पंजाब नैशनल बैंक
punjab national bank

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STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION
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CONTENTS

Tokenization

Definition and implication

According to RBI "Tokenisation refers to replacement of actual card details with an alternate code called the "token", which shall be unique for a combination of card, token requestor (i.e. the entity which accepts request from the customer for tokenisation of a card and passes it on to the card network to issue a corresponding token) and device (referred hereafter as "identified device")."

Since October 1, 2022, online retailers cannot save/store customers' card numbers, CVV and expiration date, and any other sensitive card information. Users need to tokenize their card on the corresponding Merchant website or app. Users can then continue to make payments without entering their card details again on that Merchant if they have generated a token. If users do not tokenise their card, then they need to manually enter their full card details for making transactions.

Any number of cards can be requested to be tokenized by a user. The customer may use any card registered with the token requestor app to complete a transaction, and they are also free to set and change daily and per-transaction quotas for tokenized card transactions.

Process

One needs to visit any online store or merchant application to place an order and begin the payment process. Then, enter their card information during the checkout process and select the "Secure your card" or "Save card as per RBI rules" option. Now, they need to confirm the transaction by entering the OTP that their bank issued to their email or mobile device. Token will be created and kept in place of the actual card information. The last four digits of the saved card will be shown to assist them in detecting it when making additional payments when they return to the same website or mobile app.

Benefits

With rising digitization, there is always a concern over safety and security of data. Tokenization is the right move to keep customer data safe by replacing one's sensitive card information with a non-sensitive uniquely generated code.

Tokenization acts as a right balance between data security and user experience. Consumers will be benefited through quicker checkout experiences. As usage of tokens confirms the security of the highest order, no more issues related to false decline of transactions shall be faced by the users. Also, merchants will experience increasing approval rates with speed and security. Tokenization helps to keep a virtual version of the cards without the need of a physical card, and thereby chances of misplacing a card minimizes.

Thus, even though the tokenization system is completely optional, consumers should opt for this free of cost service for experiencing easier and secured payments at the same time.

Rajendra Kumar Saboo

It is not the Rupee weakening, but the Dollar strengthening

The above statement was made by the Finance Minister Ms. Nirmala Sitharaman recently in the backdrop of continuous rupee sliding and hitting yet another all-time low of Rs. 83 per US Dollar. She attracted a barrage of criticism for the statement. But what truth does the statement of Finance Minister holds? Let's explore.

Surge in the US Dollar

The value of rupee in January 2022 against US Dollar was at 74.37 and the corresponding value as on 21st October was at 82.53, i.e. depreciation of 9.8%. The dollar index (measure of the value of USD against a basket of six major foreign currencies i.e Euro, Japanese Yen, British Pound, Canadian Dollar, Swedish Krona, Swiss Franc) has risen by around 18% in the current year to reach to highest levels in decades.

The primary reason for the surge in dollar is the aggressive rate hikes by US Fed. So far in 2022, the US Fed has hiked rates by 300 basis points with more rate hikes scheduled till December. The US is facing unprecedented inflation in decades with the latest inflation print of September at 8.2% with core CPI jumping to a 40-year high of 6.6%. The unemployment rate in the US is at record low levels, which has contributed to the skyrocketing inflation. Other factors of inflation are corporate pricing, energy costs and supply chain disruptions.

Dollar vs Other Currencies

Let's look at how the major currencies have performed against the surging dollar, which has risen by 17.8% this year.

Currency	Depreciation YTD *(YTD - 1st January 2022 to 21st October 2022)*
Japanese yen	22.6%
GBP	16.6%
Euro	14.2%
Philippine Peso	13.6%
Thai Baht	12.5%
Chinese Yuan	11.7%
Rupee	9.8%

As can be seen from the above table, the Indian rupee is the best performing currency as compared to other major currencies vis-à-vis US Dollar. The Indian rupee has depreciated the least as compared to the major currencies.

Rupee vs Other Currencies

Let's look at how the rupee has performed against the major currencies.

Currency	Rupee's Appreciation vs. Currency – YTD *(YTD - 1st January 2022 to 21st October 2022)*
Japanese yen	15.5%
GBP	11.1%
Philippine Peso	4.4%
Chinese Yuan	3.5%
Thai Baht	2.2%
Euro	0.0%

The value of rupee has strengthened against all the major currencies. Thus, the data supports the statement of our Finance Minister, that it isn't the rupee that is weakening but the dollar is strengthening.

How India continues to be on firm financial footing amid uncertain global cues

India's impressive handling of the economy has earned it the praise of the IMF officials, that recently lauded the Indian government for its efficient handling of multiple crises in an uncertain global environment.

The macro fundamentals of the economy are strong. The economic activity has remained resilient in the past few quarters. Domestic Consumption demand is accelerating and is fuelled further by the festive season. The surge in demand can be witnessed in auto sales and real estate sales in spite of a pick-up in borrowing costs. The contact-intensive hospitality services have also experienced a bounce-back. Consequentially the bank credit is increasing by double digits. The balance sheets of both the corporate and the banks are solid and are prepared to further support the growth engine. The sustained surge in goods and service tax collections also points at the growing formalisation and growth of the economy. Indian equities are outperforming both advanced and emerging peers. India's public digital infrastructure will also make a significant contribution to the formalization of financial access for consumers and smaller companies in India and in turn to the growth story of India. The government is also very keen on pushing the capital expenditure to build infrastructure and further accelerate the investment cycle in the economy to crowd in the private investments.

Thus, India continues to show resilience against the adverse global headwinds and is expected to be the fastest growing economy in the world.

Outlook

Going forward, the rupee is expected to maintain current levels or fall marginally against the US Dollar in the rest of the financial year due to a widening domestic trade balance and surging U.S. interest rates. The rise in the Current Account Deficit comes as India runs a high trade deficit when the global economic scenario is not conducive to portfolio flows, putting the rupee under pressure. The current account deficit for the current financial year is expected to be 3 – 3.5% of the GDP.

The US Fed is expected to deliver a rate hike of another 1 – 1.25% by December and this will pressurise RBI to hike the rates so as to bridge the gap between the primary rates of US and India. RBI is expected to hike the repo rate by 25 to 50 bps in its next two scheduled MPC meets concluding the terminal repo rate at 6.5% by March'2023.

India's GDP is expected to register a growth of 7 – 7.5% for the current financial year.

Deepak Singh

(Deputy General Manager)

EXCERPTS: RBI'S CONCEPT NOTE ON CENTRAL BANK DIGITAL CURRENCY (CBDC)

The Reserve Bank of India has launched a Concept Note on central bank digital currency (CBDC) which was announced by the Finance Minister Nirmala Sitharaman in Parliament during her budget speech in February. The note has been published with a motive to create awareness about CBDCs in general and the planned features of the e-rupee. The 'Concept Note' discusses key considerations, such as technology and design choices, possible uses of digital rupee, issuance mechanisms, among others. Presented below are the highlights of the concept note:

Definition

Reserve Bank broadly defines CBDC as the legal tender issued by a central bank in a digital form. It is akin to sovereign paper currency but takes a different form, exchangeable at par with the existing currency and shall be accepted as a medium of payment, legal tender and a safe store of value. CBDCs would appear as liability on a central bank's balance sheet.

Features of CBDC

- ✓ CBDC is sovereign currency issued by Central Banks in alignment with their monetary policy
- ✓ It appears as a liability on the central bank's balance sheet
- ✓ Must be accepted as a medium of payment, legal tender, and a safe store of value by all citizens, enterprises, and government agencies.
- ✓ Freely convertible against commercial bank money and cash
- ✓ Legal tender for which holders need not have a bank account
- ✓ Expected to lower the cost of issuance of money and transactions

Motivation behind issuing CBDC

1. Providing public with uses that any private virtual currencies can provide, without the associated risks
2. Boosting innovation in cross-border payments space
3. Bringing resilience, efficiency, and innovation in payments system
4. Adding efficiency to the settlement system
5. Fostering financial inclusion
6. Reduction in operational costs involved in physical cash management
7. To further the cause of digitisation to achieve a less cash economy.

Design Choices

The key design choices to be considered for issuing CBDCs are:

(i) Type of CBDC to be issued (Wholesale CBDC and/or Retail CBDC)

(ii) Models for issuance and management of CBDCs (Direct, Indirect or Hybrid model)

(iii) Form of CBDC (Token-based or Account-based)

(iv) Instrument Design (Remunerated or Non-remunerated)

(v) Degree of Anonymity.

(i) Type of CBDC to be issued (Wholesale CBDC and/or Retail CBDC)

➢ **Retail CBDC (CBDC – R)**

- ✓ CBDC-R is potentially available for use by all private sector, non-financial consumers and businesses.
- ✓ CBDC-R is an electronic version of cash primarily meant for retail consumption.
- ✓ The introduction of CBDC-R will provide a safe, central bank instrument with direct access to the Central bank money for payment and settlement.
- ✓ CBDC can provide an alternative medium of making digital payments in case of operational and/or technical problems leading to disruption in other payment system infrastructures.
- ✓ CBDC could reduce the concentration of liquidity and credit risk in payment systems

➢ **Wholesale CBDC (CBDC – W)**

- ✓ Wholesale CBDCs are designed for restricted access by financial institutions.
- ✓ CBDC-W could be used for improving the efficiency of interbank payments or securities settlement.
- ✓ CBDC–W has the potential to transform the settlement systems for financial transactions undertaken by banks in the G-Sec Segment, Inter-bank market and capital market more efficient and secure in terms of operational costs, use of collateral and liquidity management.
- ✓ Wholesale CBDCs could make central bank money programmable, to support automation and mitigate risks.

(ii) Models for issuance and management of CBDCs

There are two models for issuance and management of CBDCs. The key differences lie in the structure of legal claims and the record kept by the central bank.

a) Single Tier Model

- ✓ This model is also known as "Direct CBDC Model". A Direct CBDC system would be one where the central bank is responsible for managing all aspects of the CBDC system including issuance, account keeping, transaction verification etc.
- ✓ Central bank operates the retail ledger and therefore the central bank server is involved in all payments.
- ✓ CBDC represents a direct claim on the central bank, which keeps a record of all balances and updates it with every transaction.
- ✓ The major disadvantage of this model is that it marginalizes private sector involvement and hinders innovation in the payment system.

- ✓ Model has the potential to disrupt the current financial system and will put additional burden on the central banks in terms of managing customer on-boarding, KYC and AML checks, which may prove costly.

b) Two -Tier Model (Intermediate model)

There are two models under the intermediate architecture viz. Indirect Model and Hybrid Model.

Indirect Model

- ✓ In the "indirect CBDC" model, consumers would hold their CBDC in an account/ wallet with a bank, or service provider.
- ✓ The obligation to provide CBDC on demand would fall on the intermediary rather than the central bank.
- ✓ The central bank would track only the wholesale CBDC balances of the intermediaries.
- ✓ The central bank must ensure that the wholesale CBDC balances is identical with all the retail balances available with the retail customers.

Hybrid Model

- ✓ In the Hybrid model, a direct claim on the central bank is combined with a private sector messaging layer.
- ✓ Central bank will issue CBDC to other entities which shall make those entities then responsible for all customer-associated activities.
- ✓ Under this model, commercial intermediaries (payment service providers) provide retail services to end users, but the central bank retains a ledger of retail transactions.
- ✓ This architecture runs on two engines: intermediaries handle retail payments, but the CBDC is a direct claim on the central bank, which also keeps a central ledger of all transactions and operates a backup technical infrastructure allowing it to restart the payment system if intermediaries run into insolvency or technical outages.

