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STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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Global and Indian Economic Scenario in 2022 and Outlook for 2023

Global Economic Scenario in 2022

During the year 2022, the Global Economy experienced a broad based and faster than expected slowdown with inflation soaring decadal in several major economies of the globe. Along with what else challenged the Global economic growth were supply chain disruptions, heightened uncertainty, lowering business and consumer confidence although beginning of the year was on positive note with the waning COVID situation and fairly strong recoveries. Further, monetary tightening approach adopted across the globe by the major Central Banks yielded in rising interest rate scenario decelerated the growth momentum and triggering off war between Russia and Ukraine accelerated the pace of inflation. During 2022, the energy price also rose to as high as USD 120 per barrel. On the trade front, strong growth was observed in both goods and service, despite the various challenges confronted the scenario.

Another development during the year was rise of Dollar vis-à-vis major currencies. The U.S. Dollar Index, which measures the greenback against a basket of other currencies, is up more than 17% so far this year. Amongst few factors were Federal Reserve hiking interest rates to 15 years high within the range of 4.25% to 4.50% with the expectations of pulling down the price level in the US economy.

Indian Economic Scenario 2022

Indian Economy demonstrated resilience throughout the year 2022 which was despite the spiking of crude oil price and geopolitical disturbances. In fact Indian Economy remained the fastest growing economy fully supported by robust domestic demand and optimistic economic activity.

Another positive in the Indian Economy was the remarkable buoyancy in tax revenue. Goods and Services Tax (GST) collections are averaging over Rs.1.40 lakh crore a month, higher than budgeted estimates. Corporate and personal tax collections were equally robust reaffirming thereby resilience of the economic activity while paved way for keeping check over the Fiscal Deficit target and keep it within the 6.4 per cent target set in the FY 2022-23 Union Budget.

During the year 2022, Private Sector investment also revived and on fiscal front, the Government continued to fuel the economic growth through PM Gati Shakti Master Plan on infrastructure.

However, Inflation was the concern for the Indian Economy which remained beyond the targeted level of 6% since January 2022, matching with global phenomena of rising inflationary tendencies. On account of high inflation and withdrawal of accommodative stance across the globe, RBI also raised the policy rate by 225 bps since May'22 to 6.25%. All the efforts towards containing the inflation resulted into CPI coming within the RBI's range and stood at 5.88% in Nov'22.

The Indian Rupee has depreciated nearly 10 per cent this year breaching the level of 82 against the US dollar for the first time in history, however despite the depreciation, the domestic currency performed better than many foreign currencies when compared to the dollar.

On Trade front, India exhibited a phenomenal performance in during the year by attaining unprecedented exports in merchandise and services such that exports reached an all-time high.

Global Economic Outlook 2023

Global Economy would continue to see reel under slowing growth and may face recession in 2023 owing to the concerns stem from the colliding pressures from inflation, the war-driven energy & food crisis and higher interest rates. There has been some indication on the front of Central banks slowing down the pace of rising rates which supports the growth outlook. Global Consumer Price Index (CPI) inflation is likely to slow down in 2023 after approaching 10% in the second half of 2022.

It is now expected that the policymakers are likely to shift toward supporting growth and protecting against deep and prolonged economic downturns. Oil prices are expected to soften during 2023 and to average around $ 90 per barrel.

The slowdown experienced in Global Trade which began in second half of the year 2022 will continue to hit even during 2023 with the anticipation of prolongation of geopolitical tensions and persistence of tight financial conditions.

Domestic Economic Outlook 2023

In terms of Indian Economic performance, the near-term growth outlook is supported by domestic drivers as reflected in trends in high-frequency indicators. However, during long term, India’s economic growth is expected to moderate to 6.1% in FY24 from 6.8% estimated for the current fiscal because of high oil prices, weaker external demand, and tighter financial conditions as IMF Report. RBI has also projected the growth at 6.8% for FY’23 while the same been brought down to 5.9% for Q2FY’24.

India’s inflation is likely to moderate during 2022 and much will depend on the external factors going forward. As per RBI India’s Inflation is expected to be 6.7% in FY’23 while the same is expected to be at 5.4% in Q2FY’24.

With respect to India’s trade Scenario, the share in global trade is still less than 2 per cent and therefore, emerging scenario of slowdown in Global Trade may not affect India to great extent while certain steps taken up by the Government towards promoting export and containing the trade deficit will also help India in 2023.

Going forward, government’s supply side focused policy measures to revive capex, stronger private sector balance sheet to help improve corporate sector risk appetite will strengthen India’s growth outlook. Further with capacity utilization on an improving trend in the manufacturing sector, investments are expected to gradually start picking up.

All in all, it is pertinent to state here that in order to come out of the tough phase and restore the normalcy in economic conditions, it is imperative to strike a balance between the Monetary and Fiscal policies. While monetary policy should aim to bring out price stability, Fiscal policy is required to concentrate on alleviating the structural hiccups in the economy.

Deepak Singh
(Deputy General Manager)

CENTRAL BANK DIGITAL CURRENCY

India has joined the league of 50 countries that are in an advanced stage of exploring digital currency — either in the process of developing it or ready to launch pilot projects or have already launched it. The RBI has started running two pilot projects for the CBDC or e-rupee for the wholesale as well as retail segments. CBDC can be a game changer in the time to come in certain ways like:

1. **Reduced Operational Cost:** CBDC could reduce operational costs on printing, storage, transportation and replacement of banknotes. Carrying the physical currency notes to one corner of the country from the printing presses is time-consuming. Transport is not an issue with digital currency.
2. **Reduced Remittance cost:** CBDCs could reduce the cost of sending remittances, particularly for a country like India, which was the largest recipient of remittances ($87 billion) in 2021, according to the World Bank. It would make cross border transactions more efficient.
3. **Environment Friendly:** Cash management using CBDC would be cost effective and environment friendly. It would also solve the purpose of saving the environmental, social, and governance (ESG) cost of printing money.
4. **Offline Mode available:** The RBI is working on an offline mode of payment allowing some money to be stored in a sub-wallet for use in offline mode. The accounts will be reconciled when connectivity is back.
5. **More Reliable:** All the other modes are operated by private players while CBDC is issued by the central bank and appears as a liability in the central bank's balance sheet. People have more confidence in a system that is operated by the central bank.
6. **Anonymous transactions:** All the wallet-to-wallet transactions of the central bank digital currency (CBDC) in the retail segment are anonymous as those transactions are not reflected in the core banking system of banks. This would boost customer confidence to use the digital rupee in India.
7. **Risk Free transaction:** The digital rupee is facilitating individuals to hold and transact risk-free central bank money in digital form. It also provides the option of recoverability in the case of loss of the digital rupee.
8. **Seamless Micropayments:** The direct settlement model eliminates intermediaries and associated transaction costs, thereby making the processing of a large-volume of retail payments more feasible This feature can facilitate a high volume of CBDC micropayments (payments of an extremely low value) to be processed instantly and securely at the same time.

Conclusion

Along with the economy, the Banking sector is also going to reap benefits of the digital Currency. It would enhance customer experience. Customer has to face problems when ATMs run out of cash or dispense only high-value notes though customers often need smaller denominations. CBDC obviates this problem along with the problems associated with cash transactions like soiled notes and counterfeit currency. Besides the points already mentioned, implementation of CBDC will pave the way for better customer satisfaction.

MSME FACTSHEET

Importance in Economy and Present state

a. MSME sector contribute **nearly 8% of the country's GDP, around 45% of the manufacturing output, and approximately 40% of the country's exports**. It contributes about 6.11% of GDP from manufacturing and 24.63% of the GDP from service activities.

b. Most of the Micro and Small enterprises operate in the food and agriculture sector. Medium-size firms mostly cater to the automobile, pharma, textiles, and chemicals sectors.

c. **Factsheet of MSME Registration (2021-22)**

Total MSME Registration – 9,11,5082		
Micro	**Small**	**Medium**
8,70,4675	**3,73,456**	**36,951**

d. **Estimated numbers of MSMEs in India – 2021-2022**

Activity Category/Sector	**Estimated Number of Enterprises (in lakh)**	**Share**
Manufacturing	196.65	31%
Trade	230.35	36%
Services	206.85	33%
All	**633.88**	**100%**

e. MSMEs employ around 120 million persons, becoming **the second-largest employment generating sector** after agriculture.

f. MSMEs are complementary to large industries as ancillary units and **contributes significantly in the inclusive industrial development**.

Government Support

a. Under Aatmanirbhar Bharat Abhiyaan, MSME sector given substantial allocation.
b. Prime Minister's Employment Generation Programme (PMEGP).
c. Credit Linked Capital Subsidy Scheme for Technology Upgradation
d. 2% Interest Subvention Scheme.
e. Entrepreneurship and Skill Development Programme (ESDP)
f. Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)
g. Emergency Credit Line Guarantee Scheme (ECLGS)
h. Make in India push.
i. PSB/MSME Loans in 59 Minutes.

Bank Credit and NPAs for MSME Sector

a. Total MSME credit exposure is at ₹23.12 lakh crores as of Mar'22 (FY22-Q4), reflecting YOY growth rate of 6.3%. Outstanding balances have increased YoY for:

- PSU: 6% (8.5 to 9.0 Lakh Cr)
- PVT: 13% (8.3 to 9.4 Lakh Cr
- NBFC: 7% (2.5 to 2.7 Lakh Cr)

b. Overall MSME NPA is 12.8% as on Mar'22 (FY22-Q4). NPAs in MSME segment have been in an uptrend since Mar'21 (FY21-Q4). Till FY20-Q3, Micro segment had a lower NPA rate than Small segment.

Issues and Challenges

a. Access to timely and adequate credit.
b. Venture /Risk capital required for high-growth-potential and start-up SMEs.
c. Access to Equity capital is a genuine problem.
d. Non-availability of skilled labour.
e. Considerable delay in settlement of dues/payment of bills by the large-scale buyers to the MSMEs units.
f. Availability of infrastructure, technology and skilled manpower should be in tune with the global trends.

Reforms required for MSME sector

a. Ease of doing business.
b. Promoting start-ups.
c. Market linkages.
d. Emulating best practices.
e. Financial literacy and education.

Outlook

a. MSME ministry targets to increase its contribution **towards GDP by up to 50% by 2025** as India moves ahead to become a $5 trillion economy.
b. MSME in India has the **potential to increase the share of contribution to GDP** from the current 8%.
c. MSMEs can **contribute significantly to employment generation** and development of the Indian economy.
d. MSME can provide strong backbone to industry growth by **serving as quality suppliers and vendors** as well as customers to large companies across sectors.

(Source: Ministry of Micro, Small and Medium Enterprises)

ASSESSING CLIMATE RISK FOR SUSTAINABLE FINANCING

Sustainable financing is the latest buzz word which is a comprehensive approach to improve the ESG performance of the financial system. Climate risk is a subset of environmental part of sustainable financing.

Physical and transition risks are two main driver of climate change related risks. While, Physical Risks arises from the changes in weather and climate that affect the economy, Transition Risks arises from the transition to a low-carbon and more sustainable economy.

Cross Country Example on Latest guidelines

To address the climate-related challenges faced by financial institutions, a variety of initiatives and processes are underway to develop guidance and methodologies to assess and monitor climate-related risks. Some of them are as under:

UNEP Finance Initiative's Principles of Responsible Banking: They rolled out climate-risk methodologies for the banking sector so that goals of Paris Climate Agreement.

Partnership for Carbon Accounting Financials (PCAF): Carbon accounting methodology for assessment and disclosure of financed emissions, i.e., greenhouse gas (GHG) emissions financed by the loans and investments of financial institutions.

Financial Stability Board (FSB): presented a comprehensive roadmap for addressing climate-related financial risks, including steps and indicative timeframes needed for implementation.

