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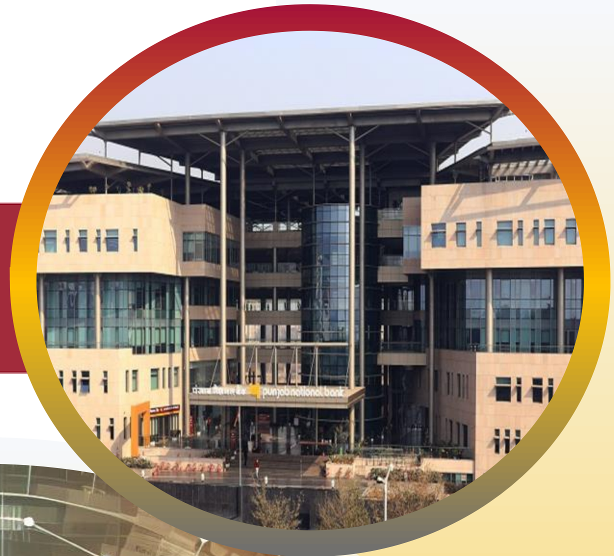

PNB ECOLENS

MONTHLY BULLETIN

पीएनबी इकोलेंस मासिक बुलेटिन

JANUARY 2025

जनवरी 2025

STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

Published by:
Punjab National Bank
Strategic Management & Economic Advisory Division (SMEAD)
Corporate Office, Plot No. 4, Sector 10,
Dwarka, New Delhi-110075

निम्न द्वारा प्रकाशित:
पंजाब नैशनल बैंक
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For any feedback or valuable suggestions: *Reach us at eicsmead@pnb.co.in*

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1. EDITORIAL

YEAR 2025 – BANKING TOWARDS EXCELLENCE AND INNOVATION

As we step into the year 2025, the banking sector finds itself at a defining moment. Over the past few years, the industry has undergone thoughtful changes, shaped by technology, shifting economies, and evolving customer expectations. The start of a new year gives us a chance to pause, take stock of current scenario and set sights on what lies ahead.

As India sets its sights on achieving its gross domestic product goal of $7 trillion by 2030, the banking sector is positioned to be a key driver of economic growth. Boosted by strong regulatory measures aimed at strengthening banking infrastructure, coupled with technological advancements and a rapidly evolving customer landscape, the banking industry is transforming at an unprecedented pace.

Economic recovery continues to unfold while technological innovations like Artificial Intelligence (AI), blockchain, and digital currencies are rewriting the rules of the game at present. AI is empowering chatbots, personalizing advice, and detecting financial frauds. Blockchain is streamlining transactions and enhancing security. Digital currencies are offering faster payments. While challenges undoubtedly exist, the banking sector is poised for unprecedented opportunities. Navigating this evolving terrain demands a proactive approach from banks, prioritizing rapid adaptation, modernization of core systems, and a robust culture of innovation. Simultaneously, unwavering commitment to compliance and robust risk management frameworks is crucial to ensure resilience and maintain public trust in the system.

India's monetary policy landscape in 2025 will continue to navigate inflationary pressures, with retail inflation moderating slightly in December 2024 to 5.22 per cent from 5.48 per cent in November. While this offers some respite, concerns linger about sustained credit growth due to liquidity challenges and global economic uncertainties. To address these concerns, the RBI has implemented a series of measures, including a reduction in the Cash Reserve Ratio (CRR), increased frequency of Variable Rate Repo (VRR) auctions, and recently, introduced Open Market Operations (OMO) purchases, 56-day VRR auctions, and USD/INR swaps. These actions are aimed at bolstering liquidity within the banking system and fostering a conducive environment for credit expansion.

Apart from this, the demand for speed, personalization, and security is reshaping how consumers interact with banks. This shift towards hyper-personalization has led to the rise of real-time payments and digital wallets, which are directly linked to increasing consumerism and easier access to funds by all the segments of the economy. These trends set the stage for a more seamless and spontaneous banking experience for all the customers across segments.

In the corporate sector, an uptick in investment, especially in infrastructure and manufacturing, will likely push demand for business loans. Banks, having strengthened their balance sheets in recent years, are expected to remain aggressive in lending, aided by the government's continued focus on infrastructural growth and ease of doing business.

Additionally, the push for credit access in rural and underserved areas, driven by digital banking initiatives, will help expand the credit footprint across the country. On the asset quality front, keeping a close watch over lending practices, adopting robust underwriting standards, adhering to stricter risk assessment protocols will remain important.

In the year ahead, the three Cs i.e., Collaboration, Cybersecurity and Consumer Protection will remain the buzzword and these concepts will be driving the growth. Another agenda which will continue to be the key driving force of the Banking system in India is Financial Inclusion. In India, Financial Inclusion Index at 64.2 in March 2024 indicate that financial inclusion goal is still to be achieved by bringing in the unbanked.

One of the most exciting shifts that Banking is expected to see is the growing focus on sustainability. Environmental, Social, and Governance (ESG) considerations, once viewed as peripheral, have now become central to strategic decision-making. Green financing initiatives, sustainable lending practices, and supporting businesses with a strong social impact are no longer optional but are essential for long-term success. The government's focus on renewable energy further drives this shift. Banks that proactively integrate ESG principles into their operations are not only contributing to a more sustainable future but also enhancing their reputation, attracting socially conscious investors, and mitigating environmental and social risks.

However, the road ahead for the Banking Sector will not be without hurdles and challenges. The Sector confronts cybersecurity threats which are now growing even more sophisticated. Apart from this, competition for tech-savvy talent is gearing up and staying compliant with ever-changing regulations are the need of the hour. At the same time, there is still work to be done in ensuring that the benefits of digital transformation reach everyone, no matter where they live or how much they earn.

Indian banks are investing in IT infrastructure while adhering to the regulatory frameworks, such as data localization, customer consent management, and risk mitigation. Many institutions are adopting a hybrid approach, building in-house data science teams to customize AI-driven solutions using existing open-source models. This ensures that AI innovations align with the unique requirements of Indian banking while maintaining compliance and operational control.

As we look to the year ahead, it is certain that the success in banking will depend on adaptability, collaboration, and the courage to innovate. By leaning into these values, banking sector in India can do more than navigating challenges. They can drive growth, inspire trust, and help build a brighter future of the economy.

Here we look forward to a year of progress, innovation and excellence.

V P Bansal

Deputy General Manager

2. Central Banks Shore Up Gold Reserves

The year 2024 saw many central banks around the world increasing the stock of their gold reserves. As per official data, the United States holds the largest gold reserves at 8133.5 tonnes as of November 2024 and India stands at the eighth position with 876.2 tonnes of gold reserves. India and China are the only two emerging market countries in the list of top 10 gold reserves holders in the world.

Exhibit 1: Official Central Bank Gold Holdings (Top 10)

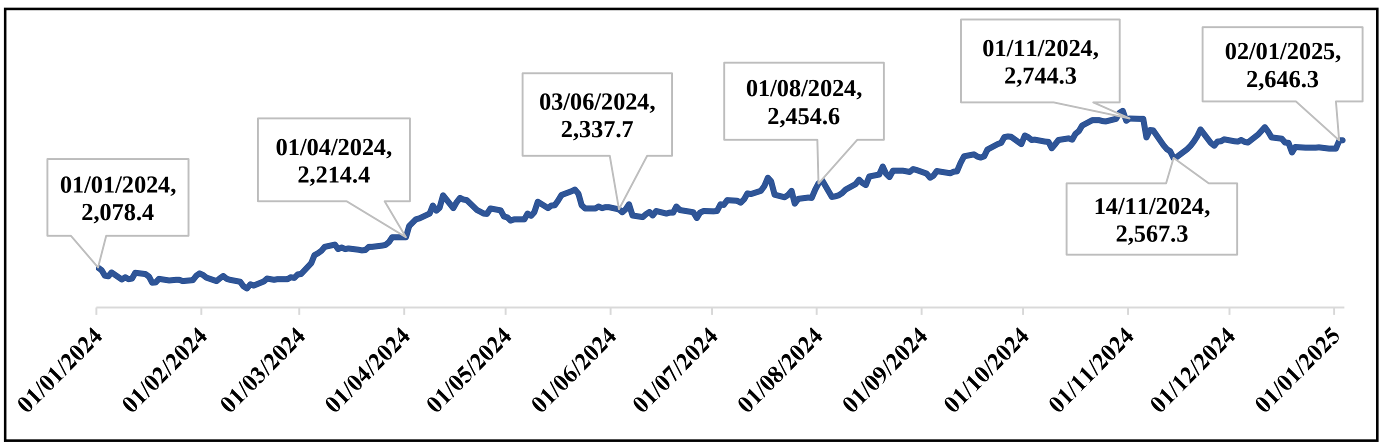
S.No.	Country	Gold Reserves (Tonnes)	% of Reserves*	Holdings as of
1	United States	8,133.5	75.1%	Nov 2024
2	Germany	3,351.5	74.1%	Nov 2024
3	Italy	2,451.8	71.0%	Nov 2024
4	France	2,437.0	72.5%	Nov 2024
5	Russian Federation	2,335.9	32.2%	Jun 2024
6	China, P.R.: Mainland	2,269.3	5.5%	Nov 2024
7	Switzerland	1,039.9	9.5%	Oct 2024
8	India	876.2	11.2%	Nov 2024
9	Japan	846.0	5.8%	Nov 2024
10	Turkey	615.0	36.1%	Nov 2024

*The percentage share held in gold of total foreign reserves, as calculated by the World Gold Council. The value of gold holdings is calculated using the end of month LBMA Gold price published daily by ICE Benchmark Administration. In **November 2024** the end of month gold price was **US$2,651.05/oz**.

Source: World Gold Council

Gold prices globally fell in November, following the outcome of the US elections, which provided central banks with added impetus to accumulate gold reserves (exhibit 2).

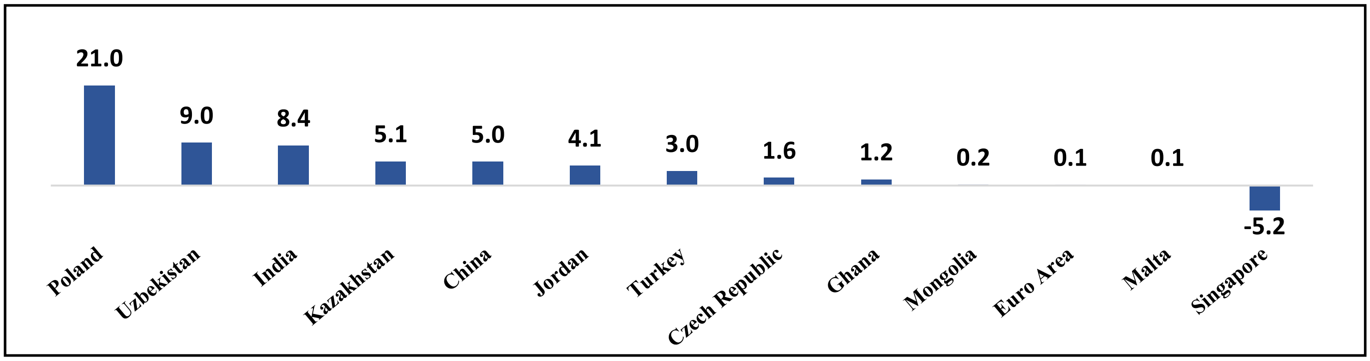
Exhibit 2: Gold Price per troy ounce (USD)



Source: World Gold Council

In November 2024, countries especially Poland, Uzbekistan, India, Kazakhstan, and China witnessed volatility in their respective currencies (exhibit 9), so in order to maintain their reserves they bought large quantity of gold (exhibit 3a).

Exhibit 3(a): Change in Central Bank Gold Reserves in Nov'24 (Tonnes)



Source: World Gold Council

Overall, central banks around the world bought a net of 53.5 tonnes of gold in November'24 with only Singapore depleting its gold reserves by 5.2 tonnes. India was the third largest gold buyer with the RBI purchasing 8.4 tonnes of gold in November'24.

Further, in the year 2024 (upto Nov'24), central banks bought a net of 326.5 tonnes of gold- with India being the third largest net buyer of gold at 72.6 tonnes (exhibit 3b).

