पंजाब नैशनल बैंक
punjab national bank

# PNB ECOLENS

## MONTHLY BULLETIN

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STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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



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

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# India @ 2047

Prime Minister Narendra Modi has declared that India will achieve developed country status by 2047, the year that marks 100 years of India's independence. NITI Aayog's governing council summit will involve PM along with the CMs of all states to discuss a blue print for achieving this vision. Let's dwell into the question of when and how India will attain the status of a developed nation?

## ❖ How a nation is tagged as a developed nation

A developed economy is typically characterized with a relatively high level of economic growth and security. Standard criteria for evaluating a country's level of development are income per capita or per capita gross domestic product, the level of industrialization, the general standard of living, and the amount of technological infrastructure.

Noneconomic factors, such as the human development index (HDI), which quantifies a country's levels of education, literacy, and health into a single figure, can also be used to evaluate an economy or the degree of development.

A standard measure of bifurcation is the per capita income. The World Bank classifies the countries as low, lower-middle, upper- middle and high income countries. The low and lower middle countries are termed as developing nation and upper- middle and high income countries are termed as Developed nation. The classifications are updated each year on July 1 and are based on the Gross National Income (GNI) per capita of the previous year. GNI measures are expressed in United States dollars (USD).

| Group | GNI per Capita$ |
|---|---|
| High Income | > 13205 |
| Upper - Middle Income | 4256 – 13205 |
| Lower - Middle Income | 1086 – 4255 |
| Low Income | < 1085 |

Currently, India has the GNI per capita of $2,150 tagging it as a lower-middle income nation. To become a high income country, it will have to cross $ 13,205 per capita GNI.

As per our calculation, India averaged a growth rate of 6.15% in past 25 years. Assuming, if the GDP of India grows at the same rate for the next 25 years, India's GDP will be $15.2 trillion and India's per capita income will be $9,978 by 2047 that will categorize the country as an Upper Middle Income country.

To achieve the per capita income greater than $13,205 by 2047, Indian economy will need to grow at an average of 7.5 – 8.0% every year for the next 25 years to achieve the GDP of $20.5 trillion at least. For the calculation, we have assumed the population of India in 2047 at 1.5 billion.

India witnessed a remarkable rate of growth in the 2000s, but this slowed down during 2010s. India took just five years, from 2003-04 to 2008-09 to double its income from $510 to $1110, which helped it shed the tag of a 'low income country'. However, it then took 12 years to further double the income from $1110 to $2150 in 2020-2021. This cements the fact that the economy was slowing down even before the pandemic struck.

While the economy has certainly picked up, it will not be an easy task to sustain high growth rate as the base of the economy expands.

### ❖ **Achieving the goal**

India is currently the fastest growing economy in the world as per IMF and is 5th largest country in Globe. India has many factors working in its favor like – largest working age population and increasing urbanization that's driving consumption demand, increased capex spending by the government to build infrastructure driving Investment demand, rapid paced digitalization and formalization of the economy, fiscal consolidation, supportive policies of government to promote SMEs in manufacturing and services sector, strong banking sector, burgeoning startups in the country driving research and innovation and country's sustained efforts towards transitioning towards renewable sources instead of fossil fuels to meet its energy demands.

But despite all these factors, there are conundrums in the economy asking for resolutions.

India's largest population in the world is its boon but it can also turn into bane if not harnessed effectively. India has a huge demographic dividend and needs to reap it to grow at faster rates. Share of India's working age population to total population will reach its highest level of 68.9% by 2030. Thus, it is essential to groom and skill the young workforce and provide them with jobs. This will require higher government spending on education and healthcare.

The Agriculture sector in India still employs half of country's population and contributes around 20% to the total output. Also, disguised unemployment is the highest in the sector i.e. agriculture sector employs more people than required. It is essential to move people from agriculture to industrial and services sector by generating jobs in these sectors. Simultaneously, bring reforms in the agriculture sector to enhance the productivity.

India's private investment continues to lag despite the government's efforts. Major reforms regarding land acquisitions, regulatory clearances, labor codes, license procurements and business setup procedures are needed. Also, as nations globally are trying to shift their production chains away from China post Covid and rising geopolitical uncertainties, India can place itself as the favorable alternative. Though if necessary reforms are not undertaken, India could lose out to other manufacturing hubs like Vietnam, Indonesia, and Malaysia etc.

Lastly, if India aims to be a developed nation, it needs to bring its women in the workforce. For India, 29.4% of women were part of the labor force as against the global average of 52.4%. Educating girls, declining fertility rates and reforms in labor codes in favor of women can help increase female participation rate.

India has giving itself an ambitious target of becoming a developed nation in next 25 years. India is undergoing a transformational journey and is at a juncture where right policies will unleash its true potential and it can attain a developed economy status.

**Deepak Singh**

**(Deputy General Manager)**

# 2. CLIMATE CHANGE RISK: IS INDIAN BANKING SYSTEM PREPARED TO FACE THE ODDS?

*"The world is reaching the tipping point beyond which climate change may become irreversible. If this happens, we risk denying present and future generations the right to a healthy and sustainable planet - the whole of humanity stands to lose". – Mr. Kofi Annan.*

Extreme weather events like cyclones, prolonged droughts, rising temperature mark relevance of the abovementioned words in today's world. These alterations in the climate system have not only brought immense threat to the humanity but also to the entire ecosystem. In a recent global physical climate risk report by the Cross Dependency Initiative (XDI), it is found that 80% of the top 50 most 'at-risk' states and provinces in 2050 are in China, the US or India. The organization assessed 2,600 regions across the world and ranked them as per their projected climate risks in 2050. Based on this report and several other analysis, India is considered among the frontrunners in terms of exposure of its infrastructure to the vulnerabilities of climate change. Thus it is high time to contemplate on building low-carbon economy, promoting conservation of sustainable energy and recognizing the risks intertwined with climate change to encounter such vulnerabilities and deal with the uncertainties about timing and severity of climate-related risks. Therefore, factoring environmental risk in banking system has become the need of the hour for India along with its global counterparts to ensure financial stability. Let us first briefly understand how climate related risk transcends to the roots of the banking sector.

Climate risk in banks can be broadly categorized into two major risks viz. Physical risk and Transition risk. Physical risks cover those that impact the premises and operations of the bank, its customers and the wider economy. These include severe weather events and long-term shifts in climate leading to the closing of retail branches or facilities, damage of physical assets such as buildings, infrastructure, and equipment which in turn impact creditworthiness of clients and adversely affect asset prices. Whereas, transition to a low-carbon economy, adoption of sustainable development based policies are likely to impact the demand for certain products and services, such as fossil fuels and high-emitting industries giving birth to Transition risk for the banks having significant exposures to these sectors and push them on the verge of financial loss. Both these risks may eventually get manifested through traditional risk channels such as (1)Credit risk, either due to borrowers' inability to repay the debts or banks' inability to fully recover the defaulted loans (2) Market risk, due to reduction in the financial value of assets and/or re-pricing of securities and derivatives due to stringent climate regulation (3)Liquidity risk, on account of banks' reduced access to stable source of funding because of changing market conditions (4)Operational risk due to legal and compliance risk pertaining to climate-sensitive investment, finally(5)Reputational risk on account of changes in market and consumer sentiment as a result of changing consciousness on climate.

Recognizing these climate related financial risks which may destabilize financial ecosystem of our nation, Reserve Bank of India has taken initiatives to undertake strategic steps to mitigate adverse impacts of climate change. In this regard, a consultative Discussion Paper on ‘Climate Risk and Sustainable Finance’ was released by RBI seeking public opinions. On analysis of the feedback received, regulator has decided to formulate Broad framework for acceptance of Green Deposits, Disclosure framework on Climate-related Financial Risks and Guidance on Climate Scenario Analysis and Stress Testing. RBI has also encouraged banks to adopt green finance practices such as lending to renewable energy projects and energy-efficient infrastructure and also assured of lower risk weights for green advances. Moreover, the central bank has also introduced regulatory measures to promote the use of green bonds in India so that sufficient funds can be raised for environmentally beneficial projects. RBI has also joined Network for Greening the Financial System (NGFS), a coalition that brings together central banks and supervisors working on climate and green finance issues from across the globe.

Though the frameworks have been conceptualized to deal with climate risk, the complexity of the climate risk modelling throws challenges towards banks in terms of measuring impact of climate risk while simultaneously undertaking lending and investment decisions. Also integrating this novel risk into the existing risk and valuation frameworks is a herculean task. In addition to this, lack of efficient industry models to incorporate climate risk into ERM (Enterprise Risk Management) framework, lesser availability of skilled professionals having parallel wisdom of both finance and climate risk, difficulty in quantification of climate risk are making climate risk mitigation even more challenging.

In spite of these difficulties, financial sector has to play a protagonist role in containing climate change risk and promoting sustainable development. And in this journey the governments and the regulators across all the states and provinces of the world are to march forward hand in hand for the benefits of future generations.

**Shatabdi Ghosh**

**Manager**

**Compliance Division, Head Office**

# 3. THE CHANGING ROLE OF BRANCHES IN THE DIGITAL ERA OF BANKING

The Banking industry has undergone significant changes in the digital era, with the emergence of online Banking, mobile Banking, and other digital services. Public Sector Banks (PSBs) in India have been at the forefront of this transformation, adopting digital technologies to enhance customer experience and provide more efficient and effective services. As a result, the role of branches in the Banking industry has changed significantly.

Traditionally, Bank branches have been the primary point of contact between customers and Banks. Customers would visit branches to open accounts, deposit and withdraw money, and conduct other Banking transactions. However, with the rise of digital Banking, customers are increasingly using online and mobile channels to access their accounts and perform transactions. As a result, the role of branches has evolved from a transactional to a service-oriented one.

Some of the roles, branches are adopting in the digital era are as under:

1) **One Stop Shop:** One of the main ways in which branches are adapting to the digital era is by offering a range of services beyond basic Banking transactions. For example, many PSB Branches in India are providing financial education and advisory services to customers, helping them make informed decisions about their finances. They are also offering value-added services, such as insurance, mutual funds, and other investment products, to provide customers with a One-Stop-Shop for their financial needs.

2) **Gateway to digital Banking:** Branches are also serving as a gateway to digital Banking services for many customers. Public sector Banks in India are using branches to educate customers about digital Banking services and encourage them to adopt these services. This is particularly important in India, where many customers are still not familiar with digital Banking.

3) **Personalised Experience and Improving Data Analytics:** Another way in which branches are adapting to the digital era is by providing a more personalised experience. Branches leverage data analytics to gain insights into customer behavior, preferences and needs for Bank to formulate personalized products and services for their customers. For example, Banks can offer customized loan rates or credit card rewards based on the customer's transaction history. Branches are also using data analytics, to better understand customer needs and preferences, and tailoring their services and offerings accordingly.

4) **Primary Point of Contact:** Branches play a critical role in the Banking industry, particularly in India where a large portion of the population is still unbanked or underbanked. For many customers, particularly those in rural areas, branches remain the Primary Point of Contact with Banks. In such cases, branches are using digital technologies to provide a better customer experience. For example, they are using video conferencing and other digital tools to connect with customers and provide remote services.

5) **Delivering Government Schemes**: The Government of India has launched various schemes to promote financial inclusion and provide financial assistance to the underprivileged sections of the society. These schemes are designed to provide Basic Banking services, credit facilities and insurance cover to the needy. Branches being an integral part of the Banking system act as a channel for delivering these schemes to the beneficiaries.

