पंजाब नैशनल बैंक
punjab national bank

pnb

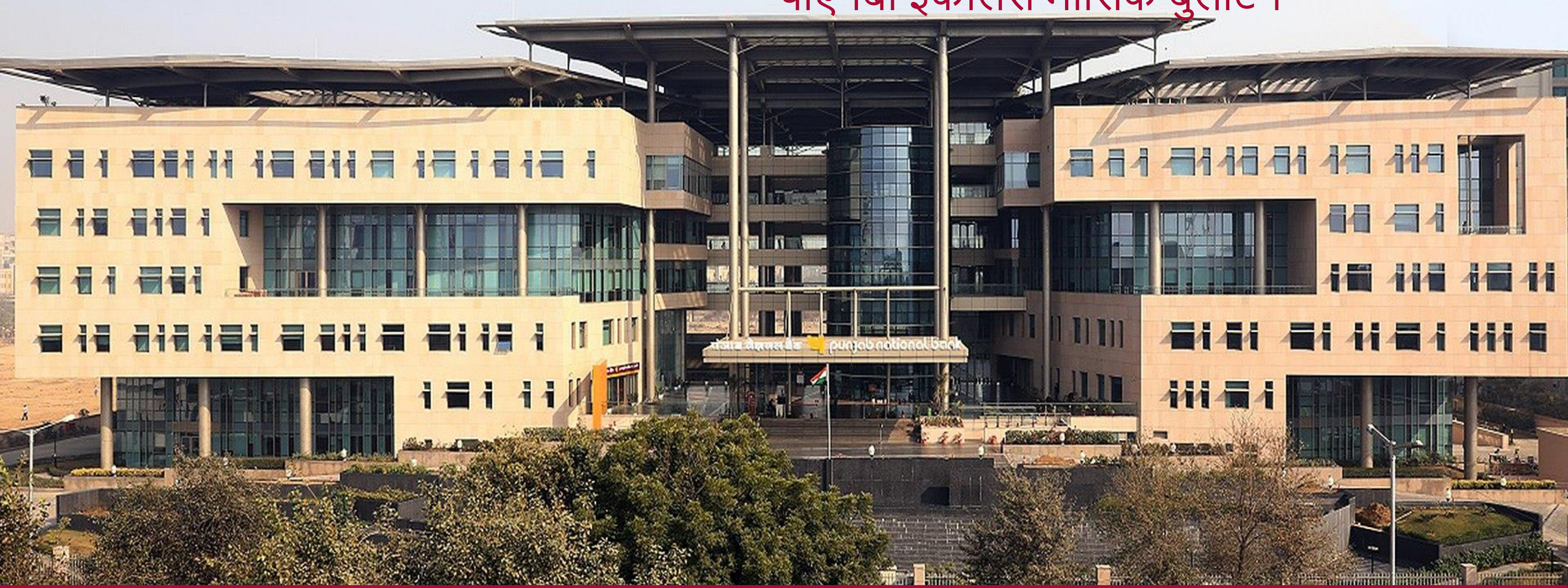
MARCH 2023

मार्च 2023

PNB ECOLENS

MONTHLY BULLETIN

पीएनबी इकोलेंस मासिक बुलेटिन



STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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

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

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

CONTENTS

India holding strong amidst precarious Global Scenario

The past two weeks have been a roller-coaster ride for forecasters. The sudden collapse of Silicon Valley Bank and Signature Bank and banking turmoil in other nations has clouded the optimism for global outlook. The Indian economy continues to display resilience but the times are uncertain.

Global Scenario

Goldman Sachs has lowered its forecast for fourth-quarter U.S. GDP growth, citing risks to the lending environment as smaller banks pull back on loans to preserve liquidity in the face of a banking crisis.

Regional banks in the United States have been on a bumpy ride since SVB Financial Group was shuttered by regulators after a bank run. Rating agency Moody's also revised its outlook on the U.S. banking system to "negative" from "stable". Credit Suisse – Switzerland's second largest lender was also on the brink of collapse when it was provided a lifeline capital of $54 billion by Swiss Central Bank. As per latest development, Credit Suisse has been taken over by UBS.

The crisis stemmed from persistent hike in the primary rates by FED in turn impacting the Banks' Treasury portfolio. The banking rout will slow down lending activity as deposits outflow will continue from small regional banks in US and will eventually slow down growth.

The collapse of the banks also puts FED in a tough spot. FED has been displaying a hawkish stance since past year to tame down inflation in US. But the event warrants liquidity support from FED that will be in direct conflict to its agenda especially when the inflation in US is still elevated at 6%. We expect FED to go for 25 bps hike in its FOMC Meet on 22nd March 2023.

The global growth is gaining steam from China's reopening, a material easing of the European natural gas crisis and surprising near-term resilience in US consumer demand. The earlier-than-expected re-opening in China is also expected to have a positive impact on global activity, reducing supply chain pressures and giving a boost to international tourism.

Headline inflation in many countries has started to decline due to tight monetary policy but are still elevated at high levels and can persist for longer. The decline in energy and food prices globally will help alleviate price pressures.

Domestic Economy

India's economy continues to stay on a strong footing amidst the financial turmoil around the world. India's economy is expected to grow at 6.8-7 per cent in FY23 and by around 6 per cent in FY24.

Worsening global outlook will certainly be a pain point for exports from India that had been a major contributor of growth in FY23. Thus, Indian economy cannot be fully de linked from the global economy and may face slowdown if the recession ensues in US and Europe.

Broader economy risks a flight of capital by FPIs due to recessionary fears in global markets and thus exerting pressure on rupee. Lower rupee would raise risks for companies with unhedged foreign borrowings. RBI may have to step in and intervene to protect the rupee and it may lead to loss in reserves. We might also may feel some price pressures due to depreciated rupee.

Inflation in India is at elevated levels and has crossed RBI's upper tolerance limit in the past 2 months i.e. Jan'23 and Feb'23.

Though, Wholesale Inflation eased below the 4 per cent-mark in February and was recorded at 3.85 per cent in Feb'23. This provided certain relief that the input costs have eased and the pass through of inflation has been fully completed.

Going forward, inflation is expected to recede back to RBI's tolerance band of 2-6% and may hover around 5 – 5.3% for the next 2-3 quarters due to decline in energy prices and input costs. Though depreciating rupee and pressure on food prices due to heatwave may lead to upward surprise in inflation numbers.

The peak impact of the rate hikes — 250 basis points since May 2022, which pushed interest rates above pre-Covid-19 levels — will play out in the 2024-25 financial year.

In its MPC meet in April'23, we expect RBI to pause the rate hikes and wait for the 250 bps hike to fully show its impact on the economy.

Banking Sector India

India's banking sector has been resilient and financial turmoil in US and Europe will have limited spillover effects on the sector.

RBI has appropriate regulations in place regarding capital aspects of banks. RBI has been conservative and requires securities held in trading categories to be marked to market. That means losses get booked and are not hidden thereby avoiding a sudden wiping out of capital.

Indian Bank's regulation also have adequate countercyclical macro prudential tools in place to provide a buffer against losses on account of rising interest rates. One such tool in the context of Indian banking regulation is the Investment Fluctuation Reserve (IFR). This reserve is created by transferring the gains realized on sale of investments during an easing interest rate cycle. These gains act as shock absorbers during an interest rate tightening phase. Banks are required to transfer profits on sale of investments to the IFR until the amount of IFR is at least 2 per cent of the portfolio of government bonds available for trading and sale. According to the Financial Stability report, December 2022, the banking system's IFR reached 2.2 per cent of the portfolio of securities available for trading and sale in March 2022. This helped banks tide over losses in the first quarter of 2022-23.

The credit growth is in double digit at 15.5% and deposit growth was at 10.1% as on fortnight ended 24.02.2023. The credit growth is expected to tame down to 13-14% in the next 3-4 months and deposit growth will stay in the range of 9-10% due to higher interest rates. This will reduce the gap between the deposit and the credit growth and will ease the liquidity constraints on banks.

RBI has been continuously monitoring the liquidity situation in the market and to ease the pressure recently injected Rs.1.1 trillion in the system – being one of the largest single day liquidity infusion in a day since April 24, 2019.

The interest rate risk is a risk that is prominent for the banking industry for now. Also, banks need to be watchful as recent rate hikes will put pressure on the loans and can lead to higher delinquencies. The banks will also face pressure on their margins in FY24 due to repricing of deposits at higher interest rates. The loans linked to external rates are repriced immediately but the deposits are repriced only on maturity.

Going ahead, we expect banks to continue to perform well and be well capitalized.

Deepak Singh

(Deputy General Manager)

EXCERPTS: SCALING UP CLIMATE FINANCE FOR EMERGING MARKETS AND DEVELOPING ECONOMIES

(Speech by Deputy Managing Director Bo Li at EIB Group Forum 2023 on February 27, 2023)

- 2023 is yet another challenging year for the global economy as global growth expected to fall from an estimated 3.4 percent in 2022 to 2.9 percent in 2023.
- In the Euro Area, the slowdown is even more pronounced —from 3.5 percent in 2022 to an expected 0.7 percent this year before a modest rebound to 1.6 percent in 2024.
- And despite the recent drop in energy prices, it is likely that energy security concerns will continue to loom large in Europe.
- This speaks to the importance of the green transition—away from fossil fuels that are subject to supply disruptions and volatility, and towards renewables such as wind and solar energy.
- The growing impact of global warming reminds us of the urgency. There is a need to cut global emissions by 25-50 percent by 2030 compared to pre-2019 levels to contain temperature rises to between 1.5 and 2 degrees celsius.
- IMF analysis of current global climate targets shows, unfortunately, they would only deliver an 11 percent cut—less than half of the minimum reduction that is needed. And so *higher ambition*, *stronger policies*, and *more finance* for implementation are required.
- Financing needed to meet adaptation and mitigation goals are estimated at **trillions of US dollars annually until 2050.**
- But so far, it is only around **630 billion dollars a year in climate finance across the whole world**—with only a fraction going to developing countries.
- This is particularly concerning—because emerging and developing economies have vast needs for climate finance. And it underlines why it's so important for advanced economies to meet or exceed the pledge of providing $100 billion per year in climate finance for developing countries.
- In other words, because climate change is a global problem, it requires coordinated global solutions.

