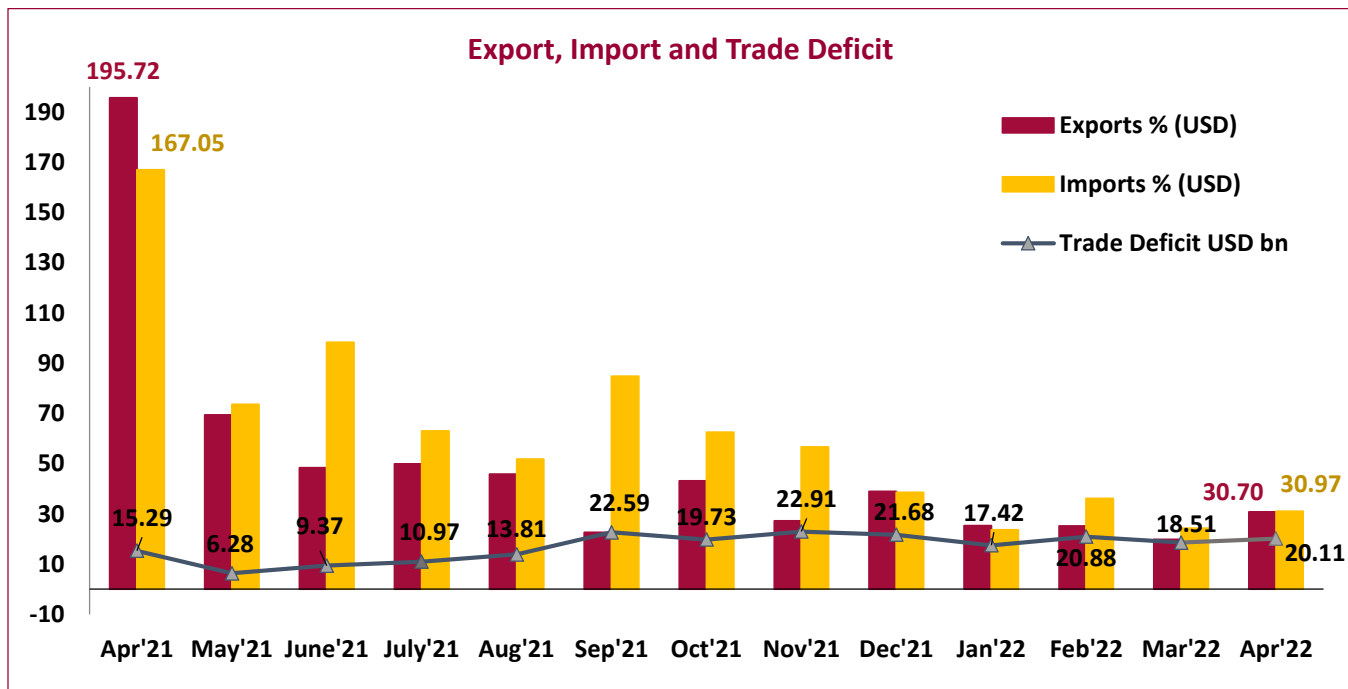
GST collection soars to all-time high



In April 2022, the GST collection registered highest collection ever of over Rs 1.67 Lakh Crore which is around 18% higher than GST revenues from the last month. Out of ₹ 1,67,540 Crore revenue collected in April, CGST is ₹ 33,159 Crore, SGST is ₹ 41,793 Crore, IGST is ₹ 81,939 Crore (including ₹ 36,705 Crore collected on import of goods) and cess is ₹ 10,649 Crore. GST collections reflect the continuing improvement in various macroeconomic indicators and reflects recovery of business activities at faster pace.

