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

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Re-emerging Geopolitical Conflicts

Current Scenario

The global economy, already rattled by elevated inflation, is now facing another geopolitical crisis in the Middle East after the surprise attack of Hamas on Israel and subsequent declaration of war by the latter. Policy makers worldwide already had been drawing up strategies to combat inflation brought on by the Russia-Ukraine war when another war erupted. We look at various geopolitical factors that can determine the potential scale of economic repercussions of the war.

Impact on Global Economy

According to the World Bank's quarterly Commodity Markets Outlook report, if the conflict between Israel and the militant group from Palestine intensifies, the global economy will be up against a massive energy shock for the first time in decades. Crude oil prices have always been sensitive to political tensions in the Middle East, a region that boasts the world's greatest oil wealth. Although Israel and the Palestinian territories are not significant oil producers, the conflict is situated within a broader, oil-rich region. The impact on the world economy would depend on how badly the oil production and exports from this region are affected. The Gulf produces about a third of world oil and contains half of the world's reserves. If Iran decides to block the Strait of Hormuz and stop tankers from moving there then that will have consequences on the world economy as the prices of crude will shoot up to high levels.

When oil prices rise, the cost of production for various industries and energy costs for businesses and households also surge, driving inflation higher. If the crude oil prices surge, the threat of high inflation will again loom over the global economy. The United States, India, China and other major economies are big importers of oil and can see high imported inflation if the oil prices elevate. High energy prices and new inflationary trends could undermine the efforts of central banks to bring inflation under control. This can see interest rates at higher level for longer period.

The ongoing strife between Israel and Hamas is also expected to result in increased food and commodity prices. Such a crisis could exacerbate economic consequences, resulting in a dual shock for commodity markets globally, most of which are still grappling with the impact of the Russia-Ukraine war.

Though, impact of the ongoing conflict between Israel and Hamas on global commodity markets has been limited so far. Most industrial metals, agricultural commodities, and other commodities have exhibited little to no price fluctuations. In contrast to initial fears, the oil prices have declined around 10% since the Hamas attack on Israel on 7th October due to postponement of OPEC+ meet indicating possible increase in production in coming months, increase in U.S. crude oil inventories and weak demand from advanced economies. Also, oil markets have become less vulnerable in recent times as oil intensity of global output has declined, sources of supply have diversified, strategic reserves with countries are bigger and the creation of the International Energy Agency has improved co-ordination.

Impact on Indian Economy

India, as the world's third-largest importer of crude oil, is carefully monitoring the events. The country's GDP is swayed by crude oil prices as it imports 48 per cent of its dense energy needs. As per a report by Nomura, every 10% increase in oil prices could increase inflation in India by 25 bps, widen the Current Account Deficit by 40 bps and slowdown the GDP growth by 10 bps.

The war could also adversely impact India’s trade with Israel. India’s exports to Israel account for 1.8% of India’s total merchandise exports led by petroleum products. In FY23, India’s total exports to Israel stood at $8.4 billion. On the other hand, India imports machinery, pearls, diamonds and other precious and semi-precious stones from Israel. In FY23, India’s imports from Israel were at $2.3 billion.

External vulnerabilities are also pressurizing the rupee. Rupee hit a new low of 83.30 to the dollar on November 10. A weakening rupee makes imports dearer and could lead to further inflation, putting pressure on consumer spending. Higher inflation lowers the probability of a rate cut by RBI.

A big casualty of the war could be the India-Middle East-Europe Economic Corridor (IMEEC) proposed during the G20 summit in New Delhi. The IMEEC will connect India and Europe through the UAE, Saudi Arabia, Jordan, Israel and Greece, on similar lines to China’s Belt and Road Initiative. The aim is to develop alternative supply chains, decoupling them from the Chinese production networks. Currently the impact on IMEEC seems to be limited but if the war gets prolonged then it could present a serious setback for the project.

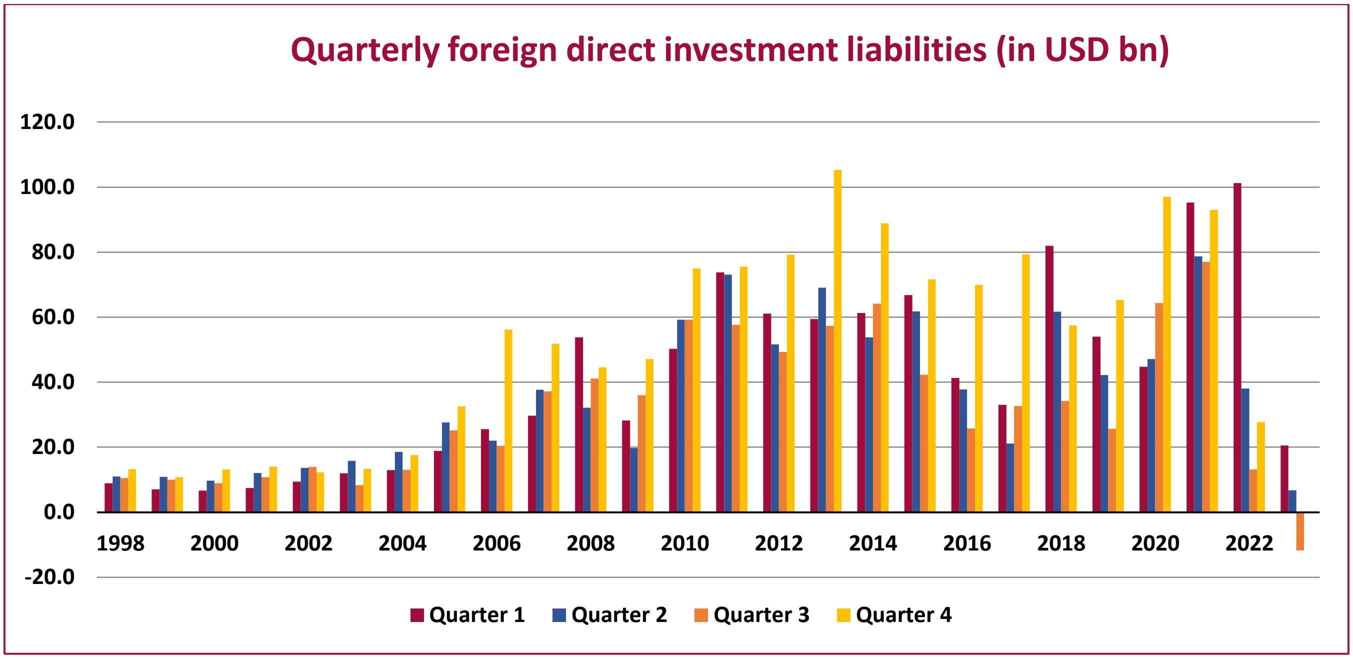
Presently, impact on India is estimated to be limited and it is expected to withstand the shock. India’s real GDP growth for Q2’FY24 is expected to surpass the RBI’s projections at 6.5 per cent due to robust private consumption, resilient investment demand and capex push by the government.

Deepak Singh

(Deputy General Manager)

2. CHINA'S FIRST FDI SLUMP SINCE 1998

A measure of Foreign Direct Investment (FDI) in China slumped into the negative territory, on a quarterly basis, for the first time since records began in 1998, showing foreign companies withdrawing money from the country. As per the data of China's state administration of foreign exchange, the direct investment liabilities in its balance of payments declined by **USD 11.8 billion** in the third quarter of FY 2023. The country has been witnessing **double-digit percentage falls** every month since May'23.



Source: China State Administration of Foreign Exchange

Causes of the decline

The decrease in FDI as measured by the balance of payments (BOP) indicates that foreign companies are less inclined to reinvest their earnings in China which was not the case prior to Covid-19. This is a result of **deteriorating relations** with the West, especially with the US. The recently launched anti-espionage law in China is expected to further escalate the tensions in the near term.

The growing attractiveness of holding money overseas owing to the **rising interest rate scenario** is another factor leading to forex outflows. While **China** has been **lowering interest rates** to boost the economy, advanced economies have been raising them to record levels to combat inflation. As a result, the ten-year US treasury rate hit 5 per cent at the end of Oct'23 for the first time since 2007, while Beijing lowered its one-year prime lending rate to 3.45% from 3.55% in Aug'23. This creates a very **large arbitrage opportunity** for investors.

Moreover, foreign companies in China operating within export-driven and industrial sectors have experienced **a decline of 10.5% in profits** in the initial three quarters of 2023 compared to the same period last year. This downturn is being attributed to China's reduced export value and a slowdown in the demand for industrial goods due to a property market decline.

FDI's significance for China

Since economic reforms and opening up took place in the late 1980s, FDI has played a significant role in supporting economic growth and technological innovation in the country. As a result, China achieved new growth milestones over the past two decades.

Therefore, considering FDI's importance, China has stepped up efforts to draw in foreign investors this year. It sees foreign company investments as essential to maintaining economic development. CEOs from abroad have been reassured by high-ranking officials, and government agencies have held talks with multinational companies to seek their input on policy. However, it is expected that capital outflow pressures may persist in the light of the unfavourable interest rate differentials and growing concerns in the domestic economy.

Opportunity for India

The Covid-19 pandemic has highlighted the apparent danger of relying too much on Chinese factories. Especially, amidst the growing trade tensions between China and the West, where foreign companies are shifting their **Global Value Chains (GVCs)** away from China, mostly in line with the "**China +1"** strategy of which India is considered a part.

Hence, India needs to strategically encash this opportunity by attracting high foreign investments. In 2020-21, the FDI inflows peaked at just under USD 60 billion, before slipping 1% the following year and then 22% to USD 46 billion in 2022-23. But it was mostly due to slowing of economic growth in advanced economies.

Thus far, the data does not indicate a GVCs-rejig FDI boom and we do have a **bright chance to become the next global mega factory**. To fully benefit from it, the Indian government has also implemented flexible & investor-friendly policies such as the **Insolvency and Bankruptcy Code** and **Production Linked Incentive (PLI) scheme** that have attracted a lot of traction from global investors across different sectors.

Further, to lure GVCs, the government is emphasising on the modification of existing policies like those of taxation, physical and digital infrastructure, import limitations, offering automatic route for FDI in new sectors and trade bloc aversion (in favour of bilateral ties or Free Trade Agreements), thereby easing the burden on businesses and foreign investors in India.

Conclusion

With strong macroeconomic fundamentals and an investor-friendly environment, now it is India's moment to seize the FDI streak that China experienced in the last two decades. For FDI levels to skyrocket, there is a need to continue building on the positive momentum of undertaking structural reforms that were initiated post Covid, as the window of opportunity for India to benefit from this negative trend is finite.