Bank for International Settlements (BIS): In 2020, established the Task Force on Climate-related Financial Risk (TFCR). Subsequently, Basel Committee issued a public consultation on principles for the effective management and supervision of climate-related financial risks.

Measuring Climate Risk

Experts opine that financial institute should draw structured process to measure "climate risks". First Step is to identify the key climate risk drivers and their transmission channel. Second is to map and measure climate-related exposures and area of risk concentration. Third step would be to translate these risks into quantifiable financial risk metrics.

The methodologies and approaches suggested by experts are - Climate risk scores or ratings, Climate scenario analysis, Stress testing, Sensitivity analysis, Natural capital analysis, and Climate value-at-risk (VaR).

It's Importance

Our economy is not immune to climate risks. There is urgent need to follow risk assessment and management approaches and the best practices. This is attainable through cooperation of financial sector and the regulator. Further, learning from international experience and working with international development agencies can be a major knowledge booster. Going ahead, concrete and comprehensive approach taking cue from international experience on assessing climate risk can be seen. This will ultimately aid financial institution and their regulator to take one big step towards Sustainable Financing.

EXCERPTS: RBI MONETARY POLICY ON 7TH DECEMBER 2022

Highlights of the RBI's Monetary Policy announced on 07.12.2022 are given below:

A. Policy Rate	Rate	Change
Policy Repo Rate	6.25%	**35 bps↑**
Standing Deposit Facility (SDF)	6.00%	
MSF Rate	6.50%	
Bank Rate	6.50%	
B. Reserve Ratios		
Cash Reserve Ratio (CRR)	4.50%	**No Change**
Statutory Liquidity Ratio (SLR)	18.00%	

a. **Policy Rates and Stance:** Reserve Bank of India's (RBI) monetary policy commission (MPC) voted unanimously to increase the repo rate by 35 bps. The RBI has hiked key benchmark lending rate by 50 basis points (bps) thrice since June over and above an off-cycle 40 bps increase in repo in May.

b. **Stance:** to remain focused on withdrawal of accommodation so that inflation remains within the target going forward and be growth supportive as well.

   System liquidity remains in surplus with an average daily absorption under the liquidity adjustment facility (LAF) of ₹1.6 lakh crore in November 2022. Since then, it has gone up to ₹2.6 lakh crore as on 5th December. The overall monetary and liquidity conditions remain accommodative.

c. **Rationale:** Inflation has started showing signs of easing and economic growth tapering.

i. **Economic and Inflation Outlook**

- According to the latest data released by National Statistical Office (NSO), real gross domestic product (GDP) posted a growth of 6.3 per cent year-on-year (y-o-y) in Q2:2022-23, driven primarily by private consumption and investment. This is in line with our expectations. Despite downward revision, the Indian Economy remains the fastest growing.
- Economic activity continued to gain strength in October. Tractor, two-wheeler sales suggest rural demand is recovering. RBI surveys show consumer confidence has further improved. Manufacturing and infrastructure firms are optimistic about the outlook. Rural demand recovering, urban consumption rising.
- The biggest risks to the outlook continue to be the headwinds emanating from protracted geopolitical tensions, global slowdown and tightening of global financial conditions. The GDP projections are as under:

RBI Projection GDP	Q3FY23	Q4FY23	FY23	Q1FY24	Q2FY'24
30.09.2022	**4.6%**	**4.6%**	**7.0%**	**7.2%**	**-**
07.12.2022	**4.4%↓**	**4.2%↓**	**6.8%↓**	**7.1%↓**	**5.9%**

Inflation Outlook

- The inflation trajectory has largely evolved in line with the outlook given by us in June 2022. Going forward, food inflation is likely to moderate with the usual winter softening and the likelihood of a bountiful Rabi harvest, but pressure points remain in the form of prices of cereals, milk and spices in the near-term.
- The main risk is that core inflation (CPI excluding food and fuel) remains sticky and elevated. Overall, the CPI price momentum remains high. Risks from adverse weather events add to uncertainty in the outlook.
- Taking into consideration these factors, the projections for the CPI Inflation with risk evenly balanced is as under:

RBI Inflation Projection	Q3FY23	Q4FY23	FY23	Q1 FY24	Q2 FY'24
30.09.2022	6.5%	5.8%	6.7%	5.0%	-
07.12.2022	6.6%↑	5.9%↑	6.7%↔	5.0%↔	5.4%

ii. Liquidity and Financial Market Conditions

- Overall system liquidity remains in surplus. During October-November, the average total absorption under the liquidity adjustment facility (LAF) was ₹1.4 lakh crore, down from the average of ₹2.2 lakh crore during August-September.
- Liquidity conditions are likely to improve due to several factors which would include moderation in currency in circulation in the post-festival period, pick up in government expenditure in the last few months of the financial year and higher forex inflows due to the return of portfolio investors.
- Reserve Bank remains nimble and flexible in its liquidity management operations to meet the requirements of the productive sectors of the economy. Therefore, although the Reserve Bank remains in absorption mode, we are ready to conduct LAF operations that inject liquidity as may be needed through our main operations.
- It has been decided to restore market hours - from 9.00 am to 5.00 pm - in respect of call/notice/term money, commercial paper, certificates of deposit and repo in corporate bond segments of the money market as well as for rupee interest rate derivatives.
- The pace of transmission of monetary policy actions to lending and deposit rates has quickened in the current tightening phase, beginning May 2022.
- On a financial year basis (i.e., from April 2022 to October 2022), the INR has appreciated by 3.2 per cent in real terms5, even as several major currencies have depreciated. The story of the INR has been one of India's resilience and stability.

iii. Additional Measures

a. Regulation and Super Vision

✓ **SLR Holdings in Held to Maturity (HTM) category:**

- With a view to enable banks to better manage their investment portfolios, it has been decided to extend the dispensation of enhanced HTM limit of 23 per cent up to March 31, 2024 and allow banks to include securities acquired between September 1, 2020 and March 31, 2024 in the enhanced HTM limit.
- The HTM limits would be restored from 23 per cent to 19.5 per cent in a phased manner starting from the quarter ending June 30, 2024.

b. Payment & Settlement

✓ **Enhancements to Unified Payments Interface (UPI) – Processing Mandates with Single-Block-and-Multiple-Debits:**

- It has been decided to introduce a single-block-and-multiple debits functionality in UPI, which will significantly enhance the ease of making payments in e-commerce space and towards investments in securities. Separate instructions to NPCI will be issued shortly.
- This will build higher degree of trust in transactions as merchants will be assured of timely payments, while the funds remain in the customer's account till actual delivery of goods or services.

✓ **Expanding the Scope of Bharat Bill Payment System (BBPS) to include all Payments and Collections:**

- It has been decided to expand the scope of BBPS to include all categories of payments and collections, both recurring and non-recurring in nature.
- This will make the platform accessible to a wider set of individuals and businesses who can benefit from the transparent and uniform payments experience, faster access to funds and improved efficiency. Separate guidelines will be issued to NBBL in this regard.

c. Financial Market

✓ **Hedging of Gold Price Risk in the International Financial Services Centre (IFSC)**

- With a view to providing greater flexibility to these entities to hedge the price risk of their gold exposures efficiently, it has been decided to permit resident entities to hedge their gold price risk on recognized exchanges in the International Financial Services Centre (IFSC). The related instructions will be issued separately.

<u>Our View:</u>

RBI has once again delivered in line with the market expectations, the lower than earlier hikes indicate that the inflationary trends moderating. Overall all liquidity conditions remain easy and under control which augur well for the Banking sector. The other measures taken with respect Developmental aspects will pave way for further deepening of digitalization efforts and expansion of scope and benefits of the prevailing system.

GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of Circular	**23-Nov-2022**
Ref. No.	FIDD.CO.FSD.BC.No.13/05.02.001/2022-23
Subject	**Modified Interest Subvention Scheme for Short Term Loans for Agriculture and Allied Activities availed through Kisan Credit Card (KCC) during the financial years 2022-23 and 2023-24**

Gist: In order to provide short term crop loans and short term loans for allied activities including animal husbandry, dairy, fisheries, bee keeping etc. upto an overall limit of ₹3 lakh to farmers through KCC at concessional interest rate during the years 2022-23 and 2023-24, it has been decided to provide interest subvention to lending institutions viz. Public Sector Banks (PSBs) and Private Sector Banks (in respect of loans given by their rural and semi-urban branches only), Small Finance Banks (SFBs) and computerized Primary Agriculture Cooperative Societies (PACS) which have been ceded with Scheduled Commercial Banks (SCBs), on use of their own resources. This interest subvention will be calculated on the loan amount from the date of disbursement/drawal up to the date of actual repayment of the loan by the farmer or up to the due date of the loan fixed by the banks, whichever is earlier, subject to a maximum period of one year. An additional interest subvention of 3% per annum will be provided to such of those farmers repaying in time, i.e., from the date of disbursement of the loan/s upto the actual date of repayment or upto the due date fixed by the banks for repayment of such loan/s, whichever is earlier, subject to a maximum period of one year from the date of disbursement. Interest subvention and prompt repayment incentive benefits on short term crop loans and short term loans for allied activities will be available on an overall limit of ₹3 lakh per annum subject to a maximum sub-limit of ₹2 lakh per farmer in respect of those farmers involved only in activities related to animal husbandry, dairy, fisheries, bee keeping etc.

Date of Circular	**23-Nov-2022**
Ref. No.	DOR.LRG.REC.83/03.10.001/2022-23
Subject	**Basel III Framework on Liquidity Standards – Standing Deposit Facility**

Gist: On receipt of queries from Banks for seeking clarification on the treatment of SDF. Accordingly, it is advised that overnight balances held by banks with RBI under SDF shall be eligible as 'Level 1 High Quality Liquid Assets (HQLA)' for computation of LCR.

Date of Circular	**01-Dec-2022**
Ref. No.	DOR.REG.No.84/07.01.000/2022-23
Subject	**Revised Regulatory Framework - Categorization of Urban Co-operative Banks (UCBs) for Regulatory Purposes**

Gist: Given the heterogeneity in the cooperative sector, a tiered regulatory framework is required to balance the spirit of mutuality and co-operation more prevalent in banks of smaller sizes and those with limited area of operation vis-à-vis the growth ambitions of the large-sized UCBs to spread their area of operation and undertake more complex business activities.

The Reserve Bank of India had constituted the Expert Committee on Urban Co-operative Banks to examine the issues in urban cooperative banking sector and to review regulatory/ supervisory approach for strengthening the sector. Based on the recommendations of the Expert Committee, RBI had released the Revised Regulatory Framework for Urban Co-operative Banks (UCBs) on July 19, 2022.

Accordingly, it has been decided to adopt a four-tiered regulatory framework, as against the existing two-tiered framework, for categorization of UCBs. Going forward, this categorization may be used for differentiated regulatory prescriptions aimed at strengthening the financial soundness of the UCBs. The instructions shall be applicable with immediate effect and is applicable to all Primary (Urban) Co-operative Banks.

Date of Circular	**01-Dec-2022**
Ref. No.	DOR.REG.No.84/07.01.000/2022-23
Subject	**Operations of subsidiaries and branches of Indian banks and All India Financial Institutions (AIFIs) in foreign jurisdictions and in International Financial Services Centers (IFSCs) - Compliance with statutory/regulatory norms**

Gist: Reserve Bank had vide circular DBOD.No.BP.BC.89/21.04.141/2008-09 dated December 1, 2008 and circular DBOD.No.BP.BC.111/21.04.157/2013-14 dated May 12, 2014 issued instructions to Indian banks and AIFIs on the issue of dealing in financial products by their branches/subsidiaries operating outside India. On a review, it was felt that a framework needs to be in place to allow them to undertake activities which are not specifically permitted in the Indian domestic market and also to specify the applicability of these instructions to International Financial Services Centers (IFSCs) in India including Gujarat International Finance Tec-City (GIFT City).

