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India's G20 Presidency

India got the G20 presidency this year and hosted global leaders in various cities. The G20 presidency was a landmark opportunity for India, especially at a time when the global economy is in a dire strait. India's theme for its G20 Presidency, "Vasudhaiva Kutumbakam" (One Earth - One Family - One Future) is aiming to build harmony to address global challenges collectively and effectively. Let's look at what G20 holds for the Indian economy.

The G20 forum represents 85 per cent of global GDP and 75 per cent of international trade. G20 presidency serves as a diplomatic exercise to reinforce relations with old partners, explore new ones, and enhance the incumbent nation's image and might on the global stage.

India's presidency is hugely important as it comes at an inflection point when India is the fastest growing economy in the battered world. The COVID-19 pandemic, supply chain disruptions, climate change, food and energy security risks, geopolitical tensions, inflation, and a looming debt crisis are some major challenges that have deaccelerated the economic growth and have heightened the uncertainty. Amidst all these challenges, G-20 has provided a stage to India to demonstrate its prowess in various fields and establish itself as a major player in global economic order.

India has gained significant global influence in recent few years. In just past one decade, India has emerged as the fifth largest economy today from tenth largest and is expected to be the third largest in next 4-5 years. India is currently in a goldilocks situation with robust economic growth and controlled inflation. As per IMF, India alone will contribute 15 per cent of the global growth in 2023.

India also has a demographic advantage of the largest working age population that provides a large pool of human resource and also makes a big market for consumption of goods and services.

Currently, India has also got an opportunity to position itself as an alternative of China, when China is slowing down and major global giants are considering moving their supply chains out of China due to its uncertain political environment.

India is transforming digitally and many recent innovations like wide adoption of UPI, Account Aggregator, Digital stack are big breakthroughs that have led to increased formalization of the economy. India can effectively lead in taking these to the rest of the world.

In G-20, India could set an example especially at a time when climate change is one of the biggest issue of the 21st century. India is a pioneer in adopting renewable energy resources for its power needs. Today, India is the world's third-largest producer of renewable energy, with further expansion underway. India's success in scaling up solar energy, along with recently announced programs such as the National Hydrogen Mission, Production Linked incentives for electric vehicles and the manufacture of solar technologies and battery energy storage, and incentive mechanisms for supporting offshore wind, all allow the country to lead by example and drive global collaboration to reduce the cost of achieving net-zero emission.

Promoting indigenous entrepreneurship is another dimension where India can lead as India's home-grown entrepreneurs and businesses and a large middle-class population give it a competitive edge over other big nations.

There are some definite ways in which India's economy can be boosted through the G20 process.

The first is international trade – the ripple effects of increasing protectionism, disrupted supply chains, and food and fuel shortages because of the Ukraine-Russia conflict can be moderated through a fair, transparent, and rules-based trading system. The Trade and Investment Working Group of G20 has been engaged in promoting resilient trade, enhancing MSME participation in trade and expanding logistics, among other issues.

One such initiative in G-20 is the India-Middle East-Europe Economic Corridor (IMEC). The economic corridor represents an unprecedented collaboration between India and the United States, encompassing India, the UAE, Saudi Arabia, the European Union, France, Italy, Germany, and the United States. It promises not only geopolitical significance but also economic opportunities for India in form of enhanced food security & regional supply chains, trade accessibility, job creation, global commerce, digital communications and energy networks. It will provide a unique geographical advantage as it will firmly position India along the trade route spanning South East Asia to the Gulf, West Asia and Europe.

Second, international collaboration and sharing of best practices in technology could help India build innovation. The G20 deliberations on a range of occasions through the year will help India showcase its technology prowess and initiate new partnerships.

Third, the inclusion of MSMEs in deliberations through the various arms of the G20 will play a significant role in opening new opportunities for them, especially through partnerships in medium-income countries. The MSME sector is crucial to the Indian economy. It constitutes about 30 oer cent of India's GDP and 40 per cent of India's exports. It creates significant job opportunities in the economy. It empowers rural and urban citizens with little capital to start a business. The development of MSMEs, therefore, is closely linked to India's economic growth.

Fourth, hosting G20 is helping to promote tourism in the country as well. The government has strategized to organize the various meetings in different parts of the country and many associated events are showcasing India's culture and heritage sites.

Further, directly engaging with global businesses can act as a catalyst for new investments. Alongside the G20 meetings, leading businesses of the world are undertaking dialogues on the B20 platform, the Business Engagement Group of G20, which is the largest among all its engagement groups. During the year, B20 India is organizing over 100 policy discussion initiatives across the country which are attracting notable participation from overseas.

As the G20 countries engage intensively with India during this year, India's economy is expected to receive a significant thrust that will enable many new jobs and investment proposals.

Deepak Singh

(Deputy General Manager)

2. GIST OF RBI SPEECH: CREDIT INTERMEDIATION – CAN REGULATIONS TANGO WITH MARKETS?

(Speech by Shri M. Rajeshwar Rao, Deputy Governor of RBI)

- While credit intermediation in some ways describes and defines the role of the banking system in an economy, it also acts, at the same time, as the key channel for effective monetary transmission and greater Financialisation of the economy.
- However, if not regulated appropriately, this channel can lead to the undoing of institutions and become a source of broader financial instability. Therefore, the bank regulation and soundness of financial intermediaries are necessary conditions to facilitate orderly credit growth.
- Some perspectives on the need for having robust credit markets and the way forward are:

I. Financialisation - what do we mean and how it is relevant?

- Whenever we refer to Financialisation, in popular parlance it is understood to mean the expanding role of financial markets, financial actors, and financial institutions in the operation of the economy.
- Effective Financialisation has been a key enabler in the journey of our economy's growth. This has been facilitated by the growth of financial institutions in terms of institutional outreach, last mile presence and availability of banking services over multiple channels.
- More recently, the evolution of fintech entities and their interplay with the formal financial system has been instrumental in transforming the way financial products and services are delivered to masses.

II. Credit growth – Its role in Financialisation & Need for Orderliness

- There have been several studies which establish that credit plays an important role in Financialisation. Empirically too, it is observed that the growth of GDP in India and credit flow to commercial sector by banks are positively correlated with each other. Over time, the growth in credit flow has also outpaced the growth of the economy, contributing increasingly to facilitate availability of capital to the productive sector of the economy. The credit-to-GDP ratio which was ranging around 7-8% in 1960s has increased significantly to around 55% by the beginning of this decade.
- The traditional form of credit involving loans extended by financial institutions have dominated the credit markets in India, but of late there has been an upswing in other forms of credit instruments. The market linked instruments such as corporate bonds, debentures, and commercial papers, in particular, have manifested an upward trend.

- Data indicate that, while banks still account for a large proportion of credit flow to commercial sector, other sources of borrowings such as from non-banks, or through corporate bonds and foreign borrowings also show a rising trend.
- The question arises that if credit growth led Financialisation alone can drive economic growth, should we only focus on the credit growth as the driver of economic growth? This is unlikely to be the case as there could be two major consequences of an excessive expansion of credit in an uncontrolled and unregulated manner – first of all, it may lead to build up of an excessive leverage in the real sector, and second, as often experienced, episodes of excessive credit growth may lead to dilution in underwriting standards by the lending institutions.
- It's not just unqualified, unconditional 'credit growth' which is crucial for economic development, but 'orderly credit growth' which maintains and anchors financial stability in system and that in turn ensures sustainable growth over the long term.
- **Necessity for Regulation of credit market**

  If we delve a little deeper into the landscape of credit risk, it is apparent that there are three fundamental elements which need to be factored in, namely - 'trust', 'prudence', and 'contractual arrangements' which are also mutually inter-connected.

  We have a principle-based regulatory approach – 'a 5M framework for risk management' which focuses on the following five elements – **measuring, monitoring, managing, mitigating, and migrating.** The elements of this framework are not mutually exclusive and interact with and relate and reinforce each other.

  Measurement: In order to measure the credit risk, all the regulators around the world, including the Reserve Bank, have prescribed detailed guidelines to enable a proper measurement of the risk.

  Monitoring: There are usually three layers of internal checks prescribed for the institutions- first, underwriting and due diligence at the time of origination of loans, second, adherence with internal risk management and compliance practices, and third, internal audit.

  Management: In order to ensure that the regulated entities are well capitalised in proportion to the risk they are carrying, regulators across the world prescribe capital adequacy norms where minimum regulatory capital is provided by the banks based on certain principles.

  Mitigation: This risk mitigation is enforced at two levels – first by the regulators – which is mostly prudential in nature like provisioning norms or exposure limits. Second at the institutional level, wherein the institutions themselves may prescribe exposure limits to manage concentration risks or put certain collateral constraints on borrowers or prescribe stringent covenant to manage the risks.

Migration: There could be several tools available for transfer or migration of credit risk, two of them are,

i) the most popular way is to simply transfer the asset (loan) and associated risk to another entity

ii) by way of securitisation.

III. Recent initiatives and way forward

- As a part of the recent regulatory initiatives, we have focused on policy measures to improve the mechanics of migration or transfer of credit risk.
  - In September 2021, we came up with a revised set of guidelines for transfer of loan exposures and securitisation of standard assets.
  - Similarly, the guideline on Credit Default Swap (CDS), have been comprehensively revised in 2022, to facilitate the development of market for CDS by expanding the participant base.

Let's share some perspectives on the possible way forward.

- A **deep and active secondary market**, which is envisaged to be developed through Secondary Loan Market Association (SLMA), would be crucial to impart fairness and transparency to transfer of loans and credit risk among market participants.
- By having **a wider set of participants**, it is envisaged that credit markets will become more vibrant, effective, and transparent.
- Our framework on securitisation issued in 2021 carries a negative list restricting a few asset classes from being securitised. But this is not a fixed exclusion. We constantly monitor the growth and maturity of market and are ready to take a well-thought-through call if **some restricted assets could be securitised** in current environment.

Conclusion

To sum up, while credit is an important driver for the growth of economy from the Financialisation perspective, we need a robust risk management framework to manage credit risk. The array of tools for credit risk management have evolved with prudential limits providing the regulatory back stops. To facilitate transfer of credit risks between entities in a fair and transparent manner several policy enablers have been put in place by the Reserve Bank with the objective of developing robust credit markets. Though, some risks must be taken, it is in our collective interest that we know the risk we are taking, assess it adequately, and acquire the capabilities to manage it.