6) **Financial Literacy and Security:** Branches are also playing a critical role in ensuring the security of digital transactions by conducting financial literacy programs about safe Banking practices and importance of keeping their digital Banking details safe and secure. They can also provide customers with regular updates on the latest security threats and the measures they can take to protect their identities while conducting digital transactions. This is particularly important in a country where cybersecurity is a growing concern.

7) **Customer Support:** Branches, being the first point of contact, to assist the customers with any queries, complaints and issues they face while using digital channels. The role of branches in providing customer support is critical in ensuring customer satisfaction and building customer loyalty. By providing prompt and efficient support to customers, Branches can improve their customer engagement and retention.

In the backdrop, the changing role of branches in the digital era does not mean that they are becoming obsolete; instead, they are evolving from straight face of actions to smiling one of services. Public Sector Banks in India are adapting to this change by offering a range of services beyond basic Banking transactions, providing a personalized experience, and using branches to educate customers about digital Banking services. While the importance of branches is changing, they still play a critical role in the Banking industry, particularly in ensuring the security of digital transactions and serving as a gateway to digital Banking services for many customers.

**Raj Kishore**

**Chief Manager**

**Vigilance Department, Head Office**

# 4. SUMMARY OF WEO APRIL 2023 – A ROCKY RECOVERY

- Inflation has declined as central banks have raised interest rates and food and energy prices have come down, however, **underlying price pressures are proving sticky**, with labor markets tight in a number of economies.
- **Side effects from the fast rise in policy rates are becoming apparent**, as banking sector vulnerabilities have come into focus and fears of contagion have risen across the broader financial sector, including nonbank financial institutions. **Policymakers have taken forceful actions to stabilize the banking system.**
- **Debt levels remain high**, limiting the ability of fiscal policymakers to respond to new challenges.
- **Commodity prices that rose sharply following Russia's invasion of Ukraine have moderated**, but the war continues, and geopolitical tensions are high.
- Despite the fillips from lower food and energy prices and improved supply-chain functioning, risks are firmly to the downside with the increased uncertainty from the recent financial sector turmoil.
- **Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7 percent in 2022 to 1.3 percent in 2023.**
- In a plausible alternative scenario with further financial sector stress, global growth declines to about 2.5 percent in 2023—the weakest growth since the global downturn of 2001, barring the initial COVID-19 crisis in 2020 and during the global financial crisis in 2009—with advanced economy growth falling below 1 percent.
- The anemic outlook reflects the tight policy stances needed to bring down inflation, the fallout from the recent deterioration in financial conditions, the ongoing war in Ukraine, and growing geoeconomic fragmentation.
- Global headline inflation is set to fall from 8.7 percent in 2022 to 7.0 percent in 2023 on the back of lower commodity prices, but underlying (core) inflation is likely to decline more slowly. Inflation's return to target is unlikely before 2025 in most cases.
- Risks to the outlook are heavily skewed to the downside, with the chances of a hard landing having risen sharply.
- Financial sector stress could amplify and contagion could take hold, weakening the real economy through a sharp deterioration in financing conditions and compelling central banks to reconsider their policy paths.
- Pockets of sovereign debt distress could, in the context of higher borrowing costs and lower growth, spread and become more systemic.

- The war in Ukraine could intensify and lead to more food and energy price spikes, pushing inflation up. **Core inflation could turn out more persistent than anticipated, requiring even more monetary tightening to tame.**
- **Fragmentation into geopolitical blocs has the scope to generate large output losses**, including through its effects on foreign direct investment.

## Growth Outlook

| Real GDP (Annual % Change) | 2022 | 2023 (Projections) | 2024 (Projections) |
|---|---|---|---|
| **World** | **3.4** | **2.8** | **3.0** |
| **Emerging Market and Developing Economies** | **4.0** | **3.9** | **4.2** |
| **Euro Area** | **3.5** | **0.8** | **1.4** |
| **United States** | **2.1** | **1.6** | **1.1** |
| **China** | **3.0** | **5.2** | **4.5** |
| **India** | **6.8** | **5.9** | **6.3** |

Source : IMF (WEO) ; Note: For India, data and forecasts are presented on a fiscal year basis, while for the rest it is on a calendar year basis

## Way Forward

- Policymakers have a narrow path to walk to improve prospects and minimize risks. **Central banks need to remain steady with their tighter anti-inflation stance, but also be ready to adjust and use their full set of policy instruments—including to address financial stability concerns—as developments demand.**
- **Fiscal policymakers should buttress monetary and financial policymakers' actions in getting inflation back to target while maintaining financial stability.**
- In most cases, governments should aim for an overall tight stance while providing **targeted support to those struggling most with the cost-of-living crisis.**
- In a severe downside scenario, automatic stabilizers should be allowed to operate fully and temporary support measures be utilized as needed, fiscal space permitting.
- Medium-term debt sustainability will require **well-timed fiscal consolidation** but also **debt restructuring** in some cases.
- **Currencies should be allowed to adjust to changing fundamentals**, but deploying capital flow management policies on outflows may be warranted in crisis or imminent crisis circumstances, without substituting for needed macroeconomic policy adjustment.
- **Measures to address structural factors impeding supply** could ameliorate medium-term growth.
- Steps to strengthen multilateral cooperation are essential to make progress in creating a more resilient world economy, including by **bolstering the global financial safety net, mitigating the costs of climate change, and reducing the adverse effects of geoeconomic fragmentation.**

# 5. SUMMARY: RBI's MASTER DIRECTION ON OUTSOURCING OF INFORMATION TECHNOLOGY SERVICES

**PRELIMINARY**

**1. SHORT TITLE AND COMMENCEMENT**

a. Directions on Outsourcing of Information Technology shall be called the Reserve Bank of India (Outsourcing of Information Technology Services) Directions, 2023. These Directions will come into effect from 01.10.2023.

**2. APPLICABILITY**

a. These Directions shall be applicable to the following entities, collectively referred to as 'regulated entities' or 'REs' in these directions
   i. All Banking Companies, Primary Co-operative Banks, Non-Banking Financial Companies, Credit Information Companies, EXIM Bank, NABARD, NHB, NaBFID, SIDBI

b. In the case of foreign banks operating in India through branch mode, reference to the Board or Board of Directors in these Directions should be read as reference to the Head Office or controlling office which has the oversight over the branch operations in India.

c. These Directions shall apply to Material Outsourcing of Information Technology ('IT') Services arrangements (as defined in clause 3(a)(ii) below) entered by the REs.

**3. DEFINITIONS**

a. In these Directions, unless the context states otherwise, the terms shall bear the meanings assigned to them below
   i. "Material Outsourcing of IT Services" are those which:
      a) if disrupted or compromised shall have the potential to significantly impact the RE's business operations; or
      b) May have material impact on the RE's customers in the event of any unauthorized access, loss or theft of customer information.
   ii. Outsourcing" shall be as defined in RBI 'Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks' issued vide circular DBOD.NO.BP.40/ 21.04.158/ 200607 dated November 3, 2006, as amended from time to time.
   iii. "Outsourcing of IT Services" shall include outsourcing of the following activities:
      a) IT infrastructure management, maintenance and support (hardware, software or firmware);
      b) Network and security solutions, maintenance (hardware, software or firmware);
      c) Application Development, Maintenance and Testing; Application Service Providers (ASPs) including ATM Switch ASPs;
      d) Services and operations related to Data Centres;

e) Cloud Computing Services;

f) Managed Security Services; and

g) Management of IT infrastructure and technology services associated with payment system ecosystem.

iv. “Service Provider” means the provider of IT or IT enabled services including entities related to the RE or those which belong to the same group or conglomerate to which the RE belongs.

**ROLE OF THE REGULATED ENTITY**

**4. REGULATORY AND SUPERVISORY REQUIREMENTS**

a. Outsourcing of any activity shall not diminish RE’s obligations as also of its Board and Senior Management, who shall be ultimately responsible for the outsourced activity.

b. REs shall ensure that the service provider, if not a group company, shall not be owned or controlled by any director, or key managerial personnel, or approver of the outsourcing arrangement of the RE, or their relatives.

**5. COMPREHENSIVE ASSESSMENT OF NEED FOR OUTSOURCING AND ATTENDANT RISKS**

REs shall inter-alia consider: a) determining the need for outsourcing based on criticality of activity to be outsourced; b) determining expectations and outcome from outsourcing; c) determining success factors and cost-benefit analysis; and d) deciding the model for outsourcing.

**6. COMPLIANCE WITH ALL APPLICABLE STATUTORY AND REGULATORY REQUIREMENTS**

The RE shall consider all relevant laws, regulations, rules, guidelines and conditions of approval, licensing or registration, when performing its due diligence in relation to outsourcing of IT services.

**7. GRIEVANCE REDRESSAL MECHANISM**

REs shall have a robust grievance redressal mechanism that shall not be compromised in any manner on account of outsourcing, i.e., responsibility for redressal of customers’ grievances related to outsourced services shall rest with the RE.

**8. INVENTORY OF OUTSOURCED SERVICES**

REs shall create an inventory of services provided by the service providers (including key entities involved in their supply chains).

**GOVERNANCE FRAMEWORK**

**9. IT OUTSOURCING POLICY**

An RE intending to outsource any of its IT activities shall put in place a comprehensive Board approved IT outsourcing policy. The policy shall incorporate, inter alia, the roles and responsibilities of the Board, Committees of the Board (if any) and Senior Management, IT function, business function as well as oversight and assurance functions in respect of outsourcing of IT services.

### 10. ROLE OF THE BOARD

The Board of the RE shall be responsible, inter alia, for: a) putting in place a framework for approval of IT outsourcing activities depending on risks and materiality; b) approving policies to evaluate the risks and materiality of all existing and prospective IT outsourcing arrangements; and c) setting up suitable administrative framework of Senior Management for the purpose of these Directions.

### 11. ROLE OF THE SENIOR MANAGEMENT

The role of Senior Management of Res shall be responsible for formulating IT sourcing policies and Procedures, evaluating the risks and materiality of all existing and prospective IT sourcing arrangements.

### 12. ROLE OF IT FUNCTION

The responsibilities of the IT Function of the RE shall, inter alia, include:

a) Assisting the Senior Management in identifying, measuring, monitoring, mitigating and managing the level of IT outsourcing risk in the organisation;
b) ensuring that a central database of all IT outsourcing arrangements is maintained and is accessible for review by Board, Senior Management, Auditors and Supervisors;
c) effectively monitor and supervise the outsourced activity to ensure that the service providers meet the laid down performance standards and provide uninterrupted services, report to the Senior Management; co-ordinate periodic due diligence and highlight concerns, if any; and
d) putting in place necessary documentation required for contractual agreements including service level management, monitoring of vendor operations, key risk indicators and classifying the vendors as per the determined risk.

## EVALUATION AND ENGAGEMENT OF SERVICE PROVIDERS

### 13. DUE DILIGENCE ON SERVICE PROVIDERS

In considering or renewing an Outsourcing of IT Services arrangement, appropriate due diligence shall be performed to assess the capability of the service provider to comply with obligations in the outsourcing agreement on an ongoing basis.

### 14. ASPECTS TO BE CONSIDERED

Due diligence shall involve evaluation of all available information, as applicable, about the service provider.

