पंजाब नैशनल बैंक
punjab national bank

PNB ECOLENS

MONTHLY BULLETIN

पीएनबी इकोलेंस मासिक बुलेटिन

March 2024

मार्च 2024

pnb

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

Disclaimer: *The opinion/information expressed/compiled in this bulletin is of Bank's Research team and does not reflect opinion of the Bank or its Management or any of its subsidiaries. The contents can be reproduced with proper acknowledgement to the original source/authorities publishing such information. Bank does not take any responsibility for the facts/ figures represented in the bulletin and shall not be held liable for the same in any manner whatsoever.*

घोषणा: इस बुलेटिन में व्यक्त/संकलित विचार/सूचना, बैंक की रिसर्च (अनुसंधान) टीम की है, और यह बैंक या उसके प्रबंधन या उसकी किसी सहायक कंपनी के विचार को नहीं दर्शाती है। उक्त विषय को इस प्रकार की सूचना प्रकाशित करने वाले मूल स्रोत/प्राधिकारियों को उचित पावती के साथ पुन: प्रस्तुत किया जा सकता है। बुलेटिन में दर्शाए गए तथ्यों/आंकड़ों के लिए बैंक कोई जिम्मेदारी नहीं लेता है और बैंक इसके लिए किसी भी तरह से उत्तरदायी नहीं होगा।

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

CONTENTS

1. FROM THE DESK OF CHIEF ECONOMIST

Gross Domestic Product – Surprising on the Upside

Defying expectations by a considerable margin and surprising economists on the upside, the GDP growth of India registered at 8.4% for Q3'FY24 i.e. notably highest growth rate in six quarters. It was a huge gap from estimates of 6.5-6.6% for GDP by forecasters and economists. Past quarters' data also had been revised up substantially, and within the first 3 quarters, India's GDP grew by 8.2% YoY.

Post the release of robust GDP number for Q3'FY24, many rating agencies revised their GDP estimates for India for FY'23-24. International rating agency Moody's raised India's economic growth forecast to 8% from 6.6% while Fitch Ratings revised its forecast from 6.9% to 7.8%.

GDP and GVA Method

To calculate the national output of any country, three methods can be deployed – Income Method, Expenditure Method and Value Added Method. In India, the national output of the economy is calculated using the Expenditure Method and Value Added Method.

Expenditure Method focuses on estimating the total value of expenditures made by various economic agents like consumers, businesses, government and net exports. Following the expenditure method we get the Gross Domestic Product (GDP).

On the other hand, Value Added Method aggregates the output produced by various sectors of the economy i.e. Agriculture, Industry and Services. Following the value added method we get the Gross Value Added (GVA). GVA helps calculate the performance from the supply side of things. GVA excludes net indirect tax collections i.e. tax collections after adjusting for subsidy payouts.

Analyzing Economy from GDP Lens

From the expenditure approach method, GDP growth in the third quarter was supported by a strong uptick in private investment spending, which grew 10.6% YoY. Investment growth has remained above 8% YoY in the last four quarters, which indicates that India is at the cusp of a new private capital expenditure cycle. High government capex spending over the past few years and reforms and initiatives to improve the business ecosystem are finally crowding in private investments.

Growth in private final consumption expenditure, or private spending, remained weak in the third quarter, growing at a mere 3.5 per cent. Meanwhile, government spending contracted (-3.2 per cent) during the same period as both central and state governments exercised restraint on revenue expenditure.

Exports despite global headwinds, recorded a 3.4 per cent growth in the December quarter in rupee terms, largely driven by services exports. While merchandise exports, after witnessing subdued growth in the past two quarters, picked up to 2.5 per cent in the third quarter, services exports grew 6.2 per cent.

GDP numbers were further bumped up largely due to extraordinarily high tax collections and control over subsidies, amid significant revisions in earlier gross domestic product (GDP) estimates.

Analyzing Economy from GVA Lens

Under GVA, highest growth was registered by Industrial sector at 10.4%, majorly supported by Manufacturing Sector which grew at 11.6%. Growth in services picked up sequentially to grow at 7.0% in the third quarter and remained a key growth driver. Farm output is estimated to have contracted by 0.8% due to an uneven monsoon caused by the El Niño effect.

Gap between GDP and GVA

GVA at Constant (2011-12) Prices in Q3 of 2023-24 is estimated at ₹39.84 lakh crore, against ₹37.41 lakh crore in Q3 of 2022-23, showing a growth rate of 6.5 percent. The net taxes of ₹3.87 lakh crore are added to GVA to arrive at GDP, which was ₹2.93 lakh crore in corresponding quarter of last financial year, registering growth of 32.0%. Thus, we arrive at GDP in Q3 of 2023-24 at ₹43.72 lakh crore, against ₹40.35 lakh crore in Q3 of 2022-23, showing a growth rate of 8.4 percent.

GDP for Q3'FY24 registered growth of 8.4% while GVA grew at 6.5%. The gap between GDP and GVA had averaged 20 bps in the last eight quarters, however it widened to 190 bps this time around. Wide gap followed between GDP and GVA due to surge in the growth of net indirect taxes to a six-quarter high of 32 per cent in the December quarter, which is unlikely to be sustainable. The net indirect taxes shot up due to robust GST collections and halving of Centre's major subsidies in this quarter compared to last year.

The non-pass through of lower input cost by the industrial sector also contributed to growth in GDP. This volume and value-added disconnect of the industrial sector is also playing out in the higher wedge between GVA and GDP growth as the difference between the two is net taxes. Non-pass through of lower input cost has resulted in higher corporate profitability and higher payment of taxes.

Going Ahead

India's economy is expected to continue its growth streak and register 7% plus growth in the coming years. Private Investment growth will continue to provide a major fillip to India's growth story.

Ahead of the upcoming Lok Sabha elections, the code of conduct may negatively impact the public capex support. Weak state of consumption and ebbing terms of trade advantage for corporates as input costs rise are headwinds to growth ambitions.

India continues to be a bright star in the global economy and will be fastest growing economy for next few years.

Deepak Singh
(Deputy General Manager)

2. BANK OF JAPAN MOVES AWAY FROM NEGATIVE INTEREST RATES

The Bank of Japan (BOJ) ended eight years of negative interest rates. While the move was Japan's first interest rate hike in 17 years, it still keeps rates stuck around zero.

With this change, Japan became the last central bank to move away from negative interest rates, bringing an end to a period in which governments attempted to boost the economy via unconventional monetary policies and cheap money.

Why Japan is important to India

Japan, 4th largest economy, is one of India's major trading partners and the 6th largest investor in the Indian economy. Importantly, Japan is also India's largest bilateral developmental assistance donor, particularly for infrastructure development projects. Japan was one of the first countries with which India signed a Comprehensive Economic Partnership Agreement (CEPA). Japan is also a major investor in Indian start-ups. SoftBank has invested $15 billion in India, funding nearly one-fifth of the country's 100+ unicorns.

What exactly is negative interest rates? Which countries have used negative interest rates in the past?

Usually, when we borrow money we pay an interest on the amount borrowed. For a long time, it was assumed that policy interest rates had a natural lower bound of zero. In a negative interest rate regime savers are dis-incentivised and borrowers are rewarded.

Commercial banks' holdings of excess reserves are penalised which incentivises them to increase loan issuance. In an attempt to combat the low inflation environment and sluggish growth with unorthodox monetary policy instruments, central banks implemented Negative Interest Rate Policies (NIRP) in several major economies following the global financial crisis. Some of the few countries that have deployed NIRP in the past are Japan, Switzerland, Denmark, Norway, and Sweden.

How exactly does negative interest rate work?

Negative interest rate works in the same way as interest rate cuts. Negative interest rate leads to **economic expansion** in the following ways:

- When interest rates are negative, commercial banks don't park excess reserves with the central bank as they would be paying interest for the deposits. Instead, commercial banks would want to lend more rather than keeping money as reserves.
- When interest rates are negative, households would save less or even borrow to spend more. Similarly, businesses can borrow and invest more.
- Since the interest rate in the economy is negative foreign investors would not be willing to invest in the country. As a result the demand for local currency would be less leading to its depreciation. This will make the exports of the country competitive and lead to its expansion.

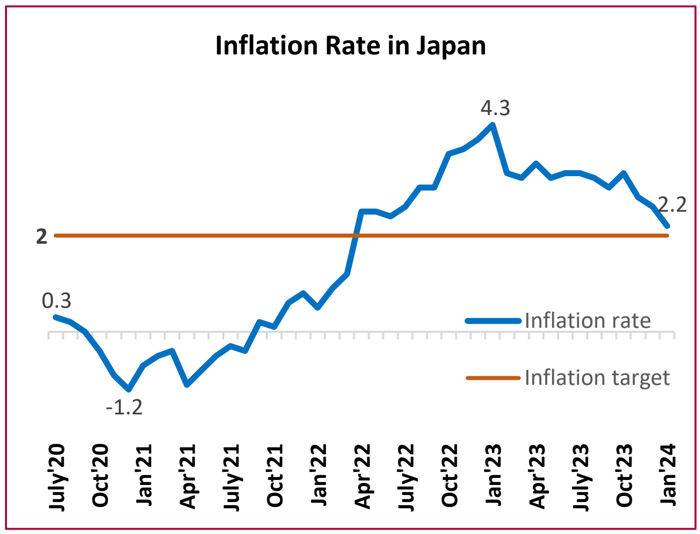
Apart from the expansionary monetary policy associated with negative interest rates, there are a couple of **drawbacks** of the policy.

- When the interest rate turns negative, it gives savers an incentive to withdraw their deposits and hold cash as it is nearly impossible to reduce the face value of the cash. This leads to depletion of deposits in the banking system and hampers the normal functioning of the banks.
- Banks mobilise savings and lend the funds to borrowers-in turn earning a spread. When interest rate becomes negative, the spread gets reduced as overall lending and longer-term interest rates tend to fall. Anticipating that their customers may take their money out of the bank, banks are hesitant to pass on the negative interest rates to their depositors by charging a fees. This then reduces the bank's NIM and profitability.

Why did Japan opt to part ways with negative interest rate regime?

Japan has been facing economic stagnation and deflation since the 1990s. It had adopted an unconventional monetary policy of keeping negative interest rates and large-scale asset purchases to boost prices, revive the economy and keep Japan's debt at sustainable levels.

In Japan, inflation has been above the central bank's target of 2% since April 2022. Consequently, Japanese companies have announced a robust wage hike of 5.3% for this year which compelled Bank of Japan to discontinue with negative interest rate regime.



Japanese economy performed better than expected. Japan's revised GDP expanded by 0.4% in October-December compared to the previous quarter, a change from the original estimate of a 0.4% decline in GDP. With interest rate hikes by major central banks around the world similar move by Bank of Japan was on the cards.

How will it affect the Indian economy?

Japan is the largest investor for infrastructure projects in India (high-speed rail projects, metro projects, and connectivity projects in the North-East) with the interest rate hike being small, it will not have a major impact on fresh borrowings. Borrowing costs for Indian companies from Japan would rise marginally but it would still be cheaper than other overseas sources. The interest rate hike is expected to lead to a marginal appreciation of Yen with respect to Rupee, making exports from India cheaper and imports from Japan expensive. This will help India in improving its trade balance with Japan as India has had a persistent trade deficit with Japan post-CEPA in 2011.

Shubham Kumar Singh
Officer (Economics)
Head Office, SMEAD

3. KEY TAKEAWAYS: GROSS DOMESTIC PRODUCT Q3FY24

Gross Domestic Product (GDP) for Q3 FY24 grew by 8.4% as compared to a growth of 8.1% in the previous quarter (Q2 FY24) and a growth of 4.3% in Q3 FY23.

Highlights

- India accounted for the highest GDP growth in the last 6 quarters at 8.4% in Q3 FY24, marking the third consecutive quarter of 8% + growth in FY24.
- GVA growth, which excludes indirect tax and subsidies, was pegged at 6.5% in Q3 FY24.
- The growth was mainly driven by a remarkable double-digit growth rate of 11.6% in the manufacturing sector and a solid performance in the construction sector with a growth rate of 9.5%.
- As per 2nd Advanced Estimates of the Government, India's GDP growth to scale up to 7.6% from 7.3% for FY24.

Components of GDP

- Growth in Private Final Consumption Expenditure, the largest constituent of the gross domestic product, is showing an upward trend, with a figure of 3.5% in Q3 FY24, as compared to a growth of 2.4% in Q2 FY24 and 1.8% in Q3 FY23.
- Government Final Consumption Expenditure has fallen into negative territory reaching -3.2% in Q3 FY24 from the highs of 13.8% & 7.1% in Q2 FY24 and Q3 FY23, respectively.
- Investment in the economy, denoted by Gross Fixed Capital Formation, has moderated from 11.6% in the second quarter to 10.6% in the third quarter of FY24.
- YoY Growth of exports also witnessed moderation from the previous quarter by growing at 3.4% in Q3 FY24.