(iii) Forms of CBDC (Token-based or Account-based)

CBDC can be structured as 'token-based' or 'account-based'**.**

Token based CBDC

- ✓ A token-based CBDC is a bearer instrument like banknotes, meaning whosoever holds the tokens at a given point in time would be presumed to own them.
- ✓ The person receiving a token will verify that his ownership of the token is genuine
- ✓ A token-based CBDC is viewed as a preferred mode for CBDC-R as it would be closer to physical cash

Account Based CBDC

- ✓ An account-based system would require maintenance of record of balances and transactions of all holders of the CBDC and indicate the ownership of the monetary balances.

- ✓ An intermediary verifies the identity of an account holder.
- ✓ Account-based CBDC may be considered for CBDC-W.

(iv) Instrument Design - Should CBDCs bear interest?

CBDC can be remunerative or non-remunerative i.e. it can either bear interest or can act simply act as cash.

Remunerated CBDC

- ✓ Interest bearing CBDCs could improve the effectiveness of monetary policy transmission by shifting the transmission leg from overnight money market rate to directly deposit rate (or CBDC as a substitute of deposits).
- ✓ A "deposit-like" CBDC could lead to a massive disintermediation in the financial system resulting from loss of deposits by banks, impeding their credit creation capacity in the economy.

Non – remunerated CBDC

- ✓ If a CBDC is designed to be non-interest bearing, the public would have less incentive to switch from holding bank deposits to CBDC, and the effect of banking disintermediation would then be limited.
- ✓ If there is no interest, CBDC can still be attractive as a medium of payment, even while its attractiveness as a store of value (savings instrument) diminishes.
- ✓ A non- interest bearing CBDCs can avoid a major disruption to banking services and a possible disintermediation of banks

(v) Degree of Anonymity

- ✓ For CBDC to play the role as a medium of exchange, it needs to incorporate all the features that physical currency represents including anonymity, universality, and finality**.**
- ✓ Ensuring anonymity for a digital currency particularly represents a challenge, as all digital transactions would leave some trail.
- ✓ Reasonable anonymity for small value transactions akin to anonymity associated with physical cash may be a desirable option for CBDC-R.

Our View

This is one of the most significant events in the Indian Fintech industry, which would facilitate the development of enterprise-level use cases. Digital money is a great addition as a payment solution for the users and enterprises, opening the door to a plethora of payment options that help businesses run smoothly. In a 24x7 economy, digital Rupee will be a game changer.

Digital version of money will make transactions cheaper, secure and easy along with far reaching effects of financial inclusion and easy implementation of government fiscal policies.

CROSS BORDER PAYMENT – CONCEPT & EMERGING TRENDS

Concept:

Cross-border payments refer to transactions involving individuals, companies, banks or settlement institutions operating in at least two different countries and are international transactions. These payments are inclusive of retail and wholesale transactions.

The cross border payments market has always been fraught with pain points and inefficiencies from both a cost and time perspective, resulting in expensive transaction fees and complicated, lengthy payment processing methods.

The global move to improve cross border payments strategies will see businesses achieving a better ROI and gaining more control over international payments and payment security.

Trends and Developments supporting the need and growth for Cross Border Payments

- India is starting to accept cross-border payments, according to the new RBI rule. Thus, NRIs can directly make payments for their bills using the new Government payment portal BBPS or Bharat Bill Pay System, and they do not need to transfer the money first to the Indian accounts.
- The emergence of CBDC have the potential to cut down the costs for Cross Border payments as third-party intermediaries will not be involved in the entire process. Besides, it can also reduce time and provide much more transparency to the end users and government. CBDC could provide "a more efficient and resilient payments system" and help reduce business costs. 10 countries have fully launched a digital currency, with China's pilot set to expand in 2023. Jamaica is the latest country to launch a CBDC, the JAM-DEX. Nigeria, Africa's largest economy, launched its CBDC in October 2021.
- With the advent of Distributed ledger technology, cross-border payments is all set to become faster, cheaper and more securely. Known as block-chain, this shared, digitized, immutable ledger technology will help make cross-border wire transfers or sanction screenings more efficient by decreasing the number of days they take to clear. It will also make information sharing easier for international trade and transactions, which would increase payment visibility across the entire payments continuum.
- Through globalized partnerships, providers can offer senders more ways to make FX payments in real time. Instead of a prolonged settlement period, clients can pay their out-of-country customers and vendors instantly, with little to no friction points.
- Open banking provides open access to consumer banking, transactions, and other financial data from banks and non-bank financial institutions. This is achieved through the use of applied programming interfaces (APIs).

- As mobile phone ownership increases, more people around the world have access to banking services and e-payment solutions. This growth is increasing cross-border commerce volumes.
- For businesses to grow globally, cross-border payments have become increasingly important. Payment solutions like SWIFT's gpi (stands for Global Payments Innovation) and Mastercard's B2B Hub provide the necessary flexibility and SME-appropriate payment options. Other solutions such as Visa Direct, a real-time push platform that expanded with Visa Direct Payouts, simplified cross-border transactions for small businesses.

Challenges and Way forward:

- Priority will be on focusing on the promotion of an efficient legal, regulatory and supervisory environment for cross-border payments while maintaining their safety, security, and integrity.
- Inconsistent or unaligned legal, regulatory, and supervisory frameworks can be a significant source of frictions in cross-border payments. For example, actual or perceived differences in the scope and application of regulations and supervision between banks and nonbanks can limit non-banks' access to payment services provided by both banks and financial market infrastructures, which reduces competition in the market for cross-border payment services.
- Regulatory frameworks for non-banks differ widely between jurisdictions, and the frictions caused by such differences may become more relevant in future as new technologies facilitate the provision of cross-border payment services.
- As an example, inconsistent implementation of or variations on Anti Money Laundering/Combatting the Financing of Terrorism (AML/CFT) controls, including Customer Due Diligence (CDD) requirements across jurisdictions can be sources of frictions that reduce the speed and increase the cost of cross-border payments.

EXCERPTS : WORLD ECONOMIC OUTLOOK, OCTOBER 2022

COUNTERING THE COST-OF-LIVING CRISIS

International Monetary Fund has come out with the World Economic Outlook in October 2022 with the title: Countering the Cost-of-Living Crisis.

Some of the key Highlights of the Report are given as under:

- Global economic activity is experiencing a broad-based and sharper-than-expected slowdown. The global economy is experiencing a number of turbulent challenges. Inflation higher than seen in several decades, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook.

- Normalization of monetary and fiscal policies that delivered unprecedented support during the pandemic is cooling demand as policymakers aim to lower inflation back to target. But a growing share of economies are in a growth slowdown or outright contraction.

- Monetary policy should stay the course to restore price stability, and fiscal policy should aim to alleviate the cost-of-living pressures while maintaining a sufficiently tight stance aligned with monetary policy. Structural reforms can further support the fight against inflation by improving productivity and easing supply constraints, while multilateral cooperation is necessary for fast-tracking the green energy transition and preventing fragmentation.

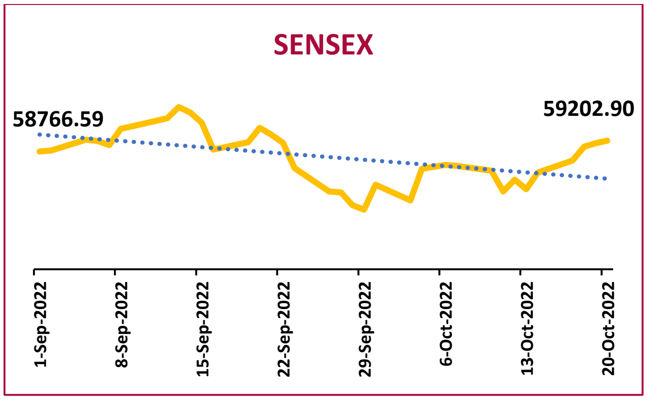
- The global economy's future health rests critically on the successful calibration of monetary policy, the course of the war in Ukraine, and the possibility of further pandemic-related supply-side disruptions, for example, in China.

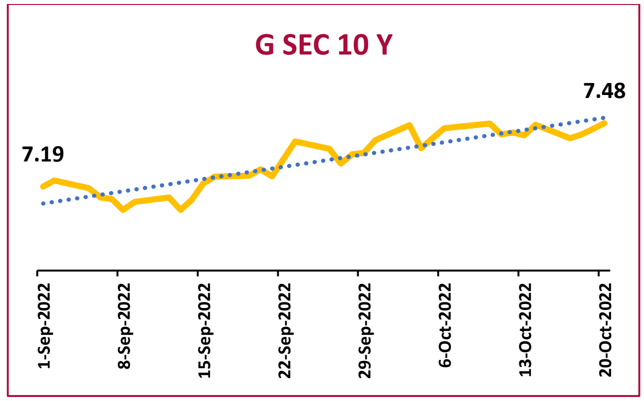
- Global growth is forecast to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic and reflects significant slowdowns for the largest economies: a US GDP contraction in the first half of 2022, a euro area contraction in the second half of 2022, and prolonged COVID-19 outbreaks and lockdowns in China with a growing property sector crisis. About a third of the world economy faces two consecutive quarters of negative growth.

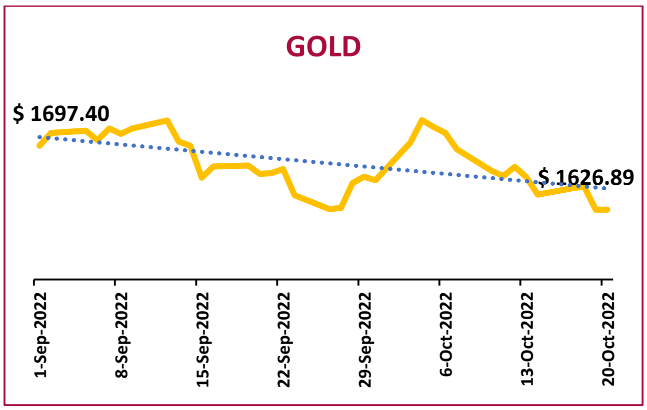
- Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024. Upside inflation surprises have been most widespread among advanced economies, with greater variability in emerging market and developing economies.

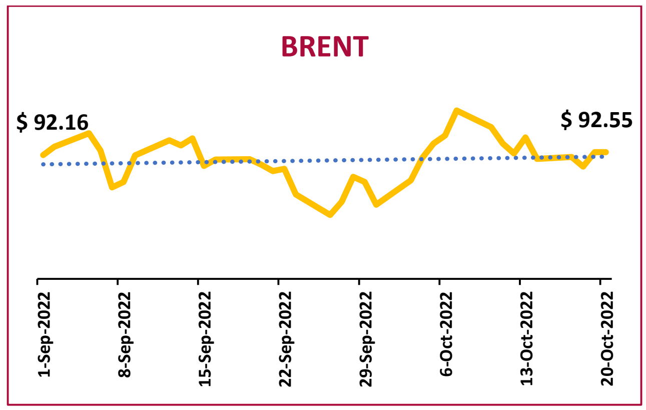
- Risks to the outlook remain unusually large and to the downside. Monetary policy could miscalculate the right stance to reduce inflation. Policy paths in the largest economies could continue to diverge, leading to further US dollar appreciation and cross-border tensions. More energy and food price shocks might cause inflation to persist for longer. Global tightening in financing conditions could trigger widespread emerging market debt distress. Halting gas supplies by Russia could depress output in Europe.
- A resurgence of COVID-19 or new global health scares might further stunt growth. A worsening of China's property sector crisis could spill over to the domestic banking sector and weigh heavily on the country's growth, with negative cross-border effects. And geopolitical fragmentation could impede trade and capital flows, further hindering climate policy cooperation.
- The balance of risks is tilted firmly to the downside, with about a 25 percent chance of one-year-ahead global growth falling below 2.0 percent—in the 10th percentile of global growth outturns since 1970. Warding off these risks starts with monetary policy staying the course to restore price stability.
- Front-loaded and aggressive monetary tightening is critical to avoid inflation de-anchoring as a result of households and businesses basing their wage and price expectations on their recent inflation experience. Fiscal policy's priority is the protection of vulnerable groups through targeted near-term support to alleviate the burden of the cost of-living crisis felt across the globe. But its overall stance should remain sufficiently tight to keep monetary policy on target.
- Addressing growing government debt distress caused by lower growth and higher borrowing costs requires a meaningful improvement in debt resolution frameworks. With tightening financial conditions, macro prudential policies should remain on guard against systemic risks.
- Intensifying structural reforms to improve productivity and economic capacity would ease supply constraints and in doing so support monetary policy in fighting inflation. Policies to fast-track the green energy transition will yield long-term payoffs for energy security and the costs of ongoing climate change.
- Phasing in the right measures over the coming eight years will keep the macroeconomic costs manageable. And last, successful multilateral cooperation will prevent fragmentation that could reverse the gains in economic well-being from 30 years of economic integration.
- Decades of procrastination on climate policy have made it all the more urgent to act now. To keep the Paris Agreement's goal within reach, GHG emissions must decline by 25 percent, with respect to current levels, by 2030. Achieving such a result would require unprecedented global effort and would represent a serious acceleration with respect to the past decade. Rising concerns about energy independence offer the opportunity to bolster the transition in the energy sector.