## OUTSOURCING AGREEMENT

### 15. LEGALLY BINDING AGREEMENT

REs shall ensure that their rights and obligations and those of each of their service providers are clearly defined and set out in a legally binding written agreement.

## RISK MANAGEMENT

### 16. RISK MANAGEMENT FRAMEWORK

REs shall put in place a Risk Management framework for Outsourcing of IT Services that shall comprehensively deal with the processes and responsibilities for identification, measurement, mitigation, management, and reporting of risks associated with Outsourcing of IT Services arrangements.

**17. BUSINESS CONTINUITY PLAN AND DISASTER RECOVERY PLAN**

REs shall require their service providers to develop and establish a robust framework for documenting, maintaining and testing Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) commensurate with the nature and scope of the outsourced activity as per extant instructions issued by RBI from time to time on BCP/ DR requirements.

**MONITORING AND CONTROL OF OUTSOURCED ACTIVITIES**

**18. MONITORING AND CONTROL OF OUTSOURCED ACTIVITIES**

REs shall have in place a management structure to monitor and control its Outsourced IT activities. This shall include (as applicable to the scope of Outsourcing of IT Services) but not limited to monitoring the performance, uptime of the systems and resources, service availability, adherence to SLA requirements, incident response mechanism, etc.

**OUTSOURCING WITHIN A GROUP / CONGLOMERATE**

**19. OUTSOURCING WITHIN A GROUP / CONGLOMERATE**

A RE may outsource any IT activity/ IT enabled service within its business group/ conglomerate, provided that such an arrangement is backed by the Board-approved policy and appropriate service level arrangements/ agreements with its group entities are in place.

**CROSS-BORDER OUTSOURCING**

**20. ADDITIONAL REQUIREMENTS FOR CROSS-BORDER OUTSOURCING**

The engagement of a service provider based in a different jurisdiction exposes the RE to country risk. To manage such risk, the RE shall closely monitor government policies of the jurisdiction in which the service provider is based and the political, social, economic and legal conditions on a continuous basis, as well as establish sound procedures for mitigating the country risk.

**EXIT STRATEGY**

**21. EXIT STRATEGY**

The Outsourcing of IT Services policy shall contain a clear exit strategy with regard to outsourced IT activities/ IT enabled services, while ensuring business continuity during and after exit. The strategy should include exit strategy for different scenarios of exit or termination of services with stipulation of minimum period to execute such plans, as necessary. In documenting an exit strategy, the RE shall, inter alia, identify alternative arrangements, which may include performing the activity by a different service provider or RE itself.

At the end there are 3 appendices which have been included:

1. Usage of Cloud Computing Services
2. Outsourcing of Security Operations Centre
3. Services not considered under Outsourcing of IT Services.

# 6. CLASSROOM - PROFITABILITY

The Banking scenario in India has undergone a transformation in the past decade, with the rapid globalisation across the globe. Given the economic background; jostling for an increased presence has led to rapid expansion and a plethora of products to woo the customer whilst walking the tight rope between compliance, regulation and fast changing economic scenario. Against this backdrop, there are often twin challenges in the Banking system, of "**what drives profitability in banking**" and **"how to drive profitability in banking".**

**1: What drives profitability in banking:**

Profitability of the Bank depends primarily on following parameters:

- **Net interest margin:** Net Interest Margin captures the spread between the interest costs and interest earnings on Bank's liabilities and assets and indicates how well the bank manages its Assets and Liabilities.
- **Operating Profit:** Operating profit captures net income derived from Bank's Operations (Operating Income-Operating expenses). It is prominent indicator of Bank's health and how well its operations are being run.
- **Return on asset:** Return on assets (RoA) indicates how profitable a Bank is in relation to its total assets. Analysts use RoA to determine how efficiently a Bank uses its assets to generate a profit. A higher RoA means a Bank is more efficient and productive at managing its balance sheet and vice-versa.

  RoA can be improved by higher NIM, higher non-interest income, lower non-interest expenses and improving asset quality by reducing NPA.
- **Return on equity:** The return on equity (RoE) is a measure of the profitability of a Bank in relation to the equity, because shareholder's equity **(Net worth)** can be calculated by taking all assets and subtracting all liabilities, RoE can also be construed as a return on assets minus liabilities.
- **Risk-adjusted return on capital (RAROC)** is a risk-based profitability measurement framework for analysing risk-adjusted financial performance and providing a consistent view of profitability across segments. It does this by accounting for any expected losses and income generated by capital, with the assumption that riskier projects should be accompanied by higher expected returns.

## 2: How to drive profitability in banking

Profitability of a Bank depends on how well its Business units (Branches ) are performing. Effective Profitability of the Business units also depends on Transfer price Mechanism.

Accordingly, Following are primary profitability drivers of the Braches to improve its Profitability which also improves Bank's RoA, RoE and Profitability on sustainable basis.

**Quality Advances:-** Standard advances is a premier profitability driver since the branches earn net income (Interest Income - Transfer Price paid) from these products. Hence, the branch must focus on garnering high yielding quality advances.

**Improving CASA:- Low cost** CASA Deposits is a key profitability enabler for the branch. The Branch needs to improve CASA share by effective use of technology such as Tab banking and marketing its products to appropriate customer base.

**Reduction of NPA:-** Non-Performing Asset does not earn any income and entails burden to the branch/centre. Since our focus is on reduction of NPA, such assets are charged at rate of Cost of funds. Hence, lower fresh slippage and higher reduction in NPA portfolio will act as a profitability enabler for the branch.

**Improving Fee Based Income:** The branch should focus on fee-based income to diversify its income source apart from interest income, e.g. tapping quality Non Fund Based Business (NFB), Expansion in Wealth Management Products, Forex Business etc.

**Controlling expenses:** Bank/Branches shall focus on optimizing controllable expenses to improve profitability of unit.

**Digitalization –** Digitalization helps improving turnaround time and reducing cost. Hence, Bank shall focus on optimizing footfall in Branches by enrolling more and more customers into digital platforms.

**Himanshu Pandey**

**Chief Manager-Economist**

**Strategic Management and Economic Advisory Division, Head Office**

# 7. GIST OF LATEST RBI CIRCULARS FOR BANKS

| | |
|---|---|
| **Date of Circular** | **19-May-2023** |
| Ref. No. | RBI/2023-24/32 DCM(Plg) No.S-236/10.27.00/2023-24 |
| **Subject** | **Rs.2000 Denomination Banknotes – Withdrawal from Circulation; Will continue as Legal Tender** |

**Gist:** ₹2000 denomination banknote was introduced in November 2016 under Section 24(1) of RBI Act, 1934 primarily to meet the immediate currency requirement of the economy after withdrawal of the legal tender status of all ₹500 and ₹1000 banknotes in circulation at that time. With fulfilment of the objective of introduction of ₹2000 denomination and availability of banknotes in other denominations in adequate quantity, printing of ₹2000 banknotes was stopped in 2018-19.

Further, majority of the ₹2000 denomination notes were issued prior to March 2017, have completed their estimated lifespan and are not observed to be commonly used for transactions anymore. Therefore, it has been decided that, in pursuance of the "Clean Note Policy" of the Reserve Bank of India, the ₹2000 denomination banknotes shall be withdrawn from circulation. The ₹2000 banknotes will continue to be legal tender.

| | |
|---|---|
| **Date of Circular** | **12-May-2023** |
| Ref. No. | RBI/2023-24/31 DOR.CAP.REC.15/21.06.201/2023-24 |
| **Subject** | **Master Circular – Basel III Capital Regulations** |

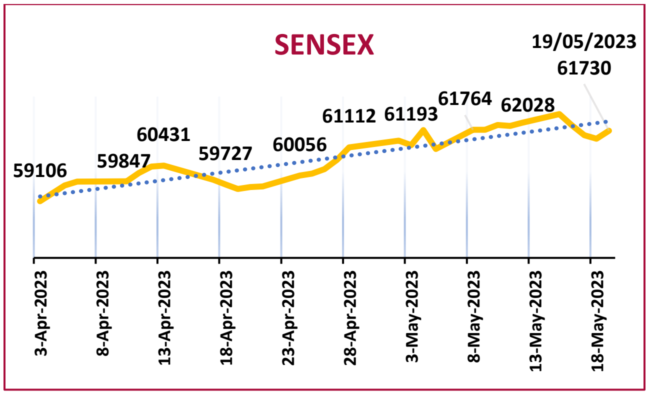
**Gist:** Please refer to the Master Circular No. DOR.CAP.REC.3/21.06.201/2022-23 dated April 1, 2022, consolidating therein the prudential guidelines on Basel III capital adequacy issued to banks till that date.

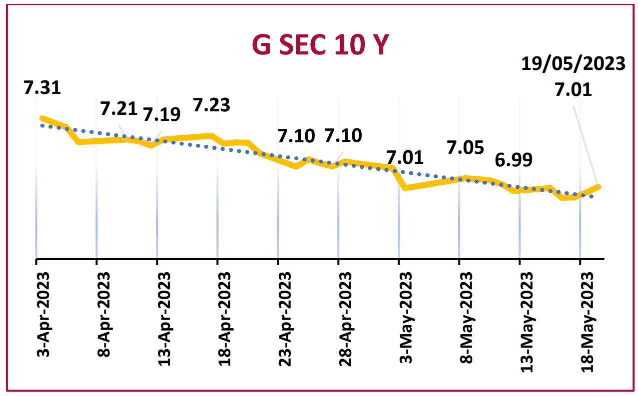
The instructions contained in the aforesaid Master Circular have been suitably updated / amended by incorporating relevant guidelines, issued as on date. A list of circulars consolidated in this Master Circular is contained in Annex 26.

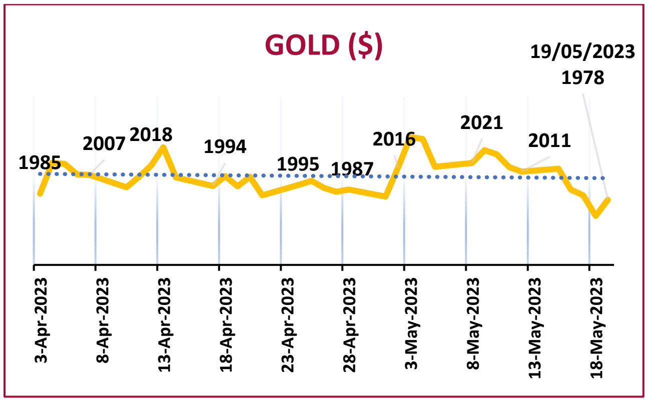
Small Finance Banks and Payments Banks may refer to their respective licensing guidelines and operating guidelines issued by Reserve Bank, for prudential guidelines on capital adequacy.