Kartik Khandelwal

Officer (Economics)

Head Office, SMEAD

3. EMERGING INDIA: A LAND OF STABILITY AND OPPORTUNITIES

Keynote Speech by Shri Shaktikanta Das, Governor Reserve Bank of India
Delivered at the Symposium on Indian Economy 2023 organised by Institute of Indian Economic Studies at the Tokyo Chamber of Commerce and Industry, Tokyo, Japan on November 9, 2023

- The global economy continues to face multiple macroeconomic and geopolitical shocks. The prediction of a global recession has not come true but there are indications that global growth is slowing down amid tightening financial conditions and still elevated inflation.
- Policymaking in this scenario becomes extremely challenging with difficult trade-offs – growth versus inflation; price stability versus financial stability; and current exigency versus future sustainability.
- Following the onset of the COVID-19 pandemic, RBI injected liquidity, but almost every measure of liquidity injection was for a limited period and was targeted. By doing so, RBI avoided the pitfall of a liquidity trap.
- On the regulatory side, RBI allowed lenders to offer moratorium on loan repayments and interest payments. Loan resolution frameworks for the COVID-19 related stressed assets was put in place. These loan resolution frameworks were not open ended but subject to achievement of certain financial and operational parameters.
- RBI come out with certain governance guidelines for banks and introduced a scale-based regulation for non-bank financial companies (NBFCs), based on the size and complexity of their businesses.
- While growth remains on track, inflation is on a path of moderation, though it is still above the target. India’s external sector inspires confidence as we are reaping export opportunities, in the services sector; our current account deficit remains eminently manageable; and we have bolstered our forex reserves to deal with potential eventualities.
- Policy focus on strengthening macroeconomic fundamentals and continued structural reforms have made India distinct in terms of growth outcomes. This was reflected in the rebound in GDP growth after the pandemic from a contraction of 5.8 per cent in 2020-21 (pandemic year) to a growth of 9.1 per cent in 2021-22 and 7.2 per cent in 2022-23.
- The GDP grew by 7.8 per cent in the first quarter of 2023-24, and the available high frequency indicators suggest continuation of this momentum. For the full year 2023-24, real GDP growth is projected at 6.5 per cent by the Reserve Bank.
- Among the constituents of aggregate demand, private consumption accounts for over half of GDP (around 57.0 per cent average share during 2011-12 to 2022-23), followed by fixed investment and government consumption. During the post-pandemic recovery, private consumption contributed an average of 66.0 per cent to GDP growth during 2021-22 and 2022-23.

- On the supply side, while the agricultural and the industrial sectors are maintaining their underlying momentum with renewed focus on manufacturing, a major part of the India's growth is coming from the services sector which again largely depends on domestic demand.
- India's services exports are diversifying from information technology (IT) related services to other professional services such as business development, research and development, professional management, accountancy and legal services.
- The nature of inflation shocks throughout much of 2020 and 2021 in India were largely supply side shocks, coming from COVID-19 lockdowns and adverse weather events.
- Consequently, demand-led inflation pressures in India were much less compared to several other economies. The MPC took the considered view that policy tightening in such a scenario would only accentuate the growth slowdown and impart higher volatility, without being able to properly address the first-round effects of temporary supply side shocks.
- In the period that followed the Ukraine war in 2022, what stood out in India was the coordinated monetary and fiscal policy response to tame the inflationary pressures.
- The MPC then went on to increase the policy repo rate by 250 bps cumulatively between May 2022 and February 2023, to keep inflation expectations 8 anchored, break the core inflation persistence, and contain second round effects.
- There were several aspects in our conduct of policy that helped in taking decisive and timely action during the heightened inflation pressures seen in 2022-23 :-
  - Prudence was the cornerstone of the monetary policy response to the COVID-19 shock, with most of the extraordinary liquidity injection measures being targeted with pre-set end dates.
  - The Government also adhered to fiscal prudence, with actual fiscal deficit for 2022-23 kept in line with the Budget Estimates.
  - Complementing the monetary policy measures were a series of proactive and targeted supply side measures by the Government.

All these factors put together, proved to be critical in moderating the price pressures.

- The MPC in its October 2023 meeting has projected CPI inflation at 5.4 per cent for 2023-24, a moderation from 6.7 per cent in 2022-23. Headline inflation, however, remains vulnerable to recurring and overlapping food price shocks.
- Fintech is growing at a robust pace and is projected to generate around US$200 billion in revenue by the year 2030, contributing to approximately 13 per cent of the global FinTech industry's total revenue in 2030.
- On top of this, the Unified Payments Interface (UPI) has played a phenomenal role in the FinTech revolution in India. Its success story has in fact become an international model. Its ability to instantly transfer money between bank accounts through mobile applications has transformed the way people make digital transactions.

4. FINANCIAL INCLUSION – UPI LEADS THE WAY

India is at the forefront of innovative digital payments. Factors such as the global pandemic, rising penetration of e-commerce platforms, changing consumer behavior, and progressive government policies have all led to accelerated adoption of digital payment mechanisms. Although the pandemic was one of the driving forces fueling India's digital transition, India has been experiencing an enhanced push towards digitization for some time now. Prior to the pandemic, the government of India launched the Digital India campaign in 2015. It was guided by the motto -"Faceless, Paperless, Cashless". The Government has since made financial inclusion a top priority in order to formally integrate digital payment services into every sector of the nation.

Unified Payment Interface (UPI), is a prime example of how technology can revolutionize financial inclusion and support economic growth. The UPI is a widely used mobile payment technique that enables users to send money immediately and for free across bank accounts. Since its launch, UPI has greatly simplified financial transactions for account holders. Thus far, the journey has been remarkable, and as India keeps strengthening its digital base, the stage is set for greater innovation, inclusive growth, and sector-wide empowerment. Over a six-year period, the UPI sector in India has successfully altered the country's digital payment future.

UPI, the foundation of the government's large-scale "Digital India" project, has demonstrated the possibilities of open architectural platforms. Its success story highlights the significance of democratizing access to financial services. It provides a model for other industries with important lessons in the benefits of embracing inclusivity and efficiency. In October this year, UPI transactions reached a record high of Rs.17.16 lakh crore, up 9% from Rs.15.8 lakh crore in September.

The first international payment systems link to use scalable cloud-based infrastructure, the cross-border payment partnership between Singapore's PayNow and UPI in India, is presently processing close to 3,000 transactions per month, significantly lowering remittance costs for the Indian diaspora.

Japan will be the second nation after Singapore to link UPI for international transactions, if it is adopted. Furthermore, India and the United Arab Emirates have inked a deal to connect the UPI platform to the Integrated Payment Platform (IPP) of the Gulf nation.

According to an announcement made by the RBI, pre-approved credit lines at banks will now be part of the expanded reach of the UPI system. This implies that people can now use the UPI system to link their pre-approved credit lines that were issued by scheduled commercial banks to conduct transactions. The main aim is to reduce the cost of financial offerings and promote the development of unique financial products in the Indian market.

By 2025, the digital payments market in India is expected to grow exponentially and be larger in size than it is today. The outstanding growth trajectory of digital payments is particularly noteworthy in the light of India's substantial unbanked population. With a customer-centric mindset, India's digital payments industry is leveraging solutions from banks, fintech businesses, and the government to make digital payments as seamless and secure as possible.

Akansha Chauhan
Officer (Economics)
Head Office, SMEAD

5. TRANFORMING CREDIT: ROLE OF INNOVATION AND TECHNOLOGY IN BANKING

The pandemic triggered an aggressive push for digitisation and rapid technological adoption across the economy, and the banking and financial sector is no exception. As per data from RBI, the volume of UPI transactions in September 2023 stood at 1,05,557 Lakh, a staggering 188 percent increase over September 2021. Increasing penetration of mobile phones and internet has led to changes in consumer behaviour and expectations. A recent survey has revealed that approximately 40 percent of borrowers, mainly people between the age group of 27-42 have expressed a willingness to shift towards digital lending.

India has taken a lead on the route to digitisation, with the fin-tech adoption rate at 87 percent compared to global average of 64 percent. This jump has been enabled by concerted policy push, i.e., the JAM Trinity and India Stack, which has democratized access, driven financial inclusion, apart from the introduction of a range innovative personalized products. Banks, as the most important pillar of the economy, have transitioned rapidly at scale, in line with the changes in the ecosystem.

The growth of fin-tech and the promotion of financial inclusivity have been instrumental in addressing the needs of underserved groups. This has, in turn, helped in bridging the urban-rural divide, reducing income disparities and promoting economic growth. It has led to the proliferation of fin-tech start-ups in the country, placing it on the third place globally in the list of countries that are home to maximum fin-tech unicorns.

An increase in fin-tech firms has put pressure on traditional commercial banking establishments to transform their business activities. The customer of today values new digital offerings, improved ease of access and lower transaction costs. Thus, there is a need for banks to focus on driving technological advancement and digitizing legacy processes. This will result in streamlining the lending operations, paving the way for an optimized digital lending space for consumers.

The advent of Artificial Intelligence and Machine Learning models present an opportunity for banks to exploit technology to enhance productivity, customer satisfaction, and introduce innovative and personalized products and services. Leveraging emerging technologies can also help banks improve profitability and asset quality over time through early detection of warning signals.

Cloud computing can potentially revolutionize the lending industry by addressing the sector’s uptime concerns besides streamlining the entire loan disbursal process. Disruptive technologies like Big Data, Deep Learning etc. can help lenders gain a competitive edge. It can empower lenders by enabling credit assessments of individuals with zero credit history through indicators based on surrogate data. This, in turn, will help in increasing the availability and affordability of credit throughout the country.

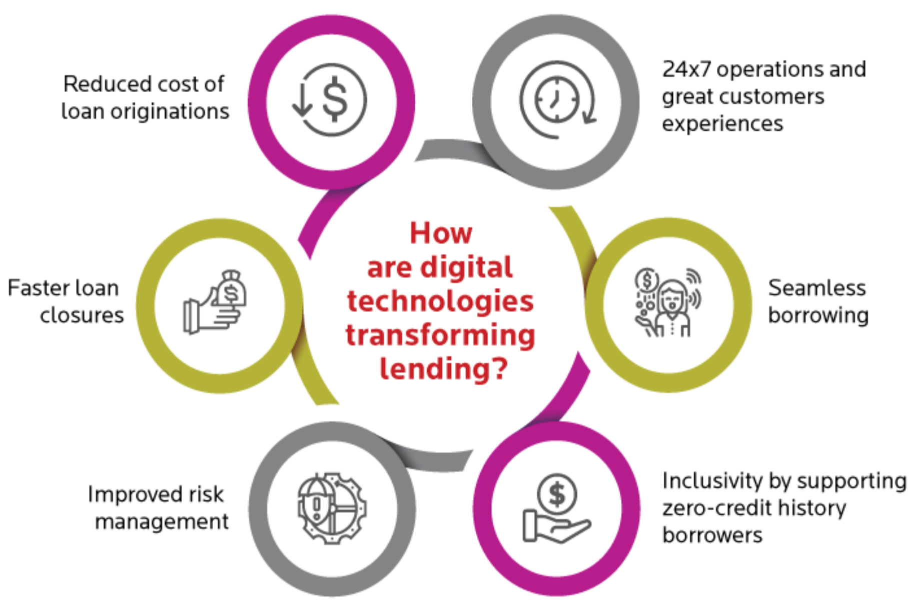
On the automation front, chatbots and virtual assistants have elevated customer experience by providing immediate assistance. The integration of Application Programming Interface (APIs) has facilitated seamless data sharing across banks and customers. This has allowed for smooth fund transfers, real-time balance updates, and quick access to financial information.

Moreover, cloud-based storage offers enhanced transparency across all stakeholders along with data security, reliability and scalability. Integration with such new and immersive technologies can help banks drive lending operations based on data driven insights. This will help reduce turnaround times, and simultaneously add value to the customer experience.

Technology has enabled the identity verification process to become faster, more secure and convenient. Biometric authentication, facial recognition techniques have become commonplace, minimizing the risk of identity theft and fraud.