These directions are applicable to all banks regulated by the Reserve Bank (excluding co-operative banks, Regional Rural Banks and Local Area Banks) and All India Financial Institutions (AIFIs). They shall come into force with immediate effect.

(1) The foreign branches/foreign subsidiaries of Indian banks/AIFIs can deal in financial products, including structured financial products, which are not available or are not permitted by the Reserve Bank in the domestic market without prior approval of Reserve Bank, subject to compliance with conditions specified and prescribed.

(2) The branches/subsidiaries of Indian banks/AIFIs operating in IFSCs including those operating out of GIFT City may also deal in financial products, including structured financial products, which are not available or are not permitted by the Reserve Bank in the domestic market subject to compliance with all applicable laws/regulations and conditions stipulated and prescribed.

The activities of branches/subsidiaries in foreign jurisdictions and IFSCs shall be subject to the laws in India, unless specifically exempted by law.

Date of Circular	07-Dec-2022
Ref. No.	DOR.RET.REC.88/12.01.001/2022-23
Subject	**Change in Bank Rate**

Gist: As announced in the Monetary Policy Statement 2022-23 dated December 07, 2022, the Bank Rate is revised upwards by 35 basis points from 6.15 per cent to 6.50 per cent with immediate effect.

Date of Circular	07-Dec-2022
Ref. No.	FMOD.MAOG.No.148/01.01.001/2022-23
Subject	**Liquidity Adjustment Facility- Change in rates**

Gist: As announced in the Monetary Policy Statement dated December 07, 2022, it has been decided by the Monetary Policy Committee (MPC) to increase the policy repo rate under the Liquidity Adjustment Facility (LAF) by 35 basis points from 5.90 per cent to 6.25 per cent with immediate effect.

Consequently, the standing deposit facility (SDF) rate and marginal standing facility (MSF) rate stand adjusted to 6.00 per cent and 6.50 per cent respectively, with immediate effect.

Date of Circular	08-Dec-2022
Ref. No.	DOR.MRG.REC.89/21.04.141/2022-23
Subject	**Review of SLR holdings in HTM category**

Gist: At present, banks have been granted a special dispensation of enhanced Held to Maturity (HTM) limit of 23 per cent of Net Demand and Time Liabilities (NDTL), for Statutory Liquidity Ratio (SLR) eligible securities acquired between September 1, 2020 and March 31, 2023, until March 31, 2023.

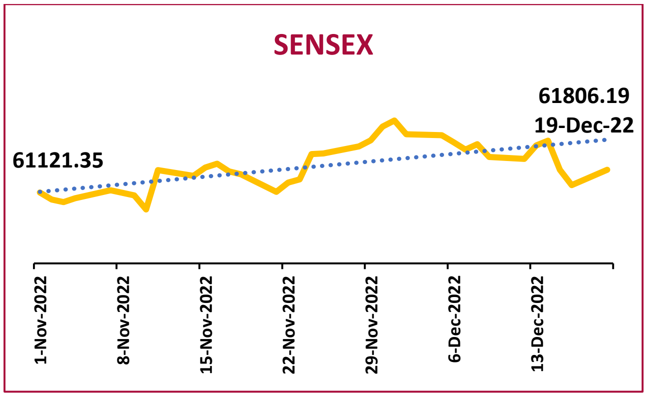
On a review, it has been decided to further extend the dispensation of enhanced HTM limit of 23 per cent of NDTL upto March 31, 2024 and allow banks to include securities acquired between September 1, 2020 and March 31, 2024 under the enhanced limit of 23 per cent.

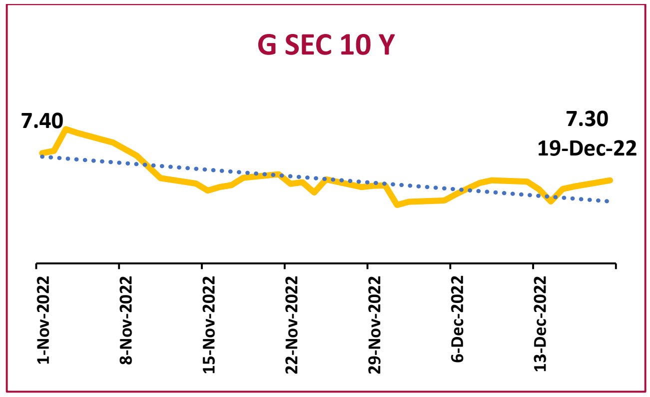
Date of Circular	13-Dec-2022
Ref. No.	DoR.FIN.REC.90/20.16.056/2022-23
Subject	**Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures**

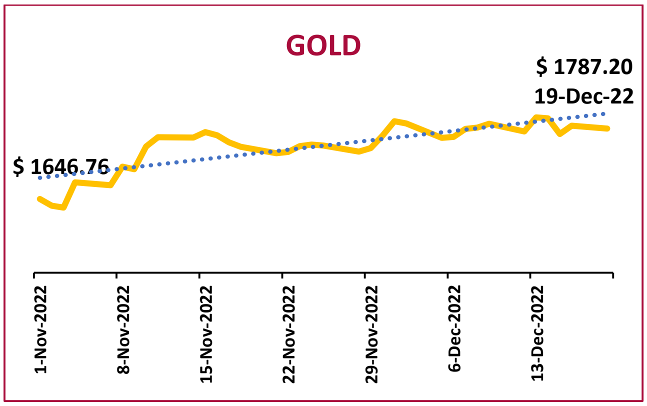
Gist: It is clarified that cases admitted with National Company Law Tribunal (NCLT)/National Company Law Appellate Tribunal (NCLAT) under the Insolvency and Bankruptcy Code, 2016 are also required to be reported under the suit-filed cases in reporting to the CICs. Credit Institutions (CIs) shall ensure implementation of this circular latest by February 28, 2023.

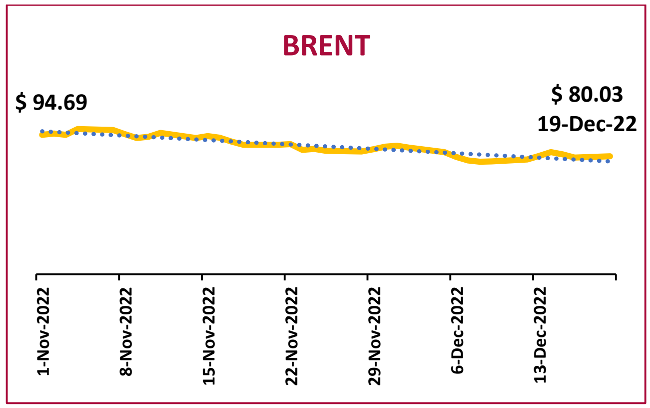
(Duration: 20 Nov'22 to 20 Dec'22)