Change in the share of Major Components in GDP

- Share of Private Final Consumption Expenditure declined by 270 bps from 61.3% in Q3 FY23 to 58.6% in Q3 FY24.
- Share of Government Final Consumption Expenditure also decreased by 90 bps from the previous year to 7.8% in the current quarter.
- Share of Gross Fixed Capital Formation increased to 32.4% in Q3 FY24 from 31.8% in Q3 FY23.
- The share of exports, however, declined by 110 bps while the share of imports remained the same when compared to the previous year. The major role of the domestic economy in India's growth is supported by this data.

Components of GVA

- The GVA growth in the farm sector dropped to the negative zone from 1.6% in Q2 FY24 to -0.8% in Q3 FY24.
- The growth in the industry sector remained robust with 10.4% in Q3 FY24 significantly higher than 0.6% in Q3 FY23. However, it remained lower than the growth of 13.6% in the previous quarter (Q2 FY24).

- The services sector registered a growth of 7% in the third quarter, higher than its growth in Q2 FY24, though it came moderately lower than a year ago.

Closer look at Industry and Services

- The manufacturing industry, a major part of the industry sector, grew the highest among all the industries by 11.6% in Q3 FY24. The growth of the industry was in a negative region a year ago.
- Mining & quarrying, construction, and the 'electricity, gas, water supply and other utility services' segments witnessed growth rates of 7.5% and 9%, respectively in Q3 FY24, with the construction industry registering a 9.5% growth.
- The growth in these sectors was lower than in Q2 FY24. However, when compared to the Q3 FY23 they remained either higher or equal.
- Growth in two of the three segments in services was above the previous quarter.
- However, the 'Public Administration, Defense & Other Services' segment, economy witnessed a growth of 7.5% in Q3 FY24, which is slightly lower than 7.7% of Q2 FY24, but more than double that of last year.

Way forward

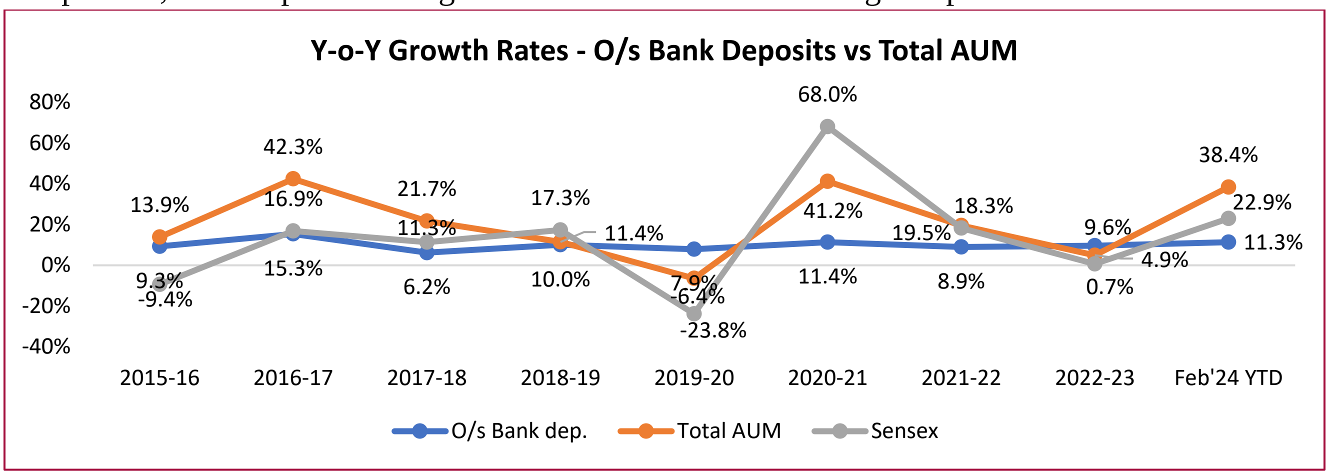
- **India remains the world's fastest-growing major economy in the third quarter of this financial year, reflecting resilience amid global growth slowdown.**
- The GDP growth for the third quarter of FY24 exceeded all expectations, and was well above the RBI's projection of 6.5% announced in its December MPC meet. While, the GVA remained on expected line i.e., 6.5% in Q3 FY24. The gap between GDP and GVA was attributed to a significant rise in net taxes and lower subsidy payouts in Q3 FY24 compared to the same quarter in FY23.
- The difference between the two sets of growth rates widened to 190 basis points in Q3 from 40 basis points in the previous quarter, which is expected to come down in coming quarters.
- Manufacturing and the construction sector were the primary drivers of the industry sector's robust and consistent growth in Q3 FY24, reflecting the public capex support push.
- The services sector also performed well, with improvements observed in the Financial, Real Estate, Professional Services, Trade, Hotel, and Transport segments.
- The growth in Private Consumption has picked up to 3.5%.
- However, the Agriculture Sector growth has slowed down further in this quarter by contracting to 0.8% owing to deficient rainfall and El Niño impact. Alongside, there's a sharp decline in government's expenditure as well from 13.8% in Q2 to -3.2% in Q3 FY24.

Going forward, the growth of Indian economy might see some moderation in the Q4 FY24, on account of slowing consumption growth mainly in rural economy along with sluggish external demand and persisting geopolitical tensions globally. Despite this, the Indian economy to remain resilient and account one of the highest GDP growth rates among major economies in the current fiscal.

4. INDIA'S SURGING MUTUAL FUNDS INDUSTRY

In recent years, India's mutual fund industry has emerged as a powerhouse, attracting a surge of investors seeking avenues for wealth creation and financial growth. One of the pivotal factors behind the rapid growth of the mutual fund industry in India is the rising level of investor awareness. With access to information becoming easier than ever before, Indian investors are increasingly knowledgeable about various investment avenues beyond traditional options like bank deposits. The advent of digital platforms and online investment portals has revolutionized the way investors access and invest in mutual funds. These technological advancements have democratized investing, making it more accessible and convenient for individuals across urban and rural areas.

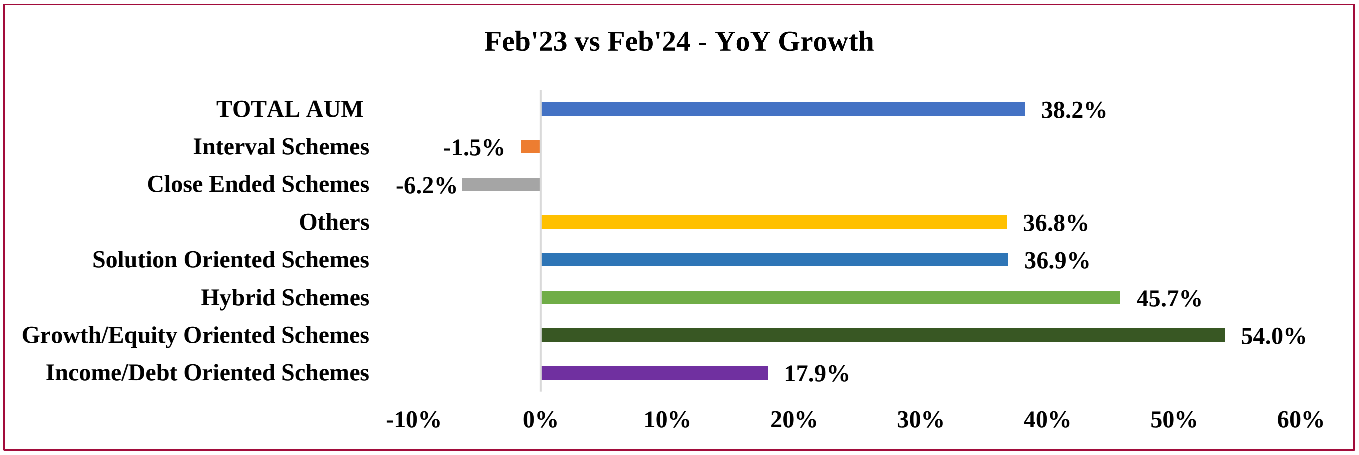
The industry achieved a significant milestone when its Assets under Management (AUM) crossed ₹10 lakh crore for the first time in May 2014. Within a short span of about three years, the AUM more than doubled in size, crossing ₹20 lakh crore in August 2017. Post 2019, a significant transformation occurred in the financial landscape, with interest rates being kept at historical lows. Subsequently, the AUM crossed the ₹30 lakh crore mark for the first time in November 2020. As of February 29, 2024, the Industry AUM stood at ₹54.54 lakh crore, recording a CAGR of 20% over the last 9 years. In comparison, bank deposits have grown at a CAGR of 10% during this period.



Source: AMFI, RBI, CMIE

Mutual funds present the potential for higher returns; however, they also entail market-linked risks, making them susceptible to volatility. On the other hand, bank deposits are considered safer and more conservative, offering assured returns. In the above chart, it is clear that post FY20, while y-o-y growth rates of bank deposits have remained largely stable, there has been a substantial jump in growth rate of AUM of the mutual fund industry in line with growth in the benchmark BSE Sensex Index. As the y-o-y growth of Sensex slipped to 0.7% in FY23 on the back of volatility in financial markets fuelled by geopolitical conflicts in Ukraine and Middle East and the resultant supply chain disruptions, the growth of AUM also fell to 4.9%. However, growth in bank deposits remained stable at 9.6% during this period. This was also driven by an increase in Weighted Average Term Deposit Rates of SCBs, which rose from 5.07% in May'22 to 6.16% in Mar'23.

The chart ahead shows the y-o-y growth in various categories of mutual fund investments in Feb'24. The total AUM of the industry grew by 38.2% during this period. Notably, the growth in Bank Deposits during this period stood at 12.4%.



Source: AMFI

Mutual funds offer a diverse range of investment options tailored to different risk profiles and investment objectives. This diversity has been instrumental in attracting investors who seek opportunities for growth beyond conventional avenues. High growth rates (>30%) have been witnessed across equity, hybrid, solution oriented and others segment. In the equity segment, growth was driven by inflows in mid and small cap segments. Investor interest in hybrid schemes has increased consistently post a change in taxation laws for debt funds in April 2023. All these changes are largely indicative of the higher risk taking appetite of retail investors who have preferred to invest in growth/equity oriented schemes in anticipation of higher returns especially as inflation has remained above 5%.

The data for AUM and O/s Bank deposits reveals a strong positive Pearson's correlation coefficient of 0.98, indicating that an increase in bank deposits leads to an increase in AUM of the industry and vice versa. Any fears that the mutual fund industry will eat into the deposit growth of banks seems to be misplaced. To supplement this claim, a regression analysis (with AUM as independent variable and bank deposits as a dependent variable) reveals that for a 1 per cent change in the AUM of mutual fund industry, there will be a 0.92 percent change in the O/s deposits of the SCBs, all else remaining equal. Thus, with an increase in GDP and disposable income of people, there will be an increase in both AUM and bank deposits in future.

The data for the flow of household sector savings into various instruments during FY23 further reveals that households have been fairly conservative and have invested only 6% of their gross financial savings into mutual funds and 1% towards equity, with the balance 93% going towards fixed-income instruments like bank deposits, PPF, small savings schemes etc.

While the mutual fund industry and banking sector in India may compete for the same pool of savings and investments, they also exhibit complementary characteristics. Banks and mutual funds can collaborate to offer innovative financial products and services. For instance, banks can distribute mutual fund products through their branches, leveraging their extensive network and customer base. Regulations like ASBA, which ensure increased customer interaction and transaction load for the banks along with earnings in the form of custodian fees for holding funds on behalf of investors, are likely to shape the future of both the industries.

Smriti Behl
Officer (Economics)
Head Office, SMEAD

5. HIGHLIGHTS: RESERVE BANK OF INDIA: ANNUAL REPORT OF OMBUDSMAN SCHEME 2022-23

The Annual Report of the Ombudsman Scheme 2022-23 is the first stand-alone report under the Reserve Bank – Integrated Ombudsman Scheme (RB-IOS), 2021 elucidating the activities of the 22 Offices of the RBI Ombudsman (ORBIOs), Centralised Receipt and Processing Centre (CRPC) and the Contact Centre during the year.

The RB-IOS, 2021 was rolled out in November 2021 by integrating the three erstwhile Ombudsman Schemes viz., Banking Ombudsman Scheme, 2006, Ombudsman Scheme for Non-Banking Financial Companies (OSNBFC), 2018, and Ombudsman Scheme for Digital Transactions (OSDT), 2019.