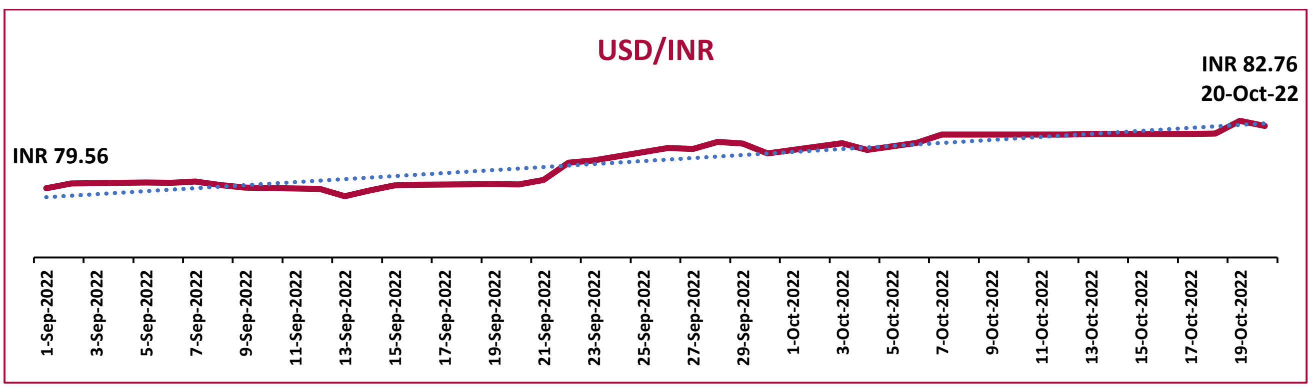
DAILY ECONOMIC INDICATORS

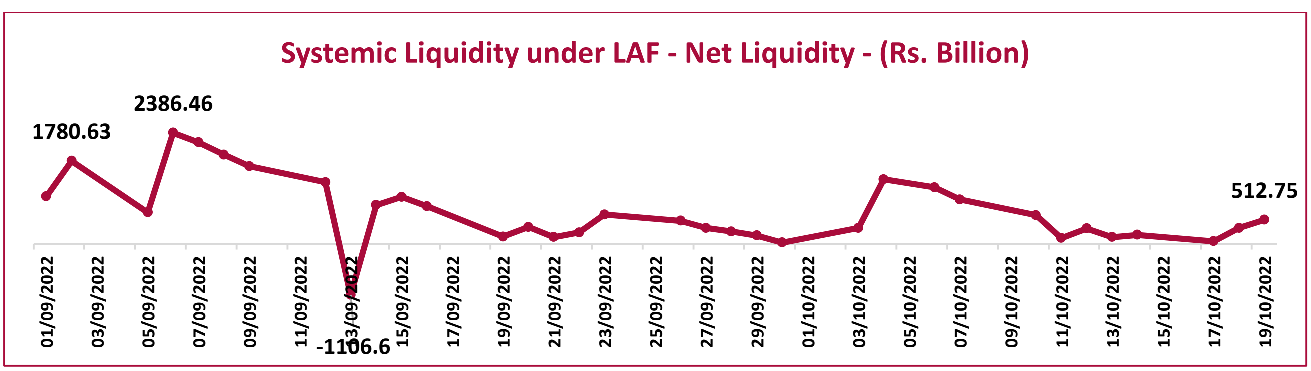








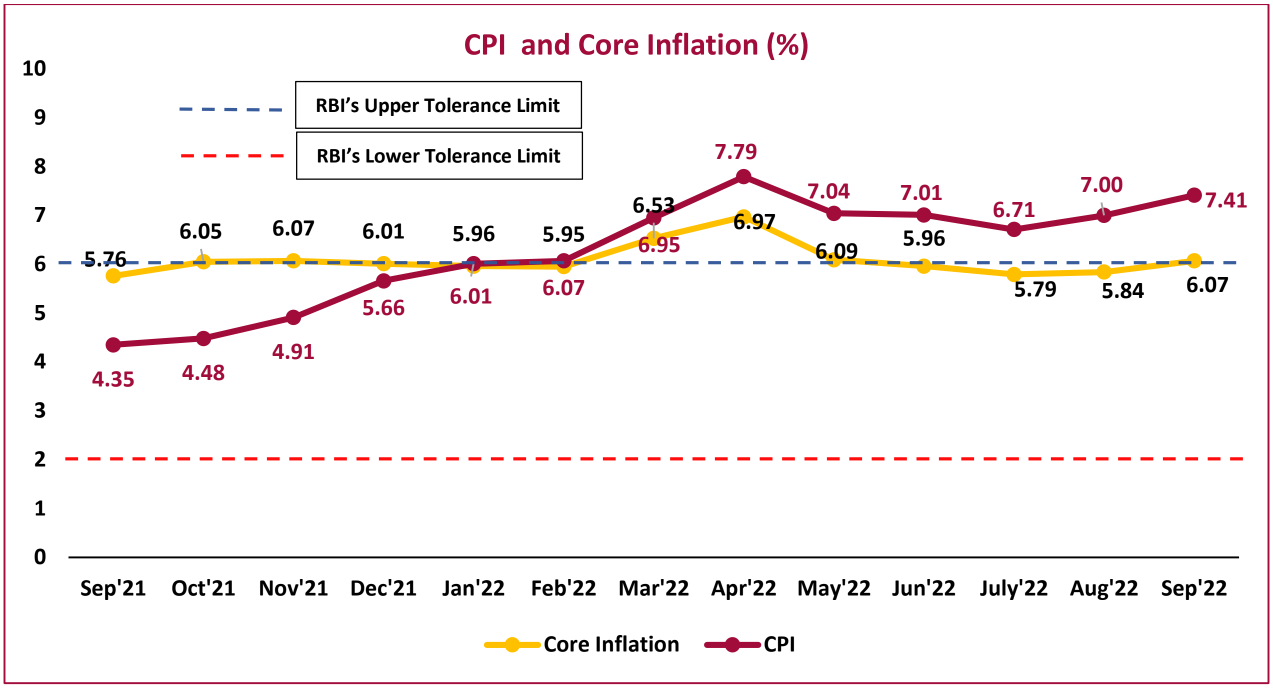


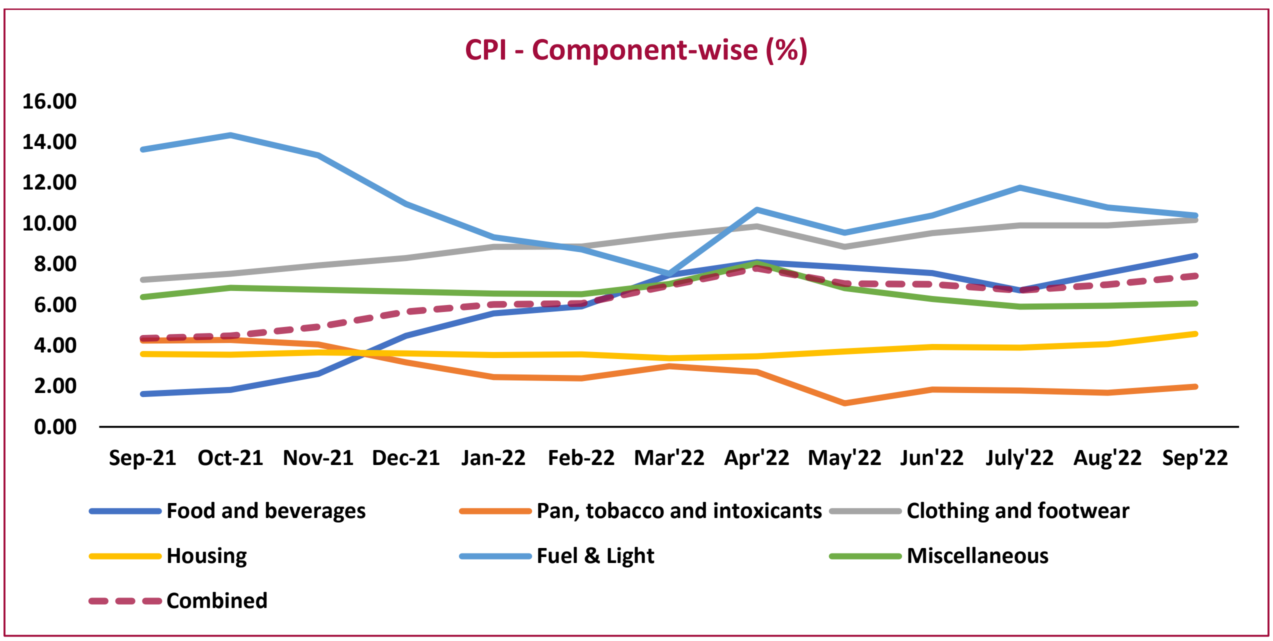


MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retails Inflation climbs to 7.41%