3. GIST OF RBI SPEECH: ART OF MONETARY POLICY MAKING - KEY TAKEAWAYS

(Speech by Shri Shaktikanta Das, Governor of RBI)

- ✓ Monetary policy framework in India has evolved in line with the developments in theory and country practices, the changing nature of the economy and developments in financial markets. Within the broad objectives, the relative emphasis on inflation, growth and financial stability has, however, varied across monetary policy regimes since independence.
- ✓ During the 1950s and 1960s, as the country embarked upon planned economic development, monetary policy assumed a developmental role of meeting the credit needs of the economy as identified under the five-year plans.
- ✓ Monetary policy during the 1970s and 1980s was constrained by fiscal dominance, automatic monetisation of budget deficits and excessive growth of monetary aggregates.
- ✓ The deteriorating external balance position in the backdrop of adverse geo-political developments and domestic macroeconomic imbalances in the 1980s, and the resultant balance of payments crisis in 1991, triggered large scale structural reforms, deregulation of the economy, financial sector liberalisation and a shift towards market determined exchange rate.
- ✓ A multiple indicator (MI) approach was adopted in April 1998 as the new framework of monetary policy. Under this approach, a host of indicators constituted the information set used for monetary policy formulation.
- ✓ The restrictions on primary financing (1997), enactment of the Fiscal Responsibility and Budget Management (FRBM) Act in 2003, and the consequent introduction of fiscal discipline provided enhanced flexibility to monetary policy
- ✓ During the years following the global financial crisis (GFC) in 2008, India witnessed stubbornly high inflation with retail inflation in double digits and growth losing momentum.
- ✓ The global ripples created by the 'taper talk' in May/June 2013 exposed the macroeconomic vulnerabilities and India was identified as one among the "fragile five"
- ✓ An expert Committee recommended a shift to Flexible Inflation Targeting framework, which was formally institutionalised with the amendment of the Reserve Bank of India Act (1934) in May 2016.
- ✓ The amended Act gives a clear mandate to the Reserve Bank to maintain price stability, keeping in mind the objective of growth. Price stability has been numerically defined as maintaining a headline CPI inflation target of 4.0 per cent with a tolerance band of +/- 2 per cent. The tolerance band provides flexibility to accommodate growth and financial stability concerns, supply shocks, and measurement and forecast errors.

- ✓ Another major change with the amendment of the Act in 2016 was the shift from a Governor-centric monetary policy decision making process to a collegial decision-making body in the form of the Monetary Policy Committee (MPC).
- ✓ As monetary policy works with long and variable lags, the forecasts of key macroeconomic variables play a vital role in the conduct of monetary policy. The forecasting process followed at the Reserve Bank has three broad components, viz. nowcasting, short-term forecasting and medium-term forecasting.
    - The first component of nowcasting uses high-frequency coincident indicators for the current month or quarter that are available ahead of the official data releases on inflation and growth.
    - The second component comprises short-term forecasts for up to one-year. These are generated from semi-structural models that employ time-series and econometric methods, using aggregate and disaggregated data and information from forward looking surveys and lead indicators.
    - The third component involves generating medium-term forecasts and alternate scenarios using the quarterly projection model (QPM).
- ✓ In view of tepid growth outlook for 2019-20, the MPC moved into a rate easing cycle from February 2019 to stimulate economic activity.
- ✓ During February – October 2019, the policy repo rate was reduced by 135 bps from 6.50 per cent to 5.15 per cent. Also, the stance of policy was changed from neutral to accommodative in June 2019.
- ✓ Effective October 1, 2019, the external benchmark-based lending rate (EBLR) system17 was introduced which quickened the pace of policy transmission to lending rates.
- ✓ Since monetary policy transmission through the regular interest rate channel was impeded because of inadequate credit demand during the pandemic, the Reserve Bank activated the asset price channel through large-scale purchases of government paper through open market operations (OMOs) and the secondary market government securities acquisition programme (G-SAP).
- ✓ In early 2022, inflation in India was expected to moderate significantly with a projected average rate of 4.5 per cent for 2022-23. Such expectations were, however, belied by the outbreak of hostilities in Ukraine in February 2022.
- ✓ Initially, the shocks came from food and fuel prices, which were mainly global in origin, but local factors from adverse weather events also played an important role in stoking food inflation.
- ✓ Under these circumstances, the MPC quickly changed gears by prioritising inflation ahead of growth in April 2022 and changed its stance from accommodative to withdrawal of accommodation in June 2022.

- ✓ In an off-cycle meeting in May 2022, the MPC raised the policy rate by 40 basis points. This was followed by rate hikes of varying sizes, in each of the five subsequent meetings till February 2023. In all, the policy repo rate was raised by 250 bps cumulatively between May 2022 and February 2023.
- ✓ Headline inflation had eased to 4.8 per cent in June 2023 from the peak of 7.8 per cent in April 2022. It, however, surged to 7.4 per cent in July, mainly on account of a spurt in vegetable prices which have already started moderating.
- ✓ The current episode of high global inflation and the preceding overlapping shocks of the pandemic and the Russia-Ukraine war have raised significant issues and challenges for the conduct of monetary policy.
- ✓ The FIT framework and the target of 4 per cent was put to test, given the multiple challenges faced by the economy due to the pandemic. So when the inflation target was to be reviewed in early 2021 and notified for the next 5 years, the Reserve Bank reiterated and recommended for retention of the 4 per cent target.
- ✓ The level of liquidity in the system plays an important role in determining the actual overnight call money rate or the weighted average call money rate (WACR) which is the operating target of monetary policy.
- ✓ During the pandemic, while the MPC reduced the policy rate by 115 bps within a span of two months, the Reserve Bank infused significant quantum of liquidity, driving the overnight call money rates closer to reverse repo rate. This was done to stimulate the economy, restore confidence and revive market activity in consonance with the accommodative stance of monetary policy.
- ✓ Supply shocks have become more frequent with profound implications for inflation management and anchoring of inflation expectations. A key risk of sustained high inflation is that it can de-anchor inflation expectations. It is, therefore, important to remain vigilant and take necessary steps in a calibrated and timely manner to keep expectations firmly anchored.
- ✓ Price stability and financial stability are complementary to each other. In fact, price stability is an anchor for financial stability – but sometimes, the trade-off between the two becomes a close call as demonstrated in the recent banking sector turmoil in some advanced economies.
- ✓ After a near zero policy rate for a prolonged period, central banks in these economies started raising interest rates aggressively in 2022 which contributed to stress in certain banks in these economies. In contrast, our battle against inflation is not constrained by financial stability concerns. In fact, even during the COVID phase, we continuously took measures to strengthen financial stability.
- ✓ Our banking system remains resilient and healthy with improved capital ratios, asset quality and profitability.

4. GIST OF SPEECH ON FINTECH AND THE CHANGING FINANCIAL LANDSCAPE

(Speech by Shri Shaktikanta Das, Governor of RBI)

Shri Shaktikanta Das, Governor of Reserve Bank of India (RBI), delivered a speech at the Global Fintech Festival, on September 6, 2023, in Mumbai. The main highlights of the speech are presented as under:

- The advent of FinTech has led to the shift in service delivery by making them faster, cheaper, efficient and more accessible. The Global FinTech sector is estimated to reach USD 1.5 trillion annual revenue by 2030 against the current annual revenue generation of USD 245 billion. The Indian FinTech industry is projected to generate around USD 200 billion in revenue by the year 2030. This projection indicates that by 2030, India's FinTech sector could potentially contribute to approximately 13% of the global FinTech industry's total revenue.
- Following are the Key elements that helps in promoting transformative technologies, which lead to beneficial and impactful changes in the financial industry are:

1. **Digital Public Infrastructure:** DPI promotes interoperability, openness, and inclusion to deliver vital public and private services. India has pioneered a layered approach to DPI, with the concept of the India Stack. In this respect, the impact of JAM trinity, i.e., Jan Dhan Yojana, Aadhar and Mobile in terms of financial inclusion, digitisation of financial services, and emergence of FinTech ecosystem has been significant.

   i. **Jan Dhan Yojana:** So far, over 500 million Jan Dhan bank accounts have been opened in India. 76% of adults worldwide had access to an account in a bank or a regulated financial institution as compared to 51% in 2011.

   ii. **Aadhar- Digital identity:** Unique Identification Authority of India had issued 1.35 billion Aadhaar identities. This has also enabled FinTechs to offer paperless and contactless financial services.

   iii. **Mobile Connectivity:** The number of internet users through mobile phone in India has grown from about 70 million in 2014 to about 800 million in 2022. During the same period, the number of digital transactions in India grew from about 1.2 billion in 2014 to about 91 billion in 2022. Increasing affordability of mobile phones, cheap access to data and the expansion of mobile network coverage have spurred the growth in adoption of mobile wallets, UPI, and other digital payment methods.

iv. **Unified Payments Interface (UPI):** UPI has also spurred innovation in the FinTech space, leading to the growth and development of other payment systems like, Bharat Bill Payment System (BBPS) and Prepaid Payment Instruments/ mobile wallets.

2. **Institutional arrangements:** Institutions undertake various functions such as research, innovation, training, advancing technology solutions and developing best practices in finance, and also promote stability, transparency, and fair practices in the financial sector. The Reserve Bank's initiatives in institution building for the FinTech sector include: (i) establishment of the Institute for Development and Research in Banking Technology (IDRBT); (ii) creation of the National Payment Corporation of India Ltd (NPCI); (iii) setting up of the Indian Financial Technology & Allied Service (IFTAS); (iv) setting up of the Reserve Bank Information Technology Pvt. Ltd. (ReBIT) in 2016; (v) formation of the FinTech department in RBI in 2022; and (vi) establishment of the Reserve Bank Innovation Hub (RBIH) to promote innovation in financial services.

3. **Policy Initiatives:** The focus of policy initiatives is to promote a conducive environment for innovation and also ensure the security and stability of financial services. Many policy initiatives have been undertaken by RBI in issuance of regulatory guidelines for emerging areas like Payment Banks, Account Aggregator, Prepaid Instruments, peer to peer lending, TReDS, Digital lending guidelines. Drawing upon the learnings from the first cohort of Regulatory Sandbox, RBI has put in place a 'Framework for facilitating Small Value Digital Payments in Offline Mode' to give a push to digital transactions in areas with poor or weak internet or telecom connectivity. Further, RBI is now conducting hackathons to promote innovation. The second edition of global hackathon – 'HARBINGER 2023'– has also been launched with the theme 'Inclusive Digital Services'.

❖ **Other Transformational Initiatives:**

i. **Central Bank Digital Currency (CBDC):** Launched on December 1, 2022, the pilot is testing the robustness of the entire process of digital rupee creation, distribution and retail usage in real time and is currently being operated through 13 banks across 26 cities. Around 1.46 million users and 0.31 million merchants are currently part of the pilot as on August 31, 2023. Recently, RBI has enabled full inter-operability of CBDC with UPI QR codes and are targeting one million CBDC transactions per day by December 2023.

ii. **Public Tech Platform for frictionless credit:** The pilot on KCC digitalization launched in September 2022 in select districts of Madhya Pradesh and Tamil Nadu enabled successful disbursal of agricultural loans up to ₹1.6 lakh per borrower, within a few minutes to farmers by integrating with the digitised state land records database, Credit Information Companies (CICs), satellite data, Aadhar e-KYC. This has now been extended to dairy farmers in Gujarat. To enable frictionless credit, in August 2023, RBI announced the launch of a digital Public Tech Platform, conceptualised and developed in association with the RBIH. The platform enables seamless flow of digital information from all the above sources to lenders, obviating the need for multiple integrations. To begin with, the platform will focus on products like MSME loans (without collateral), personal loans and home loans.

- **Customer Centricity, Governance and Self-regulation** are the three key issues which are critical for the FinTech ecosystem to be stable and future ready. This calls for developing an organisational culture in which continuous feedback mechanisms are embedded in the business strategy. It is also imperative that regulated entities operate within the perimeter set by the licensing conditions and only undertake activities which are permitted under the regulations. Good governance must focus on ensuing effective oversight, ethical conduct and risk management to ensure durable and long term success of Fin-Techs.