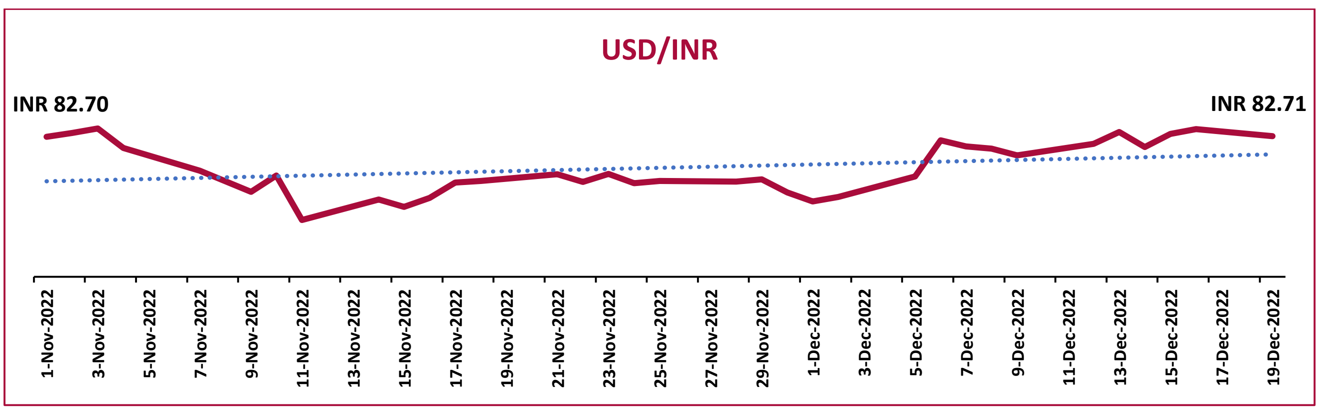
DAILY ECONOMIC INDICATORS

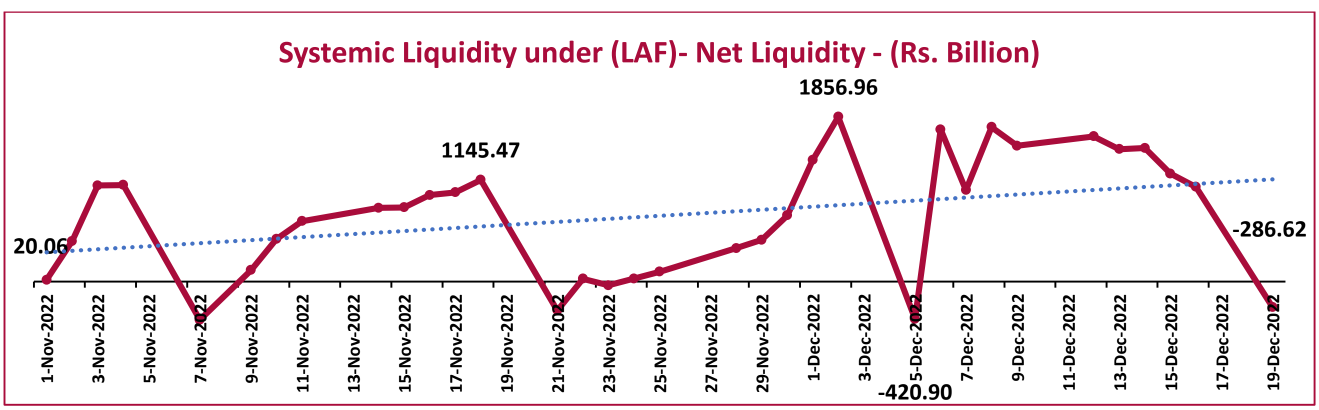








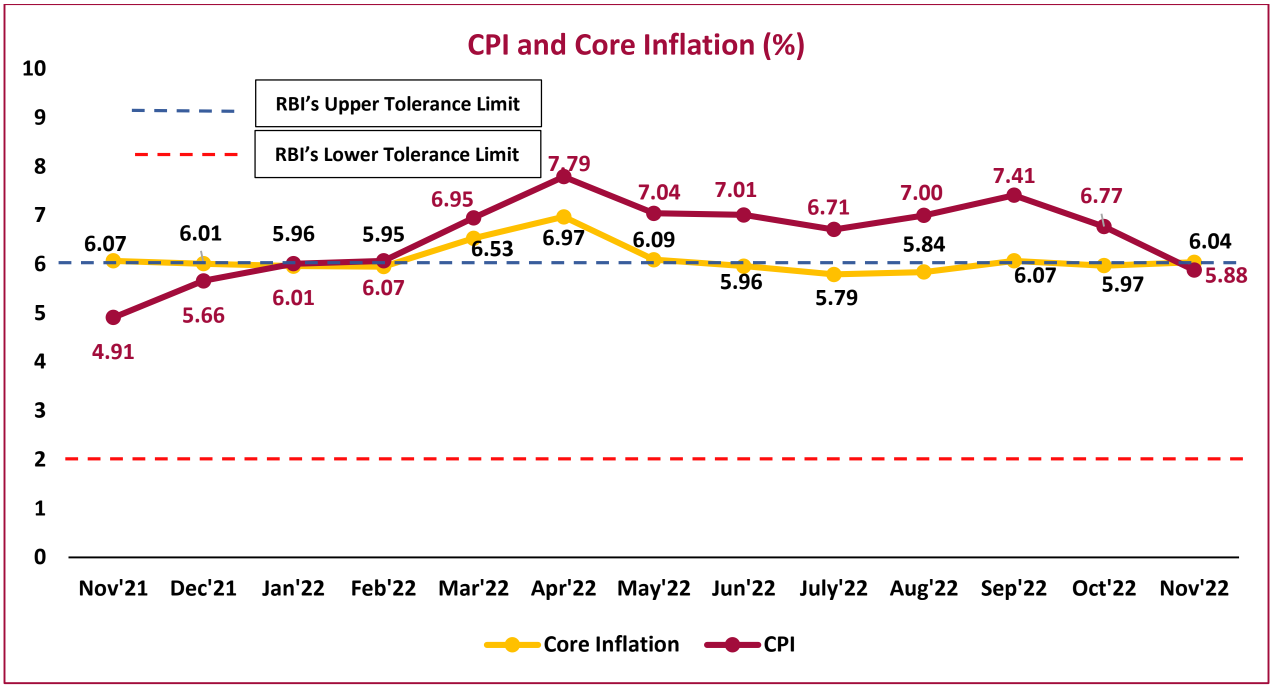


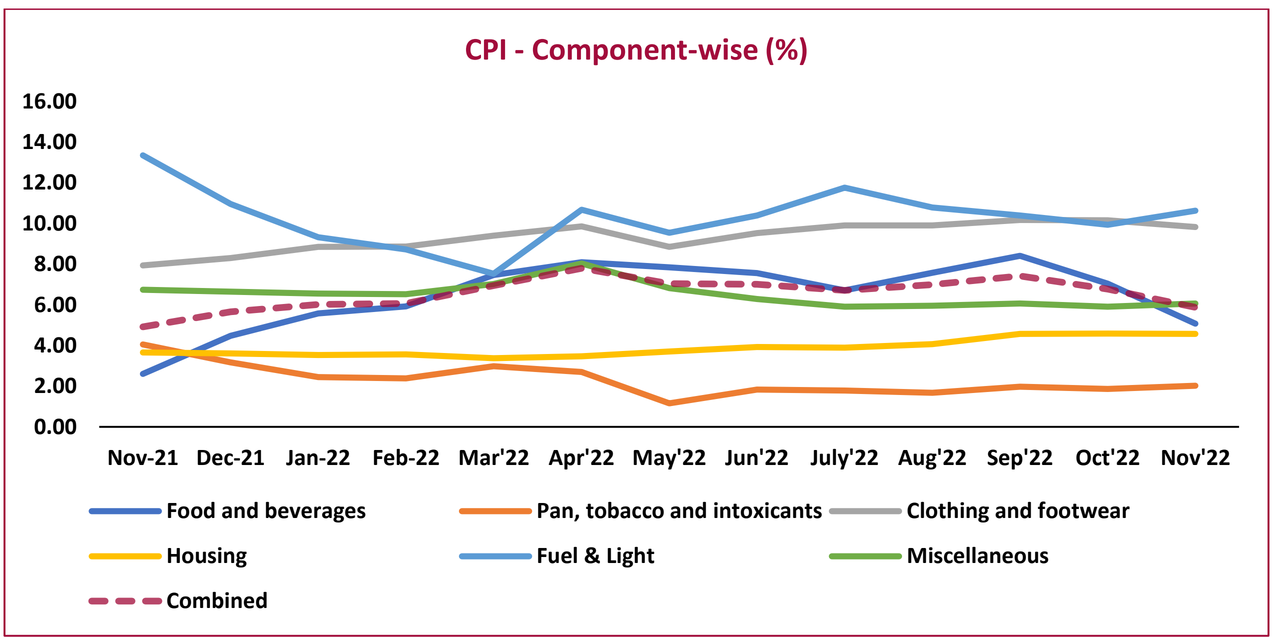


MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation eases to 11-month low to 5.88%

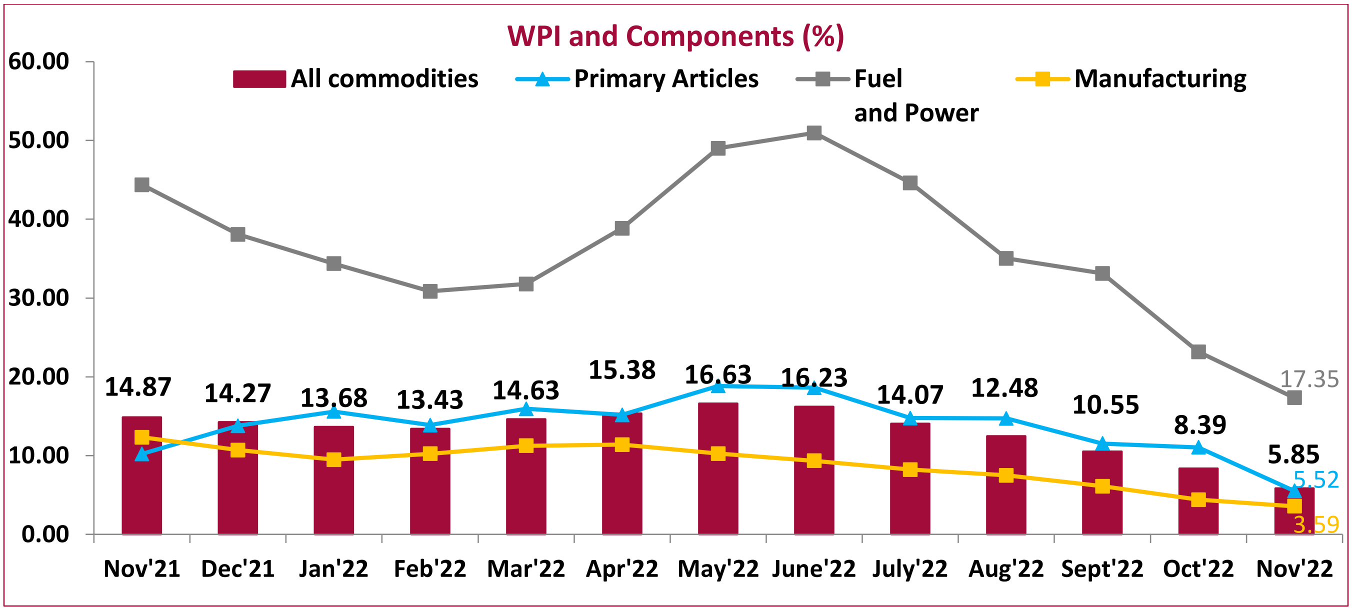




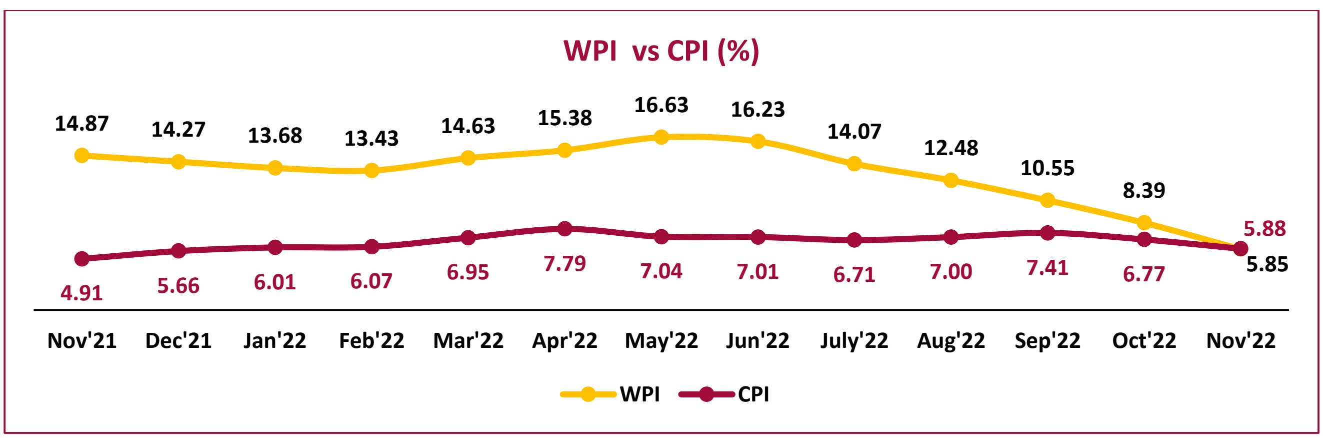
The CPI has come within the tolerance limit of Reserve Bank of India's (RBI) 2 - 6 per cent for the first time in the calendar year 2022. India's retail inflation for November decelerated on the back of relaxation in the food prices.

WHOLESALE PRICE INDEX (WPI)

WPI eases to 21-month low



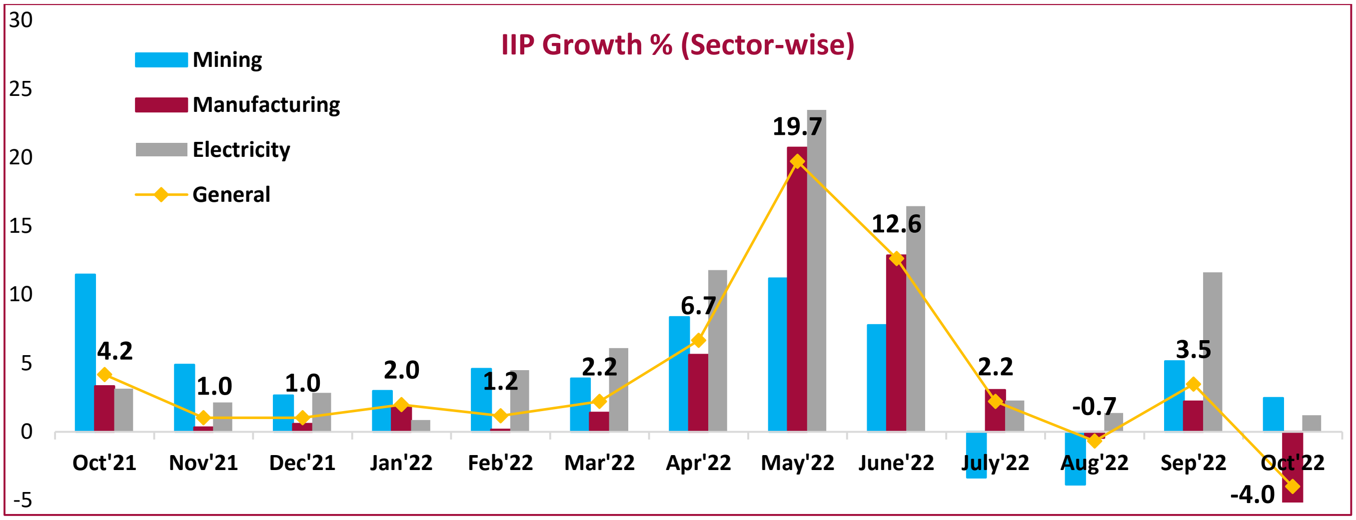
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Sept	5.98	**11.54**	29.49	**33.11**	11.57	**6.12**	-2.55	**11.03**	11.80	**10.55**
Oct	7.38	**11.04**	38.61	**23.17**	12.87	**4.42**	0.06	**8.33**	13.83	**8.39**
Nov	10.21	**5.52**	44.37	**17.35**	12.34	**3.59**	4.82	**1.07**	14.87	**5.85**



The decline in WPI is primarily contributed by fall in prices of food articles, basic metals, textiles, chemicals & chemical products and paper & paper products as compared to the corresponding month of the previous year.