Chapter 1: The RB-IOS, 2021: Activities during April 1, 2022 to March 31, 2023

- Total of 7,03,544 received at ORBIOs and CRPC in 2022-23, marking a 68.24% increase. This surge is attributed to heightened public awareness and the simplified complaint process. ORBIOs handled 2,34,690 complaints, while CRPC disposed of 4,68,854 complaints.
- The number of complaints dealt with by ORBIOs decreased from 3,04,496 in 2021-22 to 2,34,690 in 2022-23, as structural changes in the Ombudsman framework under RB-IOS, 2021 led to the filtration of non-maintainable complaints by CRPC and the Complaint Management System (CMS) portal.
- RB-IOS, 2021 has done away with the territorial jurisdiction of the ORBIOs and thereby, complaints from any region can be processed at any ORBIO. Under the ‘One Nation One Ombudsman’ approach, a pre-defined algorithm embedded in the CMS portal allocates complaints to all the ORBIOs in an equitable manner.
- Complaints can be received at ORBIOs via the CMS portal or CRPC. CRPC conducts initial checks and assigns actionable complaints from email, physical submissions, and CPGRAMS to ORBIOs. Around 85.6% of complaints received by ORBIOs were lodged digitally through the CMS portal, email, or CPGRAMS and only 14.4% were received through physical letter in 2022-23.
- Metropolitan Centres (45.77%) accounted for the majority of complaints received by ORBIOs in 2022–2023. While, Urban Centres (24%), Semi-Urban Centres (18.46%) and rural (11.77%) also comprised a significant portion.
- Complaints against banks formed the largest portion (1,96,635 complaints), accounting for 83.78% of complaints received by the ORBIOs.
- Complaints against PSBs has gone down significantly from 50.81% in 2021-22 to 43.52% in 2022-23 among the different bank groups. Whereas, every other regulated entity including Private sector banks, Payments and SFBs, Foreign banks etc. saw a rise in the number of complaints received during the same period.
- The ORBIOs maintained a healthy disposal rate of 97.99% during the year. Further, there was a significant decline in the number of complaints pending beyond 30 days, from 0.26% as of 31st March 2022 to 0.04% as of March 31, 2023.

- The average cost of processing a complaint at the ORBIOs for the year 2022–2023 was ₹2,041 per complaint, down from ₹2,895 per complaint in the previous year.
- Between 2019 and 2022, the average time to resolve complaints at ORBIOs was 95 days; by 2022–2023 it had dropped to 33 days and the number of applications disposed stood at 2.4 lakhs in 2022-23, while it was at 3.03 lakhs in 2019-20.

Chapter 2: Centralised Receipt and Processing Centre

- CRPC serves as a focal point for receipt of all physical and email complaints lodged by the complainants against the REs, in any language, for digitalizing and initial processing in the Complaint Management System (CMS) portal.
- A total of 5,95,371 complaints were handled at the CRPC during the year, out of which 5,94,787 were disposed as on March 31, 2023. With improved efficiency, the pendency at CRPC declined significantly and the disposal rate improved remarkably to 99.90% during 2022-23 from 96.07% during 2021-22.
- The average Turn Around Time for closure of complaints at the CRPC improved significantly, which stood at 4 days during the year 2022-23 as against 12 days during the year 2021-22.
- During the year 2022-23, 8,18,958 calls were received at the CC, of which 33.59% calls were received in November 2022 during the Nationwide Intensive Awareness Program (NIAP). The impact of NIAP was also observed in subsequent months, as 74.16% of the calls were received during November 2022 to March 2023.
- Of the 8,18,958 calls received during the year 2022-23, 66.27% of the calls were attended through the IVRS facility, 23.16% of the calls were attended directly by the Reserve Bank staff at the CC and 10.57% of calls were abandoned.

Chapter 3: Complaints received through CPGRAMS and applications under RTI Act, 2005

- Centralised Public Grievance Redress and Monitoring System (CPGRAMS) is a mechanism to receive and address consumer complaints regarding different products and schemes offered by the Government of India or its agencies.
- The RBI Ombudsmen are the Central Public Information Officers under the RTI Act, 2005 to receive applications and furnish information related to complaints handled by the ORBIOs.
- During the year, 8,453 complaints under CPGRAMS were received by the 22 Ombudsman offices of RBI and 1,372 RTI applications were received by all the ORBIOs and CRPC.

Chapter 4: Other Developments

- Credit Information Companies (CICs) were brought under RB-IOS, 2021 with effect from September 1, 2022 for raising grievances against CICs, if the complaints are not resolved to the satisfaction of the complainant or not replied within a period of 30 days by CICs.
- Committee under chairmanship of Shri B P Kanungo, former Deputy Governor, Reserve Bank of India was constituted on May 23, 2022 to examine and review the standards of customer service in the Res to assess adequacy of customer service regulation and suggest measures for improving the same.

- Measures for strengthening customer service regulation, improving customer service in REs and leveraging technology for better customer service delivery and fraud prevention were recommended by the Committee.
- The G20 High-Level Principles on Financial Consumer Protection, which were first released in 2011, were reviewed and updated. The major change to the Principles were inclusion of two new Principles, viz., ‘Access and Inclusion’ and ‘Quality Financial Products’, with a view to ensuring a holistic approach to financial consumer protection.
- RBI launched a Pan India Awareness Campaign during the year 2022-2023 to ensure deeper percolation of the financial consumer awareness on safe banking practices, RBI’s AGR mechanism and extant regulations for protection of consumer interests.
- The objective of the campaign was to reach the hitherto excluded/ isolated sections of populations and remotest areas in the country, especially in the Tier-III and IV cities, rural areas, etc.
- The campaign was run as a multi-phased, multi-pronged financial awareness campaign in the wake of the “Azadi ka Amrut Mahotsav” and covered three phases which included The Ombudsman Speak events, Talkathon by Top Management and a month long Nationwide Intensive Awareness Programme (NIAP).
- The Reserve Bank has reviewed the existing “Framework for Strengthening the Grievance Redress mechanism in banks” on the basis of feedback received from the REs as well as the experience gained in implementing the framework since January 2021.
- The Reserve Bank reviewed the geographic presence of the Offices of RBI Ombudsman (ORBIOs) in an attempt to spread them across the country and also make them available in different regions keeping in view the volume of origination of complaints.
- Based on this new ORBIO was operationalized at Shimla, additional ORBIOs have been operationalized at Chennai and Kolkata and ORBIO New Delhi I and ORBIO New Delhi III were merged into single office i.e. ORBIO, New Delhi I.
- The Regional Offices of RBI, conduct Incognito Visits of bank branches on half yearly basis, to assess the level of customer service through a checklist. To capture granular details, expedite the compilation of reports submitted, and effective resource utilization at offices, the process was digitalized for enhanced data utility and analysis.
- Important regulatory measures like Digital Banking Units, Card-less Cash Withdrawal facility at ATMs etc. were issued for improving customer experience of banking services and for issues related to customer protection and grievance redress.
- The Root Cause Analysis of major grounds of complaints undertaken by the ORBIOs and CEPCs are compiled in CEPD with the objective of identifying and addressing the underlying deficiencies in customer service and initiating actions to address them.
- RBI will also explore leveraging Artificial Intelligence in Complaint Management System for better complaint categorisation, decision-making support and better customer experience with a view to strengthening customer protection and improving expediency of grievance redressal.

6. HOUSEHOLD CONSUMPTION EXPENDITURE SURVEY (2022-23): INSIGHTS FOR BANKING

- The **National Statistical Office (NSO)** conducts the **Household Consumption Expenditure Survey (HCES)** once every five years. It is designed to collect information on the consumption of goods and services by households.
- Information in the survey has been collected from 8,723 villages and 6,115 urban blocks spread over the entire country covering 2, 61,746 households (1, 55,014 in rural areas and 1,06,732 in urban areas). Simple Random Sampling without Replacement (SRSWOR) method is used for selecting the samples.
- The data is essential not only for updating the consumer price inflation (CPI) baskets but also gives policymakers and experts an assessment on the income and expenditure levels of households and how and where they are spending their money and gauge the efficacy of policy measures. The Reserve Bank of India (RBI) decides **to increase or decrease the policy rate based on retail inflation**, which impacts **growth.**
- HCES findings are key to several economic indicators, including the Gross Domestic Product (GDP), poverty level and the Consumer Price Index (CPI).
- As per the survey, the average monthly per capita consumption expenditure (MPCE) in Indian Households rose by 33.5% since 2011-2012 in urban households to Rs.3, 510, with rural India's MPCE seeing a 40.42% increase over the same period to hit Rs.2, 008.
- It shows that the proportion of spending on food has dropped to 46.4% for rural households from 52.9% in 2011-12, while their urban peers spent just 39.2% of their overall monthly outgoes on food compared with 42.6% incurred 11 years earlier. This reduction could translate into a **lower weightage for food prices** in the country's retail inflation calculations. The impact on urban inflation will likely be even lower than rural, as the decline in food spending is smaller for urban areas compared with villages.
- A **decline in household consumption expenditure on food** may signal weaker consumer demand and economic activity, leading to **lower inflation expectations**. Expectations of lower inflation can influence pricing behaviour among producers and retailers, leading to downward pressure on prices and contributing to a decrease in the CPI. New CPI series is likely to have lower weight for food and beverage, higher for core goods and services.
- An increase in the expenditure on non-food items shows that people are becoming prosperous with extra income. An increase in the expenditure on non-food items indicates that Indian households have more disposable income and are spending more on discretionary items, such as clothing, footwear, transport, education, health, and entertainment. Increased household spending on non-food items may lead to higher demand for consumer loans. Banks can capitalize on this increased demand by extending personal loans or financing options to consumers, generating interest income from the loans disbursed.

Average MPCE (Rs.) and Share of Food and Non-Food Items: All India				
Item Group	**Rural India**		**Urban India**	
	Average MPCE (Rs.)	**Share in total MPCE (%)**	**Average MPCE (Rs.)**	**Share in total MPCE (%)**
Food	1,750	46	2,530	39
Non-Food	2,023	54	3,929	61

- Notably, the period of 2004-05 saw the urban consumption nearly double that of rural areas. This gap has narrowed to 1.71 times in 2022-23 from 1.8 times in 2011-12.
- Durable goods, which include a broad range of items like play stations, Air Pods, power banks, witnessed an increased share of 6.9 per cent in FY23 in rural areas from 4.9 per cent in FY12. In urban areas, their consumption went up to 7.2 per cent from 5.6 per cent. **Banks may see an increase in credit card transactions or personal loans** related to these purchases, potentially affecting their loan portfolios and credit risk profiles.
- The survey also stated that spending on beverages and processed food has increased to 10.64 per cent in urban areas in 2022-23 from 8.98 per cent in 2011-12. In rural areas, it increased from 7.90 per cent in 2011-12 to 9.62 per cent in 2022-23. Higher spending on beverages and processed food may indicate increased consumer discretionary spending.
- Consumption of paan, tobacco and other intoxicants has increased with people spending a bigger portion of their income on such products in the last 10 years. The data showed that the expenditure on these items has increased to 3.79 per cent in 2022-23 in rural areas from 3.21 per cent in 2011-12. Additionally, industry-specific Gross Bank credit data deployment demonstrates a 35.7 per cent year-over-year (YOY) rise for all Scheduled Commercial Banks (SCBs) as on January 26’2024.

Conclusion

- The data is essential for updating the Consumer Price Inflation (CPI) baskets, gives policymakers and experts an assessment on the income and expenditure levels of households and gauges the efficacy of policy measures.
- The data underscores the challenges and opportunities in improving living standards and welfare, particularly in food security, nutrition, healthcare, education, and social support.
- Household spending on non-food products will increase the demand for consumer loans and credit cards.

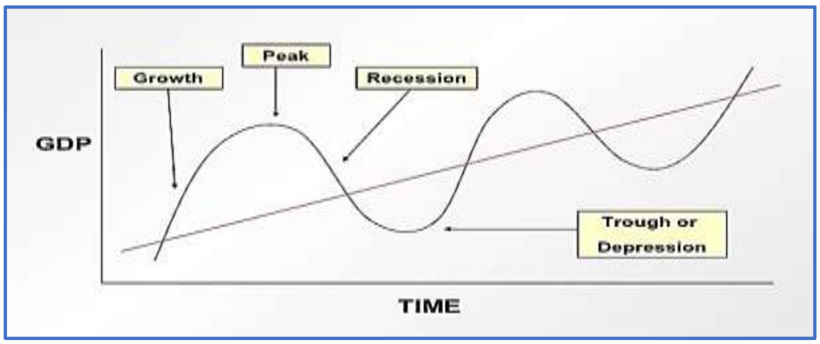
7. CLASSROOM: BUSINESS CYCLE

'Business cycle refers to the fluctuations in the economic activity that occur over time in a market economy. Business cycle is influenced by various factors, including monetary and fiscal policies, consumer and business confidence, technological advancements, and global economic conditions.'