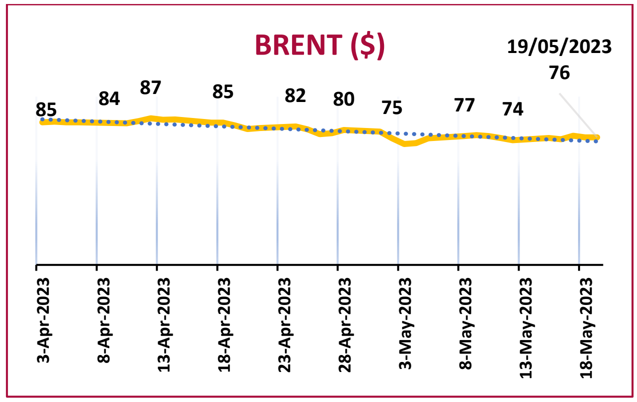
*(Duration:6th April'23 to 19th May'23)*

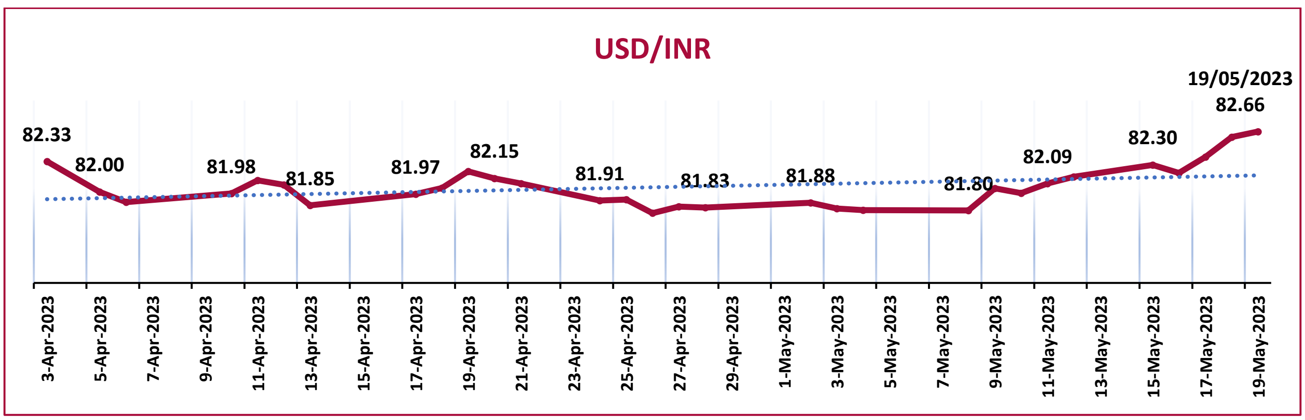
# 8. DAILY ECONOMIC INDICATORS

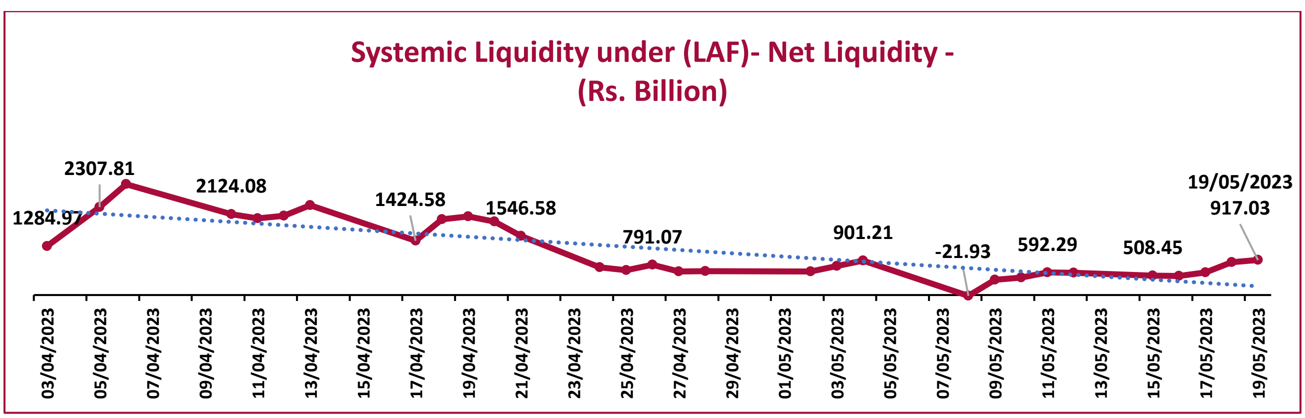


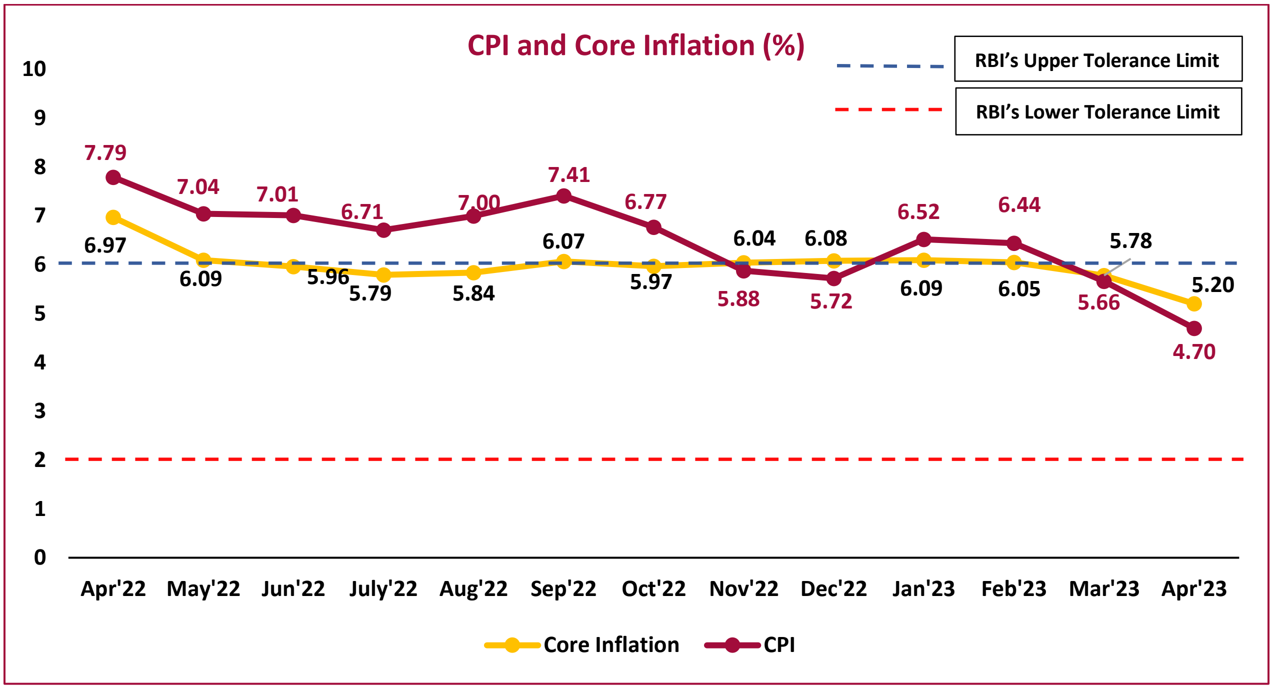



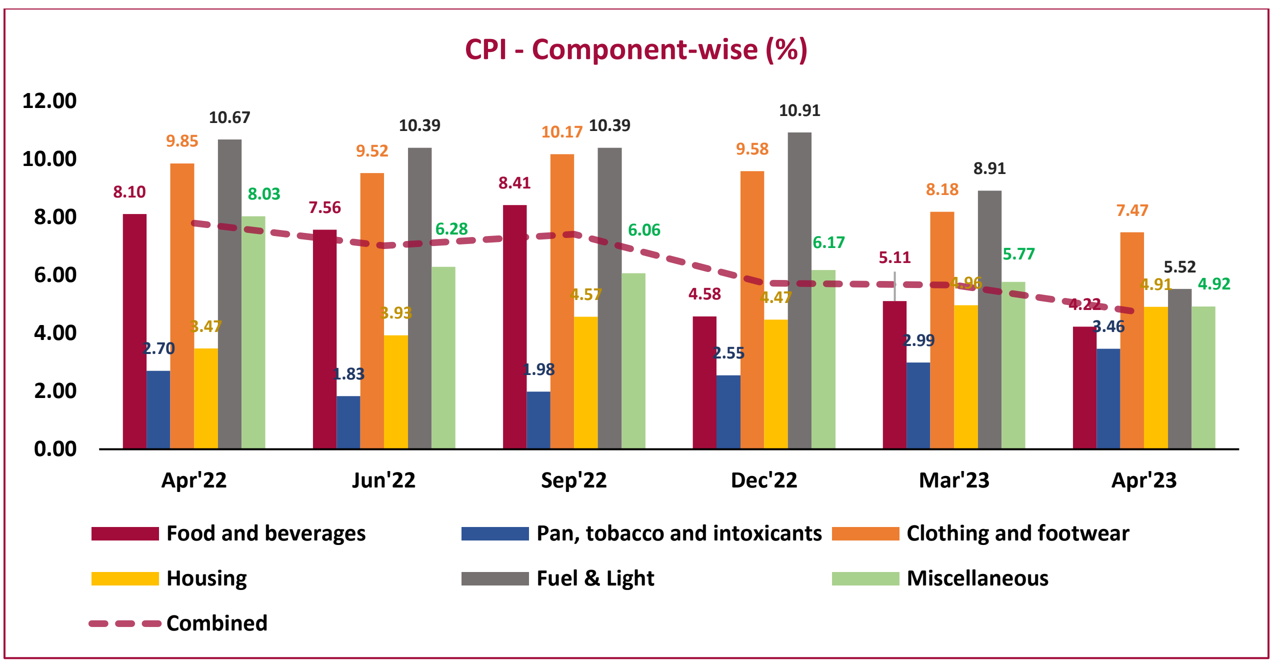



# 9. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

## CONSUMER PRICE INDEX (CPI)

***CPI eases to 18-month low***

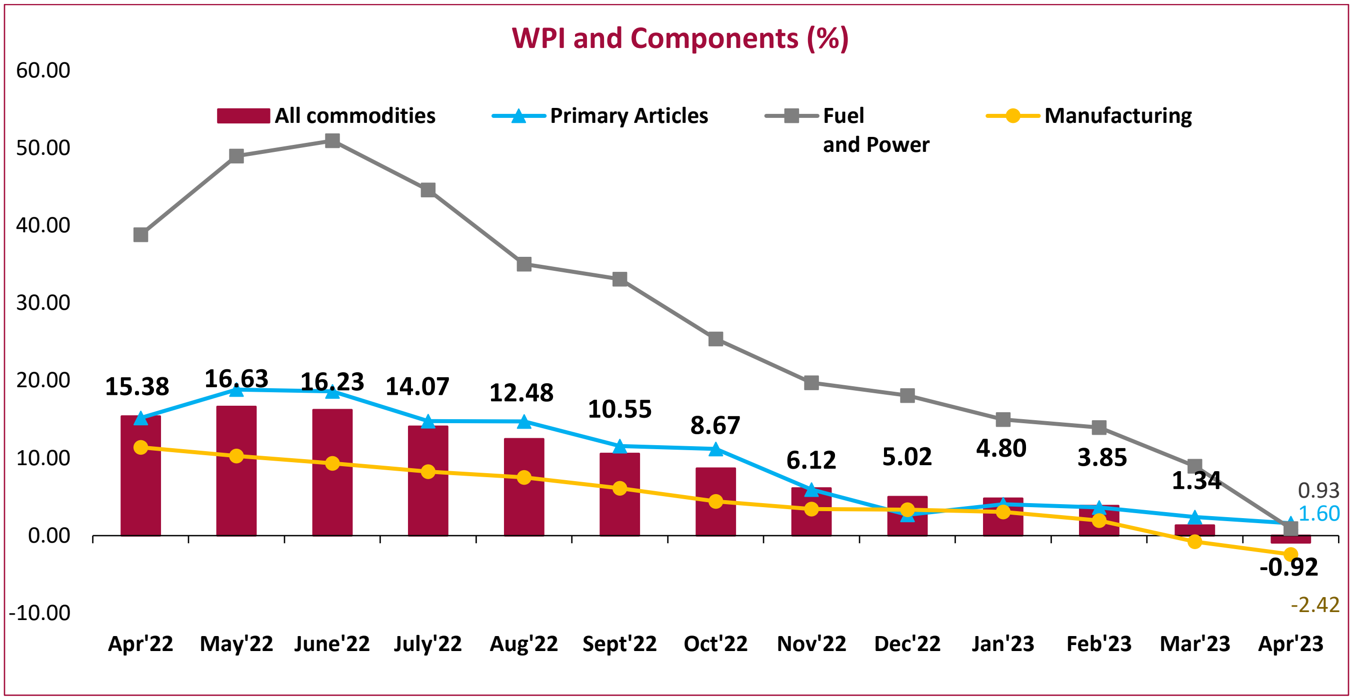


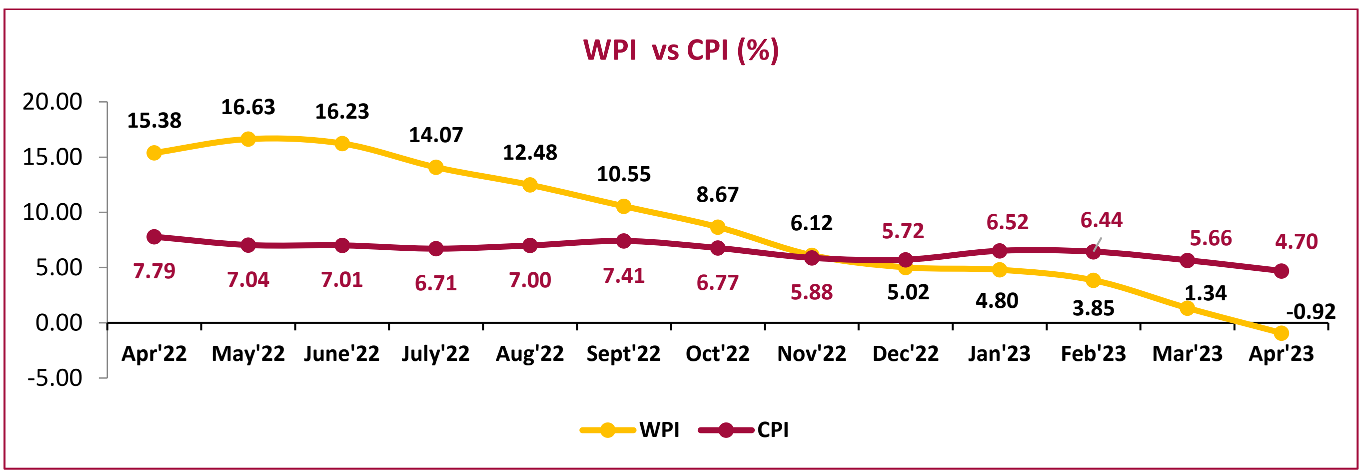

India's retail inflation in April'2023 was at 4.70 per cent, due to base effect and softening of core inflation. The CPI came back below 5 per cent mark after 16 months. The core inflation also moderated to 5.20 per cent in April.

# WHOLESALE PRICE INDEX (WPI)

***WPI enters deflation zone***



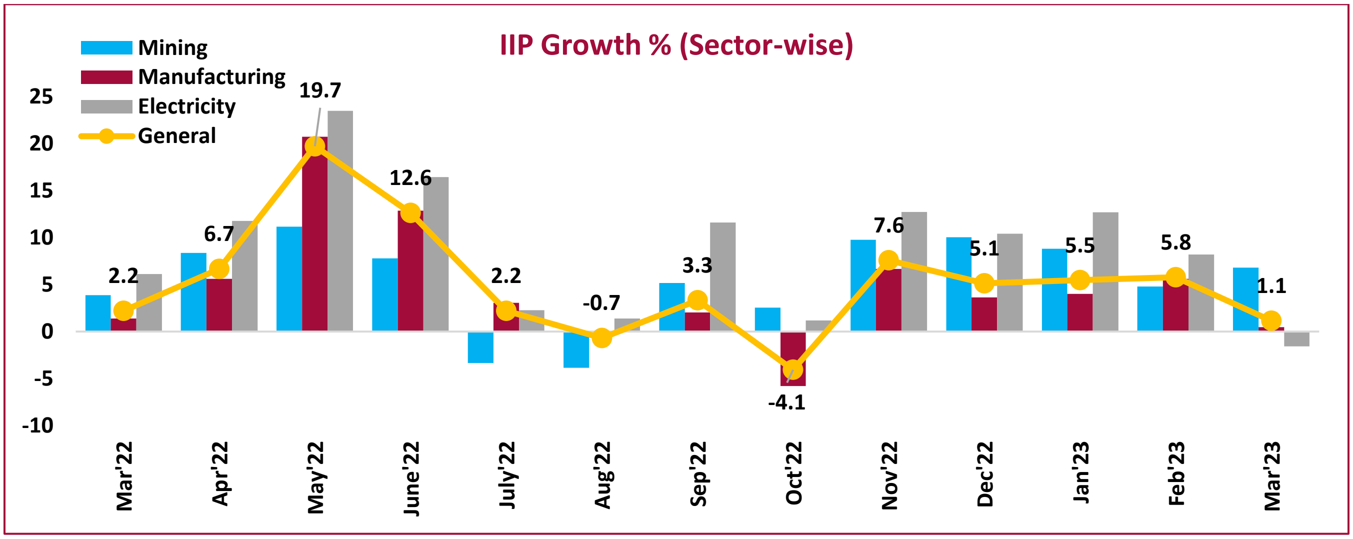

| WPI Inflation (%) | Primary Articles | | Fuel & Power | | Manufactured Products | | Food Articles *(Part of Primary Articles)* | | All Commodities | |
|---|---|---|---|---|---|---|---|---|---|---|
| Weights | 22.62% | | 13.15% | | 64.23% | | 15.26% | | 100% | |
| | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 |
| Feb | 13.87 | **3.64** | 30.84 | **13.96** | 10.24 | **1.94** | 8.19 | **3.81** | 13.43 | **3.85** |
| Mar | 15.94 | **2.40** | 31.78 | **8.96** | 11.26 | **-0.77** | 8.44 | **5.48** | 14.63 | **1.34** |