Exhibit 3(b): Change in Central Bank Gold Reserves from Jan-Nov'24 (Tonnes)

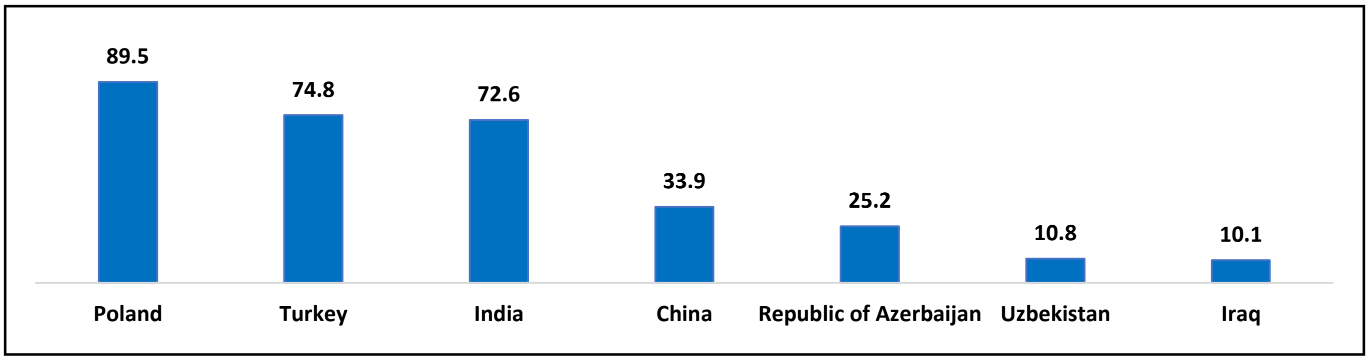
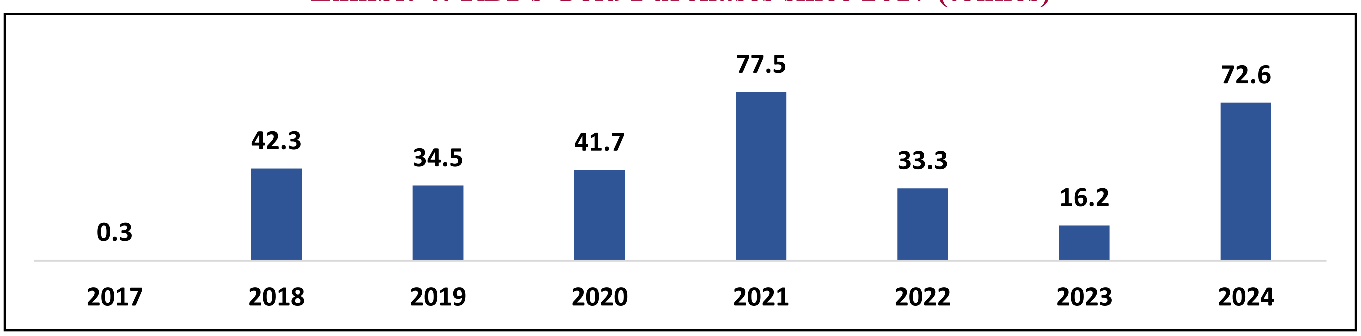


Exhibit 4: RBI's Gold Purchases since 2017 (tonnes)

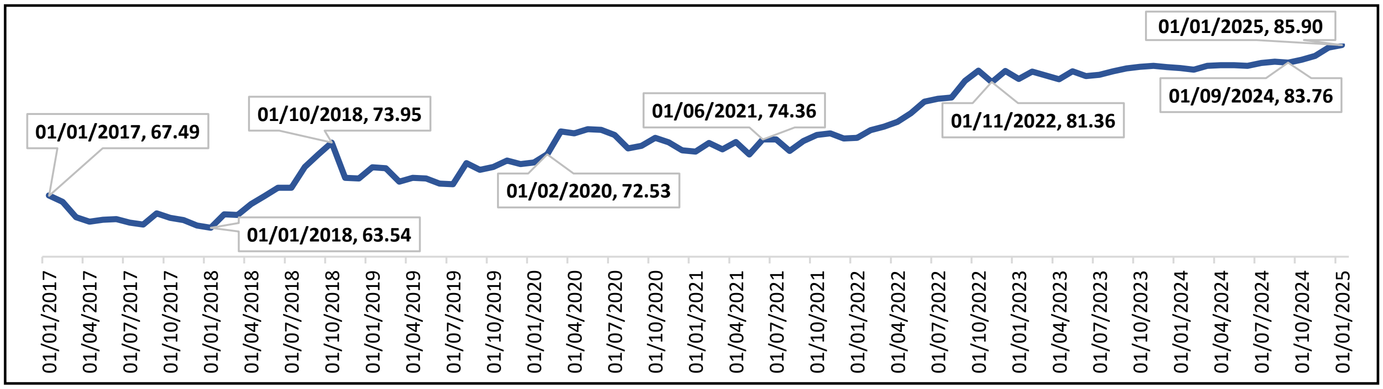


Note: Data for 2024 is upto Nov'24; Source: World Gold Council

In 2024, RBI has already purchased 72.6 tonnes of gold up to Nov'24. With December data awaited, 2024 may be the year that sees the largest addition to the central banks' gold reserves since 2021.

For India, the RBI's addition of 8.4 tonnes in November raised its total gold holdings to 876 tonnes. This brings the RBI's year-to-date gold purchases to 72.6 tonnes, securing its position as the third-largest buyer of gold in 2024, behind Poland and Turkey.

Exhibit 5: USD/INR Fluctuation since 2017

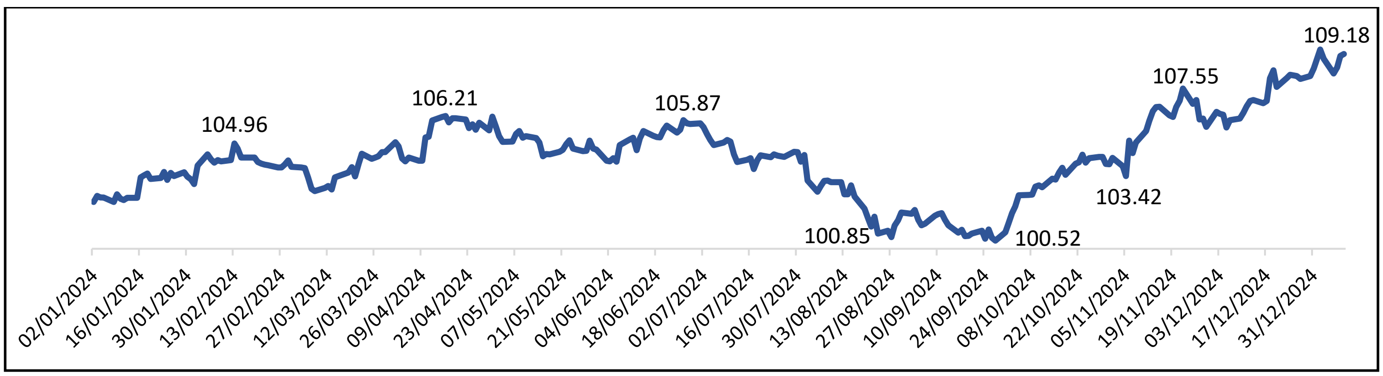


Source: Investing

The Indian Rupee lost about 2.8% against the dollar in 2024 (Jan-Dec) as compared to only 0.6% in 2023, which was a stable year in terms of currency volatility.

TREND IN 2024

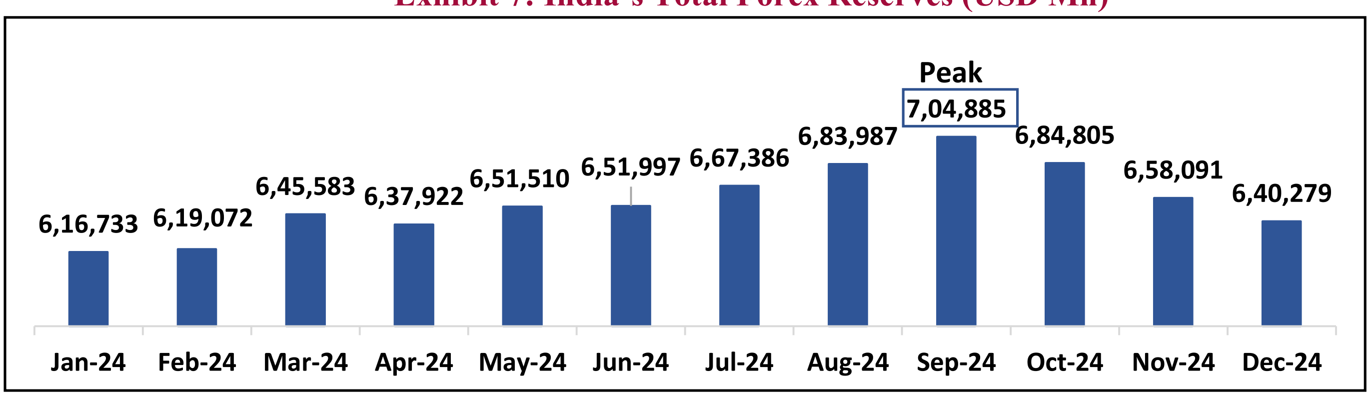
Exhibit 6: Movement in US Dollar Index since Jan'24



Source: Investing

Exhibits 6 & 8 indicate that as the US Dollar strengthened, the RBI had to deplete its foreign exchange reserves in order to stabilize the Indian Rupee. Further, RBI has been increasing its gold reserves in order to preserve excess depletion in its foreign currency assets. This strategy has helped the central bank maintain the country's foreign exchange reserves to the above USD 600 billion level.

Exhibit 7: India's Total Forex Reserves (USD Mn)



Source: CMIE

There has been substantial reduction in India's forex reserves between September'24 and December'24 from $704.9 billion to $640.3 billion. Although RBI is a net buyer of gold in the month of November 2024, RBI's gold reserves in USD terms has declined on account of valuation changes (reduction in value of gold) (Exhibit 8)

Exhibit 8: MoM Change in India's Reserve Assets (USD Mn)

	Gold	Foreign currency assets
Jan-24	-847	-5,471
Feb-24	367	2,044
Mar-24	4312	22,430
Apr-24	3373	-10,917
May-24	968	12,863
Jun-24	27	317
Jul-24	1167	13,996
Aug-24	4164	12,160
Sep-24	3937	17,117
Oct-24	2731	-22,403
Nov-24	-1548	-24,899
Dec-24	-711	-16,931

Conclusion

The Reserve Bank of India (RBI) has been systematically increasing its gold reserves as a component of its reserves management strategy since December 2017. However, its approach has intensified following the COVID-19 pandemic, positioning it as one of the leading purchasers of gold among central banks worldwide.

The primary aim of the central bank in holding gold is to diversify its foreign currency asset portfolio, serving as a safeguard against inflation and foreign currency volatility. In the wake of the Russia-Ukraine conflict that began in February 2022, central banks around the world have notably escalated their gold accumulation efforts, a trend that the RBI has also embraced.

Gold's role as a hedge against market volatility and geopolitical risks has largely fueled its success. Looking ahead, the global economy's future under Trump's second term is uncertain. While initial risk-on flows may benefit investors, potential trade wars and inflation could lead to sluggish economic growth.

According to the World Gold Council, the market consensus predicts modest gold growth in 2025, but upside potential exists if central banks increase demand or financial conditions deteriorate. Conversely, higher interest rates from monetary policy changes could challenge gold's growth. China's gold market contribution will also be crucial, depending on trade policies, stimulus, and risk perceptions.

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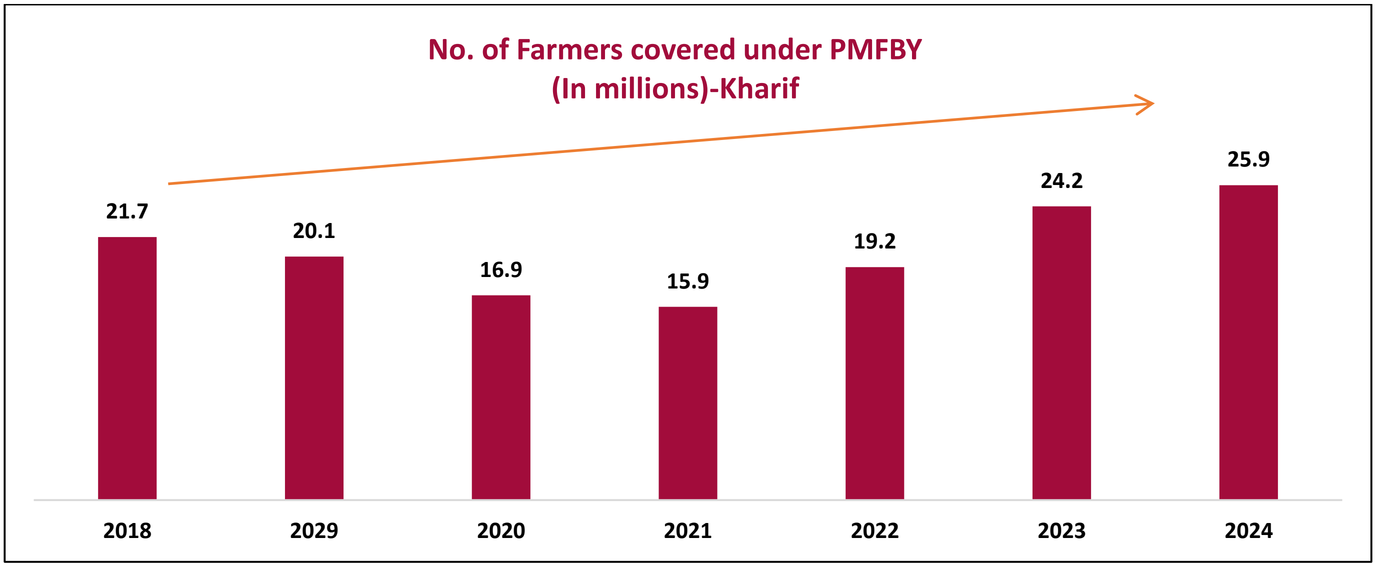
3. TECH BOOST FOR FARMERS: LEVERAGING TECHNOLOGY TO ENHANCE PMFBY

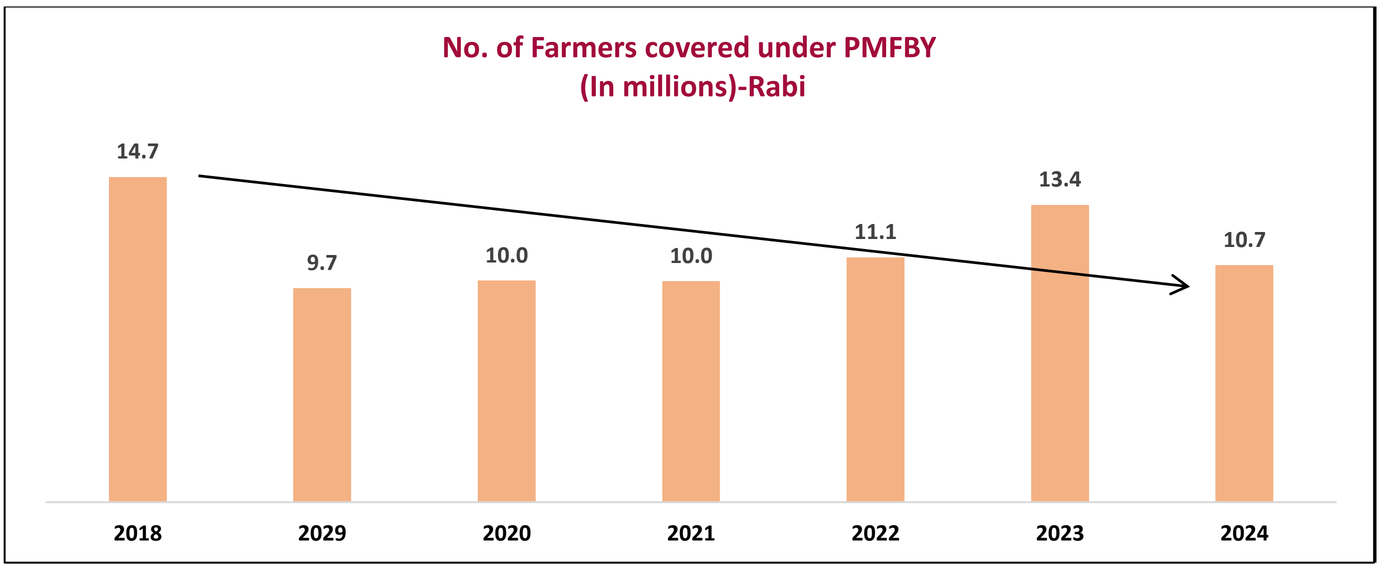
Introduction

The Pradhan Mantri Fasal Bima Yojana (PMFBY) is a government scheme launched to safeguard farmers' income against weather-related risks, it was launched in 2016.