The future is digital and banks are increasingly adapting to the new normal.

However, while technology and digitisation present significant opportunities for the banking sector, it is not without its attendant risks and challenges. Of paramount concern is the issue of cybersecurity. The accelerated pace of digitisation increases the potential of data breaches and phishing attacks. This, in turn, has implications for the banks' reputation and trust with the customers. Banks must invest heavily in infrastructure to equip themselves against cyber-attacks in future and mitigating cybersecurity risks.



Smriti Behl
Officer (Economics)
Head Office, SMEAD

6. CLASSROOM - LEVELS OF ECONOMIC INTEGRATION

Economic integration refers to the coming together of two or more nation-states to coordinate their trade/economic policies. Integration enables the markets to function smoothly by removing some or all of the trade barriers among them and creating a shared market for one another. Higher levels of economic integration also entail coordinating monetary and fiscal policies to achieve a stated economic plan.

Different levels of economic integration with increasing levels of coordination are mentioned below:

Preferential Trade Agreement (PTA): It is a type of agreement where member countries give preferential right of entry to certain products. Custom duties are reduced on an agreed number of tariff lines. A positive list is maintained which contains items on which the member countries have agreed to provide preferential access. India has a PTA Afghanistan and Chile.

Free Trade Area (FTA): It is a form of economic integration where the member countries agree to eliminate all tariff barriers among them. Each country maintains a negative list having items on which the FTA will not apply. The member countries can independently decide on the trade policies with non-member countries. India has a FTA with Sri Lanka, SAFTA (with South Asian countries)

Comprehensive Economic Cooperation Agreement (CECA): CECA covers negotiation on trade tariffs and Tariff Rate Quotas (TRQ) rates only. It is not as comprehensive as CEPA. India has signed CECA with Malaysia.

Comprehensive Economic Partnership Agreement (CEPA): CEPA is more extensive than CECA. It also covers trade in services, regulatory aspects of trade, and investments in addition to eliminating tariff lines. Negotiations on areas such as trade facilitation and customs cooperation, competition, and IPR can also be considered. Last year India and UAE signed a CEPA.

Customs Union: A kind of economic integration in which member countries agree to trade freely (with zero tariffs) with each other and they trade with non-members with a common external tariff. European Union (EU) is an example of a Customs union.

Common Market: A kind of economic integration where the member countries agree to establish free trade in goods and services, has a common external tariff, and also allows for free mobility of capital and labour among member nations. EU citizens can work in any EU member country, have a common passport, and can invest in any member country without restriction.

Monetary Union: In addition to the features of a common market a monetary union establishes a common currency for a group of nations and a central monetary authority that decides on the monetary policy of the group as a whole. Euro being adopted by the EU as a common currency in 1999 is an example of a monetary union.

Economic Union: Economic Union is the highest level of economic integration in which the member countries in addition to maintaining free trade in goods and services, a common external tariff, and free mobility of capital and labour also delegate some fiscal spending responsibility to a central agency. Although not very common an example of fiscal coordination among member states is the EU's Common Agriculture Policy (CAP).

After almost a decade of staying away from trade agreements, there is a reignited interest from India in entering into new trade agreements and revisiting the old ones. After deciding to walk out of the Regional Comprehensive Economic Partnership (RCEP), the world's largest FTA by member's GDP, in 2019 India signed CEPA with UAE and Mauritius, Economic Cooperation and Trade Agreement (ECTA) with Australia, and is in talks of completing a FTA with the UK. New trade agreements also cover Bilateral Investment Treaty (BIT), covering the investment aspects of bilateral relations, and are more comprehensive than the earlier ones. India has also initiated trade talks with Israel and Eurasia. This change in stance from following a protectionist policy for over a decade to signing new trade agreements was augmented by the COVID-19 pandemic, which forced the nations to rethink their supply chains and not be dependent on a few nations. Previous trade agreements have not been fully utilised but the new trade agreements have been concluded after a lot of negotiations and finding complementaries among nations. Trade agreements with "like-minded" economies, such as those with the G7, would allow India to expand its export market, diversify its sources, and adapt to new rules and regulations in digital commerce, sustainable energy, and supply chains.

Shubham Kumar Singh

Officer (Economics)

Head Office, SMEAD

7. GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of Circular	**16- November-2023**
Ref. No.	RBI/2023-24/85 DOR.STR.REC.57/21.06.001/2023-24
Subject	**Regulatory measures towards consumer credit and bank credit to NBFCs**

Gist: The high growth seen in consumer credit and increasing dependency of NBFCs on bank borrowings has necessitated to effect the following measures:

A. Consumer credit exposure

(a) Consumer credit exposure of commercial banks: The risk weights in respect of consumer credit exposure of commercial banks (outstanding as well as new), including personal loans, but excluding housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery, increased by 25 percentage points to 125%.

(b) Consumer credit exposure of NBFCs: The consumer credit exposure of NBFCs (outstanding as well as new) categorized as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance/SHG loans, shall attract a risk weight of 125%.

(c) Credit card receivables: The risk weights on credit card receivables of scheduled commercial banks (SCBs) and of NBFCs increased by 25 percentage points to 150% and 125% respectively.

B. Bank credit to NBFCs

The risk weights on exposures of SCBs to NBFCs increased by 25 percentage points (over and above the risk weight associated with the given external rating) in all cases where the extant risk weight as per external rating of NBFCs is below 100%.

Date of Circular	**08- November-2023**
Ref. No.	RBI/2023-24/81 FMRD. FMID. No. 04/14.01.006/2023-24
Subject	**Fully Accessible Route' for Investment by Non-residents in Government Securities – Inclusion of Sovereign Green Bonds**

Gist: Attention is invited to the Fully Accessible Route (FAR) introduced by the Reserve Bank, vide A.P. (DIR Series) Circular No. 25 dated March 30, 2020, wherein certain specified categories of Central Government securities were opened fully for non-resident investors without any restrictions, apart from being available to domestic investors as well.

It has now been decided to also designate all Sovereign Green Bonds issued by the Government in the fiscal year 2023-24 as 'specified securities' under the FAR.

The Directions contained in this circular have been issued under Section 45W of Chapter IIID of the Reserve Bank of India Act, 1934 and are without prejudice to permissions/ approvals, if any, required under any other law.

Date of Circular	**31-October-2023**
Ref. No.	RBI/2023-24/80 CO.DPSS.POLC.No.S-786/02-14-008/2023-24
Subject	**Regulation of Payment Aggregator – Cross Border (PA - Cross Border)**

Gist: All Payment Aggregators (PAs) which facilitate processing of domestic transactions in online mode are covered within the scope of the circulars referred to above at paragraph 1(a). Further, instructions for cross-border payment transactions are provided for in the circulars mentioned above at paragraphs 1(c) to 1(e) as well as through specific approval given by the RBI to banks for their collection agent arrangements.

Keeping in view the developments that have taken place in the area of cross-border payments, it has been decided to bring all entities facilitating cross-border payment transactions for import and export of goods and services under direct regulation of the RBI.

Date of Circular	**17- October-2023**
Ref. No.	RBI/2023-24/69 DOR.AML.REC.44/14.01.001/2023-24
Subject	**Amendment to the Master Direction (MD) on KYC**

Gist: In this regard, on a review, it has been decided to amend the MD on KYC to:

(a) Update certain instructions considering amendments to the PML Rules vide Government notifications dated September 4, 2023 and October 17, 2023;

(b) Update Annex II of the MD considering the changes to Government of India Order related to Unlawful Activities (Prevention) Act (UAPA), 1967, vide corrigendum dated August 29, 2023;

(c) Update Annex III of the MD by replacing the Government of India Order dated January 30, 2023, related to Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 (WMD Act, 2005) with the Government of India Order dated September 1, 2023 (which has been issued by the Government in suppression of the earlier WMD Act Order dated January 30, 2023), on the matter;

(d) Update certain instructions in accordance with the FATF Recommendations;

(e) Add a new Section 55A, on FCRA, in the MD on KYC; and

(f) Update certain other instructions post review.

Accordingly, the relevant Sections of the MD on KYC are hereby amended to reflect the changes furnished in Annexure. The amended provisions in the MD shall come into force with immediate effect.

Date of Circular	**16- October-2023**
Ref. No.	RBI/2023-24/68 DoR.RET.REC.43/12.01.001/2023-24
Subject	**Reverse Repo transactions - Reporting in Form 'A' Return**

Gist: Please refer to Form A Return in the Master Direction - Reserve Bank of India [Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)] Directions-2021 (updated as on September 25, 2023) regarding the reporting of Reverse Repo transactions by Commercial Banks.

In order to bring uniformity in reporting of Reverse Repo transactions in the Form A Return by various banks, it is clarified that the banks should adhere to the following practice for presentation of Reverse Repo transactions in the above return:

A. Reverse Repo transactions with the banks should be reported as under:

i. For original tenors up to and inclusive of 14 days

a. Item III(b) of Form A (i.e. Money at call and short notice) and;

b. Memo item 2.1 of Annex A to Form A (i.e. under Inter Bank Assets)

ii. For original tenors more than 14 days

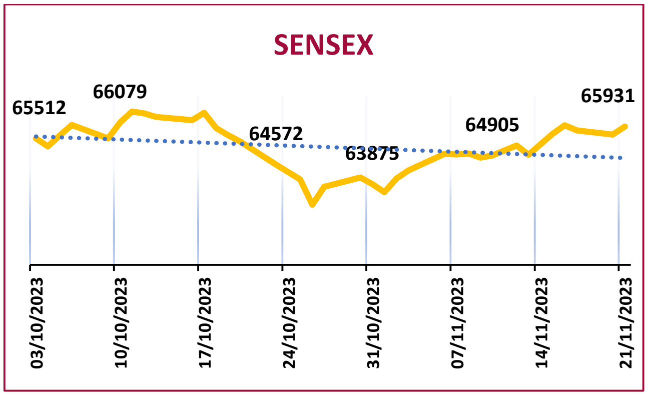
a. Item III(c) of Form A (i.e. Advances to banks) and;

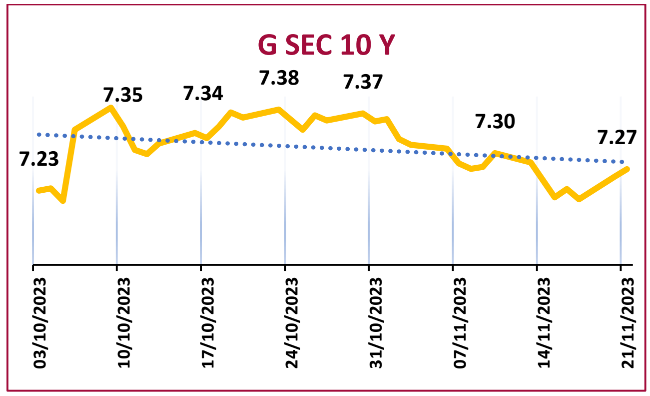
b. Memo item 2.1 and 2.2 of Annex A to Form A (i.e. under Inter Bank Assets)

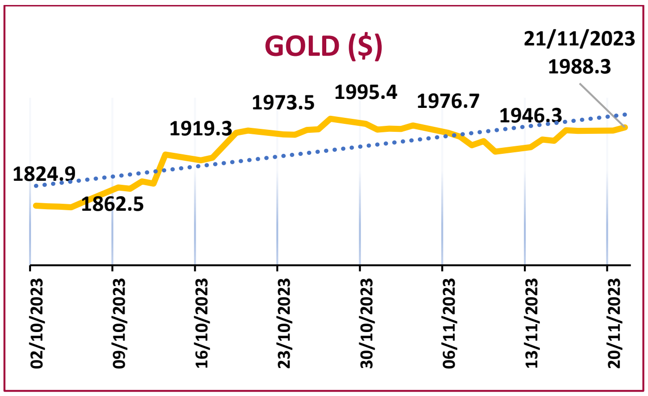
B. Reverse Repo transactions with non-banks (other institutions) for all tenors should be reported under Item VI (a) of Form A [i.e. Loans, cash credits and overdrafts under Bank Credit in India (excluding inter-bank advances)].