| Apr | 15.18 | **1.60** | 38.84 | **0.93** | 11.39 | **-2.42** | 8.48 | **3.54** | 15.38 | **-0.92** |




Wholesale Price Index entered deflation-zone after three years. The decline in the rate of inflation was broad-based and it was primarily driven by fall in prices of crude, energy, non-food and food articles.

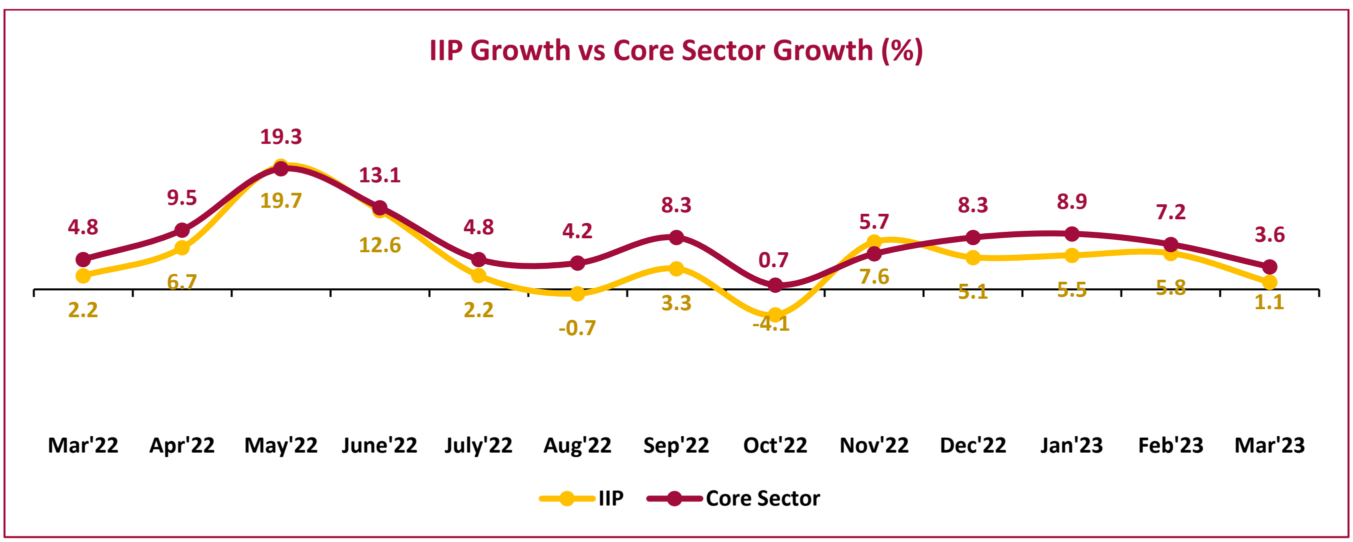
## INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

***IIP Growth slows down to 1.1 per cent***




**IIP growth % (Usage-wise)**

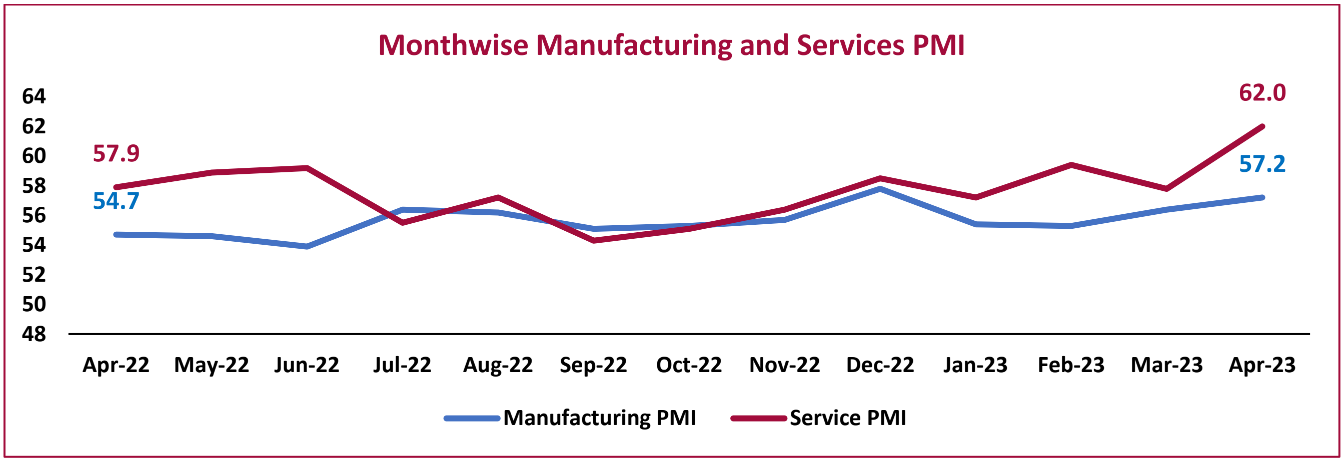
| Component | Weight | Mar'22 | Mar'23 | Apr-Mar'22 | Apr-Mar'23 |
|---|---|---|---|---|---|
| **Primary Goods** | 34.05% | 5.7 | 3.3 | 9.7 | 7.4 |
| **Capital Goods** | 8.22% | 2.4 | 8.1 | 16.9 | 12.9 |
| **Intermediate Goods** | 17.22% | 1.8 | 1.0 | 15.4 | 3.7 |
| **Infra/Construction Goods** | 12.34% | 6.7 | 5.4 | 18.8 | 8.0 |
| **Consumer Durables** | 12.84% | -3.1 | -8.4 | 12.5 | 0.5 |
| **Consumer Non- Durables** | 15.33% | -4.4 | -3.1 | 3.2 | 0.5 |




The index of industrial production showed a growth of 1.1 per cent in the month of March 2023. It had risen 5.8 per cent in February. The low growth in IIP is mainly because of a 1.6 per cent contraction in power output and a feeble 0.5 per cent growth in manufacturing.