Source: PMFBY portal

The popularity of the scheme can be gauged from the growth between 2018 and 2024, the number covered by PMFBY grew from 21.7 million to 25.9 million for the Kharif season.



Source: PMFBY portal

Between 2018 and 2024, the number covered by PMFBY fell from 14.7 million to 10.7 million for the rabi season. One major reason for this decline is the increase in premium rates, which has made the scheme less attractive to farmers.

Recently, the Union Cabinet approved the continuation of PMFBY with total outlay of Rs 69,515.71 crore for the period from 2021- 22 to 2025-26. The Cabinet also sanctioned a new fund with a corpus of over Rs 824 crore to enhance the schemes' implementation through advanced technology.

Further with the growth of technology, there is a need to implement the same to improve the agriculture sector and related issues. In this series, the **Yield Estimation System using Technology (YES-TECH)** will utilize satellite-based remote sensing to evaluate crop yields and damage, with the new technology accounting for 30% of the yield calculation. Additionally, automatic weather stations and rain gauges will be installed to **collect highly localized weather data at the block and panchayat levels**, providing more accurate and detailed information to support crop yield assessments.

A total of 9 states, including Andhra Pradesh, Assam, Haryana, Uttar Pradesh, Madhya Pradesh, Maharashtra, Odisha, Tamil Nadu, and Karnataka, are now utilizing the YES-TECH to accurately assess crop yields and damage through satellite-based remote sensing.

This initiative, combined with the establishment of a dense network of weather stations, will facilitate swift and precise evaluations of adverse weather events, such as hailstorms and excessive rainfall, and the subsequent damage to crops, ultimately enabling timely support for affected farmers.

Additionally, Weather **Information and Network Data Systems** (WINDS) initiative is a game-changer for India's weather monitoring capabilities. It aims to set up a robust network of weather stations, including Automatic Weather Stations (AWS) at the block level and Automatic Rain Gauges (ARGs) at the panchayat level, which will lead to a **five-fold increase in the current network density**. This will enable the creation of hyper-local weather data, and the best part is that the Central and State governments will only need to pay data rental costs which makes it economical for the farmers.

Nine major states are in the process of implementing WINDS, including Kerala, Uttar Pradesh, Himachal Pradesh and Puducherry, while other states have also expressed willingness to implement.

Conclusion

Being an agrarian economy, India relies heavily on agriculture, and PMFBY plays a vital role in supporting Indian farmers, providing them with a safety net against weather-related risks. With the continuation of the scheme and the implementation of new initiatives like YES-TECH and WINDS, farmers can look forward to more accurate and timely support. The use of advanced technology will enable swift and precise evaluations of crop yields and damage, ultimately benefiting the farmers. The scheme has already shown significant growth, with the number of farmers covered increasing for the kharif season. Overall, PMFBY is a major step towards ensuring food security and safeguarding the livelihoods of farmers across India.

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Head Office, SMEAD

4. KEY HIGHLIGHTS: GLOBAL ECONOMIC PROSPECTS January 2025 A WORLD BANK FLAGSHIP REPORT

Global Outlook

- **Growth**: Global growth is estimated to have stabilized at 2.7 percent last year and is forecast to hold steady at that pace over 2025-26. However, output will continue to lag its pre-pandemic trajectory. This reflects both the prolonged effects of the adverse shocks of recent years, and a structural decline in the fundamental drivers of growth. In particular, trade and investment are expected to expand at a slower pace relative to their 2010-19 averages across many advanced economies and EMDEs.
- **Trade**: Global trade growth is forecast to pick up to an average of about 3.1 percent in 2025-26, supported by slightly firming trade growth in the euro area—which accounts for one-fourth of global trade—as well as in Japan and EMDEs excluding China. However, it is projected to remain below pre-pandemic averages, in line with heightened trade-restrictive measures and the overall relative softness in output and investment growth.
- **Inflation**: Global headline inflation is forecast to decline to an average of 2.7 percent in 2025-26, broadly consistent with target levels in many advanced economies and EMDEs.
- **Commodity prices**: **Brent crude** oil prices are expected to decrease further, to an average of $72/bbl in 2025 and $71/ bbl in 2026 driven by increasing supply among non-OPEC+ producers—mainly Brazil, Canada, Guyana, and the United States—coupled with modest growth of global oil demand owing to slowing oil consumption in China and advanced economies. **Base metal** prices are expected to be broadly stable in 2025-26, in line with steady global growth. Precious metal prices are projected to remain elevated, underpinned by heightened geopolitical tensions. **Food** prices are expected to ease by an additional 5 percent in 2025 owing to favourable growing conditions in key exporters, before stabilizing in 2026.
- **EMDEs**: Growth in EMDEs is forecast to remain at about 4 percent over 2025-26 on average, as the projected slowdown in China is offset by an aggregate pickup in other EMDEs. In commodity-importing EMDEs excluding China, growth is projected to accelerate from 4.3 percent in 2024 to an average of 4.5 percent over 2025-26. Solid domestic demand is expected to accompany a steady firming of global manufacturing and trade, supporting employment and an improvement in investment growth, particularly in economies with substantial manufacturing sectors.

Emerging and Developing Economies in the Twenty-First Century

- **The first quarter of the twenty-first century has been transformative for EMDEs**. These economies now account for about 45 percent of global GDP, up from 25 percent in 2000, a trend driven by robust collective growth in the three largest EMDEs—China, India, and Brazil (the EM3). EMDEs accounted for about 35 percent of global trade in 2023, versus about 20 percent in 2000.

- Together, the EM3 were responsible for two-fifths of EMDE trade in 2023. They have outstripped advanced economies' demand for primary energy since 2004 and for metals since 2007.
- **Interdependence among these economies has also increased markedly**. Today, nearly half of goods exports from EMDEs go to other EMDEs, compared to one-quarter in 2000. Business cycles among EMDEs and between EMDEs and advanced economies have become more synchronized, and a distinct EMDE business cycle has emerged.
- Rapid growth in services exports in India has contributed to increased trade integration in SAR since 2000.
- SAR remains the least financially open region, although it has seen an increase in FDI inflows as a share of GDP since 2000, largely attributable to India.
- **The pace of EMDEs' integration into the global economy has slowed since the 2000s, and various other headwinds have also started to weigh on growth prospects**. Progress implementing structural reforms in many of these economies has stalled. Globally, protectionist measures and geopolitical fragmentation have risen sharply. High debt burdens, demographic shifts, and the rising costs of climate change weigh on economic prospects.
- **EMDEs confront a host of global and domestic challenges as they enter the second quarter of the twenty-first century.** Growth in EMDEs has declined along with an overall slowdown in the global economy. Trends in productivity, investment, and labor supply, among the fundamental drivers of growth, suggest that EMDEs' potential growth will slow to about 4 percent in the 2020s, on average, compared to more than 5 percent in the 2010s and nearly 6 percent in the 2000s. Government debt in EMDEs has surged since the early 2010s, reaching 70 percent in 2024, the highest level since 1970.
- **Given these challenges, EMDEs need to prioritize boosting investment and productivity, navigating a difficult external environment, and improving macroeconomic stability.**
  - EMDEs need to improve sustainable growth prospects by reinvigorating key policy reforms.
  - EMDEs need to adopt a comprehensive set of policies to mitigate the adverse effects of fragmentation and protectionist measures while seeking ways to take advantage of untapped opportunities for cross-border cooperation.

  EMDEs need to enhance macroeconomic stability by implementing well-designed, credible policy frameworks and putting in place sufficient buffers against shocks.

5. CLASSROOM: UNDERSTANDING BANKING SECTOR LIQUIDITY

Liquidity is a cornerstone of the banking sector, influencing the flow of credit, the stability of financial institutions, and overall economic growth. In the current context, where liquidity dynamics are under close scrutiny, understanding this concept has become essential.

Banking sector liquidity refers to the availability of funds within the banking system that can be readily deployed to meet the demands of customers, businesses, and other financial institutions. It ensures that banks can fulfill their short-term obligations, such as deposit withdrawals, loan disbursements, and interbank commitments. **Systemic Liquidity** reflects the overall availability of cash in the banking system, which is impacted by central bank policies, government borrowing, and capital flows.

The importance of banking sector liquidity cannot be overstated. It ensures smooth flow of credit, stabilizes interest rates and ensures confidence in the banking system.

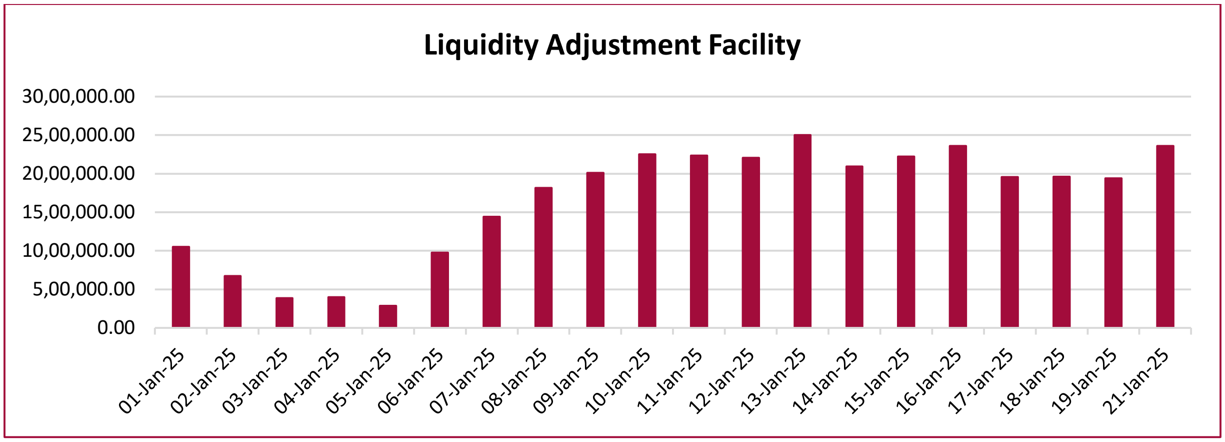
The Reserve Bank of India has various tools at its disposal to manage liquidity effectively, which include the following:

1. **Open Market Operations (OMOs)**: Through OMOs, the RBI injects or absorbs liquidity by buying or selling government securities.
2. **Variable Rate Repo (VRR) Auctions**: These operations provide short-term liquidity to banks by allowing them to borrow funds against government securities.
3. **Targeted Long-Term Repo Operations (TLTROs)**: Aimed at channeling liquidity to specific sectors, such as MSMEs and infrastructure, to boost targeted credit flow.
4. **Cash Reserve Ratio/Statutory Liquidity Ratio (CRR/SLR) Requirements**: Periodic adjustments to banks' reserve requirements can help in managing liquidity during periods of surplus/deficit.

What Is the Current Scenario?

The banking system is currently navigating tight liquidity conditions, which has led to liquidity deficit exceeding the 2 lakh crore mark in 8 out of first 16 days in the month of January. Liquidity deficit stood at Rs.2.36 lakh crore as on 21st January 2025. This situation is likely to worsen after the GST outflows later this month. The liquidity conditions have been tight in the wake of recent interventions by RBI in the forex market to defend the slide of the rupee along with muted government spending in the recent months.

In a move to manage liquidity, the RBI reduced the CRR of all banks by 50 bps in two equal tranches of 25 bps each to 4.0 per cent of net demand and time liabilities (NDTL) with effect from the fortnight beginning December 14, 2024 and December 28, 2024, respectively.



Source: CMIE

More recently, the RBI has decided to conduct VRR auctions on all working days in Mumbai with reversal occurring on the next working day, until further notice. The RBI will determine the auction amount based on its assessment of liquidity conditions, with details to be announced separately on its official website.

According to market participants, this measure is part of the RBI's broader efforts to maintain stable liquidity in the banking system. Eligible entities, including standalone primary dealers, will be permitted to participate in these auctions.

What Lies Ahead?

As the RBI balances growth and inflation management, liquidity conditions will remain a focal point. While credit growth is expected to remain muted in the upcoming fiscal, a sustained easing of banking system liquidity has become necessary to support credit growth going forward.