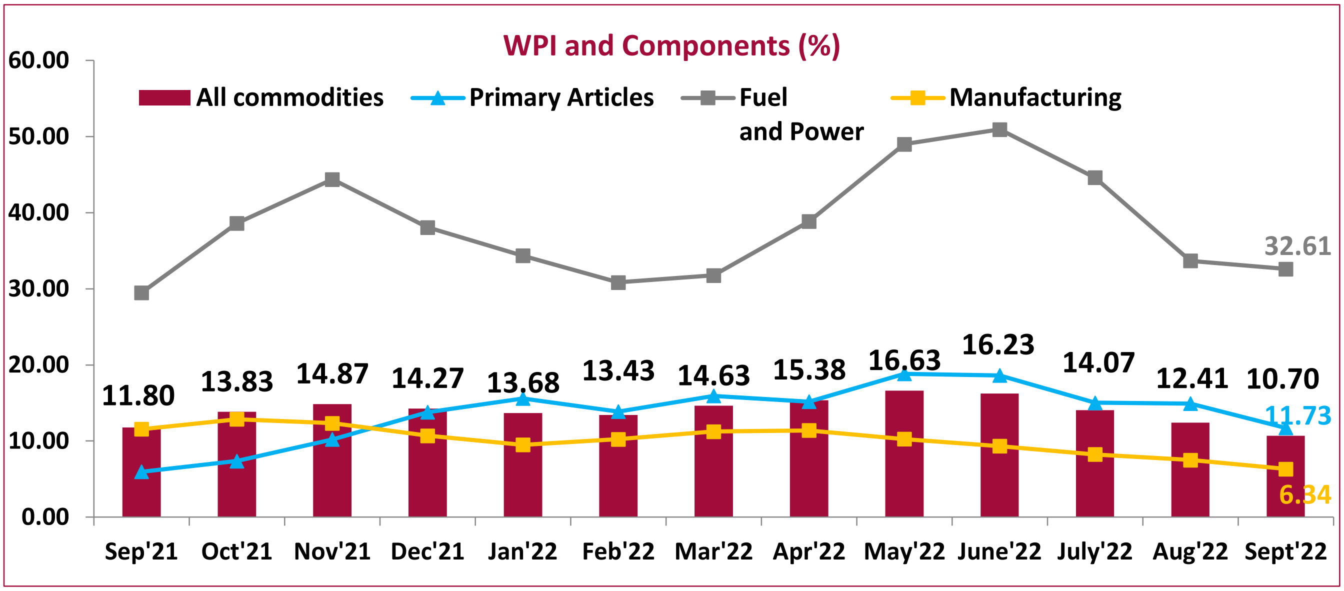




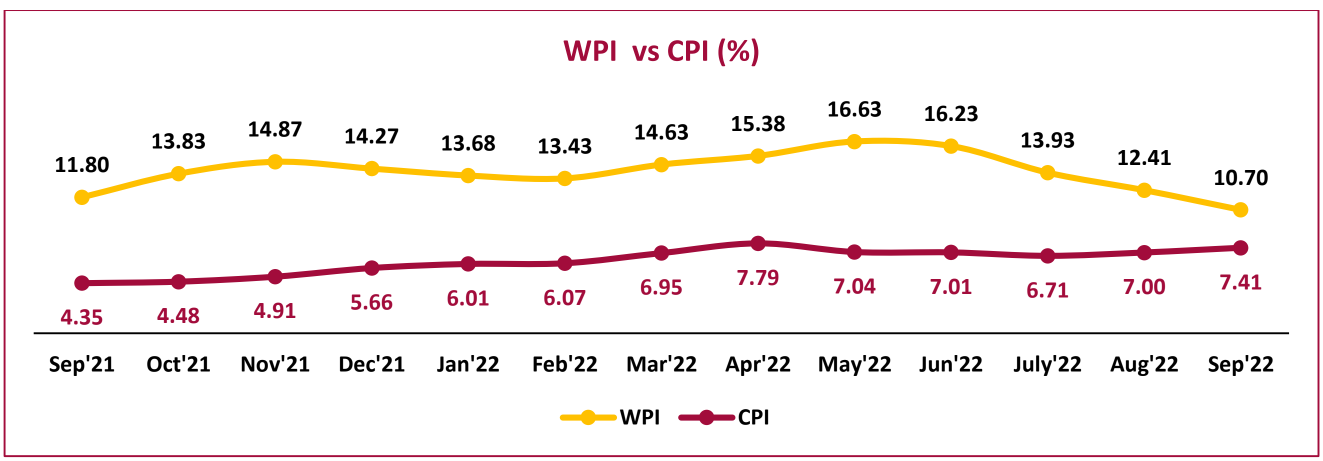
India's retail inflation spikes to 5-month high to 7.41% in September from 7.00% in August mainly due to higher food prices. It stayed well above the upper limit of the Reserve Bank of India's (RBI's) target range for the ninth month in a row.

WHOLESALE PRICE INDEX (WPI)

WPI slows down to 18-month low



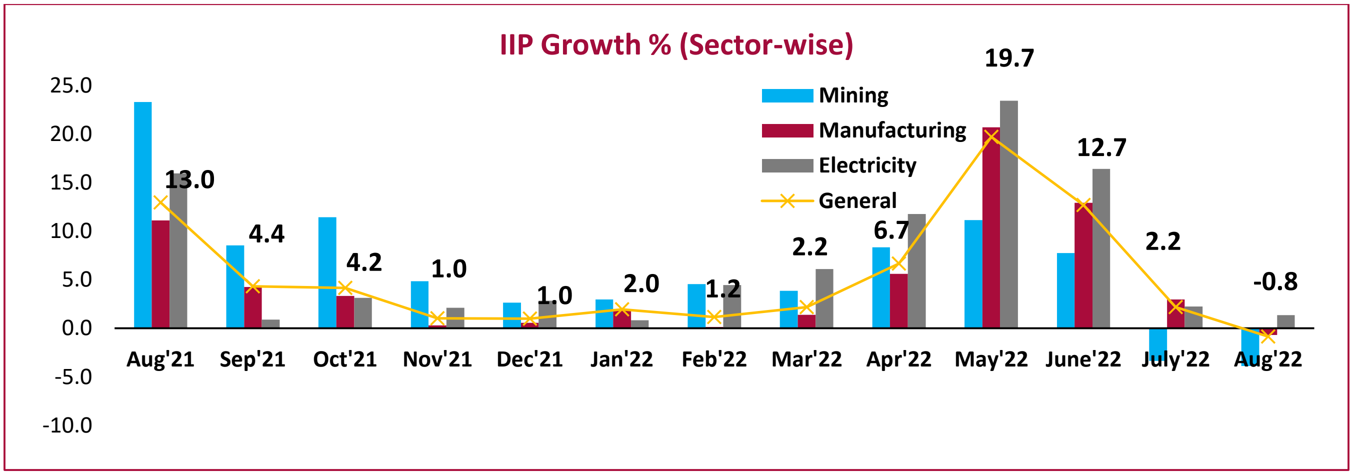
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Jul	6.34	**14.78**	27.01	**44.62**	11.46	**8.24**	0.12	**10.77**	11.57	**14.07**
Aug	5.93	**14.93**	28.15	**33.67**	11.56	**7.51**	-0.80	**12.37**	11.64	**12.41**
Sept	5.98	**11.73**	29.49	**32.61**	11.57	**6.34**	-2.55	**11.03**	11.80	**10.70**



The wholesale price-based inflation declined for the fourth consecutive month to 10.70% in September 2022. Despite the easing in the wholesale inflation data, the WPI continues to remain in the double digits for the 18th consecutive month beginning April 2021.

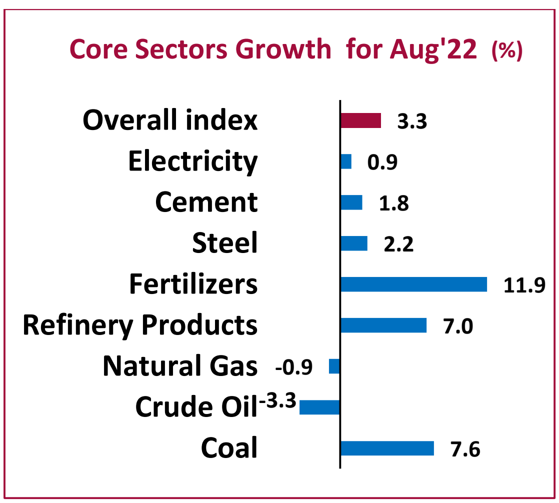
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

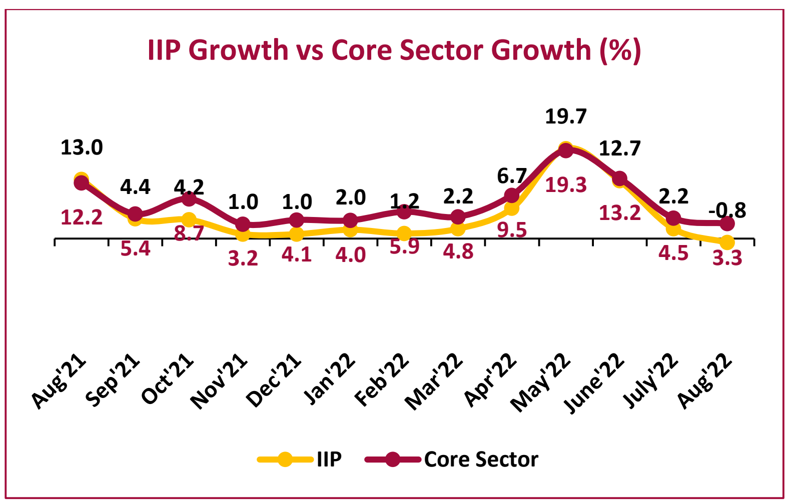
Index of Industrial Production dips to negative



IIP growth % (Usage-wise)

Component	Weight	Aug'21	Mar'22	May'22	June'22	July'22	Aug'22	Apr-Aug'22
Primary Goods	34.05%	16.9	5.7	17.8	13.8	2.5	**1.7**	**9.1**
Capital Goods	8.22%	20.0	2.4	53.3	29.1	5.7	**5.0**	**18.7**
Intermediate Goods	17.22%	11.8	1.8	17.5	10.5	3.8	**0.6**	**7.6**
Infrastructure/ Construction Goods	12.34%	13.5	6.7	18.4	9.3	3.8	**1.7**	**7.2**
Consumer Durables	12.84%	11.1	-3.1	59.1	25.1	2.3	**-2.5**	**14.5**
Consumer Non-Durables	15.33%	5.9	-4.4	1.4	3.0	-2.8	**-9.9**	**-1.9**

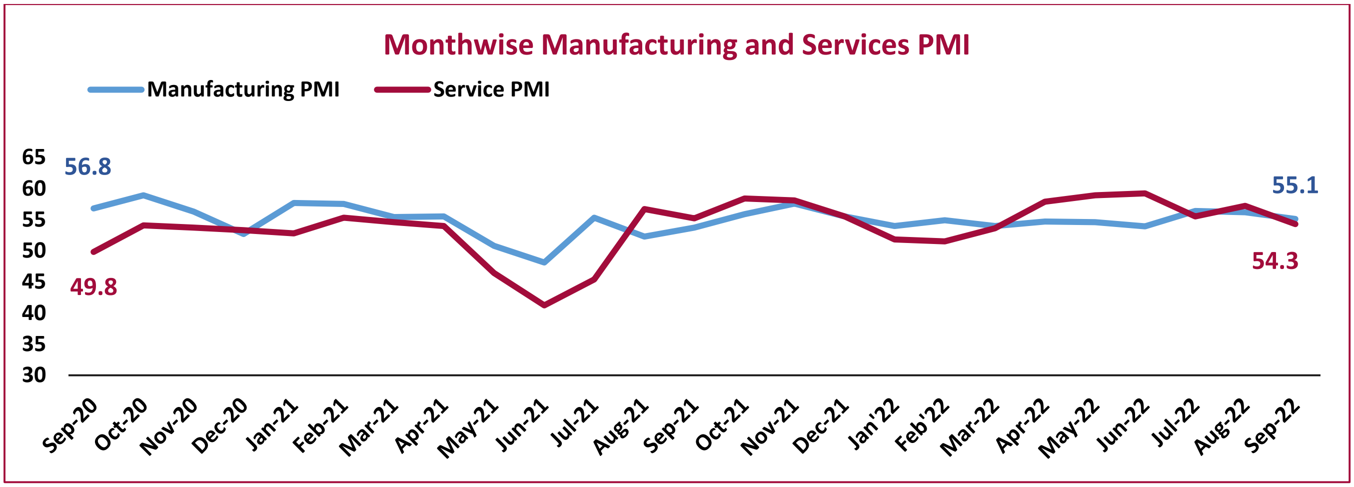




The IIP contraction was mainly on account of manufacturing and mining sectors. The electricity sector was the only one that witnessed a growth of 1.4 per cent to 191.3 in August'22. In terms of Usage wise growth in IIP, except consumer non-durables and consumer durables, rest others have registered positive growth.