Steps to boost Finance:

- First, focus on the policies that can redirect investment flows from high-carbon projects towards climate friendly opportunities. Here, think of smarter regulation, price signals and well targeted subsidies that incentivize low-carbon investment while paying attention to each country's unique fiscal and macro-financial characteristics.

- The second priority is to build capacity. There is a need to strengthen public financial management and public investment management related to climate projects for policymakers to implement needed reforms.
- Countries need the capacity to identify, appraise and select good quality projects, as well as to manage relevant fiscal risks.
- There is a significant scarcity of high quality and reliable data, harmonized and consistent set of climate disclosure standards, and taxonomies to align investments to climate-related goals. So, capacity building is needed to strengthen the climate information architecture that will help develop and deepen the capital markets and improve the bankability of projects.
- Innovative financial structures can also catalyse technical assistance programs to support the creation of new markets for climate finance by developing guidelines, providing training programs for local stakeholders, and facilitating the adoption of the principles and international best practices in emerging markets.
- This brings to **third** priority: **innovative financial mechanisms including de-risking instruments and a broader investor base**.
- At a more granular level, investors who want to deploy capital into emerging and developing economies must overcome a host of constraints. These include high upfront costs and long timeframes associated with climate investments, lack of liquid markets, foreign exchange risk, and scarcity of well-planned and scalable projects.
- Overcoming these obstacles requires a **change of mind set** – from the public sector, the private sector, and multilateral institutions – to revamp the financial architecture so more private finance is pulled towards climate projects. That means being flexible-ready to complement a *national* strategy with a *regional* strategy as appropriate; or adopt a *programmatic* approach in addition to the traditional *project-based* approach in implementation to suit institutional mandates and needs.
- Above all, **public-private synergies** will be critical.
- Consider green bond funds that can tap into the vast resources of institutional investors by using relatively limited public resources. Such funds have great potential, as the example of the Amundi Planet Emerging Green One fund shows.
- Set up with the support of the International Finance Corporation (IFC) and EIB, the Amundi green fund successfully leveraged private capital by several multiples. And let’s not forget the investors who contributed to that success by taking calculated risks, including the IFC and EIB which invested in the equity and senior tranches of this fund.
- But this isn’t the only way that multilateral development banks can help.

- **Blended finance** can play an important role to **crowd in public and private sector investors**. Public sector, including national governments and multilateral development banks like the EIB, could provide **first-loss** investments, **equity capital**, or **credit enhancements**. And by prioritizing equity over debt, development partners and multilateral development banks would also avoid adding to the sovereign debt burdens of developing countries.
- At the IMF, the required mindset to tackle climate change, mind set change has been stepped up and embraced. Climate has been put at the heart of our work – in surveillance, capacity development, lending, and in data and diagnostic tools, including the climate information architecture,
- In collaboration with the World Bank, the Bank for International Settlements, and the OECD, the Fund is developing operational guidance on the G20 high-level principles for sustainable finance alignment approaches. And the new G20 Data Gaps Initiative will help develop detailed statistics on climate finance and forward-looking physical and transition risks indicators.
- On the lending side, new Resilience and Sustainability Trust (RST) will provide longer-term affordable financing for our vulnerable low- and middle-income members.
- The goal is that–through the RST–policy reforms, capacity development, and financing arrangement can be delivered in a package used to improve the policy and capacity environment and scale up climate finance by crowding in large-scale private capital.
- For example, capacity development can empower policymakers to better identify, appraise, and select good quality projects. And climate-friendly public financial management and public investment management promote accountability, transparency, and more effective spending.

Conclusion:

- Such measures can not only help governments manage potential relevant fiscal risks from the various financing options – they can also give investors greater certainty that their funds are spent effectively and bring in new, interested donors through improved transparency and governance.
- In addition, with the IMF's expertise in macroeconomic and financial sector issues, it is hoped that national authorities, multilateral development banks, and the private sector including institutional investors, export credit agencies, and others to identify and explore solutions to broaden the investor base and scale up private finance.
- Working with some of these partners to see how the RST—by leveraging sound policies and creating additional fiscal space—can promote financing arrangements or facilities that could mobilize large scale private capital.
- To deliver on shared climate goals, it must be combined with policy reforms, capacity development, and financing arrangements.
- **Unprecedented cooperation** and **coordination** are the chief ingredients required now take forward the agenda.

EXCERPTS: RETHINKING INFRASTRUCTURE FINANCING FOR SOUTHEAST ASIA IN THE POST-PANDEMIC ERA

(A Report of Asian Development Bank)

INTRODUCTION

1. In the wake of the pandemic, quality and more resilient infrastructure has come under greater focus as societies face strained health systems, disruption in supply chains, increasing unemployment, deflationary pressures in energy markets, and disruption in transportation.
2. Over the last 30 years private capital has played an increasing role in the financing and development of infrastructure. The need to complement public investment and attract private capital to infrastructure is particularly salient in the context of the post-pandemic recovery, with governments facing unprecedented levels of debt due to extraordinary fiscal policies
3. In this context, to attract more private finance to the infrastructure sector, governments and multilateral development banks (MDBs) can introduce policies and financial instruments to mitigate the financial risks associated with infrastructure development.

THE IMPACT OF COVID-19 ON THE GLOBAL ECONOMY

1. Globally, in 2020, the gross domestic product (GDP) fell to –3.3%, the labor market shrunk by 114 million jobs, and international investment declined by around 42% to an estimated $859 billion. According to a study by the Asian Development Bank (ADB), about 27%–30% of the global losses accrued to developing Asian economies, where the drop in regional GDP is estimated at $1.4 trillion to $2.2 trillion for 2020.
2. While contraction in output (i.e., GDP) and the subsequent fall (or postponement) in tax revenues widened government deficits beyond levels recorded during the global financial crisis (GFC), the fiscal response of governments was sustained with central banks reducing policy rates and expanding asset purchases. The extraordinary drop in cost of equity and debt determined by accommodative monetary policies have helped even sub-investment grade firms raise funds.
3. Financing infrastructure investment is becoming a growing challenge for many Asian economies as public finance is under pressure as a result of COVID-19-induced economic recession. Attracting long-term institutional investors such as pension funds and insurers is key to fill the infrastructure gap and sustain the region's economic recover

THE SALIENT ROLE OF INFRASTRUCTURE IN A SUSTAINABLE POST-PANDEMIC RECOVERY

1. The OECD estimates global infrastructure investment needs of $6.3 trillion per year over the period 2016–2030 to support growth and equal development. ADB estimates around $1.7 trillion would have to be invested annually in infrastructure across Asia until 2030 to sustain economic progress, eradicate poverty, and respond effectively to climate change.

2. Total private investment in infrastructure has increased over the past decades, both in the form of debt and equity, and there are different vehicles on offer for private investment in infrastructure, both listed and unlisted.

    a. Project Finance Loans: Project finance debt has been provided to infrastructure projects mainly in the form of syndicated bank loans.

    b. Project bond: Project bonds are issued by special purpose vehicles (SPVs) and sold to either banks or, more frequently, to other bond investors.

KEY TRENDS AND COOPERATION MODELS BETWEEN BANKS AND INSTITUTIONAL INVESTORS

1. The relative share of bank finance to total infrastructure finance has decreased in recent years and a new pool of liquidity has grown outside the banking sector.

2. Banks originate a transaction to "resell" or "distribute" to debt capital markets rather than to keep the assets on their loan books until maturity. This cooperation can take different forms:

    a. Debt fund model: With this model, investors make an unfunded commitment to the limited partnership, which isdrawn during the term of the fund that is raised and managed by investment professionals who screen, analyze, invest, monitor, and implement value creation actions in infrastructure projects.

    b. Direct lending model: With direct lending, institutional investors invest in infrastructure loans, which can be either originated by a mandated lead arranger (MLA) bank in a partnership or co-investment, or with a direct origination of infrastructure loans by institutional investors themselves.

    c. Securitization. A securitization transaction involves repackaging the risk of a portfolio of financial assets. This risk is passed on to a special purpose vehicle (SPV), either by transferring the portfolio to the SPV (cash securitization) or using credit derivative techniques (synthetic securitization, when risk is transferred through bundled loans via credit derivatives or guarantees). The risk is then sold to the capital markets by way of securities issued by the SPV.

THE ROLE OF THE PUBLIC SECTOR AND MULTILATERAL DEVELOPMENT BANKS

1. DFIs, and MDBs play a key role to attract larger volumes of institutional investors' capital into infrastructure projects. Governments and MDBs can influence the magnitude of risks related to infrastructure projects and/or reduce the probability of their occurrence, by acting at both the project and system levels.

2. Governments can influence political and regulatory risks by creating a more conducive institutional environment, including making credible commitments to honor the terms of the agreement, and develop clear and reliable estimates on development and construction costs, tariff, and demand definition and trends.

KEY POINTS - THE FINTECH REVOLUTION IN INDIA-INNOVATION, INCLUSION AND REGULATION

(Speech delivered by Shri M K Jain, Deputy Governor, Reserve Bank of India - March 10, 2023)

- The current Fin-Tech revolution is defined by the increased computing power, use of new technologies such as Artificial Intelligence and Machine Learning, APIs that leverage Big Data in providing financial services. Further, there is an emergence of new entrants and new business models.

- **Benefits from Fin-Tech:-**

✓ Fin-Tech provides the same financial services as regulated entities but at a lower cost.

✓ Large technology companies, or Big Techs such as Alphabet, Meta, Amazon, etc. have also expanded into financial services. These companies leverage the data from their large existing user base coupled with network effects to provide contextualised or embedded financial products along with non-financial products. In addition to payment systems, Big Techs have successfully expanded into credit scoring and lending.

✓ Consumers have benefited by better customer experience and convenience. Payment sector innovations in India is a typical example.

- **Risks from Fin-Tech:-**

✓ For regulated entities or new entrants, depending on the business model, they face legal, reputational, governance, and operational risks in addition to the usual credit, market, and liquidity risks.

✓ From customers' perspective, key risks include mis-selling, discrimination, data privacy and security.

✓ From a regulator's perspective, there are risks associated with financial stability, market integrity and customer protection.

✓ FinTechs operating on lending side have spurred the availability of unsecured loans. Such loans are often driven by machine learning models. However, effectiveness of these models for delinquency has not been fully established, especially during an economic downturn.