## PURCHASING MANAGERS' INDEX (PMI)

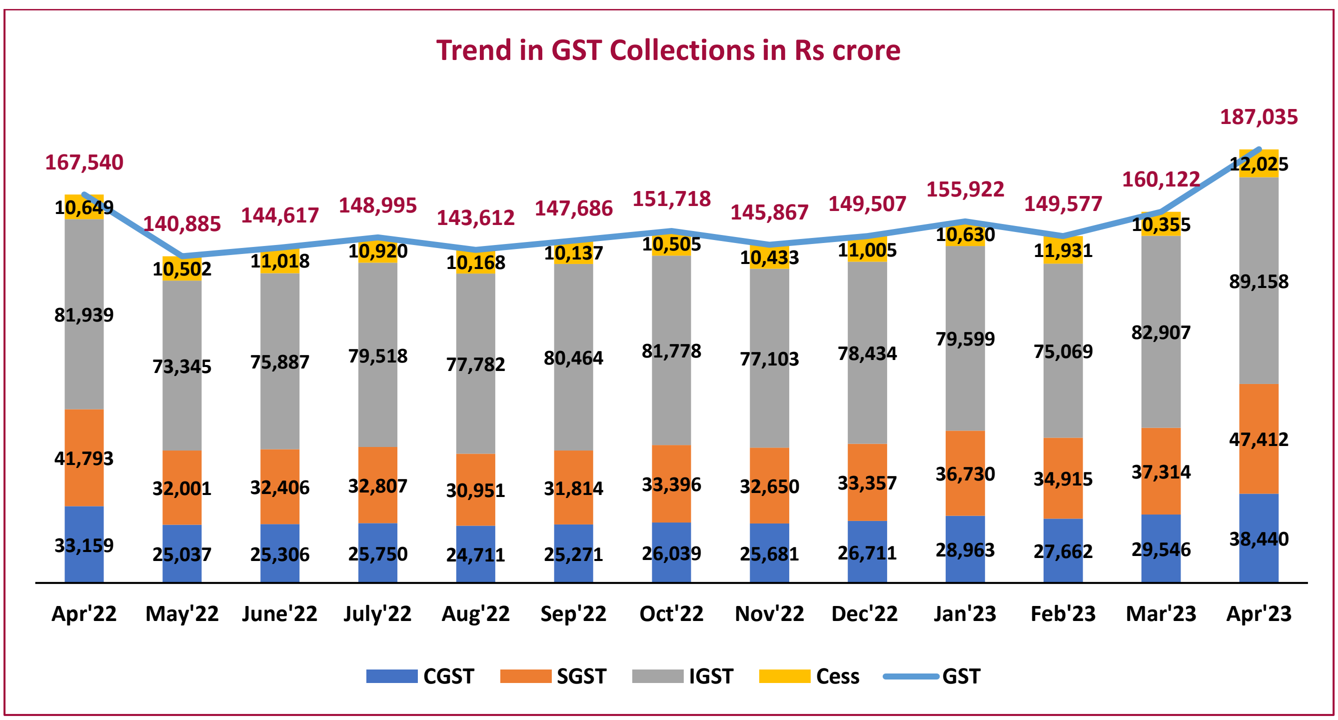
***Services PMI climbs to 13 years high and Manufacturing also PMI rises***




The S&P Global India Services PMI increased to 62.0 in April 2023 reflecting the strongest expansion in the sector since June 2010. There was fastest increase in both output and new orders since June 2010. The S&P Global India Manufacturing PMI increased to a four-month high of 57.2 in April 2023 as both output and new orders gained momentum in four months.

## GOODS AND SERVICES TAX (GST)

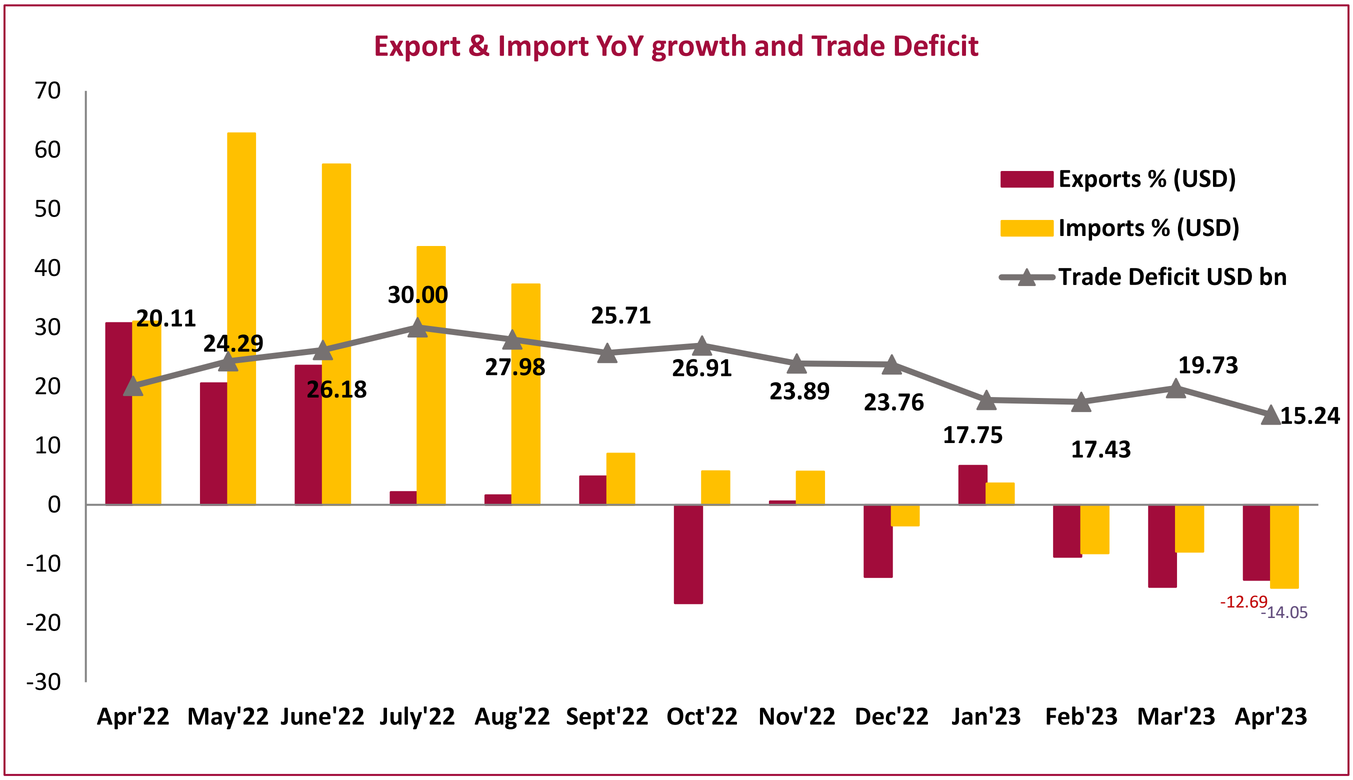
***GST Collections in April'23 at all-time high***

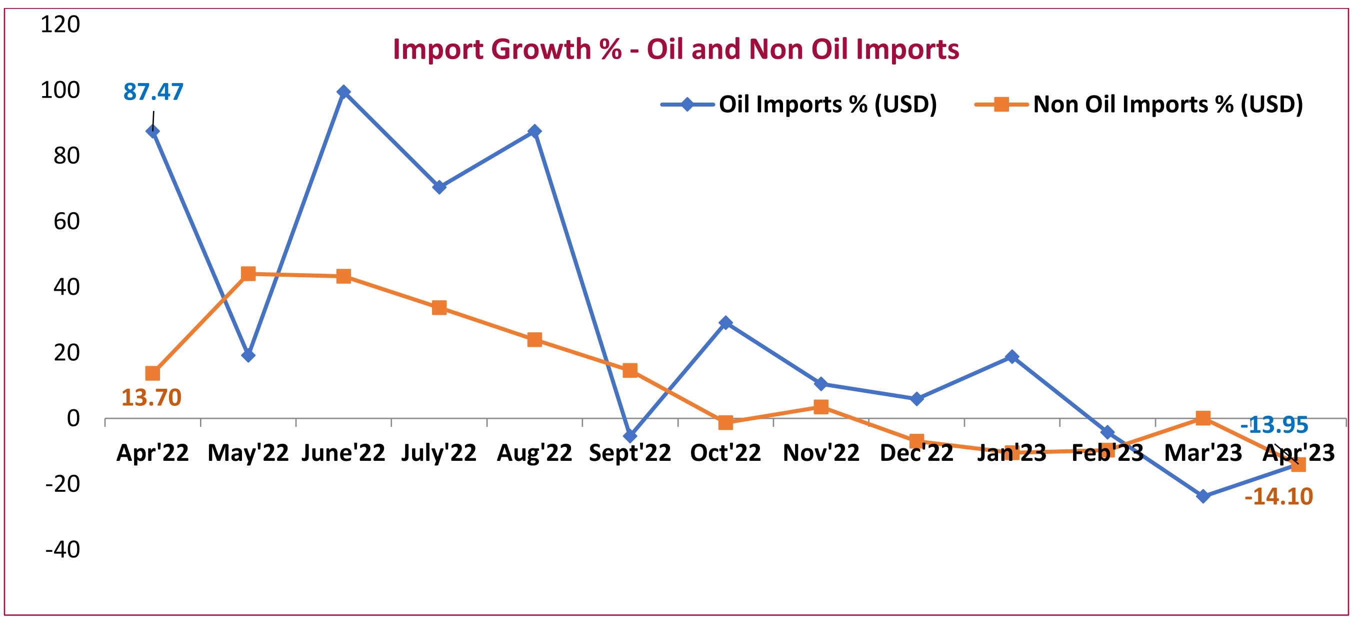



The Goods and Service Tax (GST) revenue collection at Rs.1,87,035 Crore in April is the highest ever. The revenue collection have observed the growth of 12 per cent on YoY basis. Maximum growth has been registered by State GST.