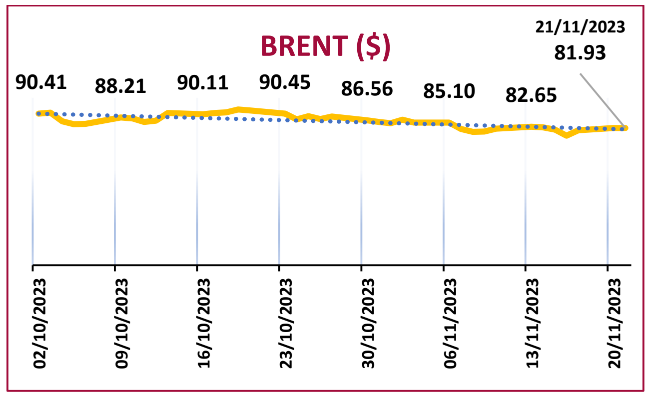
(1st October'23 to 20th November'23)

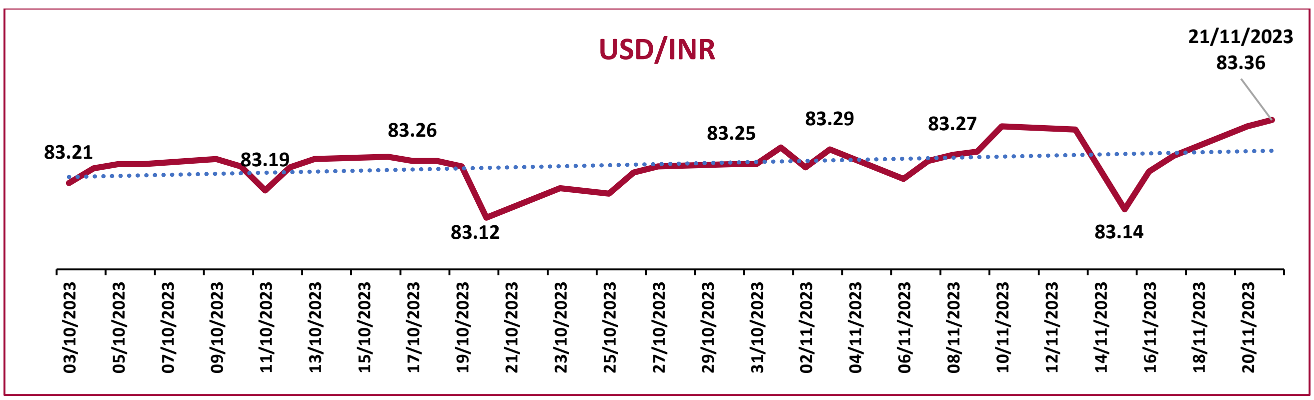
8. DAILY ECONOMIC INDICATORS

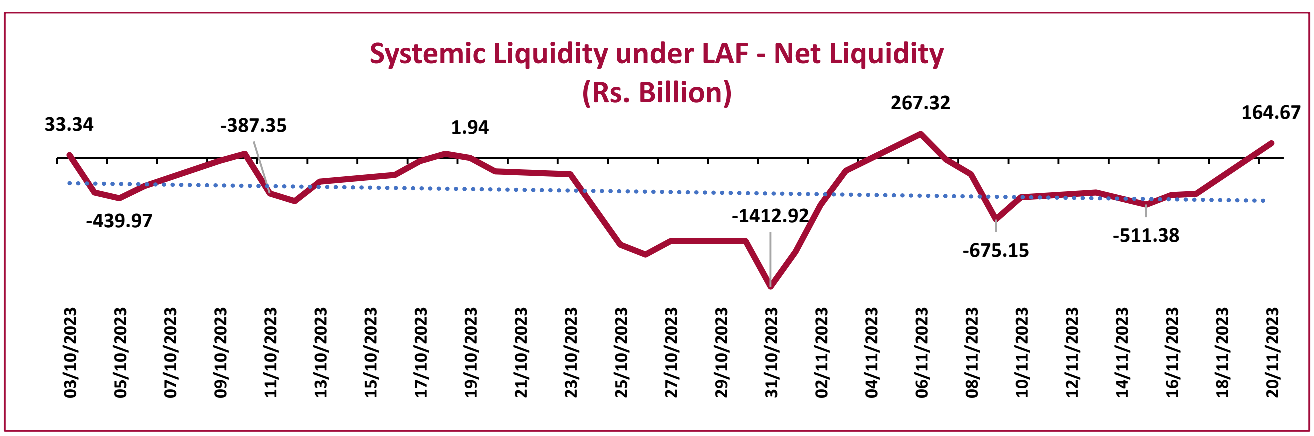








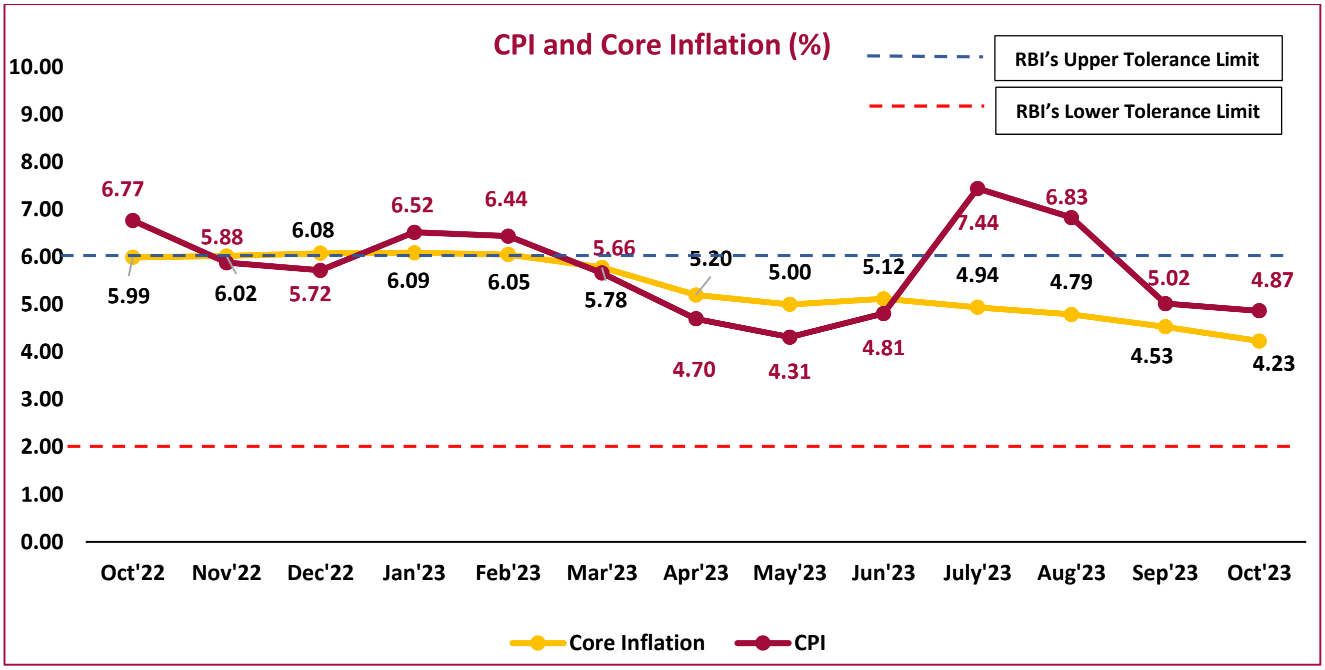


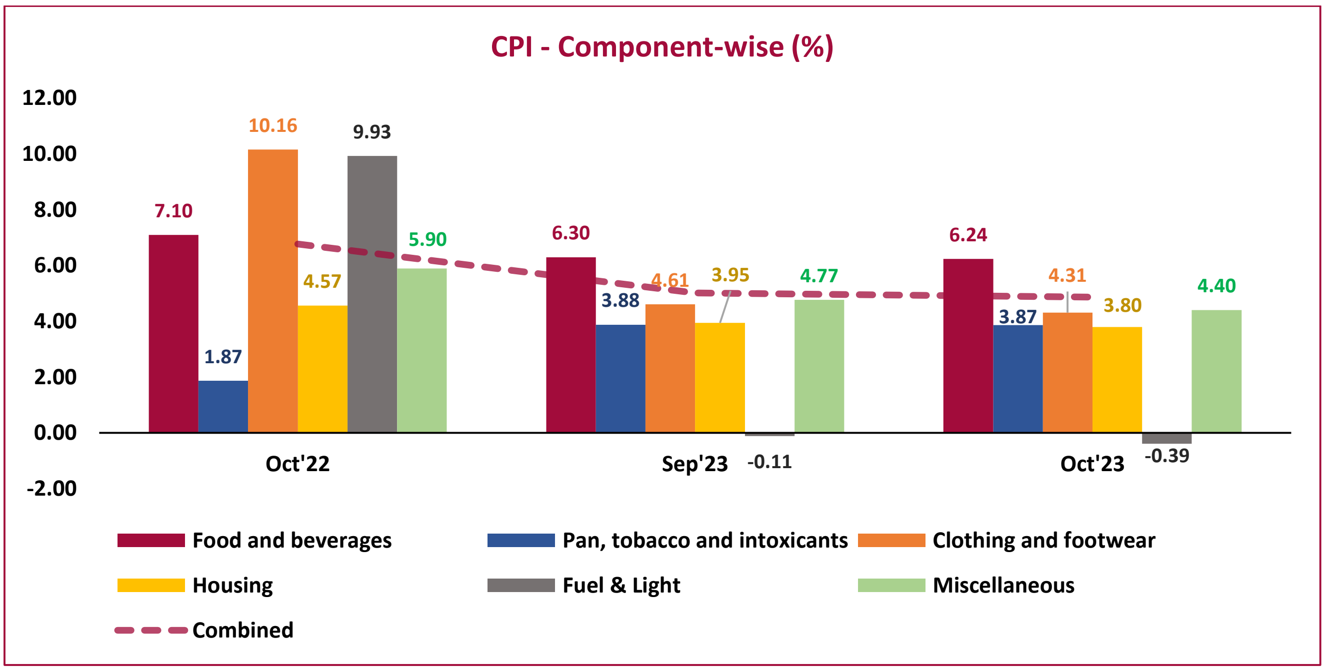


9. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation eases to 4.87 per cent