Stages

a) **Expansion/Growth:** This is the stage where the economic indicators like employment, income, output, wages, profits, demand, and supply of goods and services show favourable signs.
b) **Peak:** In this stage, the economy reaches its saturation point, and the economic indicators reach its maximum level.
c) **Recession:** Also known as Contraction, this phase is characterized by falling GDP, rising unemployment, reduced consumer spending, and decreased business investment.
d) **Trough:** This is the lowest point of the Business Cycle, where economic activities are at the weakest phase. However, trough also sets the stage for recovery as businesses adjust to the new economic conditions, and consumer and investor confidence begins to improve.

The severity of a recession is measured by the three Ds: depth, diffusion, and duration. A recession's depth is determined by the magnitude of the peak-to-trough decline. Its diffusion is measured by the extent of its spread across economic activities, industries, and geographical regions. Its duration is determined by the time interval between the peak and the trough.



Business Cycle and Banking Sector

The Business Cycle is closely connected with the Banking Sector through various mechanisms. Banks tend to increase their lending during the expansionary phase, when the economic activities are growing. This further fuels investment, consumption and economic growth. During the recession/contraction phase, banks become more cautious which leads to decrease in credit availability. During the Expansionary phase, the Central Banks tend to increase the interest rates to control the inflationary pressures, and vice versa during the contractionary period. The banking sector also plays a crucial role in maintaining financial stability during different phases of the business cycle by mitigating risks through stress testing and capital adequacy requirements.

The health of the sector is closely linked with Business Cycles through performance of loans and other assets. During economic expansion, the borrowers are more likely to repay their loans, leading to lower levels of non-performing loans and higher profitability for banks. However, during the contractionary period, the non-performing loans tend to increase affecting the profitability of the sector. Hence, banks play a crucial role in both driving economic expansion and mitigating the negative effects of economic contractions.

Sagnik Bose
Manager (Economics)
Head Office, SMEAD

8. GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of the Circular	**07-March-2024**
Ref No.	RBI/2023-24/132DOR.RAUG.AUT.REC.No.81/24.01.041/2023-24
Subject	**Amendment to the Master Direction - Credit Card and Debit Card – Issuance and Conduct Directions, 2022**

Gist: RBI has made amendment to the Master Direction on 'Credit Card and Debit Card – Issuance and Conduct Directions, 2022'. Instructions pertaining to credit cards shall apply to all credit card issuing Banks and Non-Banking Financial Companies (NBFCs). Similarly, instructions relating to debit cards shall apply to every bank operating in India.

Important Changes

- Failure to complete the closure within seven working days will incur a penalty of ₹500 per calendar day of delay payable to the cardholder.
- Cardholders shall be provided option to modify the billing cycle of the credit card at least once as per their convenience.
- Banks shall not issue debit cards to cash credit/loan account except for the overdraft facility provided along with Pradhan Mantri Jan Dhan Yojana accounts or Kisan Credit Card accounts.
- Card-issuers can offer alternative form factors such as wearables, after obtaining customer consent.
- The co-branding partner (CBP) shall not have access to information relating to transactions undertaken through the co-branded card.
- Cardholders have the option to decline renewal and request a replacement card if needed.
- Card-issuers shall not share card data (including transaction data) of the cardholders with the outsourcing partners without explicit consent.

New Provisions

- Total Amount Due is the total amount (net of credit received during the billing cycle, if any) payable by the cardholder at the end of a billing cycle.
- Interest shall be levied only on the outstanding amount, adjusted for payments/refunds/reversed transactions.
- Card-issuers shall provide the list of authorized payment modes authorised by them for credit card dues.
- Any debit to the credit card account shall follow authentication framework prescribed by the Reserve Bank of India.
- Payments and refund timelines for business credit cards are to be agreed upon between the issuer and the principal account holder.

Date of the Circular	**06-March-2024**
Ref No.	RBI/2023-24/131 CO.DPSS.POLC.No.S1133/02-14-003/2023-24
Subject	**Arrangements with Card Networks for Issue of Credit Cards**

Gist: The directions aimed at ensuring greater choice and flexibility for customers in the issuance of credit cards by card networks such as American Express Banking Corp., Diners Club International Ltd., MasterCard Asia/Pacific Pte. Ltd., National Payments Corporation of India–Rupay, and Visa Worldwide Pte. Limited, National Payments Corporation of India–Rupay, and Visa Worldwide Pte. Limited. It was observed that authorized card networks collaborate with banks and non-bank entities for the issuance of credit cards. The decision regarding which network is utilized for a customer's card is made by the card issuer and is influenced by the agreements between the issuers and the card networks.

These arrangements between card networks and card issuers were limiting customers' options. Therefore, RBI has directed Card issuers not to enter into any arrangement or agreement with card networks that restrain them from availing the services of other card networks. Moreover, card issuers shall provide an option to their eligible customers to choose from multiple card networks at the time of issue. For existing cardholders, this option may be provided at the time of the next renewal.

Date of the Circular	**29-February-2024**
Ref No.	RBI/DPSS/2023-24/111 CO.DPSS.POLC.No.S1114/02-27-020/2023-2024
Subject	**Master Direction – Reserve Bank of India (Bharat Bill Payment System) Directions - 2024**

Gist: The Master Directions seek to streamline the process of bill payments, enable greater participation, improve customer safety and enhance customer participation. The directions state that NBBL is the entity authorised as the Payment System Provider for Bharat Bill Payment System (BBPS). Any entity, other than a biller, operating a system for payment of bills outside the scope of BBPS is a 'payment system' and will require RBI authorisation to undertake the activity.

Important Changes

The directions clearly spell out the roles and responsibilities of the system operator and system participants as follows:

1. **Bharat Bill Pay Central Unit (BBPCU)** will provide guaranteed settlement of all transactions routed through NBBL. It will also ensure that all transactions have BBPS reference number from the payment initiation stage.
2. **Customer Operating Unit (COU)** will provide digital/physical interface to their customers, directly or through agent institutions ensuring customers have access to all billers on boarded on BBPS. It shall also provide a system for raising disputes and take responsibility for the activities of its agent institutions.
3. **Escrow Account Operations:** A non-bank BBPOU shall open an escrow account with a Scheduled Commercial Bank exclusively for BBPS transactions.
4. **Complaint Management and Grievance Redressal system:** NBBL shall put in place a dispute resolution framework for centralised end-to-end complaint management in compliance with RBI's guidelines.

Date of the Circular	**28-February-2024**
Ref No.	RBI/2023-24/128DOR.MRG.REC.80/00-00-003/2022-23
Subject	**Capital Adequacy Guidelines – Review of Trading Book**

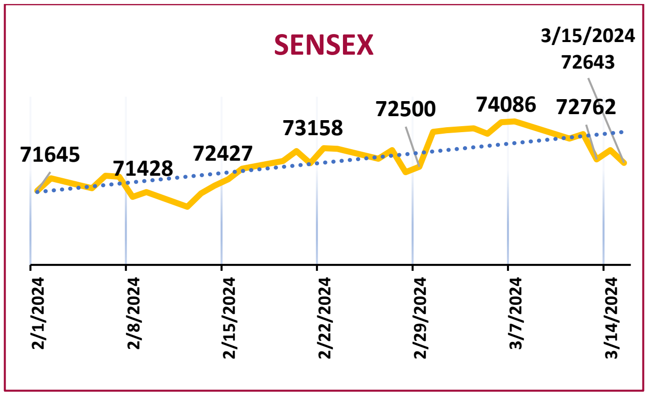
Gist: The draft guidelines for minimum capital requirements for market risk, under Basel III framework, amend the capital adequacy guidelines in alignment with the Master Directions on Investment, effective from April 1, 2024 applicable to all Commercial Banks (excluding Regional Rural Banks).

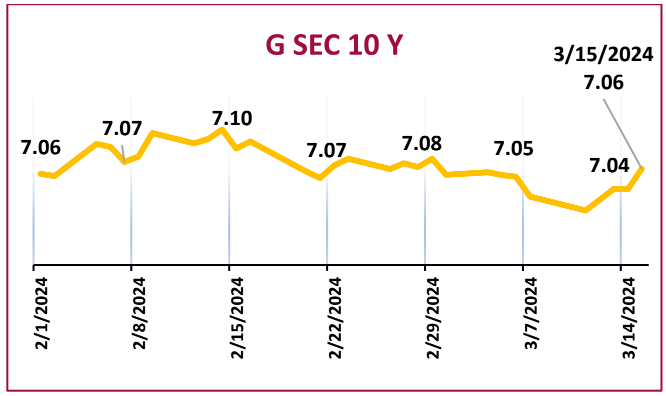
The guidelines distinguish between the trading and the banking book, specifying which instrument fall under each category and their corresponding capital requirement. The guidelines define a trading book as instruments meeting specific criteria and subject to market risk capital requirements, while all other instruments are included in the banking book subject to credit risk capital requirements. The extant market risk capital requirements have also been adjusted by introducing intermediate scalers.

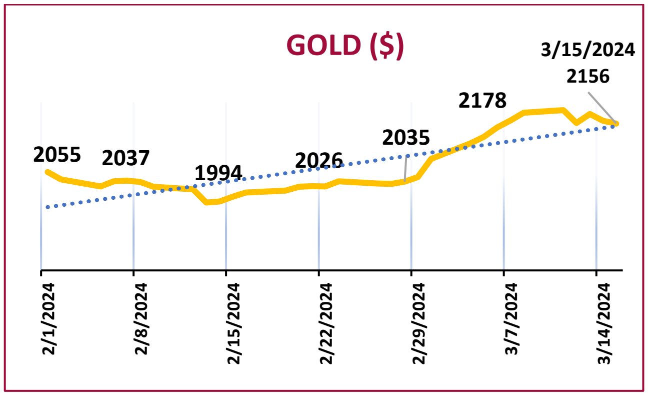
Banks must mark to market daily for trading book instruments unless held for specific purposes like short-term resale, arbitrage, or hedging. The guidelines also limit bank' ability to shift instruments between the trading and banking books, except in exceptional circumstances approved by RBI and the bank's board.

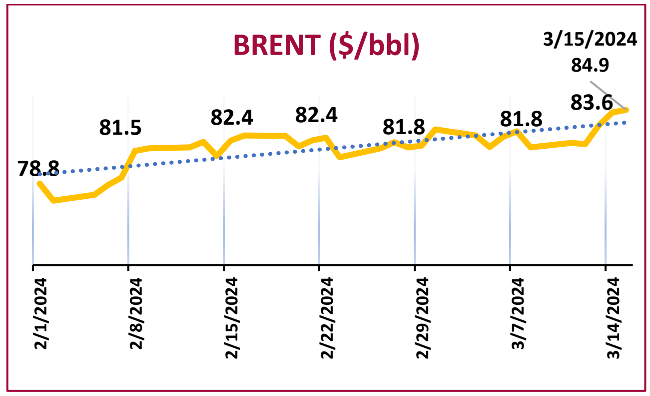
(Duration: 23rd Feb'24 to 20th Mar'24)