# FOREIGN TRADE

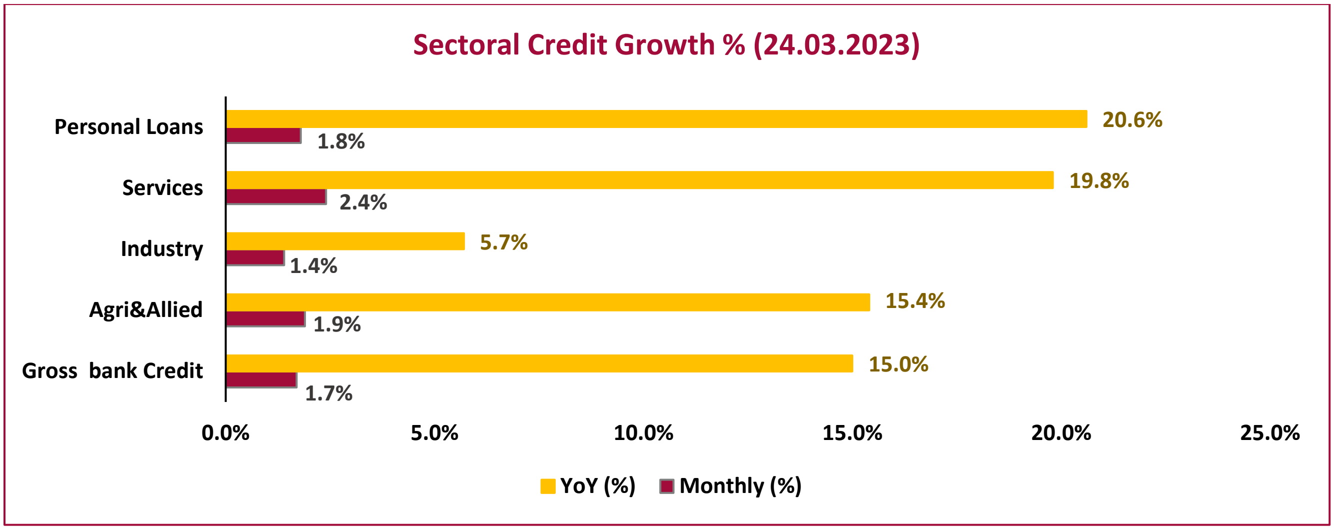
***India's export and import continue to show negative growth***




Merchandise exports declined to $33.88 billion, down 12.7 per cent year-on-year in April 2023. Meanwhile, Merchandise imports also declined to $49.90 billion, down by 14.1 per cent year-on-year in April 2023. The Trade Deficit declined to USD 15.24 billion in April 2023, which is a 20-month low mainly on account of cooling commodity prices.

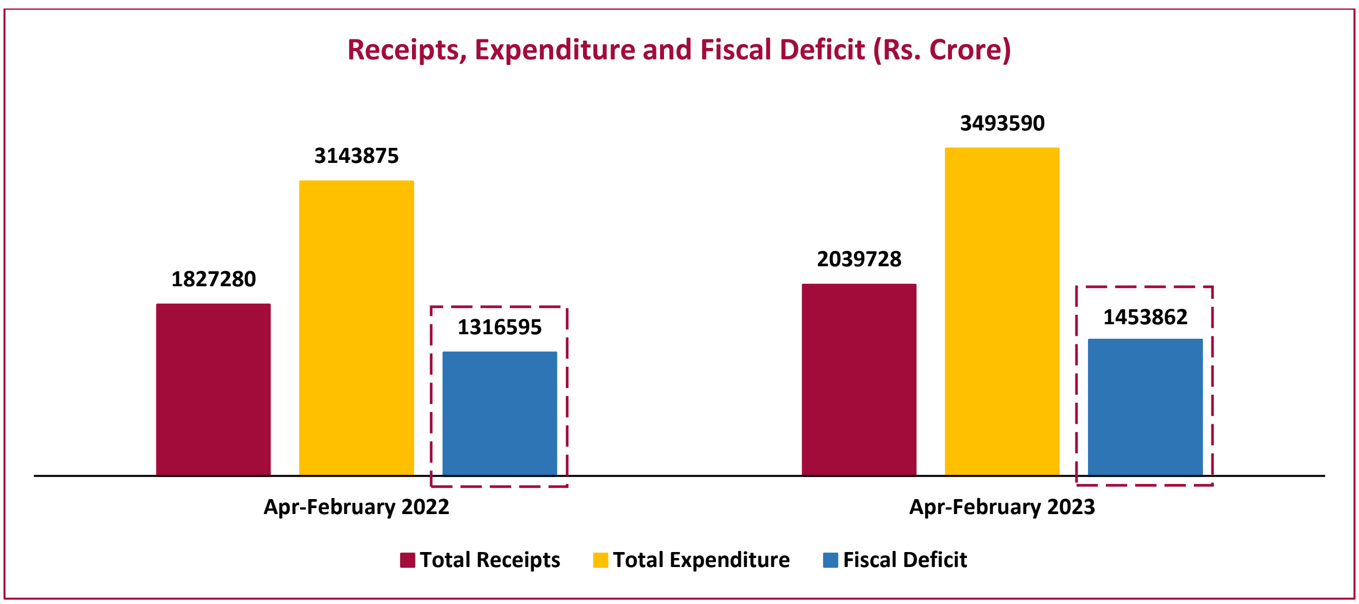
## SECTORAL CREDIT




## BANK DEPOSIT AND CREDIT

| Parameter (Rs. Lakh Crore) | 04.05.23 | 24.03.23 | 21.04.23 | 05.05.23 | YoY (%) | YTD (%) | Fortnightly (%) |
|---|---|---|---|---|---|---|---|
| **Deposits** | 166.96 | 180.44 | 183.12 | 184.35 | **10.4%** | **2.2%** | **0.7%** |
| **Advances** | 120.41 | 136.75 | 138.59 | 139.05 | **15.5%** | **1.7%** | **0.3%** |
| **Business** | 287.37 | 317.19 | 321.71 | 323.40 | **12.5%** | **2.0%** | **0.5%** |

## FISCAL DEFICIT

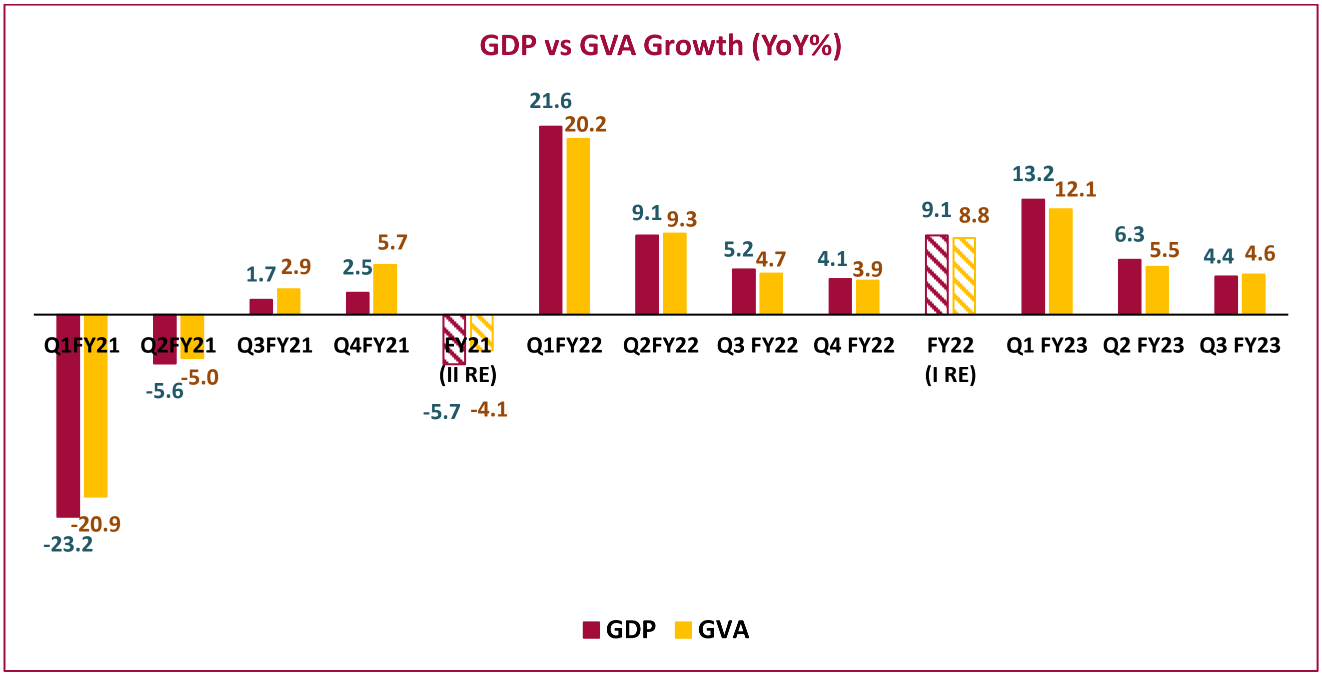


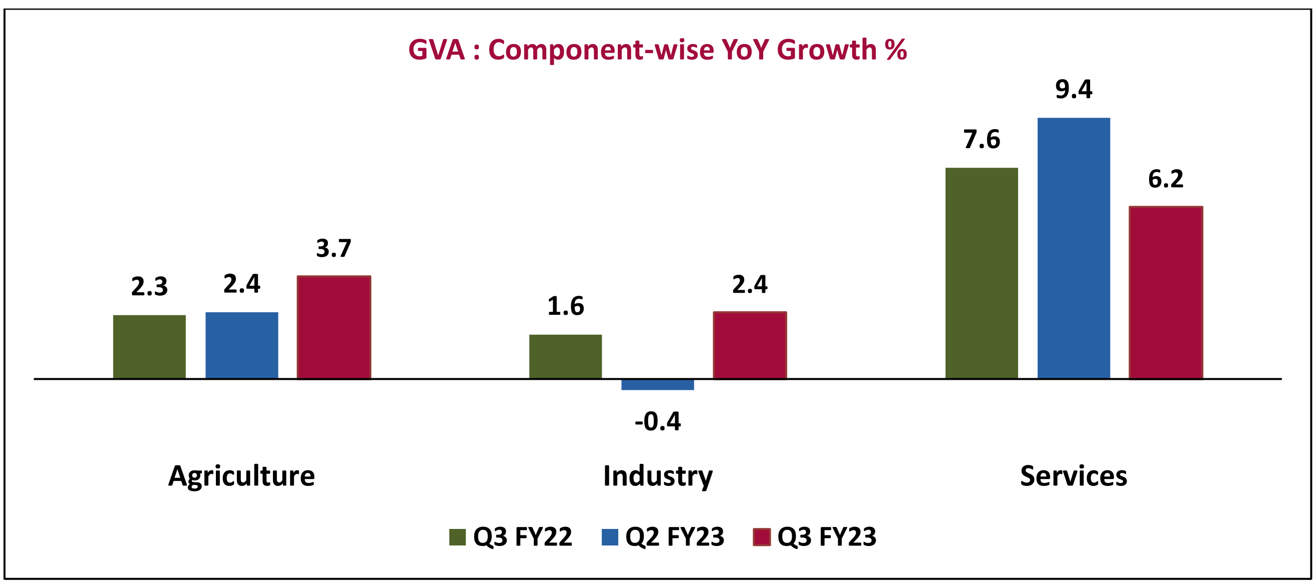

The fiscal deficit for the eleven months till February'23 is 82.8% of annual estimates.