- The Governor also urged urge and encourage the Fin-Techs to establish a Self-Regulatory Organization (SRO) themselves.

- It is crucial that technological advancements in the world of Fin-Tech evolve in a responsible manner and are truly beneficial to the people at large. It is, therefore, vital for these innovations to be scalable and interoperable. Fin-Tech players should themselves ensure responsible digital innovations. The Reserve Bank, on its part, will continue to drive the necessary regulatory and other policy measures to promote a vibrant and responsive Fin-Tech ecosystem.

5. CLASSROOM - FACTORS OF PRODUCTION

The factors of production, which include land, labour, capital and entrepreneurship, play a crucial role in economics and have significant economic importance:

1. Land:

- **Economic Importance:** Land provides the natural resources necessary for production. It includes not only physical space but also resources like minerals, water, and forests.
- **Impact on Output:** Availability and quality of land can affect the types of crops or resources that can be produced. Land is a finite resource, so its management and conservation are essential for sustainable economic growth.

2. Labour:

- **Economic Importance**: Labour represents the workforce that contributes their skills, knowledge, and effort to production.
- **Impact on Output:** The quantity and quality of labour can significantly impact productivity and output. Skilled and educated labour tends to be more productive and can drive technological advancements.

3. Capital:

- **Economic Importance:** Capital encompasses physical tools, machinery, buildings, and financial resources used in production.
- **Impact on Output**: Adequate capital investment can boost productivity, enable automation, and lead to economic growth. Access to financial capital is vital for businesses to expand and innovate.

4. Entrepreneurship:

- **Economic Importance:** Entrepreneurship involves innovation, risk-taking, and organization, driving economic development.
- **Impact on Output:** Entrepreneurs identify opportunities, create new businesses, and allocate resources efficiently. Their innovation can lead to the development of new products, industries, and job opportunities.

Collectively, these factors interact to determine a nation's economic performance. For example, countries with abundant natural resources (land) may have comparative advantages in certain industries. Skilled labour and access to capital foster innovation and industrial growth. Entrepreneurship is the driving force behind the creation of new businesses and markets.

Balancing and optimizing these factors are crucial for achieving economic growth, stability, and development. Economists and policymakers often analyse and manage these factors to promote prosperity and improve the standard of living for a nation's population.

Compiled from various sources

6. GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of Circular	13-September-2023
Ref. No.	RBI/2023-24/61 FIDD.CO.MSME.BC.No.10/06.02.031/2023-24
Subject	**PM Vishwakarma Scheme**

Gist: Government of India (GoI) has introduced the '**PM Vishwakarma Scheme'** which aims to provide support to artisans and craftspeople to enable them to move up the value chain in their respective trades. The Scheme envisages, among other measures, credit support to the beneficiaries at concessional interest rate, with interest subvention support by GoI.

In this regard, eligible lending institutions may refer to the Scheme guidelines issued by the Ministry of Micro, Small and Medium Enterprises, for appropriate action.

Date of Circular	13- September-2023
Ref. No.	RBI/2023-24/60 DoR.MCS.REC.38/01.01.001/2023-24
Subject	**Responsible Lending Conduct – Release of Movable/ Immovable Property Documents on Repayment/ Settlement of Personal Loans**

Gist: In terms of the guidelines on Fair Practices Code issued to various Regulated Entities (REs) since 2003, REs are required to release all movable/immovable property documents upon receiving full repayment and closure of loan account. However, it has been observed that the REs follow divergent practices in release of such movable/immovable property documents leading to customer grievances and disputes. To address the issues faced by the borrowers and towards promoting responsible lending conduct among the REs, the following Directions are being issued:

The REs shall release all the original movable/immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/settlement of the loan account. The borrower shall be given the option of collecting the original movable/immovable property documents either from the banking outlet/branch where the loan account was serviced or any other office of the RE where the documents are available, as per her / his preference. The timeline and place of return of original movable/immovable property documents will be mentioned in the loan sanction letters issued on or after the effective date.

Date of Circular	**08- September-2023**
Ref. No.	RBI/2023-24/59 DOR.RET.REC.34/12.01.001/2023-24
Subject	**Reserve Bank of India Act, 1934 - Section 42(1A)- Requirement for maintaining additional CRR**

Gist: Please refer to the circular DOR.RET.REC.29/12.01.001/2023-24 dated August 10, 2023 and relative notification on the captioned subject. As announced in the RBI Press Release dated September 08, 2023, on a review, it has been decided to discontinue the incremental CRR (I-CRR) in a phased manner. Based on an assessment of current and evolving liquidity conditions, it has been decided that the amounts impounded under the I-CRR would be released in stages so that system liquidity is not subjected to sudden shocks and money markets function in an orderly manner. The release of funds would be as on September 09, 2023- 25 per cent of the I-CRR maintained; on September 23, 2023- 25 per cent of the ICRR maintained and October 07, 2023- 50 per cent of the I-CRR maintained.

Date of Circular	**04- September-2023**
Ref. No.	RBI/2023-24/58 CO.DPSS.POLC.No.S-567/02-23-001/2023-2024
Subject	**Operation of Pre-Sanctioned Credit Lines at Banks through Unified Payments Interface (UPI)**

Gist: Please refer to the Statement on Developmental and Regulatory Policies dated April 06, 2023, expanding the scope of UPI by enabling transfer to/from pre-sanctioned credit lines at banks. Currently, savings account, overdraft account, prepaid wallets and credit cards can be linked to UPI. As announced, the scope of UPI is now being expanded by inclusion of credit lines as a funding account. Under this facility, payments through a pre-sanctioned credit line issued by a Scheduled Commercial Bank to individuals, with prior consent of the individual customer, are enabled for transactions using the UPI System.

Date of Circular	**24-August-2023**
Ref. No.	RBI/2023-24/57 CO.DPSS.POLC.No.S526/02-14-003/2023-24
Subject	**Enhancing transaction limits for Small Value Digital Payments in Offline Mode**

Gist: This has reference to the Reserve Bank of India circular CO.DPSS.POLC.No.S1264/02-14-003/2021-2022 dated January 03, 2022 on “Framework for Facilitating Small Value Digital Payments in Offline Mode”. As announced in the Statement on Development and Regulatory Policies dated August 10, 2023, the upper limit of an offline payment transaction is increased to ₹500. Other instructions mentioned in the framework shall continue to remain applicable as before.

Date of Circular	18-August-2023
Ref. No.	RBI/2023-24/53 DoR.MCS.REC.28/01.01.001/2023-24
Subject	**Fair Lending Practice - Penal Charges in Loan Accounts**

Gist: Reserve Bank has issued various guidelines to the Regulated Entities (REs) to ensure reasonableness and transparency in disclosure of penal interest. Under the extant guidelines, lending institutions have the operational autonomy to formulate Board approved policy for levy of penal rates of interest. It has been observed that many REs use penal rates of interest, over and above the applicable interest rates, in case of defaults / non-compliance by the borrower with the terms on which credit facilities were sanctioned.

The intent of levying penal interest/charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool over and above the contracted rate of interest. However, supervisory reviews have indicated divergent practices amongst the REs with regard to levy of penal interest/charges leading to customer grievances and disputes.

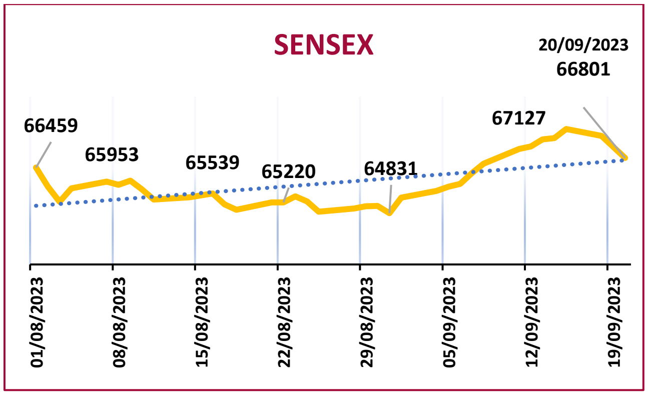
Date of Circular	18-August-2023
Ref. No.	RBI/2023-24/55 DOR.MCS.REC.32/01.01.003/2023-24
Subject	**Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans**

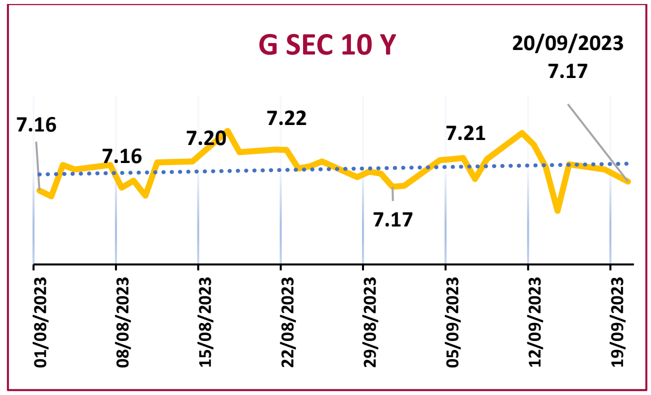
Gist: In terms of extant instructions of Reserve Bank of India, Regulated Entities (REs) have the freedom to offer all categories of advances either on fixed or on floating interest rates basis.

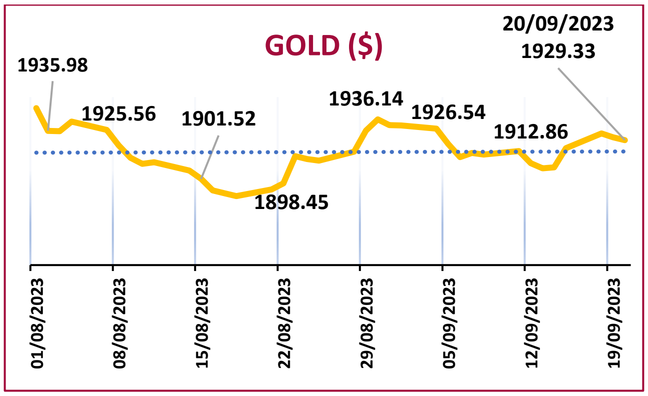
At the time of sanction of EMI based floating rate personal loans, REs are required to take into account the repayment capacity of borrowers to ensure that adequate headroom/ margin is available for elongation of tenor and/ or increase in EMI, in the scenario of possible increase in the external benchmark rate during the tenor of the loan. However, in respect of EMI based floating rate personal loans, in the wake of rising interest rates, several consumer grievances related to elongation of loan tenor and/or increase in EMI amount, without proper communication with and/or consent of the borrowers have been received.

