पंजाब नैशनल बैंक
punjab national bank

FEBRUARY 2023

फरवरी 2023

PNB ECOLENS

MONTHLY BULLETIN

पीएनबी इकोलेंस मासिक बुलेटिन

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

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

CONTENTS

Union Budget 23-24 – an impactful budget

The Union Budget 2023-24 did a decent job of striking a balance between opposing goals, such as promoting investment-led growth while also consolidating the budgetary position of the government. The Union Budget is released at a time when the economy around the world is slowing down. India is a shining example of hope since, in comparison to counterparts, the country has the highest growth and one of the lowest inflation rates.

Budget's Expected Outcome for the Economy

❖ **Agriculture Sector:** The agriculture credit target has been increased to Rs.20 lakh crores, with the focus on animal husbandry, dairy and fisheries. Budget also announced to setup Accelerator Agriculture Fund of Rs.2,200 crores to encourage agri-tech startups by young entrepreneurs in rural areas which will focus on bringing innovative solutions to challenges faced by farmers. Government also plans to set up massive, decentralized storage capacity.

The increased farm credit, access to better-quality inputs through the clean plant program, and investments in digital infrastructure will facilitate increasing farm-level productivity and farm income levels. Decentralized storage, and the cluster-based value chain approach will lead to more inclusive growth and facilitate access to innovative agriculture technologies through the agri-tech startup ecosystem.

❖ **Industrial Sector :** The ease of doing business for the industry has been a major focus area of the government. Over 39,000 compliance norms have been reduced and more than 3,400 legal provisions have been decriminalized so far. Budget has launched the PM Kaushal Vikas Yojana 4.0, which will focus on upskilling lakhs of youth and bringing them on par with the needs of the industry.

A capacity of 4,000 MWh of battery energy storage systems is being supported with viability gap funding. A more immediate impact will be felt by country's EV industry, as the import duty on goods and machinery used in manufacturing of lithium-ion cells has been waived. This should bring down the cost of EVs and provide further impetus to the sector.

Government has proposed to expend a whopping ₹22,138 crore on allocations aimed at the micro, small, and medium enterprises (MSMEs) ministry in the Budget 2023-24, which will play an instrumental role in employment generation in the country.

Make in India push is now being extended to artificial intelligence with campaigns 'Make AI in India and Make AI work for India'. This could lead to many ground-breaking adoptions using technology.

Budget introduced the concept of Unity Mall, encouraging states to set up malls in financial capitals or prominent tourist centers to promote ODOP (One District, One Product), GI products and other handicrafts products specific to the states.

❖ **Services Sector:** The budget proposed a lot of initiatives and outlay for the services sector.

In a bid to boost the tourism sector, 50 tourist destinations will be selected through challenge mode to be developed as a whole package for domestic and international tourism.

For integrated development of theme-based tourist circuits, the 'Swadesh Darshan Scheme' was also launched. Under the Vibrant Villages Programme, tourism infrastructure and amenities will also be facilitated in border villages. These initiatives will provide boost to the reviving hospitality sector and will create more jobs.

The outlay on healthcare sector witnessed an uptick of 13% from the previous year's budget. Budget has also proposed establishment of 157 new nursing colleges in co-location with 157 existing medical colleges to address the shortage of nurses.

Banks stand to benefit from large capital outlays, an emphasis on housing as part of the PMAY, income tax relief, and the continuation of guaranteed loans to MSME. The budget benefited the senior citizens with an enhancement in their maximum deposit limit for saving schemes from Rs.15 lakhs to Rs.30 lakhs. This will help banks mobilize higher deposits.

Budget has proposed amendments to the Banking Regulation Act and the Reserve Bank of India Act to improve bank's governance and enhance security for the investors. KYC process is simplified adopting a 'risk based' rather than a 'one size fits all' approach. This would make it easier and faster for individuals with good credit rating to avail of financial services.

❖ **Capital Expenditure:** The Budget has made a "hat-trick" of accelerating capital expenditure to ₹10 lakh crore, a four-fold increase from ₹2.5 lakh crore in FY16. This is remarkable at 3.3% of GDP. Spending in infrastructure will have a multiplier effect. It will crowd in private investments, create jobs and improving competitiveness of the manufacturing sector for catering to domestic demand and increasing exports. The general capacity in the economy will improve for long-term growth.

❖ **Spurring Consumption Demand:** Cutting direct taxes, especially personal income tax was the highlight of budget. Tax rationalization would provide additional disposable income to the tune of ₹35,000 crore which is positive from the consumption standpoint. Consumption boost in turn will push up capacity utilization across sectors forcing companies to expand. This will accelerate the private capex which has remained sluggish and is about to show signs of revival.

❖ **Fiscal Deficit :** Government has a credible plan to get to a fiscal deficit of 5.9% as opposed to 6.4% in FY23 which means lower borrowings by the government, which translates into lower interest rates. The government is moving towards a credible medium-term fiscal consolidation strategy where the whole philosophy is shifting revenue deficit towards capital expenditure. The path to fiscal prudence continues with re-iteration to attain a level of fiscal deficit lower than 4.5% of GDP by FY26 that will be significant in our journey towards becoming a developed economy.

❖ **Conclusion :** Overall, the budget has struck an ideal balance between competing goals, such as encouraging growth while maintaining fiscal consolidation, reducing the burden on taxpayers while bringing in robust revenue growth, and giving preference to investment while not discouraging consumer spending. The primary focus of the budget was on maintaining India's position at the top of the global economic order.

Deepak Singh

(Deputy General Manager)

EXCERPTS: WEO: INFLATION PEAKING AMID LOW GROWTH

International Monetary Fund has come out with World Economic Outlook titled Inflation peaking amid low growth. Some of the key features are as under:

- Global growth is projected to fall from an estimated 3.4 percent in 2022 to 2.9 percent in 2023, then rise to 3.1 percent in 2024.
- The rise in central bank rates to fight inflation and Russia's war in Ukraine continue to weigh on economic activity. The rapid spread of COVID-19 in China dampened growth in 2022, but the recent reopening has paved the way for a faster-than-expected recovery.
- Global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024, still above pre-pandemic (2017–19) levels of about 3.5 percent.
- The balance of risks remains tilted to the downside, but adverse risks have moderated since the October 2022 WEO. On the upside, a stronger boost from pent-up demand in numerous economies or a faster fall in inflation are plausible.
- On the downside, severe health outcomes in China could hold back the recovery, Russia's war in Ukraine could escalate, and tighter global financing costs could worsen debt distress. Financial markets could also suddenly reprice in response to adverse inflation news, while further geopolitical fragmentation could hamper economic progress.
- In most economies, amid the cost-of-living crisis, the priority remains achieving sustained disinflation. With tighter monetary conditions and lower growth potentially affecting financial and debt stability, it is necessary to deploy macroprudential tools and strengthen debt restructuring frameworks.
- Accelerating COVID-19 vaccinations in China would safeguard the recovery, with positive cross-border spill-overs. Fiscal support should be better targeted at those most affected by elevated food and energy prices, and broad-based fiscal relief measures should be withdrawn. Stronger multilateral cooperation is essential to preserve the gains from the rules-based multilateral system and to mitigate climate change by limiting emissions and raising green investment

As per latest report of IMF, some of the Policy Priorities are underlined as under:

- ✓ Securing Global Disinflation
- ✓ Containing of re-emergence of COVID 19
- ✓ Ensuring Financial Stabililty
- ✓ Restoring Debt sustainability
- ✓ Supporting the vulnerable
- ✓ Reinforcing Supply
- ✓ Strengthening multilateral co-operation

METAVERSE: BANKING BEYOND BORDERS

Metaverse is a new generation technology which is a network of 3D virtual space where people can create, share and explore virtual world. Banking in Metaverse will benefit from a host of new opportunities, delivering immersive user experiences and an emotional touch to customers.

Metaverse enables the bank's customers to enter the meta-branch by logging in with their phones via a web-based interface and access information on products and services that the bank has to offer like checking balance, making a transaction, getting information on loans, educating the customer etc

The metaverse has the potential to bring several benefits to public sector banks, including:

- **Improved customer engagement**: Banks can use the metaverse to create immersive and engaging experiences for their customers. This could include virtual branches, educational experiences, and customer support services. In virtual banking branches, customers can conduct transactions and speak with representatives in a virtual setting.
- **Enhanced accessibility**: The metaverse can help public sector banks reach customers who may not have access to physical branches or may not be able to visit a branch due to physical limitations or geographical distance.
- **Increased efficiency**: The metaverse can help improving operational efficiency by automating routine tasks, reducing paperwork, and streamlining internal processes.
- **Cost savings**: Cost can be reduced by eliminating the need for physical infrastructure, such as branch offices, and by reducing the cost of customer acquisition and support. Banks can also leverage the metaverse to onboard, orient, and train new employees in an immersive and interactive 3D environment rather than having day-long virtual workshops, which can be cost-prohibitive.
- **Increased security**: A secure environment can be provided through Metaverse to conduct transactions, protect customer data, and prevent fraud.
- **Improved data analysis**: It would provide banks with access to large amounts of data on customer behavior and preferences, which can be used to improve product offerings and marketing strategies.

Overall, the metaverse presents a unique opportunity for public sector banks to improve customer engagement, increase efficiency, and develop new revenue streams. By leveraging the capabilities of the metaverse, public sector banks can better serve their customers and remain competitive in an increasingly digital world.

Ayesha Bhati, Economist

HIGHLIGHTS OF MONETARY POLICY

Highlights of the RBI's Monetary Policy announced on 08.02.2023 are given below:

A. Policy Rate	Rate	Change
Policy Repo Rate	6.50%	**25 bps↑**
Standing Deposit Facility (SDF)	6.25%	
MSF Rate	6.75%	
Bank Rate	6.75%	
B. Reserve Ratios		
Cash Reserve Ratio (CRR)	4.50%	**No Change**
Statutory Liquidity Ratio (SLR)	18.0%	

a. **Policy Rates and Stance:** Reserve Bank of India's (RBI) monetary policy commission (MPC) voted in 4:2 ratio to increase the repo rate by 25 bps. The RBI has hiked key benchmark lending rate by 250 basis points (bps) since an off-cycle 40 bps increase in repo in May 2022.

b. **Stance:** RBI maintains its stance of withdrawal of accommodation

c. **Rationale:** MPC decided to remain focused on the withdrawal of accommodation to ensure that inflation remains within target going forward while supporting growth.

i. **Economic and Inflation Outlook**

ECONOMIC

- Available data for Q3 and Q4:2022-23 indicate that economic activity in India remains resilient. Urban consumption demand has been firming up, driven by sustained recovery in discretionary spending, especially on services such as travel, tourism and hospitality.
- Passenger vehicle sales and domestic air passenger traffic posted robust year-on-year (y-o-y) growth. Domestic air passenger traffic crossed pre-pandemic levels for the first time in December 2022.
- Rural demand continues to show signs of improvement as tractor sales and two-wheeler sales expanded in December. Several high frequency indicators also point towards strengthening of activity.The GDP projections are as under:

RBI Projection GDP	FY23	Q1 FY24	Q2 FY'24	Q3 FY'24	Q4 FY'24	FY'24
07.12.2022	**6.8%**	**7.1%**	**5.9%**	**-**	**-**	**-**
08.02.2023	**7.0%↑**	**7.8%↑**	**6.2%↑**	**6.0%**	**5.8%**	**6.4%**