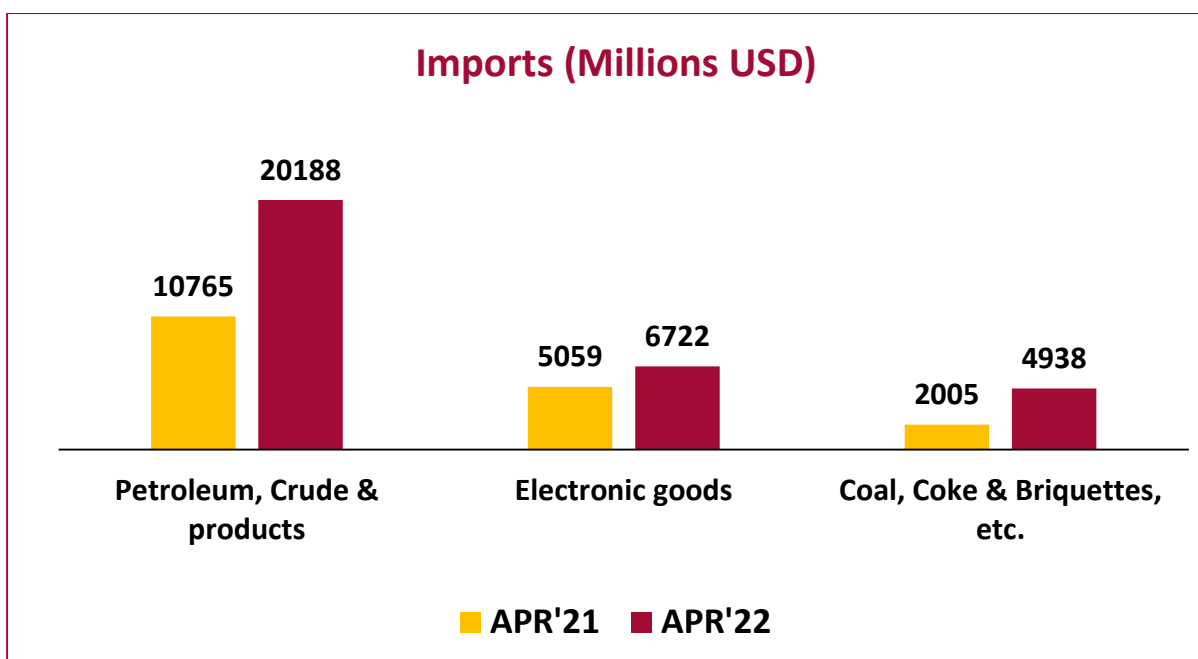
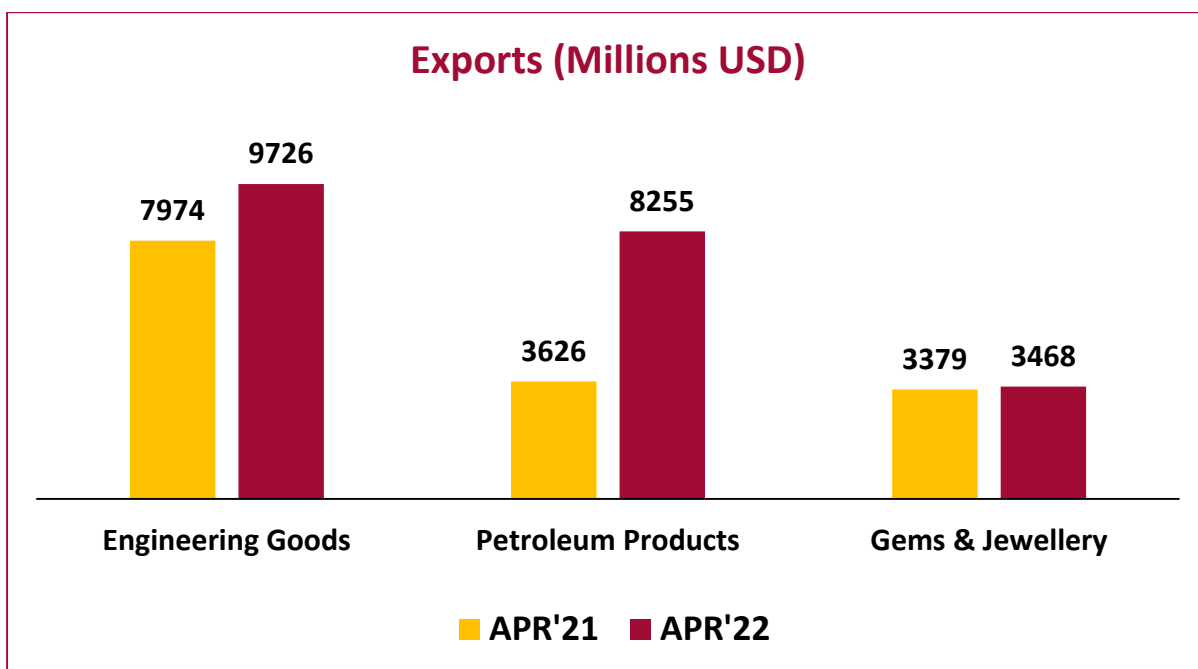
FOREIGN TRADE