The RBI is likely to undertake a calibrated approach towards managing liquidity through a mix of OMOs, repo operations and VRR auctions. Coordinated efforts with global central banks will be essential to navigate external pressures and maintain domestic stability. Further, in light of current scenario, sectors such as renewable energy, infrastructure, and MSMEs may receive focused liquidity support to aid in economic growth.

Conclusion

Banking sector liquidity is pivotal to the health of the financial system and the broader economy. While current conditions present challenges, the proactive steps taken by the RBI aim to ensure stability and support growth. As India's economic recovery gains momentum, effective liquidity management will play a crucial role in sustaining this trajectory.

Smriti Behl
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Head Office, SMEAD

6. GIST OF SPEECH: CHALLENGES IN LIABILITY MANAGEMENT: MAINTAINING THE BALANCE

Keynote Address by M. Rajeshwar Rao, Deputy Governor, Reserve Bank of India - January 17, 2025 - at Mint Annual BFSI Summit & Awards 2025, Mumbai

The Deputy Governor highlighted the critical importance of liability management in banks and NBFCs, emphasizing its impact on stability, profitability, and growth. He outlined the evolution of asset-liability management (ALM) practices in India and addressed challenges and regulatory expectations:

Maturity Transformation and Risks

- Banks inherently engage in maturity transformation, where short-term deposits fund long-term loans. This creates exposure to liquidity and funding risks.
- Historically, regulators prioritized asset-side risks, but the 2008 Global Financial Crisis highlighted the need to address liability-side vulnerabilities.
- Liquidity crises during this period demonstrated that strong capital levels alone could not ensure stability, prompting the adoption of global liquidity standards such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

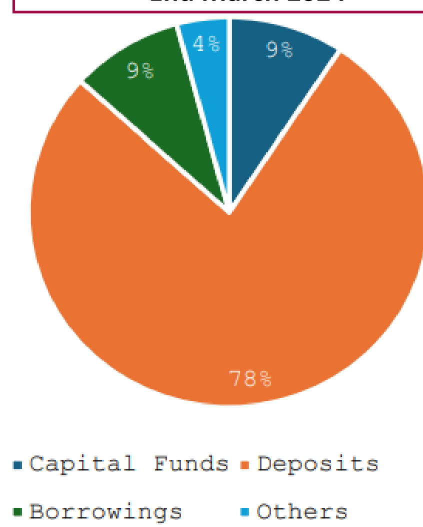
Evolution of ALM in India

- Liability management in Indian banking evolved significantly after economic reforms in the 1990s.
- The introduction of ALM guidelines in 1999 and subsequent adoption of Basel liquidity standards brought greater focus to managing funding and liquidity risks.
- RBI implemented unique measures like inter-bank liability limits to mitigate systemic risks early on. Over time, additional frameworks, like intraday liquidity monitoring, further enhanced resilience.

Trends in Liability Structures

- Deposits remain the primary source of funding for SCBs, accounting for 77% of total liabilities in FY24. Although the share of current and savings account (CASA) deposits improved over the years, recent trends indicate a shift toward term deposits in higher interest rate buckets.
- Borrowings form 9% of SCBs' liabilities, growing slower than deposits, while capital funds have increased, reflecting banks' deleveraging and profitability improvements.
- For NBFCs, borrowings are the dominant funding source, comprising 68% of total liabilities. These borrowings, primarily through debentures and bank loans, make NBFCs more sensitive to market conditions and interest rate changes compared to banks.

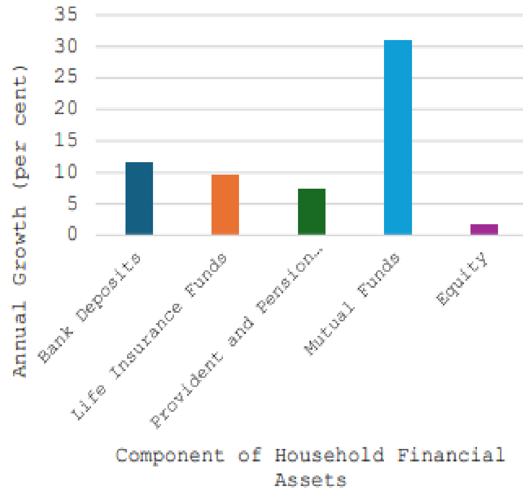
Composition of Liabilities of SCBs End March 2024



Changing Trends and Challenges

- The financial sector faces multiple challenges in liability management. A growing preference among households for financial assets over traditional bank deposits has implications for banks' cost of funds and profitability.
- Increased reliance on short-term funding instruments like Certificates of Deposit (CDs) adds to liquidity risks, especially during market stress.
- Institutionalization of deposits and a reduced reliance on retail deposits increase funding costs and pressure margins, potentially encouraging riskier lending practices.
- Additionally, some banks' deposit growth has lagged behind credit expansion, leading to a higher dependence on wholesale funding. Such imbalances create structural liquidity vulnerabilities that require close monitoring and effective mitigation strategies.

Growth of Flow of Household Financial Assets - component wise (FY 2020 - FY 2024)



Sector-Specific Insights

- **Banks:** Different banks adopt varied liability strategies based on size, market positioning, and technology use. Larger banks benefit from stable retail deposits, while smaller or differentiated banks rely more on wholesale funding.
- **NBFCs:** Heavy reliance on market-based funding exposes them to interest rate changes and liquidity constraints. Regulatory measures, like increasing risk weights for NBFC borrowings, aim to mitigate systemic risks.

Regulatory Expectations

The speech outlined three key regulatory expectations.

1. **Dynamic Modeling of Customer Behavior**: Banks must adapt to changes in customer behavior driven by technological advancements and information dissemination. Accurate modeling of deposit stability, withdrawal patterns, and interest rate sensitivities is critical.
2. **Stress Testing for Resilience**: Traditional liability management models may not fully account for interconnected risks, as seen in recent global crises. Banks and NBFCs need to adopt advanced stress-testing methodologies to assess their ability to withstand extreme scenarios.
3. **Contingency Funding Plans (CFPs)**: Financial institutions must develop robust CFPs tailored to their risk profiles and operational complexities. These plans should clearly outline potential funding sources while minimizing reliance on central banks for emergency liquidity assistance.

Conclusion

Stressing onto the importance of recalibrating financial strategies to align with evolving customer preferences, technological advances, & global complexities is essential. Effective liability management is vital for sustaining economic growth and achieving the vision of a "Viksit Bharat" by 2047.

7. GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of the Circular	January 17, 2025
Ref No.	RBI/2024-25/105 CEPD.CO.OBD.No.S1270/50-01-001/2024-25
Subject	Prevention of financial frauds perpetrated using voice calls and SMS – Regulatory prescriptions and Institutional Safeguards

With a view to mitigate the potential misuse of mobile numbers, Regulated Entities (REs) are advised to:

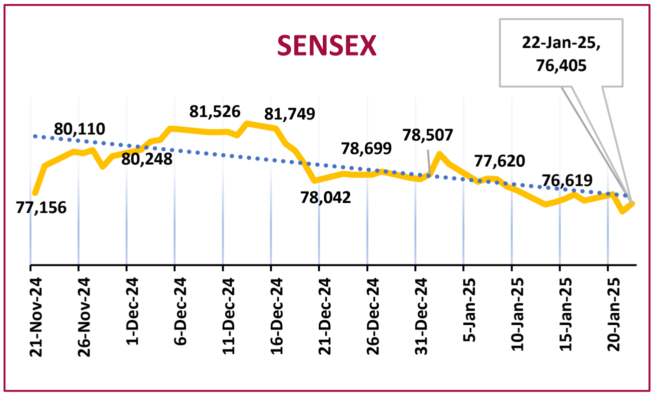
- Utilize the Mobile Number Revocation List (MNRL) available on the Digital Intelligence Platform (DIP) developed by Department of Telecommunications (DoT), Ministry of Communications, Government of India to monitor and clean their customer database.
- To enhance fraud risk monitoring and prevention, the REs are advised to develop Standard Operating Procedures incorporating the required action to be taken including, updating the registered mobile number(RMN) after due verification; enhanced monitoring of accounts linked to these revoked mobile numbers, etc.
- Provide the verified details of their customer care numbers to DIP for enabling DoT to publish them on the "Sanchar Saathi" portal.
- Undertake transactional / service calls only using '1600xx' numbering series, when operationalized; undertake promotional voice calls only using '140xx' numbering series; follow the "Important Guidelines for sending commercial communication using telecom resources through Voice Calls or SMS" issued by Telecom Regulatory Authority of India.
- REs are also advised to undertake awareness measures in this regard through emails, SMS and other modes, including in vernacular languages.

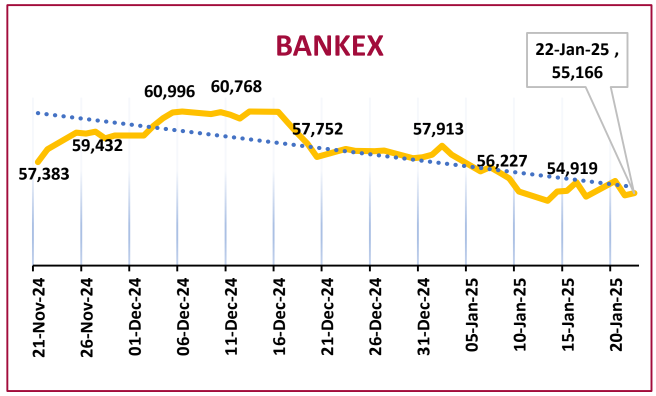
All REs are advised to ensure compliance with the above instructions not later than March 31, 2025.

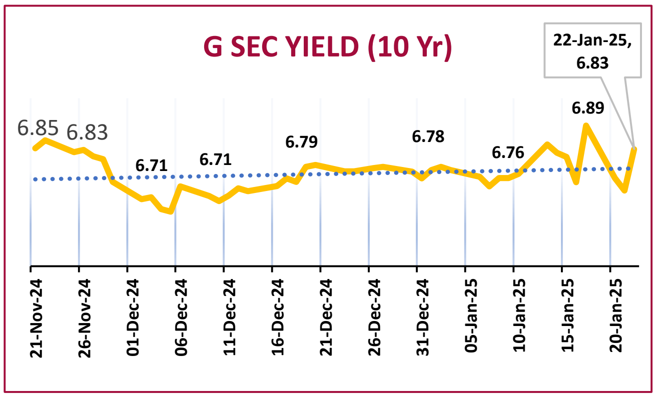
Date of the Circular	31-Dec-2024
Ref No.	RBI/2024-25/100 DOR.STR.REC.54/21.04.048/2024-25
Subject	**Government Debt Relief Schemes (DRS)**

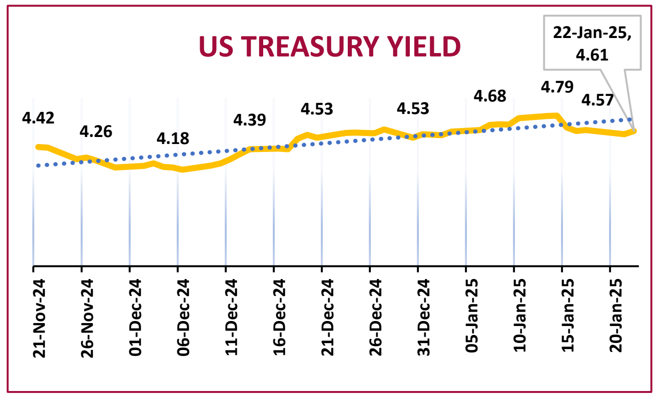
Gist: The RBI has established guidelines for lenders participating in the Government Debt Relief Scheme (DRS). Lenders may decide on participating in a DRS based on their Board-approved policy, subject to regulatory norms. They must clearly determine the outstanding amount that may crystallize in their books and ensure borrowers are selected strictly as per the scheme's terms. The RBI warns that frequent or poorly planned DRS announcements can harm credit discipline. Lenders should not create any receivable against the Government and will continue to apply prudential norms until receipt of funds. The DRS should be targeted only at impacted borrowers and not contain restrictive covenants against timely repayments. The RBI suggests using Direct Benefit Transfer (DBT) for broad-based relief measures and considering DRS as a last resort. The guidelines aim to ensure that DRS announcements do not negatively impact credit discipline and financial stability. The RBI has shared a model operating procedure with state governments to facilitate the implementation of DRS.