INFLATION

- Headline CPI inflation moderated by 105 basis points during November-December 2022 from its level of 6.8 per cent in October 2022. This was due to a softening in food inflation on the back of a sharp deflation in vegetable prices, which more than offset the inflationary pressures from cereals, protein-based food items and spices. As a result of this earlier than anticipated and steeper seasonal decline in vegetable prices, inflation for Q3:2022-23 has turned out to be lower than projections. Core CPI inflation (i.e., CPI excluding food and fuel), however, remained elevated.
- Taking into consideration these factors, the projections for the CPI Inflation with risk evenly balanced is as under:

RBI Inflation Projection	Q4 FY23	FY23	Q1 FY24	Q2 FY'24	Q3 FY'24	Q4 FY'24	FY'24
07.12.2022	5.9%	6.7%	5.0%	5.4%			
08.02.2023	5.7%↓	6.5%↓	5.0%↔	5.4%↔	5.4%	5.6%	5.3%

ii. Liquidity and Financial Market Conditions

- System liquidity remains in surplus, though of a lower order compared to April 2022. In the period ahead, while higher government expenditure and the anticipated return of forex inflows are likely to augment systemic liquidity, it would get modulated by the scheduled redemption of LTRO and TLTRO funds during February to April 2023.
- The Reserve Bank will remain flexible and responsive towards meeting the productive requirements of the economy. RBI will conduct operations on either side of the LAF, depending on the evolving liquidity conditions.
- As part of gradual move towards normalizing liquidity and market operations, it has been decided to restore market hours for the Government Securities market to the pre-pandemic timing of 9 am to 5 pm.
- Moreover, as part of ongoing endeavor to further develop the government securities market, RBI proposes to permit lending and borrowing of G-secs.

iii. External Sector

- The current account deficit (CAD) for the first half of 2022-23 stood at 3.3 per cent of GDP. The situation has shown improvement in Q3:2022-23 as imports moderated in the wake of lower commodity prices, resulting in narrowing of the merchandise trade deficit.
- Further, services exports rose by 24.9 per cent (y-o-y) in Q3:2022-23, driven by software, business and travel services. Global software and IT services spending is expected to remain strong in 2023.

- Remittance growth for India in H1 of 2022-23 was around 26 per cent – more than twice the World Bank's projection for the year. This is likely to remain robust owing to better growth prospects of the Gulf countries. The net balance under services and remittances are expected to remain in large surplus, partly offsetting the trade deficit. The CAD is expected to moderate in H2:2022-23 and remain eminently manageable and within the parameters of viability.

iv. Additional Measures

I. Financial Markets

a. Introduction of Securities Lending and Borrowing in Government Securities

- It is proposed to permit lending and borrowing of Government securities which will augment the existing market for 'special repos'.
- The system is expected to facilitate wider participation in the securities lending market by providing investors an avenue to deploy idle securities and enhance portfolio returns.
- Draft Directions will be issued separately for stakeholder comments.

b. Recovery of Penal Charges on Loan

- At present, Regulated Entities (REs) are required to have a policy for levy of penal interest on advances.
- To further enhance transparency, reasonableness and consumer protection, draft guidelines on levy of penal charges will be issued to obtain comments from stakeholders.

II. Regulation

a. Climate risk and Sustainable Finance

- Reserve Bank had issued a Discussion Paper on Climate Risk and Sustainable Finance in July 2022.
- Based on the feedback received, it has been decided to issue guidelines for REs on
  - I. A broad framework for acceptance of Green Deposits;
  - II. Disclosure framework on Climate-related Financial Risks;
  - III. Guidance on Climate Scenario Analysis and Stress Testing.

III. Payment and Settlement Systems

a. Expanding the Scope of TReDS

- It is proposed to expand the scope of TReDs by
  - i. providing insurance facility for invoice financing;
  - ii. permitting all entities/institutions undertaking factoring business to participate as financiers in TReDS; and
  - iii. Permitting rediscounting of invoices (that is, developing a secondary market in TReDS).

b. Extending UPI for Inbound Travellers to India

- It is now proposed to permit all inbound travellers to India to use UPI for their merchant payments (P2M) while they are in the country.
- To begin with, this facility will be extended to travellers from G-20 countries arriving at select international airports.

IV. Currency Management

a. QR Code based Coin Vending Machine - Pilot project:

- The Reserve Bank of India will launch a pilot project on QR Code based Coin Vending Machine (QCVM) in 12 cities.
- These vending machines will dispense coins against debit to the customer's account using UPI instead of physical tendering of banknotes.
- This will enhance the ease of accessibility to coins.
- Based on the learnings from the pilot, guidelines will be issued to banks to promote distribution of coins using these machines.

<u>Our View:</u>

- In line with the market expectations, RBI once again delivered a rate hike but quantum wise it is lower than earlier hikes. Growth outlook on GDP and Inflation has been enhanced which is positive sign.
- Further, allowing of lending and borrowing of G Secs is likely to increase the participation in the market and provide it greater depths and efficiency.
- Amongst Additional measures floating the guidelines on penal charges for comment will bring about the much required transparency in the matter.
- Issue of guidelines on climate risk and sustainable finance indicate that climate and green financing are of great importance now. Extending UPI to inbound travellers will enhance the scope and reach of UPI.
- MSME being the focus of the growth agenda has also been given due recognition by way of expanding the scope of TreDS which is likely to improve the cash flows for MSMEs.

KEY HIGHLIGHTS OF UNION BUDGET 2023-24

1. 'Saptarishi': Priorities of the budget:
   a. Inclusive development
   b. Reaching the last mile
   c. Infrastructure and Investment
   d. Unleashing the potential
   e. Green Growth
   f. Youth Power
   g. Financial sector
2. Vision for the Amrit Kaal includes technology-driven and knowledge-based economy with strong public finances and robust financial sector.

Inclusive development

a. Digital public infrastructure for agriculture to be setup as an open source, open standard and interoperable public good.
b. An agriculture accelerator fund will be setup to encourage agricultural start-ups.
c. Agriculture credit target raised to Rs. 20 lakh crore with a focus on animal husbandry and fisheries.
d. Atmanirbhar Clean Plant program to boost availability of disease-free, quality planting material.
e. Making in India Global hub for millets.
f. Setting up of widely available storage capacity.

Reaching the last mile

a. PM-Primitive Vulnerable Tribal Group development Mission to improve economic conditions of particularly vulnerable groups. An Amount of Rs. 15,000 crores allocated to implement this across three years.
b. 38,800 teachers and support staff will be recruited for the 740 Eklavya residential to schools, which are serving 3.5 lakh tribal students.

Infrastructure and Investment

a. The capital expenditure outlay raised again for the third year in a row, by 33% to Rs. 10 lakh crore, which would be 3.3% of GDP.
b. Highest ever capital outlay of Rs 2.4 lakh crore for railways.
c. Continuation of 50-year interest free loan to State Governments to incentivize infrastructure investments.
d. 100 transport infrastructure projects identified for end-to-end connectivity for ports, coal, steel, fertilizers sectors.

e. Creating Urban infrastructure in Tier 2 and Tier 3 cities via establishment of Urban Infrastructure development fund.
f. PM Awas Yojana outlay enhanced by 66% to over Rs. 79,000 crore.

Unleashing the Potential Trust Based Governance.

a. Three specialized AI centres in educational institute.
b. National data Governance policy introduced.
c. Less Stringent contract execution for MSME.
d. Easier and Standardized settlement scheme.
e. Phase 3 of E-courts to be launched.
f. Entity Digi locker to be set up for use of business enterprises and charitable trusts.
g. Setting up of 100 labs for 5 G services.

Green Growth

a. National Green Hydrogen Mission facilitate transition of economy to low-carbon intensity. Target is to reach annual production of 5MMT by 2030.
b. PM PRANAM to incentivize States/UTs to promote usage of alternate fertilizers.
c. Green credit program to incentivize sustainable actions.
d. Rs. 35,000 crore towards energy Transformation and achieving net zero goals.
e. Green credit programme introduced to encourage sustainable living.
f. Facilitate 1 crore farmers to adopt natural farming. For this 10,000 bio-input resource centres will be set up.
g. 'Mishti' scheme for mangrove and wetland conversation, and 'Ámrit Dharohar' for wetlands.
h. Enable a digital and user-friendly implementation of the scrapping scheme meant to phase out unfit and polluting vehicles in an eco-friendly manner.

Youth Power

a. National Education Policy developed.
b. PM Kaushal Vikas Yojana 4.0 launched to skill lakhs of youth. The scheme will also cover new age courses like drones and 3D printing.
c. 30 Skill India International centres will be system across States.
d. Launch of a Unified Skill India Platform
e. To provide stipend to 47 lakh youth in three years, direct benefit transfer under a Pan-India national apprenticeship scheme will be rolled out.
f. 50 destinations to be selected through challenge mode to be developed as complete package for domestic and foreign tourists.
g. States encouraged to set up Unity mall for promotion and sale of products.

Financial Sector

a. National Financial Information registry to be set up to enable efficient lending, promote financial inclusion and enhance financial stability.

b. Setting up of Central data processing centre.

c. A revamped credit guarantee scheme launched for MSMEs through infusion of Rs 9,000 crore from April 1. This will enable collateral-free borrowings worth Rs. 2 lakh crore

d. Setting up data embassies in the IFSC Gift City

e. SEBI will be empowered to develop, regulate, maintain and impose norms and standards, for education in the National Institute of Securities Market, and to recognise award of Degrees, Diplomas and Certificates

f. To improve banks' governance, certain amendments to the Banking Regulation Act and the RBI Act proposed.

g. A one-time new small savings scheme offering deposit facility of upto Rs. 2 lakh for a tenure of two years with an interest rate of 7.5% with partial withdrawal allowed.

h. Senior Citizens' Savings Scheme deposit limit raised from Rs. 15 lakh to Rs. 30 lakh.

Fiscal management

	Actuals 2021-22	Budget Estimates 2022-23	Revised Estimates 2022-23	Budget Estimates 2023-24
On Capital Account (Rs crore)	592874	750246	728274	1000961 (33.4% growth over BE 23)
Fiscal Deficit (% of GDP)	6.7	6.4	6.4	5.9

a. 50 year Interest Free loans to the state:

   i. To be spent on Capital Expenditure within 2023-24.

   ii. Part of loan is conditional on States increasing actual expenditure and part of outlay linked to State undertaking reforms.

b. Fiscal deficit of 3.5% of GSDP allowed for States (0.5% tied to power sector reforms)

c. Targeted Fiscal deficit to be below 4.5% by 2025-26.

Personal Income tax

a. Rebate: Limit increased to Rs. 7 lakhs from Rs. 5 lakhs in new tax regime

b. Six income slabs reduced to five slabs. New tax rates: Rs. 0-Rs 3 lakh-NIL, Rs. 3-6 lakhs- 5%, Rs. 6-9 lakhs- 10%, Rs. 9-12 lakhs- 15%, Rs. 12-15 lakhs- 20% and above rs. 15 lakhs- 30%

c. Highest surcharge rate reduced from 37% to 25% in the new tax regime. This will result in the reduction of the maximum tax rate to 39%.

d. The limit of Rs. 3 lakh for tax exemption on leave encashment on government salaried employees raised to Rs. 25 lakh.

MSME

a. Enhanced limits for micro enterprises and professional to avail benefits of presumptive taxation, 95% of receipts to be non-cash.

b. Deduction on payments made to MSMEs allowed only when payment is actually made.

Cooperatives

a. Extending 15% corporate tax benefits to new cooperatives commencing manufacturing till 31st March 2024.

b. Higher limits of Rs 3 crore for TDS on Cash withdrawal for co-operative societies.

Start-ups

a. Extension of date on incorporation by one year for income tax benefits for start-ups.