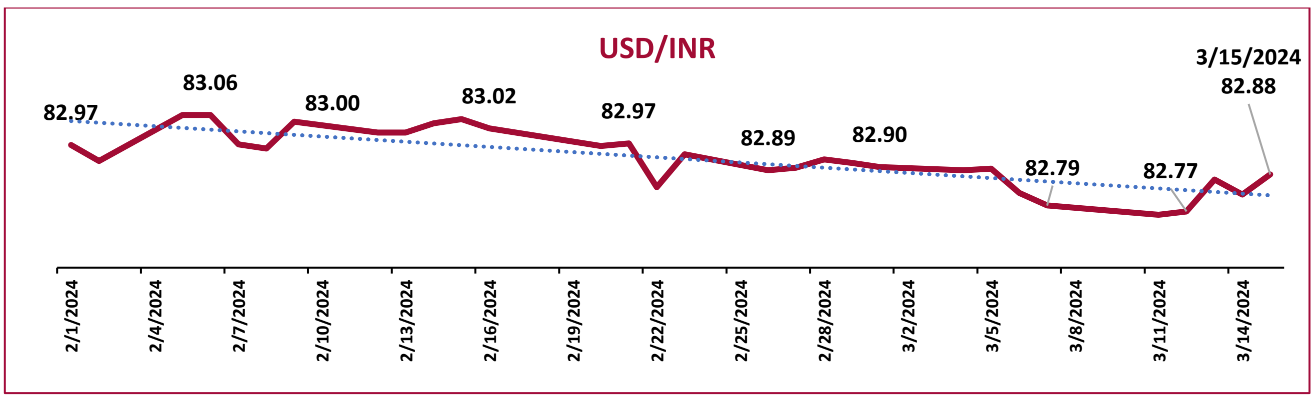
9. DAILY ECONOMIC INDICATORS

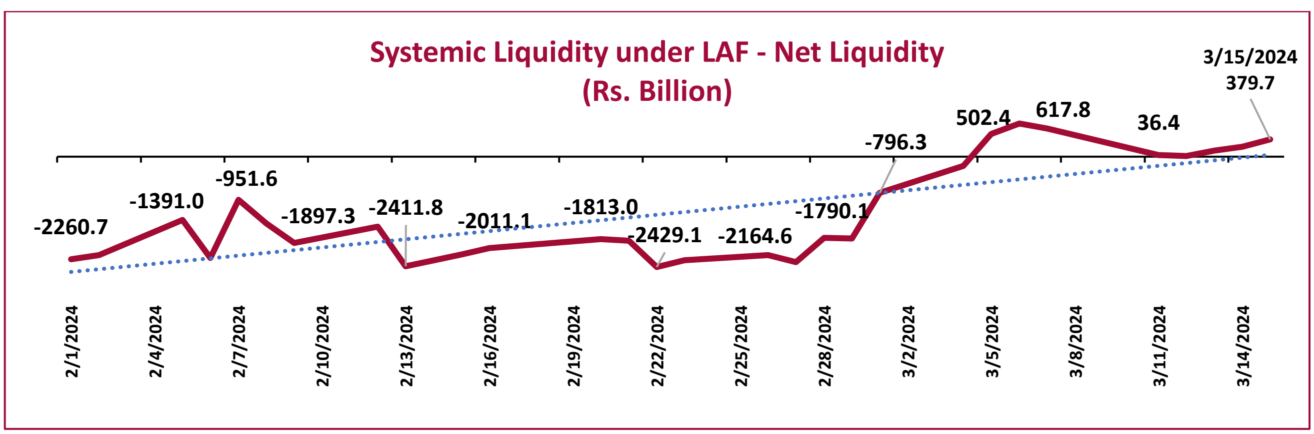








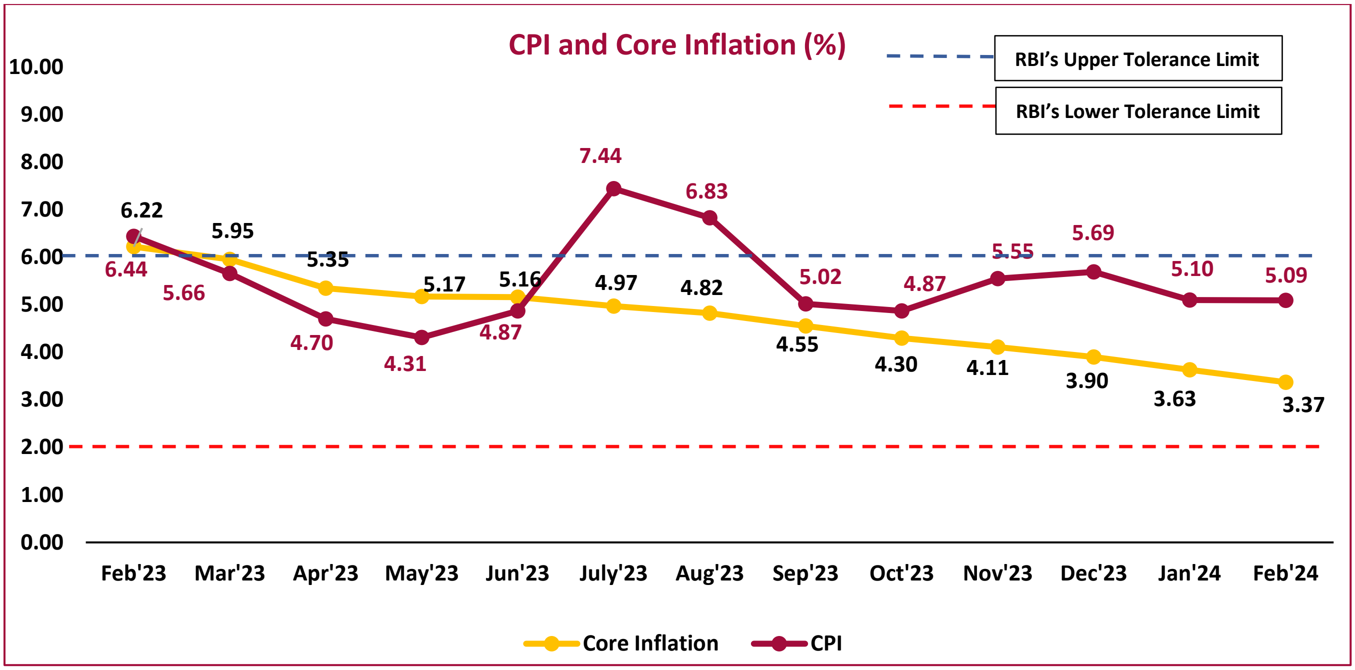


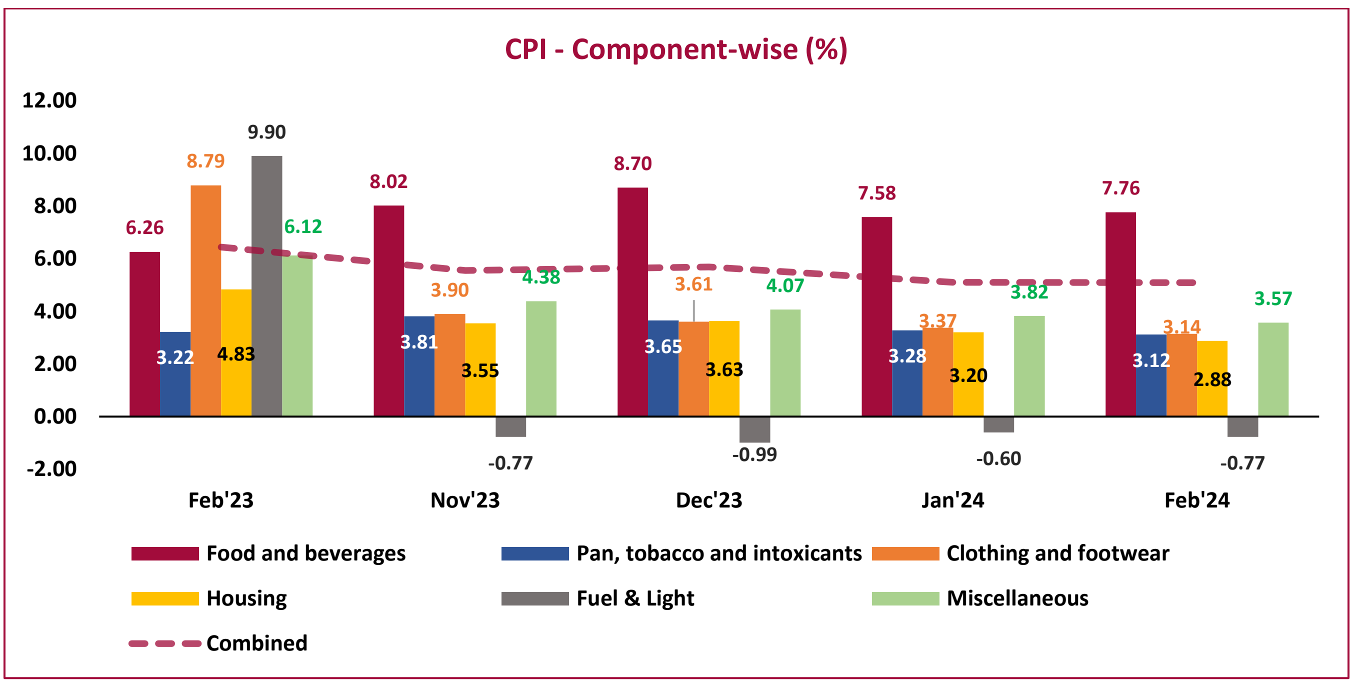


10. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation remains sticky at 5.09% in February'24

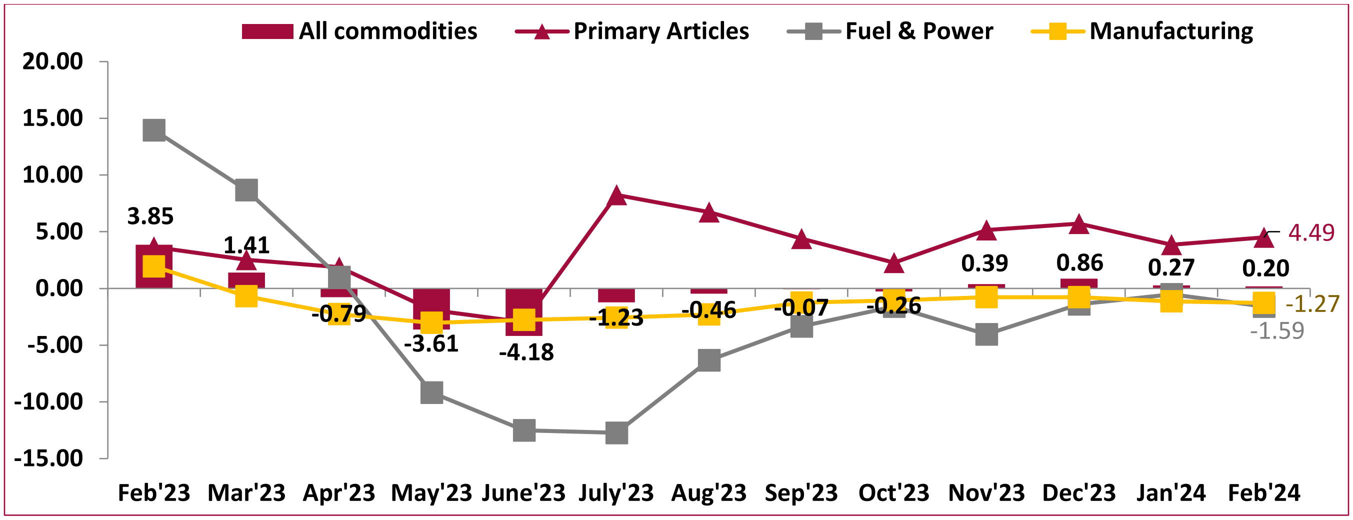




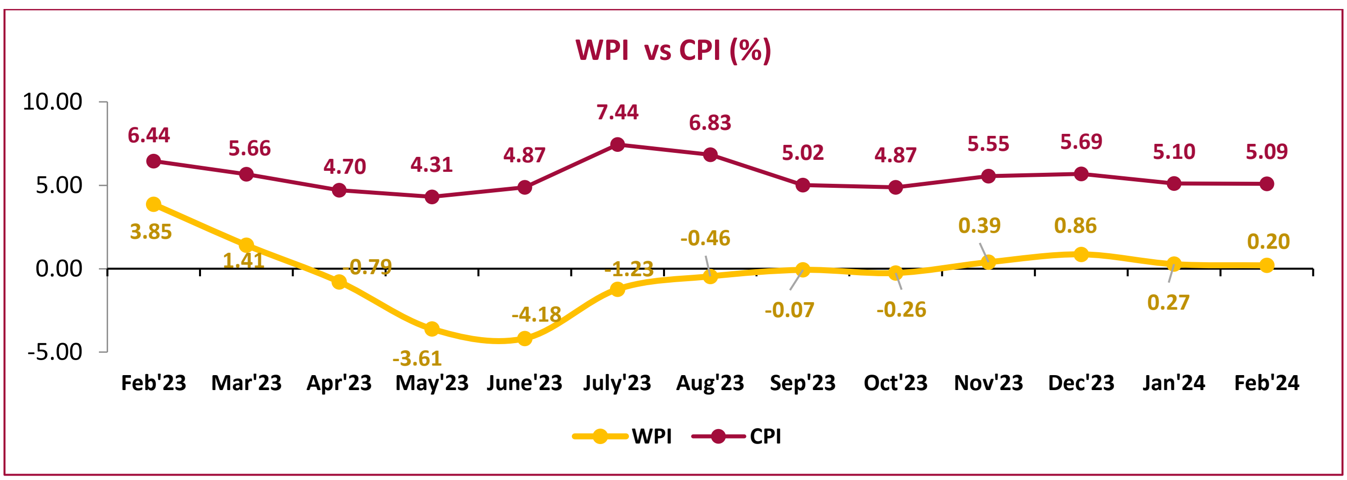
India's Consumer Price Index (CPI) based inflation remained sticky at 5.09 per cent in February 2024 compared to 5.10 per cent in the previous month. Food Price index increased to 8.66 per cent. Most of the pressure on food is coming from vegetables, pulses and high protein items like meat and eggs.