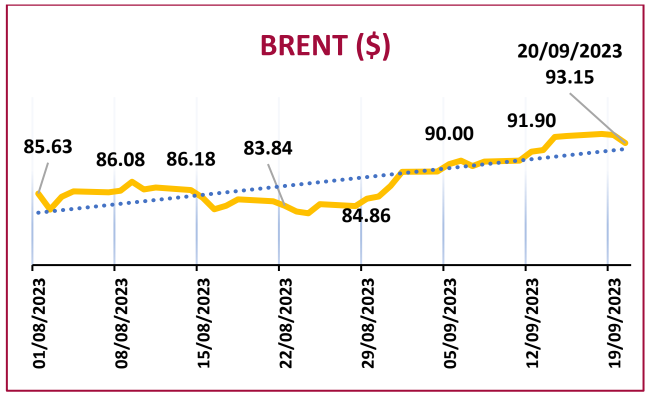
(18th August'23-16th September'23)

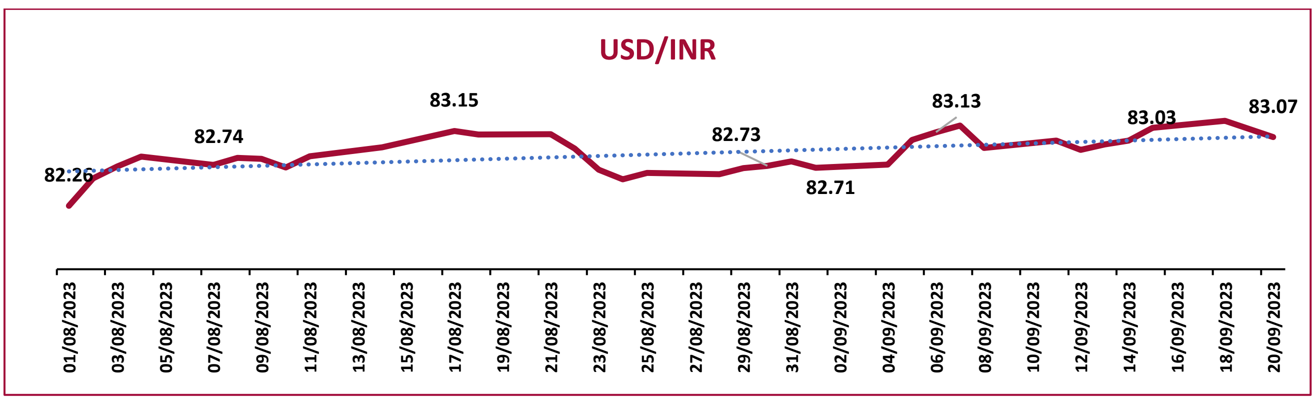
7. DAILY ECONOMIC INDICATORS

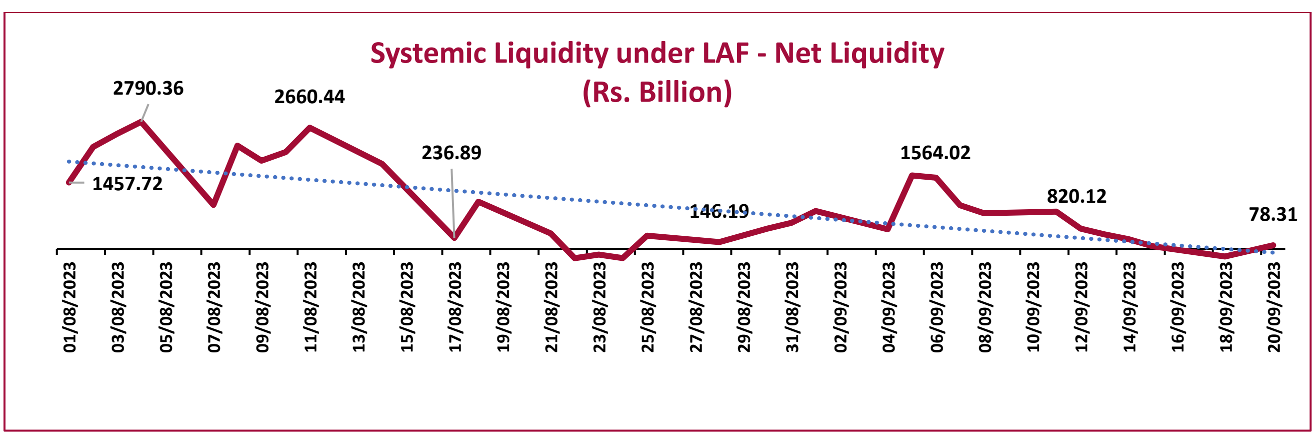








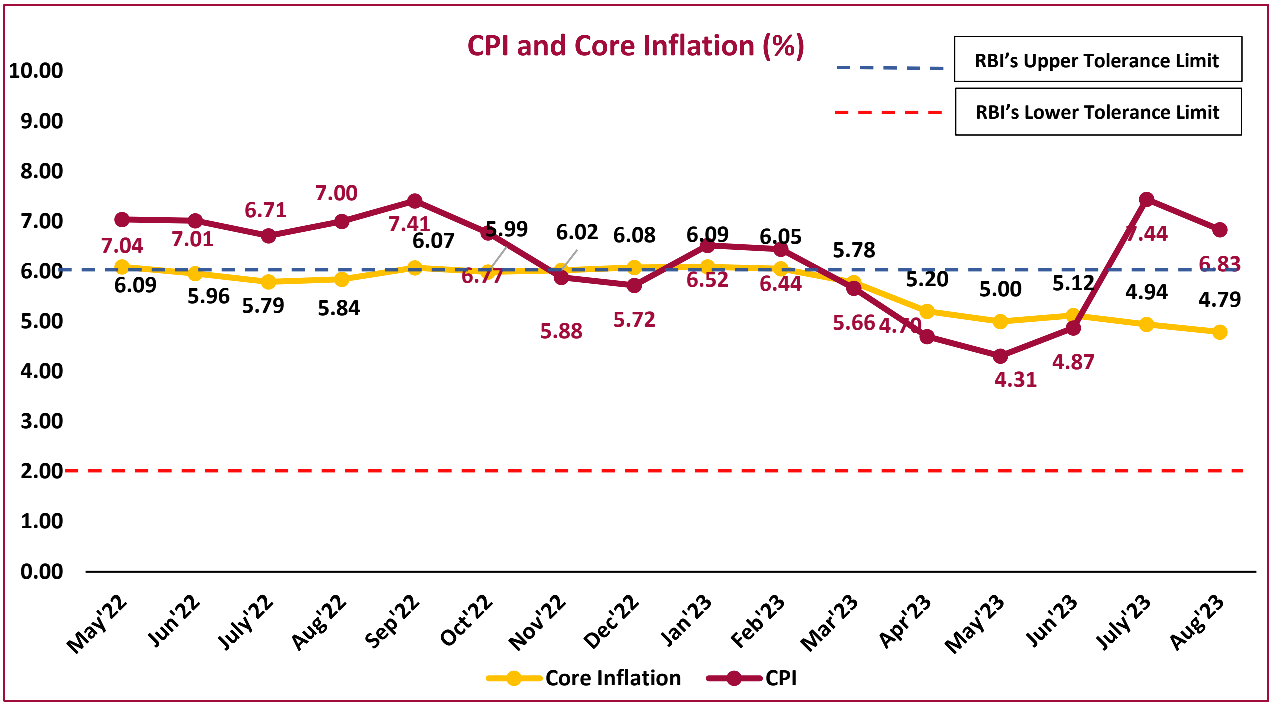


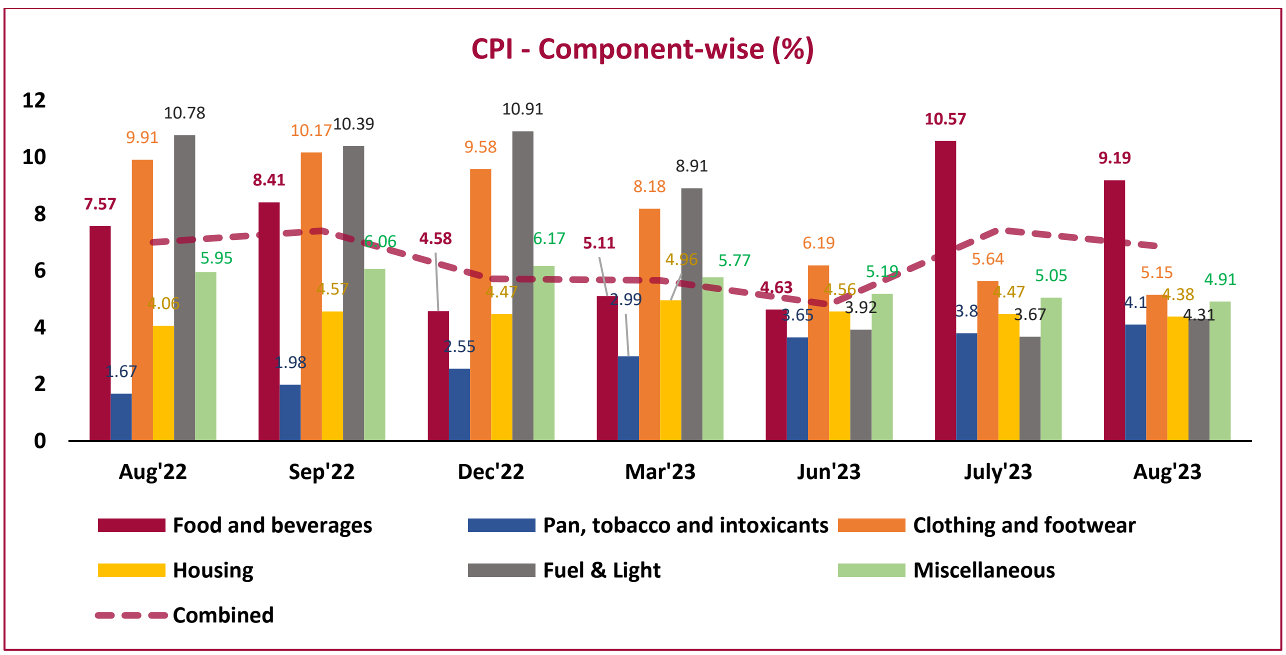


8. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation slows down to 6.83%

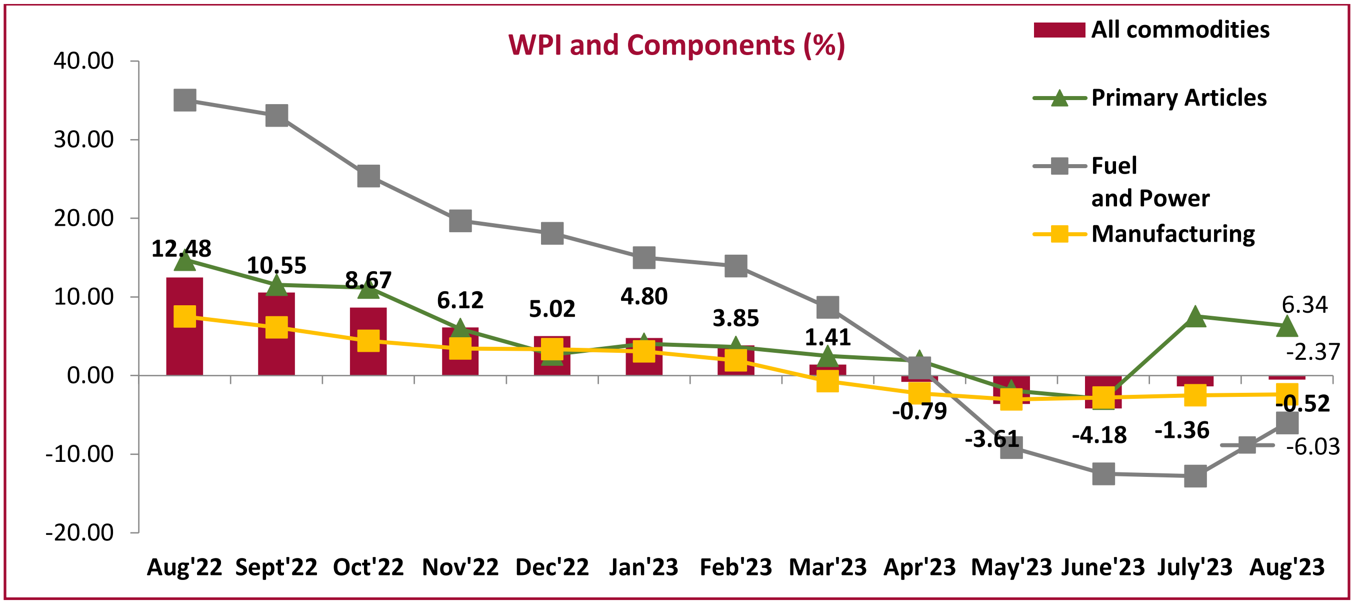




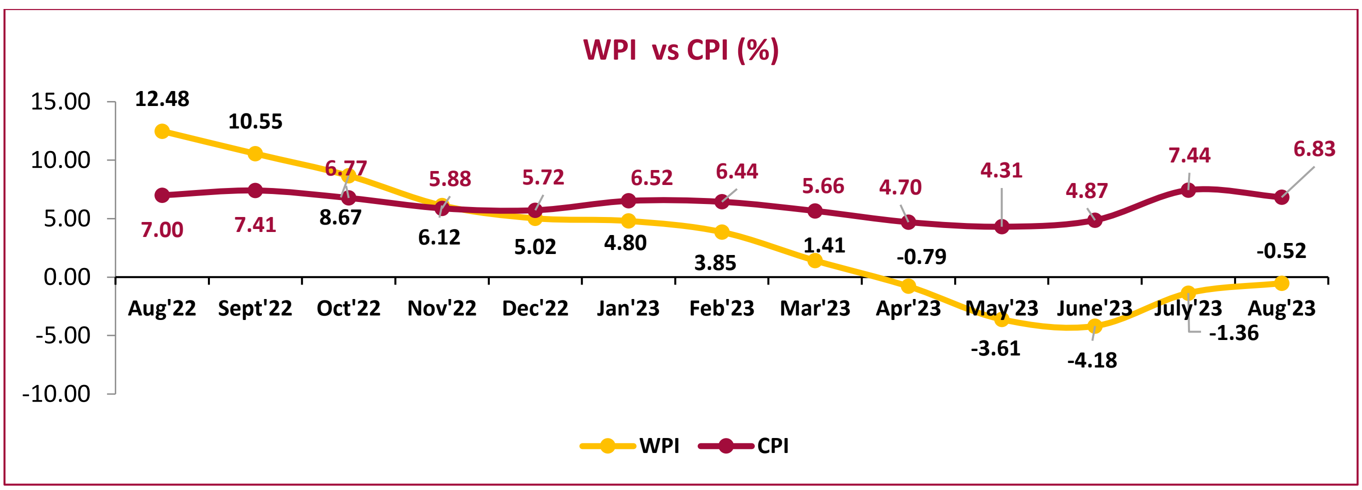
Retail inflation declined to 6.83 per cent in August compared to July 2023. Food inflation eased to 9.94% in August from 11.51% in July. This is the fourth instance when the retail inflation rate or the CPI has breached the RBI's upper limit of 2-6 per cent in 2023.

WHOLESALE PRICE INDEX (WPI)

WPI continues to be in negative zone



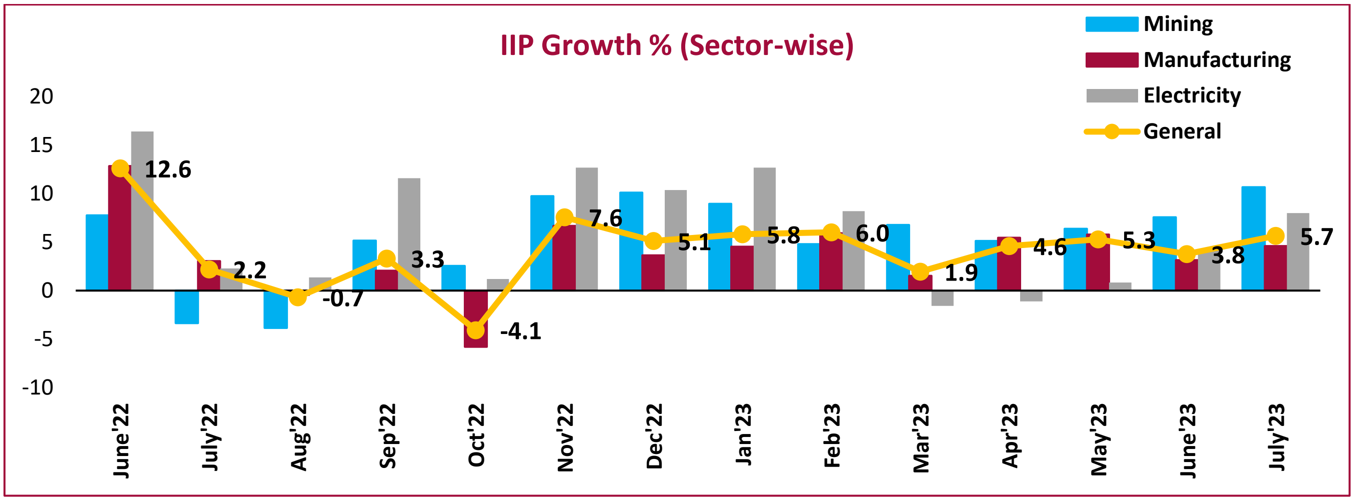
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
June	18.63	-2.87	50.95	-12.63	9.35	-2.71	13.71	1.32	16.23	-4.12
July	14.78	7.57	44.62	-12.79	8.24	-2.51	10.77	14.25	14.07	-1.36
Aug	14.74	6.34	35.03	-6.03	7.51	-2.37	12.55	10.60	12.48	-0.52