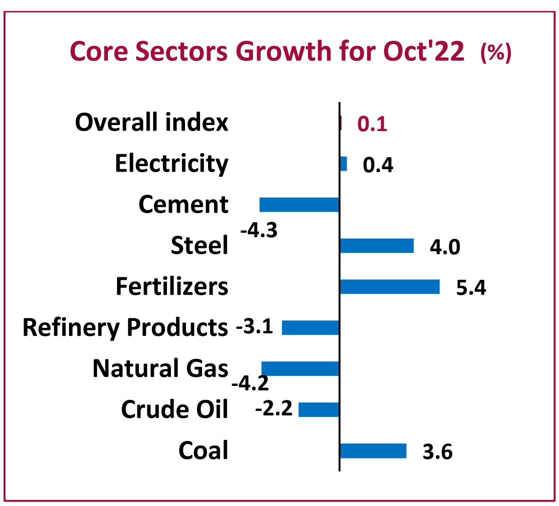
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

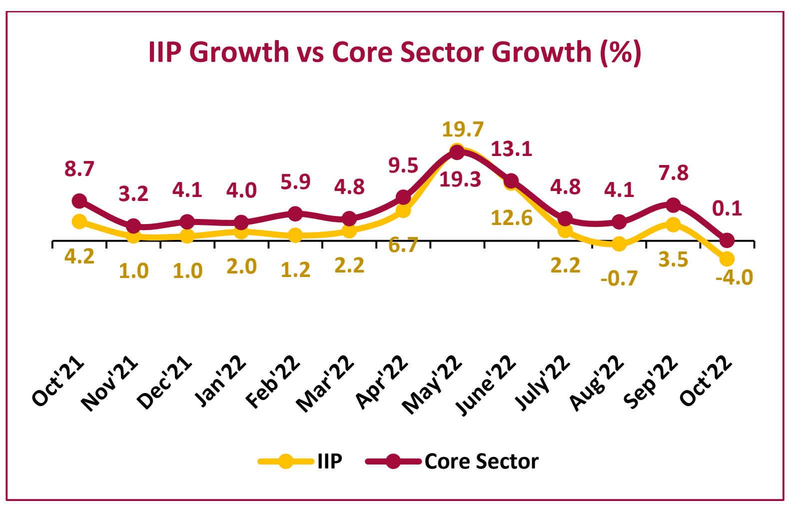
Index of Industrial Production contracts by 4%



IIP growth % (Usage-wise)

Component	Weight	Oct'21	Oct'22	April-Oct'21	April-Oct'22
Primary Goods	34.05%	9.0	**2.0**	14.7	**8.2**
Capital Goods	8.22%	-1.6	**-2.3**	35.4	**14.0**
Intermediate Goods	17.22%	4.6	**-2.8**	28.0	**5.3**
Infrastructure/ Construction Goods	12.34%	6.6	**1.0**	32.0	**6.5**
Consumer Durables	12.84%	-3.2	**-15.3**	30.4	**6.6**
Consumer Non- Durables	15.33%	0.7	**-13.4**	7.2	**-4.2**

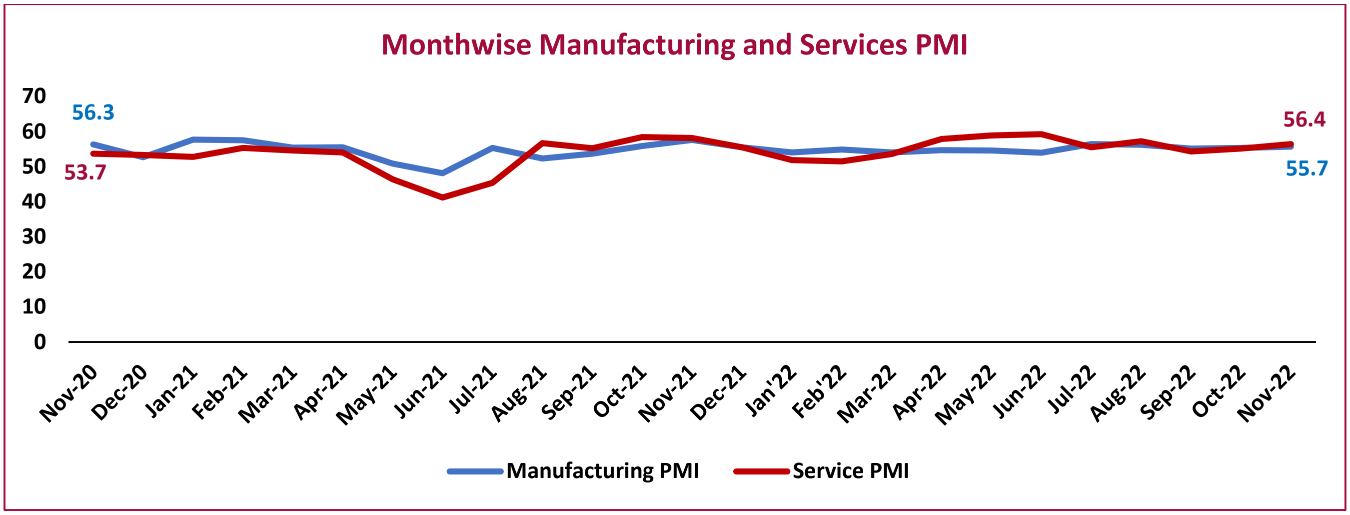




The Index of Industrial Production experienced a decline of 4% in Oct'22 majorly on the back of manufacturing showing de-growth of 5.6% while mining & electricity showing meagre growth.

PURCHASING MANAGERS' INDEX (PMI)

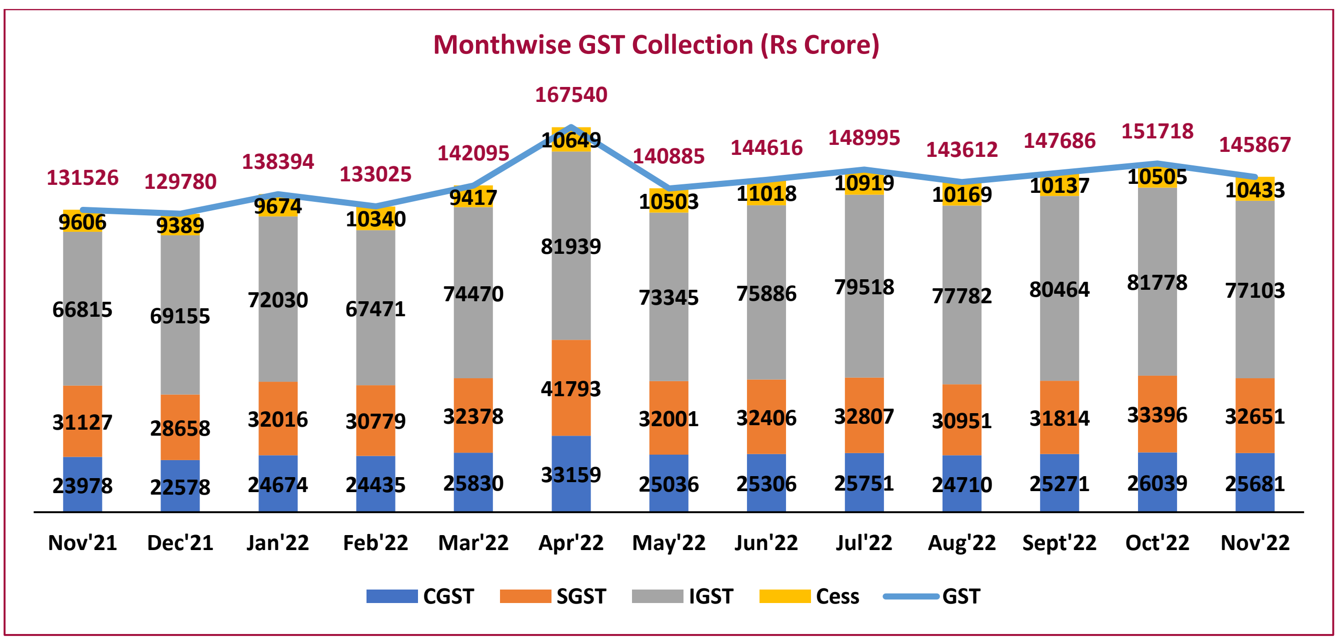
Both Manufacturing and Services PMI hit 3-month high



India's manufacturing sector activity rose as new orders and exports expanded. This is for the 17th consecutive month that the index remained above the 50-point mark, which separates expansion from contraction. On the other hand, Indian services firms continued to benefit from accommodative demand conditions.

GOODS AND SERVICES TAX (GST)

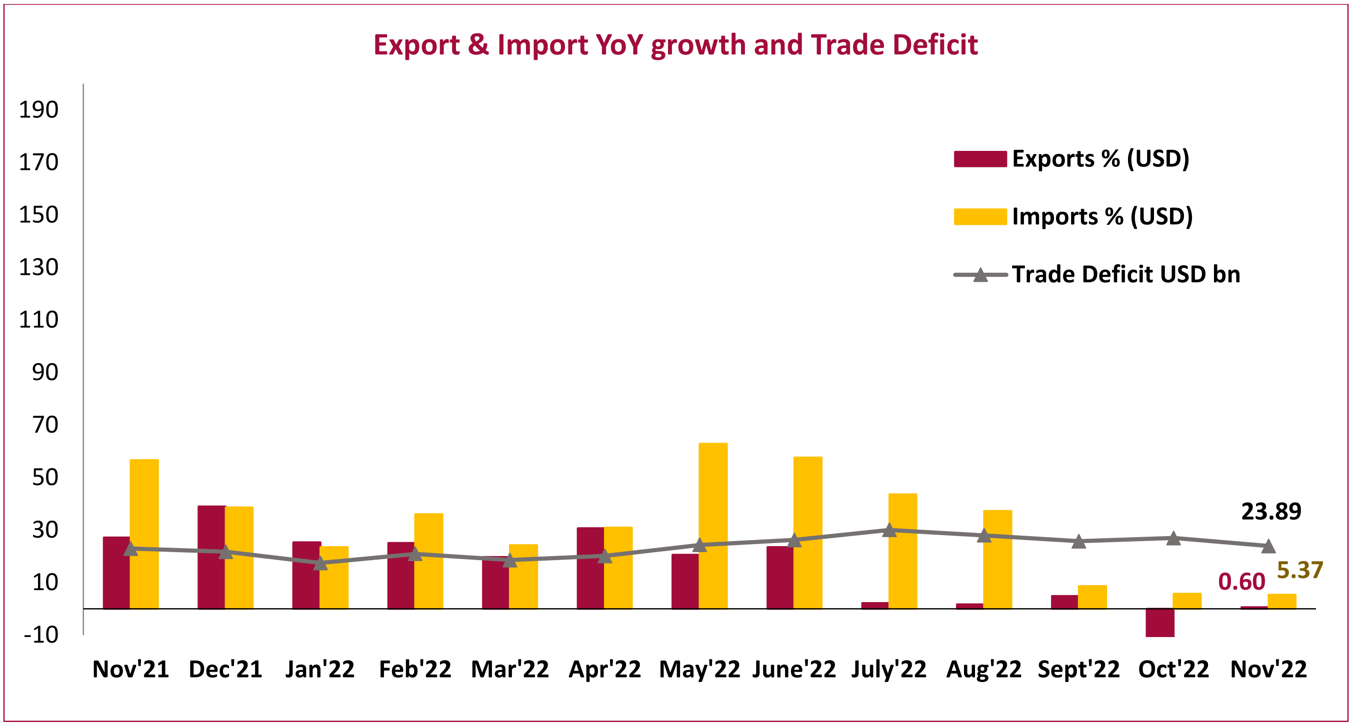
GST Collection remains above Rs. 1.4 Lakh Crore for the ninth straight month