✓ Use of models brings the question of fair treatment in the extension of credit. It is necessary that highly automated fintech business models for decision making take care of requirement of fairness through additional procedures, controls, and safeguards both in the development and deployment of models and also in the final decision making.

- **Financial Inclusion:-**

With the use of alternative data, end-to-end digitalisation coupled with other technology interventions, FinTech can bridge the credit gap that exists due to various reasons such as absence of credit scores, cumbersome documentation, manual processes, etc.

- **Regulatory approaches:-**

  Any approach to regulate the FinTech sector will invariably be informed by five fundamental objectives-

  (i) financial stability,

  (ii) consumer protection,

  (iii) integrity of financial system,

  (iv) competition and

  (v) Orderly development of sector concerned.

- ✓ At one end of the spectrum, there is a 'hands-off' approach that advocates allowing the sector to operate freely and develop without any regulatory intervention. While this allows for harnessing benefits of innovation, it risks the possibility of failing to protect the financial system and customers from adverse outcomes.

- ✓ At the other end of the spectrum there is the 'status-quo' approach that aims to maintain the existing framework without any relaxation to cater for new developments. Under this approach, Fintech product and services are regulated in the same way as the traditional financial product or service.

- ✓ In India, the RBI has endeavoured to find a middle ground trying to balance between the innovations brought by Fin-Tech while addressing the unique risks they introduce.

- **Fin-Tech Sector – the way forward**

- ✓ Fin-Techs themselves have to ensure the balance between innovation and risks arising therefrom.

- ✓ The sector should attempt to organise itself under a self-regulatory organisation which in turn can monitor the conduct of member Fin-Tech entities. This approach can also help in the objective of protecting the interest of customer and promoting high level of governance standard in Fin-Tech entities.

- ✓ While developing their products and process, Fin-Tech should ensure adherence to three basic principles from a customer protection perspective:–

  i. Design robust customer-centric products that avoid Fintech induced losses to customers such as those from cybersecurity breaches, technical glitches, frauds, etc.

  ii. Ensure customer suitability and appropriateness. Refrain from mis-selling or imprudent lending.

  iii. Ensure that any inherent biases in models are addressed in a fair manner.

COMPONENT-WISE PERFORMANCE OF GDP - Q3 FY23

GDP growth of the Indian economy in Q3 FY23 slowed down from the previous two quarters to 4.4%, mainly because of less favourable base, contraction in the manufacturing activity and slowdown in pent up demand due to high inflation & interest rates.

❖ **Components of GDP**

- Growth in Private Final Consumption Expenditure, the largest constituent of the gross domestic product, witnessed a rapid decline from 8.8% in Q2 FY23 to 2.1% in Q3 FY23. This depicts the decline of demand in the economy.
- Government Final Consumption Expenditure continued to be in the negative zone for the second consecutive quarter, though improved from -4.1% in Q2 FY23 to -0.8% in Q3 FY23. This implies the less dependency of the economy on Government Expenditure.
- The Growth in Gross Fixed Capital Formation, which denotes investment in the economy, has been quite consistent compared to the previous quarter, with a figure of 8.3% in Q3 FY23. The growth in Q3 FY22 was only 1.2%. The increased growth in Capex vis-à-vis previous year can be attributed to improving trend in capacity utilization.
- YoY Growth of both exports and imports in Q3 FY23 are lower than the growth in the year ago period, however the higher growth in the previous year may be due to lower base.

❖ **Components of GVA**

- The GVA growth in the farm sector increased to 3.7% in the third quarter of FY23 compared to 2.3% a year ago.
- The growth in the Industry Sector came out of the negative territory and showed a growth of 2.4% in Q3 FY23.
- The growth in the services sector has declined from both, i.e. the previous quarter and the previous year.

Closer look at Industry and Services

- The Manufacturing industry, a major part of the industry sector, contracted in the present quarter too. The contraction was by 1.1% in Q3 FY23.
- Both Construction Industry and the 'electricity, gas, water supply and other utility services' segment grew by 8.4% and 8.2% respectively, keeping Industry growth in the positive zone.
- Trade, Hotel, Transport, Communication & Services related to broadcasting', Financial, Insurance, Real Estate & Professional Services' and Public Adminsitration, Defence and Other services declined from the previous quarter, taking growth of overall services down.
- However, growth of 'Trade, Hotel, Transport, Communication & Services related to broadcasting' and 'Financial, Insurance, Real Estate & Professional Services' in Q3 FY23 remained slightly above the growth level of Q3 FY22.

GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of Circular	16-Mar-2023
Ref. No.	RBI/2022-23/184 DGBA.GBD.No.S1469/42-01-029/2022-2023
Subject	**Reporting and Accounting of Central Government transactions for March 2023**

Gist: The Government of India has decided that the date of closure of residual transactions for the month of March 2023 be fixed as April 10, 2023.

In view of the ensuing closing of Government accounts for the financial year 2022-23, receiving branches including those not situated locally, should adopt special arrangements such as courier service etc., for passing on challans/scrolls etc., to the Nodal/Focal Point branches so that all payments and collections made on behalf of Government towards the end of March are accounted for in the same financial year.

These instructions regarding special messenger arrangements may please be informed to all branches concerned.

As regards reporting of March 2023 transactions by Nodal/Focal Point branches in April 2023, the branches may be advised to follow the procedure.

The Nodal/Focal Point branches should also ensure that the accounts for all transactions (revenues/tax collections/payments) are effected at the receiving branches up to March 31, 2023 in the accounts for the current financial year itself and are not mixed up with the transactions of April 2023.

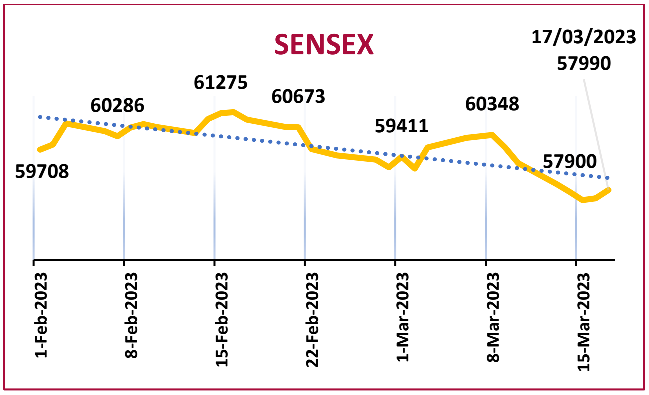
Date of Circular	20-Feb-2023
Ref. No.	RBI/2022-23/182 DOR.ACC.REC.No.104/21.07.001/2022-23
Subject	**Implementation of Indian Accounting Standards (Ind AS)**

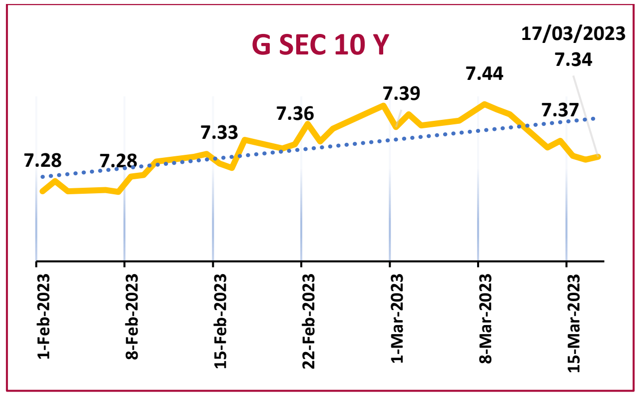
Gist: To address the prudential concerns arising from continued recognition of unrealised income, it has been decided that ARCs preparing their financial statements as per Ind AS, shall reduce the following amounts from their net owned funds while calculating the Capital Adequacy Ratio and the amount available for payment of dividend:

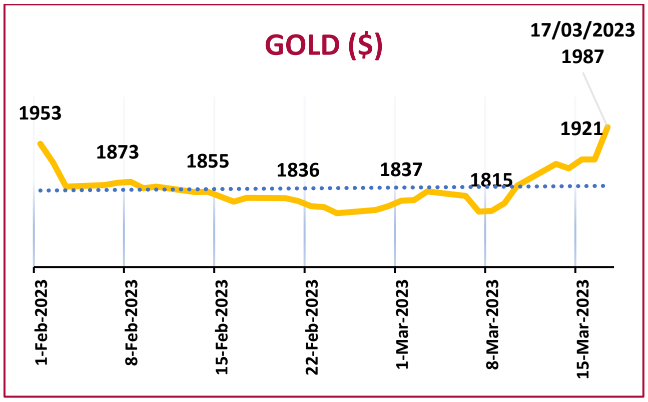
a. Management fee recognised during the planning period that remains unrealised beyond 180 days from the date of expiry of the planning period.
b. Management fee recognised after the expiry of the planning period that remains unrealised beyond 180 days of such recognition.
c. Any unrealised management fees, notwithstanding the period for which it has remained unrealised, where the net asset value of the Security Receipts has fallen below 50 percent of the face value.