Trade Deficit widens to \$20.11 bn, while both export and import grow over 30%

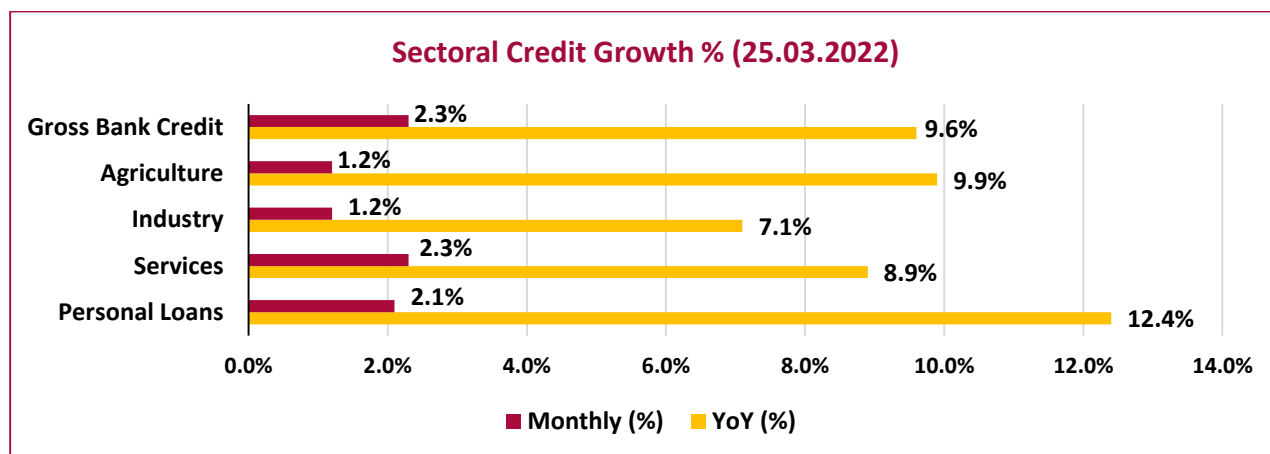


- India's Trade Deficit showed an increase and widened to the level of \$20.11 billion up 31.50 per cent year-on-year in April 2022.
- Merchandise exports grew to \$40.19 billion, up 30.70 per cent year-on-year in April 2022. Meanwhile Merchandise imports grew to \$60.30 billion, up 30.97 per cent year-on-year in April 2022. It was the second month when imports are more than \$60 Billion.