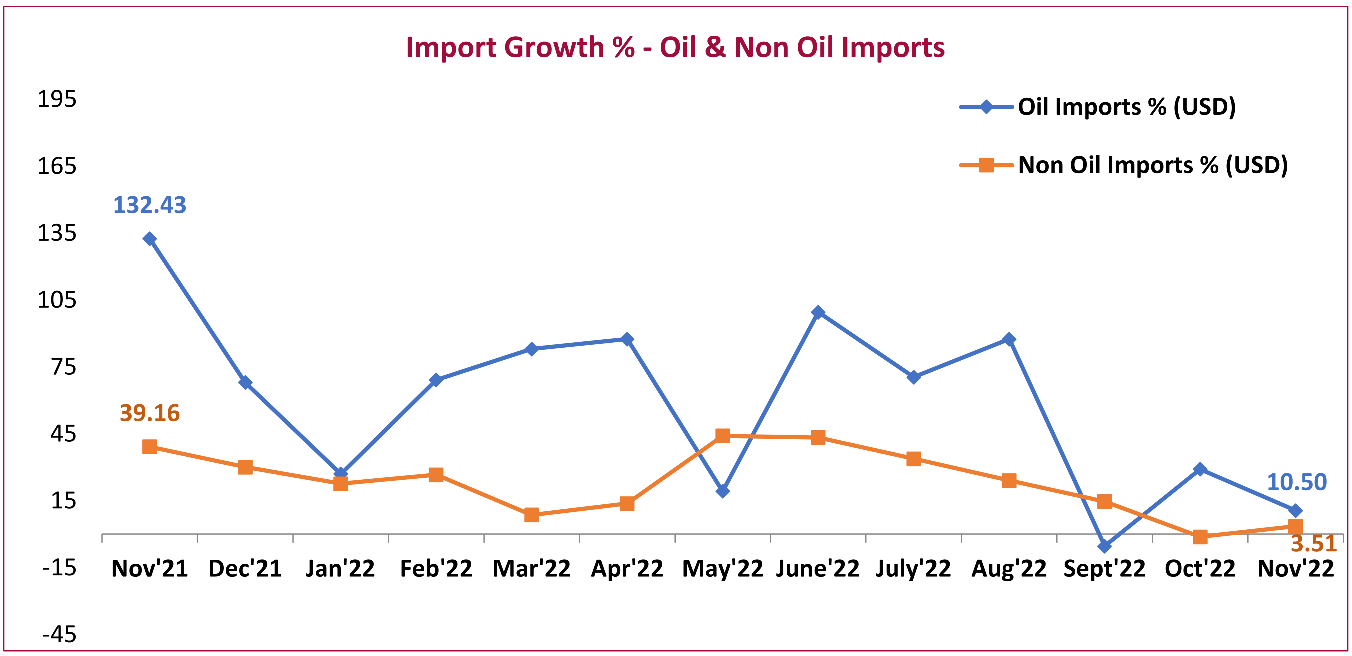


The gross GST revenue collected is Rs. 1,45,867 Crore in November 2022 i.e. around 3.8% decline than GST revenues from the last month and 11% higher than the GST revenues in November 2021.

FOREIGN TRADE

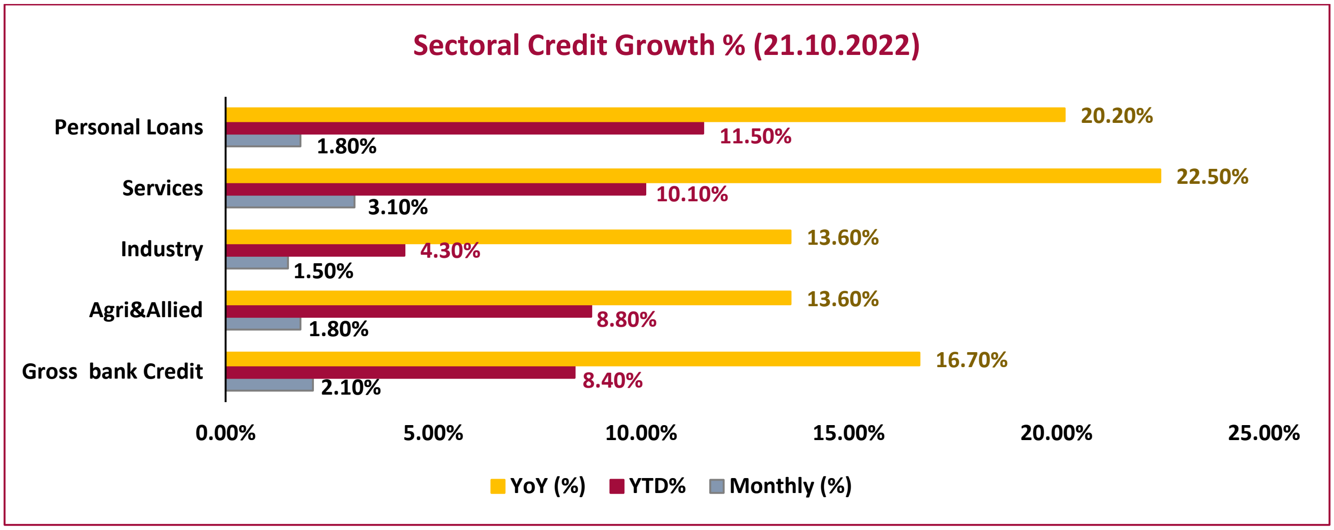
Trade Deficit improves marginally, lowest in 7 months





India's Trade Deficit reached $23.89 billion, up by 12.53 per cent year-on-year in November 2022. Merchandise exports increased to $31.99 billion, up by 0.60 per cent year-on-year in November 2022. Meanwhile Merchandise imports also grew to a 10-month low of $55.88 billion, up by 5.37 per cent year-on-year in November 2022.

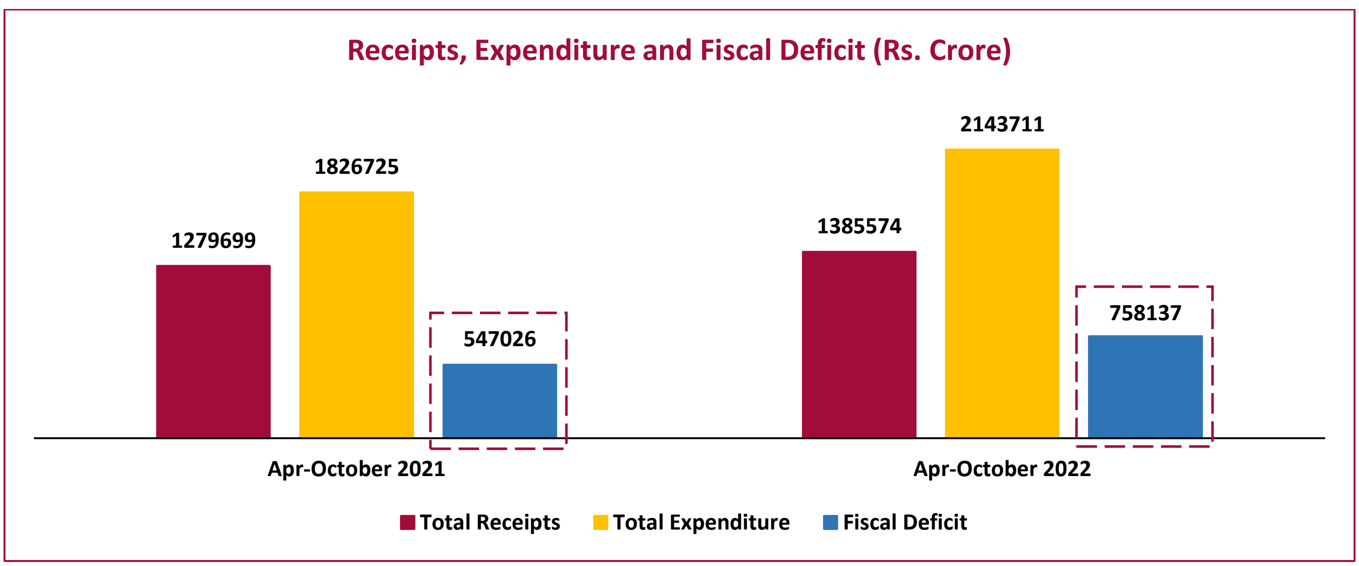
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	03.12.22	25.03.22	18.11.22	02.12.22	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	159.52	164.65	172.97	175.24	**9.9%**	**6.4%**	**1.3%**
Advances	111.59	118.91	129.48	131.07	**17.5%**	**10.2%**	**1.2%**
Business	271.11	283.56	302.45	306.31	**13.0%**	**8.0%**	**1.3%**