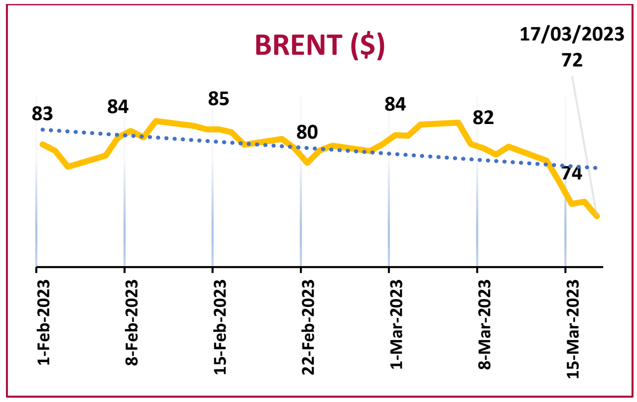
(Duration: 18th Feb'23 to 20th Mar'23)

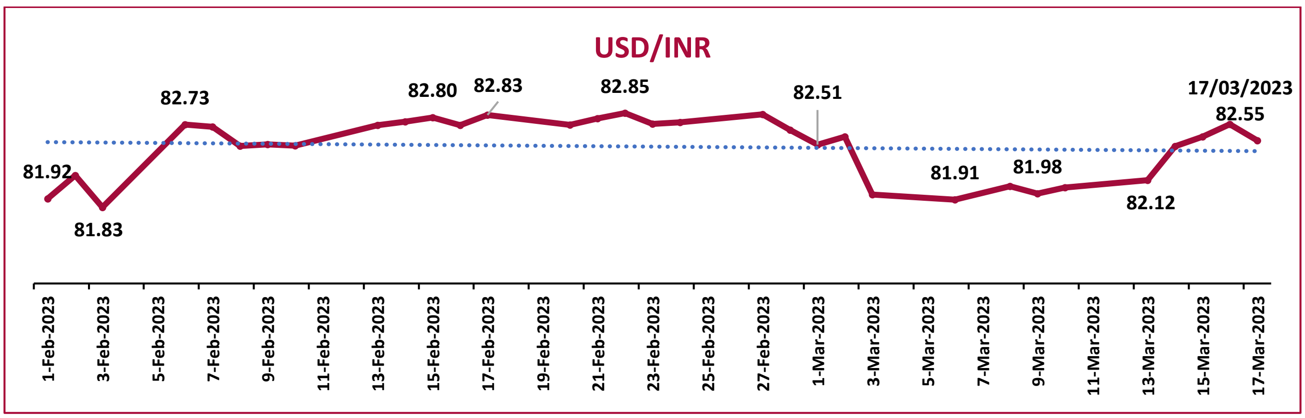
DAILY ECONOMIC INDICATORS

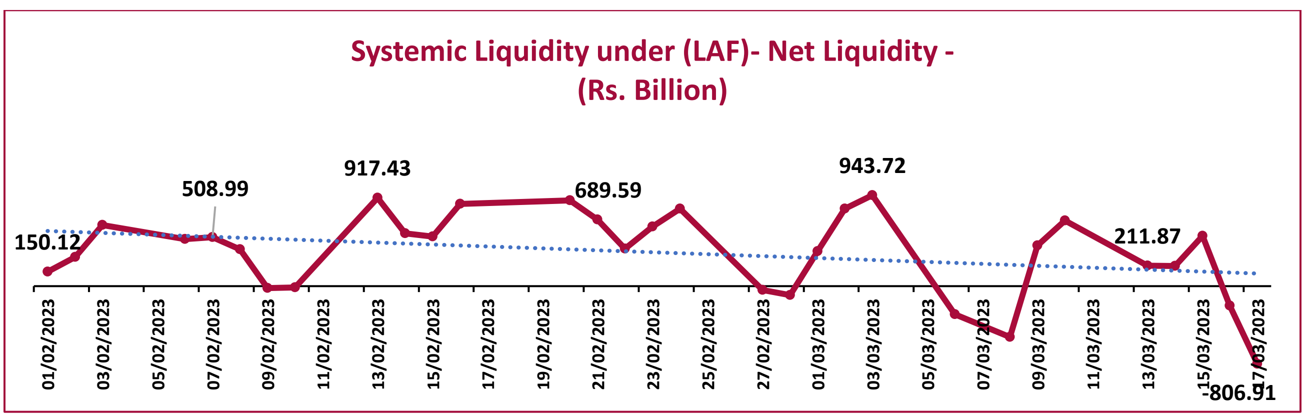








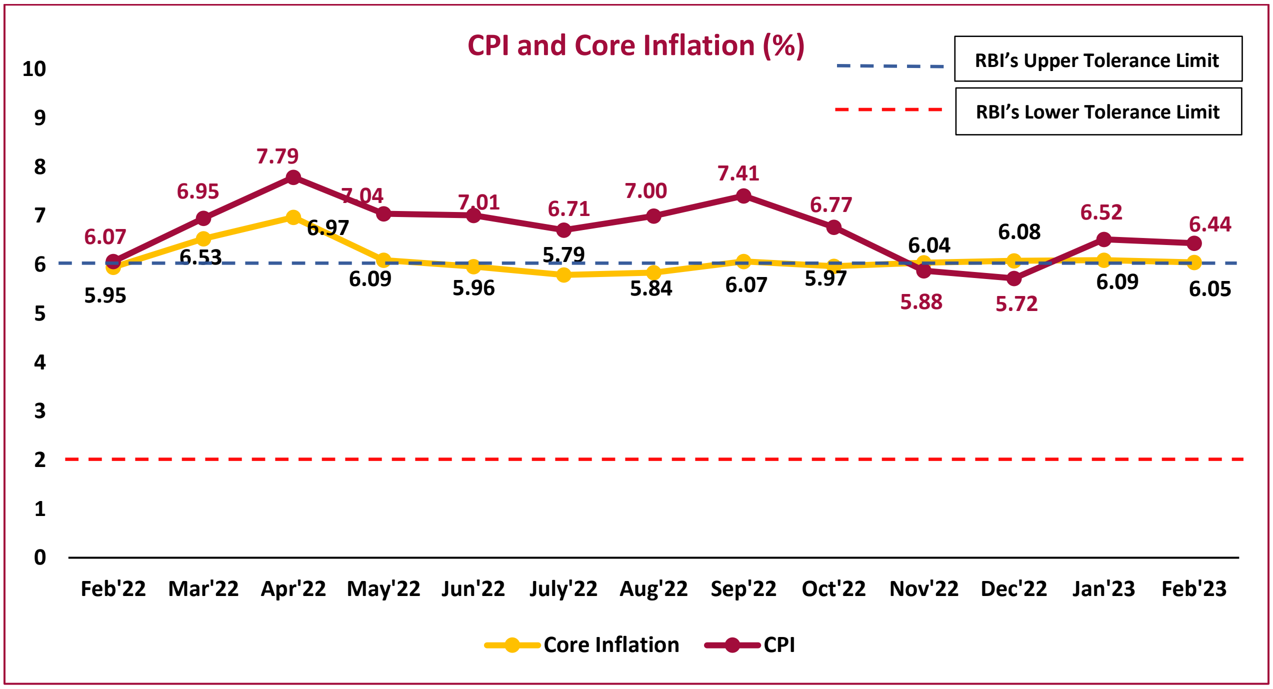


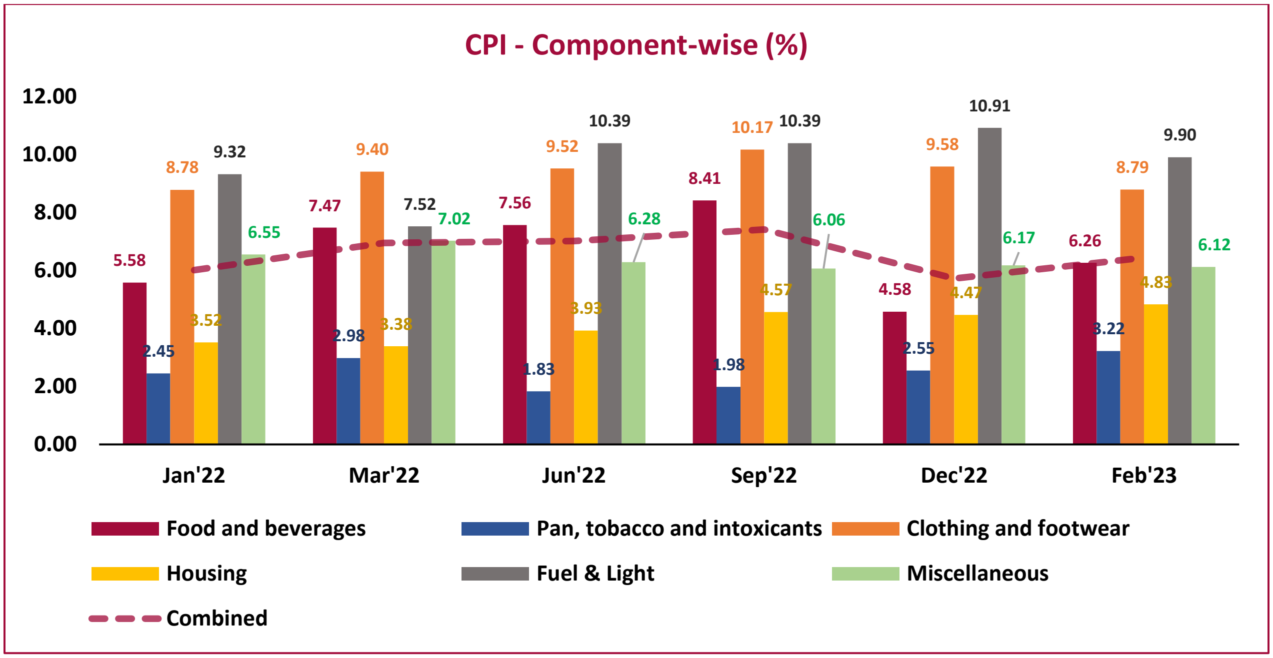


MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation slightly lower than previous month but still above the comfort level of RBI



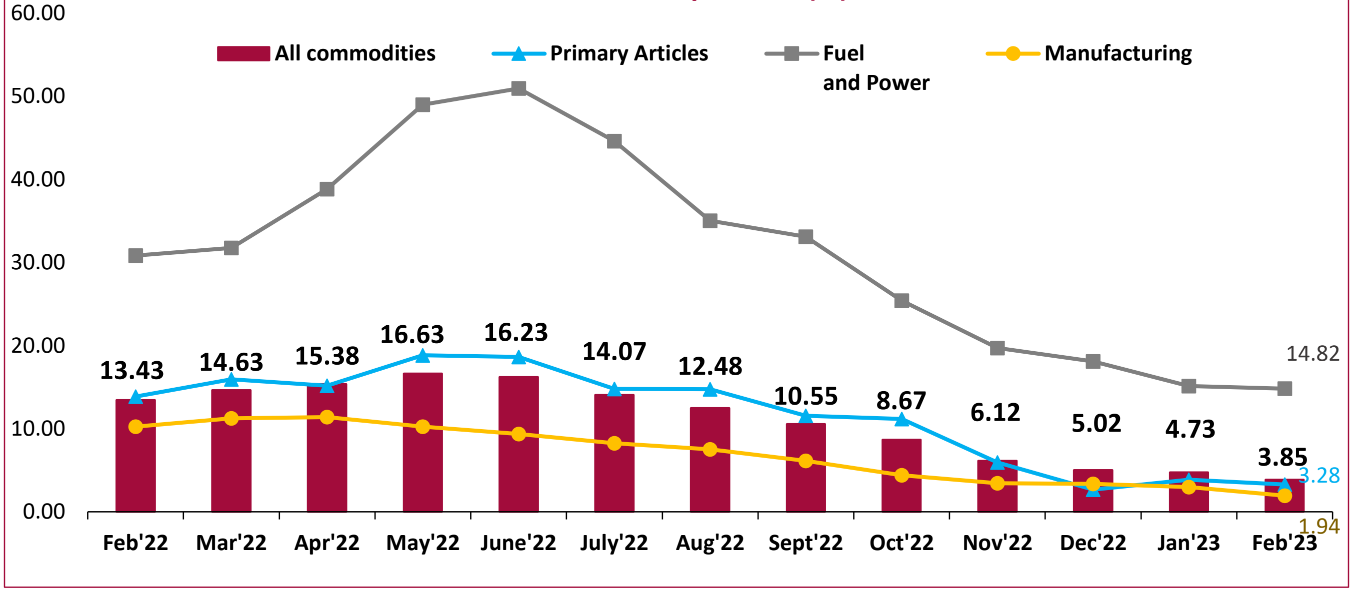


CPI breached RBI's tolerance level for the second consecutive month due to elevated food prices. Food and beverages, which accounts for 45.86 per cent of CPI basket, rose to 6.26 per cent in February 2023 from 6.19 per cent in the previous month.