PURCHASING MANAGERS' INDEX (PMI)

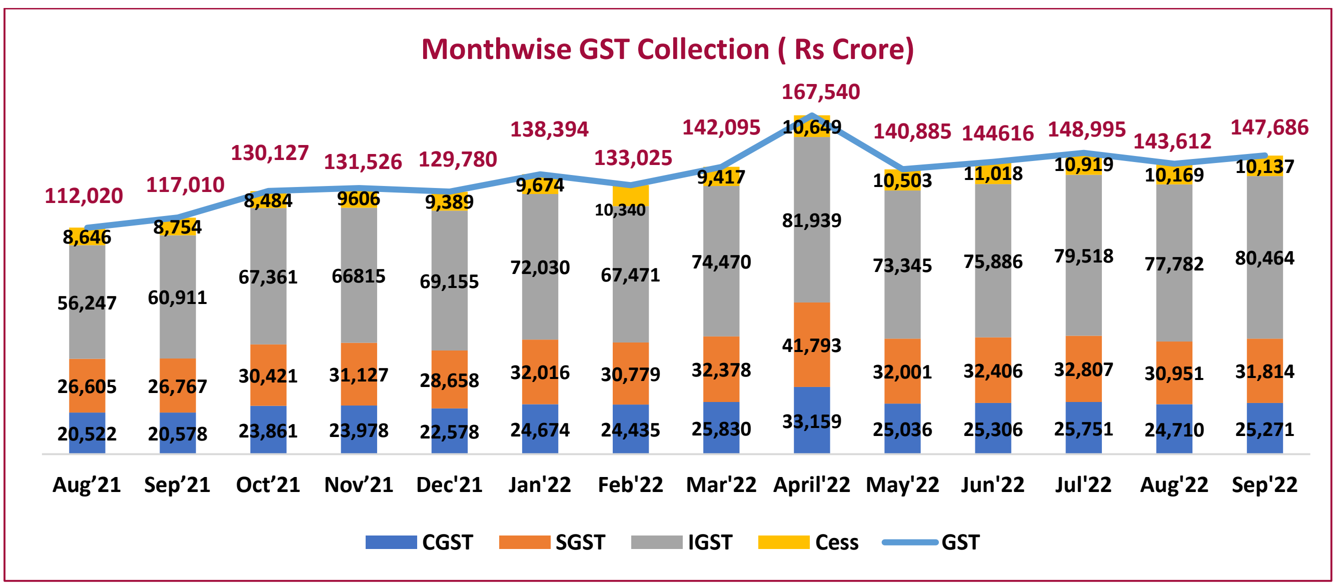
Manufacturing PMI declines to 55.1 and Services PMI also reflects a slowdown



India's manufacturing sector experienced its slowest expansion in the last three months, with the index declining to 55.1 from August's 56.2. India's service sector activity fell from 57.2 in August to 54.3 in September and lost the growth momentum. It eased to a six-month low in September due to slow new business inflows amid inflationary pressures and competitive conditions.

GOODS AND SERVICES TAX (GST)

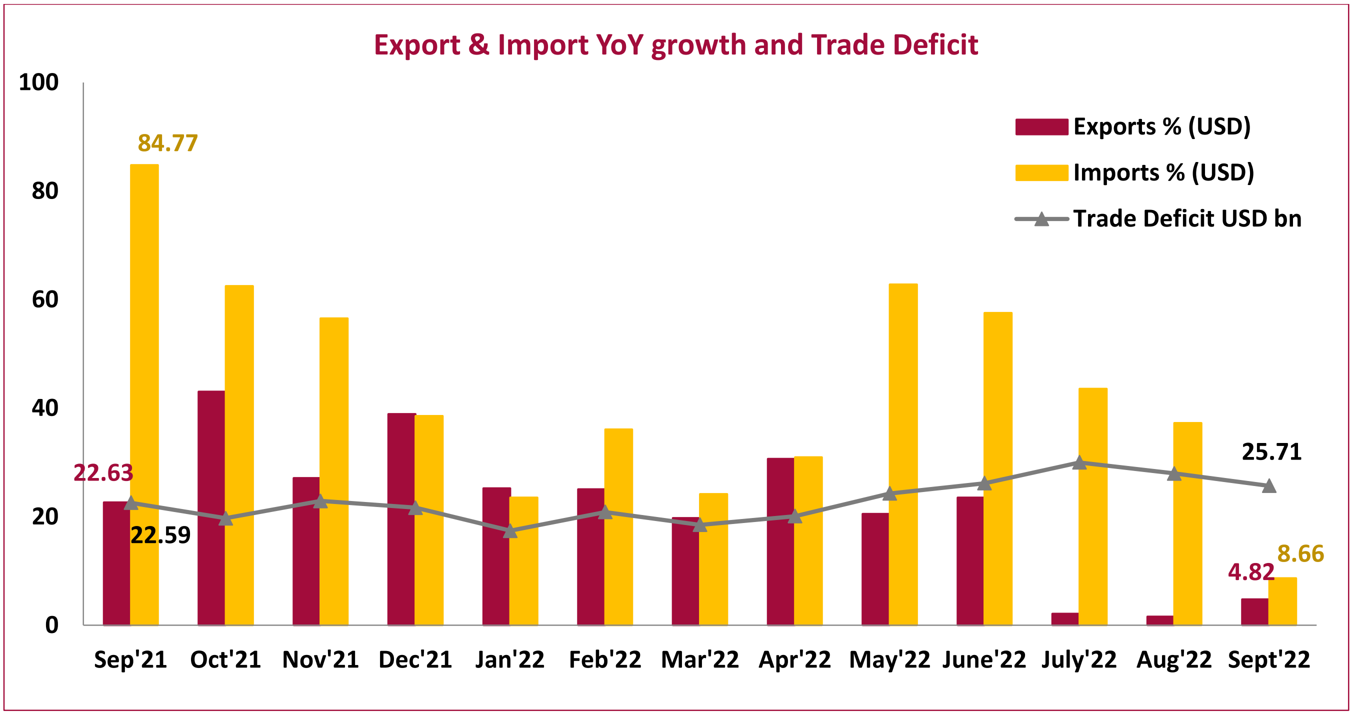
GST collection 26% higher than GST revenues in September 2021

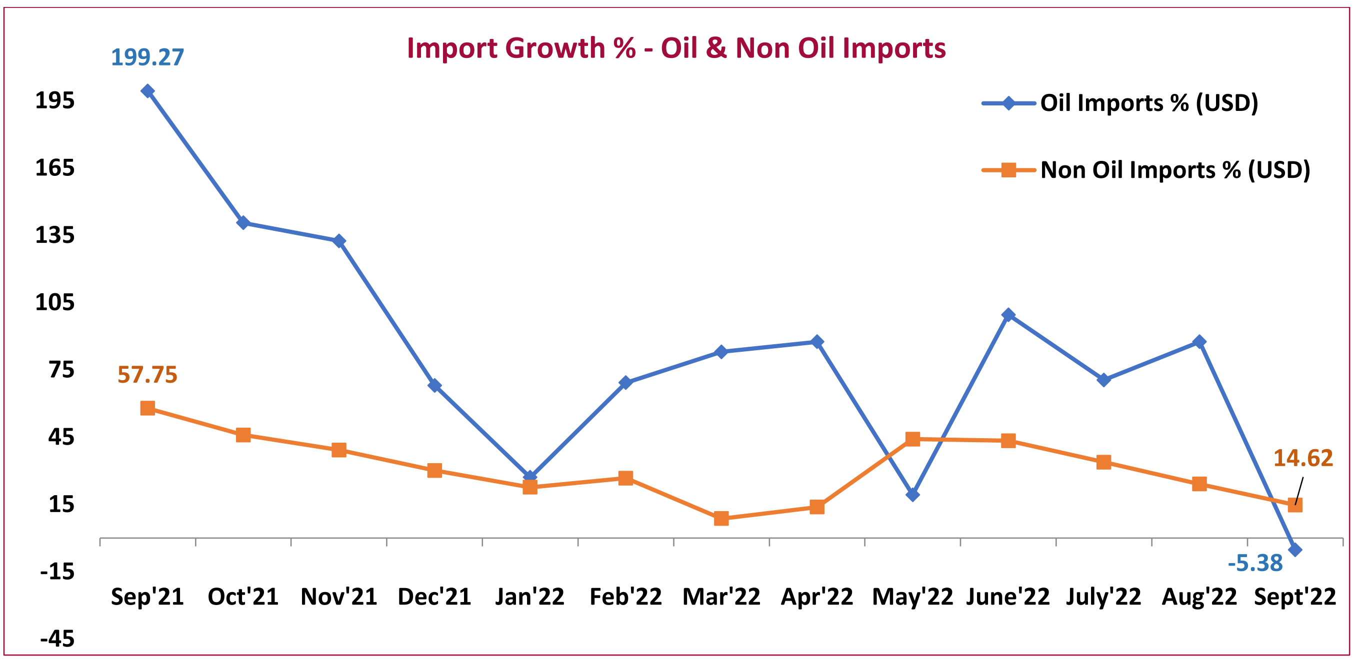


Goods and Services Tax (GST) collected Rs. 1,47,686 Crore in revenues during the month of September. Out of the gross revenue collected in September, Central GST (CGST) was Rs. 25,271 Crore, state GST (SGST) was Rs. 31,814 Crore, and integrated GST (IGST) was Rs. 80,464 Crore and cess was Rs. 10,137 Crore.

FOREIGN TRADE

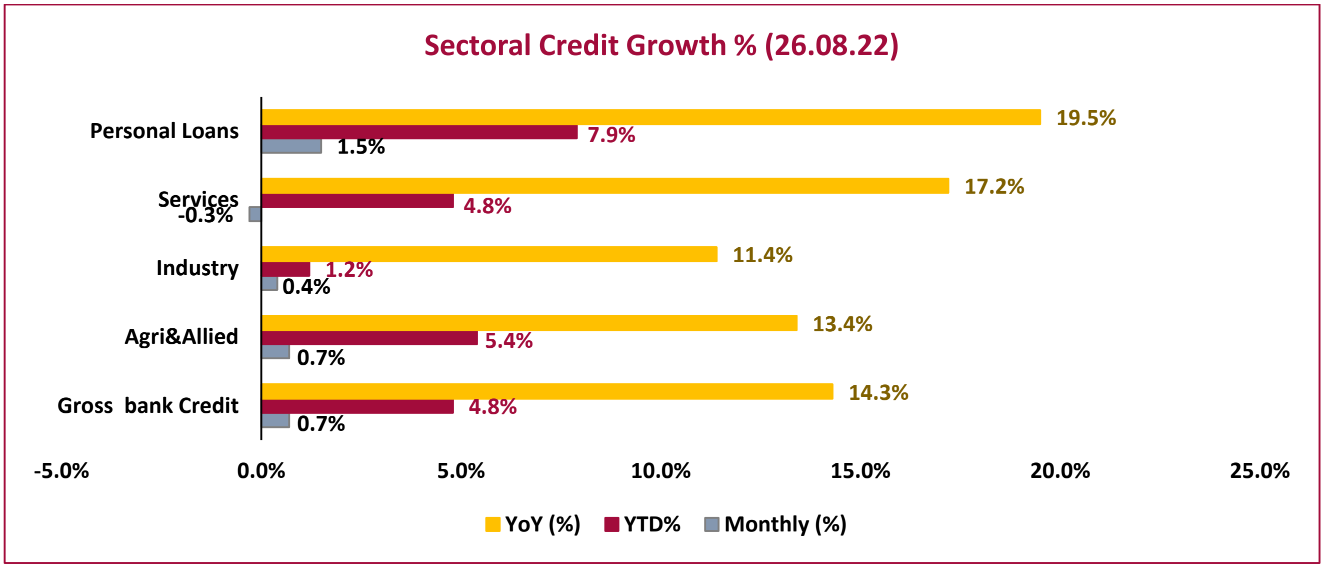
Trade Deficit widens to $25.71 billion in September 2022 as compared to September 2021





India's Trade Deficit widened to the level of $25.71 billion up 14.42 per cent year-on-year in September 2022 as import growth slowed. Merchandise exports grew to $35.45 billion, up 4.82 per cent year-on-year in September 2022. Meanwhile Merchandise imports grew to $61.61 billion, up by 8.66 per cent year-on-year in September 2022.