Top 3 Major Commodities for April 2022 Trade

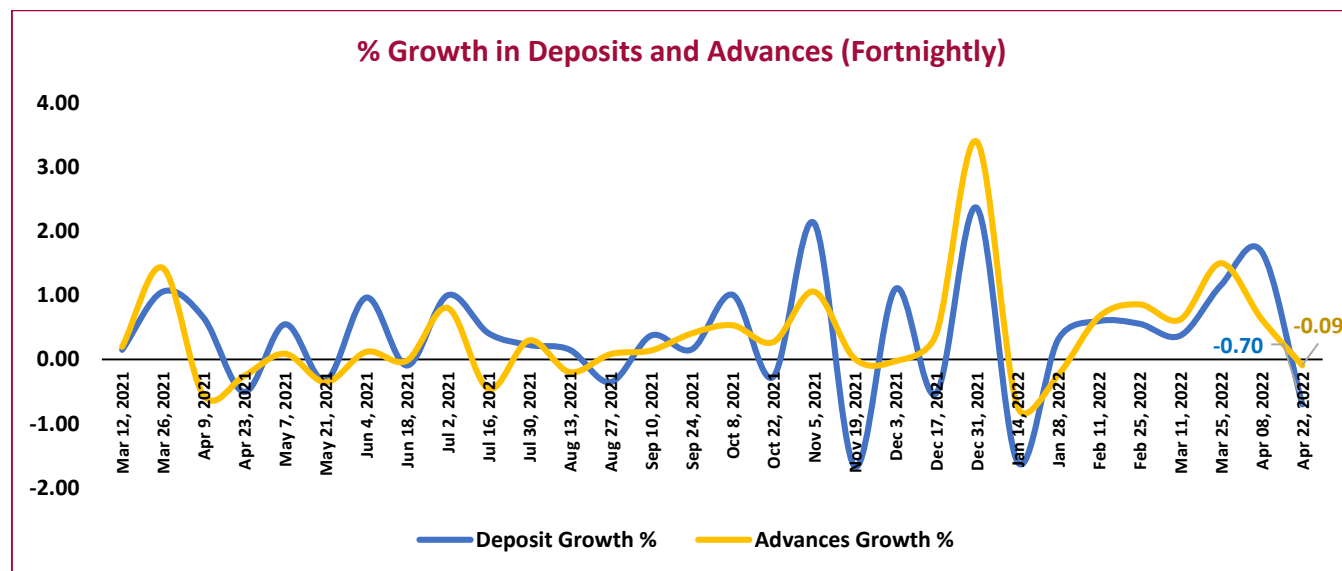


SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

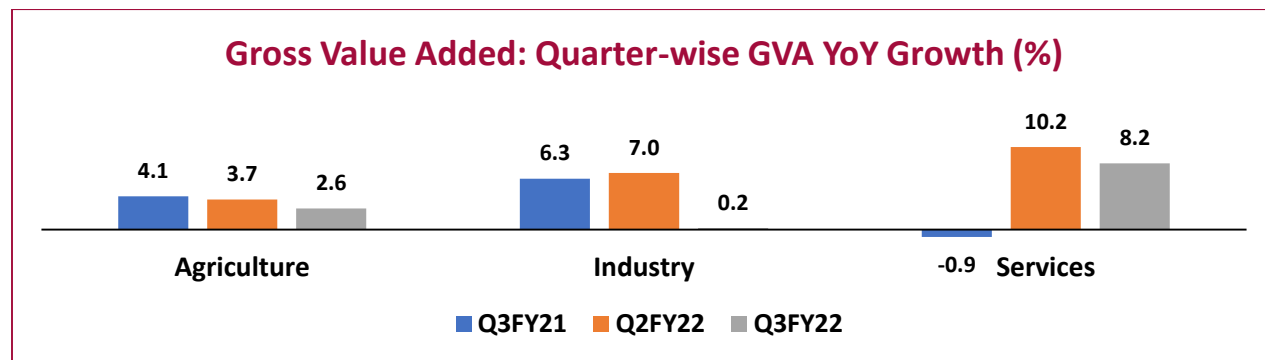
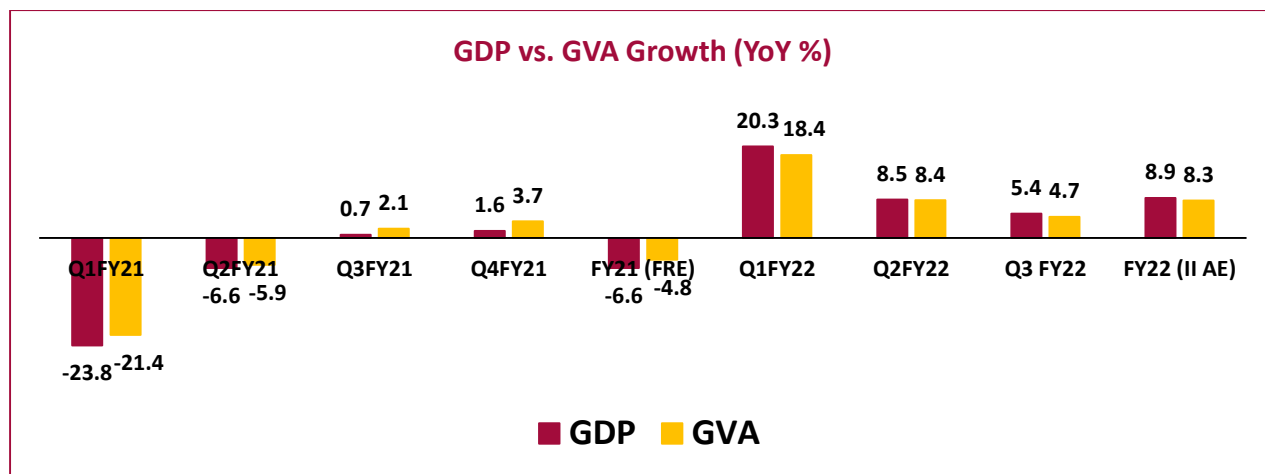
Parameter (Rs. Lakh Crore)	23.04.21	25.03.22	08.04.22	22.04.22	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	151.34	164.65	167.41	166.24	9.8%	1.0%	-0.7%
Advances	108.60	118.91	119.66	119.55	10.1%	0.5%	-0.1%
Business	259.95	283.56	287.07	285.79	9.9%	0.8%	-0.4%



QUARTERLY ECONOMIC INDICATORS

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

Q3FY'22 GDP expands by 5.4%



GDP for Q3 FY22 grew by 5.4% as compared to a growth of 8.5% in the previous quarter (Q2 FY22) and a growth of 0.7% in Q3 FY21. 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 Q3 FY22 grew by 4.7%** in comparison to a growth of 8.4% in Q2 FY22 and a growth of 2.1% in Q3 FY21.