WHOLESALE PRICE INDEX (WPI)

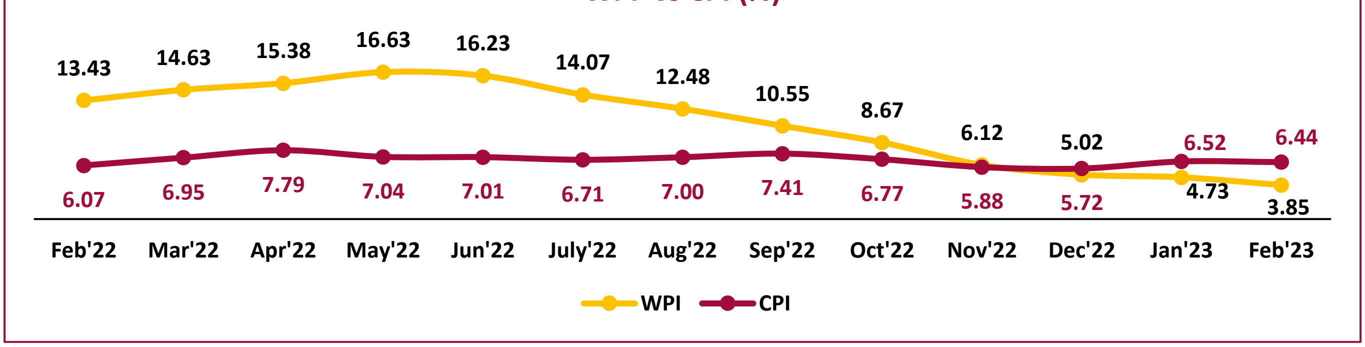
WPI eases to a 25-month low

WPI and Components (%)



WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Dec	13.78	**2.67**	38.08	**18.09**	10.71	**3.37**	9.68	**-1.02**	14.27	**5.02**
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Jan	15.60	**3.88**	34.36	**15.15**	9.50	**2.99**	10.40	**2.38**	13.68	**4.73**
Feb	13.87	**3.28**	30.84	**14.82**	10.24	**1.94**	8.19	**3.81**	13.43	**3.85**

WPI vs CPI (%)

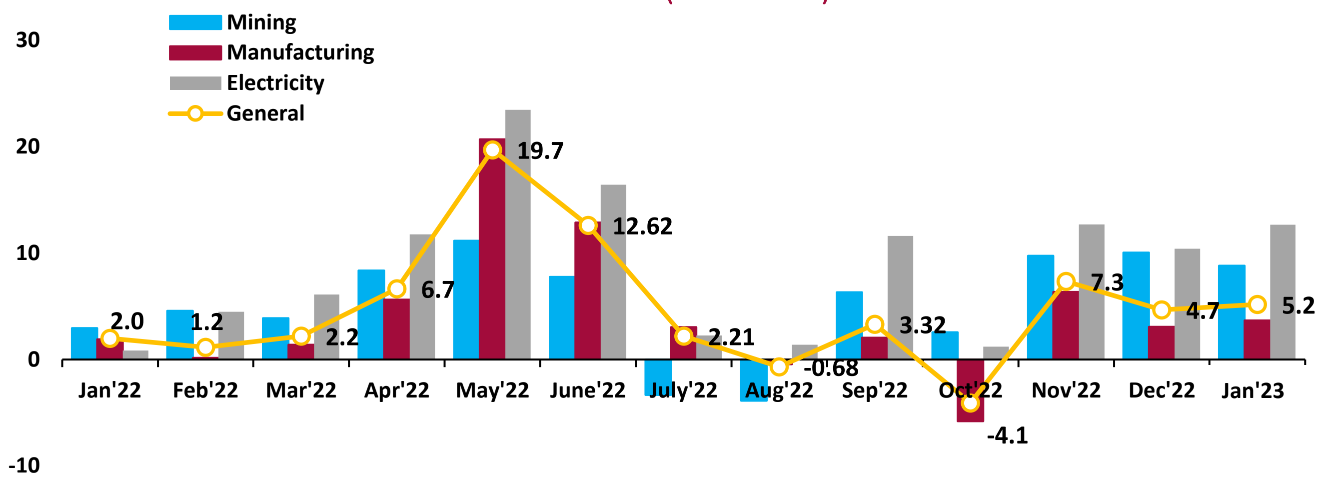


This is the ninth straight month of decline in WPI-based inflation. Decline in the rate of inflation in February, 2023 was primarily contributed by fall in prices of crude petroleum & natural gas, non-food articles, food products, minerals, computer, electronic & optical products, chemicals & chemical products, electrical equipment and motor vehicles, trailers & semi-trailers.

INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP Growth shows improvement

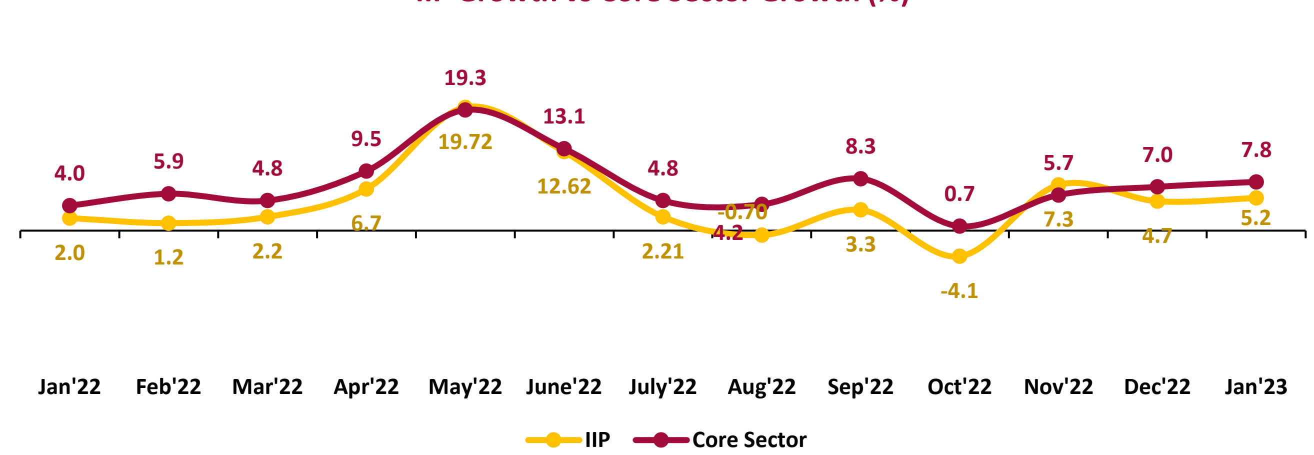
IIP Growth % (Sector-wise)



IIP growth % (Usage-wise)

Component	Weight	Jan'22	Jan'23	April-Jan'22	April-Jan'23
Primary Goods	34.05%	1.6	**9.6**	10.6	**8.0**
Capital Goods	8.22%	1.8	**11.0**	21.3	**13.6**
Intermediate Goods	17.22%	2.5	**0.1**	18.5	**4.1**
Infra/Construction Goods	12.34%	5.9	**8.1**	21.6	**7.8**
Consumer Durables	12.84%	-4.4	**-7.5**	17.3	**2.2**
Consumer Non- Durables	15.33%	3.1	**6.2**	5.1	**-0.4**

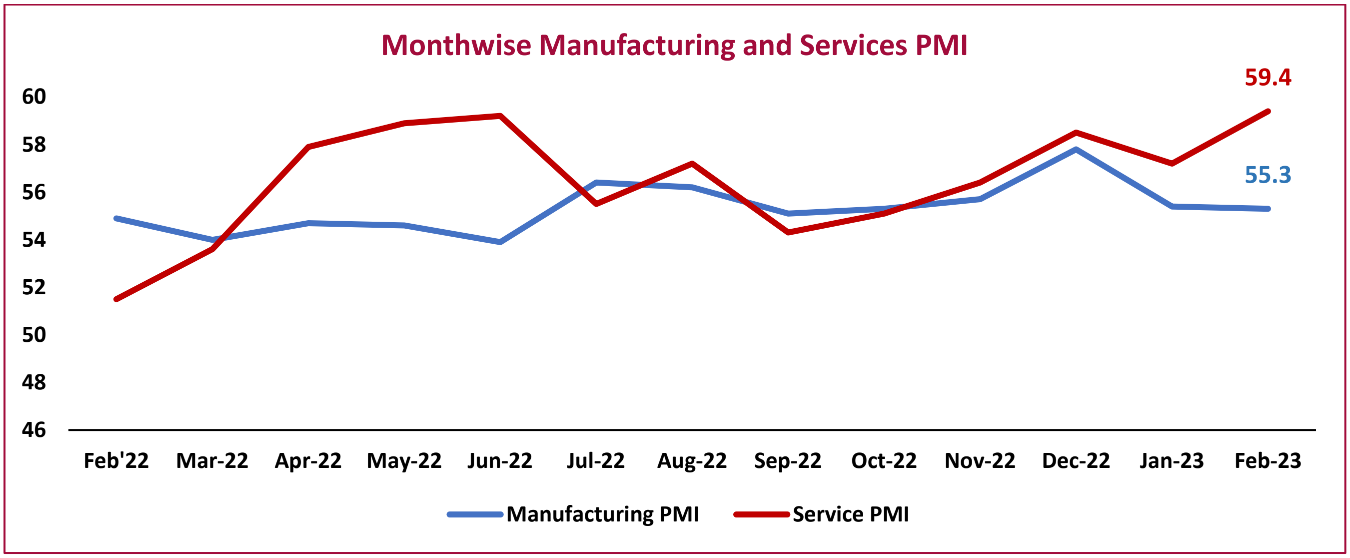
IIP Growth vs Core Sector Growth (%)



Growth in factory output, or index for industrial production, recovered to a two-month high of 5.2 per cent in January'23, from 4.7 per cent in December, on the back of a lower base and double-digit growth in the electricity output.