Wholesale inflation in India decelerated by 0.52 per cent on an annual basis in August after declining 1.36 per cent in July as per data of Department for Promotion of Industry and Internal Trade (DPIIT). Fuel and Power along with manufactured products continued to show negative growth.

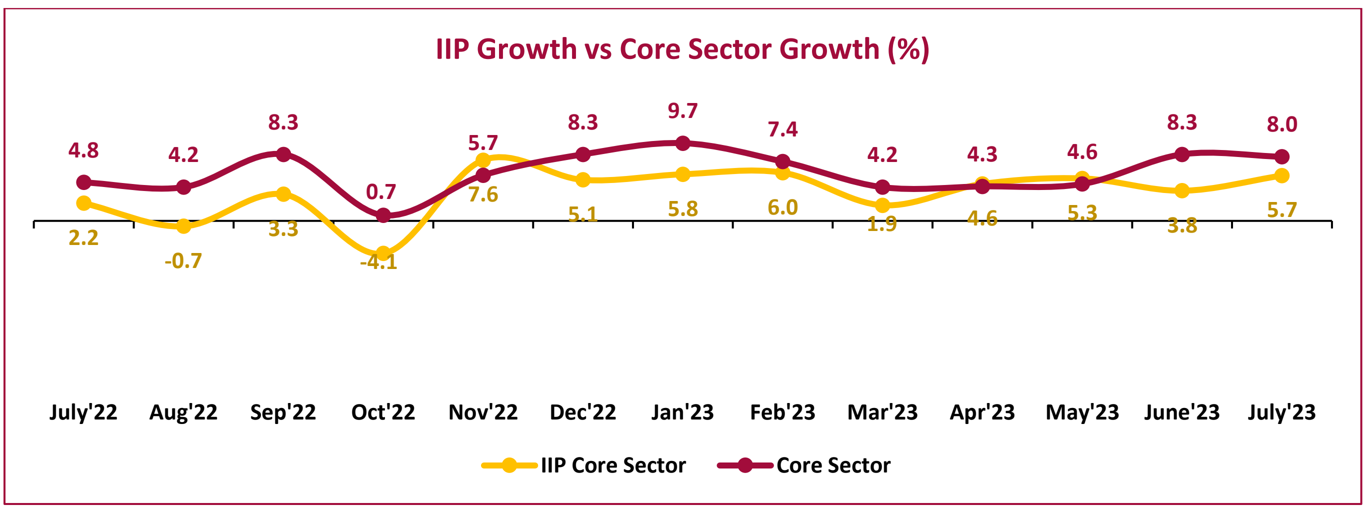
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth surges to 5.7 per cent



IIP growth % (Usage-wise)

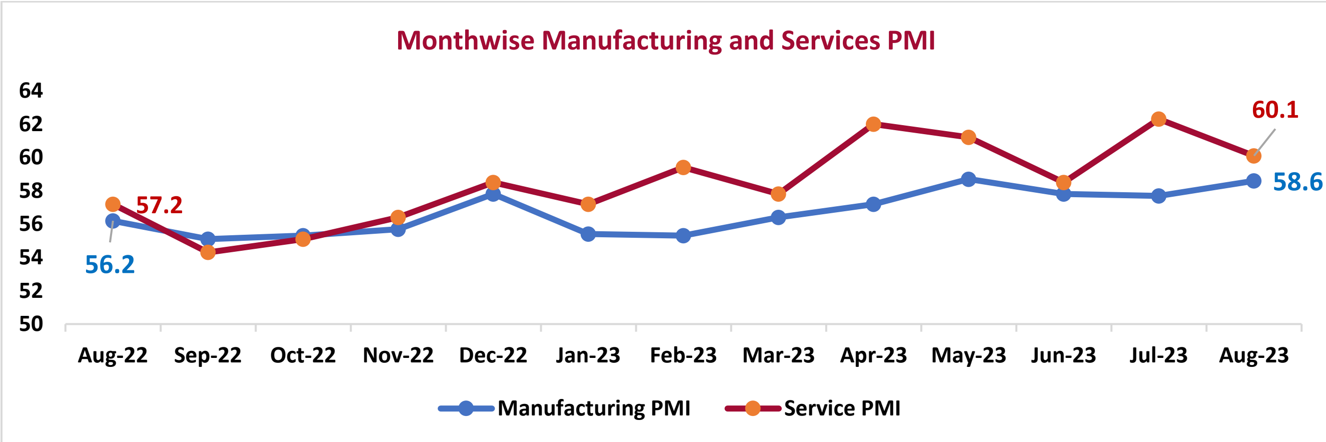
Component	Weight	July'22	Mar'23	June'23	July'23
Primary Goods	34.05%	2.5	3.3	5.2	7.6
Capital Goods	8.22%	5.1	9.1	2.2	4.6
Intermediate Goods	17.22%	3.7	1.8	4.5	1.9
Infra/Construction Goods	12.34%	4.8	7.0	11.3	11.4
Consumer Durables	12.84%	2.3	-8.0	-6.9	-2.7
Consumer Non- Durables	15.33%	-2.9	-1.9	1.2	7.4



India's industrial output surged 5.7 per cent in July, up from 3.7 per cent in June 2023, according to data released by the Ministry of Statistics and Programme Implementation (MoSPI). Factory output measured in terms of Index of Industrial Production (IIP) for July 2022 stood at 2.2 per cent. The mining output for July 2023 rose to 10.7 per cent, up from -3.3 per cent in the year ago period. Meanwhile, the manufacturing sector output grew by 4.6 per cent in July this year as against 3.1 per cent in July 2022.