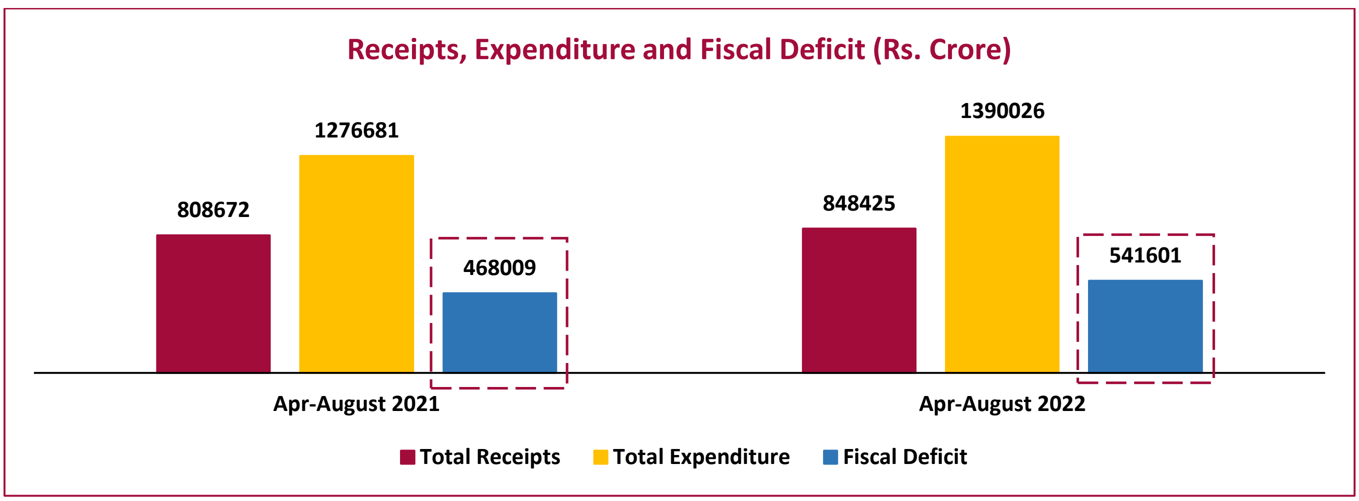
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	08.10.21	25.03.22	23.09.22	07.10.22	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	157.56	164.65	170.32	172.73	**9.6%**	**4.9%**	**1.4%**
Advances	109.03	118.91	126.30	128.60	**17.9%**	**8.2%**	**1.8%**
Business	266.59	283.56	296.62	301.33	**13.0%**	**6.3%**	**1.6%**

FISCAL DEFICIT

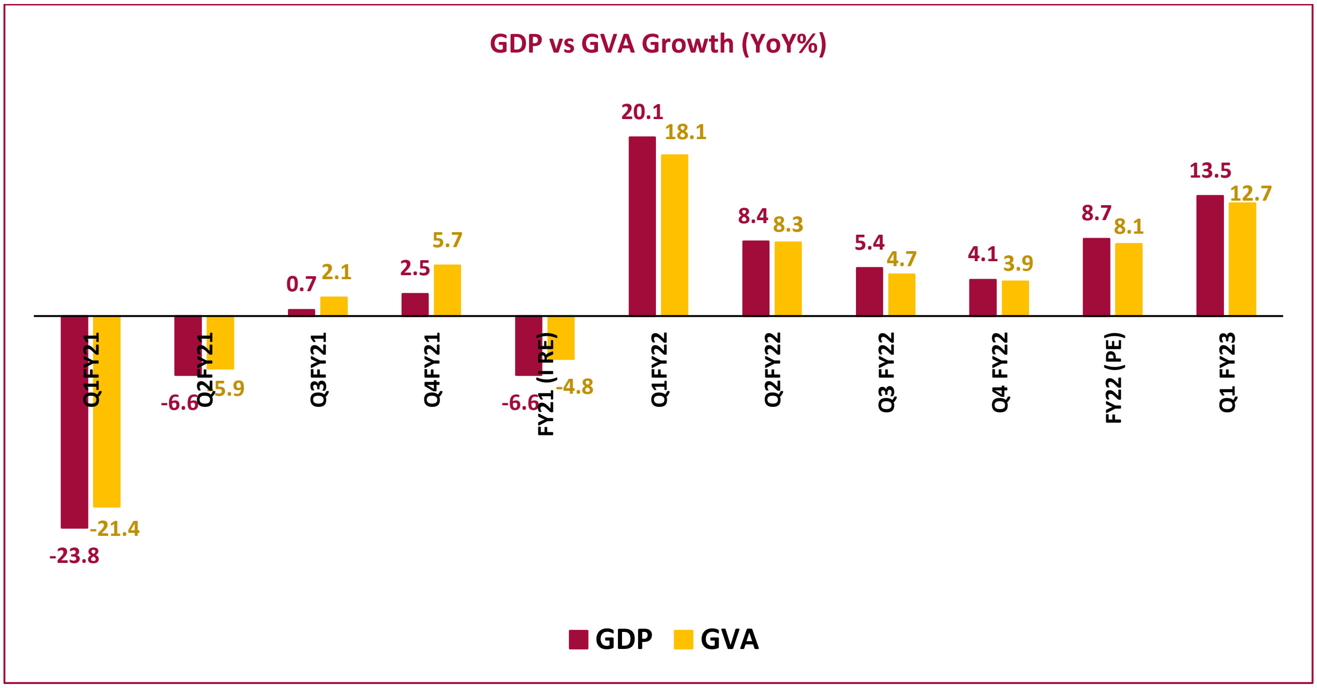


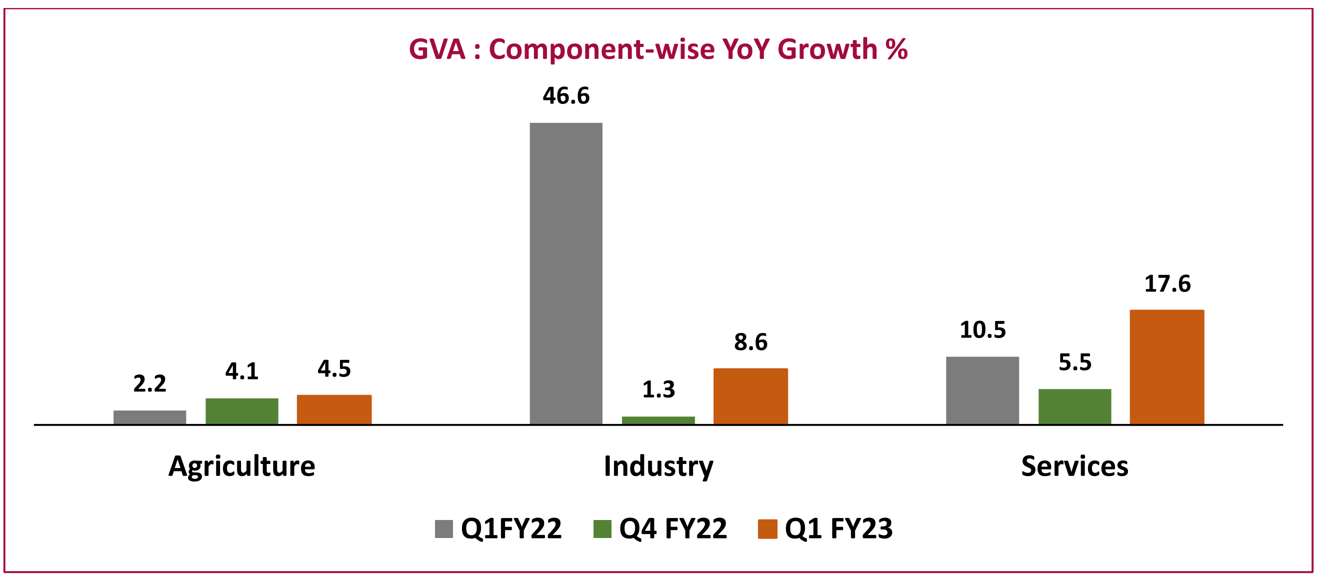
The fiscal deficit for the five months till August touched 5.42 trillion Indian rupees or 32.6% of annual estimates.

QUARTERLY ECONOMIC INDICATORS

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

Indian economy grows the fastest in the last four quarter



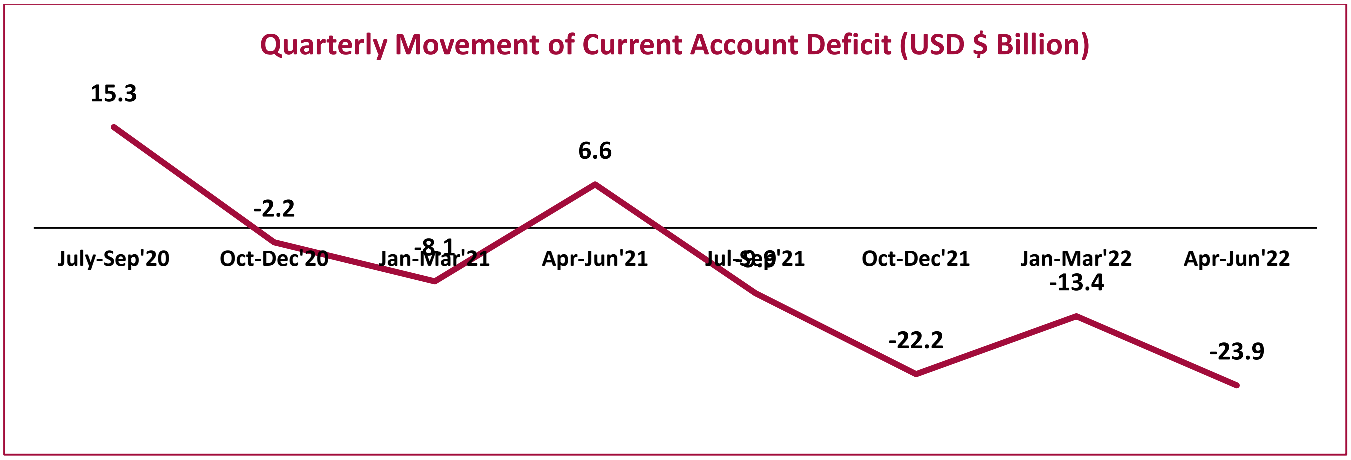


GDP for Q1 FY23 grew by 13.5 per cent as compared to a growth of 4.1 per cent in the previous quarter (Q4 FY22) and a growth of 20.1 per cent in Q1 FY22. Also, **Real Gross Value Added (GVA)** at basic prices (which captures what accrues to the producer/service provider before a product or service is sold) **in Q1 FY23 grew by 12.7 per cent** in comparison to a growth of 3.9 per cent in Q4 FY22 and a growth of 18.1 per cent in Q1 FY22.