WHOLESALE PRICE INDEX (WPI)

WPI inflation remains sticky for February'24 at 0.20%



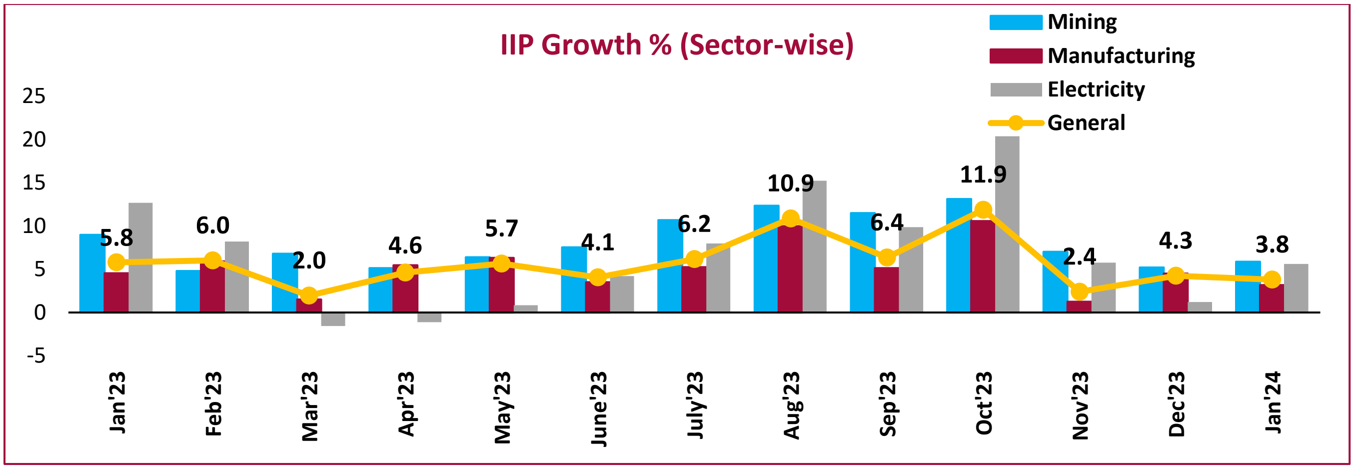
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2022	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
December	2.67	**5.73**	18.09	**-1.39**	3.37	**-0.78**	-1.02	**9.32**	5.02	**0.86**
	2023	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
January	4.06	**3.84**	15.00	**-0.51**	3.06	**-1.13**	2.67	**6.85**	4.80	**0.27**
February	3.64	**4.49**	13.96	**-1.59**	1.94	**-1.27**	3.81	**6.95**	3.85	**0.20**



For the fourth consecutive month, India saw a positive WPI in February 2024. It was negative from April to October & had turned positive since November 2023. Positive rate of inflation in February 2024 is primarily due to increase in prices of food articles, crude oil, natural gas, electricity, machinery & equipment and motor vehicles, trailers & semi-trailers etc.

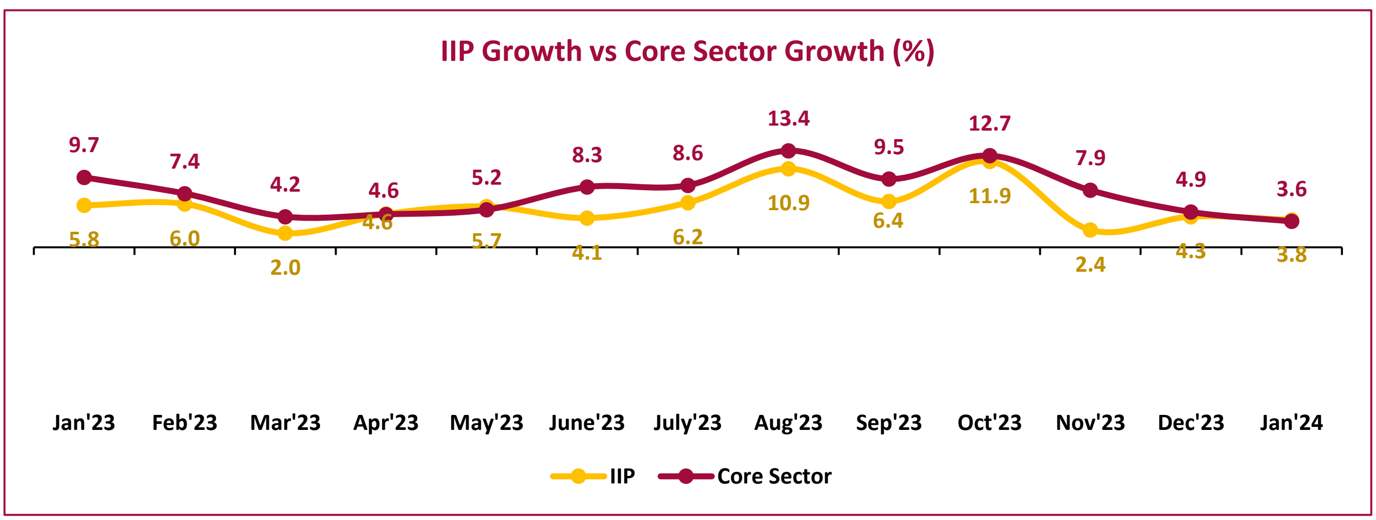
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth declines to 3.8% in January'24



IIP Growth % (Usage-wise)

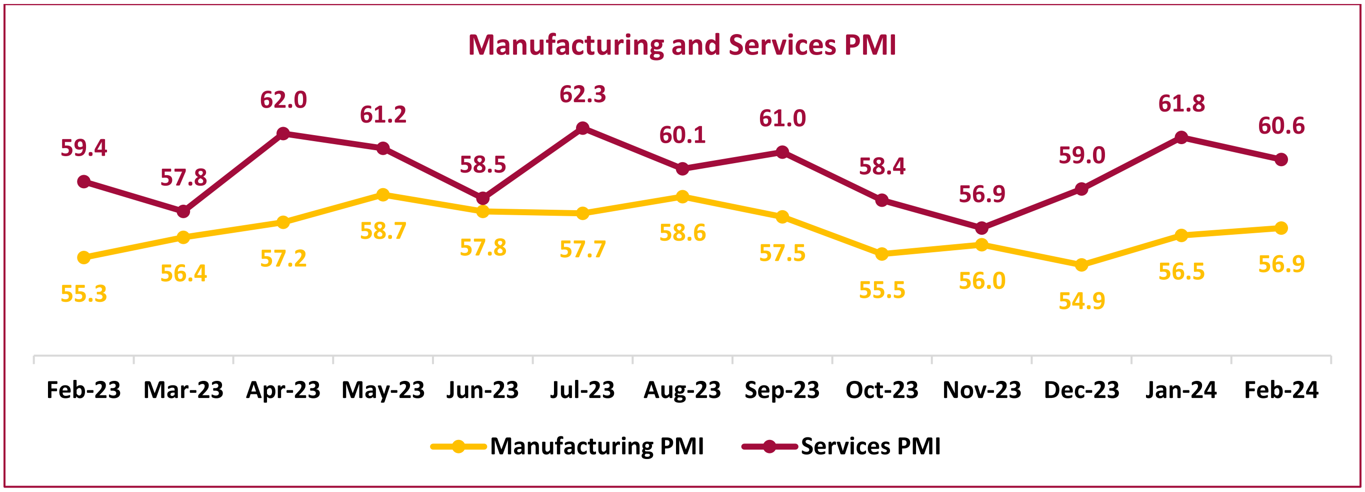
Component	Weight	Jan'23	Dec'23	Jan'24	Apr'23-Jan'24	Apr'23-Jan'24
Primary Goods	34.05%	9.8	4.8	**2.9**	8.0	**6.5**
Capital Goods	8.22%	10.5	3.6	**4.1**	13.6	**6.9**
Intermediate Goods	17.22%	1.4	3.9	**4.8**	4.3	**4.8**
Infra/Construction Goods	12.34%	11.3	5.2	**4.6**	8.5	**10.0**
Consumer Durables	12.84%	-8.2	5.3	**10.9**	2.1	**2.0**
Consumer Non- Durables	15.33%	6.5	2.4	**-0.3**	-0.2	**4.6**



IIP growth decelerated to 3.8 per cent in January 2024- trailing the activity in the eight core industries (3.6 per cent growth). Highest growth was observed in the mining sector (5.9 per cent) while manufacturing sector grew by 3.2 per cent in January 2024. Consumer durables sector, however, recorded a marginal contraction of 0.3 per cent in January.

PURCHASING MANAGERS' INDEX (PMI)

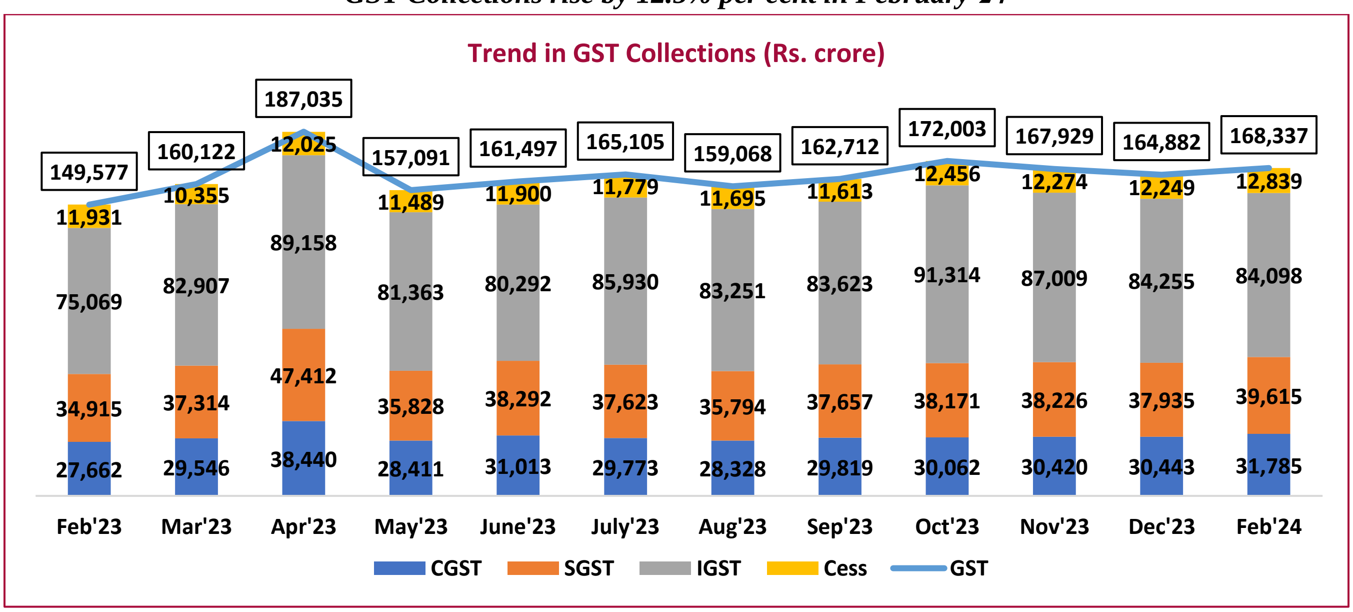
Manufacturing and Services PMI remain robust in February'24



PMI Manufacturing rose to a five-month high as a sharp uptick was noted in production and sales with both domestic and external demand surging. The seasonally adjusted HSBC India Manufacturing Purchasing Managers' Index (PMI) rose from 56.5 in January'24 to 56.9 in February'24, pointing to the strongest improvement in the industrial sector since September 2023. Services PMI, however, fell a tad lower in February'24 to 60.6 compared to 61.8 in the previous month.

