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STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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

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1. FROM THE DESK OF CHIEF ECONOMIST

Money Supply and the Inflation Conundrum

Inflation, an economic phenomenon characterized by a sustained increase in the general price level of goods and services over time, is a topic of great significance in the field of economics. The metric gains importance as price stability is an essential for economic stability. Inflation is the main target of the monetary policy of an economy and it is modified regularly to attain the price stability. Inflation and money supply are often talked together as the two factors influence each other.

Inflation targeting is the main agenda of monetary policy in most of the nations. In India, RBI that controls the money supply in the economy is given the target of inflation of 4% with an upper and lower band of 2%. RBI targets the Consumer Price Index inflation that measures the inflation at retail level.

Monetary Policy is assigned the major responsibility of managing the inflation in an economy, but can monetary policy alone handle the task?

How much does the money supply directly influence the inflation number?

To understand this question well, let's dwell into the components of India's CPI basket. Food & Beverages component has a 45.86% weight in the CPI basket of India. The food inflation is influenced by the supply of food items and is not influenced by the money supply.

Another components of CPI basket i.e. Pan Tobacco, Clothing & Footwear and Fuel & Light have a cumulative weight of 15.75% on which money supply has no direct impact. Also, many other components like Transport & Communication, Services, Recreation & Amusement are not directly influenced by the money supply. Thus, cumulatively around 80% of the items in CPI basket are not directly influenced by the money supply.

Though, it does not mean that money supply is futile in managing inflation. Money supply and interest rates impact the aggregate demand in the economy and have second round effects on inflation.

Raising or lowering interest rates can affect money creation and price inflation, but only in indirect ways. High interest rates by the central bank in response to higher inflation, in turn discourages borrowers to borrow and thus reduces consumption and investment demand in the economy.

Impact of Money Supply on Inflation post the pandemic

Last year, record level inflation was registered in many developing and advanced economies. Inflation in India was also elevated in previous financial year and reached at 8 year high in April'2022 at 7.8%. The high inflationary pressures were due to the lagged effects of the pandemic and geopolitical disruptions due to Russia Ukraine war.

In response to high inflationary pressures, RBI started to hike rates since May'2022 and hiked the repo rate by 250 bps. In response, the CPI inflation has dropped from 7.79% as on April'22 to 4.81% in June'23 i.e. decline of 298 bps.

But, in the same period, if we look at the core inflation data (i.e. excluding food and fuel prices), it has fallen from 6.97% as on April'22 to 5.12% as on June'23 i.e. decline of 185 bps.

Barring the food & fuel components that are volatile and are more dependent on the supply side factors, the impact of money supply on the inflation occured with a lag. The effects of recent monetary tightening in monetary policy is still working through the system. Usually, it takes around 6-8 months for the monetary policy to fully impact the price levels of an economy.

Also, core inflation in India had been sticky and is in the range of 5 - 6.0% for majority of past 2 years. There are many reasons for sticky core inflation like - yet-to-be-completed pass-through of high input prices by manufacturers and service providers, structural change in the economy during the pandemic, hikes in import tariffs, sustained robust demand, widened profit margins of corporates, higher formalization of the economy & ruptured global supply chains post the pandemic. Core inflation is likely to average 5.0% in the current financial year.

Thus, the inflation is influenced by a variety of factors. To hold on to the view that inflation in India is due to excess aggregate demand curable by raising interest rates will not be sufficient for ensuring price stability of the economy. Also, too much of monetary tightening comes along with the risk of financial stress that can lead to a crisis as was evident in the recent bank collapse in US.

The monetary policy cannot alone bear the burden of reducing inflation in the economy. Proper importance also needs to be given to the necessary supply side interventions by the government and appropriate fiscal policy.

Present Inflation Scenario

India's retail inflation rate is likely to breach the central bank's 6% tolerance ceiling again in July – August'23 due to sticky pulses and cereal prices even as vegetable price pressures ease. For the entire year, I expect the CPI inflation to average around 5.3 – 5.5%. Ultimately, headline inflation is expected to converge towards core inflation once the food-related shocks subside.

The government's intervention in the open market for tomatoes has started to cool tomato prices, but its fuller, nationwide impact will most likely become visible only in August, while seasonal pressures should continue to support stronger momentum for other vegetable prices.

The Fed has also indicated to go for a hike of smaller magnitude in its September FOMC meet though it will be data dependent.

As per our estimates, in India the rate hiking cycle is over and the current extended pause will give way to an interest rate easing cycle by early next year.

Deepak Singh

(Deputy General Manager)

2. INTERNATIONALISATION OF RUPEE & WAY FORWARD

Concept:

When the domestic currency is being used for cross border transactions rather than foreign currency, this refers to the internationalization of rupee. We may see that internationalization as promoting the usage of our local currency while exporting and importing the various good and services. In wake of rising USD vis-à-vis Rupee, India is facing problem of imported inflation and draining of forex reserves. Hence, internationalization of rupee is being promoted in order to maintain stability in the economy. It may be pertinent to mention here that at present the US dollar, the Euro, the Japanese yen and the British pound powerful currencies of the world. At present, US dollar, which is an international currency, enjoys the 'exorbitant' privileges include immunity from Balance of Payments crises.

The dollar's position is supported by various factors including size of the US economy, trade and financial networks, the depth and liquidity of US financial markets. Further, US economy has always been strong as it has a history of macroeconomic stability and currency convertibility.

Steps taken so far:

Towards internationalisation of Rupee, there are many measures being taken up which include

- **Introduction of a** mechanism to facilitate international trade in rupees in **July, 2022 by RBI.**
- India also introduced instruments especially Masala Bonds by enabling **external commercial borrowings** in Rupees
- India is also contemplating over Asian Clearing Union (ACU) for using domestic currencies for settlement.
- An arrangement, bilateral or among trading blocs, which offers importers of each country the choice to pay in domestic currency is likely to be favoured by all countries, and therefore, is worth exploring.

Key Benefits of internationalization of rupee:

- **Increased Trade**: A globally recognized currency like the rupee can facilitate international trade by reducing exchange rate risks and transaction costs. It can attract more foreign investors and traders, boosting export opportunities.
- **Financial Market Development**: Internationalization can lead to the growth of India's financial markets, making them more attractive to global investors. It can enhance liquidity and deepen the domestic financial system.

- **Reserve Currency Status:** Becoming an international currency may increase demand for the rupee as a reserve currency, reducing the dependency on other foreign currencies and enhancing India's economic stability.
- **Lower Borrowing Costs:** As the rupee gains international acceptance, India can borrow funds in its own currency from foreign markets, potentially reducing borrowing costs.
- **Currency Stability**: Greater international use can lead to more stable exchange rates for the rupee, reducing currency volatility and promoting economic stability.

  Prestige and Recognition: Being an international currency elevates India's status in the global economy and provides it with a greater say in international financial matters.

Recently, Reserve Bank of India (RBI) has allowed banks from 18 countries to settle payments in the rupee. This includes names like Sri Lanka, Israel, Russia, Germany, Singapore and the United Kingdom intent to trade with India in rupee.

It's worth noting that rupee internationalization also comes with challenges, such as potential risks of volatility, policy coordination, and maintaining macroeconomic stability. The process requires careful planning and management to fully realize its benefits.

Way forward:

All in all, the steps taken towards consolidating the position of rupee are substantial, however, the recent steps will not actually serve making rupee a truly international currency. There is a need for make case propagating wider usage of the rupee overseas. For this, there is a need to develop and deepen the efficient swap market and a strong foreign exchange market.

We also need to ensure that effective policy co-ordination among government, agencies, regulators and financial institutions which play crucial role in supporting a seamless transitions towards rupee internationalisation.

Further improvement in overall economic fundamentals, financial sector health, followed by an upward movement in sovereign ratings will also strengthen confidence in the rupee, making the currency ready for the next step in its international journey.

Surabhi Tewari

Senior Manager- Economist

Head Office, SMEAD

3. CRYPTOCURRENCY AND IT'S FUTURE

Cryptocurrency is a digital or virtual currency that uses cryptography for security and operates independently of a central bank or financial institution. It is decentralized, meaning it is not controlled by any government or financial institution, and is based on a distributed ledger technology called block-chain.

Cryptocurrencies are created through a process called mining, which involves solving complex mathematical problems to validate and record transactions on the block-chain. The most well-known and widely used cryptocurrency is Bitcoin, but there are many other cryptocurrencies, such as Ethereum, Litecoin, and Ripple.

Cryptocurrencies can be used to buy goods and services online, and can also be traded on cryptocurrency exchanges for other currencies or assets. Some people view cryptocurrencies as a potential investment opportunity due to their potential for high returns, but they are also considered to be a high-risk investment due to their volatility and lack of regulation.

Cryptocurrencies offer several potential benefits, including:

1. **Decentralization**: Cryptocurrencies are decentralized, meaning they are not controlled by any central authority, government or financial institution. This makes them resistant to censorship, and also eliminates the need for intermediaries such as banks or payment processors.
2. **Security:** Cryptocurrencies use advanced cryptographic techniques to secure transactions and prevent fraud. Once a transaction is recorded on the block-chain, it cannot be altered, providing an additional layer of security.
3. **Lower transaction fees:** Compared to traditional financial transactions, cryptocurrency transactions typically have lower fees. This is because there are no intermediaries involved, which can significantly reduce the cost of transactions.
4. **Faster transactions:** Cryptocurrency transactions are processed quickly and can be completed in a matter of minutes or seconds, depending on the network congestion.
5. **Increased privacy:** Cryptocurrencies can offer increased privacy, as they do not require personal information to be disclosed during transactions.
6. **Access to global markets:** Cryptocurrencies are borderless and can be used for transactions anywhere in the world, without the need for currency conversion.
7. **Potential for high returns:** Cryptocurrencies have the potential to offer high returns on investment, as their value can appreciate rapidly over time.