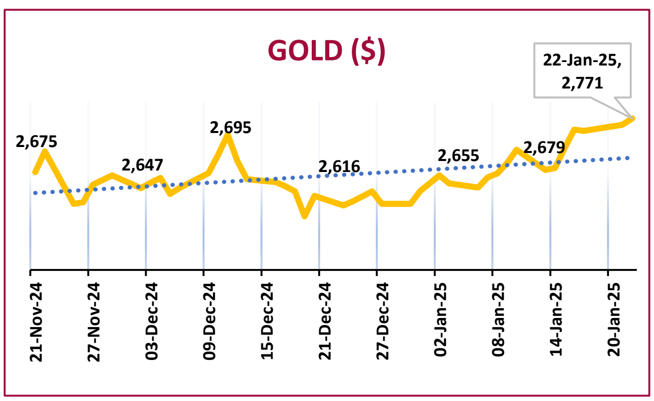
8. DAILY ECONOMIC INDICATORS

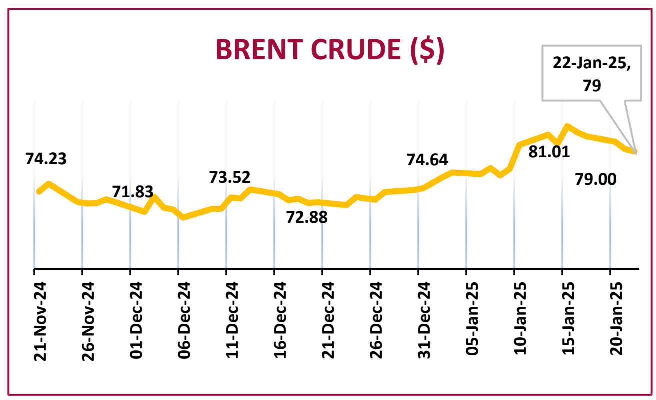


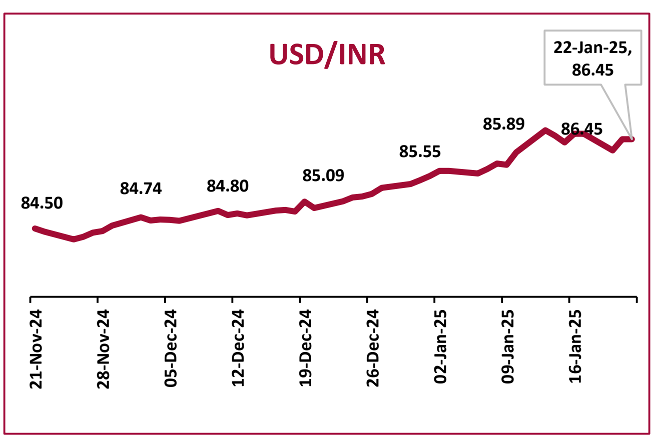


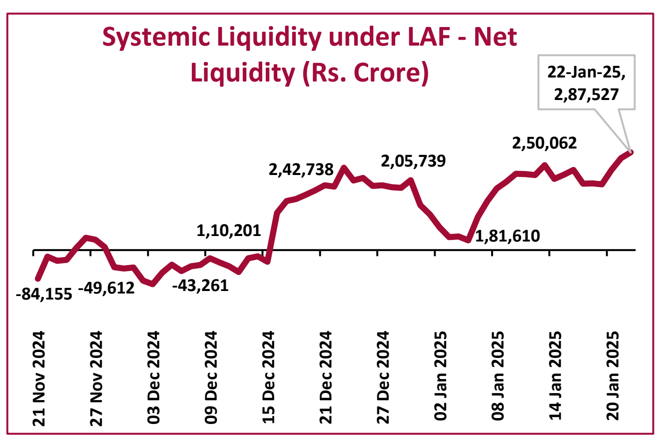








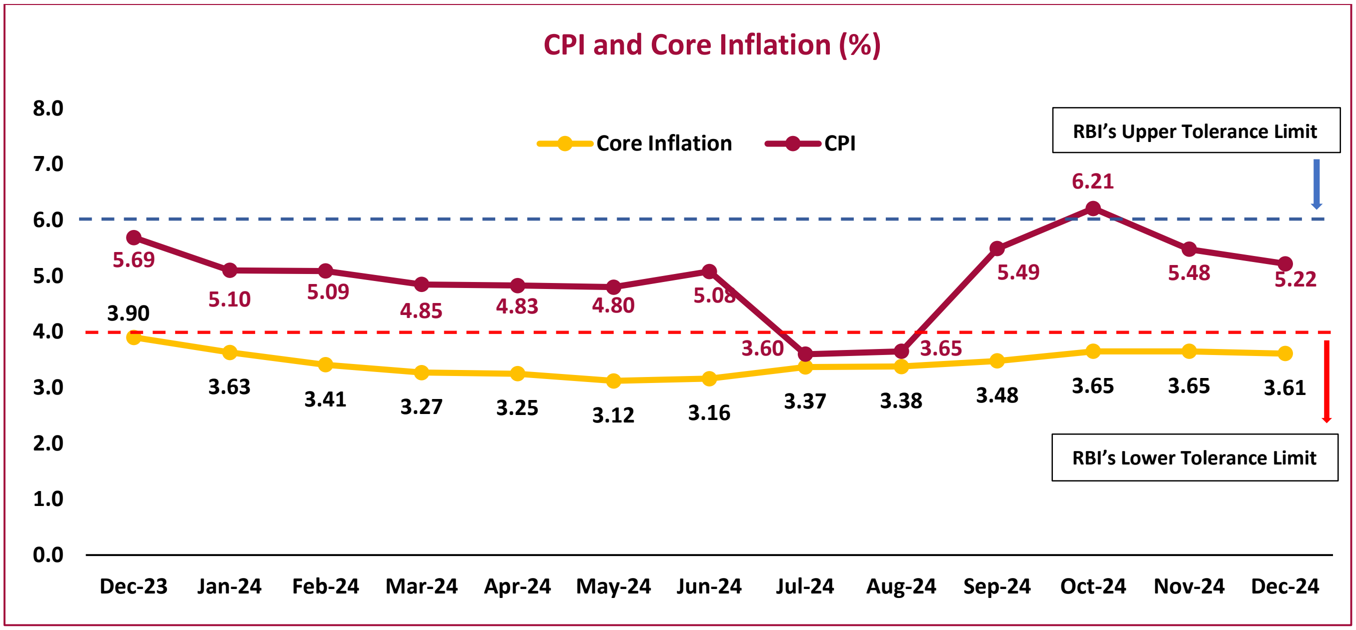


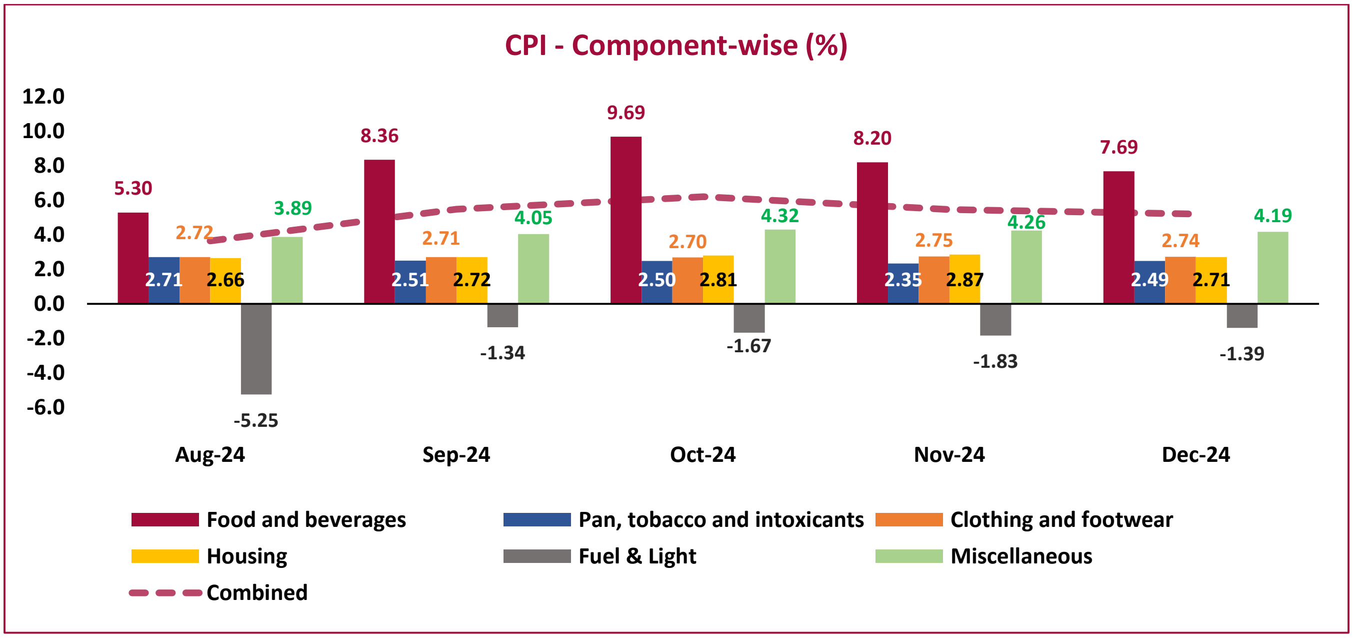


9. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation further cooled down to 5.22% in December 2024

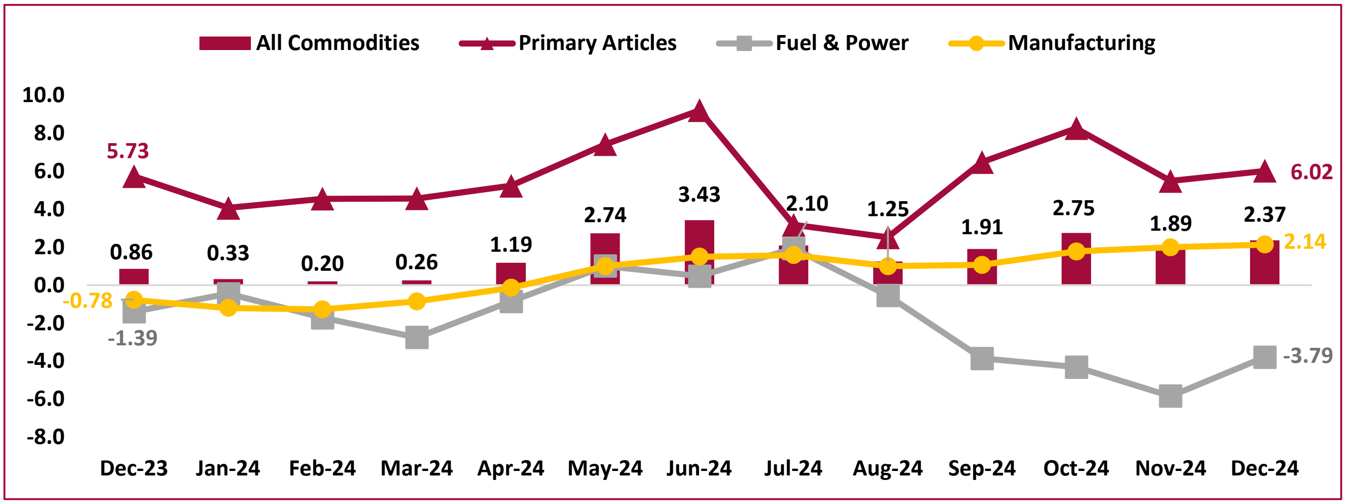




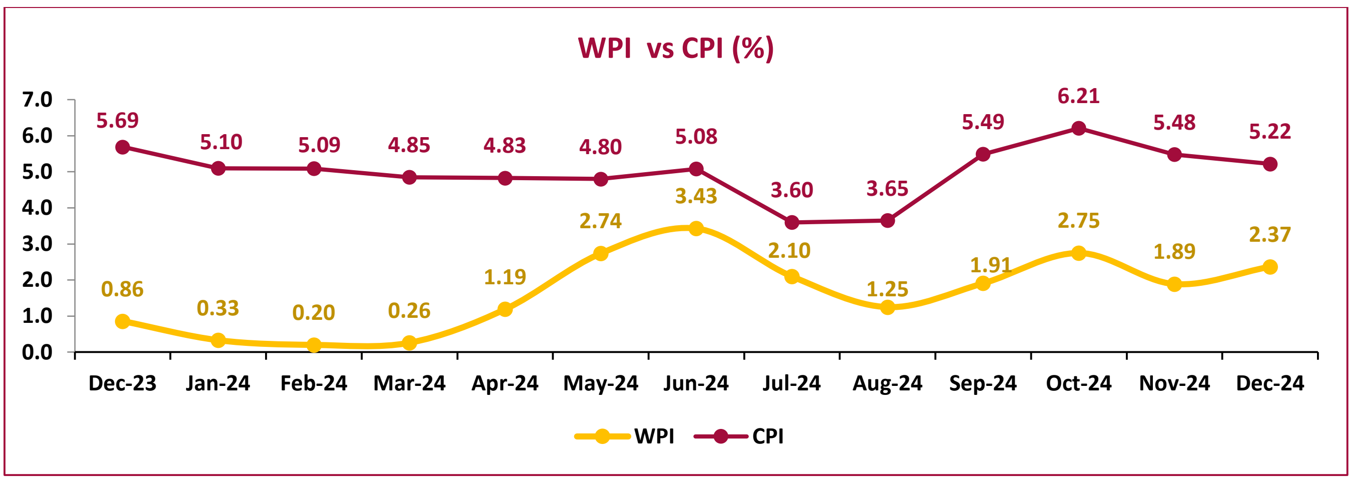
Retail inflation measured by CPI further moderated to 5.22 per cent (provisional) for the month of December 2024, falling from to 5.48 per cent last month and 5.69 per cent in the same month last year. Both urban and rural inflation moderated from their levels in the previous month. Urban inflation fell from 4.89 per cent in November 2024 to 4.58 per cent in December 2024, while rural inflation fell from 5.95 per cent to 5.76 per cent during the same period.