PURCHASING MANAGERS' INDEX (PMI)

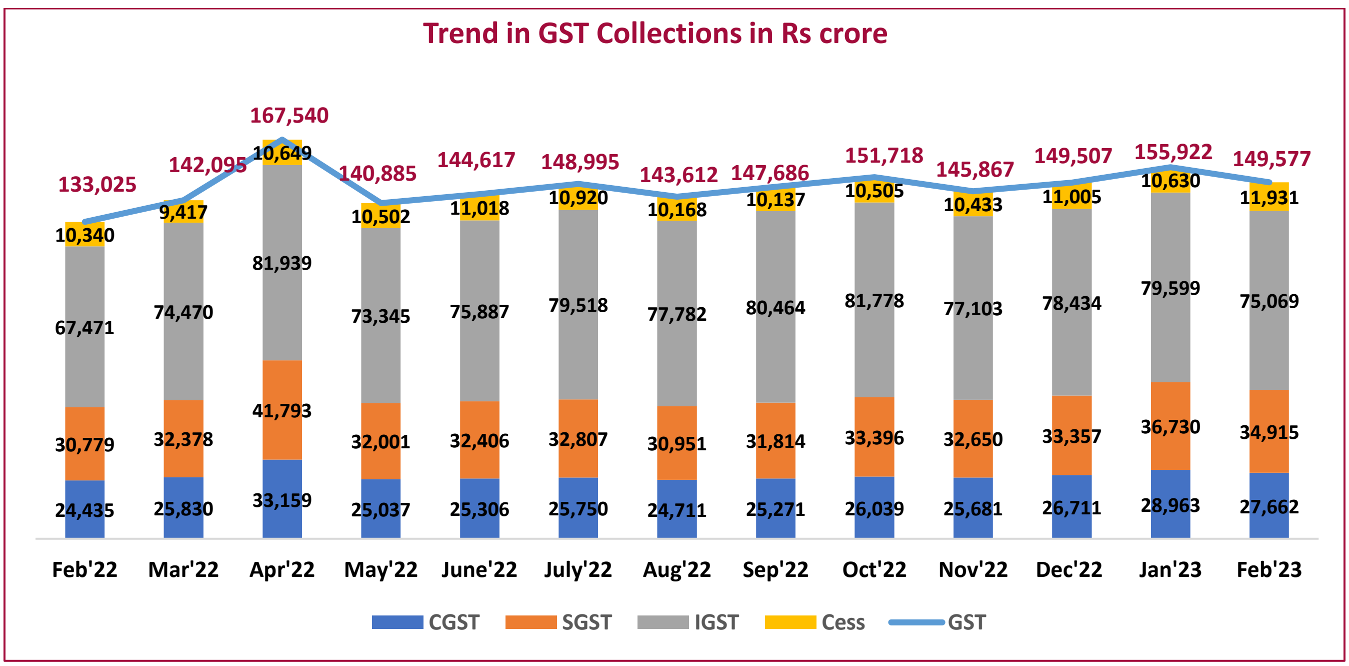
Services PMI rises to 59.4, highest in 12 years



Services PMI rose at the fastest pace in January 2023 and inched up to 59.4. The increase in Services PMI has been due to favourable demand conditions and new business gains. Manufacturing PMI declined to 4 months low at 55.3 though both output and new orders grew for the 20th month with the rates of expansion broadly similar to January'23.

GOODS AND SERVICES TAX (GST)

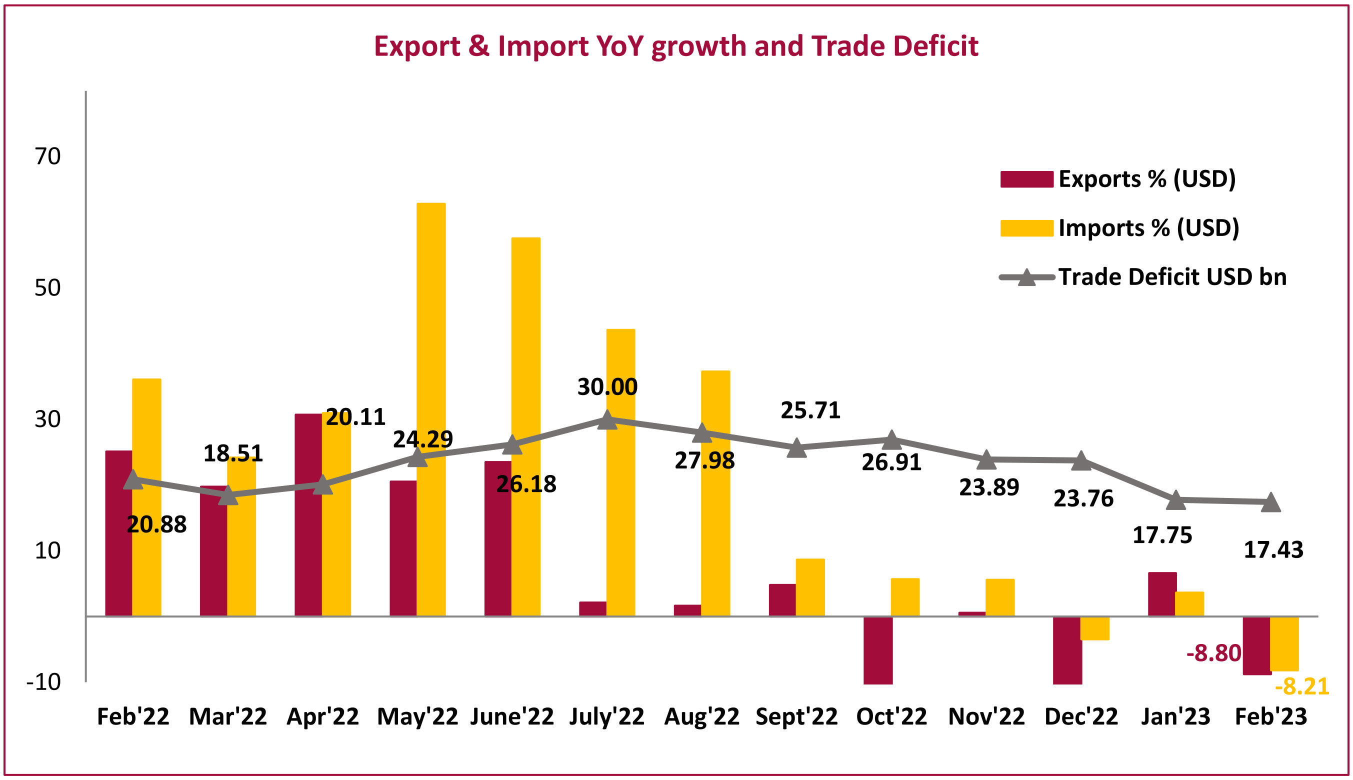
GST Collections dips in February, shows YoY growth of 12%

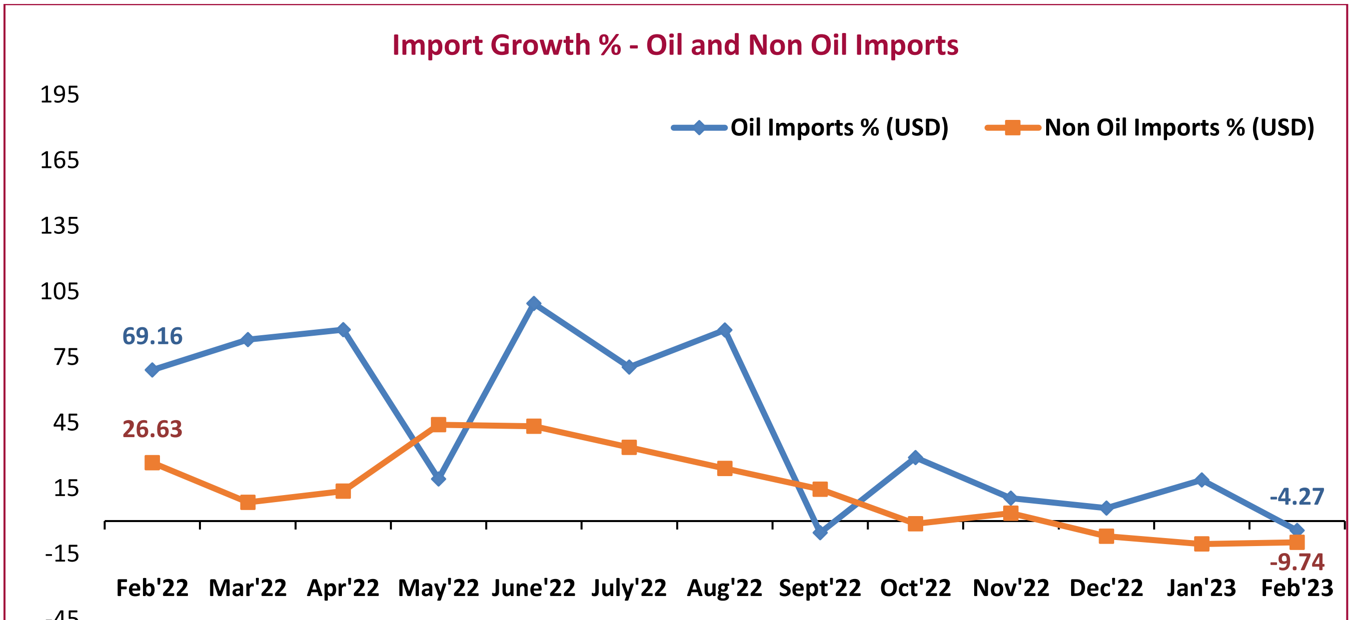


The Goods and Service Tax (GST) revenue collection in February 2023 stood at Rs 1,49,577 crore, up by 12 per cent on an annual basis. Cess Collections show the highest collection in February'23.