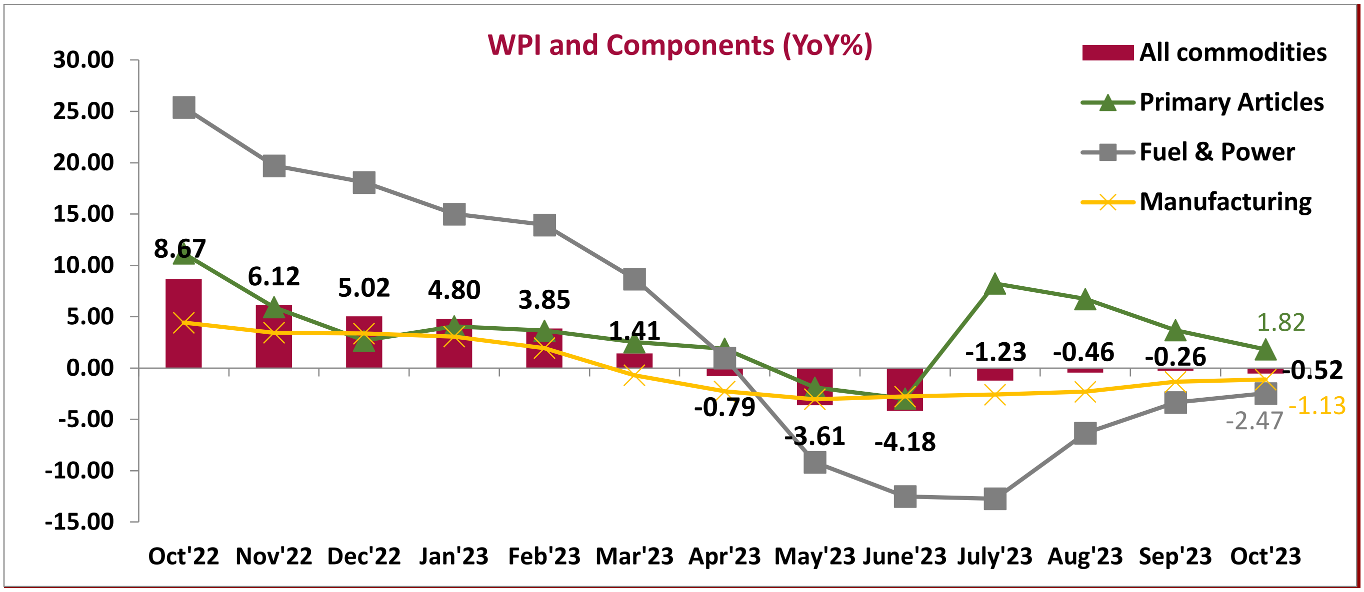




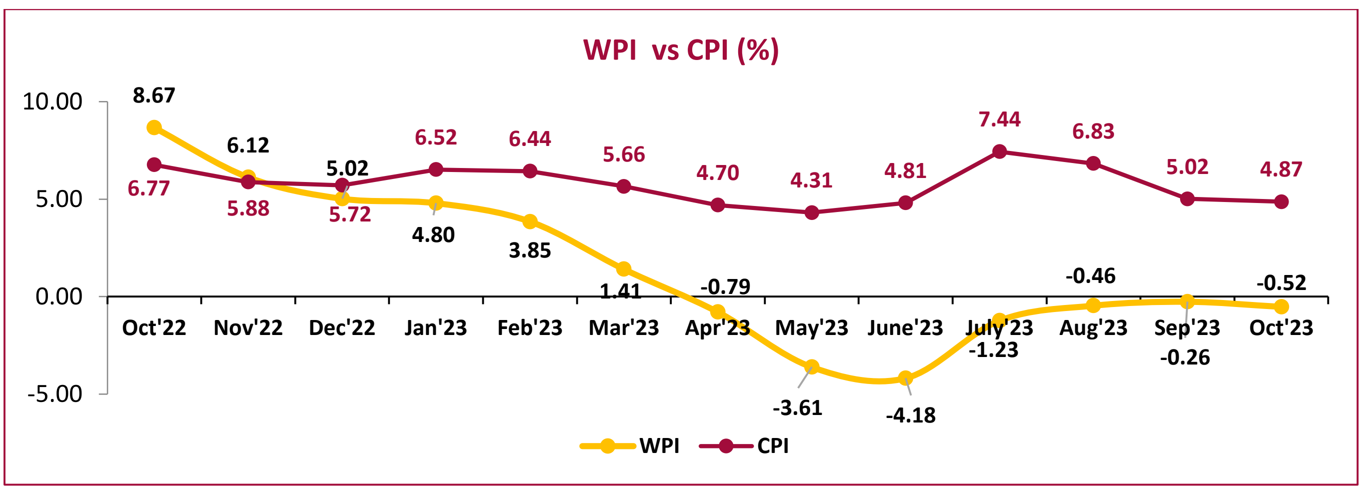
India's retail inflation moderated in October'2023 to 4.87 per cent, due to softening of vegetable, milk and edible oil prices. The core inflation moderated to 4.23 per cent in October 2023.

WHOLESALE PRICE INDEX (WPI)

WPI negative for 7 consecutive months



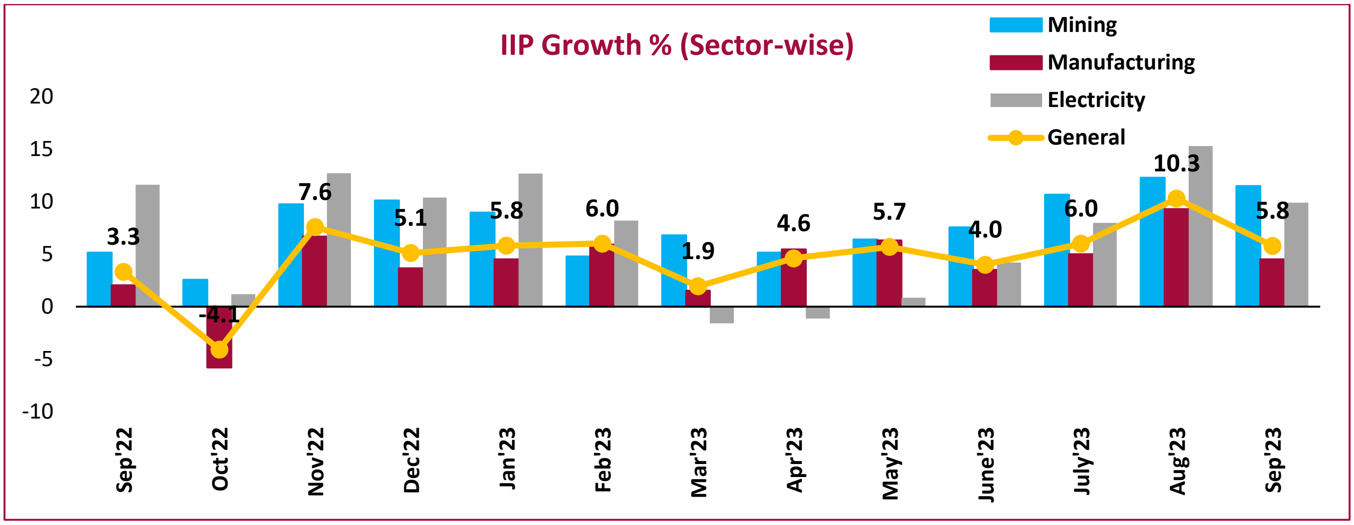
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
August	14.74	**6.73**	35.03	**-6.34**	7.51	**-2.30**	12.55	**11.43**	12.48	**-0.46**
September	11.54	**3.70**	33.11	**-3.35**	6.12	**-1.34**	11.03	**3.35**	10.55	**-0.26**
October	11.17	**1.82**	25.40	**-2.47**	4.42	**-1.13**	8.45	**2.53**	8.67	**-0.52**



Deflation in October 2023 was primarily due to fall in prices of chemicals and chemical products, electricity, textiles, basic metals, food products, paper and paper products. India's WPI remained in negative territory for the seventh consecutive month in October 2023.

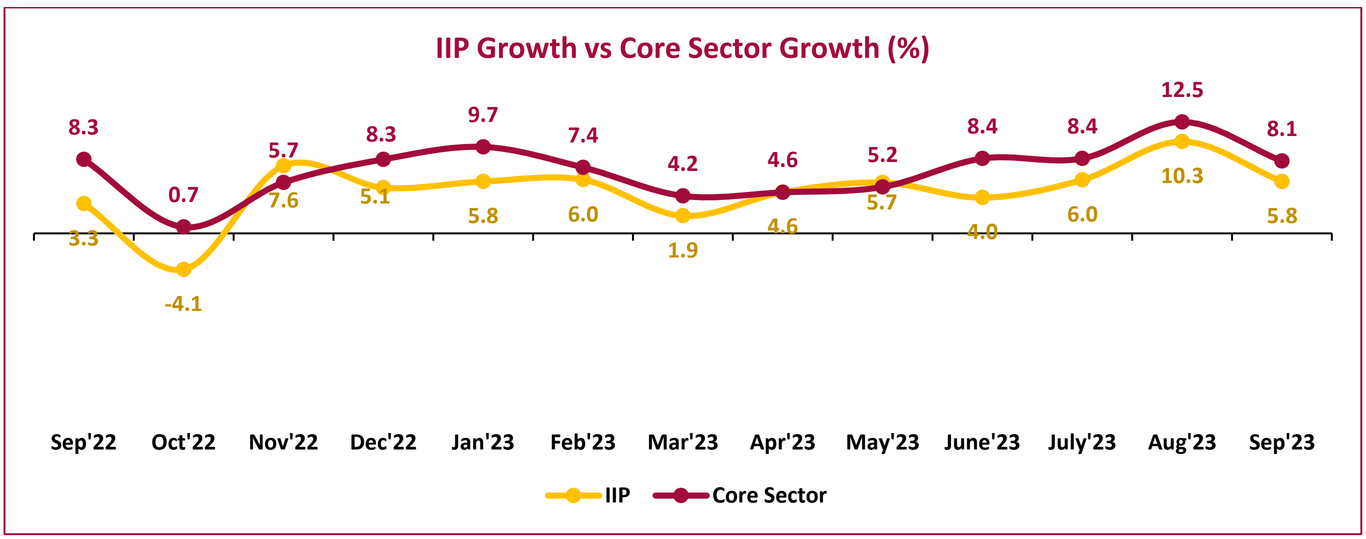
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth witnesses a dip in September’23



IIP growth % (Usage-wise)