India's GDP Outlook Of Various Agencies

Agency	FY23
RBI	7.2%
World Bank	8.0%
IMF	6.9%
ADB	7.5%
Moodys'	8.4%
Fitch	8.5%

IMF's outlook on Indian Economy (World Economic Outlook-Apr'22)

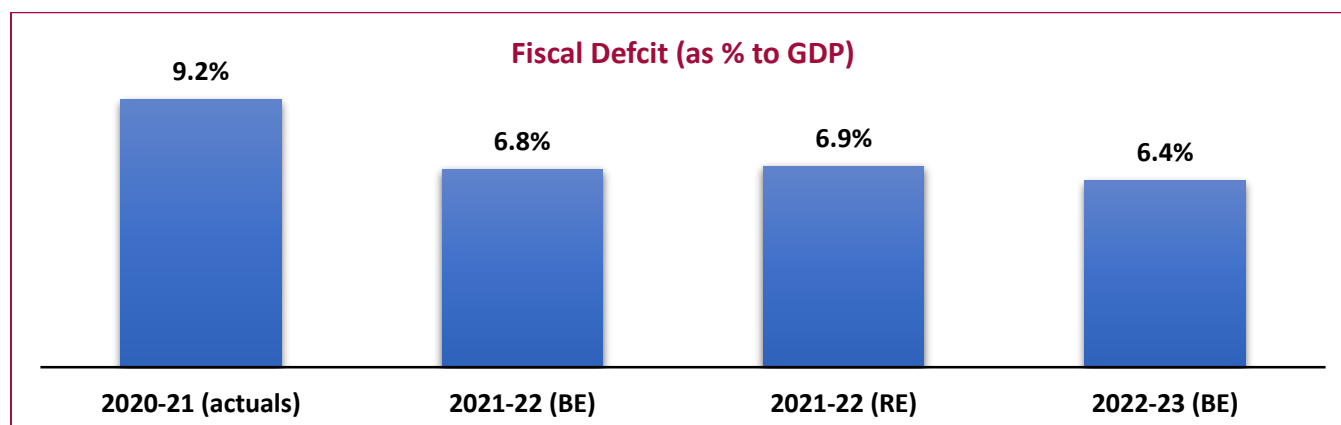
- Downgrading of India's GDP outlook has been attributed to weaker domestic demand as higher oil prices are expected to take toll on private consumption and investment.
- The expected slowdown in the growth momentum of India is partly reflective of the war in Ukraine that has resulted in high energy and food prices, slowing down the growth momentum.

RBI's Outlook on India's GDP Growth

- Indian economy consolidated its recovery, with most constituents surpassing pre-pandemic levels of activity due to subdued effect of COVID 19.
- However due to global spillover, weak growth trend creeps in, inflation moving to higher growth trajectory, supply disruptions and financial market volatility arising from monetary tightening pose near-term challenges for Indian Economy.

FISCAL DEFICIT

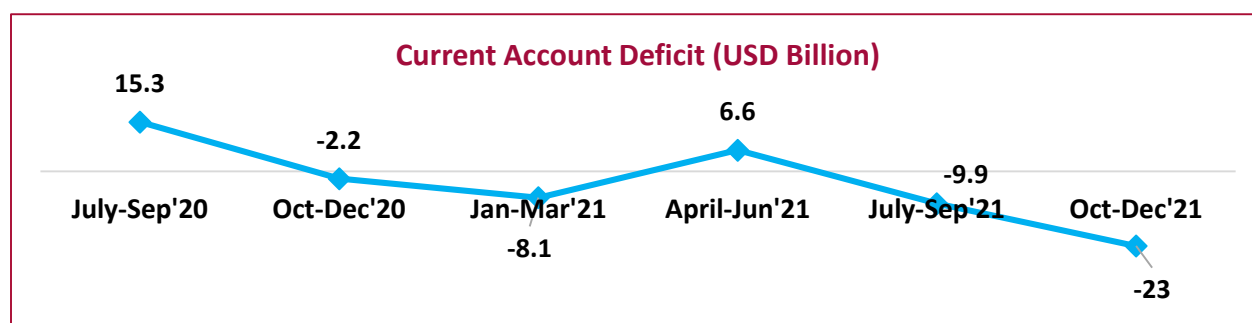
Fiscal deficit is estimated to be around 6.9% in FY'22



The fiscal deficit numbers for 2021-22 will be released on 31.05.2022.