FOREIGN TRADE

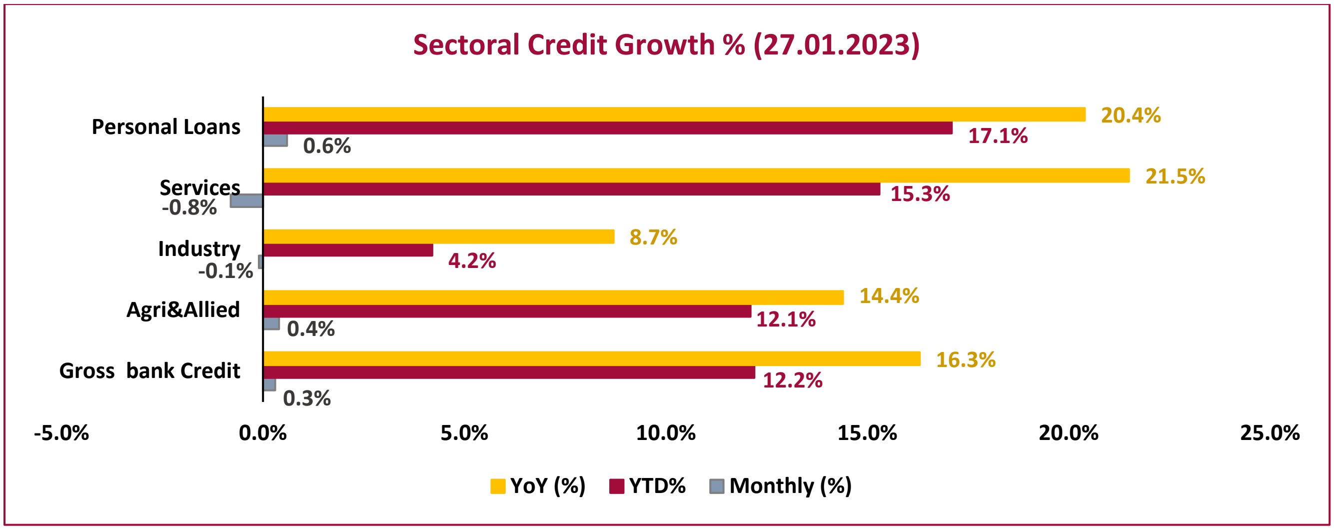
India's export and import dip over 8%





Merchandise exports declined to $33.88 billion, down 8.8% year-on-year in February 2023. Meanwhile, Merchandise imports also declined to $51.31 billion, down by 8.21% year-on-year in February 2023. The trade deficit during the first eleven months of this fiscal widened to $247.53 billion against $172.53 billion during the year-ago period.

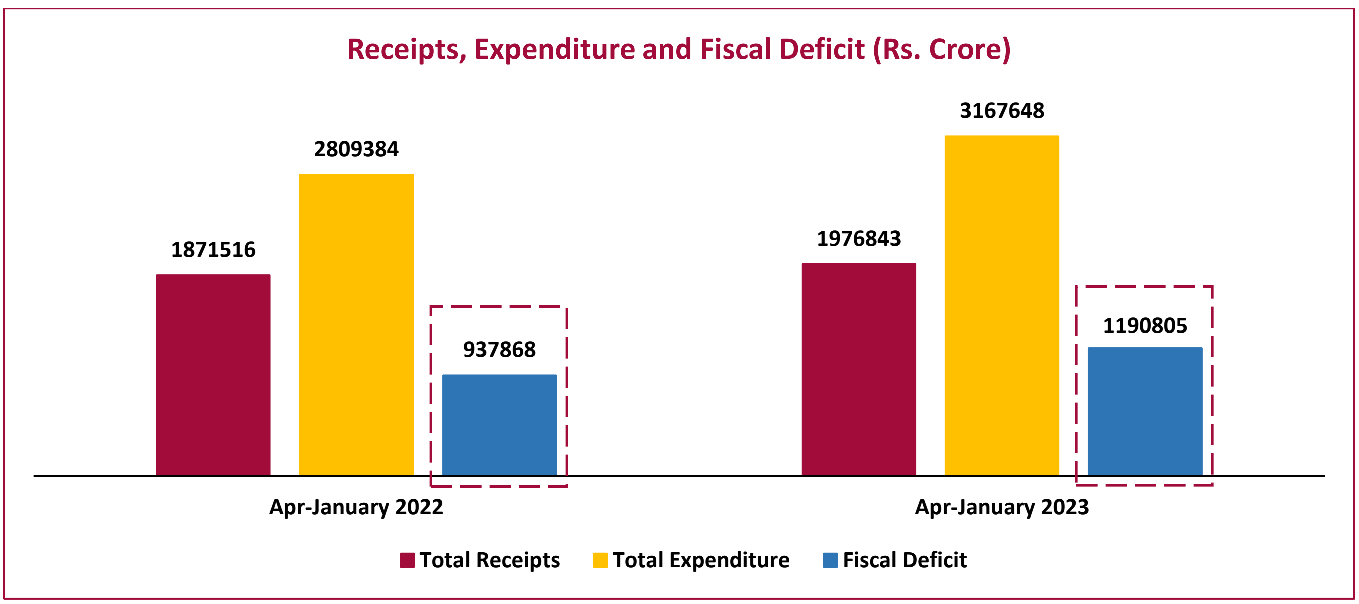
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	25.02.22	25.03.22	10.02.23	24.02.23	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	162.18	164.65	177.74	178.62	**10.1%**	**8.5%**	**0.5%**
Advances	116.44	118.91	134.18	134.51	**15.5%**	**13.1%**	**0.2%**
Business	278.61	283.56	311.92	313.12	**12.4%**	**10.4%**	**0.4%**

FISCAL DEFICIT

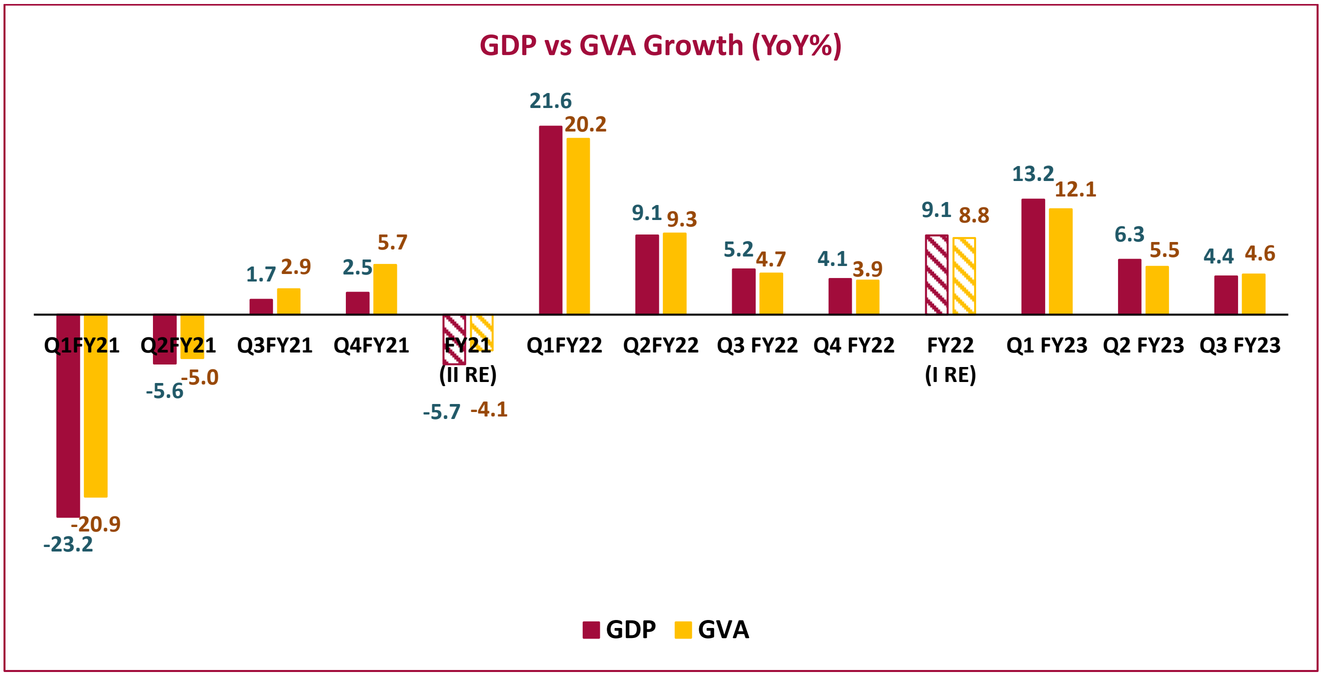


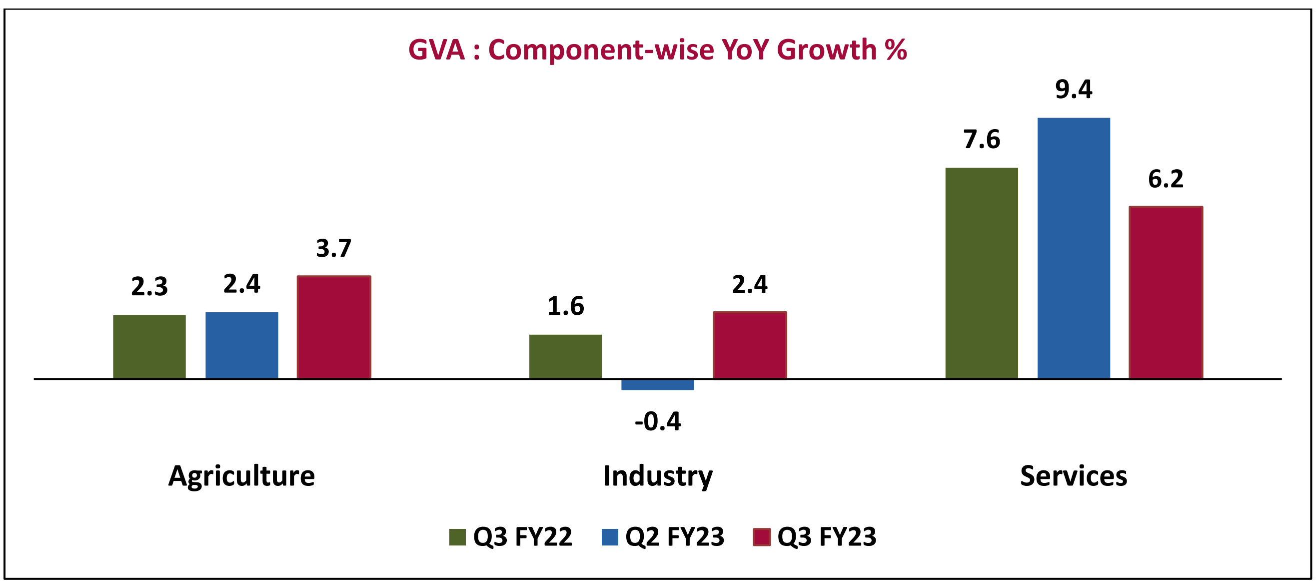
The fiscal deficit for the ten months till January'23 is 67.8% of annual estimates.