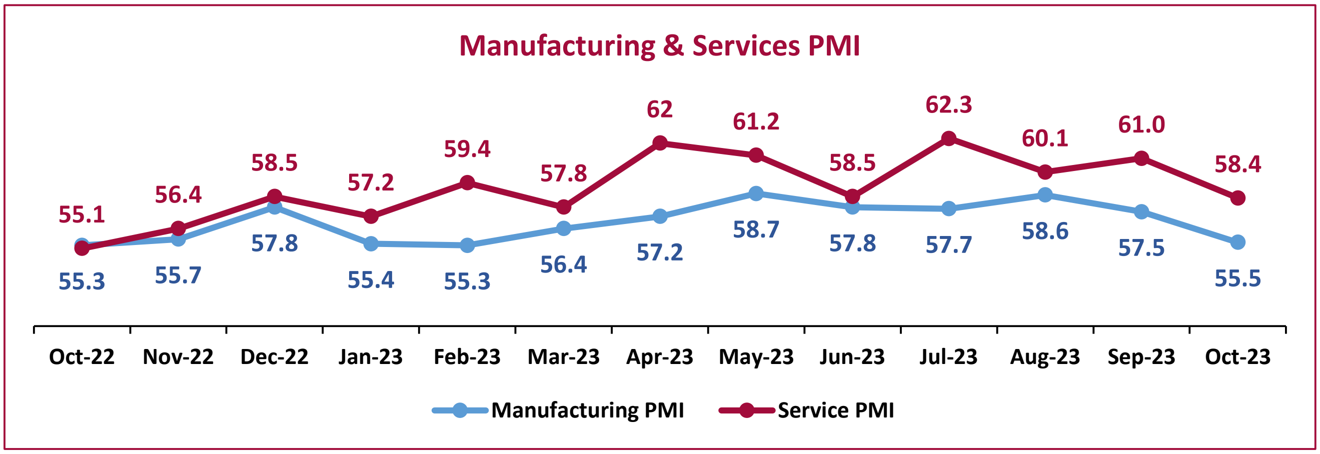
Component	Weight	Sep’22	Aug’23	Sep’23	Apr-Sep’22	Apr-Sep’23
Primary Goods	34.05%	9.5	12.4	8.0	9.2	6.3
Capital Goods	8.22%	11.4	13.1	7.4	16.9	6.7
Intermediate Goods	17.22%	1.7	6.8	5.8	6.7	4.2
Infra/Construction Goods	12.34%	8.2	13.5	7.5	7.8	12.1
Consumer Durables	12.84%	-5.5	5.8	1.0	10.1	-0.7
Consumer Non- Durables	15.33%	-5.7	9.6	2.7	-2.5	6.8



IIP growth falls to 5.8 percent led by fall in Manufacturing and Electricity Sectors. In Sector wise performance, the Mining Sector showed the maximum growth of 11.5 percent while slowest growth was registered in Manufacturing Sector. In Manufacturing Sector (highest weightage), out of 23 sectors, 9 sectors have registered negative growth.

PURCHASING MANAGERS' INDEX (PMI)

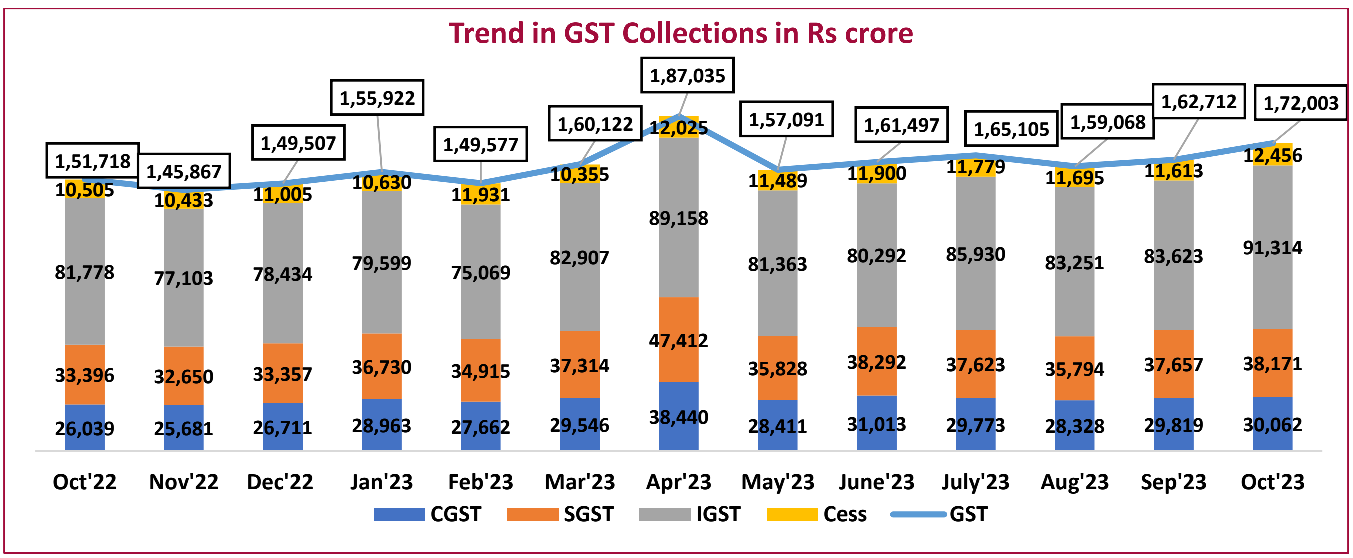
Manufacturing PMI in October'23 is lowest in last 8 months



The services purchasing managers' index (PMI) fell to 58.4 in October'23 from 61.0 recorded in September'23 owing to fierce competition and subdued demand for certain types of services along with a pick-up in inflation expectations that dampened business confidence. The manufacturing PMI further declined to 55.5 in October'23 from 57.5 in September'23 owing to heightened cost pressures and a decline in demand in the consumer goods sub-sector.

GOODS AND SERVICES TAX (GST)

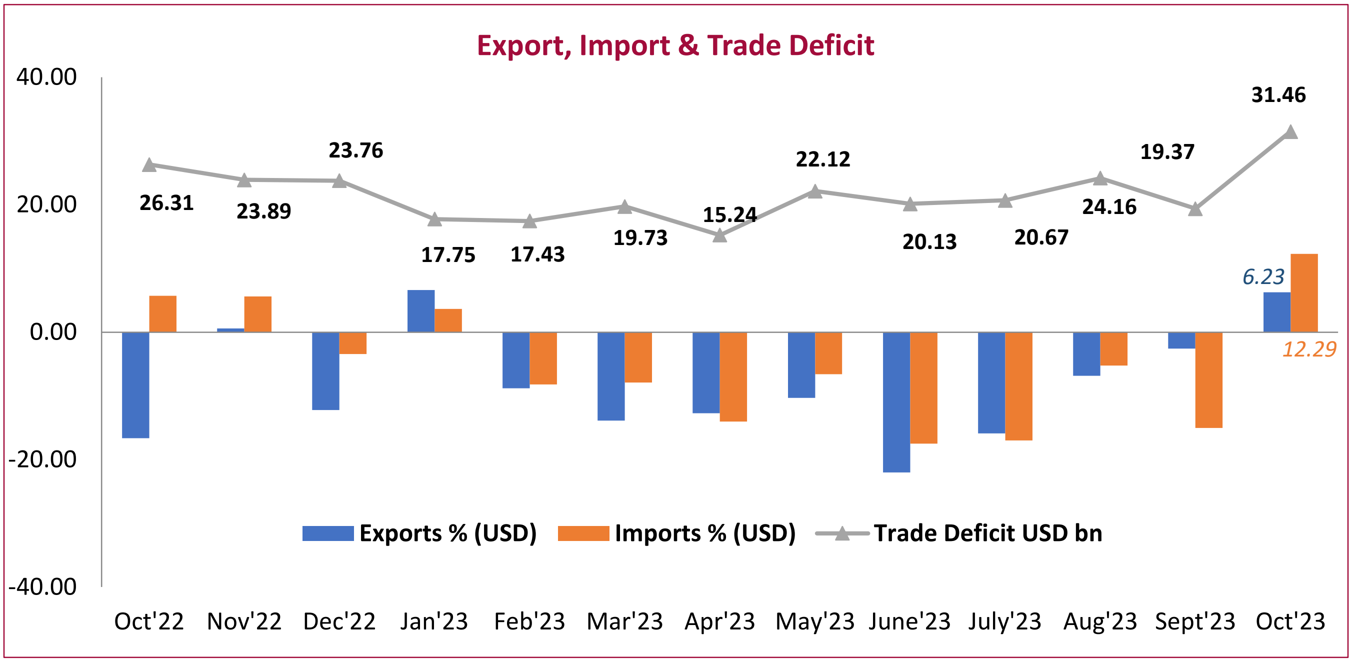
GST Collection rises by 13 per cent and crosses Rs. 1.70 Lakh Crore mark in October'23

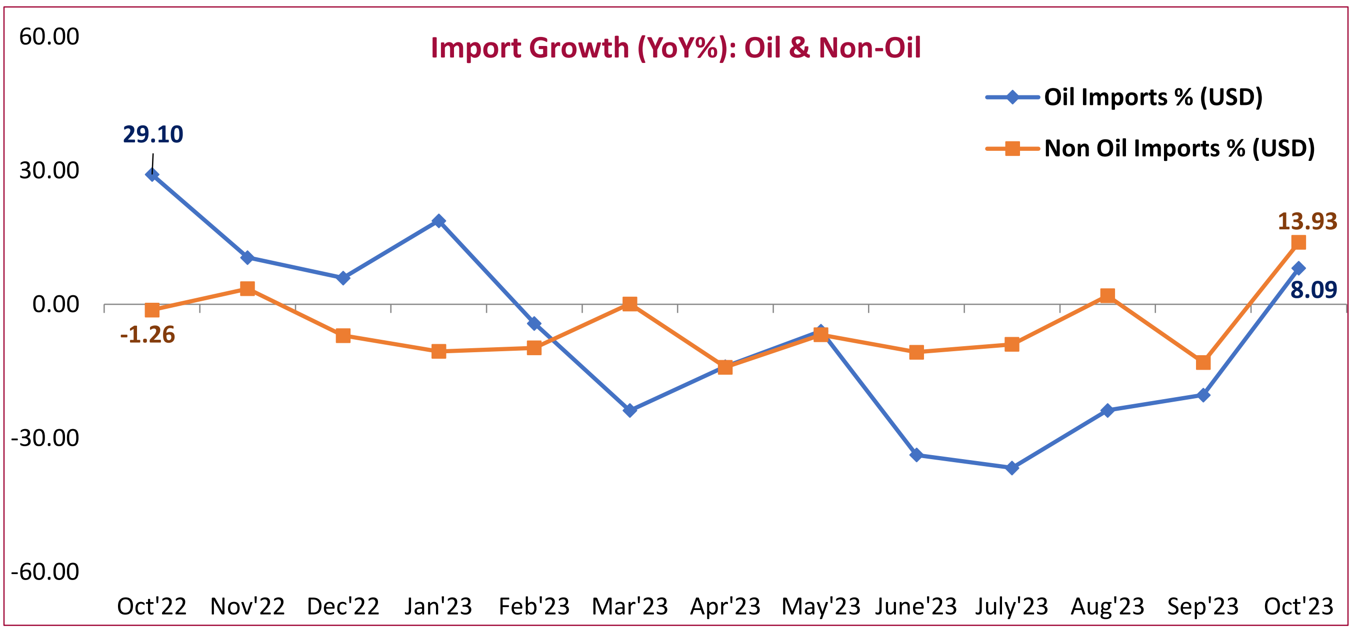


GST Collections have been experiencing good growth and consistently moving upwards. Contribution of ongoing festivities driven consumption and diligent compliance has definitely played a significant role in driving the GST collections. The average gross monthly GST collection in the FY 2023- 24 now stands at Rs. 1.66 lakh crore, 11 per cent higher than the year-ago period.