PURCHASING MANAGERS' INDEX (PMI)

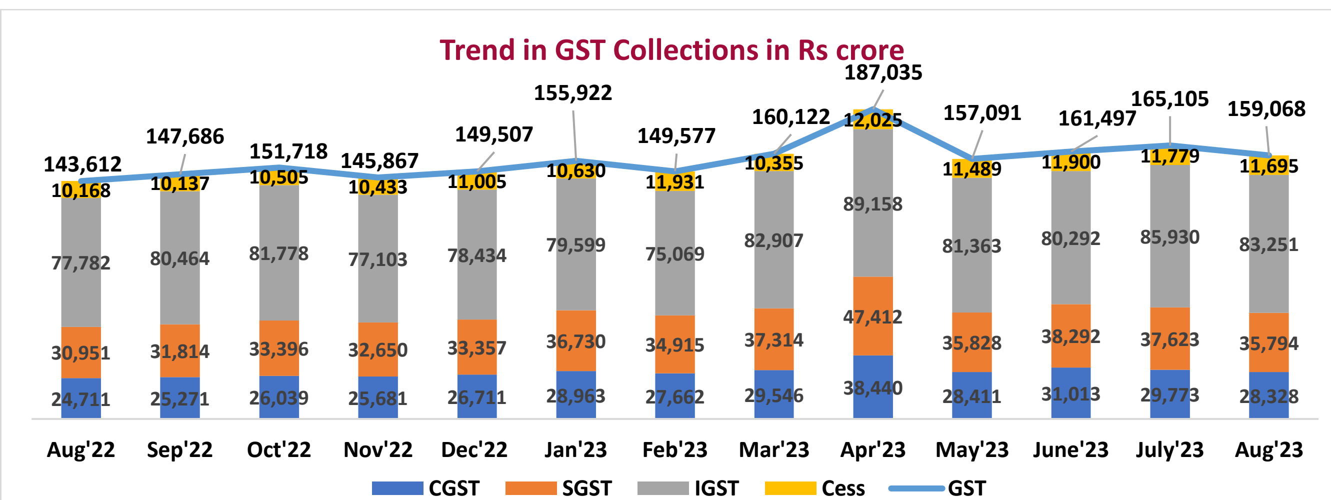
Services PMI slows down while Manufacturing PMI shows uptrend



S&P Global India Services PMI dropped to 60.1 in August 2023 from an over 13-year high of 62.3 in the previous month, aligning closely with market forecasts of 61. Both new orders and output remained at elevated levels. Output growth was one of the strongest observed in 13 years, while new exports continued to rise for the twenty-fifth consecutive month, driven by a series-record surge in new export business. Manufacturing PMI increased to a 3-month top of 58.6 in August 2023 from 57.7 in July, surpassing market estimates of 57.5 while indicating the 26th straight month of growth in factory activity. New orders rose the most since January 2021.

GOODS AND SERVICES TAX (GST)

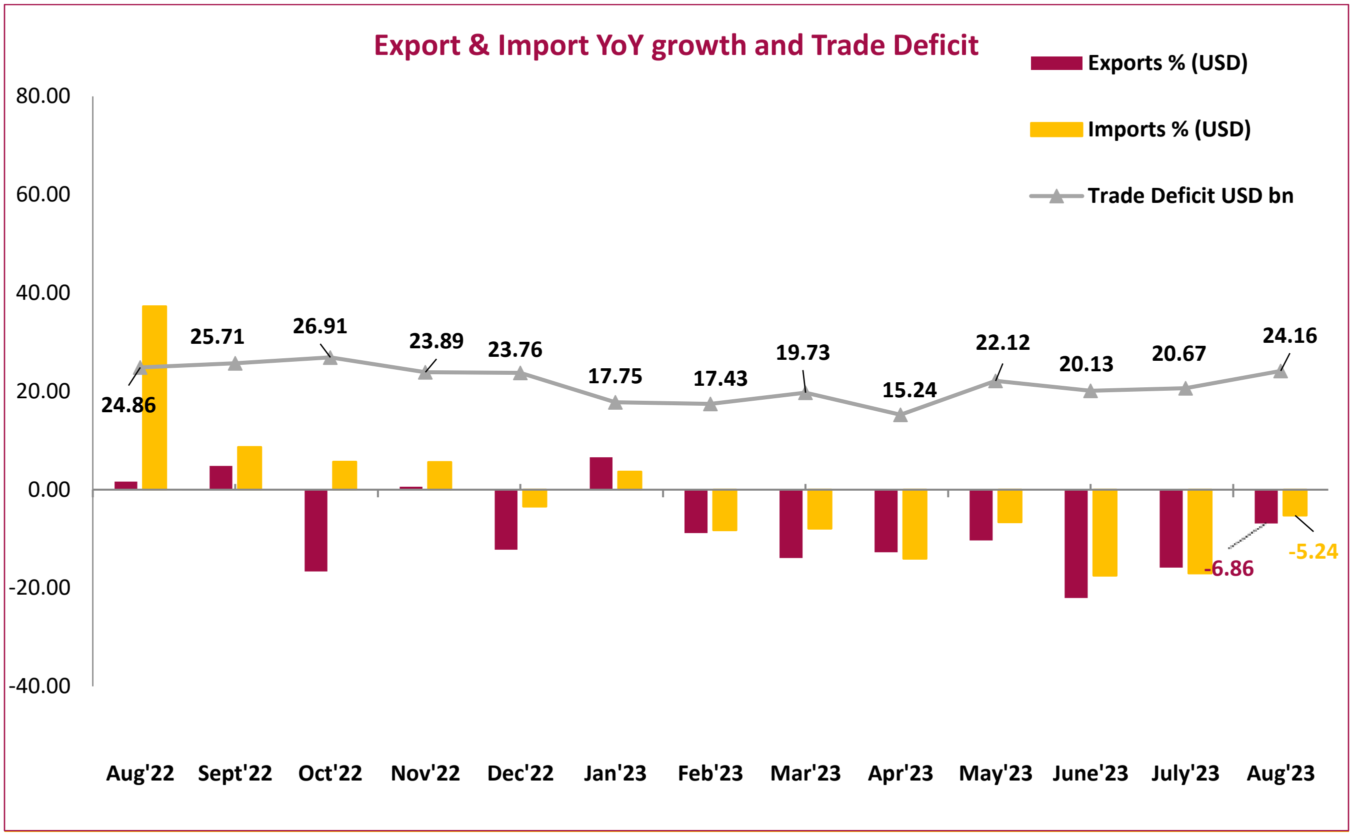
GST Collections rises by 11 per cent and crosses Rs. 1.59 Lakh Crore mark

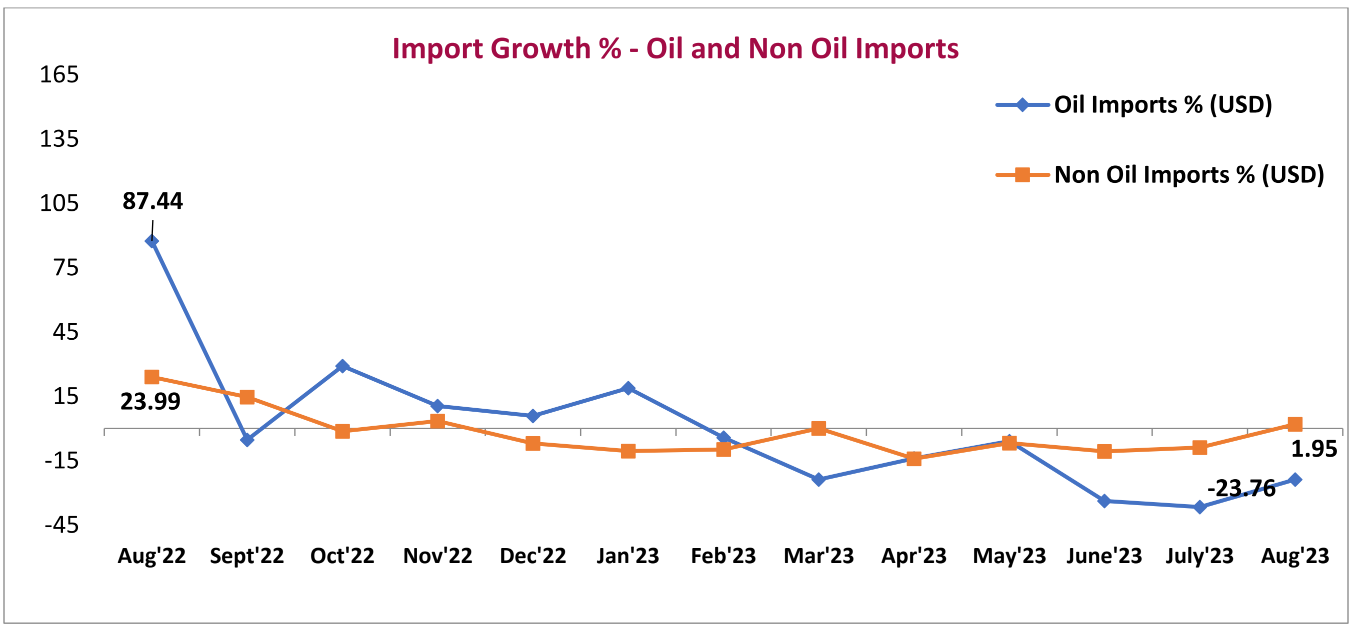


The GST collection for the month of August was recorded at Rs.1,59,068 Crore. Central GST has grown by 14.54 per cent over Aug'22 while State GST registered the growth of 15.65 per cent over Aug'22. Integrated GST recorded the growth of 7.03 per cent over Aug'22. Cess recorded the growth of 15.02 per cent over Aug'22. Highest growth has been observed in Tripura State. None of the states have experienced negative growth.