# 10. QUARTERLY ECONOMIC INDICATORS

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

*GDP growth slows down from the previous two quarters*



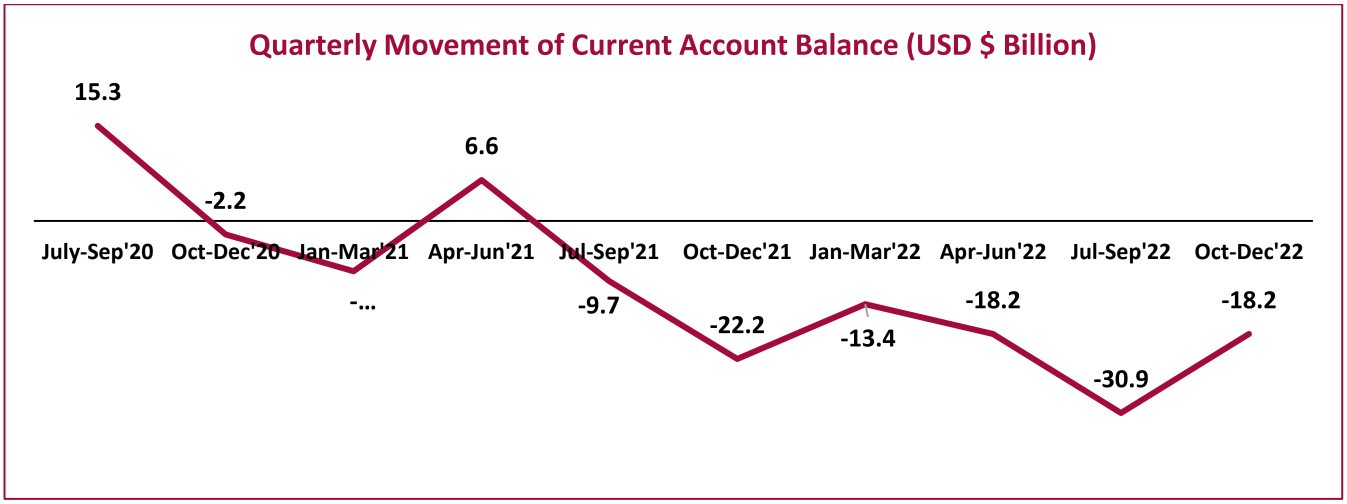




**GDP for Q3 FY23 grew by 4.4%** as compared to a growth of 6.3% in the previous quarter (Q2FY23) and a growth of 5.2% in Q3FY22. **GVA growth was pegged at 4.6%** in Q3 FY23. The Manufacturing industry, which plays an important role in the country's growth, experienced a contraction due to the subdued demand, rate hikes and rising input costs. Hence, the reasonable growth in Agriculture Sector was not enough to push the overall GDP Growth.

## INDIA'S GDP OUTLOOK OF VARIOUS AGENCIES

| Agency | FY24 |
|---|---|
| RBI | 6.5% |
| World Bank | 6.3% |
| IMF | 5.9% |
| ADB | 6.4% |
| Economic Survey | 6.5% |

## CURRENT ACCOUNT DEFICIT




The Current Account Deficit declined to $18.2 billion in the December quarter of FY23 against a deficit of $30.9 billion in the preceding three months. It is 2.2% of GDP.

# 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) | Jun 16, 2023 |
| **European Central Bank (ECB)** | Europe | 3.75 | May 04, 2023 (25 bps) | Jun 15, 2023 |
| **Federal Reserve** | U.S.A | 5.25 | May 03, 2023 (25 bps) | Jun 14, 2023 |
| **Bank of England** | U.K | 4.50 | May 11, 2023 (25 bps) | Jun 22, 2023 |
| **Peoples Bank of China** | China | 3.65 | Aug 22, 2022 (-5 bps) | - |
| **Reserve Bank of India** | India | 6.50 | Feb 08, 2023 (25 bps) | Jun 08, 2023 |

# 12. INDUSTRY OUTLOOK

## Electric Vehicles

Electric vehicles are one of the driving forces in the new global energy economy that is rapidly emerging and they are bringing about a historic transformation of the car manufacturing industry worldwide.

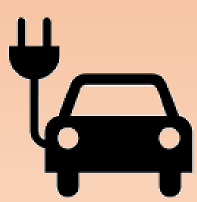
More than 10 million electric cars were sold worldwide in 2022 and that sales are expected to grow by another 35% in 2023 to reach 14 million. This explosive growth means electric cars' share of the overall car market has risen from around 4% in 2020 to 14% in 2022 and is set to increase further to 18% in 2023, based on the latest International Energy Agency projections.

The Indian electric vehicle industry is estimated to grow at a CAGR of 90%. The sales of electric vehicles accounted for barely 1.3% of total vehicle sales in India during the year 2020-21. The EV two-wheeler and three-wheeler market is growing rapidly. It is estimated that by the year 2030, the country's shift to high-speed electric mobility will help save nearly one gigaton of carbon dioxide emissions from vehicles. The global electric vehicle (EV) market is rapidly expanding, with the International Energy Agency (IEA) predicting that there could be as many as 145 million electric vehicles on the road by 2030. India is one of the key players in this market, and its EV industry is starting to gain traction both domestically and internationally.

India has been a latecomer to the electric vehicle market, with only around 0.1% of total vehicles being electric. However, in recent years, the Indian government has implemented a series of policies and initiatives to boost the adoption of EVs.

Banks also play a crucial role in promoting electric vehicles (EVs) in India by providing financial support and creating favourable conditions for their adoption. This can be done through offering loans and financing options specifically designed for electric vehicle purchases, extending financial support for the development of electric vehicle charging infrastructure, establishing partnerships and collaborations with automobile manufacturers, electric vehicle start-ups, and technology companies and allocating funds for research and development initiatives focused on electric vehicles, battery technologies, and related infrastructure.

Overall, the active involvement of government and banks in promoting electric vehicles in India would help overcome financial barriers, improve accessibility, and create a favourable ecosystem for the widespread adoption of electric mobility.



## 13. EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. **Governor Shaktikanta Das pushes for stronger governance at public sector banks (ET, 23.05.2023)**

- Reserve Bank of India (RBI) Governor Shaktikanta Das exhorted banks to further strengthen governance and assurance functions and acknowledged the role played by the banks in supporting the economy and maintaining resilience.
- Das met the board of directors of all public sector banks in New Delhi to discuss issues related to leadership and governance, and drive growth and sustainability.

2. **Private consumption, rural demand to drive India's growth in Apr-Jun quarter, highlights RBI bulletin (ET, 22.05.2023)**

- India's growth is likely to be driven primarily by private consumption, supported by reviving rural demand, and renewed buoyancy in manufacturing in the April-June quarter, stated the Reserve Bank of India's monthly bulletin.
- The article released also stated that the global economy is transfixed in the cross-currents of slowing growth and high inflation, and an uneasy calm prevails in the global financial markets as they await clearer signals from policy authorities on banking regulation and supervision, and contours of deposit insurance.

3. **RBI approves Rs 87,416 cr dividend payout to GoI for 2022-23 (FE, 19.05.2023)**

- The Reserve Bank approved Rs 87,416 crore dividend payout to the central government for 2022-23, nearly triple of what it paid in the previous year.
- The dividend payout was Rs 30,307 crore for accounting year 2021-22.The decision was taken at the 602nd meeting of the Central Board of Directors of Reserve Bank of India held under the chairmanship of Governor Shaktikanta Das.
- The board also reviewed the global and domestic economic situation and associated challenges, including the impact of current global geopolitical developments.
- The board also discussed the working of RBI during 2022-23 and approved the annual report and accounts of the central bank for the year.

4. **₹2000 Denomination Banknotes – Withdrawal from Circulation; Will continue as Legal Tender (ET,19.09.2023)**

- In view of the above, and in pursuance of the "Clean Note Policy" of the Reserve Bank of India, it has been decided to withdraw the ₹2000 denomination banknotes from circulation
- The banknotes in ₹2000 denomination will continue to be legal tender.
- It may be noted that RBI had undertaken a similar withdrawal of notes from circulation in 2013-2014
- Accordingly, members of the public may deposit ₹2000 banknotes into their bank accounts and/or exchange them into banknotes of other denominations at any bank branch. Deposit into bank accounts can be made in the usual manner, that is, without restrictions and subject to extant instructions and other applicable statutory provisions.

5. **NPCI introduces CVV-less payments for tokenised cards (ET, 16.05.2023)**

- RuPay has now introduced the CVV (Card Verification Value) free payment experience for its debit, credit and prepaid cardholders who have tokenized their cards on the merchant application or webpage, said The National Payments Corporation of India (NPCI).
- This new experience is meant to ensure that the cardholder will not have to reach out to their wallet or remember any card details, if they have saved (tokenized) their card on the ecommerce merchant which supports this feature, NPCI said in statement.
- Tokenization is a simple technology to secure card transactions without sharing the clear or real card details with the merchants.

6. **Banks to launch 100 days campaign to trace & settle unclaimed deposits: RBI (ET, 15.05.2023)**

- The Reserve Bank of India said a special 100 days campaign will be launched under which banks trace and settle their top 100 deposits in every district of the country. The banks will commence the campaign from June 1, 2023.
- Balances in savings/current accounts which are not operated for 10 years, or term deposits not claimed within 10 years from date of maturity are classified as "unclaimed deposits".
- This measure, it added, will complement the ongoing efforts and initiatives by the Reserve Bank to reduce the quantum of unclaimed deposits in the banking system and return such deposits to their rightful owners/claimants.

7. **Improve credit delivery in rural areas: DFS Secretary to RRBs (ET, 12.05.2023)**

- The finance ministry urged Regional Rural Banks to further improve their performance in achieving financial inclusion and credit delivery in rural areas. During the financial review meeting of RRBs, Department of Financial Services (DFS) Secretary Vivek Joshi discussed their viability plans as some of these RRBs are loss-making.
- The meeting at Pune was also attended by senior officials of DFS, Reserve Bank, National Bank for Agriculture and Rural Development (NABARD), senior officials of sponsor banks, and chairpersons of RRBs.
- Joshi expressed satisfaction at the progress achieved by the RRBs on different operational parameters consequent to the infusion of recapitalisation funds by the government of India, the finance ministry said.

8. **RBI asks banks to ensure complete transition from LIBOR by July (ET, 12.05.2023)**

- The Reserve Bank of India (RBI) told banks and other regulated entities to ensure a complete transition away from the London Interbank Offered Rate (LIBOR) from July 1.
- The complete transition from LIBOR is a significant event in the global financial markets which requires continued attention from all stakeholders to mitigate operational risks and ensure an orderly transition, RBI said.
- The central bank advised banks and financial institutions not to do new LIBOR-linked or the Mumbai Interbank Forward Outright Rate (MIFOR)-linked financial deals.
- Banks in India have already been encouraged to undertake transactions using widely accepted alternative reference rate (ARR) since December 2021.
- RBI said that it would continue to monitor the efforts of banks and FIs for ensuring a smooth transition from LIBOR.

## 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*

*****

### QUOTE OF THE MONTH

***"The world belongs to those who read."***

*- Rick Holland*


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

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