WHOLESALE PRICE INDEX (WPI)

WPI inflation rises to 2.37% in December 2024



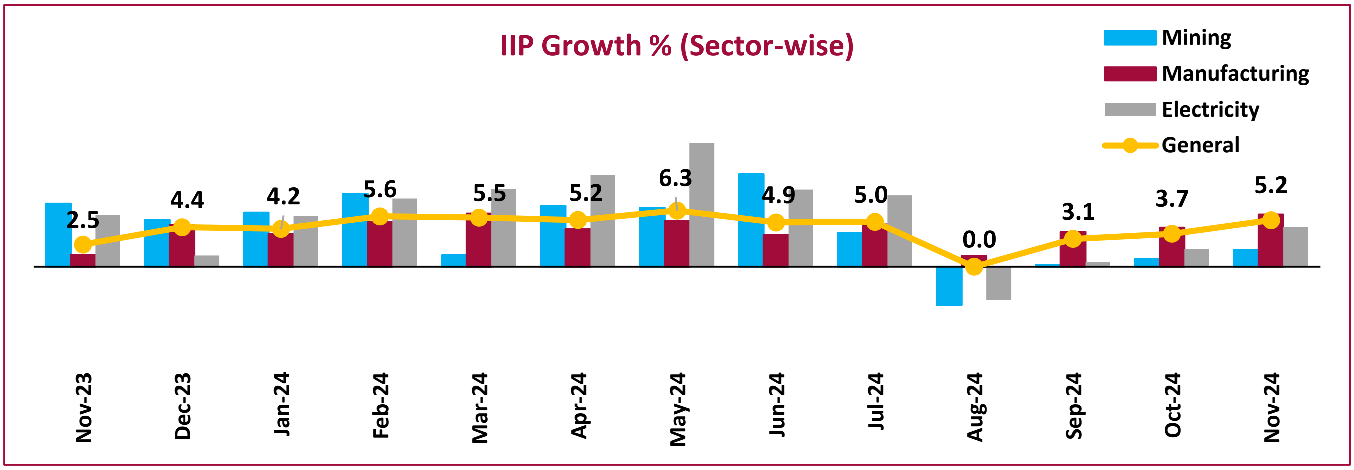
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2023	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
October	2.26	**8.26**	-1.58	**-4.31**	-1.06	**1.78**	3.17	**13.49**	-0.26	**2.75**
November	5.16	**5.49**	-4.05	**-5.83**	-0.78	**2.00**	8.84	**8.63**	0.39	**1.89**
December	5.73	**6.02**	-1.39	**-3.79**	-0.78	**2.14**	9.32	**8.47**	0.86	**2.37**



The wholesale inflation measured by WPI rose to 2.37 per cent in Dec’24 on a YoY basis, as against 0.86 per cent in Dec’23, while it was at 1.89 per cent in Nov’24. Primary Articles inflation increased from 5.73 per cent in Dec’23 to 6.02 per cent in Dec’24. Despite this, food inflation within the primary articles category declined to 8.47 per cent vis-à-vis 9.32 per cent during the same period. Manufactured products saw a significant jump in inflation (from -0.78 per cent in Dec’23 to 2.14 per cent in Dec’24), while Fuel and Power remained in deflation (- 3.79 per cent) in Dec’24.

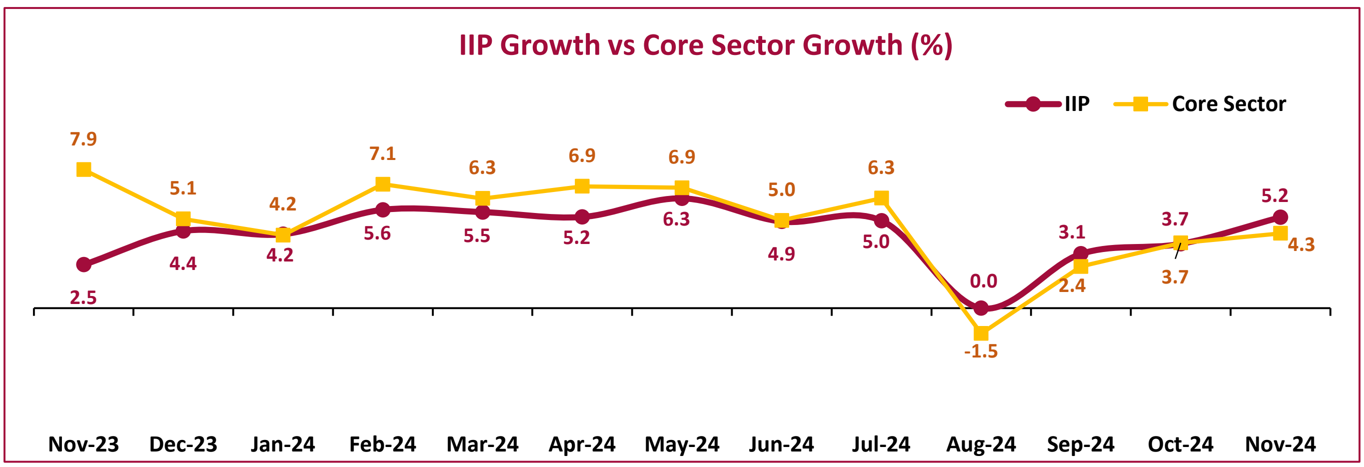
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP grew by 5.2% in November 2024



IIP Growth % (Usage-wise)

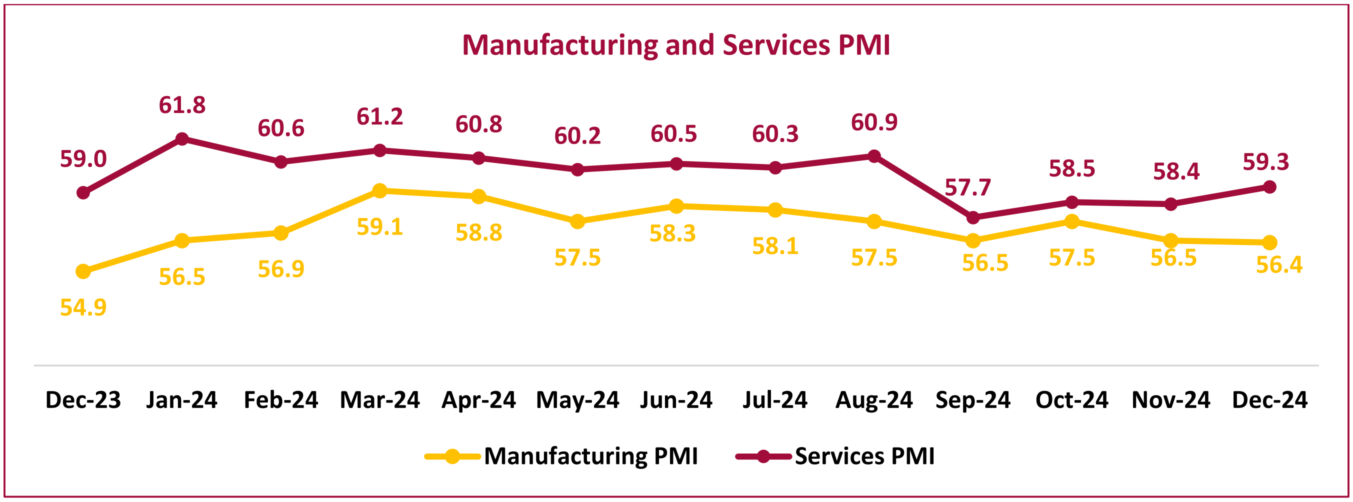
Component	Weight	Nov'23	Oct'24	Nov'24	Apr-Nov'23	Apr-Nov'24
Primary Goods	34.05%	8.5	2.5	2.7	7.2	3.9
Capital Goods	8.22%	-1.1	3.1	9.0	7.6	4.5
Intermediate Goods	17.22%	3.4	4.6	5.0	5.0	4.2
Infra/Construction Goods	12.34%	1.6	4.8	10.0	11.5	6.3
Consumer Durables	12.84%	-4.8	5.7	13.2	0.6	8.7
Consumer Non- Durables	15.33%	-3.4	2.6	0.6	5.7	-0.5



IIP grew by 5.2% in Nov'24 which is much higher than the growth seen in Nov'23 of 2.5%. In Sector wise performance, manufacturing sector recorded the highest expansion, by 5.8%, followed by electricity sector by 4.4%. Mining sector expanded by a mere 1.9%. Amongst the use based categories, all the sectors showed growth with highest growth being observed in consumer durables (13.2%) and infra/construction goods (10.0%), while growth in Consumer Non-Durables (0.6%) and Primary goods (2.7%) were the least in Nov'24.

PURCHASING MANAGERS' INDEX (PMI)

Manufacturing PMI moderated to 56.4 in December 2024

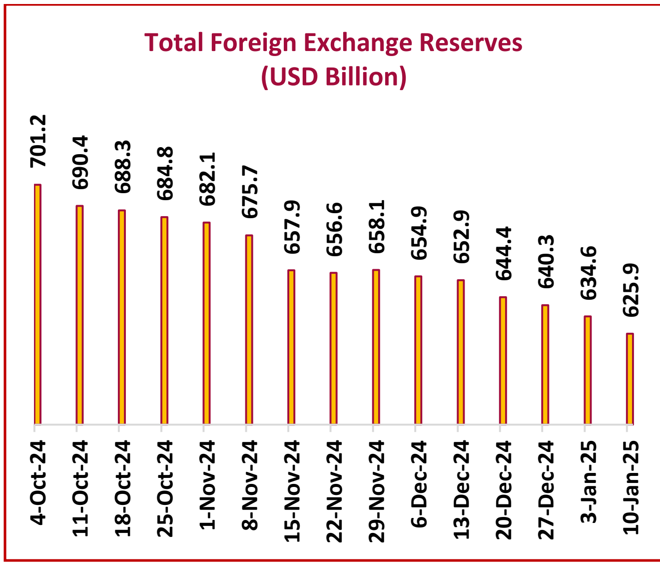


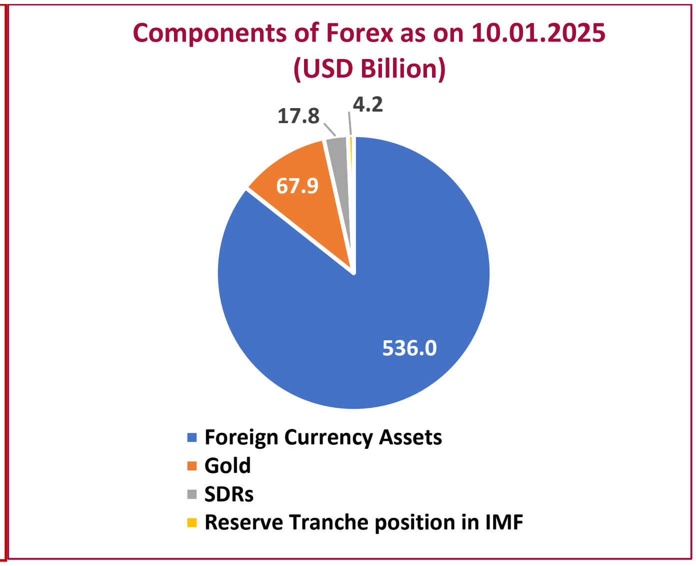
The HSBC Manufacturing Purchasing Managers' Index (PMI) stood at 56.4 in Dec'24, down from 56.5 recorded in Nov'24 on account of softer expansion in factory orders and production. However, it was higher than 54.9 recorded in Dec'23 and 42nd consecutive expansion (above 50). Meanwhile, the Services PMI recorded at 59.3 which was higher than 58.4 recorded in Nov'24 and 41st consecutive month of expansion. Growth in services sector continued its momentum on the back of a consistent demand that led to a significant rise in business output. Manufacturers and their counterparts in the service sector maintained the momentum of job creation in December also. The manufacturing sector experienced an improved growth in employment, while the services sector observed a slower growth.

PERFORMANCE OF OTHER LEADING INDICATORS

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
Coal production (YoY%)	10.8	10.3	11.9	8.2	7.5	10.2	14.6	6.4	-7.6	2.5	7.7	7.4	5.3
Electricity generation (YoY%)	0.4	7.9	6.4	8.0	10.0	14.6	9.7	6.8	-3.8	-1.3	0.5	2.7	4.2
Consumption of petroleum products (YoY%)	3.7	7.3	8.2	1.7	7.8	1.9	2.3	10.7	-3.1	-4.4	4.1	9.5	2.1
Railways: freight traffic (YoY%)	6.4	6.4	10.1	8.4	1.5	3.7	10.1	4.6	-5.0				
Cargo handled at major ports (YoY%)	0.6	3.2	2.1	2.7	1.3	3.8	6.8	5.9	6.7	5.8	-3.4	-5.0	
Cement production (million tonnes)	35.9	35.9	36.4	41.2	36.0	35.7	37.2	31.3	32.1	32.3	34.0	34.0	
Steel consumption (million tonnes)	12.8	11.6	11.7	12.4	11.3	12.0	12.2	12.2	12.6	12.3	13.0	12.2	13.2
Fertiliser sales (YoY%)	-3.1	-9.1	-13.5	0.6	-3.7	10.5	7.3	-1.4	-9.4	-7.7	-7.8	4.6	
Two-wheelers sales (Nos. in Lakhs)	15.0	17.6	18.5	18.1	20.7	19.3	19.0	17.7	20.5	24.0	25.3	19.7	14.8
Tractors sales (Nos. in Thousand)	52.1	62.8	51.8	74.5	84.4	91.8	110.3	68.0	58.7	108.0	151.8	78.3	59.1

FOREIGN EXCHANGE RESERVES



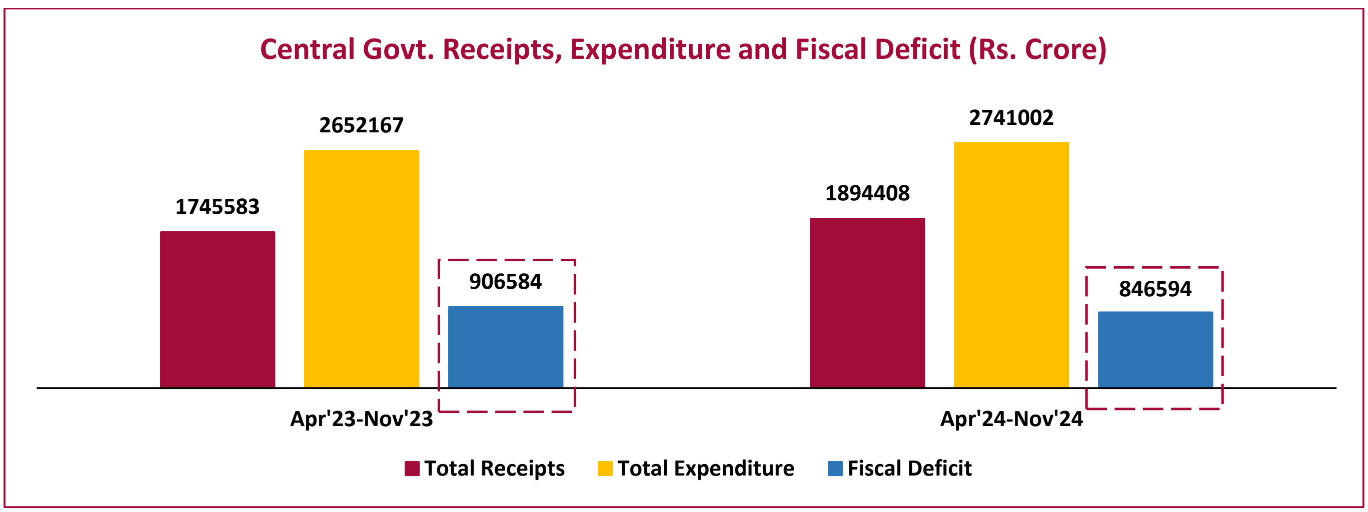


India's foreign exchange reserves decreased by USD 8.71 billion in the week ended 10th January 2025 to settle at USD 625.9 billion from the week ended 03rd January 2025.