FOREIGN TRADE

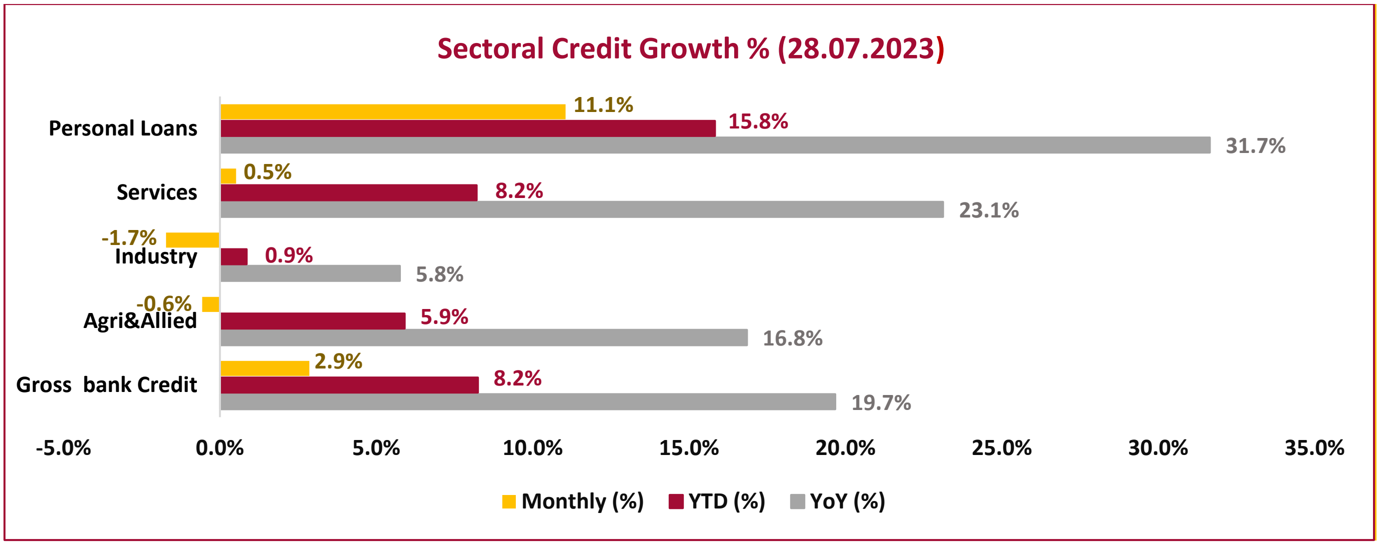
Trade deficit widens to USD 24.16 Billion





Exports slipped nearly 7% to $34.48 billion in August from $37.02 billion a year earlier. Meanwhile, imports declined to $58.64 billion from $61.88 billion last year, leaving the trade balance at $24.16 billion.

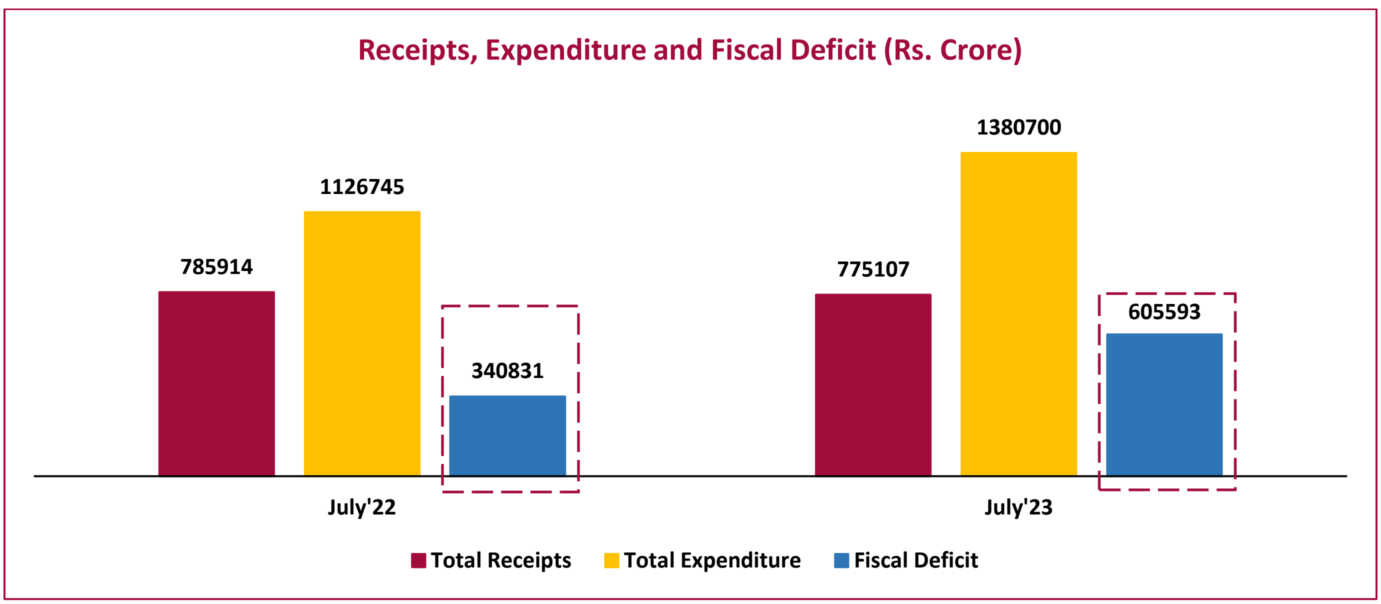
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	09.09.22	24.03.23	25.08.23	08.09.23	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	170.56	180.44	192.36	193.83	**13.6%**	**7.4%**	**0.8%**
Advances	125.51	136.75	149.17	150.38	**19.8%**	**10.0%**	**0.8%**
Business	296.08	317.19	341.53	344.21	**16.3%**	**8.5%**	**0.8%**

FISCAL DEFICIT

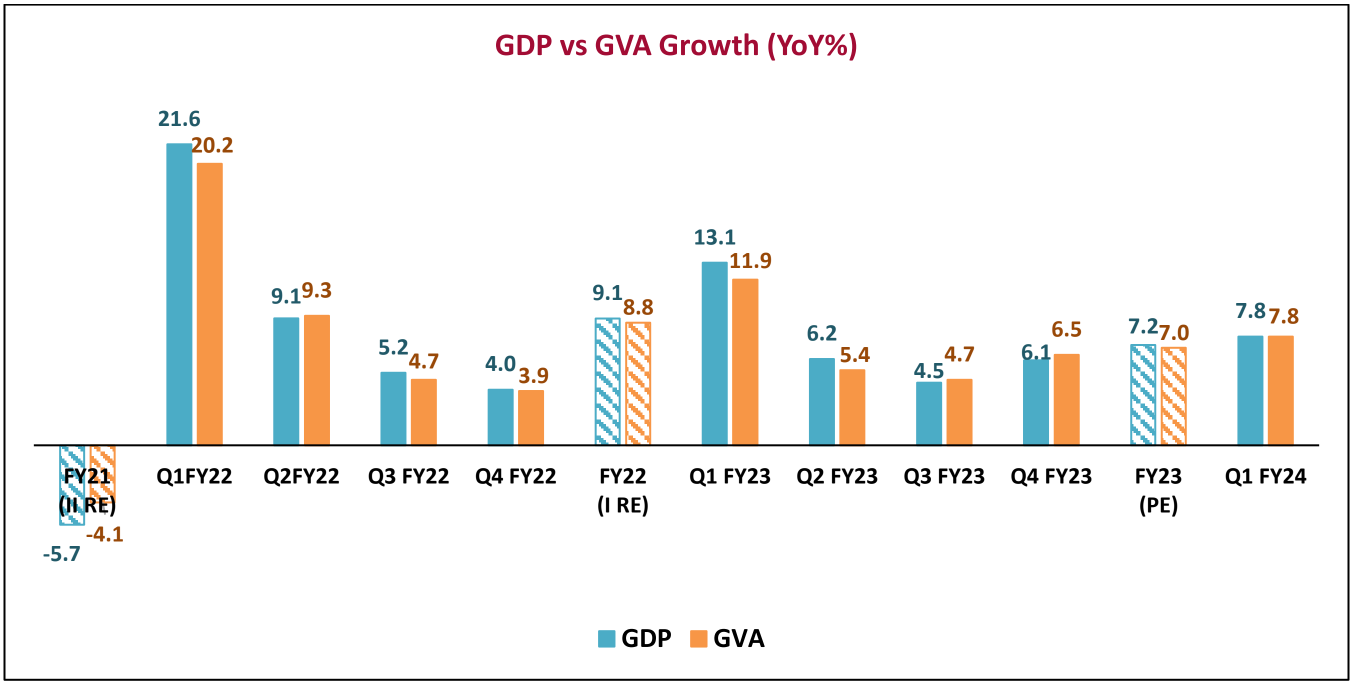


The fiscal deficit for the month of July 2023 is 33.9% of annual estimates.

9. QUARTERLY ECONOMIC INDICATORS

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

India witnesses strong GDP growth

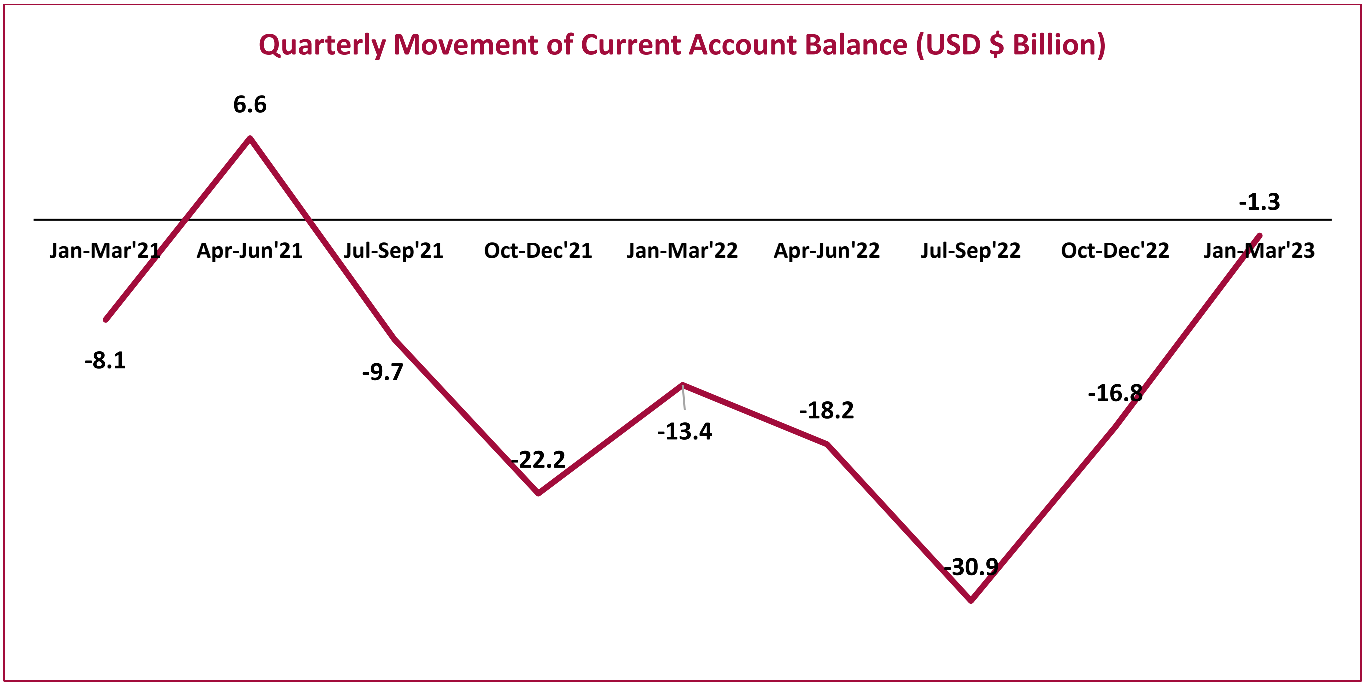


GDP growth of the Indian economy in Q1 FY24 grew by **7.8%,** mainly driven by the **Agriculture Sector.** The figure was better than the growth rate of the previous quarter (6.1%), **however quite below the growth of the previous year in the same quarter (13.1%). GVA growth** was also pegged at **7.8% in Q1 FY24.**

INDIA'S GDP OUTLOOK OF VARIOUS AGENCIES

Agency	FY24
RBI	6.5%
World Bank	6.3%
IMF	6.3%
ADB	6.7%
Economic Survey	6.5%

CURRENT ACCOUNT DEFICIT



The Current Account Deficit declined to $ 1.3 billion in the March quarter of FY23 against a deficit of $16.8 billion in the preceding three months. It is 0.2% of GDP.