Rationalization

a. Income of authorities, boards and commissions set up by statues of the Union or State exempted from income tax in certain sectors.

b. Extension of period of tax benefits to fund relocating to IFSC, GIFT city till March 2025.

<u>Impact on Banking Sector</u>

a. Increased capital investment outlay by 33.4% to Rs 10 lakh crore to propel credit growth.

b. Credit opportunity created in the following sector:

    i. Transport infrastructure projects for connectivity if ports, coal, steel, fertilizers sectors.

    ii. Tourism Sector. 50 destinations identified.

    iii. MSME: revamped credit guarantee scheme Rs 9,000 cr outlay and relief to MSMEs through Vivad se Vishwas Act.

    iv. Green financing opportunity through PM Pranam, setting up 10,000 bio-inputs resource centres.

    v. Funds allocated for replacing old polluting vehicles: Opportunity for vehicle loans including electric vehicles, as the focus of the government is also on a shift to green fuels by 2030.

c. Business opportunities through Gift city: Setting up of Data embassy, setting up a single window IT system, Permitting acquisition financing by IFSC Banking Units of foreign banks, Recognizing offshore derivative instruments as valid contracts, extension of tax benefits to fund relocating to IFSC, GIFT city till 31st March 2025.

d. Sustainable growth a priority in the 'Amrit Kaal' Budget.

e. Agriculture outlay to Rs 20 lakh crore enhanced opportunity for financing.

f. More purchasing power to the populous through revision of rates and tax slabs. This will give boost to retail credit of the bank.

CLASSROOM: MONEY MULTIPLIER IN THE BANKING SYSTEM

Banks are required to keep a certain percentage of the deposits that they receive, as reserves and are allowed to lend out the rest. This reserve ratio generally comprises of Statutory Liquidity Ratio (SLR) - the minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities and Cash Reserve Ratio (CRR) - the percentage of total deposits a bank must have in cash to operate risk-free. Presently, SLR is 18 per cent and CRR is 4.50 per cent. Hence, the total reserve ratio may be considered as 22.50 per cent. Thus, when a Bank receives 100 Rupees as deposit, the maximum amount it can lend is 77.50 Rupees.

Now, let us understand the concept of money multiplier in this context. **Money is the currency held by the public or the bank deposits and increase in money supply by more than the initial deposit made, is termed as the money multiplier.**

For easier understanding, let us consider the reserve ratio to be 20 per cent and assume that (i) entire commercial banking system is one unit termed as Banks and (ii) Public holds no currency and all receipts and payments are routed through Banks.

Suppose, Bank A receives Rs. 1000 from Person X as the initial deposit. Bank A keeps 20 per cent, i.e. Rs. 200 as reserve and lends Rs. 800 to Person Y. Now let us assume Person Y deposits the amount of Rs. 800 in Bank B. Bank B now keeps 20 per cent as reserve, i.e. Rs. 160 and lends Rs. 640 to Person Z. As of now, as we can see, even though the initial deposit was Rs. 1000, the total deposit in the Banking system is gradually rising - Rs. 2440 (1000+800+640). This is how the money in the economy is getting multiplied with just a single deposit. This process continues, as long as banks have excess reserves to lend, or arithmetically when Initial Deposit becomes equal to Total Reserves (200+160+….). When the process ends, we find Total Deposits of the Banks has increased to Rs. 5000 (1000+800+640+…..), with Total Lending as Rs. 4000 and Total Reserves as Rs. 1000 (20 per cent of Total Deposits).

Thus, with an initial deposit of Rs. 1000, Banks create a total deposit of Rs. 5000. With increase in Bank Deposits, which is a component of money, money supply in the economy also increases.

In mathematical term,

Money Multiplier = 1/Reserve Ratio

As per our example,

Money Multiplier = 1/20% = 1/0.20 = 5 times.

Hence, in other words, the money multiplier is the process by which a change in bank reserves leads to a greater change in the money supply. Central Bank therefore has the power to control the money supply through change in Reserve Ratios. Higher the Reserve Ratios, the lower is the multiplier and vice versa.

However, in real world, the actual size of the money multiplier depends on various factors, such as the reserve requirements set by the central bank, the behaviour of depositors and borrowers, the creditworthiness of borrowers, etc.

Sagnik Bose, Economist

GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of Circular	17-Feb-2023
Ref. No.	RBI/2022-23/180 DOR.MRG.REC.102/00-00-009/2022-23
Subject	**Governance, measurement and management of Interest Rate Risk in Banking Book**

Gist: Interest Rate Risk in Banking Book (IRRBB) refers to the current or prospective risk to banks' capital and earnings arising from adverse movements in interest rates that affect its banking book positions. Excessive IRRBB can pose a significant risk to banks' current capital base and/or future earnings. These guidelines, accordingly, require banks to measure, monitor, and disclose their exposure to IRRBB.

Date of Circular	08-Feb-2023
Ref. No.	RBI/2022-23/174 DOR.RET.REC.101/12.01.001/2022-23
Subject	**Change in Bank Rate**

Gist: The Bank Rate is revised upwards by 25 basis points from 6.50 per cent to 6.75 per cent with immediate effect.

All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also stand revised.

Penal Interest Rates which are linked to the Bank Rate

Item	Existing Rate	Revised Rate (With immediate effect)
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls).	Bank Rate plus 3.0 percentage points (9.50 per cent) or Bank Rate plus 5.0 percentage points (11.50 per cent).	Bank Rate plus 3.0 percentage points (9.75 per cent) or Bank Rate plus 5.0 percentage points (11.75 per cent).

Date of Circular	08-Feb-2023
Ref. No.	RBI/2022-23/175 FMOD.MAOG.No.149/01.01.001/2022-23
Subject	**Liquidity Adjustment Facility - Change in rates**

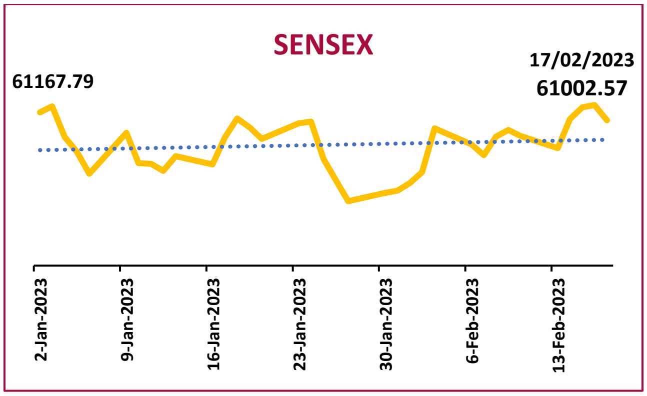
Gist: 1. It has been decided by the Monetary Policy Committee (MPC) to increase the policy repo rate under the Liquidity Adjustment Facility (LAF) by 25 basis points from 6.25 per cent to **6.50 per cent** with immediate effect.

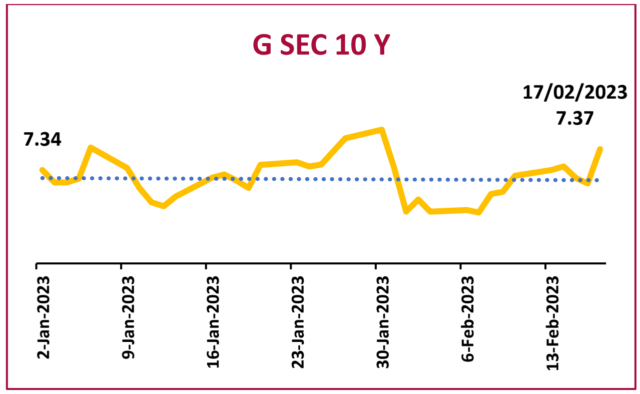
2. Consequently, the standing deposit facility (SDF) rate and marginal standing facility (MSF) rate stand adjusted to 6.25 per cent and 6.75 per cent respectively, with immediate effect.

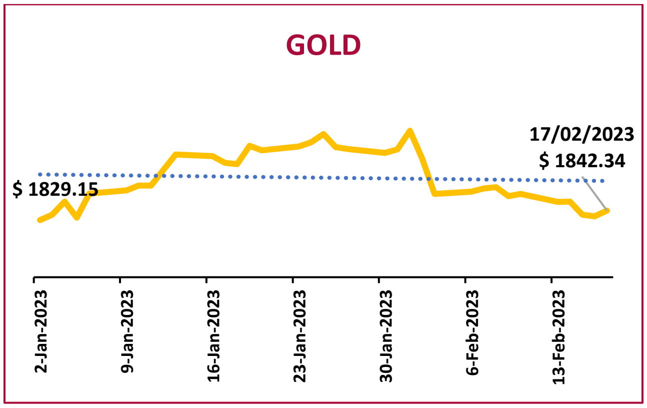
3. All other terms and conditions of the extant LAF Scheme will remain unchanged.

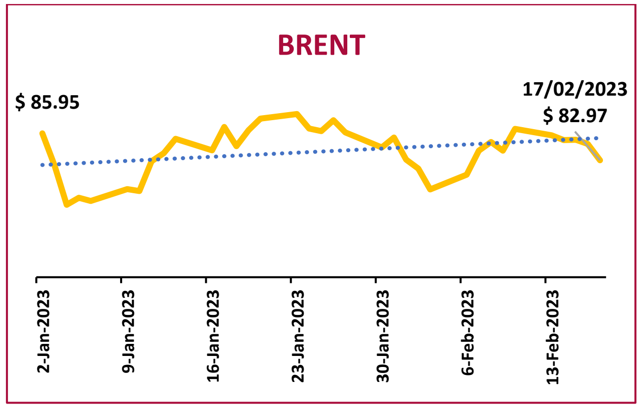
(Duration: 24 Jan'23 to 17 Feb'23)