India's GDP Outlook Of Various Agencies

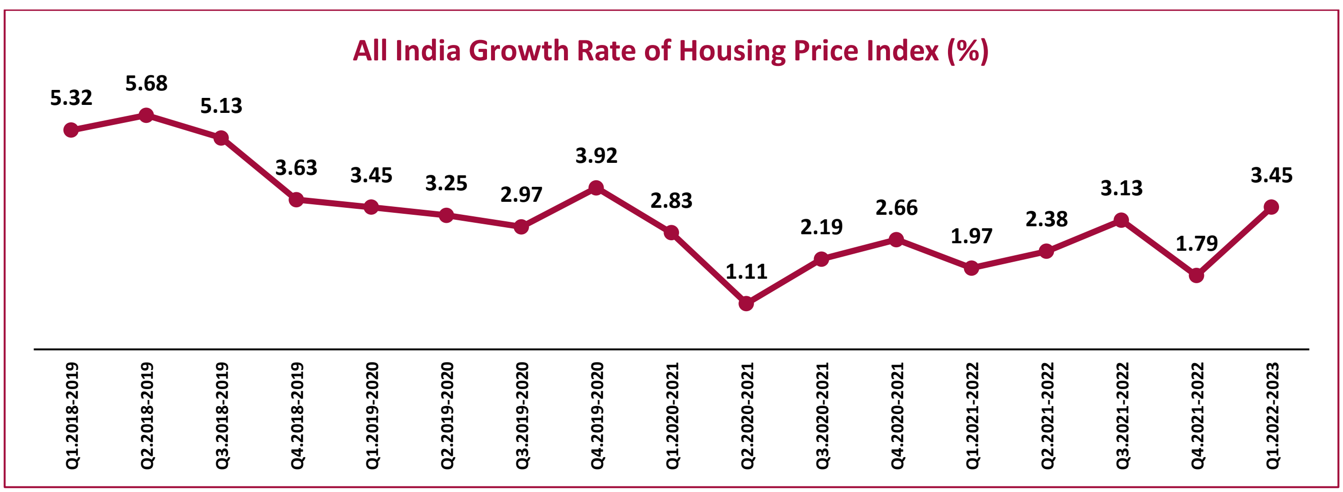
Agency	FY23
RBI	7.0%
World Bank	6.5%
IMF	6.8%
ADB	7.0%
Economic Survey	8-8.5%

CURRENT ACCOUNT DEFICIT



The CAD swelled to $23.9 billion in the June quarter of FY23 against a deficit of $13.4 billion in the preceding three months. It is 2.8% of GDP while the same recorded a surplus of $6.6 billion, or 0.9% of GDP in Q1 of FY22.

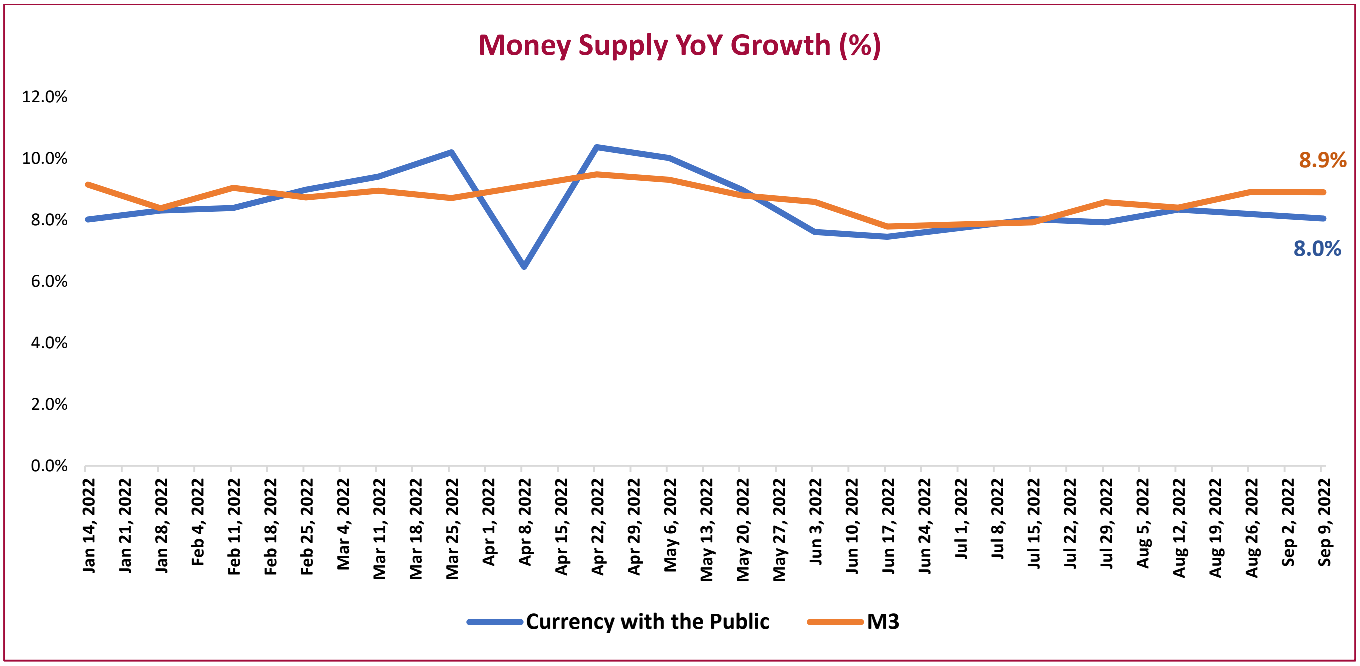
HOUSING PRICE INDEX



All-India HPI recorded 3.45 per cent annual growth (y-o-y) in Q1:2022-23 (provisional data) as compared with 1.79 per cent growth in the previous quarter and 1.97 per cent a year ago.

MONEY SUPPLY

While the growth of currency with the public declines marginally, growth of M3 remains same



GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	-0.10	Jan 29, 2016 (-20 bps)	Oct 28, 2022
European Central Bank (ECB)	Europe	1.25	Sep 08, 2022 (75 bps)	Oct 27, 2022
Federal Reserve	U.S.A	3.25	Sep 21, 2022 (75 bps)	Nov 02, 2022
Bank of England	U.K	2.25	Sep 22, 2022 (50 bps)	Nov 03, 2022
Peoples Bank of China	China	3.65	Aug 22, 2022 (-5 bps)	-
Reserve Bank of India	India	5.90	Sep 30, 2022 (50bps)	Dec 07, 2022

INDUSTRY OUTLOOK

Aviation

In India, the Aviation industry is one of the fastest growing industries during the last three years and can be broadly classified into scheduled air transport service including domestic and international airlines, non-scheduled air transport service comprising of charter operators and air taxi operators, air cargo service, including air transportation of cargo and mail. Domestic traffic contributes around 69% of the total airline traffic in South Asia and India's airport capacity is expected to handle 1 billion trips annually by 2023.

India is, at present, the 7th largest civil aviation market in the world and is expected to become the third-largest civil aviation market within the next 10 years. The Sector has fully recovered from pandemic shock as indicated by the upward movement in air traffic which stood at 613,566 in the first quarter of FY 2022-23 vis-à-vis 300,405 in the same period last year, an increase of 104.24% (as per IBEF).

The Regional Connectivity Scheme or UDAN ('Ude Desh ka Aam Nagrik') is a vital component of NCAP 2016. The scheme plans to enhance connectivity to India's unserved and under-served airports and envisages to make air travel affordable and widespread. India is likely to surpass China and the United States as the world's third-largest air passenger market in the next ten years, by 2030, according to the International Air Transport Association (IATA).

Further, the rising demand in the sector has pushed the number of airplanes operating in the sector. India's aviation industry is largely untapped with huge growth opportunities, considering that air transport is still expensive for majority of the country's population, of which around 40% is the upwardly mobile middle class.

The government has been instrumental in developing policies to give a boost to the aviation sector. For this, UDAN-RCS scheme has been launched by the government which aims to increase air connectivity by providing affordable, economically viable and profitable travel on regional routes. The industry stakeholders should engage and collaborate with policy makers to implement efficient and rational decisions that would boost India's civil aviation industry.

Construction

The major constituents of construction industry in India is real estate and urban development, The Construction industry in India consists of the Real estate as well as the Urban development segment. The Real estate segment covers residential, office, retail, hotels and leisure parks, among others. While Urban development segment broadly consists of sub-segments such as Water supply, Sanitation, Urban transport, Schools, and Healthcare. The Construction industry in India consists of the Real estate as well as the Urban development segment.

100% Foreign direct investment in the construction industry in India under automatic route is permitted in completed projects for operations and management of townships, malls/shopping complexes, and business constructions.

100% Foreign direct investment in the construction industry is allowed under the automatic route for urban infrastructures such as urban transport, water supply, sewerage, and sewage treatment.

In India, many start-ups have come up that manufacture sustainable construction materials to tackle the above concerns by focusing on decreasing resource consumption, waste output, and carbon footprint. This piece explores the various start-ups that are working in sustainable construction materials space in the country.

As per IBEF, the country's residential segment, in particular, is expected to grow at a CAGR of over 5% between 2022 and 2027. The demand for residential properties is growing due to increased urbanization and rising household income. Currently, our country is internationally among the top 10 price-appreciating housing markets. In the wake of the booming residential market, the need for elevators is also increasing.

The role of technology in the construction sector is not limited to providing cutting-edge equipment and innovating construction processes. The sector's digital transformation has also ushered in the era of constructor aggregator platforms that provide end-to-end services. Working with an aim to reform the conventional manner of working in the sector, these platforms are a one-stop solution for all your construction needs.

The construction industry is working tirelessly to meet the growing residential market's demand. However, it is highly unorganized, and home renovation or construction can be tough. Every step in this journey requires meticulous planning and proper implementation. This is where the construction aggregator platforms enter into the picture. The role of technology has evolved in the construction industry; consequently, these tech-enabled platforms are gaining prominence. They work intending to simplify the construction process by offering all construction-related solutions under one umbrella. They seamlessly manage all the stages and deliver the dream homes to the customers that meet their requirements and budget.

EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. **Russia's Gazprombank opens special Re account with UCO Bank (ET,21.10.2022)**

- Russia's Gazprombank has opened a special Rupee account with UCO Bank for undertaking cross-border trade transactions in the Indian Rupee, the chief of the domestic lender said on Friday.
- The move to open the special Vostro account clears the deck for settlement of payments in Rupee for trade between India and Russia, enabling cross-border trade in the Indian currency which the central bank RBI is keen to promote.
- The public sector lender has received the Reserve Bank of India's approval for the arrangement with Gazprombank of Russia for trade settlement in Indian Rupees.

2. **IT governance rules: RBI releases draft guidelines for regulated entities (ET, 20.10.2022)**

- The Reserve Bank of India (RBI) released a draft master direction on information technology (IT) governance for all regulated entities, which will mandate them to put in place a robust IT governance framework, consisting of governance structures and processes necessary for them to meet their business objectives.
- The framework will specify the role and responsibilities of the board of directors and the senior management of the entity. It will also have to include adequate oversight mechanisms to ensure accountability and mitigation of business risks.

3. **Bank credit growth rises to 17.94% YoY in early Oct, shows RBI data (ET, 20.10.22)**

- Bank credit rose by 17.94 per cent year-on-year (YoY) to Rs 128.6 trillion as of October 7 to reflect festive and quarter-end demand, according to data from the Reserve Bank of India (RBI).
- Deposits at banks increased 9.62 per cent YoY to Rs 172.72 trillion as of October 7. Sequentially, commercial banks raised Rs 2.41 trillion in deposits during the fortnight ended October 7.
- As for credit growth fortnightly, the outstanding loan book of scheduled commercial banks grew by 1.82 per cent (Rs 2.31 trillion) from Rs 126.29 trillion on September 23, 2022. The YoY growth in credit was 16.4 per cent as of September 23, 2002.