10. 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)	Oct 31, 2023
European Central Bank (ECB)	Europe	4.50	Sep 14, 2023 (25 bps)	Oct 26, 2023
Federal Reserve	U.S.A	5.50	Jul 26, 2023 (25bps)	Nov 01, 2023
Bank of England	U.K	5.25	Aug 03, 2023 (25 bps)	Nov 02, 2023
Peoples Bank of China	China	3.45	Aug 21, 2023 (-10 bps)	-
Reserve Bank of India	India	6.50	Feb 08, 2023 (25 bps)	Oct 06, 2023

11. INDUSTRY OUTLOOK

Space Technology

Space technology in India is a rapidly growing field that involves various aspects such as research, development, exploration, and applications. India has a long history of space activities, starting from the launch of sounding rockets in the 1960s to the establishment of the Indian Space Research Organisation (ISRO) in 1969. ISRO is the main agency responsible for India's space missions and programs.

Some of the major achievements of ISRO include launching India's first satellite, Aryabhata, in 1975; developing indigenous launch vehicles such as SLV-3, ASLV, PSLV, and GSLV; sending missions to the Moon (Chandrayaan-1 and Chandrayaan-2) and Mars (Mars Orbiter Mission); launching more than 300 satellites for various domestic and foreign customers; operating the world's largest constellation of remote-sensing satellites and satellite navigation systems such as GAGAN and IRNSS (NavIC); and contributing to various socio-economic development initiatives in India through space applications.

The Indian spacetech industry driven by the downstream segment, which includes applications such as satellite communication, navigation, remote sensing, and broadcasting. There are many spacetech startups in India, working on various aspects such as developing high-resolution Earth observation satellites, reusable launch vehicles, small satellite platforms, propulsion systems, internet services from space, etc.

The growth of the spacetech sector in India is also supported by various policy reforms and initiatives by the government and the private sector. The government has opened up the space sector to private participation and investment through various measures such as creating the Indian National Space Promotion and Authorisation Centre (IN-SPACe), which is a regulatory body to facilitate and oversee the activities of private entities in space; establishing the New Space India Limited (NSIL), which is a commercial arm of ISRO to leverage its assets and capabilities for commercial purposes; and launching the Indian Space Association (ISpA), which is an industry body to represent the interests of private players in the space domain.

The spacetech sector in India is expected to play a vital role in advancing global space cooperation and exploration, as well as enhancing national security and strategic interests. The spacetech sector in India is thus a dynamic and exciting field that offers immense potential for growth and innovation.

12. EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. **PM Narendra Modi launches Rs 13,000-crore 'PM Vishwakarma scheme' (BS, 17.09.2023)**

- Indians need to be “vocal for local” products and then help them achieve global status, Prime Minister Narendra Modi said at the launch of the PM Vishwakarma scheme.
- The scheme, with an initial outlay of Rs 13,000 crore, will provide a global market for traditional crafts and products, and will enable local artisans to become part of the global supply chain, he added while also inaugurating the first phase of India International Convention and Expo Centre (IICC), Yashobhoomi.
- Under the scheme, the beneficiaries will be provided with a credit support of up to Rs 3 lakh at an interest of 5 per cent in two tranches of Rs 1 lakh, which has to be repaid within 18 months and a second tranche of Rs 2 lakh. Artisans and craftsmen will also be paid a stipend of Rs 500 per day for skill upgrade and training for a period of five days and Rs 15,000 for procuring modern tools from GST registered shops.

2. **India’s financial inclusion deepens in FY23, shows RBI data (FE, 16.09.2023)**

- The Reserve Bank of India’s (RBI) financial inclusion index (FI) rose to 60.1% in 2022-23 (April-March) from 56.4% due to an improvement in usage and quality dimensions. The annual FI-Index stood at 53.9 as on March 2021.
- RBI announced in 2021 that it has conceptualised a comprehensive index incorporating details of banking, investments, insurance, postal as well as the pension sector in consultation with government and respective sectoral regulators.
- The index captures information on various aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion.

3. **Govt. launches unified portal for agri-statistics to provide credible data on agri sector (ET, 15.09.2023)**

- The government launched an unified portal for agri-statistics (UPAg) that will empower stakeholders to access credible and objective data for taking informed decisions. The UPAg, developed by the Ministry of Agriculture, is a crucial component of digital public infrastructure for agriculture.
- The portal aims to address the data related governance challenges such as lack of standardised and verified data, which make it difficult for policymakers, researchers, and stakeholders to make informed decisions.

4. **Exports decline 7% to $34.48 bn in Aug, trade deficit stands at $24.16 bn (BS, 15.09.2023)**

- India's exports declined by 6.86 per cent to $34.48 billion in August this year as against $37.02 billion in the same month last year, government data showed.
- Imports too declined by 5.23 per cent to $58.64 billion as against $61.88 billion recorded in August 2022.
- India's trade deficit, which shows the difference between imports and exports, the country's trade deficit in the month stood at $24.16 billion.
- During April-August this fiscal, exports contracted by 11.9 per cent to $172.95 billion.

5. **Reserve Bank of India makes banks' investment norms more stringent (BS, 12.09.2023)**

- The Reserve Bank of India (RBI) has revised investment norms for commercial banks, making it more stringent as it created a new category namely – fair value through profit and loss (FVTPL).
- The held for trading (HFT) will now be a separate investment subcategory within FVTPL.
- From April 1, 2024, when these new norms come into effect, banks will classify their entire investment portfolio (except investments in their own subsidiaries, joint ventures and associates) under three categories- Held To Maturity (HTM), Available For Sale (AFS), and Fair Value Through Profit And Loss (FVTPL).

6. **Indian Bank collaborates with IBM to deploy new front-end banking apps (BS, 05.09.2023)**

- Public sector Indian Bank has collaborated with Nasdaq-listed IBM to deploy future ready infrastructure to enhance scalability and agility.
- The city-headquartered bank wanted to consolidate its front branch servers for better manageability and availability at Data Centres and Disaster Recovery centres under their 'Project Paradise' initiative.
- Project Paradise initiative of Indian Bank refers to - Performance Augmentation by Resource Aggregation in Distributed Environment.
- IBM has collaborated with Indian Bank, to accelerate its modernisation path with flexible and secure infrastructure for deploying new front-end banking applications, while addressing the business growth of the Core Banking Solution workloads of the bank, a bank statement here said.

13. 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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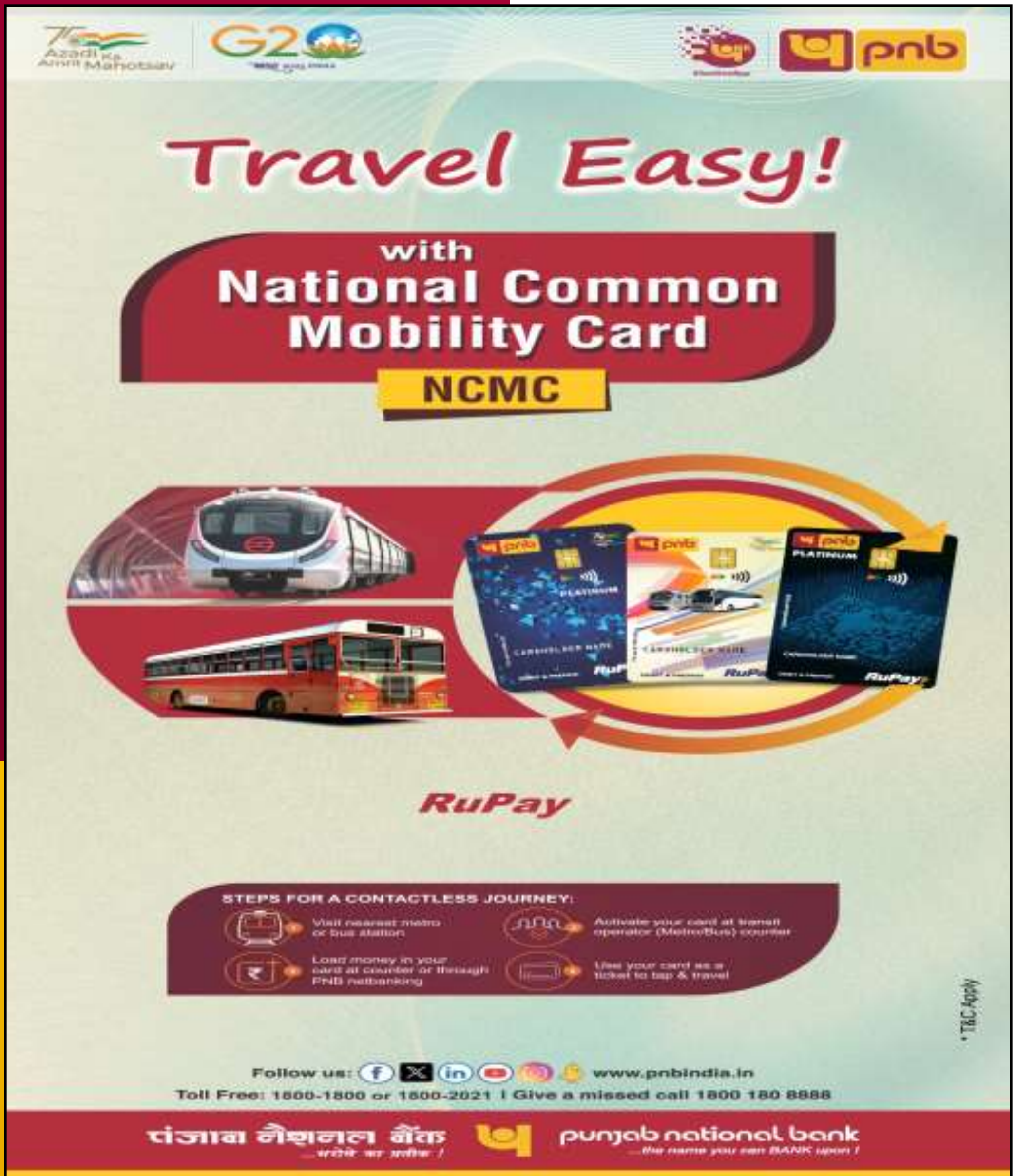
QUOTE OF THE MONTH

"That's the thing about books. They let you travel without moving your feet."

- Jhumpa Lahiri



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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