Overall, cryptocurrencies offer several potential benefits, they also come with their own set of risks and challenges, including:

1. **Volatility:** Cryptocurrencies are highly volatile, and their value can fluctuate rapidly and unpredictably. This means that investing in cryptocurrencies can be risky, and investors may experience significant losses if the value of their investments drops.

2. **Lack of regulation:** Cryptocurrencies are not regulated by any government or financial institution, which can make them vulnerable to fraud, market manipulation, and other illegal activities. The lack of regulation also means that there are no protections in place for investors in the event of a cryptocurrency exchange hack or other security breach.
3. **Security risks:** While cryptocurrencies use advanced cryptographic techniques to secure transactions, they are still vulnerable to hacking and other security breaches. Cryptocurrency exchanges and wallets have been targeted by hackers in the past, resulting in the loss of millions of dollars' worth of cryptocurrencies.
4. **Limited acceptance:** While cryptocurrencies are gaining in popularity, they are still not widely accepted as a means of payment. This means that it can be difficult to use cryptocurrencies to purchase goods and services in the real world, which can limit their utility and value.
5. **Irreversible transactions:** Once a cryptocurrency transaction is recorded on the blockchain, it cannot be reversed. This means that if a transaction is made in error or if funds are sent to the wrong address, there is no way to recover the funds.
6. **Tax implications:** The tax implications of investing in cryptocurrencies are complex and can vary depending on the country and jurisdiction. Investors may be subject to capital gains taxes or other taxes on their cryptocurrency investments.

Overall, cryptocurrencies offer potential benefits, but they also come with significant risks and challenges that should be carefully considered before investing.

The future of traditional banking in the context of cryptocurrency is uncertain and depends on a variety of factors. Here are a few possibilities:

1. **Integration**: Traditional banks may choose to integrate cryptocurrencies into their existing offerings, allowing customers to buy, sell, and hold crypto assets alongside their traditional accounts.
2. **Competition:** Cryptocurrencies may pose a significant threat to traditional banks, particularly if they gain wider acceptance and adoption. If customers begin to prefer using crypto for their financial needs, traditional banks could lose market share and struggle to compete.
3. **Collaboration:** Another possibility is that traditional banks and cryptocurrency companies may choose to collaborate, combining their respective strengths and capabilities to create new and innovative financial products and services.
4. **Disruption:** Finally, it's possible that cryptocurrencies could completely disrupt traditional banking, rendering it obsolete in the long run. This would require a significant shift in the way people think about money and financial transactions, but it's not entirely out of the realm of possibility.

Ultimately, the future of traditional banking in the context of cryptocurrency will depend on how the technology develops, how consumers respond to it, and how traditional financial institutions choose to adapt.

Mohan Singh Tamsoy
Senior Manager
PNB Loan Point, Kharagpur

4. EVOLUTION OF INDIA'S DIGITAL PAYMENT SYSTEM

Introduction of India's digital payment system

Today's time is the time of 'Paperless, Faceless, Cashless' currency, where we need not to carry cash in our pockets or look for nearest Branch or ATM for money related matters. India's digital payment system has witnessed remarkable growth in recent years, fuelled by a combination of favourable government policies, technological innovation, and a large population that is increasingly embracing digital transactions.

India's digital payment system has come a long way in a relatively short period. The government's demonetization move in 2016, which involved withdrawing high-value currency notes from circulation, provided a significant impetus to digital payments. Since then, the government has launched various initiatives to promote digital payments, including the Unified Payments Interface (UPI), the Bharat Bill Payment System (BBPS), and the National Electronic Toll Collection (NETC) program. India's digital payment landscape is being transformed by three key enablers - Jan Dhan, Aadhaar, and Mobile. A major financial inclusion initiative, Pradhan Mantri Jan-Dhan Yojana (PMJDY) provides universal banking services to every unbanked household, which was launched in August 2014.

The UPI, launched in 2016, has emerged as a game-changer in the Indian digital payments landscape. It is a real-time payment system that enables instant money transfers between bank accounts using a mobile phone. The UPI has seen explosive growth in recent years. The system has also been integrated with various other services, including bill payments, online shopping, and peer-to-peer lending.

The BBPS, launched in 2018, is a one-stop payment platform that enables users to pay all their bills in one place, including electricity, water, gas, and phone bills. The system has grown rapidly.

The NETC program, launched in 2016, enables electronic toll collection on highways across India. The system has significantly reduced traffic congestion and waiting times at toll plazas and has also contributed to the growth of digital payments in the country.

Growth drivers of digital payment system

The growth of India's digital payment system can be attributed to several factors. Firstly, the government's push for digital payments has created an environment conducive to growth. The government has launched various initiatives to promote digital payments, including tax incentives for merchants who accept digital payments and subsidies for digital payment infrastructure.

Secondly, the rise of smartphones and mobile internet has provided a platform for the growth of digital payments. India has over 1.2 billion mobile phone users, and the country has witnessed a significant increase in internet penetration in recent years. This has enabled users to access digital payment services through their mobile phones.

Finally, the emergence of fintech start-ups like Paytm, Phonepay and the entry of large tech companies like Google and Amazon into the digital payments space has provided a boost to the industry. These companies have introduced innovative products and services, such as digital wallets and payment apps, which have made digital payments more convenient and accessible to a wider audience.

Challenges of digital payment system

Despite the growth of India's digital payment system, there are still some challenges that need to be addressed. One of the major challenges is the issue of security. Cybersecurity threats such as data breaches and fraud are a growing concern, and there is a need to strengthen the security infrastructure of the digital payment system. According to the Reserve Bank of India's annual report for the year ended March 2023, there were 6,659 instances of card and internet fraud totalling Rs.276 Crore.

Another challenge is the need to expand access to digital payments in rural areas. While digital payments have seen significant growth in urban areas, there is still a significant portion of the population in rural areas that do not have access to digital payment services.

Conclusion

India's digital payment system has grown rapidly in recent years, driven by favourable government policies, technological innovation, and a large population that is increasingly embracing digital transactions. While there are still some challenges that need to be addressed, the future of digital payments in India looks bright, and the system is likely to play a key role in the country's economic growth and development.

Preety Sachan

Dy. Manager

Credit Review and Monitoring Division, Head Office

5. CLASSROOM – FIAT MONEY

Definition and History

"Fiat money is a government-issued currency that is not backed by a physical commodity, such as gold or silver, but rather by the government that issued it. The value of fiat money is derived from the relationship between supply and demand and the stability of the issuing government, rather than the worth of a commodity backing it."

In other words, Fiat money is a type of currency that has value only because a government or authority declares it to be legal tender. Unlike commodity money, which has intrinsic value based on the materials it's made of (like gold or silver), fiat money has no intrinsic value and is not backed by a physical commodity.

The value is derived from the trust and confidence of the people who use it, as well as the government's ability to maintain stability in its value. Governments regulate the supply of fiat money and control its issuance through central banks, allowing them to manage economic conditions and implement monetary policies.

The term "fiat" is a Latin word that means "it shall be" or "let it be done." The origins of fiat money can be traced back to the 11th century Chinese Tang dynasty. In his book The Travels of Marco Polo, Marco Polo described the Yuan Dynasty's fiat money in the 13th century: "All these pieces of paper are issued with as much solemnity and authority as if they were of pure gold or silver; and on every piece, a variety of officials, whose duty it is, have to write their names and put their seals."

Advantages

- Fiat money is universally accepted as a medium of exchange, and hence it makes transactions and trade easier.
- It helps the Government to respond to economic changes and crises through controlling the money supply and adjusting interest rates.
- Since the value of a Fiat money is determined by the government and not subject to fluctuations based on the availability of precious metals, it is generally more stable than commodity-based money, like gold or silver.
- Since it is generally a piece of paper and possess the characteristics like lightweight, portable and easily divisible, it is convenient for everyday transactions.
- Compared to barter systems or commodity-based money, fiat money reduces transaction costs and simplifies financial transactions.
- Central banks can implement monetary policies to manage inflation, unemployment, and stabilize the economy more effectively with fiat money.
- Fiat money enables the functioning of credit systems, allowing individuals and businesses to borrow and lend money.

(*Compiled from various sources)*

6. GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of Circular	26-June-2023
Ref. No.	RBI/DOR/2023-24/103 DOR.ORG.REC.22/21.06.050/2023-24
Subject	**Master Direction on Minimum Capital Requirements for Operational Risk**

Gist: In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949, the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest to do so, hereby issues the Directions hereinafter specified. These Directions require a specified Commercial Bank (covered under 'Applicability') to hold sufficient regulatory capital against its exposures arising from operational risk.

Date of Circular	23-June-2023
Ref. No.	RBI/2023-24/46 FMRD.FMSD.03/03.07.25/2023-24
Subject	**Status of MIFOR as a Significant Benchmark**

Gist: In light of the cessation of the publication/non-representativeness of US Dollar London Interbank Offered Rate (USD LIBOR) settings after June 30, 2023, FBIL has been accorded approval to cease the publication of the MIFOR after June 30, 2023, in terms of provisions of the Financial Benchmark Administrators (Reserve Bank) Directions, 2019. Accordingly, the MIFOR administered by FBIL shall cease to be a 'significant benchmark' after June 30, 2023. The updated list of 'significant benchmarks' administered by FBIL are Overnight Mumbai Interbank Outright Rate (MIBOR), USD/INR Reference Rate, Treasury Bill Rates, Valuation of Government Securities, Valuation of State Development Loans (SDL) and Modified Mumbai Interbank Forward Outright Rate (MMIFOR). These have come into effect from 01.07.2023.