CURRENT ACCOUNT DEFICIT

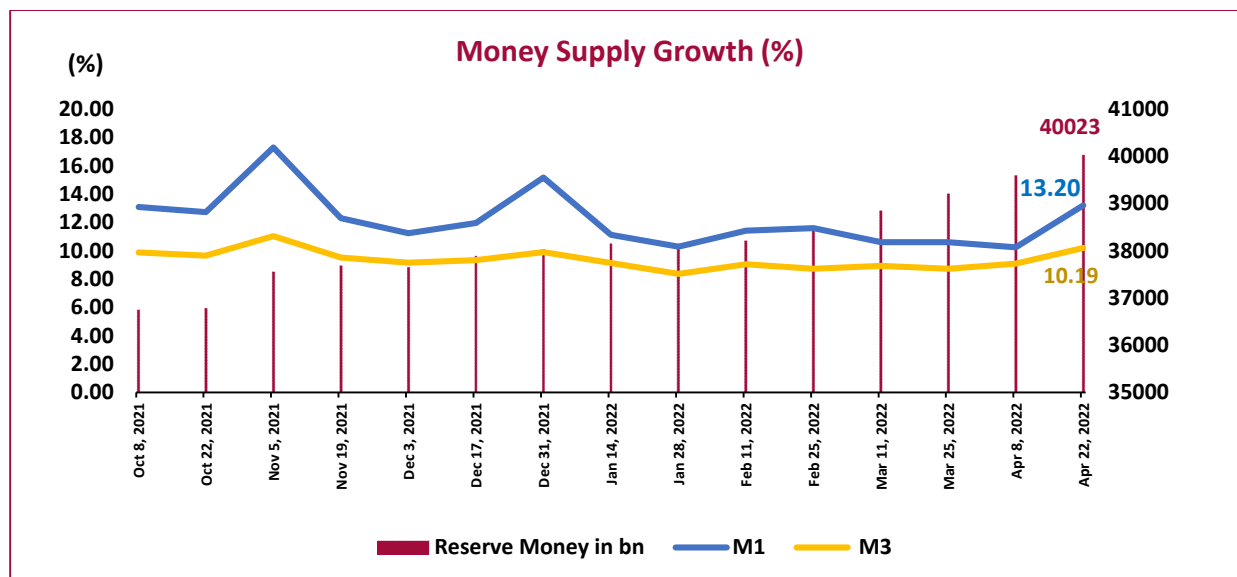
Flaring Deficit, reached the level of USD\$ 9.6 billion



India's current account deficit (CAD) increased to US\$ 23.0 billion (2.7 per cent of GDP) in Q3:2021-22 from US\$ 9.9 billion (1.3 per cent of GDP) in Q2:2021-22 and US\$ 2.2 billion (0.3 per cent of GDP) a year ago [i.e., Q3:2020-21]. The widening of CAD in Q3:2021-22 was mainly on account of higher trade deficit. Net services receipts increased, both sequentially and on a year-on-year (y-o-y) basis, on the back of robust performance of net exports of computer and business services.

MONEY SUPPLY

Growth rate in M1 and M3 shows increased rate compared to previous date



GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	-0.10	Jan 29, 2016 (-20bps)	June 17, 2022
European Central Bank (ECB)	Europe	0.00	Mar 10, 2016 (-5bps)	June 09, 2022
Federal Reserve	U.S.A	1.00	May 04, 2022 (50bps)	June 15, 2022
Bank of England	U.K	1.00	May 05, 2022 (25 bps)	June 16, 2022
Peoples Bank of China	China	3.70	Jan 20, 2022 (-10bps)	June 20, 2022
Reserve Bank of India	India	4.40	May 4, 2022 (40bps)	Jun 08, 2022
Central Bank of Russia	Russia	14	Apr 29, 2022 (-300bps)	June 10, 2022

INDUSTRY OUTLOOK

Green Finance Industry

Green financing is a basic activity to accomplish the green growth. It is inevitable and is emerging as a priority for public policy.

Green finance refers to the financial arrangements that are specific to the use for projects that are environmentally sustainable or projects that adopt the aspects of climate change.