FISCAL DEFICIT

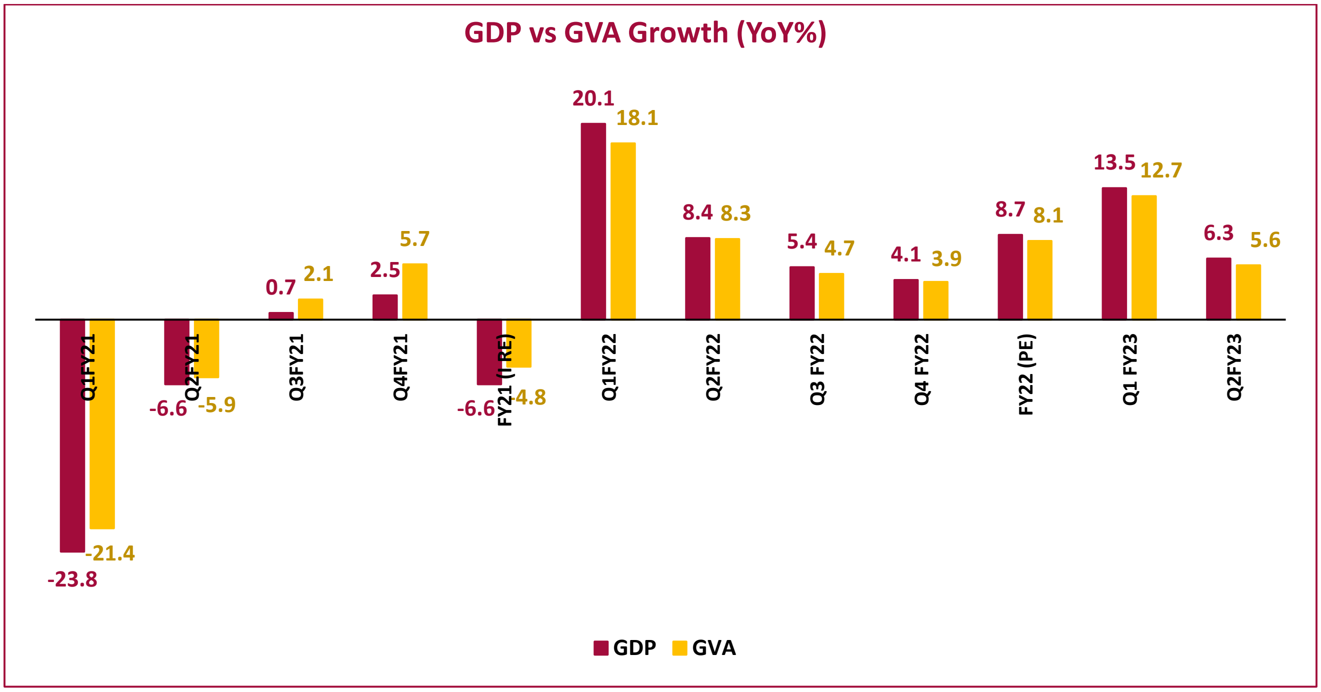


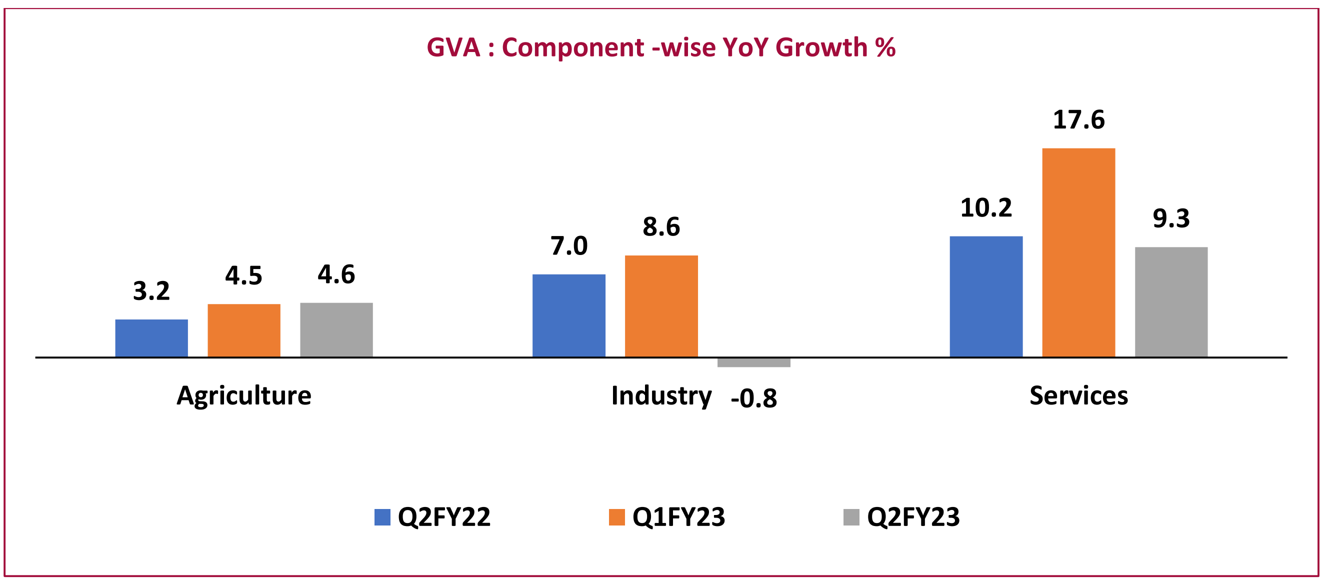
The fiscal deficit for the seven months till October is 45.6% of annual estimates.

QUARTERLY ECONOMIC INDICATORS

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

Economic Growth slows to 6.3%



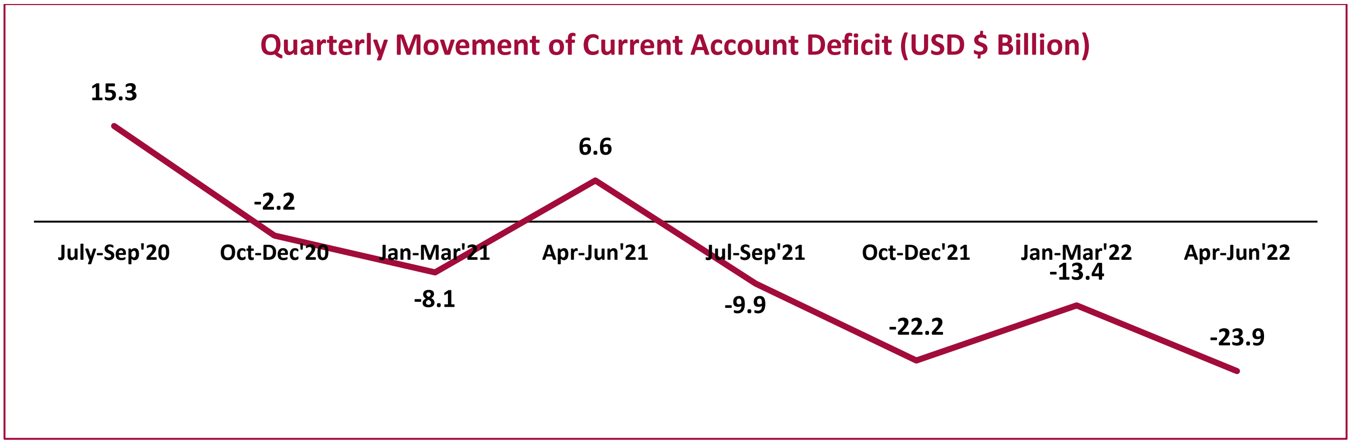


GDP for Q2 FY23 grew by 6.3% as compared to a growth of 13.5% in the previous quarter (Q1 FY23) and a growth of 8.4% in Q2 FY22. Also, Real **Gross Value Added (GVA)** at basic prices (which captures what accrues to the producer/service provider before a product or service is sold) **in Q2 FY23 grew by 5.6%** in comparison to a growth of 12.7% in Q1 FY23 and a growth of 8.3% in Q2 FY22. For H1FY23 the GVA growth at basic price was 9.0% (GDP 9.7%) as compared to 12.8% in H1FY22 (GDP 13.7%).

India's GDP Outlook Of Various Agencies

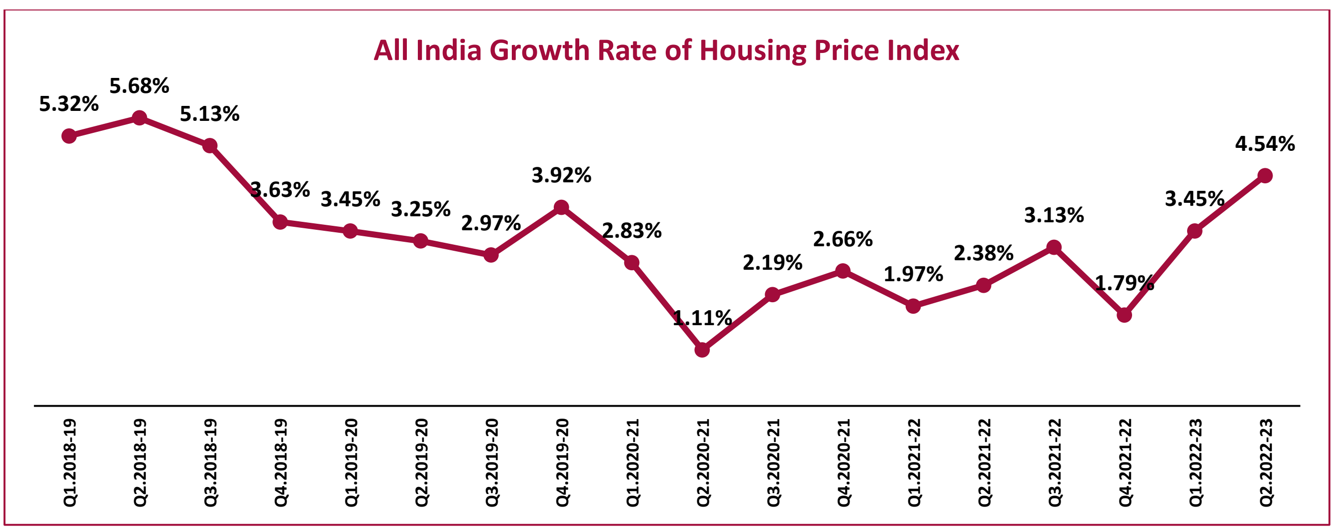
Agency	FY23
RBI	6.8%
World Bank	6.9%
IMF	6.8%
ADB	7.0%
Economic Survey	8-8.5%

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.

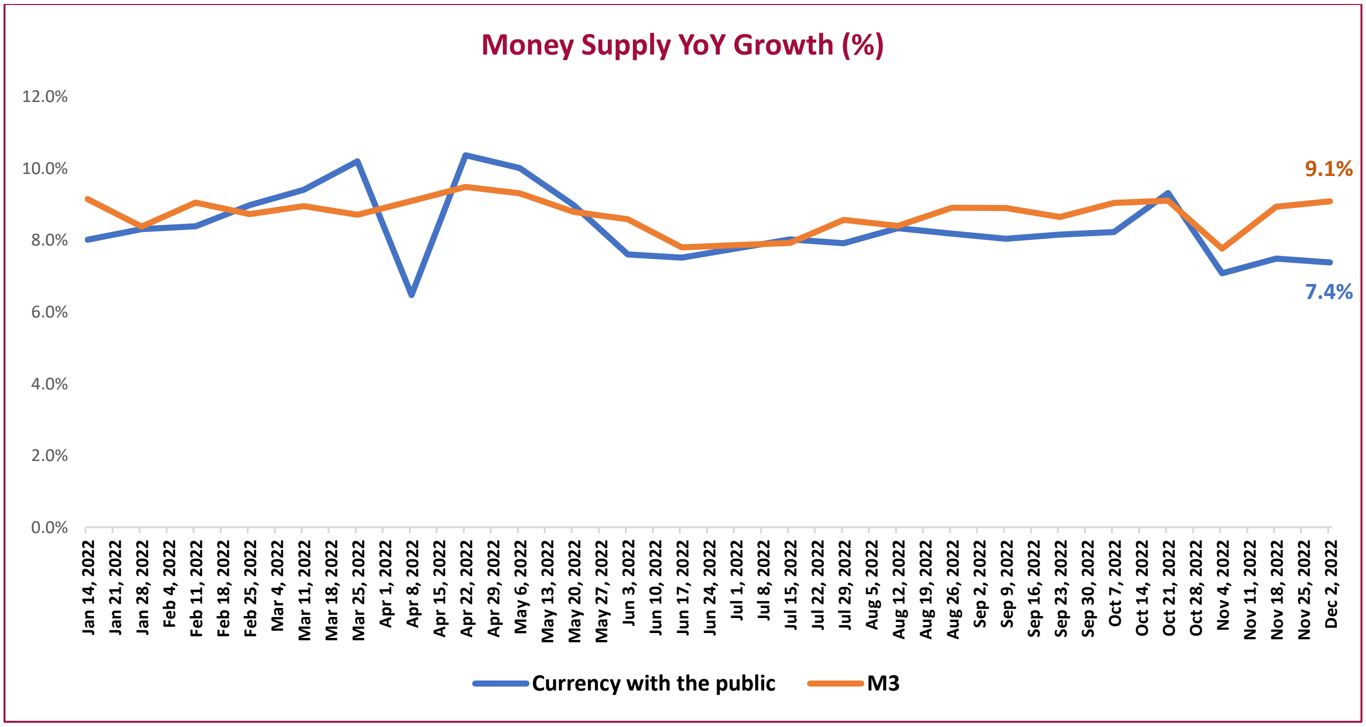
HOUSING PRICE INDEX



All-India HPI recorded 4.54% annual growth (y-o-y) in Q2:2022-23 (provisional data) as compared to 3.45% growth in the previous quarter and 2.38% a year ago.