E-WAY BILL GENERATION (No. in cr.)

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
E-way bill Generation	9.5	9.6	9.7	10.4	9.7	10.3	10.0	10.5	10.5	10.9	11.7	10.2	11.2

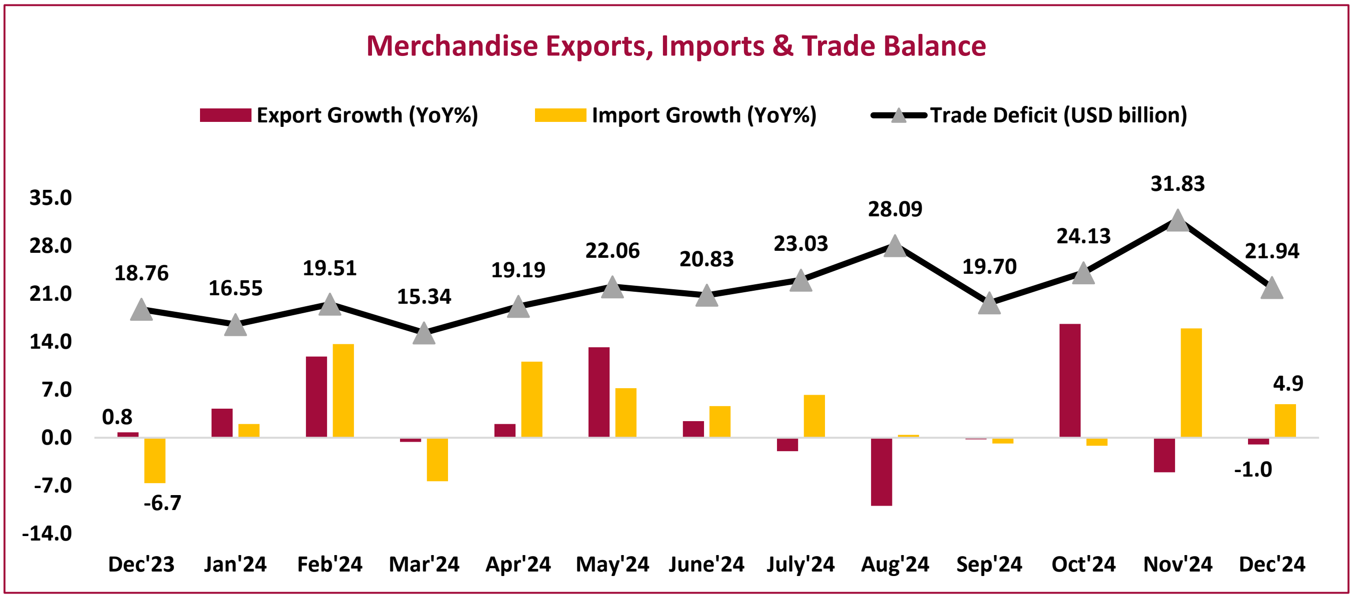
FISCAL DEFICIT

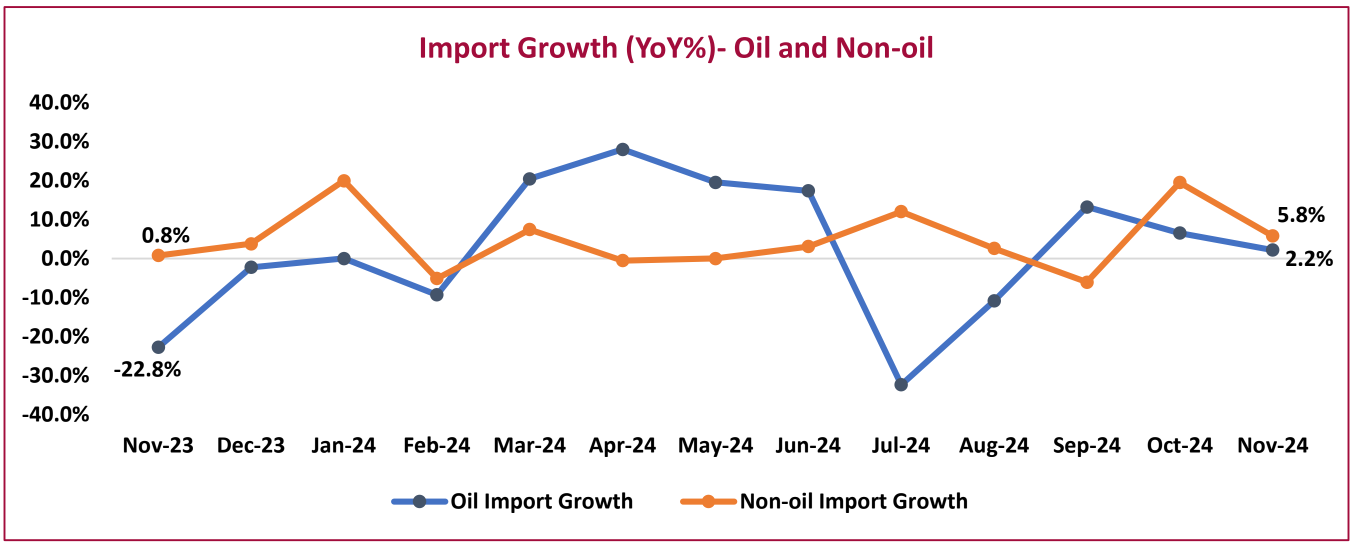


The central government's fiscal deficit in Apr-Nov'24 period came in at Rs.8.47 lakh crore amounting to 52.5% of the budget estimates vis-à-vis 50.7% of BE reached during the same period last year. Capital expenditure amounting to Rs.5.14 lakh crore during April-November FY 2024-25 narrowed to 46.2% of the budgeted target compared to last fiscal's achievement of 58.5% during this period.

FOREIGN TRADE

Merchandise Trade Deficit Narrows to 3 Month Low of $21.94 Billion on Back of Higher Exports

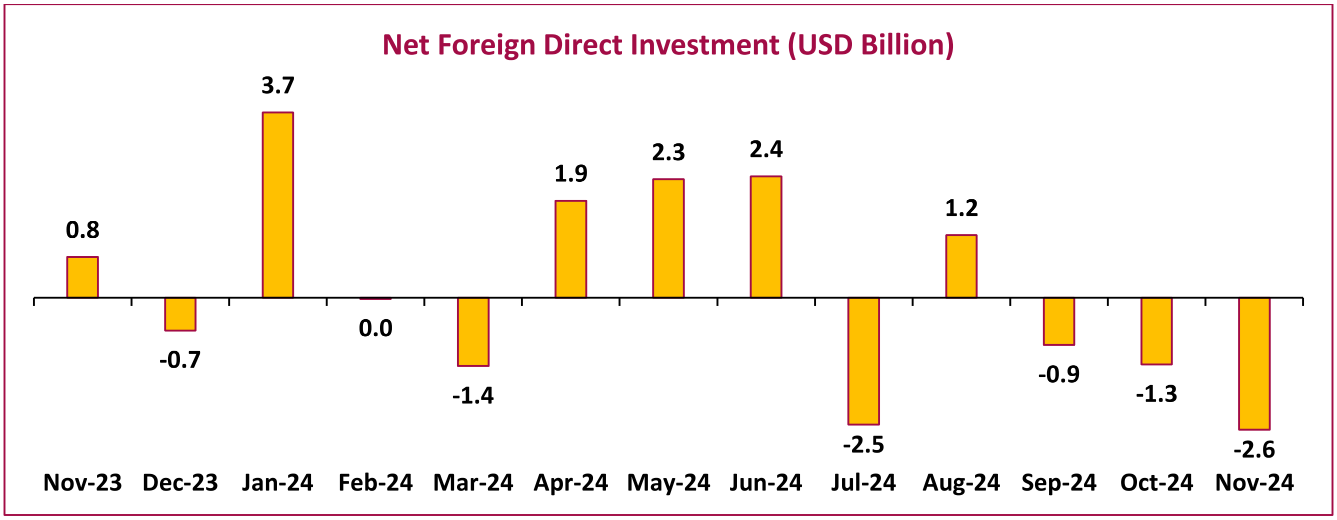




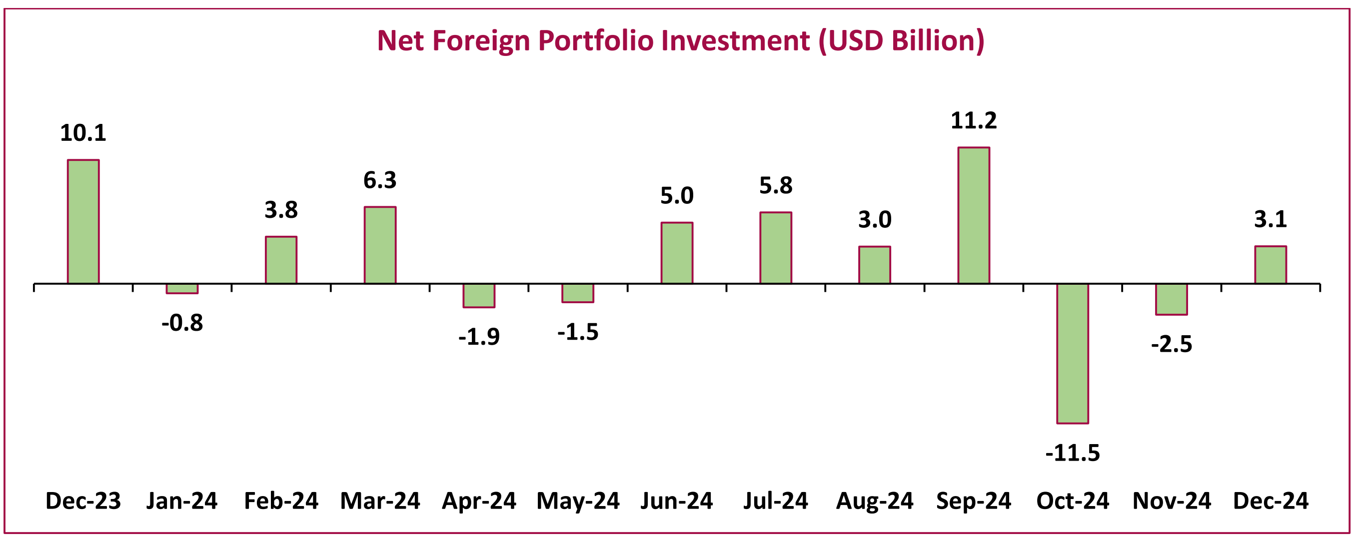
India’s merchandise trade deficit narrowed sequentially to $21.94 billion in Dec’24 from to $31.83 billion in Nov’24 (revised), however it has increased on annual basis from $18.76 billion in Dec’23. Merchandise exports in Dec’24 rose to $38.01 billion from $32.04 billion in Nov’24. However, on YoY basis, it dropped by about 1.0% from $38.39 billion in Dec’23.

Major export drivers in Dec’24 were Electronic Goods, Engineering Goods, Rice, RMG of all Textiles and Cotton Yarn/Fabs./made-ups, Handloom Products. Non-oil exports showed resilience, growing 5.1% YoY to reach $33.09 billion in Dec’24. Merchandise imports surged to $59.95 billion in Dec’24, marking a 4.9% YoY increase from $57.15 billion in Dec’23, though lower than $63.87 billion recorded in Nov’24. Major import commodities that registered growth in Dec’24 are silver, gold, petroleum and electronics.

FOREIGN INVESTMENTS



Net foreign direct investment (FDI) inflows in India continue to decline for the 3rd straight month in Nov'24 recording net outflows of USD 2.6 billion (highest in past year). Cumulatively for FY25 (Apr-Nov'25), the net inflows stood at USD 0.5 billion (-94.4% YoY). This recent trend of negative or reduced net FDI was not as much of a result of low inflows, as it was because of a significant increase in outflows driven by repatriation/disinvestment. Manufacturing, financial services, electricity and other energy, and retail & communication services sectors consisted 60%+ of total gross FDI inflows.



After two months, FPI flows turned positive in December 2024, but they continued to fluctuate due to rising US dollar and treasury/bond yields. When the inflows from the debt and equity divisions are combined, net FPI inflows of US$1.8 billion were reported in December. The net inflows of US$ 20.1 billion during H1:2024-25 were countered by net outflows of US$ 11.6 billion during Q3:2024-25 due to global concerns and high domestic valuations. In the current fiscal year, comparable patterns of subdued FPI performance were noted in the majority of peer economies.