Date of Circular	22-June-2023
Ref. No.	RBI/2023-24/45 A.P. (DIR Series) Circular No. 06
Subject	**Remittances to International Financial Services Centres (IFSCs) under the Liberalized Remittance Scheme (LRS)**

Gist: Presently, remittances to IFSCs under LRS can be made only for making investments in securities in terms of A.P. (DIR Series) Circular No. 11 dated February 16, 2021. In view of the gazette notification no. SO 2374(E) dated May 23, 2022 issued by the Central Government, it is directed that Authorised Persons may facilitate remittances by resident individuals under purpose 'studies abroad' as mentioned in Schedule III of Foreign Exchange Management (Current Account Transactions) Rules, 2000 for payment of fees to foreign universities or foreign institutions in IFSCs for pursuing courses mentioned in the gazette notification ibid.

Authorised Persons shall bring the contents of this circular to the notice of their constituents and customers. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approvals, if any, required under any other law.

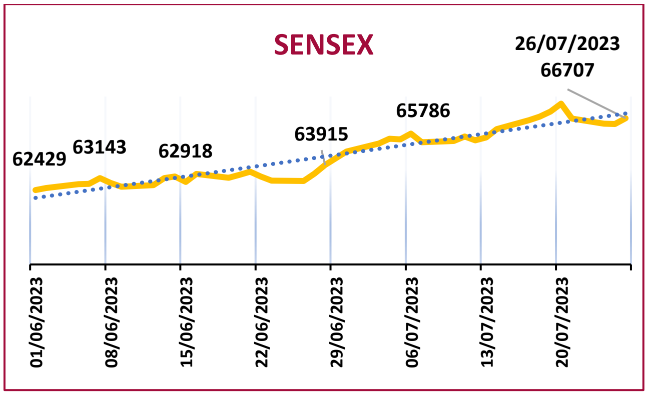
Date of Circular	**14-June-2023**
Ref. No.	RBI/2023-24/43 CO.DGBA.GBD.No.S295/31-12-010/2023-2024
Subject	**Agency Commission for collection of indirect taxes through ICEGATE payment gateway**

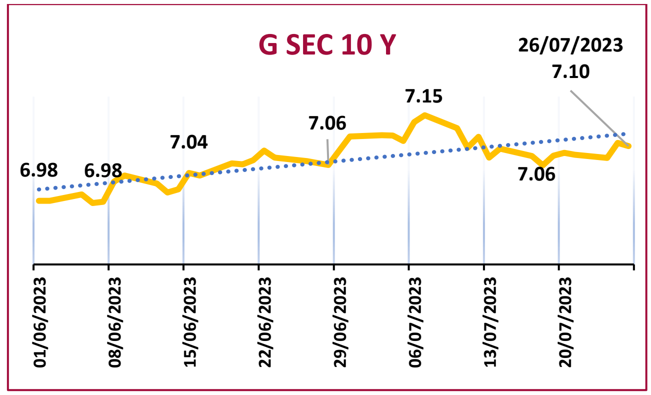
Gist: Since certain transactions related to collection of indirect taxes through ICEGATE (CEP) payment gateway are now being reported by agency banks to Mumbai Regional Office (MRO), RBI with effect from April 01, 2023, it has been decided to modify paragraph 21 of the aforesaid Master Circular. Agency banks are required to submit their claims for agency commission in the prescribed format to CAS Nagpur in respect of Central government transactions and the respective Regional Office of Reserve Bank of India for State government transactions. However, agency commission claims pertaining to GST receipt transactions, transactions related to direct tax collection under TIN 2.0 regime, and transactions pertaining to collection of indirect taxes through ICEGATE payment gateway reported to Mumbai Regional Office, RBI will be settled at Mumbai Regional Office of Reserve Bank of India only and accordingly all agency banks, authorized to collect GST, direct tax collection under TIN 2.0 and indirect taxes through ICEGATE payment gateway, are advised to submit their agency commission claims pertaining to the respective receipt transactions at Mumbai Regional Office only.

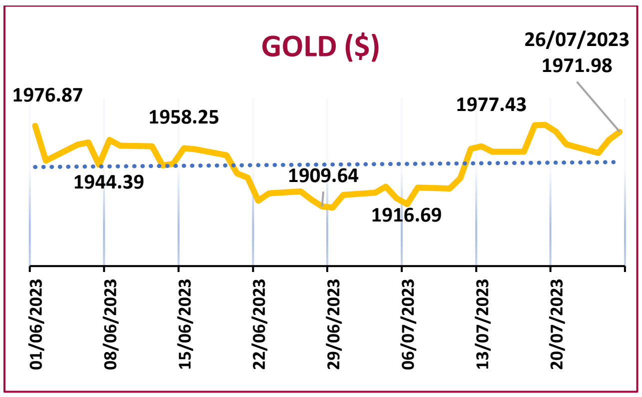
The agency commission claim for Central Government transactions reported to CAS, Nagpur, RBI will be continued to be settled at CAS, Nagpur, RBI. The formats for claiming agency commission for all agency banks and separate and distinctive set of certificates to be signed by the branch officials and Chartered Accountants or Cost Accountants are given in Annex 2, Annex 2A and Annex 2B respectively. These certificates would be in addition to the usual Certificate from ED / CGM (in charge of government business) to the effect that there are no pension arrears to be credited / delays in crediting regular pension / arrears thereof.

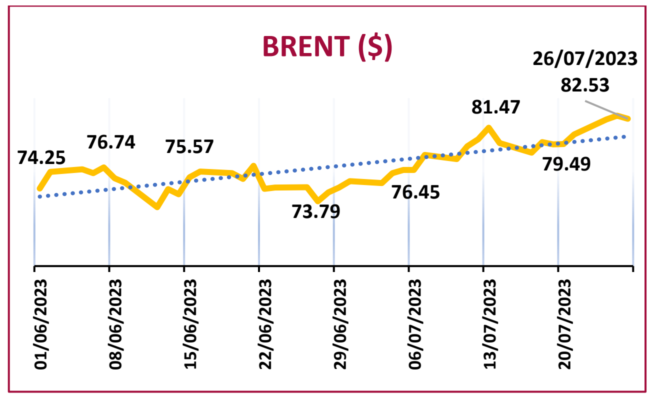
(15th June-25th July'23)