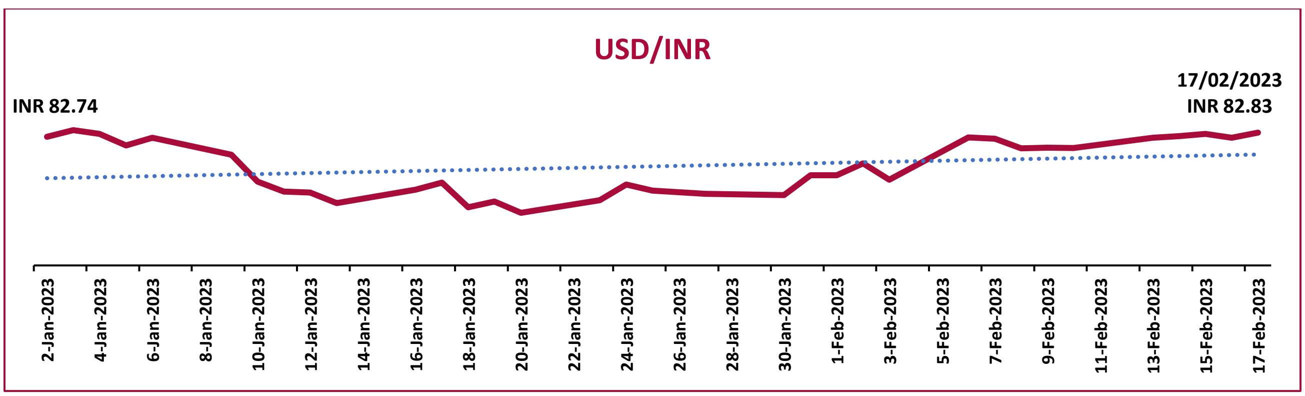
DAILY ECONOMIC INDICATORS

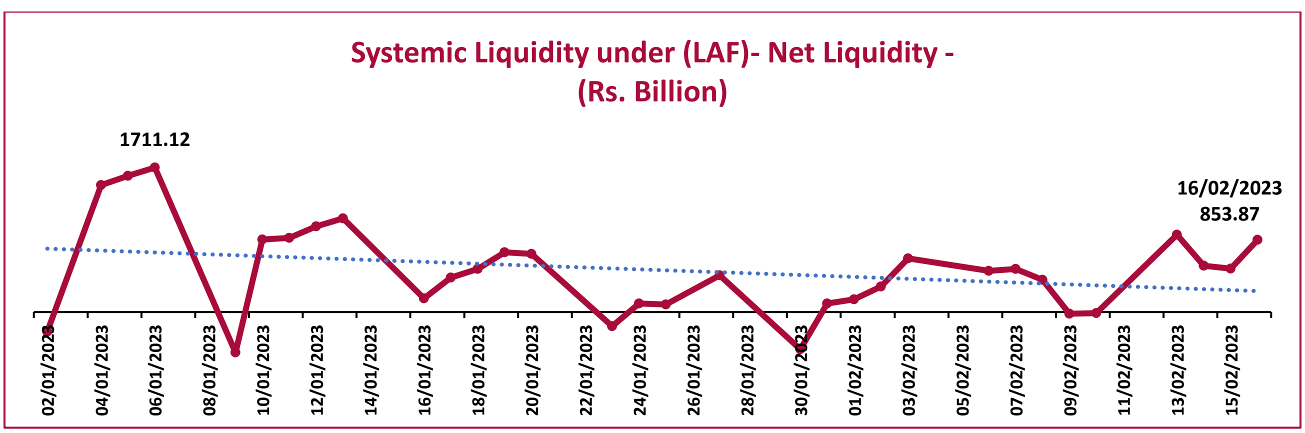








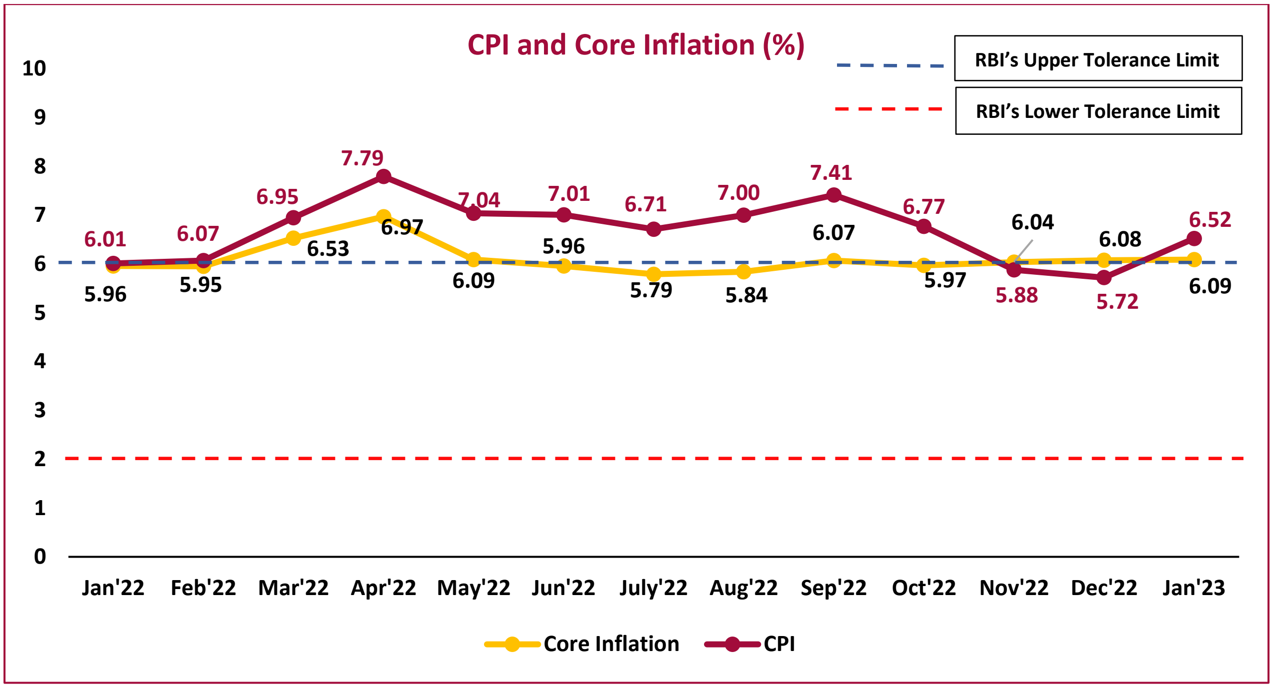


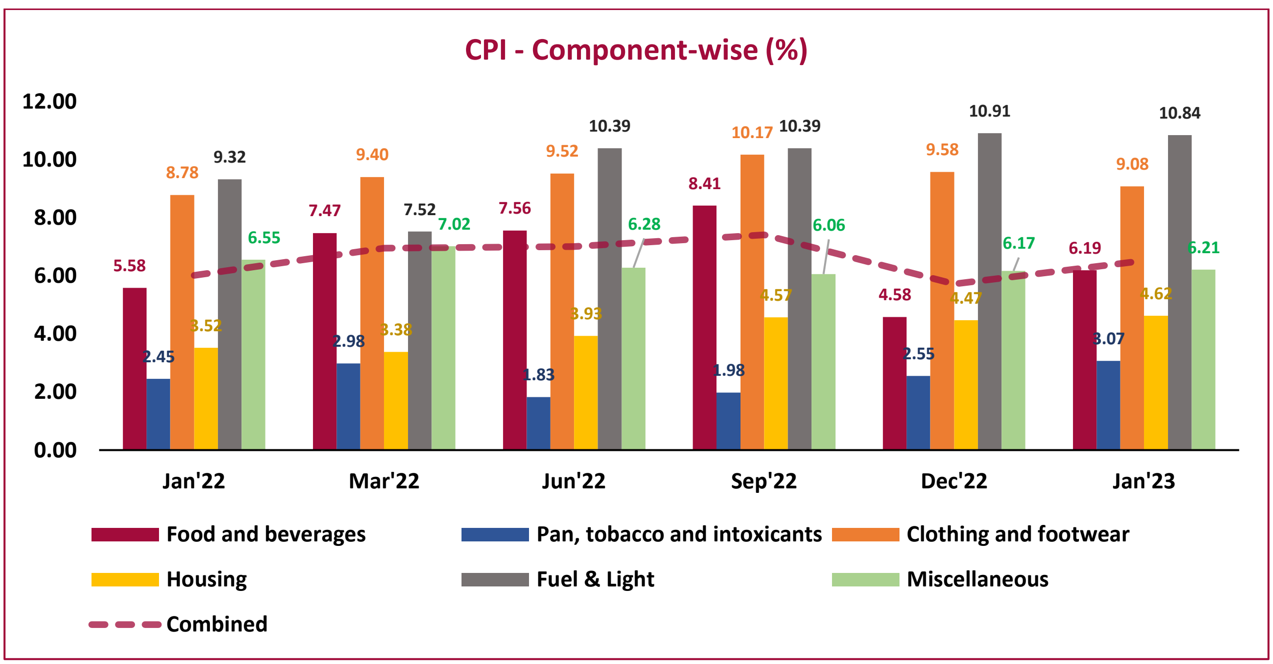


MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation goes beyond RBI's Comfort Zone and reaches at 6.52% for January 2023

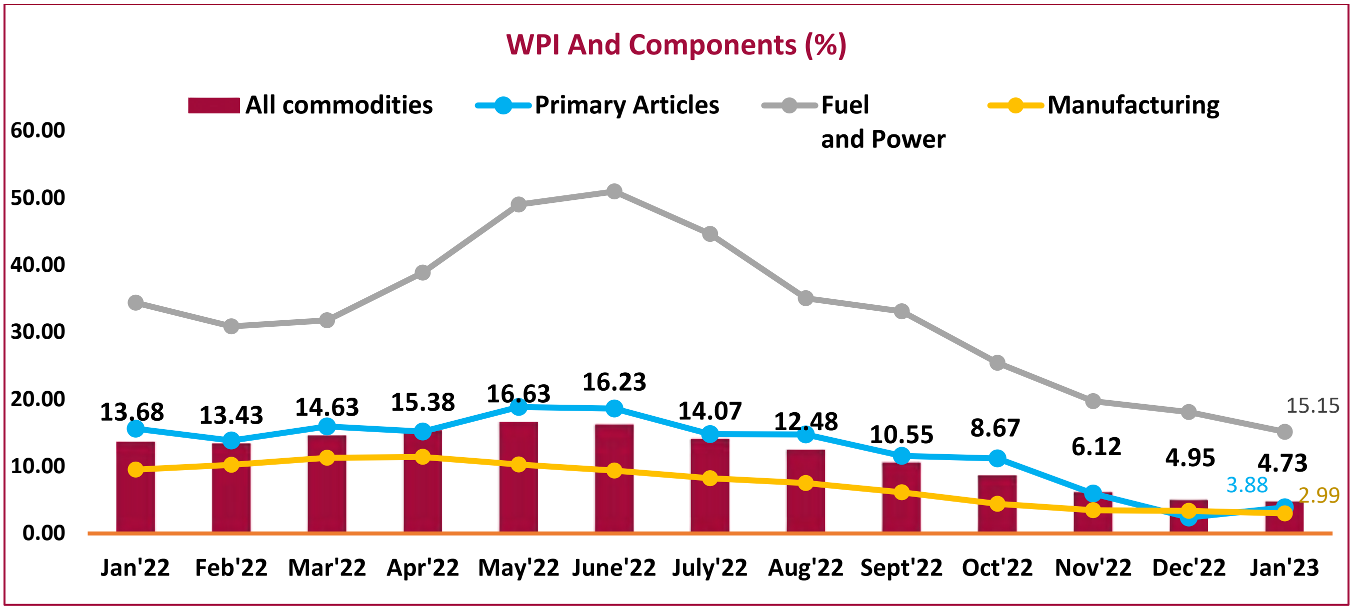




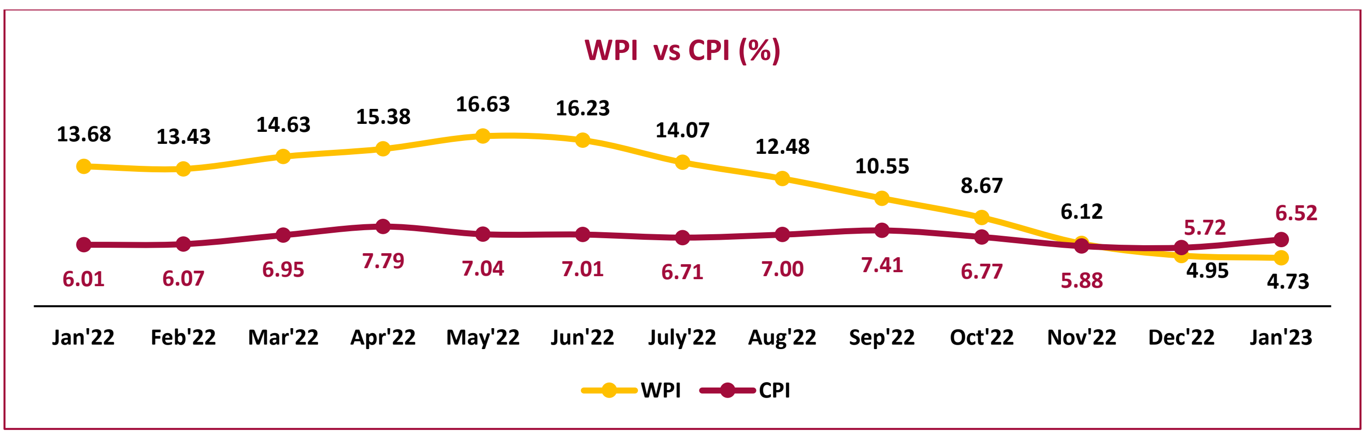
India's retail inflation for January 2023 breached upper tolerance level of 6% due to uptick in the food prices. Moving ahead, the retail inflation is likely to hover around 6%.