FOREIGN TRADE

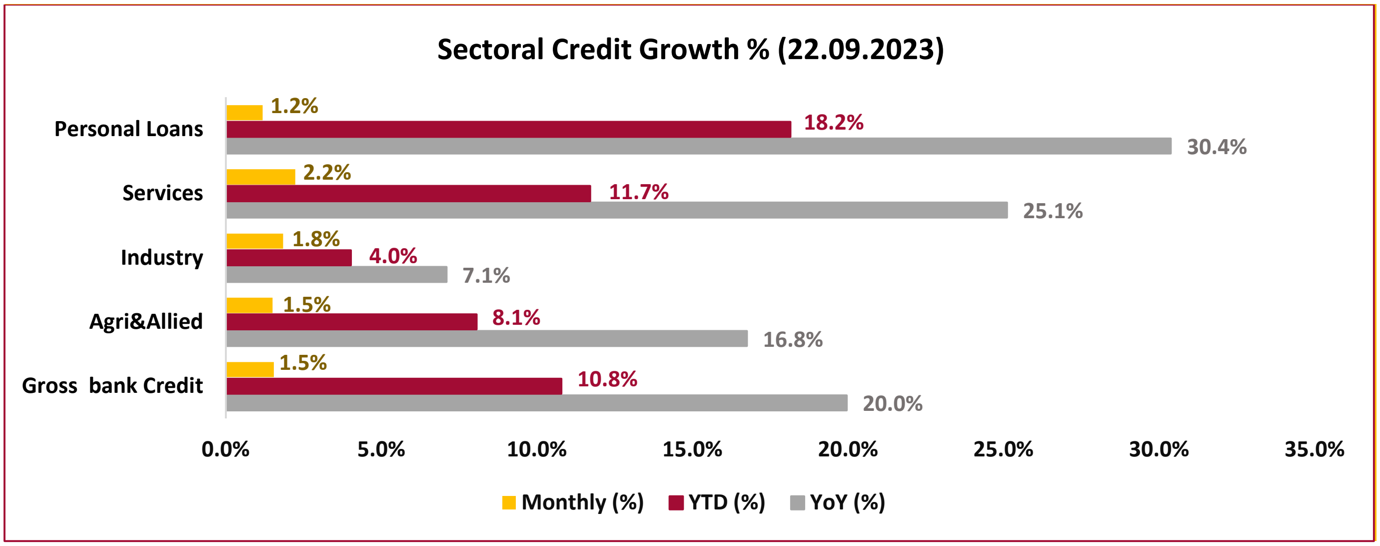
Trade deficit widens to USD 31.46 Billion in October'23





Merchandise exports rose to $33.57 billion, up 6.2% year-on-year in October 2023. Meanwhile merchandise imports also rose to $65.03 billion, up by 12.3 % year-on-year in October 2023. Both exports and imports expanded after eight consecutive months of contraction. India's merchandise trade deficit increased sharply from $19.37 billion in Sept'23 and remained higher at $31.46 billion in Oct'23 compared to $26.31 billion in Oct'22.

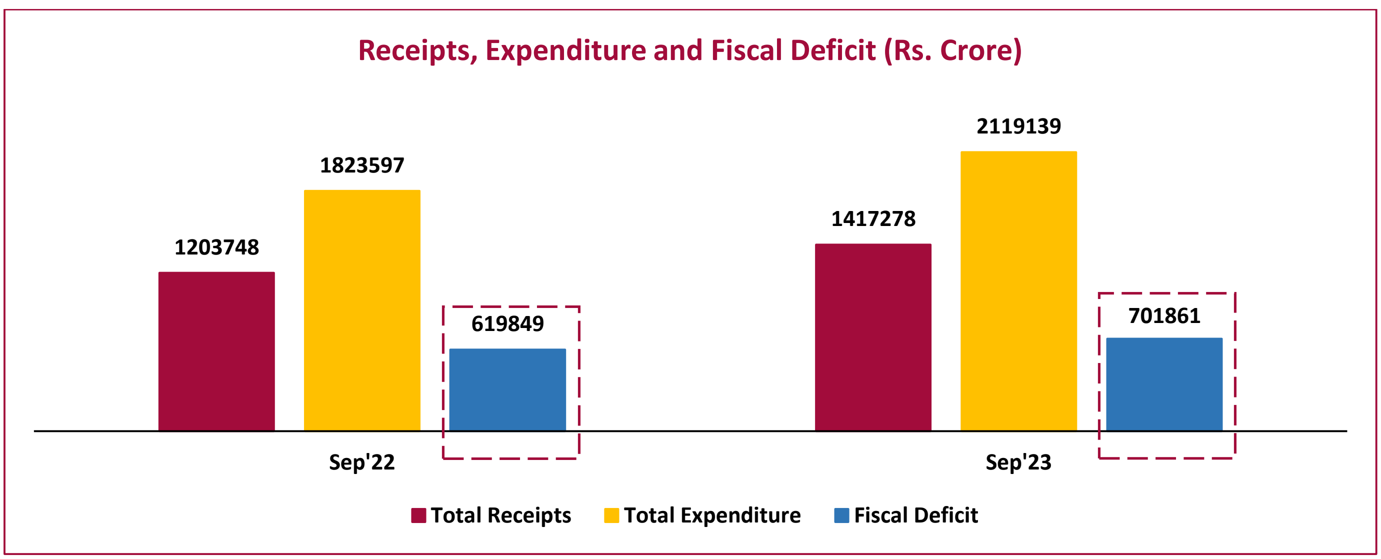
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	04.11.22	24.03.23	20.10.23	03.11.23	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	173.66	180.44	195.13	197.12	**13.5%**	**9.2%**	**1.0%**
Advances	129.26	136.75	154.39	155.66	**20.4%**	**13.8%**	**0.8%**
Business	302.93	317.19	349.52	352.78	**16.5%**	**11.2%**	**0.9%**

FISCAL DEFICIT

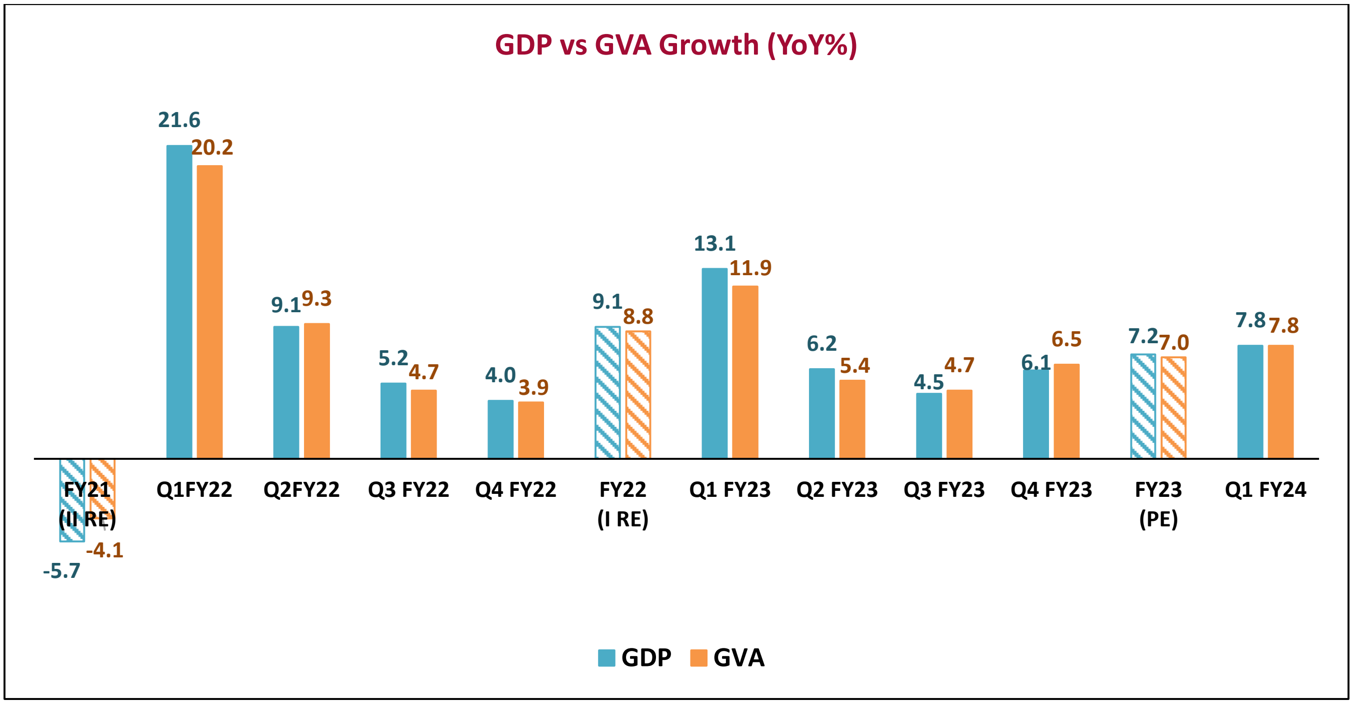


The fiscal deficit till the month of September 2023 is 39.3% of annual estimates.

10. QUARTERLY ECONOMIC INDICATORS

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

India witnesses strong GDP growth

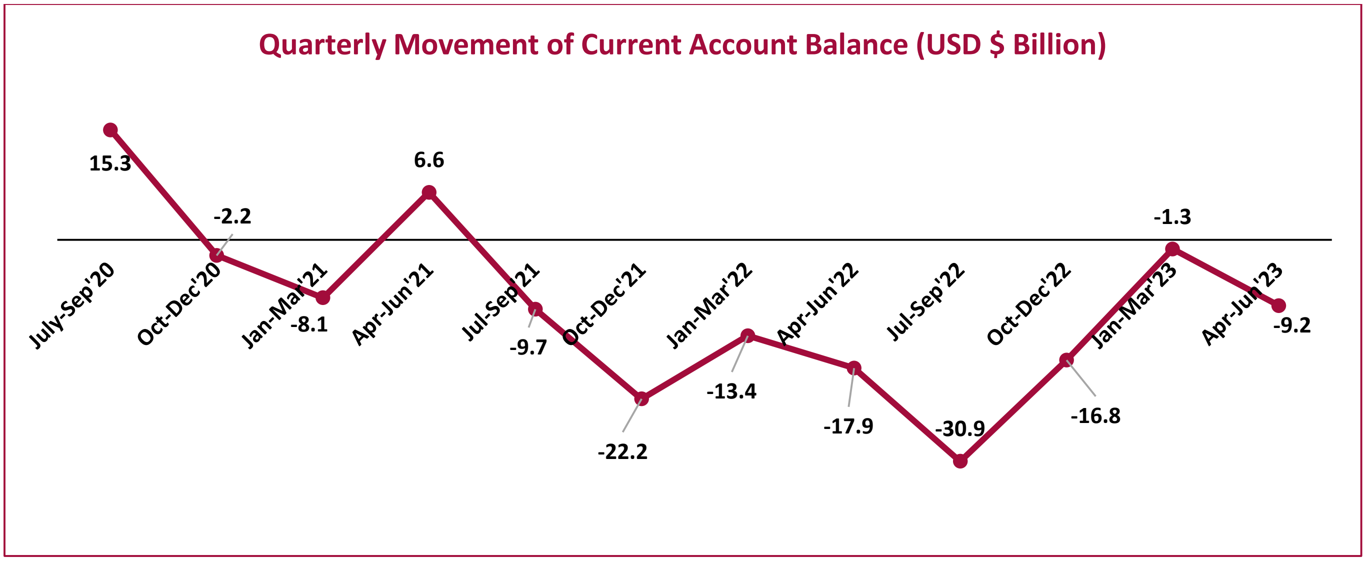


GDP growth of the Indian economy in Q1 FY24 grew by **7.8%,** mainly driven by the **Agriculture Sector.** The figure was better than the growth rate of the previous quarter (6.1%), **however quite below the growth of the previous year in the same quarter (13.1%). GVA growth** was also pegged at **7.8%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

INDIA'S GDP OUTLOOK OF VARIOUS AGENCIES

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

CURRENT ACCOUNT DEFICIT



The Current Account Deficit was at $ 9.2 billion in the June quarter of FY24 against a deficit of $1.3 billion in the preceding three months. It is 1.1% of GDP. The widening of CAD on a quarter-on-quarter basis was primarily on account of a higher trade deficit coupled with a lower surplus in net services and decline in private transfer receipts.