MONEY SUPPLY

While the Growth Rate of Currency with the Public has declined, growth rate of M3 increased



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)	Jan 18, 2023
European Central Bank (ECB)	Europe	2.50	Dec 15, 2022 (50 bps)	Feb 02, 2023
Federal Reserve	U.S.A	4.50	Dec 14, 2022 (50 bps)	Feb 01, 2023
Bank of England	U.K	3.50	Dec 15, 2022 (50 bps)	Feb 02, 2023
Peoples Bank of China	China	3.65	Aug 22, 2022 (-5 bps)	-
Reserve Bank of India	India	6.25	Dec 07, 2022 (35 bps)	Feb 08, 2023

INDUSTRY OUTLOOK

Steel Industry

Ranked as 2nd highest producer of Steel, the Indian Steel industry is has strengthened itself considerably in past decades. The industry is contributing to the GDP both directly and indirectly through its linkage effect on the other industry.

World crude steel production for the 64 countries reporting to the World Steel Association (worldsteel) was 139.1 million tonnes (Mt) in November 2022, a 2.6% decrease compared to November 2021 as steelmakers worldwide are cutting output in an apparent effort to avoid surplus inventories. Major producer China is witnessing dwindling output since mid- 2021.

India produced 113.43 million tonnes of crude steel in January-November 2022, which is 10% higher compared to the year-ago period. The government aims to double the country's annual crude steel-making capacity to 300 MT.

The government also introduced many schemes like the Production Linked Incentive (PLI) scheme for speciality steel to enhance the production of high-end alloy. Further, the central government in November scrapped the 15% export duty on steel products. The government's infrastructure-led growth model also helped increase demand for finished steel goods. Govt also extended export benefits under the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme to products of iron and steel for a specified period. Taking a step towards decarbonizing the steel sector Govt. is inclined to take measures like encouraging enhanced use of renewable sources of energy, application of resource-efficient materials, further expansion of scrap usage, possible use of green hydrogen as a furnace fuel in the future and exploration of carbon capture utilization and storage. It may be mentioned steel production in India is highly emissions-intensive. The 2017 National Steel Policy also aims to facilitate the growth of the industry by tripling production by 2030, increasing per capita consumption, and reducing carbon dioxide emissions intensity.

However, the steel industry is facing challenges. At global level currently, the industry is facing challenges like high and volatile energy costs, rising interest rates, the fear of recession, waning consumer confidence etc. Apart from the same, going ahead, globally the upcoming central banks' policy decisions, the Chinese property market and the COVID situation there, geo-politics like Russia-Ukraine war, Chinese-Taiwan tension.

Indian steel industry, on the other hand, is performing better vis-à-vis its international counterparts mainly due to government support and development initiatives. However, it has some local challenges like availability of raw materials (especially coking coal), rising coal and gas prices, and meeting demand for special grade steel through imports. Government is taking steps to mitigate these challenges like, new reserves of coking coal being identified, and producing more special-grade steel.

Hence, despite the challenges due to global headwinds steel sector in India is sure to outpace its global counterparts.

EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. Need similar regulations for banks and fintechs if underlying activity is same: RBI DG (ET, 21.12.2022)

- Reserve Bank Deputy Governor T Rabi Sankar pitched for similar regulation for both banks and non-bank entities like fintechs if they are undertaking the same activity. If fintechs are allowed to carry out similar services without the tighter regulations governing banks like capital adequacy, know your customer (KYC) requirements, leverage and liquidity norms, there is a risk of creating inefficiencies and risks associated with regulatory arbitrage, Sankar said at an event organised by Business Standard.
- He argued that this will not kill innovation and suggested that banks can tie-up or out rightly purchase such technologies to ensure that customers get the best services which are available in the market. No regulator has the luxury of letting innovation disrupt the financial system in the hope that the market might reach its own equilibrium eventually, he made it clear.

2. SIDBI, Online PSB loans launch MSME rankings (ET. 20.12.2022)

- Credit bureau TransUnion CIBIL, in collaboration with Online PSB Loans and MSME lender SIDBI on Tuesday announced the launch of FIT Rank – a comprehensive ranking model for MSMEs. FIT Rank will leverage the details available with Goods and Services Tax (GST) filings, Bank Statements, and Income Tax returns (ITR) information to provide a ranking model for MSME lending.
- The 'FIT Rank' launched by TransUnion CIBIL in association with Online PSB Loans, will rate the over 6 crore Micro, Small And Medium Enterprises (MSMEs) by drawing inputs from their current accounts, income tax returns and also Goods and Service Tax (GST) returns to arrive at a score between 1-10 to rate a borrower after taking consent to draw the relevant.

3. India's direct tax collection stands at Rs.13,63,649 crore, records 25.9 per cent growth (BS, 19.12.2022)

- The Gross collection of Direct Taxes (before adjusting for refunds) stood at Rs.13,63,649 crore compared to Rs.10,83,150 crore in the corresponding period of the preceding financial year registering a growth of 25.90 per cent, a government data showed.
- Net Direct Tax collections for the FY 2022-23 recorded a growth of nearly 19.81 per cent. Meanwhile, advance tax collections for the FY 2022-23 stood at Rs.5,21,302 crore registering a growth of 12.83 per cent.

4. **Indian banks' loans rose by 17.5% y-o-y in 2 weeks till December 2: RBI (BS, 17.12.2022)**

- Indian banks' loans rose 17.5% in the two weeks to Dec. 2 from a year earlier, while deposits rose 9.9%, the Reserve Bank of India's weekly statistical supplement showed on Friday.
- Outstanding loans rose 1.59 trillion rupees ($19.22 billion) to 131.07 trillion rupees in the two weeks to Dec. 2. Non-food credit rose 1.59 trillion rupees to 130.55 trillion rupees, while food credit fell 6.21 Bn Rs. to 516.19 Bn Rs and Bank deposits rose 2.27 trillion rupees to 175.24 trillion rupees in the two weeks to Dec 2.

5. **Microfinance NPA at all-time high of Rs 36,500 crore as loans restructured earlier showing stress (ET, 16.12.2022)**

- The stress in the microfinance sector is far from over with the sector's bad loans ratio rising for the second consecutive quarter to 12.1% at the end of September compared with 10.5% six months prior to that.
- This translates into Rs 36,418 crore of gross non-performing assets - an all-time high. This is despite significant write-offs of very sticky loans by lenders as a balance-sheet cleaning exercise.

6. **Bad loans worth Rs 10 lakh cr written off by banks in last five financial years, says Nirmala Sitharaman (ET, 13.12.2022)**

- Finance Minister Nirmala Sitharaman said bad loans worth Rs 10,09,511 crore have been written off by banks during the last five financial years.
- The non-performing assets (NPAs), including those in respect of which full provisioning has been made on completion of four years, have been removed from the balance sheet of the bank concerned by way of write-off, said Sitharaman in a reply to Rajya Sabha.
- SCBs have recovered an aggregate amount of Rs 6,59,596 crore, including recovery of Rs 1,32,036 crore from written-off loan accounts during the last five financial years, she said.

7. **Banks must scale up investments in technology: RBI Deputy Governor (BL, 12.12.2022)**

- The rapid rise of digital platforms has raised new challenges, including unregulated digital lending apps, cryptocurrencies and cyberattacks, according to MK Jain, Deputy Governor of the Reserve Bank of India.
- He also said Indian banks and financial institutions should increase investments in technology as their legacy systems may not be suited to rapid changes in product design and computation.
- He said that banks and financial institutions should be ready to scale up their investments in technology. “In many cases, legacy core banking systems designed in the pre-mobile app era may not be amenable to swift changes in product design, computational capabilities, API integration, etc,” Jain added.

8. November retail inflation eases to 11-month low of 5.88% (Mint, 12.12.2022)

- Retail inflation eased to an 11-month low of 5.88% in November, coming within the upper limit of the Reserve Bank of India's tolerance band for the first time since last December in the wake of a flurry of interest rate hikes.
- Cooling food price inflation contributed to the overall moderation in inflation, data from the ministry of statistics and programme implementation showed. Consumer Price Index (CPI)-based inflation was at 6.77% in October and 4.91% last November.
- The data on moderating inflation follows the increase in repo rate by 35 basis points to 6.25% on 7 December, RBI's fifth increase in eight months. Experts expect another 25 basis points increase in February.

9. RBI increases key lending rate by 35 bps, pegs GDP growth at 6.8% (BL, 08.12.2022)

- The Monetary Policy Committee (MPC) of the RBI on December 7 increased the repo rate by 35 basis points (bps) to 6.25%, and the Standing Deposit Facility stands raised to 6%.
- The MPC's majority view was to withdraw accommodative stance, said RBI Governor Shaktikanta Das.
- Inflation is expected to be 6.7% this year, with CPI inflation for the first quarter of 2023-24 projected at 5% and the second quarter at 5.4% on the assumption of a normal monsoon. The focus on inflation control continues and there will be no let-up in our efforts to bring down inflation, first below 6% and then closer to the 4% target, the Governor said.
- The central bank's key committee also marginally lowered the GDP projection to 6.8% for 2022-23, with the third quarter registering 4.4% growth.

10. Banks should not ask for verification at branch level if e-KYC done: RBI (ET,07.12.2022)

- The Reserve Bank said banks should not ask for verifications/updates at the branch level in case a customer has done e-KYC or those who have completed the KYC (know-your-customer) process on C-KYC portal.
- Bank customers who've completed their KYC verifications online can do the annual updates as well as changes if any in their personal details online. A bank should not be demanding from a customer to walk into the branch for verification/updates. There is no such rule from the Reserve Bank on this, governor Shaktikanta Das told reporters.
- The governor also said, similarly for those customers who have uploaded their KYC details on the central-KYC (C-KYC) portal should not be asked for verification by any bank. In such case, the customer can just mail or message from the registered email ID or mobile to the bank to access the KYC details from the C-KYC portal.

11. GST collection up 11% more than Rs 1.45 trn in Nov, gains from imports (BS, 02.12.2022)

- Goods and services tax (GST) collection came down in November to Rs 1.45 trillion as against Rs 1.52 trillion in October, but remains more than the Rs 1.4-trillion mark for the ninth straight month, the official data released on Wednesday showed.
- The revenues for November were 11 per cent higher than what they were a year ago. In November 2021, collection was Rs 1.31 trillion. The latest GST numbers pertain to transactions made in October.
- However, collection in November was the lowest since August. Collection in September and October was Rs 1.48 trillion and Rs 1.52 trillion, respectively.

12. RBI launches retail digital rupee in four cities (FE)

- The Reserve Bank of India (RBI) launched the first pilot project for retail digital rupee in Mumbai, New Delhi, Bengaluru and Bhubaneswar.
- The retail digital rupee project has started in a closed user group with the participation of four lenders — State Bank of India, ICICI Bank, Yes Bank and IDFC First Bank — as well as customers and merchants.
- The launch comes a month after the Reserve Bank of India (RBI) started a pilot in the digital rupee – wholesale on November 1. In the second phase of retail digital rupee project, nine more cities and four more banks will be included.

13. RBI cautions banks against frauds in accounts linked to direct benefit transfer (ET, 01.12.2022)

- The Reserve Bank of India (RBI) has cautioned banks against increasing instances of fraud in accounts linked to the government's Direct Benefit Transfer (DBT) and asked them to step up their vigilance and build in more stringent checks. The issue was flagged by the banking regulator in a recent meeting with bankers.
- The regulator wants lenders to be more proactive and keep a check on unusual withdrawals or transactions.

14. RBI permits banks to open 12 special vostro accounts for trade in rupees (BS, 25.11.2022)

- The Reserve Bank of India (RBI) has permitted banks to open 12 special "vostro accounts", to facilitate import-export trade in the rupee, the apex bank's executive director Deepak Kumar said.
- The RBI had earlier allowed two Indian lenders — UCO and IndusInd Bank — to open nine special vostro accounts for facilitating overseas trade in rupee.
- Vostro accounts are held by a bank on behalf of another (often foreign) bank. Such an arrangement forms a key part of correspondent banking.

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

"Think before you speak…
Read before you think."

- Fran Lebowitz

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