GOODS AND SERVICES TAX (GST)

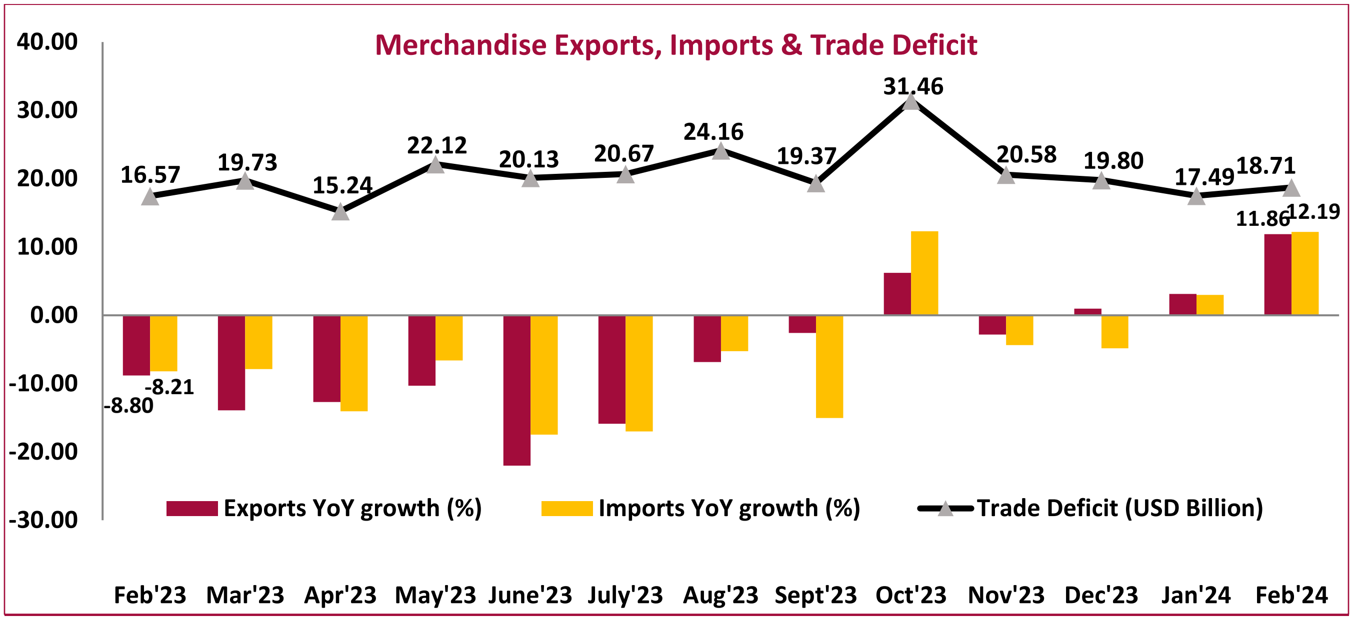
GST Collections rise by 12.5% per cent in February'24

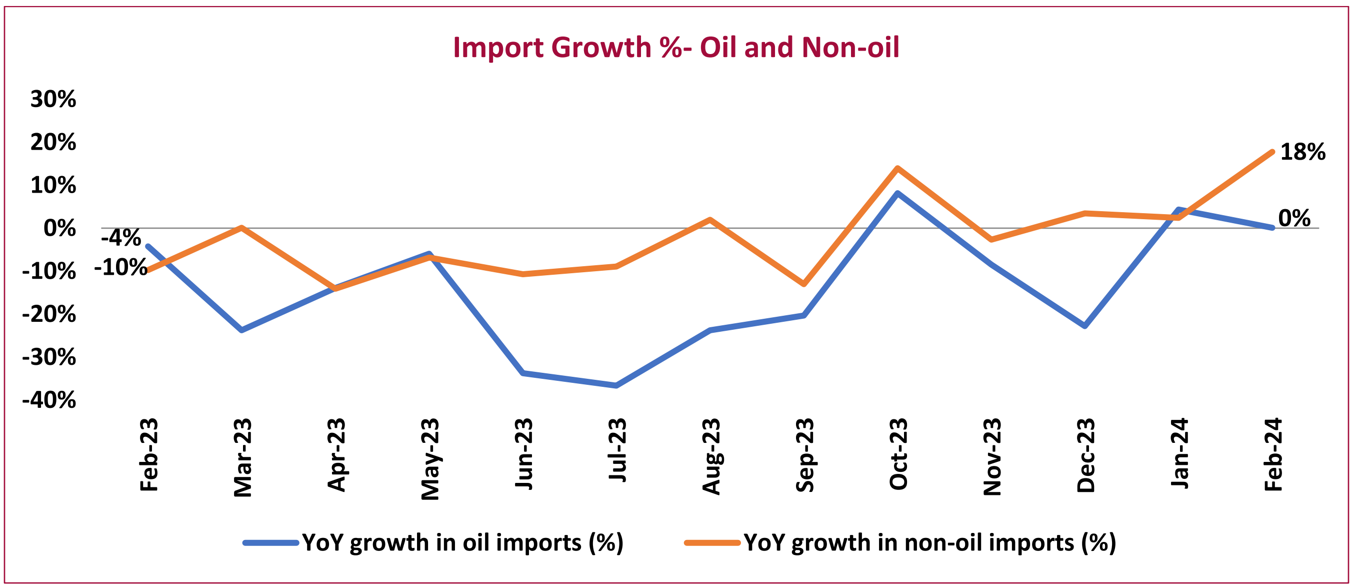


GST Collections for February 2024 stood at Rs.1,68,337 Crore showing a growth of 12.5 per cent. This growth was driven by a 13.9 per cent rise in GST from domestic transactions and 8.5 per cent increase in GST from import of goods. Collections for February'24, however, came a tad lower than January'24 when these were at Rs. 1,72,129 crore.

FOREIGN TRADE

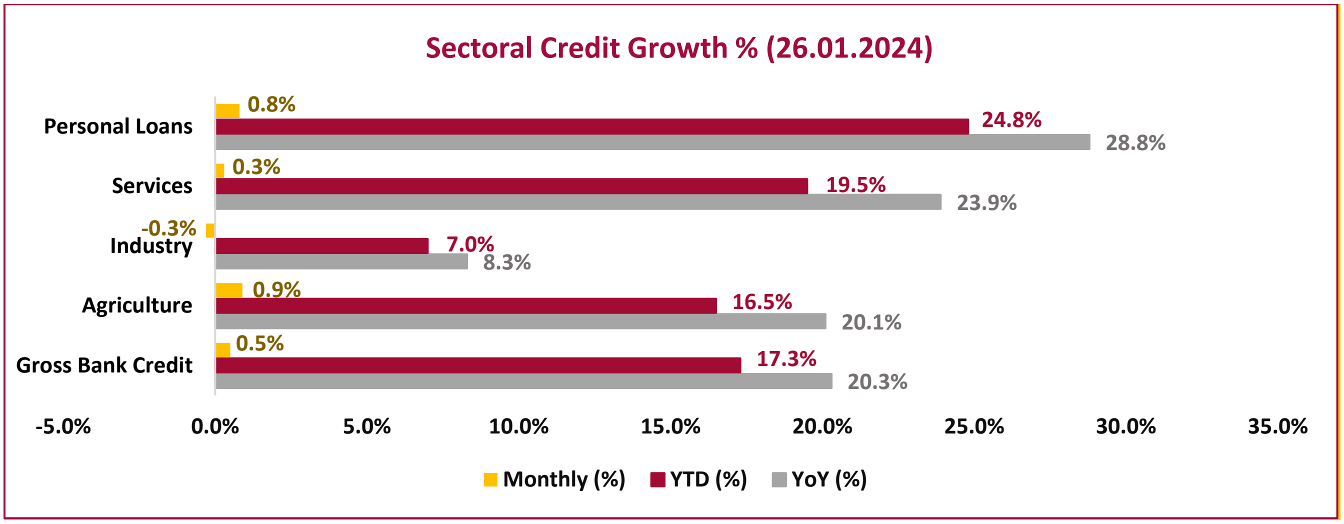
Trade deficit increased to USD 18.7 Billion in February'24





India's merchandise trade deficit widened to $18.71 billion in Feb'24 from $17.49 billion in Jan'24. Nonetheless, India's exports in Feb was highest in this FY and saw a healthy growth of 11.86 per cent YoY. This growth is remarkable amid global slowdown and uncertainty (especially the Red sea crisis). Major contributors to export growth in Feb'24 include Engineering Goods, Electronic Goods, Organic & Inorganic Chemicals, Drugs & Pharmaceuticals and Petroleum Products, which is a good sign as most of these sectors are labour-intensive giving boost to employment creation in the country. Under merchandise imports, 13 out of 30 key sectors exhibited negative growth in February 2024. Growth in imports was fuelled by precious metals (gold and silver) and agricultural commodities.

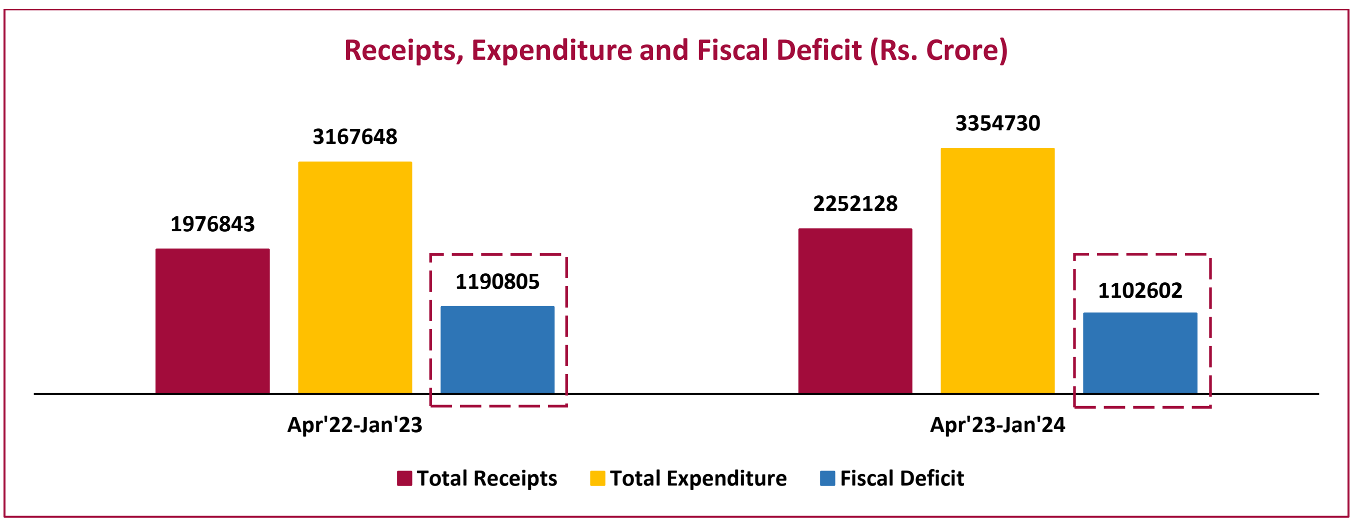
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	10.03.23	24.03.23	23.02.24	08.03.24	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	179.58	180.44	202.05	204.20	***13.71%***	***13.17%***	***1.07%***
Advances	135.49	136.75	162.07	163.14	***20.41%***	***19.29%***	***0.66%***
Business	315.07	317.19	364.12	367.34	***16.59%***	***15.81%***	***0.88%***

FISCAL DEFICIT

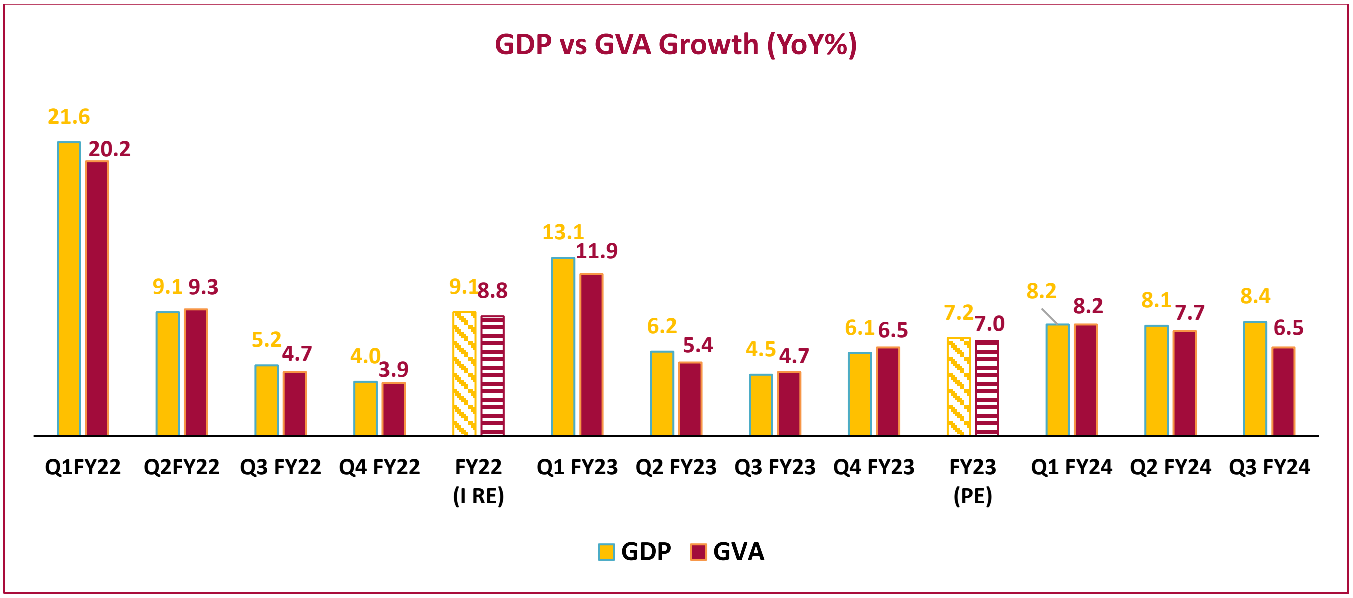


The government's fiscal deficit for the period April 2023-January 2024 was at Rs.11.03 lakh crore- amounting to 63.6 per cent of the Budget Estimates- lower than last year's achievement of 67.8 per cent by this time.