WHOLESALE PRICE INDEX (WPI)

WPI continues to move southwards and at 4.73% in Jan’23



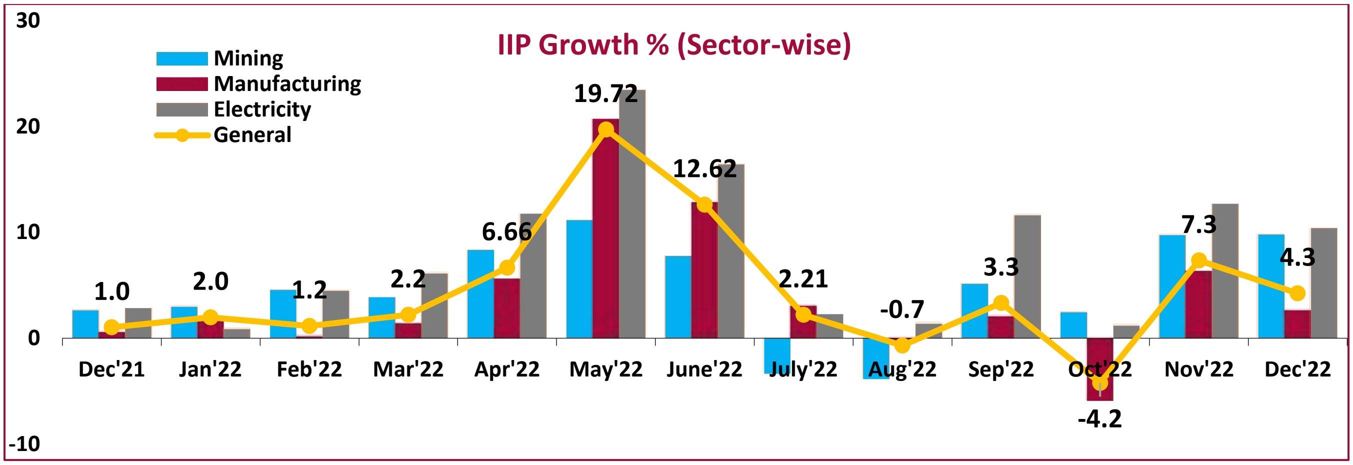
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Nov	10.21	**5.52**	44.37	**17.35**	12.34	**3.59**	4.82	**1.07**	14.87	**6.12**
Dec	13.78	**2.38**	38.08	**18.09**	10.71	**3.37**	9.68	**-1.25**	14.27	**4.95**
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Jan	15.60	**3.88**	34.36	**15.15**	9.50	**2.99**	10.40	**2.38**	13.68	**4.73**



The decline in WPI continued during Jan’23 on account of fall in the prices of food articles, basic metals, and textiles, chemical and chemical products.

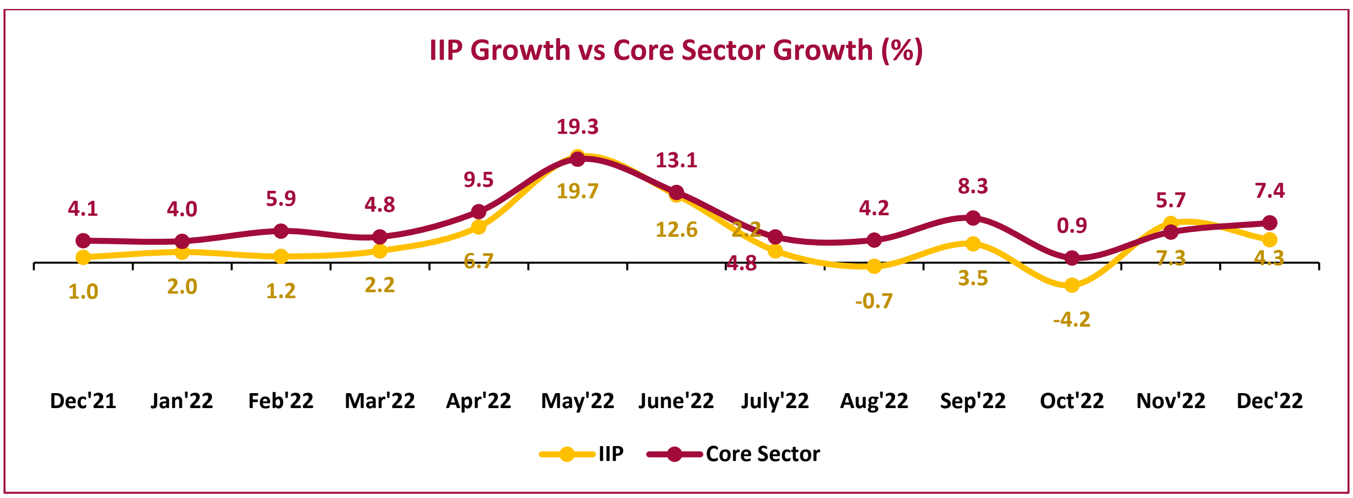
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

Index of Industrial Production slowdown to 4.3% in Dec'22



IIP growth % (Usage-wise)

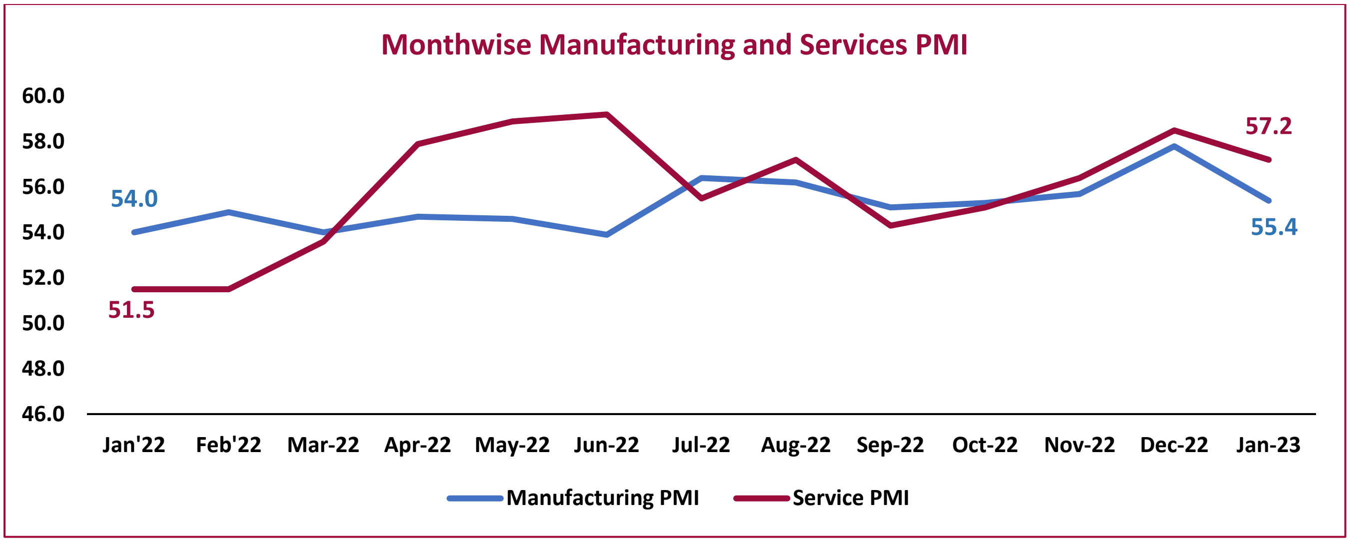
Component	Weight	Dec'21	Dec'22
Primary Goods	**34.05%**	2.8	**8.3**
Capital Goods	**8.22%**	-3.0	**7.6**
Intermediate Goods	**17.22%**	1.0	**-0.3**
Infrastructure/Construction Goods	**12.34%**	2.0	**8.2**
Consumer Durables	**12.84%**	-1.9	**-10.4**
Consumer Non- Durables	**15.33%**	0.3	**7.2**



The Index of Industrial Production declines to 4.3% in Dec'22 from 7.3% in Nov'22 owing to slowdown in the Manufacturing Segment which has the sector-wise highest weightage. It is expected that the push given in Union Budget to Infrastructure via enhancement of Capital Expenditure will provide boost to IIP growth in coming months. Particularly Construction sector will experience a good growth and will subsequently influence the growth trend in other linked sectors.

PURCHASING MANAGERS' INDEX (PMI)

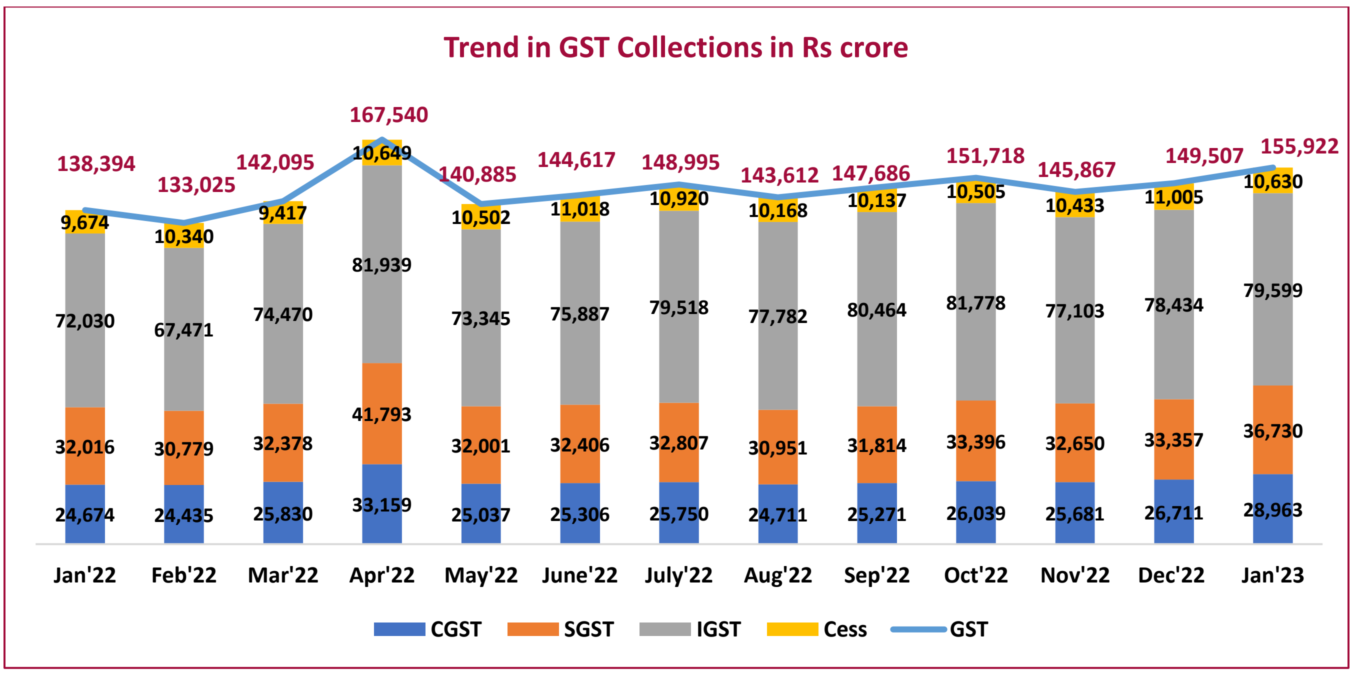
Both Manufacturing and Services PMI dips in Jan'23



Services PMI dipped slightly in January but remained above its long run average. On the other hand, India's manufacturing sector activity moderated in January amid a slower increase in total sales, according to a monthly survey.