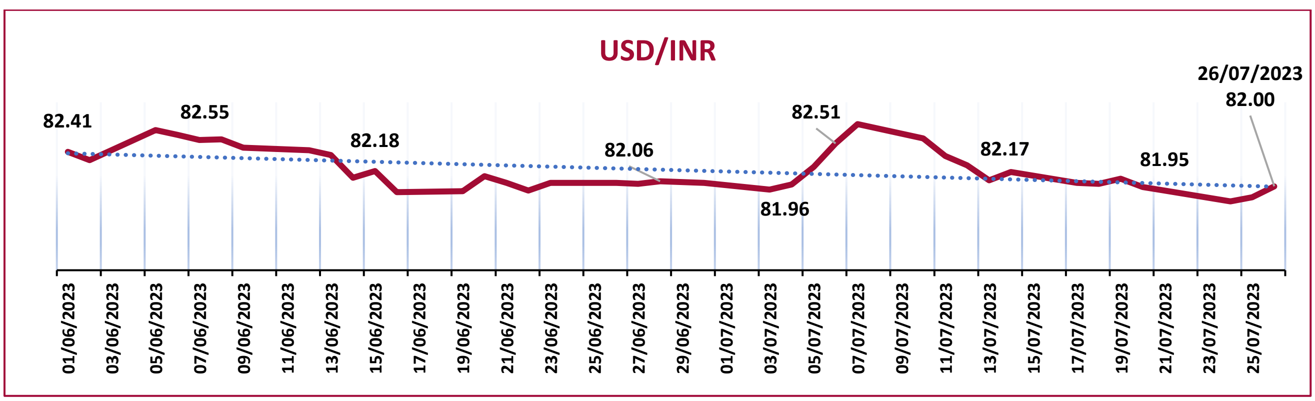
7. DAILY ECONOMIC INDICATORS

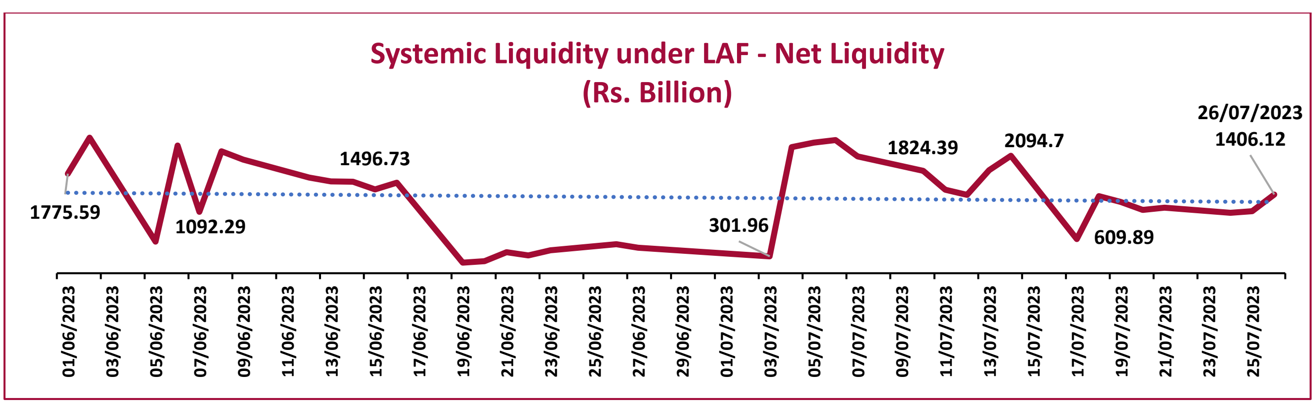








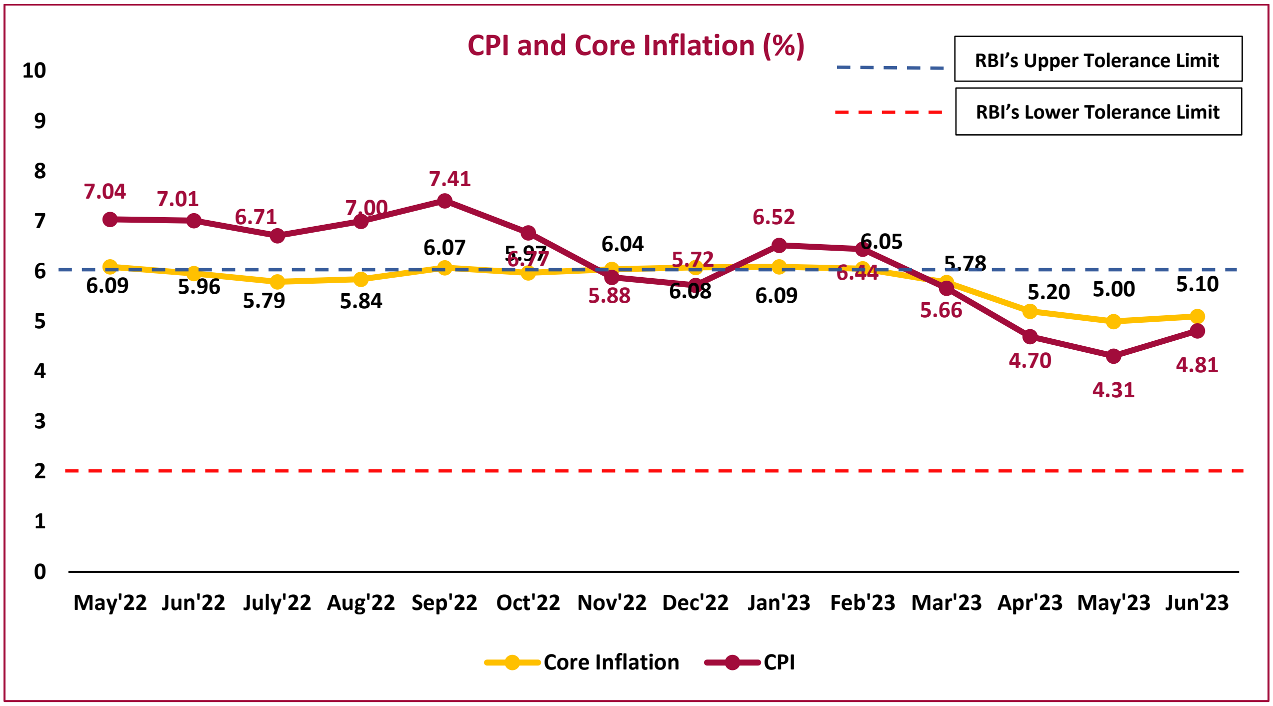


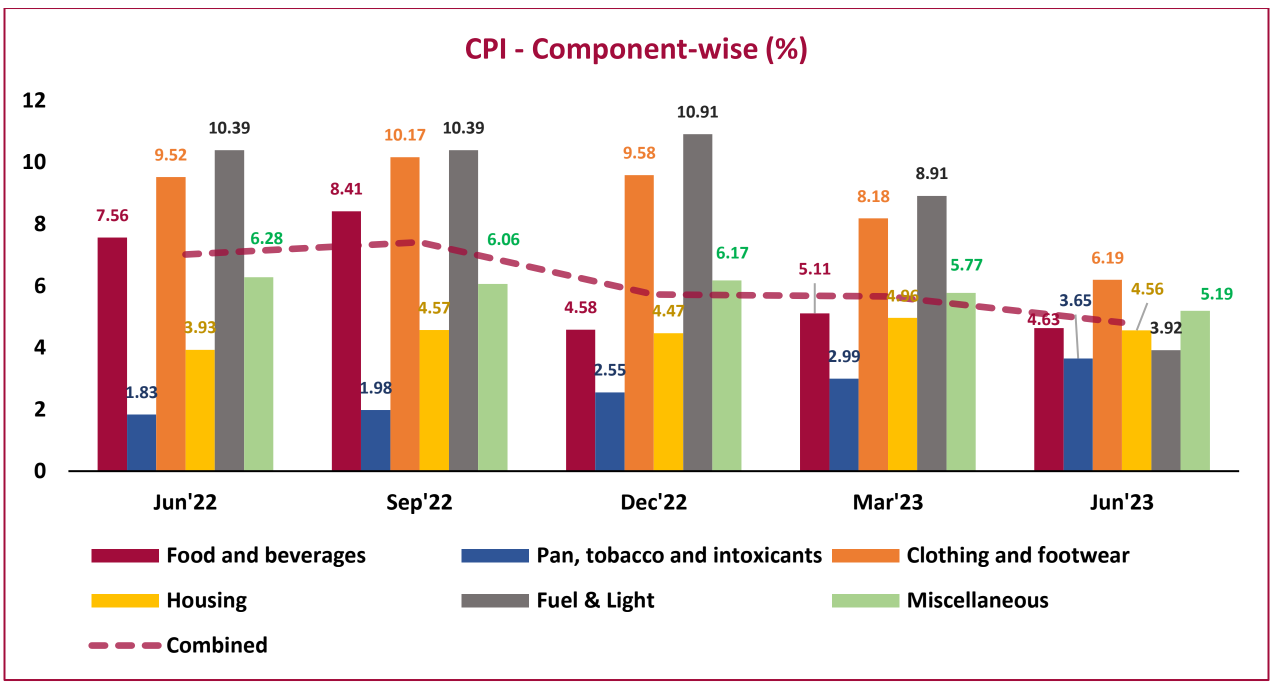


8. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation surges and nears RBI's tolerance band

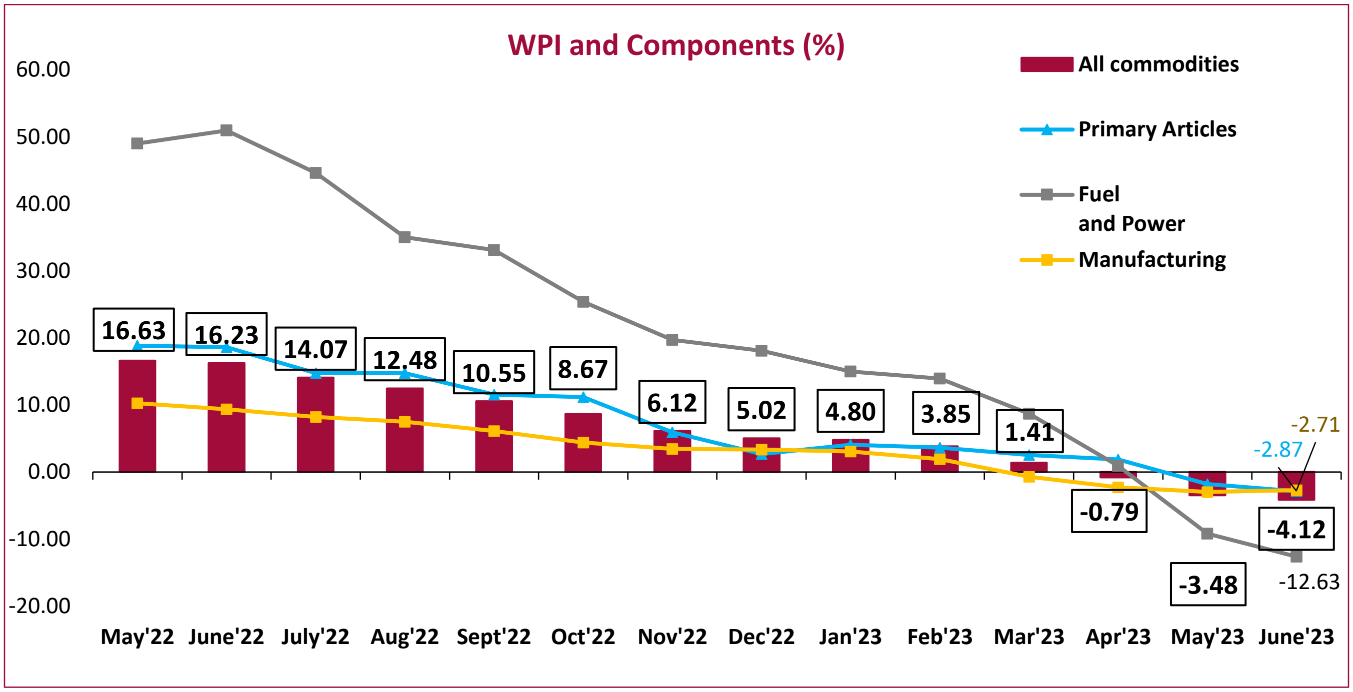




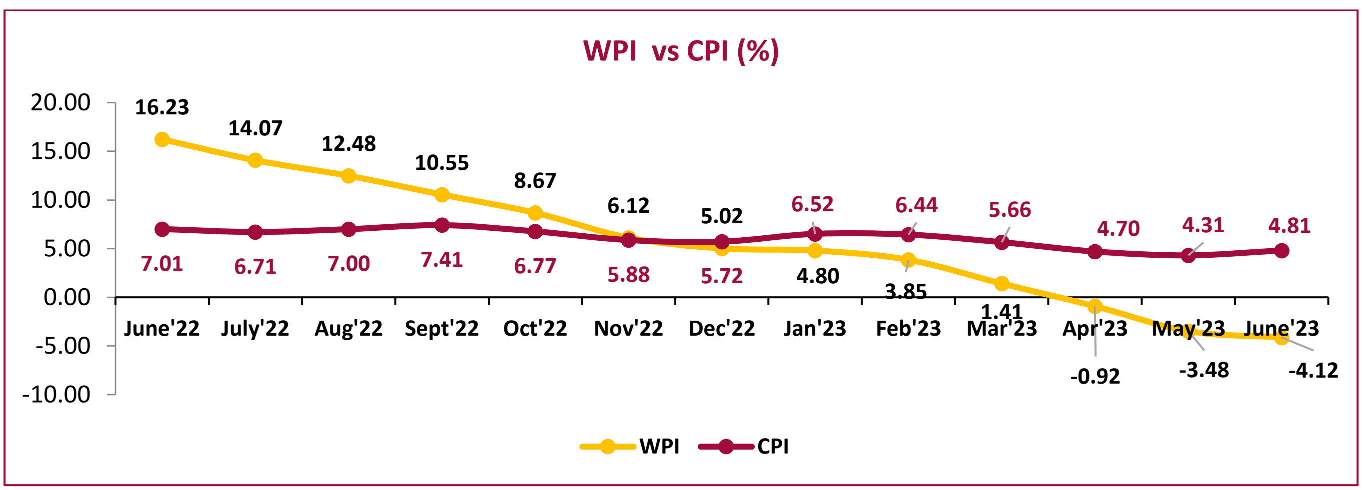
India's Retail Inflation has surged once again and reached at 4.81 per cent, the major reason for sharp increase was rise in food prices. However, inflation continues to remain within the tolerance band of RBI i.e., 2-4 per cent.