11. QUARTERLY ECONOMIC INDICATORS

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

India's GDP growth surpasses expectations

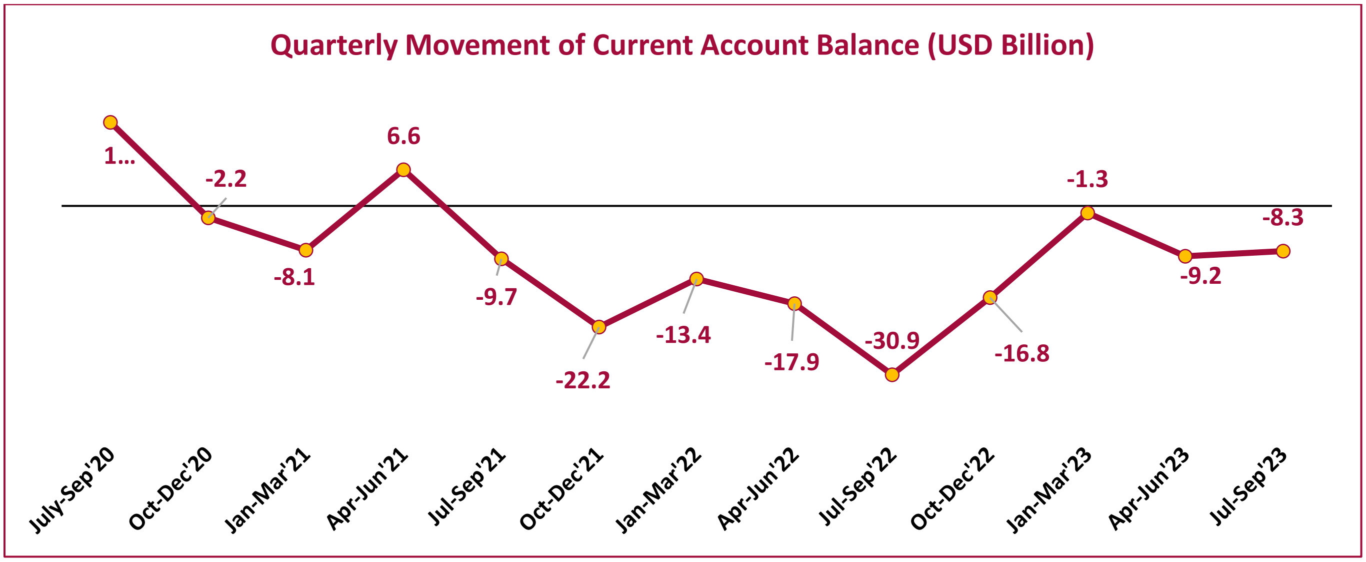


India accounted for the highest GDP growth in the last 6 quarters at 8.4 per cent in Q3 FY'24, marking the third consecutive quarter of 8 per cent plus growth in FY'24. GVA growth, which excludes indirect tax and subsidies, was pegged at 6.5 per cent in Q2 FY'24. The growth was mainly driven by a remarkable double-digit growth rate of 11.6 per cent in the manufacturing sector and a solid performance in the construction sector with a growth rate of 9.5 per cent.

INDIA'S GDP OUTLOOK BY VARIOUS AGENCIES

Agency	FY24	FY'25
RBI	**8.0%** *(as per RBI Bulletin, March 2024)*	**7.0%**
World Bank	**6.4%**	**6.5%**
IMF	**6.7%**	**6.5%**
ADB	**6.7%**	**6.7%**

CURRENT ACCOUNT BALANCE



India's Current Account Deficit (CAD) moderated from $9.2 billion (1.1 per cent of GDP) in Q1 FY'24 and remained significantly lower at $8.3 billion (1 per cent of GDP) in Q2 FY'24 compared to $30.9 billion (3.8 per cent of GDP) in Q2 FY'23. A lower CAD was on account of lower merchandise trade deficit. Merchandise trade deficit stood at $61 billion in Q2 FY'24 in comparison to $78.3 billion in Q2 FY'23. Healthy receipts from services exports, good growth in private transfer receipts (mainly remittances) and robust inflows in non-resident deposits also helped narrow the CAD.

12. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	0.10%	Mar 19, 2024 (20bps)	-
European Central Bank	Europe	4.50%	Sep 14, 2023 (25 bps)	Apr 11, 2024
Federal Reserve	U.S.A	5.50%	Jul 26, 2023 (25bps)	May 01, 2024
Bank of England	U.K	5.25%	Aug 03, 2023 (25 bps)	May 09, 2024
Peoples Bank of China	China	3.45%	Aug 21, 2023 (-10 bps)	-
Reserve Bank of India	India	6.50%	Feb 08, 2023 (25 bps)	Apr 03, 2024

13. INDUSTRY OUTLOOK

Textile

The textile industry in India stands as a pivotal sector of the economy, characterized by a rich historical legacy spanning centuries. The industry is marked by its diversity, encompassing a wide array of textiles ranging from traditional handloom textiles to apparel, home textiles, technical textiles, etc. India is the largest producer of cotton, organic cotton and jute and second largest producer of silk and polyester. The industry contributes 13 per cent to the country's manufacturing production, 4 per cent to country's GDP, and 12 per cent to export earnings. With a projected CAGR of 12 per cent from 2019-2020, it is expected to reach 250 Billion by 2025. This sector is powerhouse for jobs, generating jobs across the value chain, from cotton farming and spinning to weaving, knitting, dyeing, printing, and garment manufacturing.

Presently, Indian textile sector is globally recognized as a key supplier to all leading buying houses, making it an attractive sourcing destination for apparel exports. The industry's strength lies in its robust production base, offering a wide variety of fibers and yarns including cotton, Jute, Silk, Wool, Synthetic/ MMF products like polyester, viscose, nylon and acrylic. India is the sole producer of all the four commercial varieties of silk, namely Mulberry, Tropical Tasar & Oak Tasar, Muga and Eri.

India has several textile manufacturing clusters specializing in spinning, knitting, weaving and apparel manufacturing sector, spanning areas like Gujrat, Uttar Pradesh, Maharashtra, Punjab, Tamil Nadu etc. These specialized clusters significantly enhance India's textile production and exports.

The emergence of smart textiles, also known as e-textiles or technical textiles, involves embedding textiles with sensors, electronics, and other smart components that can sense and respond to external stimuli. These mart textiles are used in various items like sports and fitness wear, medical textiles, automotive textiles, and military textiles, constituting approximately 12-15% of Indian textile value chain.

There is a growing emphasis on sustainability and eco-friendly practices in the industry, including organic cotton production, the adoption of sustainable fibres and the implementation of water-efficient and energy-saving technologies. Despite its strengths, the Indian textile industry faces several challenges including stiff competition from other countries like Bangladesh and Vietnam offering lower labour costs, a skilled labour gap and infrastructure bottlenecks. Additionally, regulatory compliances and environmental concerns related to pollution, textile waste and chemical use in dyeing etc. pose significant challenges to the segment.

Addressing these challenges and embracing sustainable practices through innovation and technology, the Indian textile manufacturing industry can achieve significant advancements, thereby establishing itself as a key driver in the global landscape.

Mansi Wahi
Manager (Economics)
Head Office, SMEAD

14. DATA SOURCES

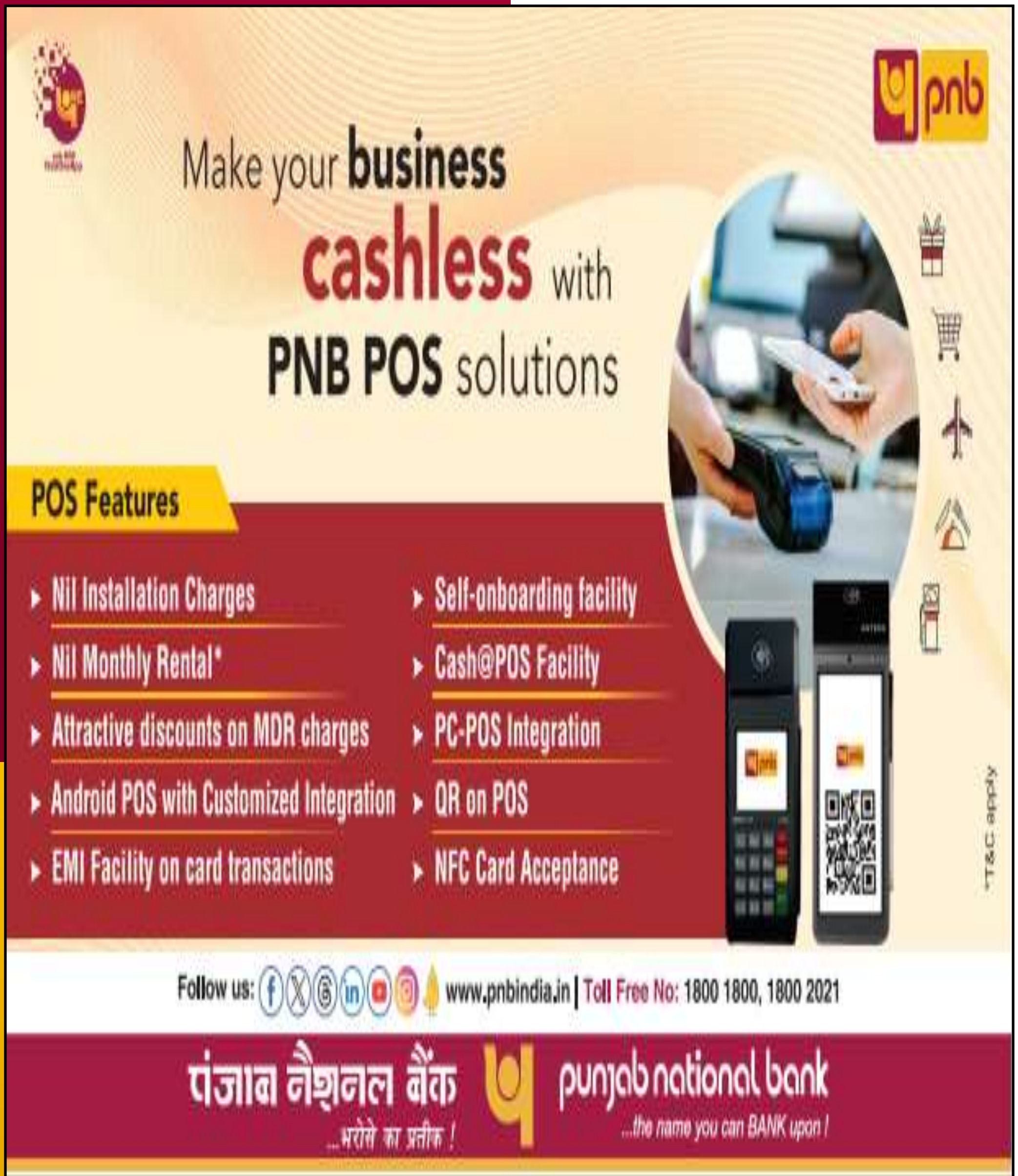
- *Reserve Bank of India (RBI)*
- *Ministry of Statistics and Programme Implementation (MOSPI)*
- *Office of Economic Adviser*
- *Ministry of Commerce and Industry, Department Of Commerce*
- *S & P Global*
- *Press Information Bureau*
- *GST Council*
- *Websites of major Central Banks*
- *Controller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

*****

QUOTE OF THE MONTH

"Books are the treasured wealth of the world and the fit inheritance of generations and nations."

– Henry David Thoreau Walden



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