GOODS AND SERVICES TAX (GST)

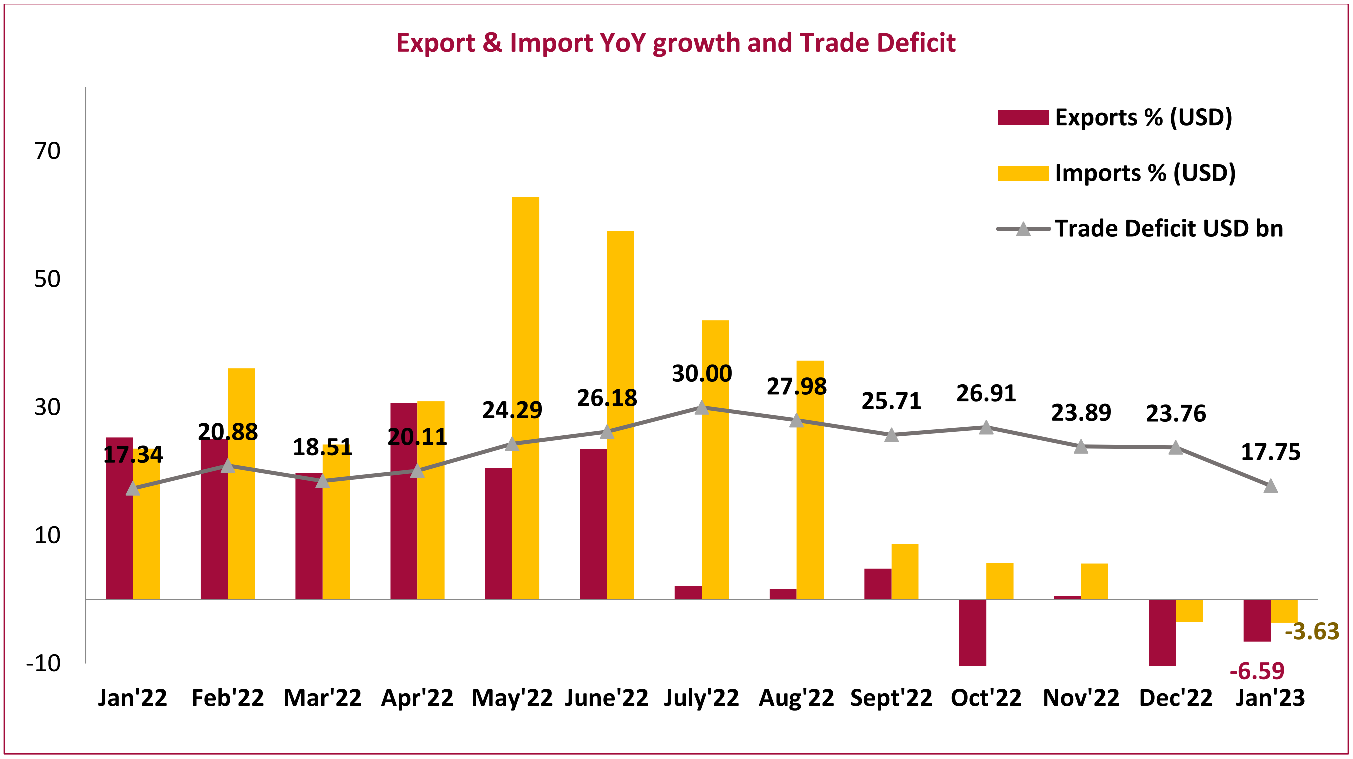
GST Collection, second highest ever

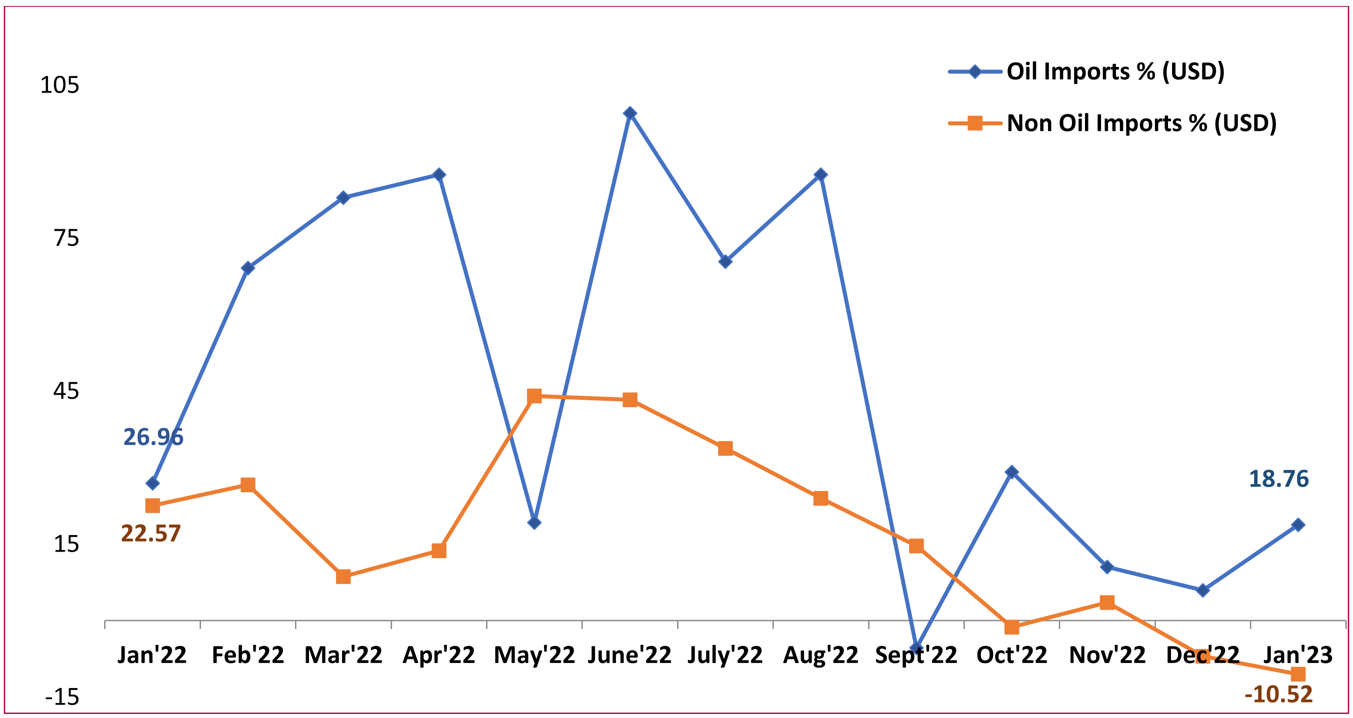


The gross GST revenue collected is Rs.1,55,922 Crore in January 2023. GST collection was more than Rs.1.50 lakh crore third time in Financial Year 2023.

FOREIGN TRADE

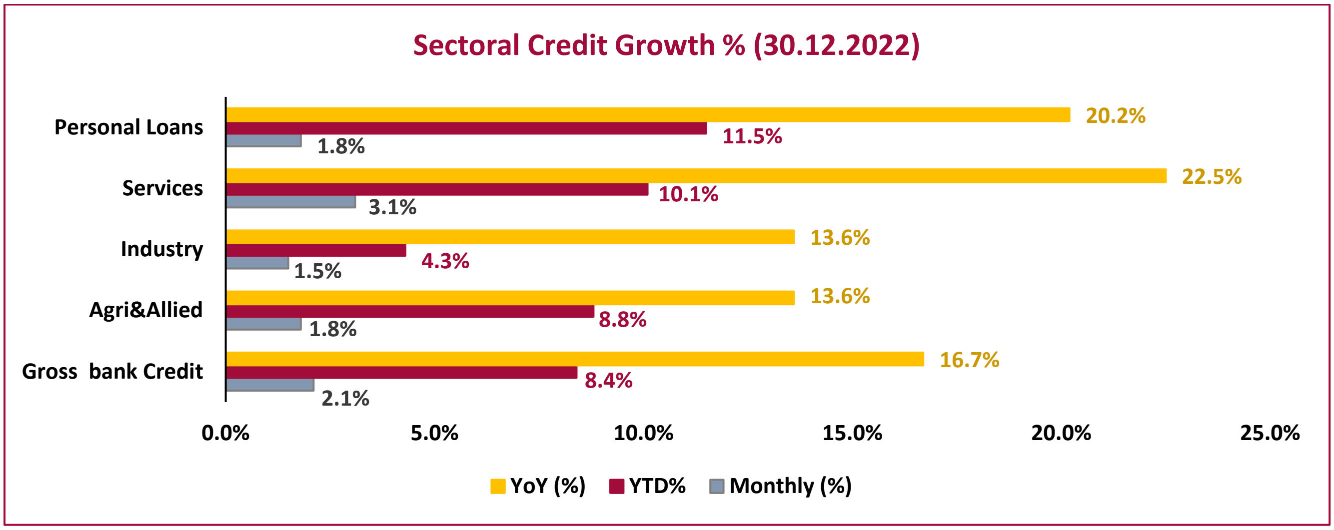
Merchandize export shrinks by 6.6 per cent, Deficit narrows down to $17.75 Billion





India's January merchandise trade deficit narrowed to $17.75 billion as Import growth has also dipped along with the export growth.

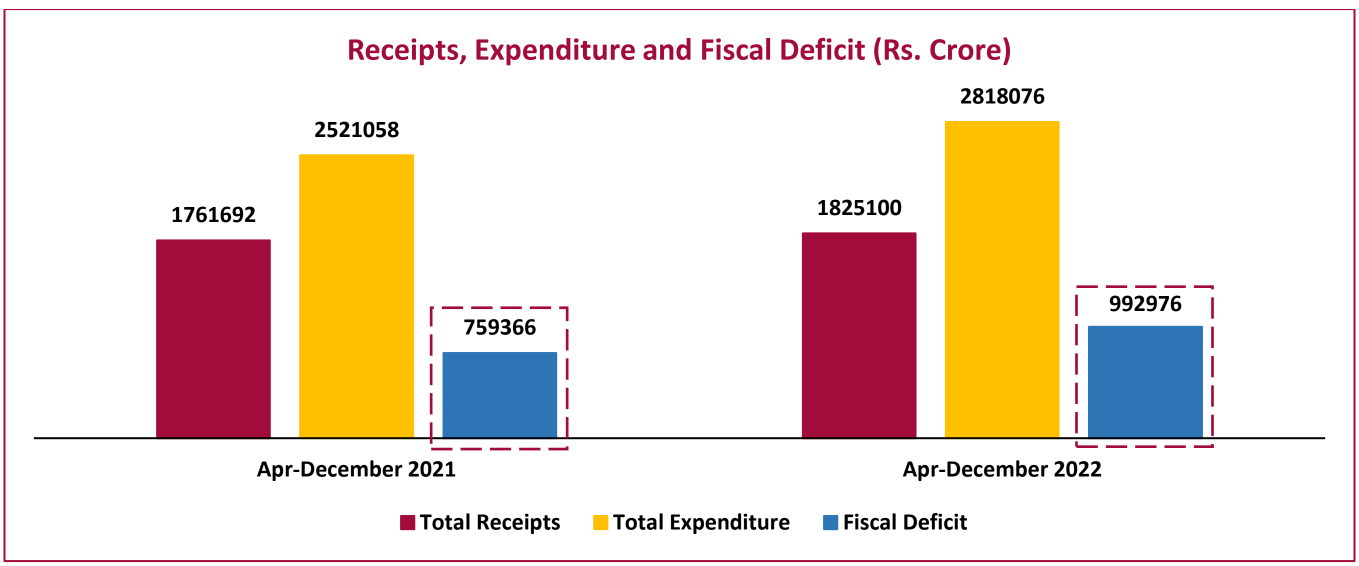
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	28.01.22	25.03.22	13.01.23	27.01.23	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	160.33	164.65	176.75	177.19	**10.5%**	**7.6%**	**0.2%**
Advances	114.69	118.91	132.77	133.42	**16.3%**	**12.2%**	**0.5%**
Business	275.02	283.56	309.52	310.61	**12.9%**	**9.5%**	**0.4%**