WHOLESALE PRICE INDEX (WPI)

Deflation increases further to 4.12% in June'23



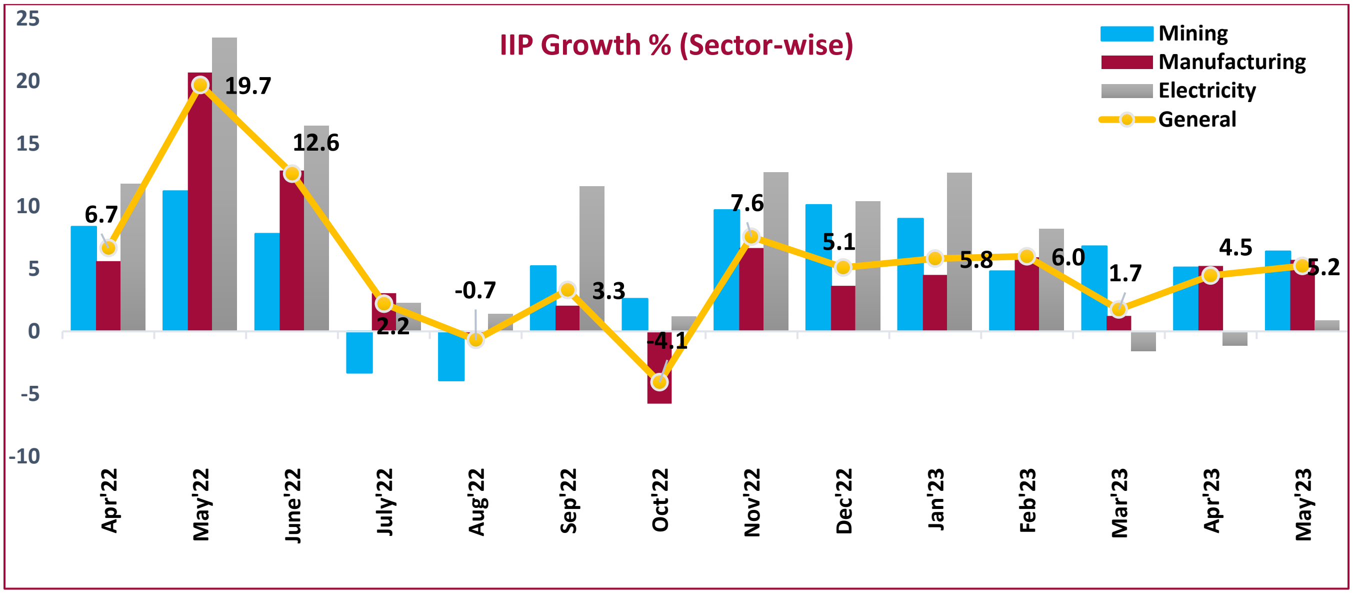
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Apr	15.18	**1.60**	38.84	**0.93**	11.39	**-2.42**	8.48	**3.54**	15.38	**-0.92**
May	18.84	**-1.79**	49.00	**-9.17**	10.27	**-2.97**	11.78	**1.51**	16.63	**-3.48**
June	18.63	**-2.87**	50.95	**-12.63**	9.35	**-2.71**	13.71	**1.32**	16.23	**-4.12**



Wholesale Price Index continued to contract and stood at -4.12 per cent in June'23. Moderating energy related items, textiles and food contributed towards declining WPI. Higher base effect has also led to decreasing inflationary trend.

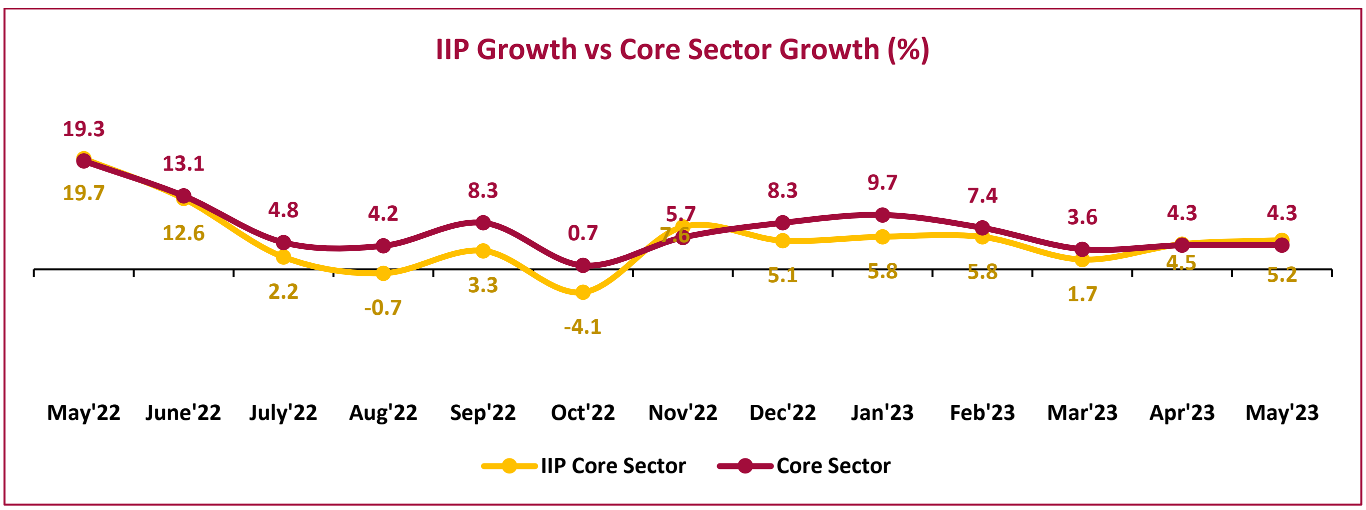
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP Growth continues an uptrend and scales to 5.2%



IIP growth % (Usage-wise)

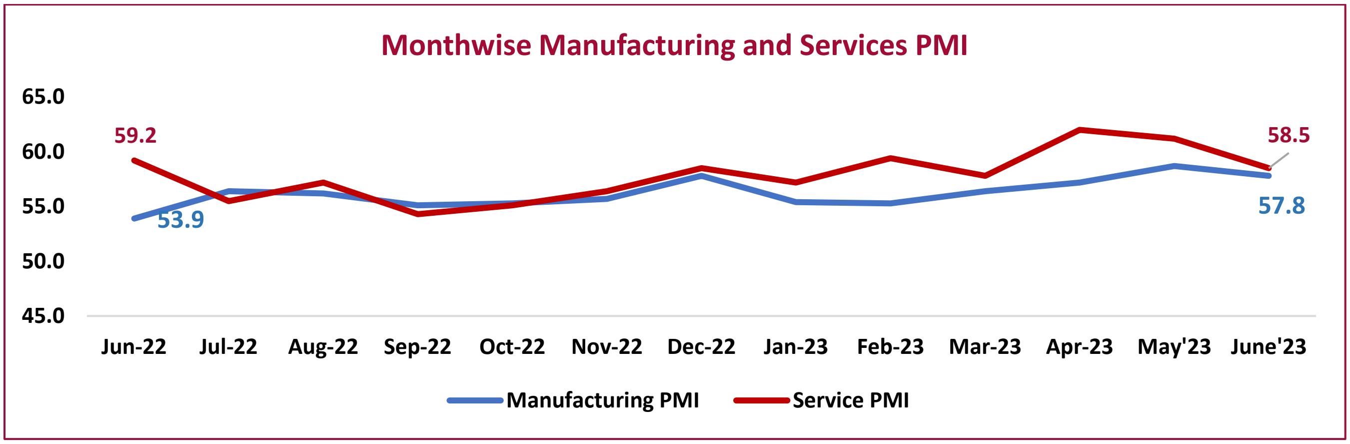
Component	Weight	May'22	Mar'23	Apr'23	May'23
Primary Goods	34.05%	17.8	3.3	1.9	**3.5**
Capital Goods	8.22%	53.3	9.1	4.6	**8.2**
Intermediate Goods	17.22%	17.5	1.7	0.4	**1.6**
Infra/Construction Goods	12.34%	18.4	7.0	15.0	**14.0**
Consumer Durables	12.84%	59.1	-8.1	-2.5	**1.1**
Consumer Non- Durables	15.33%	1.4	-2.7	10.8	**7.6**



IIP growth continues to show an uptrend and rises to 5.2 per cent in May'23. Mining showed the highest growth. Manufacturing was the second best performer among sectors in consideration. Electricity showed a meagre growth of 0.9 per cent. It is expected that the IIP growth will moderate and be in the range of 3-4 per cent going forward.