Environmentally sustainable projects include the production of energy from renewable sources like solar, wind, biogas, etc.; clean transportation that involves lower greenhouse gas emission; energy efficient projects like green building; waste management that includes recycling, efficient disposal and conversion to energy, etc.

India has started emphasizing on green finance as early as 2007. In December 2007, the Reserve Bank issued a notification on “Corporate Social Responsibility, Sustainable Development and Nonfinancial Reporting – Role of Banks” and mentions the importance of global warming and climate change in the context of sustainable development. In 2008, The National Action Plan on Climate Change (NAPCC) was formulated with a vision to outline the broad policy framework for mitigating the impact of climate change (Jain, 2020). The Climate Change Finance Unit (CCFU) was formed in 2011 within the Ministry of Finance as a coordinating agency for the various institutions responsible for green finance in India. The major strategic move since 2012 include implementation of the sustainability disclosure requirements. Security and Exchange Board of India (SEBI) made it mandatory for top 100 listed entities based on market capitalization at BSE and NSE to publish annual business responsibility reports since 2012 and revised it from time to time. PNB has also taken initiative towards green financing like PNB Green Car Loan, PNB Green Ride etc.

FMCG Industry

Fast-moving consumer goods (FMCG) sector is India's fourth-largest sector with household and personal care accounting for 50% of FMCG sales in India. Growing awareness, easier access and changing lifestyles have been the key propellers for the sector. Though the urban segment (revenue share of around 55%) is the larger contributor to the overall revenue generated by the FMCG sector in India, the past few years have witnessed comparatively higher growth in the FMCG market in rural India.

FMCG industry in India has seen a remarkable transformation over the last two decades. At this time, industry outlook for FMCG may be considered “very positive”. In a consumption-driven economy such as India, with its USD 5 trillion goals, the graph for the FMCG sector can only go north. The increase in disposable income in rural India and low penetration levels in rural market offers room for ample growth. Further, recovery in urban demand and discretionary segments will boost growth.

Major factors influencing growth in the ensuing year include digitization, brand community and doorstep delivery. Most companies are leveraging new-age digital channels to connect with more audiences and drive engagement besides accelerating digital adoption. Further, technology is enabling distributors and retailers to hold less stock thereby enhancing their return on investment and will raise growth in the sector. Capitalizing on the trend of the online marketplace, most brands have started delivering their products directly to the consumers’ doorstep. This will also aid in growth in the sector. However, commodity inflation with its impact on raw material prices continues to be a significant headwind. In view of the above, resilience needs to be built into the manufacturing process, retail and logistic channels etc.

EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. RBI's gold reserves up over 100 tonnes in the last two years, shows data (BS, 14.05.2022)

- The RBI's gold reserves started increasing from the 2017-18 financial year, and in the last two years it went up over 100 tonnes.
- As at end-March 2022, the Reserve Bank held 760.42 tonnes of gold, including gold deposits of 11.08 tonnes. While 453.52 tonnes of gold is held overseas in safe custody with the Bank of England and the Bank of International Settlements (BIS), 295.82 tonnes of gold is held domestically.
- In value terms (dollar), the share of gold in the total foreign exchange reserves increased from about 5.88 per cent as at end-September 2021 to about 7.01 per cent as at end-March 2022 – which is close to the 2014 levels.

2. PMJJBY subscription increases to 128 mn, PMSBY at 284 mn in 7 years (BS, 10.05.2022)

- The Centre's flagship life insurance scheme — Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), and accidental insurance scheme, Pradhan Mantri Suraksha Bima Yojana (PMSBY) — have seen enrollments rise to 128

million and 284 million, respectively, in seven years of inception.

- Atal Pension scheme that provides a subscriber aged 18-40 years with a guaranteed pension of Rs.1,000 to Rs.5,000 per month after attaining the age of 60 years, depending on the contribution, has seen its subscribers increase to 40 million in the last seven years. All three social security schemes were launched by the government on May 9, 2015.

3. RBI raises repo rate by 40 bps in surprise move; CRR increased by 50 bps (BS, 05.05.2022)

- In a surprise move, the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) unanimously decided to increase the repo rate by 40 basis points (bps) in an off-cycle meeting, citing inflation concern.
- This was followed by a 50 bps hike in the cash reserve ratio to 4.5 per cent, which will drain out Rs 87,000 Crore liquidity from the banking system.
- This was the first repo rate hike in 45 months -- since August 2018. The increase in the repo rate will lead to lending rates getting pushed up because 40 per cent of the loans of commercial banks are linked to it.