4. **A big step towards 'ease of living': PM Modi opens 75 digital banking units (BS, 16.10.2022)**

- Prime Minister Narendra Modi said the 75 digital banking units (DBUs) in 75 districts is a big step towards 'ease of living' for common citizens and will open up a whole new world of possibilities by combining financial partnerships with digital partnerships.
- Inaugurating the 75 DBUs virtually, Modi said the special banking system shall work to provide maximum services from minimum digital infrastructure
- As many as 11 public sector banks, 12 private sector banks, and one small finance bank have established brick-and-mortar DBU outlets across the country that will operate round the clock.

5. **RBI tightens rules for uncovered foreign currency exposures (ET, 12.10.2022)**

- The Reserve Bank of India tightened rules for unhedged foreign currency exposures of companies where banks have lent to with raising capital and provisioning requirements. A swinging exchange rate could result in losses for companies that have not covered their currency risk against offshore payables. This in turn will reduce their ability to repay bank loans.
- Companies cover currency risk against their overseas payables through currency derivatives market.

6. **RBI unveils features of digital rupee, plans to launch pilot soon (BS, 08.10.2022)**

- The Reserve Bank of India (RBI) is exploring the possibility to launch its own digital currency or digital rupee (eRe) with minimal disruption to the financial system. It is working on a phased implementation of central bank digital currencies (CBDCs) through various stages of pilots, followed by the final launch. It also has all the transactional benefits of other forms of digital money.
- The concept note said that the e-Re will provide an additional option to the currently available forms of money. It is substantially not different from banknotes, but being digital, it is likely to be "easier, faster, and cheaper".

7. **FinMin allows airlines to avail up to Rs 1,500 crore loan under ECLGS (ET, 06.10.2022)**

- The Union Finance Ministry allowed airlines to avail of up to Rs 1,500 crore loan under the Emergency Credit Line Guarantee Scheme (ECLGS), to help them tide over their cash flow problems.

- Earlier, an airline could avail of a loan of not more than Rs 400 crore under the ECLGS. The Centre had in 2020 started the ECLGS to provide collateral-free and government-guaranteed loans to businesses affected by the Covid pandemic.

8. FinMin's special campaign in seven districts to deepen financial inclusion (BS, 03.10.2022)

- To further deepen the financial inclusion (FI) framework, the Finance Ministry will organize a special campaign from October 15 to November 26 at the Gram Panchayat (GP) level in seven districts across India.
- The districts include Cuttack, Odisha; Aurangabad, Maharashtra; Pune, Maharashtra; Kakinada, AP; Kaushambi, UP; Datia, MP; and Barpeta, Assam.
- The campaign will focus on achieving saturation in respect of bank accounts, insurance/pension schemes for eligible individuals, and distribution of loans to Farmer Produce Organisations (FPOs), SHGs (Self Help Groups) for establishment of Cold-Chain infrastructure.

9. RBI raises repo rate by 50 bps to 3-year high; FY23 GDP forecast cut to 7% (FE, 01.10.2022)

- The six-member Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) decided to increase the policy repo rate by 50 basis points (bps) to 5.9 per cent — which is largely on expected lines — as inflation continues to stay above 6 per cent, the upper level of its tolerance band, for the past eight months.
- Except External Member Ashima Goyal, who voted for a 35-basis point hike, the rest were in favour of what the MPC settled for. Since May this year, the repo rate has been increased by 190 bps to 5.9 per cent, a three-year high.

10. Enhance coverage of scheduled castes in all schemes: FM Nirmala Sitharaman (ET: 27.09.22)

- FM Nirmala Sitharaman advised public sector banks (PSBs) to enhance the coverage of scheduled castes (SCs) in all schemes. She also called for looking into their needs for capacity building and entrepreneurship development.
- She also asked banks to fill the remaining vacancies in a time-bound manner.
- The FM was chairing the performance review of PSBs on credit and other welfare schemes for scheduled castes. Credit facilities to SCs and scheduled tribes (STs) form a part of the priority-sector lending norms of the Reserve Bank of India (RBI).

11. High NPAs in education loan segment turn banks cautious, says PSB official(BS, 25.09.22)

- High defaults of about 8 per cent in the education loan portfolio have made banks cautious and go slow on the sanction of such credit.
- Non-performing assets (NPAs) in the education loan category including public sector banks' (PSBs) were 7.82 per cent at the end of June quarter of the current financial year. Outstanding education loans were about Rs 80,000 crore at June-end. Cautious approach is adopted at the end of branches while sanctioning education loans due to high NPAs, a senior public sector bank official said.

12. UCO Bank becomes first lender to get RBI's approval for rupee trade (BS, 22.09.2022)

- Public sector lender UCO Bank has received the Reserve Bank of India's (RBI's) approval to open a special vostro account with Gazprombank of Russia for trade settlement in Indian rupees. The Kolkata-based lender is the first bank to receive regulator's approval following the RBI's decision to allow Indian banks to settle trade in Indian currency in July.
- The Russian lender, which was set up by world's largest gas producer and exporter Gazprom to provide banking services for gas industry enterprises has been operating since 1990. One of the top three banks in Russia, Gazprombank offers a whole range of banking and investment services to over 45,000 corporate and three million private clients.

13. IBBI fixes timelines for the liquidation process to reduce delays (BS, 21.09.22)

- To reduce delays and realise better value through the liquidation process, the Insolvency and Bankruptcy Board of India (IBBI) has set timelines for meetings and adjudication of claims by the stakeholders' consultation committee.
- The IBBI liquidation process second amendment regulations 2022 state that the Committee of Creditors, constituted during the Corporate Insolvency Resolution Process (CIRP), should function as Stakeholders Consultation Committee (SCC) in the first 60 days.

DATA SOURCES

- *Reserve Bank of India (RBI)*
- *Ministry of Statistics and Programme Implementation (MOSPI)*
- *Office of Economic Adviser*
- *Ministry of Commerce and Industry, Department Of Commerce*
- *S & P Global*
- *Press Information Bureau*
- *GST Council*
- *Websites of major Central Banks*
- *Controller General of Accounts (CGA)*
- *Petroleum Planning & Analysis Cell (PPAC)*
- *Investing.com*
- *News from Business Standard, Financial Express, Economic Times, The Mint*
- *Cogencis*

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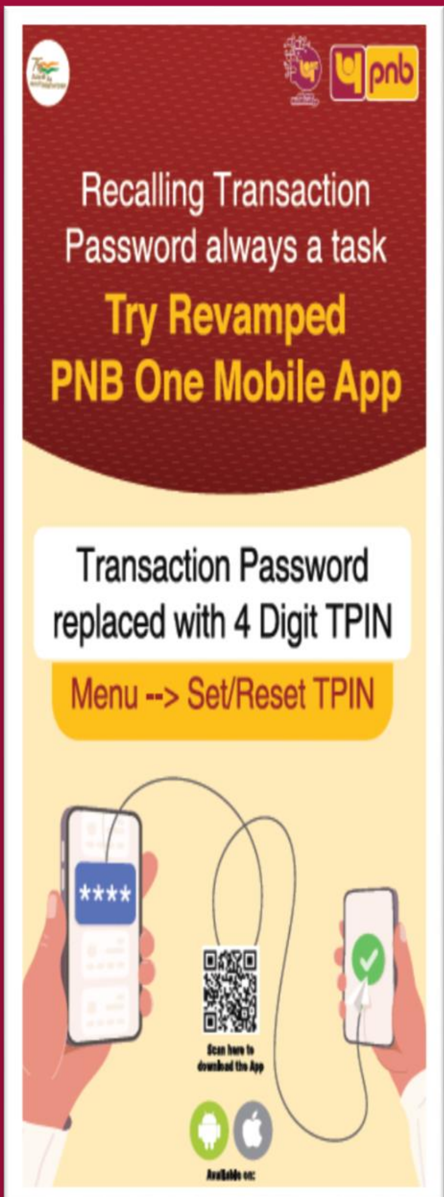
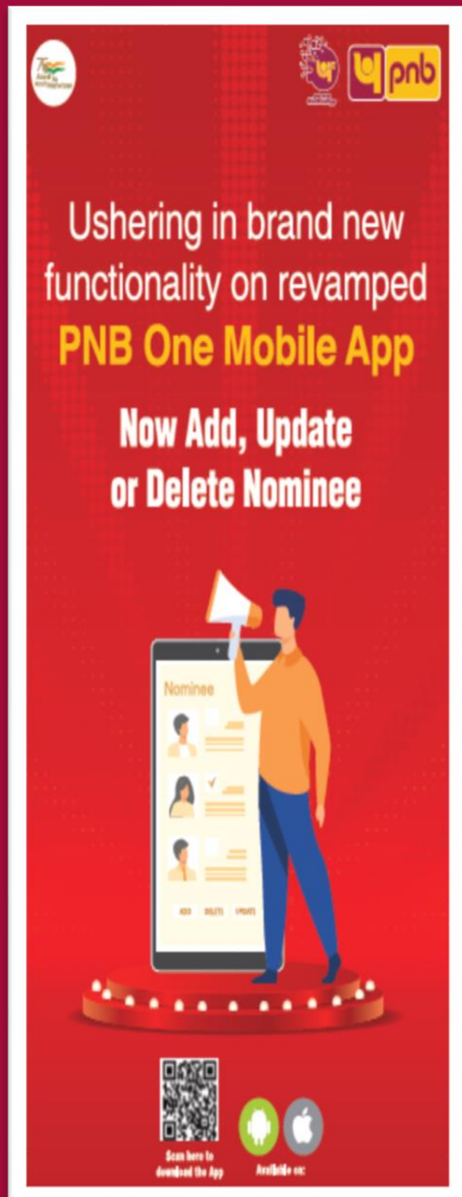
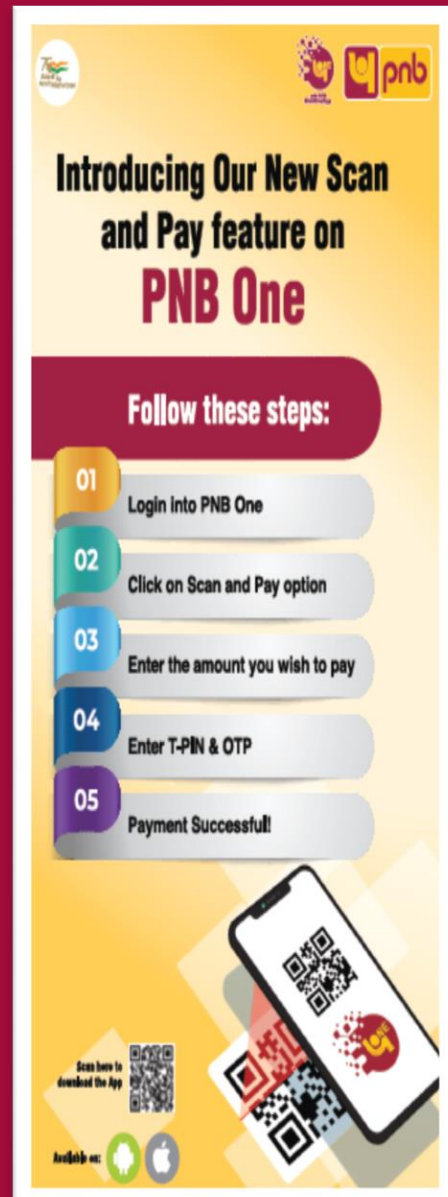
QUOTE OF THE MONTH

"A goal is not always meant to be reached, it often serves simply as something to aim at."

- Bruce Lee







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