11. 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)	Dec 19, 2023
European Central Bank (ECB)	Europe	4.50	Sep 14, 2023 (25 bps)	Dec 14, 2023
Federal Reserve	U.S.A	5.50	Jul 26, 2023 (25bps)	Dec 13, 2023
Bank of England	U.K	5.25	Aug 03, 2023 (25 bps)	Dec 14, 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)	Dec 08, 2023

12. INDUSTRY OUTLOOK

Consumer Goods & Retail

The consumer goods and retail industry in India accounts for more than ten percent of the country's GDP and about eight percent of domestic employment. It is one of the fastest growing sectors in the country- being bolstered by rising incomes and a growing middle class population. According to recent market studies, the retail sector in India is expected to reach USD 2 trillion in value by 2032, and add 25 million new jobs by 2030.

Recent industrial data points to a robust recovery in the consumer goods segment which had been lagging since the previous year. Consumer durables, consumer non-durables and auto sales have been driving the industrial growth owing to strong urban demand and onset of the festive season. Urban areas are witnessing strong demand for consumer appliances- especially in the mid- and premium segments. Attractive schemes such as EMIs are financing about 80% of the spending on consumer durables. However, on the downside, rural demand continues to remain subdued which poses a challenge especially for FMCG and two-wheeler demand. Further, the big push to consumer demand has been received from the premium segment, while demand in the entry-level segment continues to lag.

In the near-term, categories such as apparel, personal care, home care, footwear, watches, packaged food and beverages, jewellery, consumer durables, travel, luxury items, etc., are all expected to witness a significant boost in demand owing to the ongoing festive season and upcoming wedding season. With global headwinds including the pandemic and inflationary pressures subsiding, consumer spending is expected to be even higher in the second half of 2023 and continue on to the next one year.

According to the latest print of the Consumer Confidence Survey (October 2023) released by the Reserve Bank of India, current perception of consumers in the country on account of the economic situation, employment and income levels as well as spending has remained in the optimistic zone. Respondents' pessimism on prevailing price levels and inflation has also moderated when compared to a year ago. Further, households have displayed higher optimism with regard to future spending and income levels.

In the medium term, new and emerging trends are expected to drive the retail sector with a growing prevalence of digital and social commerce as well as premiumisation. India is also the world's fifth-largest destination in the retail space. Additionally, growing consumer inclination towards branded and luxury goods is likely to expedite the entry of international brands into the country as well as lead to the emergence of more private labels. However, as this shift progresses, retailers must keep abreast of new technology, new business models and the ever changing consumer preferences and expectations. Delivering frictionless retail, providing customized products and services, and creating loyalty within the consumer base will drive the evolution of the retail industry.

13. EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. **India's forex reserves up by $5.08 bn to $595.4 bn (ET, 24.11.2023)**

- India's foreign exchange reserves increased by $5.077 billion to $595.397 billion for the week ending November 17, the latest data by the Reserve Bank of India (RBI).
- Previously, forex reserves witnessed a drop of $462 million to $590.32 billion for the week ending on November 10.
- According to the Weekly Statistical Supplement released by the RBI, Foreign currency assets (FCAs) were up by $4.39 billion to $526.39 billion. Expressed in dollar terms, the FCAs include the effect of appreciation or depreciation of non-US units like the euro, pound and yen held in the foreign exchange reserves.

2. **Govt. RBI on 'high alert' on inflation; rate hike transmission may temper demand: Finance Ministry (FE, 22.11.2023)**

- Even as "inflationary pressures" have moderated, there are persistent downside risks to growth and macroeconomic stability from inflation which continues to keep the government and the Reserve Bank of India (RBI) on "high alert", Ministry of Finance said in its latest monthly economic review for October 2023.
- The Ministry also said that a fuller transmission of the monetary policy, which essentially means pass-through of the central bank's rate hikes to consumers by banks, may also temper domestic demand.
- Headline retail inflation had slipped to a four-month low of 4.87 per cent in October. However, inflation concerns continue to persist. Last week, RBI in its monthly bulletin had said that while festival demand remains "ebullient" and consumer sentiment is "upbeat", India has "miles to go" and is "not out of the woods yet" on inflation.

3. **FDI equity flows down 7.3% to $9.54 billion in Q2 (FE, 21.11.2023)**

- Foreign Direct Investment in India fell 7.3% on year in July-September quarter to $9.54 billion due to sharp fall in inflows into computer software and hardware sectors, trading and construction, according to government data.
- For the April-September period the FDI equity inflows were down 24% on year to $20.4 billion. The cumulative FDI flows in April-September, which includes reinvested earnings and other capital, declined 15.1% on year to $33.1 billion.
- Year-on-year decline in monthly FDI inflows have been visible since July 2022 and this is the period that saw a sharp drop in funding to start-ups.
- Services, computer software and hardware, and trading are the biggest recipients of FDI in India and a sharp drop was seen in both these categories in the first half.

4. **Finance Ministry asks PSU banks to take measures to strengthen cybersecurity. (FE, 19.11.2023)**

- The Finance Ministry has asked state-owned banks to review systems and processes related to their digital operation in view of the recent UCO Bank incident. According to sources, the banks have been advised to check their cybersecurity robustness and take measures to strengthen them.

- Banks should keep a tight vigil, and there should be readiness for future cyber threats, sources said. The Finance Ministry and RBI have been sensitizing banks on this aspect at regular intervals amid the growing digitization in the financial sector.
- During November 10-13, the bank had observed, due to technical issues in IMPS, certain transaction(s) initiated by holders of other banks have resulted in credit to the account holders in UCO Bank without actual receipt of money from these banks.

5. **RBI tightens norms, raises risk weights for personal loans and credit cards (BS, 16.11.2023)**

- After cautioning banks and Non-Banking Financial Companies (NBFCs) on surging unsecured loans like personal loans and those on the credit card, the Reserve Bank of India (RBI) increased the risk weighting for such loans from 100 per cent to 125 per cent.
- As the increase in risk weighting will mean banks have to set aside more capital while extending such loans, the lenders in turn could increase the lending rates on such products.
- Loan portfolios that are likely to be affected due to the increase in risk weighting are about 30 per cent of the banks' retail portfolio, which was around Rs. 48.26 trillion at the end of September.

6. **FY24 fiscal deficit seen at 5.9% even if nominal GDP misses Budget assumption: Official (FE, 16.11.2023)**

- The Centre is confident of meeting its fiscal deficit target of 5.9 per cent of the Gross Domestic Product (GDP) for financial year 2023-24 even if there is any variation in nominal GDP growth as the tax revenue trend is comfortable so far, a senior government official said Wednesday. The government is not looking at any curbs on spending, with some reallocation of savings expected to happen as it looks towards additional allocation for existing or new schemes in the supplementary demands for grants in the upcoming Parliament session, the official added.
- Concerns have risen about nominal GDP growth not meeting the Budget assumption of 10.5 per cent as wholesale inflation has been negative for seven consecutive months. Some estimates have pegged the nominal GDP growth to be around 9 per cent which could result in a lower GDP deflator as it is primarily made of the Wholesale Price Index (WPI). The fiscal slippage risks arise from the fact that the government's fiscal deficit target of 5.9 per cent is calculated as a percentage of the GDP. The latest print for WPI inflation rate unexpectedly fell to (-) 0.52 per cent in October, data released on November 14 showed.

7. **Banks aim to launch wholesale CBDC by January next year (FE, 10.11.2023)**

- Banks are likely to launch wholesale Central Bank Digital Currency (CBDC) by January next year as they move cautiously to test the infrastructure for the digital currency for companies. In the first phase, the lenders will target small and medium enterprises (SMEs) to ensure a smooth roll-out of the system.
- One of the main challenges for the banks is to convince corporates to use CBDC when they already using Real Time Gross Settlement (RTGS) system. Companies know that there is a well-defined and tested system in the RTGS in case of any dispute in payment between the sender and the receiver.

8. **More than 97% of ₹2,000 banknotes returned, only ₹10,000 crore with public: RBI (Mint, 01.11.2023)**

- According to the Reserve Bank of India (RBI), more than 97% of the ₹2,000 banknotes in circulation have been returned to the banking system, and only ₹10,000 crore of such notes are still in public circulation.
- The total value of ₹2000 banknotes in circulation, which amounted to ₹3.56 lakh crore as at the close of business on May 19, 2023 when the withdrawal of ₹2000 banknotes was announced, has declined to ₹0.10 lakh crore as at the close of business on October 31, 2023. Thus, more than 97% of the ₹2000 banknotes in circulation as on May 19, 2023, has since been returned.

9. **UPI transactions via voice command from April (FE, 01.11.2023)**

- Individuals will be able to make UPI transactions through voice command from April. The National Payments Corporation of India (NPCI) has asked banks, payment service providers and other stakeholders to enable the 'Hello! UPI' feature in their apps by March 31, 2024.
- To improve the access and experience on digital platforms which support payments, NPCI has introduced the 'Hello! UPI' as a feature to drive access and experience of UPI, assisted with voice. The UPI features such as user on boarding, balance inquiry, financial transaction, complaint resolution, etc. will be enabled using voice commands by the user.

10. **RBI to control cos facilitating cross border payments. (FE, 01.11.2023)**

- The Reserve Bank of India (RBI) decided to bring all entities facilitating cross-border payment transactions for import and export of goods and services under direct regulation of the regulator. Such entities, form hereon, shall be treated as Payment Aggregator-Cross Border (PA-CB).
- Currently authorised dealer (AD) category-1 banks do not require separate approval from the RBI for undertaking cross border payment transactions. However, non-bank entities, which provide PA-CB services as on date, shall apply to the RBI for authorization by April 30, 2024.

11. **RBI unveils framework for updating credit information, customers to get ₹100/day in case of delay (Mint, 26.10.2023)**

- The Reserve Bank of India (RBI) released the framework for compensation to customers for delayed up-dation or rectification of credit information by credit institutions (CIs) and credit information companies (CICs).
- Complainants will be entitled to a compensation of ₹100 per calendar day in case their complaint is not resolved within a period of thirty (30) calendar days from the date of the initial filing of the complaint by the complainant with a CI/ CIC.
- The compensation framework will come into effect within six months and CICs and CIs to put in place the necessary systems and processes to implement the compensation framework.

14. 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

"Today a reader, tomorrow a leader…"

- Margaret Fuller

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