FISCAL DEFICIT

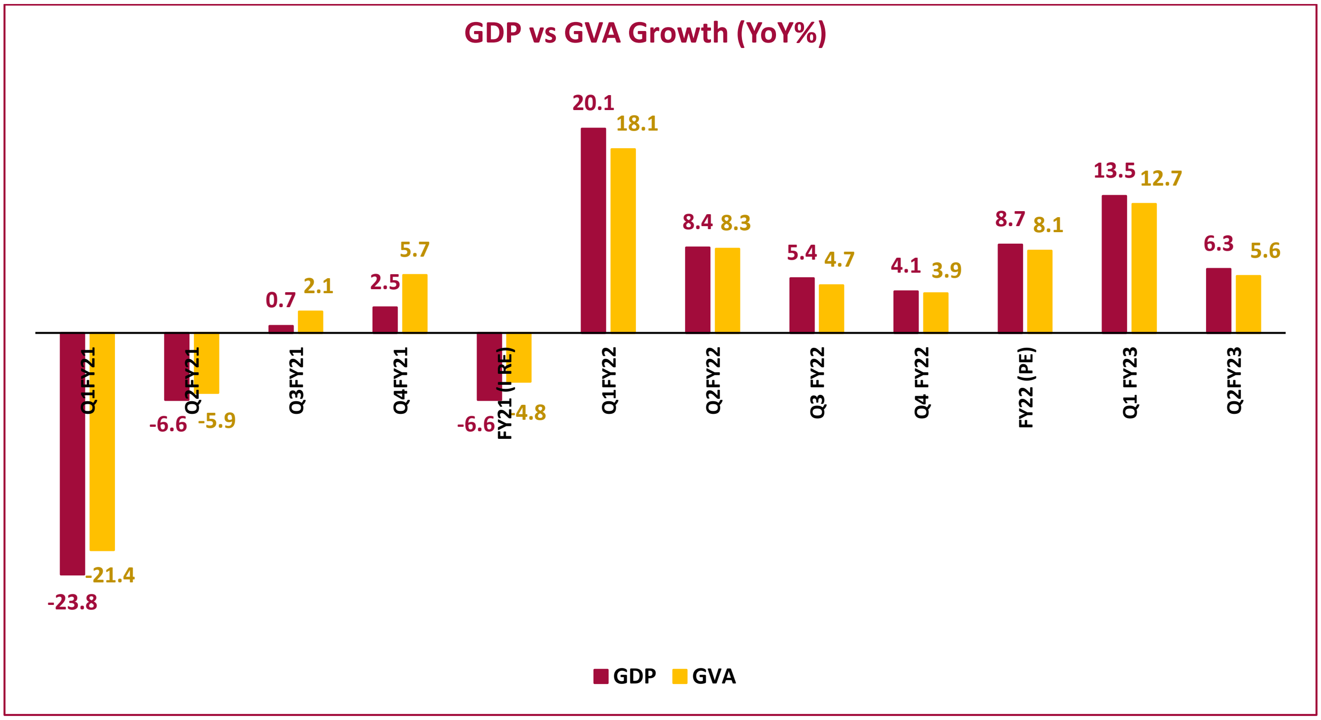


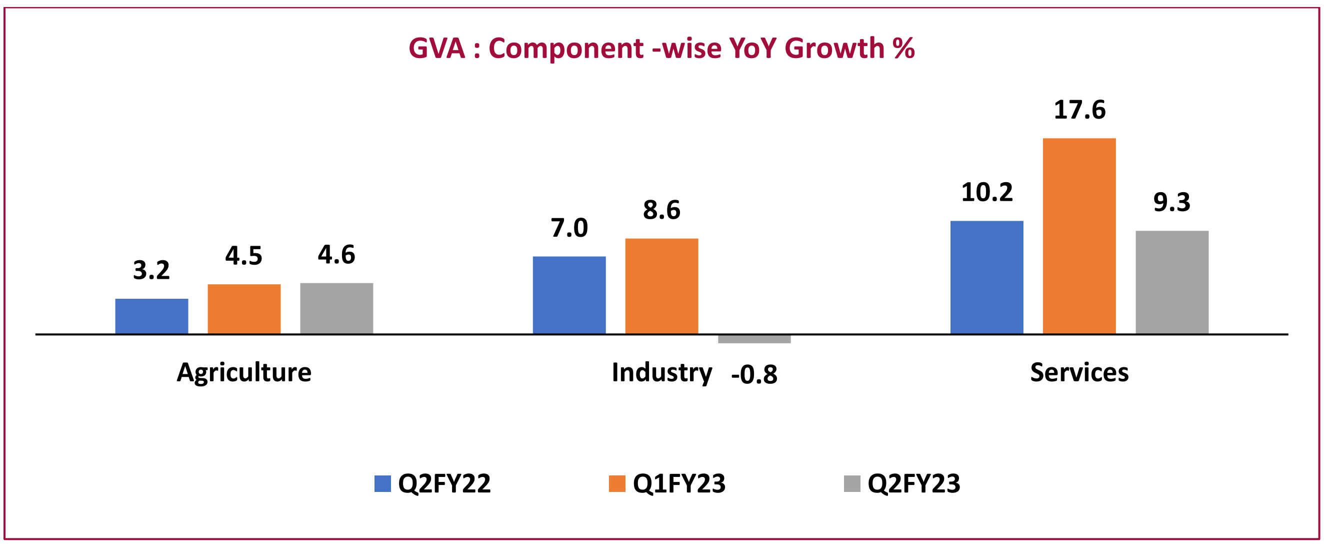
The fiscal deficit for the nine months till December’22 is 59.8% of annual estimates.

QUARTERLY ECONOMIC INDICATORS

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

Economic Growth slows to 6.3%



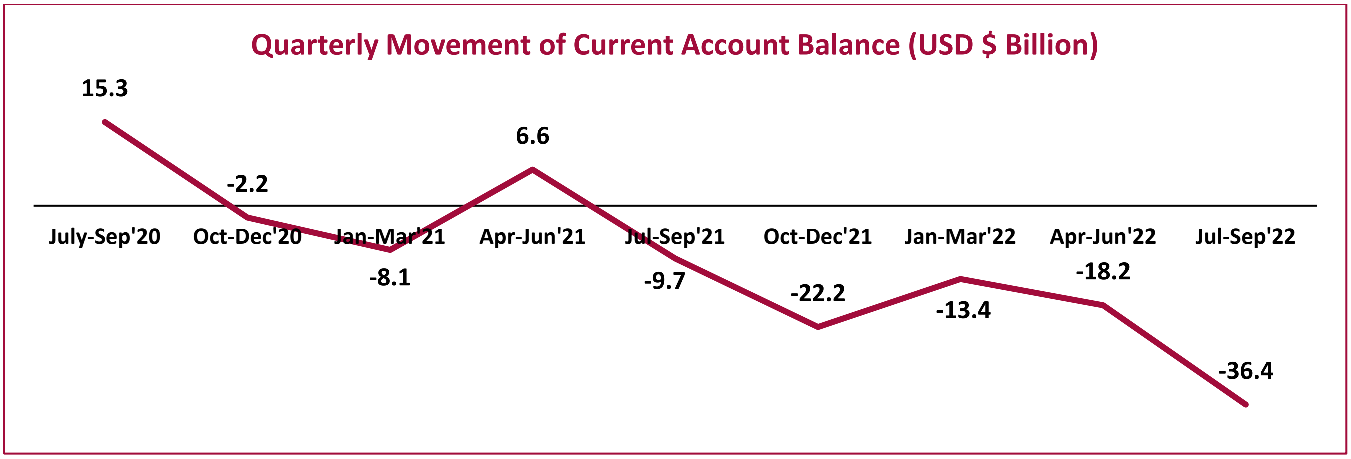


GDP for Q2 FY23 grew by 6.3% as compared to a growth of 13.5% in the previous quarter (Q1 FY23) and a growth of 8.4% in Q2 FY22. Also, Real **Gross Value Added (GVA)** at basic prices (which captures what accrues to the producer/service provider before a product or service is sold) **in Q2 FY23 grew 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	FY24
RBI	7.0%	6.4%
World Bank	6.9%	6.6%
IMF	6.1%	6.8%
ADB	7.0%	7.2%
Economic Survey	7.0%	6.5%

CURRENT ACCOUNT DEFICIT



The Current Account Deficit swelled to $36.4 billion in the September quarter of FY23 against a deficit of $18.2 billion in the preceding three months. It is 4.4% of GDP.

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)	Mar 10, 2023
European Central Bank (ECB)	Europe	3.00	Feb 02, 2023 (50 bps)	Mar 16, 2023
Federal Reserve	U.S.A	4.75	Feb 01, 2023 (25bps)	Mar 22, 2023
Bank of England	U.K	4.00	Feb 02, 2023 (50 bps)	Mar 23, 2023
Peoples Bank of China	China	3.65	Aug 22, 2022 (-5 bps)	-
Reserve Bank of India	India	6.50	Feb 08, 2023 (25 bps)	Apr 06, 2023

INDUSTRY OUTLOOK

Recent Developments in Airline Industry

Recent bumper order of airlines in the Indian aviation industry has created quite a buzz. Despite the hit due to pandemic the Indian aviation industry recovered fully in the first quarter of FY 2022-23 as indicated by the air traffic movement. Indian is the third largest domestic aviation market. With <5% of population using air travel potential is high. In fact, India has the potential in international civil aviation market. India is currently the 7th largest civil aviation market in the world.

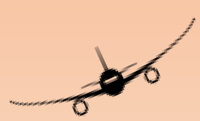
Indian airlines are expected to place order more order for aircraft over the next two years on the back of rising demand for air travel. Centre for Asia Pacific Aviation has said "India it may finally be set to take its place as the global aviation market of the 21st century". Supply chain issues, which have hit the delivery schedule for airlines worldwide, are likely to ease by the end of 2023-2024. Almost all Indian companies are expected to make purchase in order to replace fleet and also to meet growing demand.

The main demand drivers are growing demand from Tier II and Tier III cities, metro-to-metro connectivity. Further there is requirement to add more planes in the short and medium haul international routes. Capex and the UDAN (Ude Desh Ka Aam Nagrik) scheme are also crucial demand drivers. 73 airports are operationalized under UDAN till Jan'23.

Government has also asked airlines as well as airports to work towards multiple international hubs. This will help India to become an alternative to rival international aviation hubs such as Dubai and Singapore in Asia-Pacific but also make international fares from India more competitive.

However, the influx of capacity needs to be matched appropriate eco-system, manpower shortage etc. There is an urgent need to align policy, regulation, availability of skills, knowledge development, infrastructure, which includes airports as well as airspace, competition and consumer interests, with global best practices.