PURCHASING MANAGERS' INDEX (PMI)

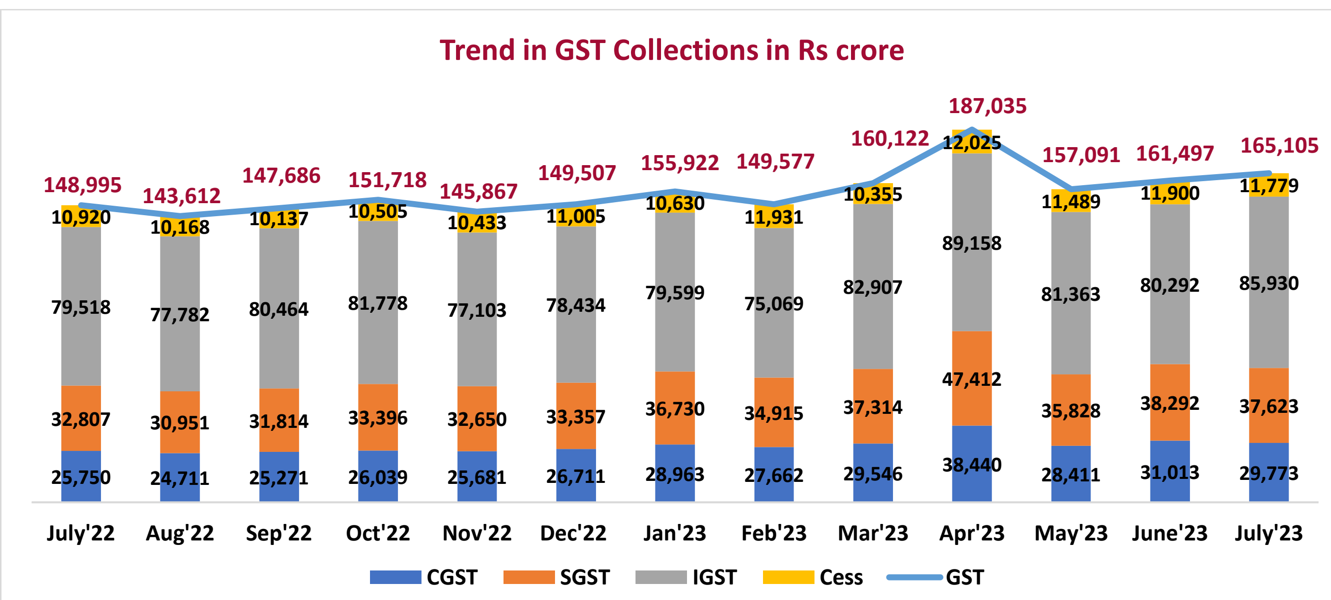
Services PMI & Manufacturing PMI slow down



S&P Global India Services PMI declined to 58.5 in June 2023 from 61.2 in May, pointing to the slowest expansion in three months. The new export business grew for the fifth successive month, but modestly and slower than in May. The S&P Global India Manufacturing PMI dropped to 57.8 in June 2023 from May's 31-month peak of 58.7. The latest number was the 24th straight month of growth in factory activity, as new export orders rose solidly, though at a softer rate, and employment gained at a moderate pace that was broadly similar to May.

GOODS AND SERVICES TAX (GST)

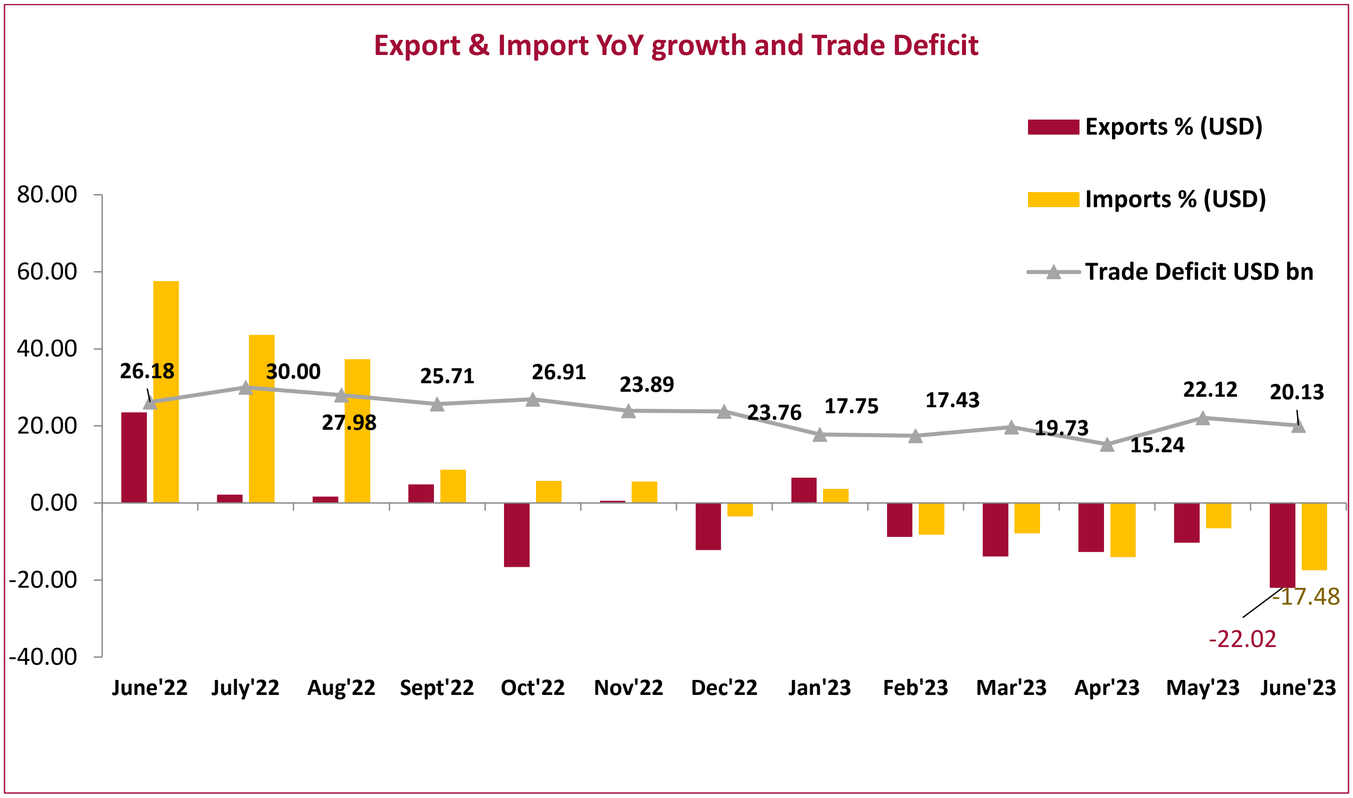
GST Collections rises by 11 per cent and crosses Rs. 1.65 Lakh Crore mark

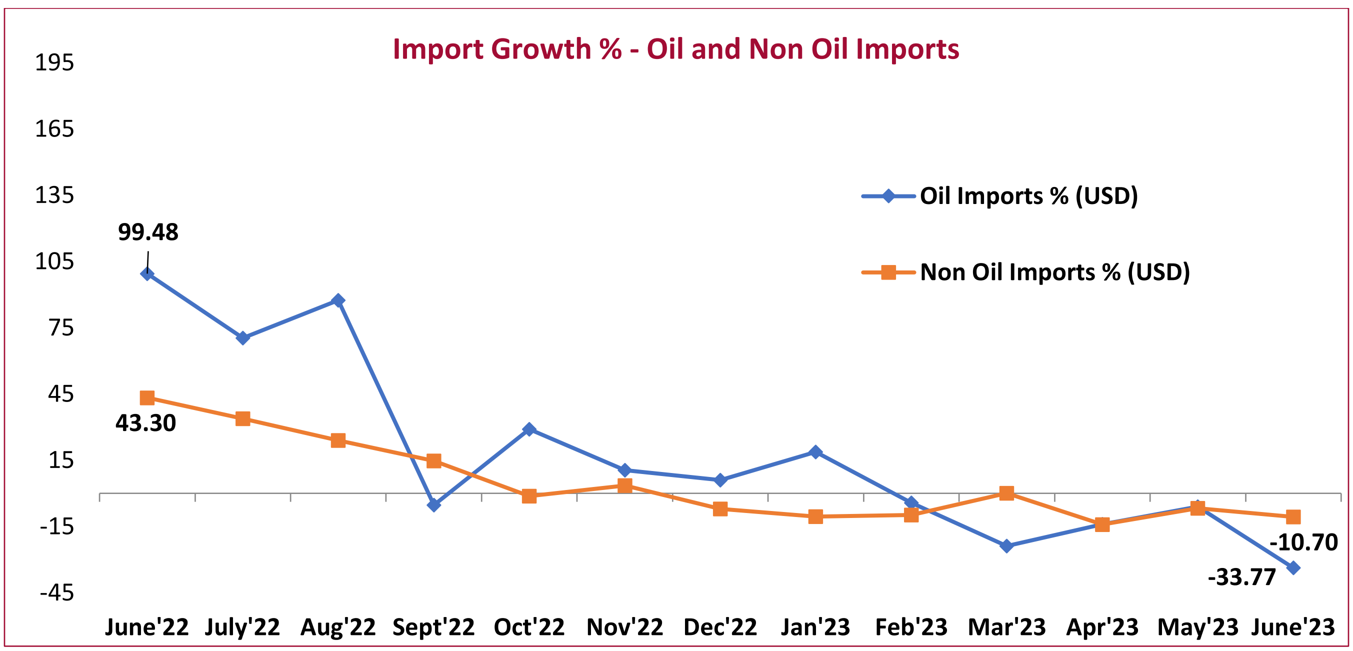


Goods and Services Tax (GST) for the month of July stood at Rs 1.65 Lakh Crore, registering growth of 11 per cent from a year earlier. The GST collections crossed the Rs.1.60 Lakh Crore mark for the fifth time. Of the total collections, Central GST is Rs 29,773 Crore, State GST is Rs 37,623 Crore and Integrated GST is Rs 85,930 Crore including Rs 41,239 Crore collected on import of goods.