- The 10-year government bond shot up 26 bps, with the street expecting another rate hike in the June policy. As a result, the standing deposit facility (SDF) rate is now at 4.15 per cent and the marginal standing facility (MSF) rate at 4.65 per cent.
- 4. RBI issues new rules, penalties for credit & debit cards (ET, 22.04.2022)**
- The Reserve Bank of India (RBI) has overhauled rules governing debit and credit cards introducing penalties for banks for issuing or upgrading cards of customers without prior consent. It has also opened a window for non banking finance companies (NBFCs) to issue credit cards with the prior approval of the regulator.
 - The regulator has asked banks to ensure that the overdue interest is not adjusted to the principal of the loan causing negative amortization. Banks have also been asked to ensure that unpaid charges, levies and taxes are not capitalised for compounding of interest.
 - The new directions are effective from July 01, 2022 and will apply to all scheduled banks and NBFCs.
- 5. IBBI proposes tweaks in rules to reduce delays in corporate insolvency process (ET, 20.04.2022)**
- Insolvency and Bankruptcy Board of India (IBBI) has issued a consultation paper proposing tweaks to the corporate insolvency resolution process. The regulator has put forth four specific proposals which are aimed at reducing delays in the IBC process.
- In the 10-page discussion paper, the insolvency regulator has proposed to impose an obligation on the committee of creditors (COC) to share all the documents they possess on the company with the insolvency resolution professional (IRP). The documents proposed to be covered under this include details of valuation exercises, information on stock audits and relevant extracts from forensic audits.
- 6. RBI asks borrowers with total exposure of ₹5 Crore and above to obtain LEI (BL, 21.04.2022)**
- The Reserve Bank of India (RBI) has prescribed a timeline for non-individual borrowers enjoying aggregate exposure of ₹5 Crore and above from banks and financial institutions to obtain Legal Entity Identifier (LEI) codes.
 - LEI has been conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the global financial crisis. LEI is a 20-digit unique code to identify parties to financial transactions worldwide.

- Per the timeline, borrowers with a total exposure above ₹25 Crore have to obtain LEI by April 30, 2023, and borrowers with total exposure above ₹10 Crore and up to ₹25 Crore have to obtain LEI by April 30, 2024. Borrowers with total exposure of ₹5 Crore and above, and up to ₹10 Crore have to obtain LEI by April 30, 2025.
- 7. RBI further tightens regulations for non-bank lenders (FE, 19.04.2022)**
- The Reserve Bank has announced a slew of regulatory changes for non-banking lenders by amending the October 2021 circulars on scale-based regulations, which have brought in large NBFCs almost on par with bankers when it comes to addressing their credit risk concentration.
 - The regulator issued four separate circulars: Large exposures framework for NBFCs — upper layer; Disclosures in their financial statements; Scale-based regulation for capital requirements — upper layer; and Regulatory restrictions on their loans and advances. These are improvements on the October 22, 2021, circulars.
 - On the large exposure framework with the upper layer, the regulator said these prudential guidelines are aimed at addressing credit risk concentration in NBFCs and are set out to identify large exposures, refine the criteria for grouping of connected counterparties and put in place reporting norms for large exposures.
- 8. RBI issues guidelines for banks to set up 24X7 digital banking units (ET, 07.04.2022)**
- The Reserve Bank of India said existing banks can open digital banking units to offer products and services in both self-served and assisted mode round-the-clock. In the Union Budget, the government announced the setting up of at least 75 such units in 75 districts to commemorate 75 years of the country's independence as 'Azadi ka Amrit Mahotsav'.
 - According to the guidelines on the establishment of Digital Banking Units (DBUs), the products and services to be provided at a DBU include, opening of accounts, cash withdrawal and deposit, KYC updation, loans and complaint registrations. The Reserve Bank of India said existing banks can open digital banking units to offer products and services in both self-served and assisted mode round-the-clock.
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DATA SOURCES

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- Ministry of Commerce and Industry, Department Of Commerce
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- Websites of major Central Banks
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QUOTE OF THE MONTH

“Life is like riding a bicycle. To keep your balance, you must keep moving”

- Albert Einstein

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Corporate Office, Plot No. 4, Sector 10,
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ਕਾਰ्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग
कॉर्पोरेट कार्यालय, प्लॉट सं. 4, सेक्टर-10,
द्वारका, नई दिल्ली-110075