Hence it appears that Indian aviation industry is set to grow manifold in the years to come.



EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. **RBI greenlights 32 companies' applications to operate as online payment aggregators (ET, 16.02.2023)**

- The Reserve Bank of India said that it has granted in-principle approval to 32 payment aggregators including Amazon Pay, Google India, Reliance Payment Solutions among others.
- The central bank said it is considering 18 other applications including PhonePe and BhartiPay Services. The RBI has returned applications of four aggregators including Axis Bank led FreeCharge, PayTM Payments and PayU Payments.
- The regulator also said that while the scrutiny of applications was currently underway, to ensure greater transparency it was releasing current application status for all payment aggregators who had applied to the RBI for a license.
- Other entities who have received an in-principle nod from the RBI to operate as payment aggregators include, Infibeam Avenues, Innoviti Payment Solutions, Lyra Network, NSDL Database Management, Open Financial Technologies, Pine Labs and Razorpay Software Private Limited.

2. **Paytm Payments Bank launches UPI LITE feature (FE, 15.02.2023)**

- Paytm Payments Banks Limited (PPBL) has launched UPI LITE, enabled by National Payments Corporation of India for multiple small-value UPI transactions.
- The UPI LITE feature will help with faster real-time transactions with a single click through Paytm as the bank aims to drive the adoption of digital payments across the country.
- The NPCI designed the feature which was launched by Reserve Bank of India (RBI) in September 2022.
- The small value transactions would now only show in the Paytm balance and history section, and not in the bank passbook.

3. **Exports in slow lane, down 6.6% (FE, 15.02.2023)**

- Reflecting the slump in global trade and a moderation in domestic investment, and consumption demands, India's merchandise exports and imports shrank by 6.59% and 3.63%, respectively, in dollar terms in January, showed an official data released.
- While both outward and inward shipments shrank for the second straight month, exports contraction was also the third in four months. The dip in exports, largely driven by sharp falls in shipments from labour-intensive industries like textiles, gems & jewellery and engineering goods could dent the country's economic growth prospects if it lasts for long, besides further aggravating the jobs scenario.
- Merchandise trade deficit, however, dipped to a 12-month low of $17.75 billion in January. Lower goods trade deficit, along with the strong surpluses in net balance under services and robust remittances, is expected to allay the concerns over the current account deficit (CAD).

4. **India's WPI inflation eases to two-year low of 4.73% in January (BS,14.02.2023)**

- The wholesale price index (WPI)-based inflation rate for January 2023 fell to a two-year low at 4.73 per cent. This was on the back of a higher base and easing of pricing pressure for fuel and manufactured products.
- In December 2022, wholesale price inflation stood at 4.95 per cent. In January 2021, it was at 2.51 per cent.
- This is the fourth consecutive month that factory-gate inflation saw a single-digit print after remaining in double digits for 18 successive months.

5. **Retail inflation climbs to 3-month high of 6.52% in January (FE, 14.02.2023)**

- Retail inflation breached the RBI's comfort zone and rose to a three-month high of 6.52 per cent in January, mainly on account of a spike in food prices, as per government data released.
- The stickiness of "core inflation" has increased the chances of another round of rate hike by the Reserve Bank of India (RBI) in the current cycle. With core inflation expected to be stubborn in February and March as well, the repo rate, which was increased by 0.25% to 6.5% in the latest monetary policy review, may see a similar increase either in April review or later, analysts feel.

6. **Manufacturing drags industrial production growth to 4.3% in December (BS, 14.02.2023)**

- Growth in factory output decelerated to a two-month low of 4.3 per cent in December as manufacturing dragged the overall growth in the Index of Industrial Production (IIP) even as mining and electricity production grew at a robust pace.
- Data released by the National Statistical Office (NSO) showed mining and electricity sectors grew at 9.8 per cent and 10.4 per cent, respectively, while manufacturing managed to grow by 2.6 per cent.
- In the first three quarters of FY23 (April-December), IIP grew 5.4 per cent against 15.2 per cent during the year-ago period.
- Eleven of 23 manufacturing sectors in the IIP, such as tobacco, textiles, apparel, leather, wood, metals, computers, electrical, transport, furniture, and other manufacturing sectors, registered contraction during December.

7. **Digital credit to be rolled out this year; NRIs in 10 countries to get UPI service (ET, 10.02.2023)**

- The government will roll out digital credit service this year which will enable even small street vendors to avail credit from large banks, Telecom and IT Minister Ashwini Vaishnaw said.
- Speaking at 'Digital Payments Utsav', Vaishnaw said it will be rolled out like UPI service and will be a big achievement under Prime Minister Narendra Modi's vision of 'Digital India'.
- Speaking at the event, MeitY Secretary Alkesh Kumar Sharma said now UPI should become a global payments product for which the National Payments Corporation of India (NPCI) has already started partnering with Nepal, Singapore, Bhutan, UK and the UAE where the UPI model is being promoted.

8. **Unchanged stance: RBI keeps its options open (FE, 08.02.2023)**

- The Reserve Bank of India (RBI) surprised the markets with the continuation of its 'withdrawal of accommodation' stance, as core inflation continues to remain sticky. The stance indicates that there will be scope for further increase in repo rates depending on upcoming inflation data.
- There is a need for further calibrated monetary policy action to keep inflation expectations anchored and break the persistence of core inflation, RBI governor Shaktikanta Das said in his statement after the meeting.
- He also highlighted that India is facing inflationary risks arising out of overlapping shocks at a global level, including volatile financial markets, geopolitical hostilities and sovereign debt distress.

9. **RBI to replace 'penal interest' with 'penal charges' (FE, 08.02.2023)**

- The Reserve Bank of India (RBI) will replace 'penal interest' with 'penal charges', the central bank said in its statement on developmental and regulatory policies. The RBI will issue draft guidelines on penal charges and these shall be placed on the RBI website for comments from stakeholders.
- While 'penal interest' is typically added to the rate of interest being charged on advances, 'penal charges' shall be recovered separately and shall not be added to the principal outstanding.

10. **5 more banks to join digital rupee pilot in 9 more cities soon (ET, 08.02.2023)**

- Five more banks will join the pilot on the central bank digital currency or e-rupee for retail customers and the project will be extended to nine additional cities, the Reserve Bank said.
- The Reserve Bank, which began piloting the central bank digital currency or e-rupee for retail customers in early December with eight banks in five cities, stressed that it does not want to rush with it but favours a slow and steady adoption.
- The retail CBDC is available for only 50,000 users now and 5,000 are merchants. The service is being offered on an invitation basis by eight banks across five cities now, RBI Deputy Governor T Rabi Sankar told reporters at the customary post-policy presser.

11. **Banking laws recast likely to protect bankers from Lokpal (ET, 06.02.2023)**

- India is eyeing a significant revamp of the banking laws that includes ring-fencing bankers from the Lokpal Act, stock options for state-owned banks' employees, and review of the entire scheme of board constitution including composition and selection methodology.
- Finance minister Nirmala Sitharaman in her FY24 budget speech proposed amendments to the Banking Regulation Act, the Banking Companies Act, and the Reserve Bank of India Act to improve bank governance and enhance investors' protection.
- The final amendments to the various legislation including Banking Regulations Act may be done after getting the sectoral regulator, the Reserve Bank of India, on board, said the official quoted above.

DATA SOURCES

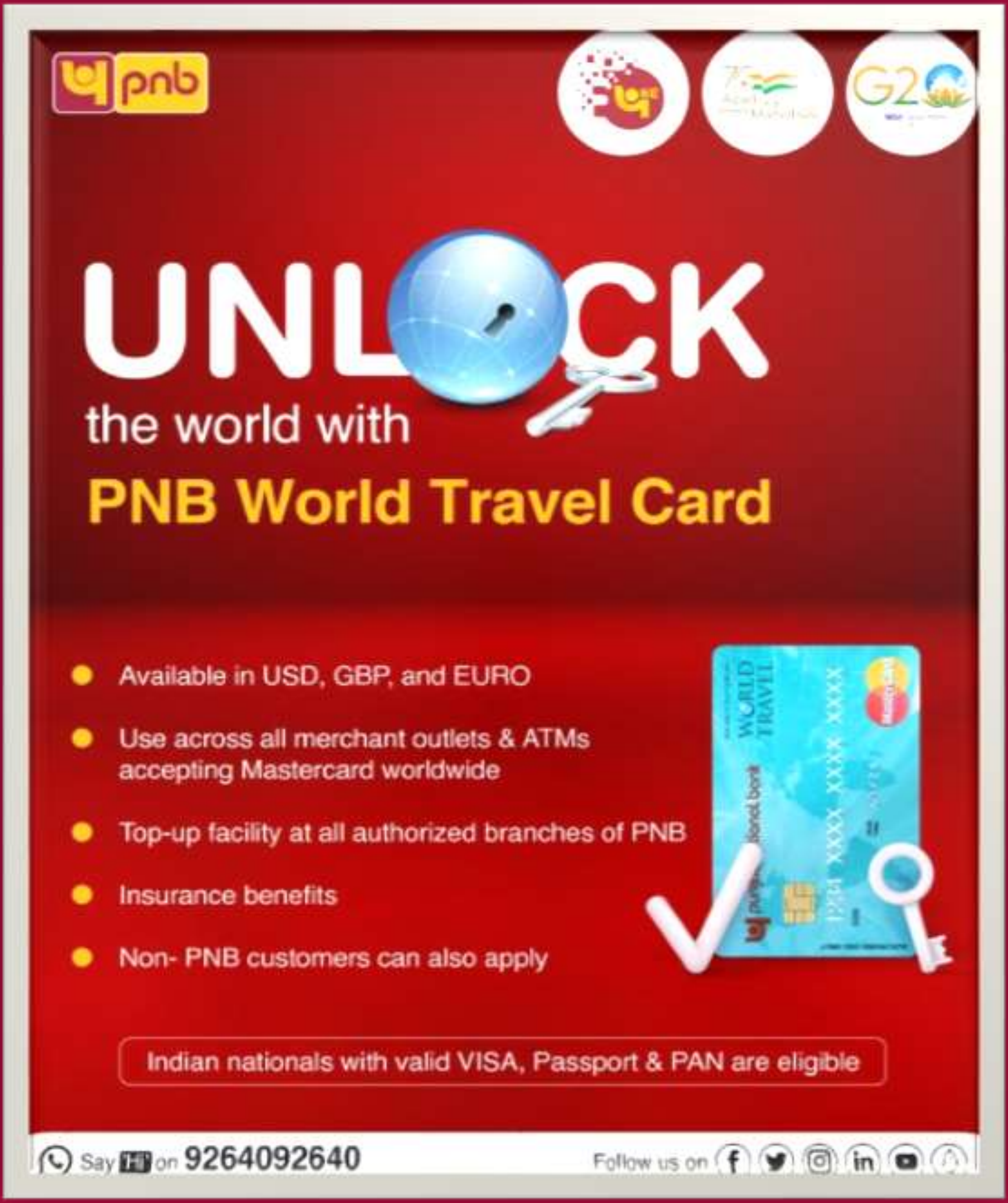
- *Reserve Bank of India (RBI)*
- *Ministry of Statistics and Programme Implementation (MOSPI)*
- *Office of Economic Adviser*
- *Ministry of Commerce and Industry, Department Of Commerce*
- *S & P Global*
- *Press Information Bureau*
- *GST Council*
- *Websites of major Central Banks*
- *Controller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

*****

QUOTE OF THE MONTH

"Reading is essential for those who seek to rise above the ordinary."

- Jim Rohn



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

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