BANK DEPOSIT AND CREDIT OF SCBs

Parameter (Rs. Lakh Crore)	29.12.23	22.03.24	13.12.24	27.12.24	YoY (%)	YTD (%)	Fortnightly (%)
Business	200.88	204.75	220.68	220.63	9.83	7.76	-0.02
Deposits	159.62	164.35	175.87	177.43	11.16	7.96	0.89
Advances	360.50	369.10	396.55	398.06	10.42	7.85	0.38

SECTORAL DEPLOYMENT OF CREDIT- INDUSTRY WISE

Parameter (Rs. Lakh Crore)	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
Total Non-food	**167.9**	**169.2**	**171.1**	**172.2**	**174.6**
Agriculture and allied activities	**21.6**	**21.6**	**21.7**	**22.1**	**22.2**
Industry	**37.2**	**37.6**	**38.0**	**37.7**	**38.1**
Of which					
Micro & small	7.3	7.4	7.5	7.5	7.6
Medium	3.2	3.2	3.3	3.4	3.4
Large	26.8	26.9	27.2	26.9	27.2
Personal loans	**55.1**	**55.6**	**56.0**	**56.5**	**57.3**
Of which					
Housing (Including priority sector housing)	28.1	28.3	28.5	28.7	29.1
Education	1.2	1.3	1.3	1.3	1.3
Vehicle loans	6.1	6.1	6.2	6.2	6.1
Services	**46.2**	**46.4**	**47.4**	**47.8**	**48.5**
Of which					
Computer software	0.3	0.3	0.3	0.3	0.3
Tourism, hotels & restaurants	0.8	0.8	0.8	0.8	0.8
Shipping	0.1	0.1	0.1	0.1	0.1
Aviation	0.4	0.4	0.4	0.5	0.5
Retail trade	5.0	5.0	5.1	5.1	5.1
Commercial real estate	4.8	4.9	5.0	5.1	5.1

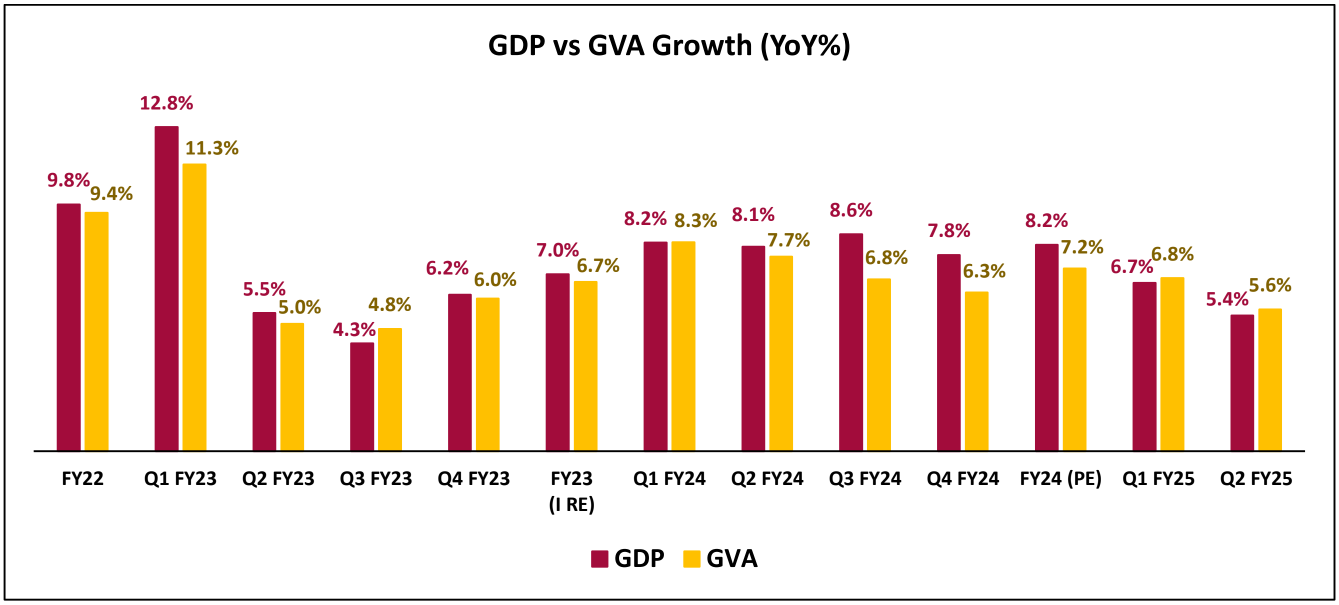
On a year-on-year (YoY) basis, non-food bank credit in November 2024 grew at 12.1%, lower than the growth witnessed in the year ago period at 20.8%. Credit to agriculture and allied activities continued to be robust with the growth of 15.3% (YoY) in November 2024, compared with 18.1% during November 2023. Credit growth to industry accelerated to 8.0% (YoY) in November 2024 compared with 6.1% growth in November 2023. The improved industrial credit growth was mainly led by 'medium' industries (20.0% YoY), followed by 'micro & small' (10.1% YoY) and 'large' (6.1% YoY) industries.

Among major industries, the engineering (incl. electronics & others) goods industry registered the highest credit growth (18.3%) in November, followed by Glass & glassware (13.9%) and Wood & wood products (13.8%). While Gems & jewellery witnessed a de-growth of 2.8% YoY.

10. QUARTERLY ECONOMIC INDICATORS

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

India's GDP growth fell short of expectations in Q2 FY25

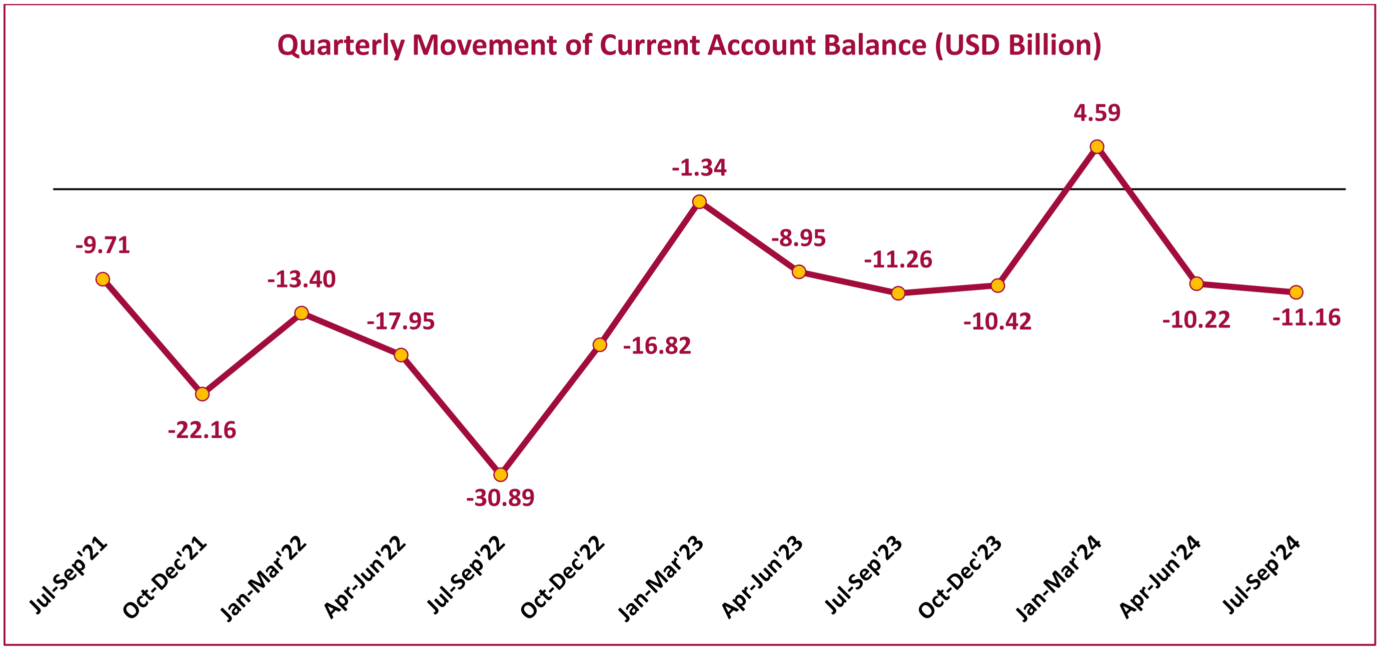


India's gross domestic product (GDP) growth for Q2 FY25 slowed to 5.4 per cent as compared to a growth of 6.7 per cent in the previous quarter (Q1 FY25) and a growth of 8.1 per cent in Q2 FY24. Also, GVA in Q2 FY25 grew by 5.6 per cent as compared to a growth of 6.8 per cent in the previous quarter (Q1 FY25) and a growth of 7.7 per cent in Q2 FY24. The slower growth during Q2FY25 may be attributed to weak urban consumption and sluggish growth in manufacturing and mining sectors. While government spending recovered, it remained below last year's pace. Investment growth also declined, and exports slowed significantly. Agriculture sector growth improved owing to good monsoon and rising rural demand.

INDIA'S GDP OUTLOOK BY VARIOUS AGENCIES

Agency	FY25
RBI	**6.6%**
World Bank	**6.7%**
IMF	**6.5%**
ADB	**6.5%**

CURRENT ACCOUNT BALANCE



India's current account deficit (CAD) decreased from 1.3 per cent of GDP in Q2FY24 to 1.2 per cent of GDP in Q2FY25. In absolute terms, the deficit marginally decreased to USD 11.16 billion in Q2FY25, from USD 11.26 billion during the same period a year ago. The impact of a growing merchandise trade deficit on CAD during Q2FY25 was mitigated by strong increase in services exports and remittance receipts. A net accretion of foreign exchange reserves (excluding valuation effects) of US$ 18.6 billion occurred in Q2FY25 as a result of net capital inflows exceeding CAD, with significant flows under FPIs, ECBs, and non-resident deposits.

11. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Federal Reserve	U.S.A	4.50%	Dec 18, 2024 (-25bp)	Jan 29, 2025
Bank of England	U.K	4.75%	Nov 07, 2024 (-25bp)	Feb 06, 2025
Reserve Bank of India	India	6.50%	Feb 08, 2023 (+25 bps)	Feb 07, 2025
Bank of Japan	Japan	0.25%	Jul 31, 2024 (+15bp)	Jan 24, 2025
European Central Bank	Europe	3.15%	Dec 12, 2024 (-25bp)	Jan 30, 2025
Peoples Bank of China	China	3.10%	Oct 21, 2024 (-25bp)	-

12. INDUSTRY OUTLOOK

HEALTHCARE

India's healthcare sector stands at a pivotal moment of growth and transformation. The **Indian healthcare market**, valued at US$ 110 billion in 2016, **is projected to reach US$ 638 billion by 2025**, demonstrating the sector's remarkable expansion potential. As of 2024, it ranks among India's largest employers, providing livelihoods to 7.5 million people across various healthcare segments.

The **hospital** industry, **representing 80%** of the healthcare market, is witnessing significant expansion as corporate hospital chains venture beyond tier-1 cities. With the current hospital bed capacity at 15 per 10,000 populations, substantial room remains for growth. India's **pharmaceutical** sector has established itself as a global powerhouse, with manufacturing capabilities **reaching USD 50 billion in 2023-24**, maintaining its position as the world's largest provider of generic medicines.

In the export arena, India's pharmaceutical sector has achieved exports of USD 26.5 billion in FY 2023-24, with 70% directed to highly regulated markets in North America and Europe. The USA, UK, South Africa, Netherlands, and France are the top five export destinations. The **medical devices sector,** valued at USD 14 billion, is **expected to reach $30 billion by 2030**.

India has emerged as **a preferred destination for medical tourism**, with the sector valued at US$7.69 billion in 2024 and projected to reach US$14.31 billion by 2029. Medical procedures in India cost 65-90% less than in developed countries while maintaining high-quality healthcare delivery standards through internationally accredited hospitals.

The **sector is witnessing a digital revolution** through telemedicine and AI-enabled diagnostics. Under Ayushman Bharat Digital Mission (ABDM), more than 73 crore Ayushman Bharat Health Accounts (ABHA) have been created successfully as on January 2025, and the telemedicine market is expected to reach USD 5.5 billion by 2025. In FY24, hospitals accounted for 50% of the FDI in total healthcare, translating to $1.5 billion.

Looking ahead, despite rural healthcare access challenges, the sector's growth trajectory remains robust. The **government's commitment to increasing healthcare spending to 2.5% of GDP by 2025** supports continued expansion. Key trends include AI adoption, expanding health insurance coverage, and specialized healthcare facilities in tier-2 and tier-3 cities. The medical devices industry presents significant opportunities for domestic manufacturing and import substitution.

The combination of favourable demographics, rising health awareness, increasing income levels, and supportive government policies which is evident from declining out-of-pocket expenditure (OOPE), positions India's healthcare sector for sustained growth. With a focus on self-reliance in pharmaceutical manufacturing, digital health initiatives, and medical tourism, India's healthcare sector is well-positioned to meet both domestic and global opportunities.

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13. DATA SOURCES

- *Reserve Bank of India (RBI)*
- *Ministry of Statistics and Programme Implementation (MOSPI)*
- *Office of Economic Adviser*
- *Ministry of Commerce and Industry, Department of Commerce, DGFT*
- *S&P Global*
- *Press Information Bureau*
- *GST Council*
- *Websites of major Central Banks*
- *Controller General of Accounts (CGA)*
- *Investing.com*
- *CMIE*
- *NSDL*
- *Press Articles*

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QUOTE OF THE MONTH

"The greatest gift is a passion for reading."

—Elizabeth Hardwick.

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