FOREIGN TRADE

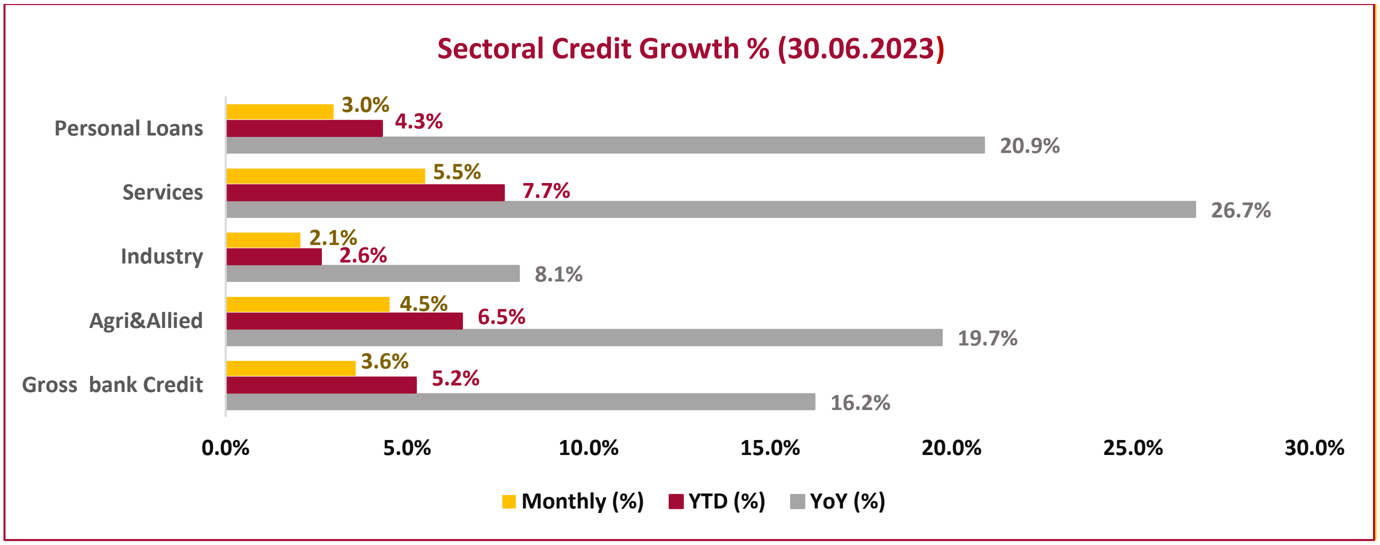
Trade deficit move southwards and stands at USD 20.13 Billion





India's merchandise trade deficit in June narrowed to $20.13 billion from $22.12 billion in May. The country's merchandise exports fell 22 per cent to $32.97 billion in June from $42.28 billion a year earlier while imports declined 17.48 per cent to $53.10 billion in June compared to $64.35 billion a year ago.

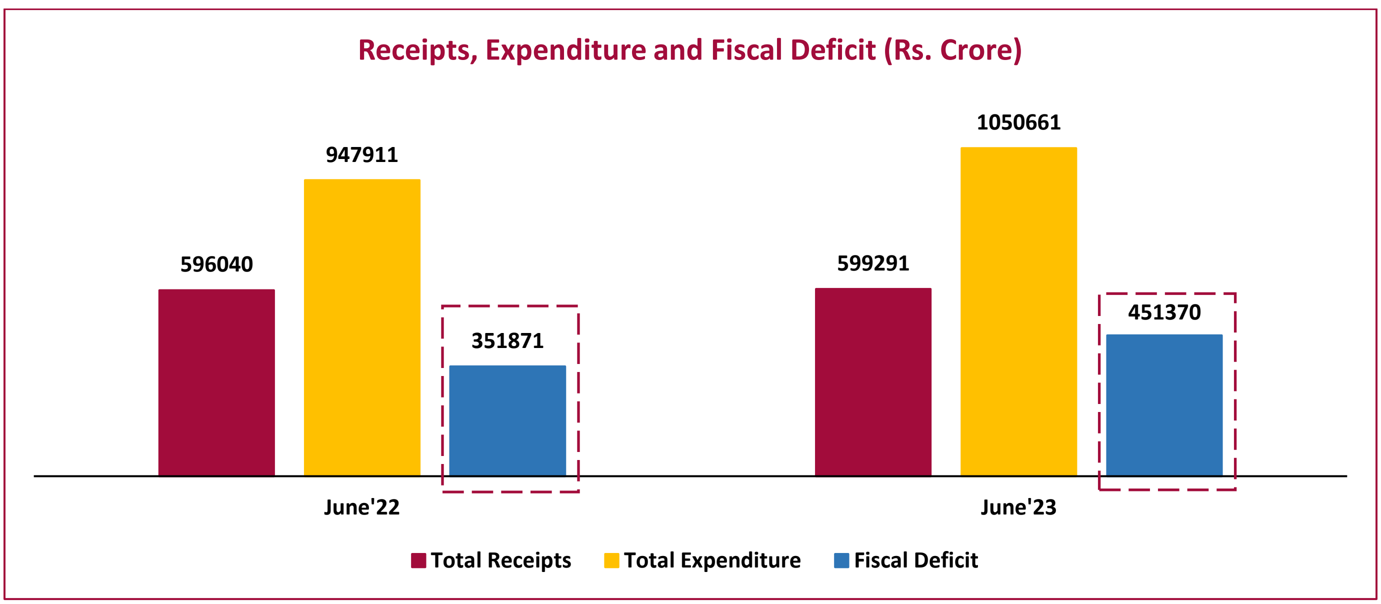
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	15.07.22	24.03.23	30.06.23	14.07.23	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	168.10	180.44	191.55	190.30	**13.2%**	**5.5%**	**-0.7%**
Advances	122.81	136.75	143.92	147.64	**20.2%**	**8.0%**	**2.6%**
Business	290.91	317.19	335.46	337.94	**16.2%**	**6.5%**	**0.7%**

FISCAL DEFICIT

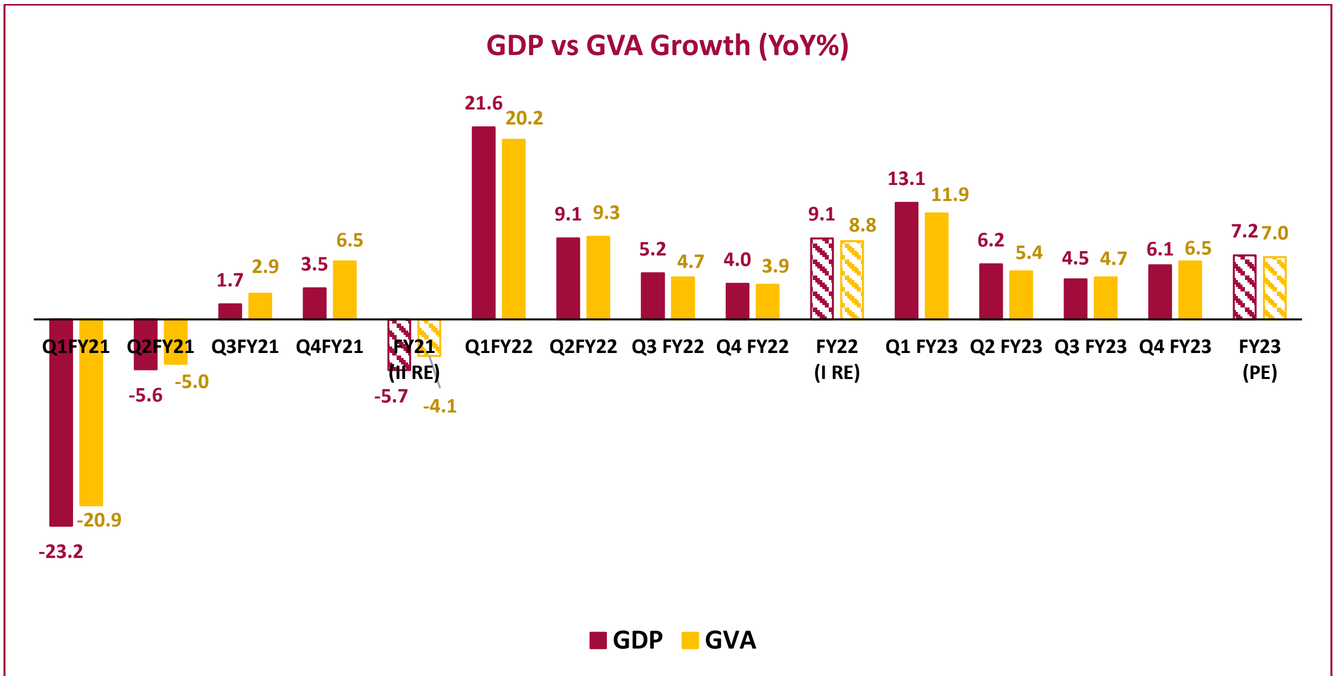


The fiscal deficit for the month of June 2023 is 25.3% of annual estimates.

9. QUARTERLY ECONOMIC INDICATORS

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

India witnesses strong GDP growth

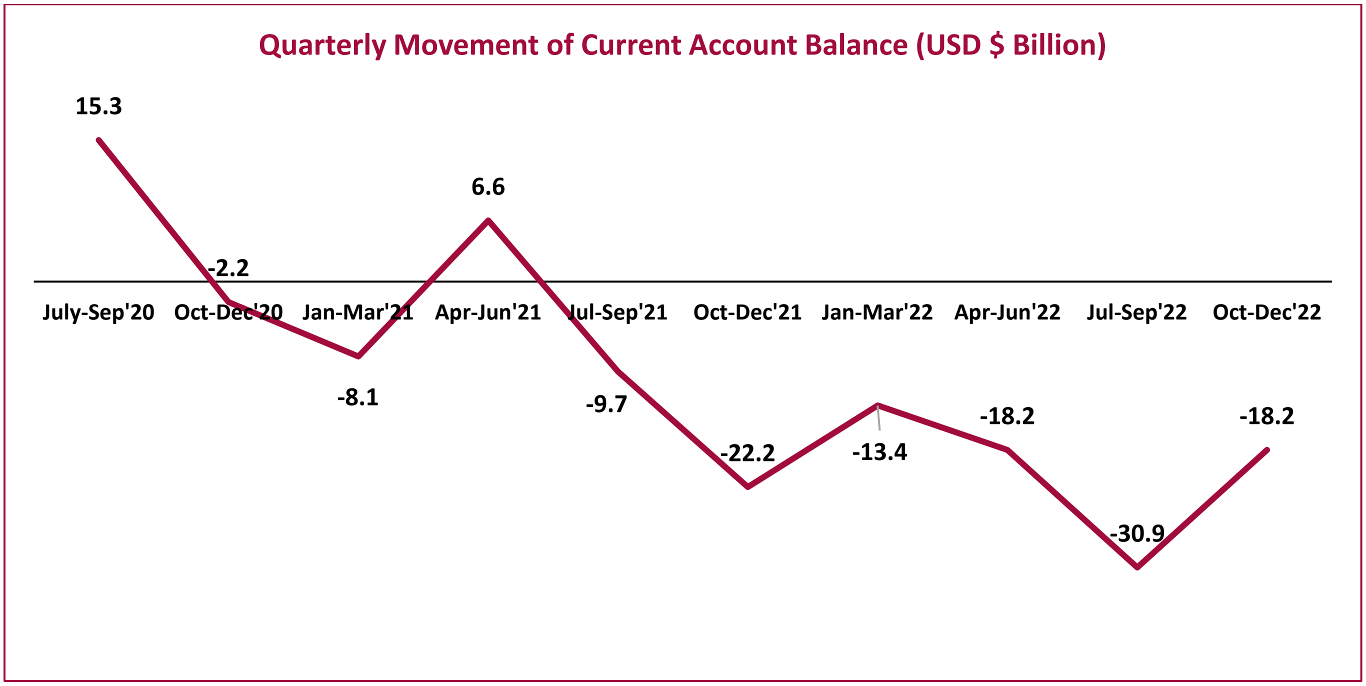


Gross Domestic Product (GDP) for FY23 grew by 7.2 per cent as compared to a growth of 9.1 per cent in the previous year. Also, **Real Gross Value Added (GVA) at basic prices in FY23 grew by 7.0 per cent** in comparison to a growth of 8.8 per cent in FY22**. For the last quarter of FY23, GDP grew by 6.1 per cent while GVA grew by 6.5 per cent.**

INDIA'S GDP OUTLOOK OF VARIOUS AGENCIES

Agency	FY24
RBI	6.5%
World Bank	6.3%
IMF	6.1%
ADB	6.4%
Economic Survey	6.5%

CURRENT ACCOUNT DEFICIT



The Current Account Deficit declined to $18.2 billion in the December quarter of FY23 against a deficit of $30.9 billion in the preceding three months. It is 2.2% of GDP.

10. 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)	Sep 22, 2023
European Central Bank (ECB)	Europe	4.25	Jul 27, 2023 (25 bps)	Sep 14, 2023
Federal Reserve	U.S.A	5.50	Jul 26, 2023 (25 bps)	Sep 20, 2023
Bank of England	U.K	5.00	Jun 22, 2023 (50 bps)	Aug 03, 2023
Peoples Bank of China	China	3.55	Jun 20, 2023 (-10 bps)	-
Reserve Bank of India	India	6.50	Feb 08, 2023 (25 bps)	Aug 10, 2023

11. INDUSTRY OUTLOOK

Food Processing

India's food processing sector is one of the largest in the world and its output is expected to continue to grow. The Food Processing sector in India has a quintessential role in linking Indian farmers to consumers in the domestic and international markets. The Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments across the value chain.

India is a major producer of food in the world, with a large and growing market. The food and grocery retail market is also among the largest in the global economy.

The food processing industry has a significant share in the employment generated in all Registered Factory sector engaging millions of people. Unregistered food processing sector supports employment to many workers. Major sectors constituting the food processing industry in India are grains, sugar, edible oils, beverages, and dairy products.

Since the liberalisation in August 1991, the government proposed and accepted multiple projects, for instance, creating foreign collaborations, joint ventures, 100% export-oriented units and industrial licenses to encourage growth and investment in the food processing industry.

Recently the government of India has established 18 mega food parks and 134 cold chain projects to develop the food processing supply chain. Recently a scheme was implemented of Rs.10,000 Cr. to help two lakh micro food enterprises (MFE) with a view of 'vocal for local with global outreach'. The government has launched the One District One Product program, to upgrade SMEs on selected products through credit linked subsidy of 35% of the eligible project cost limited to a maximum value of Rs.10 lakhs.

With India moving from a position of scarcity to surplus in terms of food production, the opportunities for increasing food processing are numerous.

12. EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. **Bank of India launches three dedicated centres for startups under DPIIT (BS, 26.07.2023)**

- Bank of India launched three dedicated centres for startups and plans to have 12 such centres with a Rs 500 crore loan book by the first year of operations.
- The three centres are located in Mumbai, Bengaluru and Delhi. They are intended to facilitate the government's goal of promoting innovation and entrepreneurship, and comes under the initiative of the Department for Promotion of Industry and Internal Trade (DPIIT).
- Under DPIIT's initiative, more than 93,000 startups have been registered and are technically eligible for loans of Rs 1-10 crore.
- The bank has already sanctioned almost Rs 12 crore to seven startups which are in the tech, restaurant and manufacturing space, its Managing Director Rajneesh Karnatak told PTI.

2. **Govt told banks not to take harsh action against borrowers for loans: FM (BS, 24.07.2023)**

- Union Finance Minister Nirmala Sitharaman said both public and private banks have been instructed that harsh steps should not be taken when it comes to the process of loan repayment and that they should handle such cases with sensitivity.
- Sitharaman said this while making an intervention during the Question Hour in the Lok Sabha on a question related to repayment of loans taken by small borrowers.

3. **India extends UPI services to France, first in Europe after Singapore (BS, 20.07.2023)**

- The unified payments interface (UPI) would soon be used in France and Indians travelling there can make rupee payments using the UPI.
- UPI can be accepted internationally only if the payment operator in the home country has an arrangement with a similar payment operator in the overseas country.
- For UPI transactions in Singapore, the DBS Bank provides an exchange rate to the NPCI. The organisation adds a markup to the rate. Then the rate and the markup are shown to the customer, and the transaction goes through only when the customer agrees. The sending bank credits the total rupee amount to the NPCI's settlement bank.

4. **PSBs to step up one-time settlement in written-off loans to meet 40% recovery target set by FinMin, RBI (BL, 16.07.2023)**

- Public sector banks (PSBs) are expected to step up one-time settlement (OTS) in written-off loans as the Finance Ministry and the Reserve Bank of India have emphasised on the importance of improving recovery from these accounts.
- Since legal action can be drawn out, the state-owned lenders are seen actively pursuing OTS to meet the Finance Ministry-set target of making about 40 per cent recovery from written-off loan accounts.

- PSBs could recover only 14 per cent (or ₹1.03-lakh crore) from written-off loans aggregating ₹7.34-lakh crore in the last five years ended March 2022.

5. **DICGC asks insured banks to display its logo, QR code on website (BL, 16.07.2023)**

- Deposit Insurance and Credit Guarantee Corporation (DICGC) has asked all insured banks to display the DICGC Logo and QR Code linked to its website on the banks' internet banking portals and websites.
- The decision taken in consultation with the Reserve Bank of India, has been taken with a view to enhance awareness about Deposit Insurance in a focused and sustained manner, DICGC said.
- All banks need to comply with the circular effective September 1, 2023. All commercial banks including branches of foreign banks functioning in India, local area banks and regional rural banks are insured by the DICGC.
- DICGC is a specialised division of RBI and the insurer for banks' customer deposits. It promotes public awareness on deposit insurance through its website, display of printed materials and through several financial literacy campaigns with RBI.

6. **Reserve Bank of India looking at banks' retail loan book more granularly (BS, 12.07.2023)**

- The Reserve Bank of India (RBI) has started looking at the retail loan books of banks in a more granular way during the annual financial inspection for 2022–23 (FY23), three senior bankers told Business Standard.
- After staying sluggish for a few years, bank credit growth picked up in the previous financial year, registering a growth rate of 15.5 per cent. Significantly, retail loans grew at a faster pace, particularly unsecured retail.

7. **RBI governor asks banks to remain extra careful, focus on governance (BS, 11.07.2023)**

- Reserve Bank Governor Shaktikanta Das asked banks to be extra careful and vigilant in view of the adverse global developments while strengthening corporate governance. The governor held meetings with the MD and CEOs of public sector banks and select private sector banks here.
- Das in his introductory remarks, while noting the good performance of the Indian banking system despite various adverse global developments, stressed that it is in times like these, banks need to be extra careful and vigilant, the RBI said in a statement.
- The issues relating to strengthening of credit underwriting standards, monitoring of large exposures, implementation of External Benchmark Linked Rate (EBLR) Guidelines, bolstering IT security and IT governance, improving recovery from written-off accounts, and timely and accurate sharing of information with credit information companies were also discussed.

13. DATA SOURCES

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

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QUOTE OF THE MONTH

"Books are uniquely portable magic"

- Stephen King

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