QUARTERLY ECONOMIC INDICATORS

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

GDP growth slows down from the previous two quarters



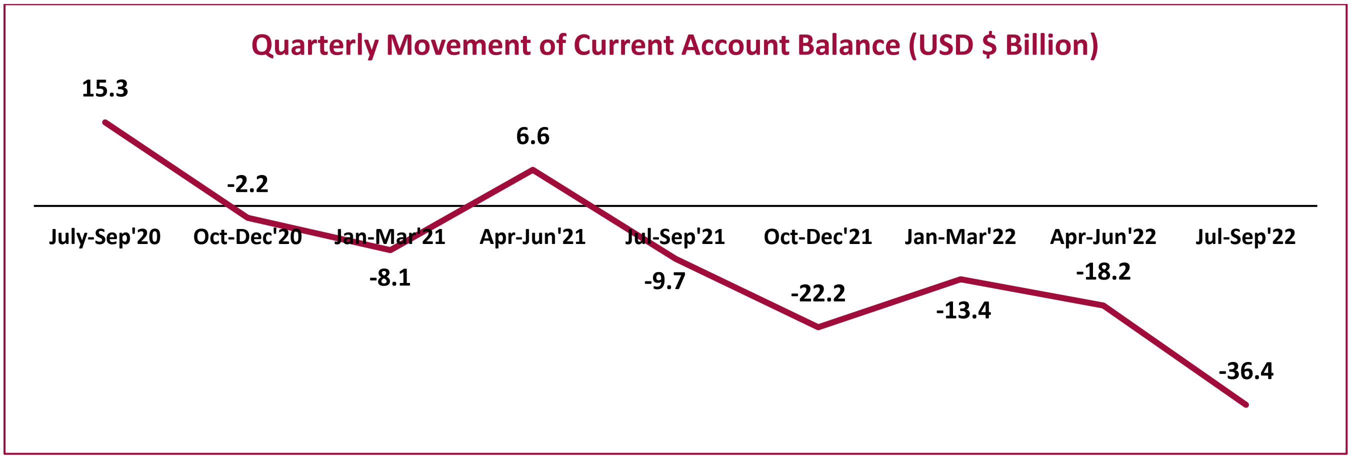


GDP for Q3 FY23 grew by 4.4% as compared to a growth of 6.3% in the previous quarter (Q2FY23) and a growth of 5.2% in Q3FY22. **GVA growth was pegged at 4.6%** in Q3 FY23. The Manufacturing industry, which plays an important role in the country's growth, experienced a contraction due to the subdued demand, rate hikes and rising input costs. Hence, the reasonable growth in Agriculture Sector was not enough to push the overall GDP Growth.

INDIA'S GDP OUTLOOK OF VARIOUS AGENCIES

Agency	FY23	FY24
RBI	7.0%	6.4%
World Bank	6.9%	6.6%
IMF	6.8%	6.1%
ADB	7.0%	7.2%
Economic Survey	7.0%	6.5%

CURRENT ACCOUNT DEFICIT



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

GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	-0.10	Jan 29, 2016 (-20 bps)	Apr 28, 2023
European Central Bank (ECB)	Europe	3.50	Mar 16, 2023 (50 bps)	May 04, 2023
Federal Reserve	U.S.A	4.75	Feb 01, 2023 (25bps)	Mar 22, 2023
Bank of England	U.K	4.00	Feb 02, 2023 (50 bps)	Mar 23, 2023
Peoples Bank of China	China	3.65	Aug 22, 2022 (-5 bps)	-
Reserve Bank of India	India	6.50	Feb 08, 2023 (25 bps)	Apr 03, 2023

Sunrise Industries

Any industry passes through various phases- from the sunrise to maturity and, finally, the sunset stage. Typically, characteristics of sunrise industry are new, emerging field with innovative technology, high-growth rates or having potential for it.

These industries generate a lot of interest for investors as long-term growth prospects. It is synonym with Michael Porter's "introduction" phase of Industry life cycle. These industries often create new job opportunities and growth in local and global economies.

In India, some of the sunrise sectors, which are the key to a disruptive transformation are mentioned below:-

Electronic Vehicle is a growing segment. To support the EV segment, the government has already brought about numerous interventions, including a lower GST structure, tax deduction on interest for loans. Two wheelers constitute over 70% of India's total vehicle population. India has a massive opportunity to become the lowest cost global manufacturer of electric two wheelers and three wheelers.

India has emerged as a key vaccine maker in the **biopharmaceuticals sector**, with a leadership position in the provision of various vaccinations, among others. India has a strong expertise in contract manufacturing, research, and clinical trials, and is home to the most US FDA-approved plants outside of the US.

Green Hydrogen is increasingly being viewed as the next-generation energy carrier for long distance travel. India's green hydrogen policy offers many incentives for setting up a green hydrogen facility. These incentives include single-window clearance for faster project approvals, allotment of land in renewable energy parks, priority access to inter-state transmission network.

Artificial Intelligence (AI) is next sunrise sector. Today, eight out of the top ten companies are tech and digital companies and the fastest growing jobs globally are those of artificial intelligence specialists and data scientists. India provides the size, scale and diversity of data that can fuel current generation AI algorithms using deep learning. India has a unique digital footprint with one of the lowest data costs in the world and a huge number of internet users.

Sunrise industry is also marked by good number of **start-ups**. India's entrepreneurship landscape continues to flourish with an increasing footprint of start-ups. The new-age sectors provide immense opportunities. The government aims to foster partnerships in such areas to drive growth in India.

EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. Banks set to pilot dollar clearing and settlement at IFSC (ET, 20.03.2023)

- Banks in India are about to take the first step to explore clearing and settlement of dollars in the country.
- Over the next few months, Wall Street banking biggie JP Morgan, along with several other financial institutions, will carry out a pilot project where dollar payments and receipts can be completed among international banking units (IBUs) - or bank branches - at the International Financial Services Centre (IFSC) in GIFT City, Gandhinagar, Gujarat.

2. India needs to internationalize payment products: RBI Governor Shaktikanta Das (ET, 18.03.2023)

- Reserve Bank Governor Shaktikanta Das underlined the need for using the G20 presidency to present India's e-payment story to the global audience and seize the opportunity to internationalize payment products like UPI and RuPay.
- India's home-grown payment products like UPI and RuPay network are increasing their global footprint and will make cross-border payments easier, Das said while inaugurating the Payment System Operators (PSO) Conference.
- The governor further said with the Indian economy getting increasingly integrated with the global system, cross-border payments have assumed greater significance.

3. RBI scrutinising banks' business models to gauge risk build-up: Governor Shaktikanta Das (ET, 17.03.2023)

- The Reserve Bank of India is keeping a close watch on the business models of Indian banks to gauge any potential build-up of risks and sensitises banks accordingly, RBI governor Shaktikanta Das said.
- His comment comes amid growing concerns over possible contagion impact of frenzied bank runs on several regional banks in the US following the collapse of Silicon Valley Bank and a wobbly Credit Suisse that got a lifeline from Swiss National Bank.

4. Micro loan disbursement jumps 20% in December 2022 quarter to Rs 77,877 cr (ET, 16.03.2023)

- Micro loan disbursement jumped about 20% in the December 2022 quarter to Rs 77,877 crore over Rs 65,392 crore in the year ago period, backed by 14% rise in the number of new borrowers.
- This helped the microfinance industry grow 25% year-on-year to Rs 3.31 lakh crore at the end of December last year, data released by Microfinance Institutions Network showed.
- The industry served 6.4 crore unique borrowers through 12.6 crore loan accounts. The number of active loan accounts grew almost 19% as compared to 14% rise in the number of borrowers.
- In terms of regional distribution of gross loans, east & northeast and south account for 63% of the total portfolio. Bihar is the largest state in terms of portfolio outstanding followed by Tamil Nadu and West Bengal.

5. State-run banks told to draw up 3-year road map (ET, 16.03.2023)

- The finance ministry has asked all state-run banks to draw up a strategic road map for three years starting fiscal 2024, government officials said.

- In a directive sent last month, the government asked the public sector banks (PSBs) to define achievable goals, and identify new initiatives and create an action plan to meet those.

6. **Banks from 18 nations open 30 special vostro accounts for trade in rupee (ET, 15.03.2023)**

- Several banks, including HDFC Bank and UCO Bank, have opened as many as 30 special vostro accounts as of date to facilitate overseas trade in the rupee, a top government official said on Wednesday. Director General of Foreign Trade (DGFT) Santosh Kumar Sarangi said as of date, some 18 countries have already opened special vostro accounts with Indian banks.
- Sberbank and VTB Bank -- the largest and second-largest banks of Russia, respectively -- are the first foreign lenders to receive the approval after the RBI announced the guidelines on overseas trade in the rupee in July last year.
- The move to open the special vostro account clears the deck for settlement of payments in rupee for trade between India and Russia, enabling cross-border trade in the Indian currency, which the RBI is keen to promote.
- The RBI has allowed the special vostro accounts to invest the surplus balance in Indian government securities to help popularise the new arrangement.

7. **India's digital transactions more than US, China, Europe combined: DPIIT secretary (ET, 14.03.2023)**

- Anurag Jain, DPIIT secretary said real-time digital transactions that India does are more than that are done in the US, China, and Europe put together.
- "India has a paperless, presence-less, and cashless solution for everything. The public digital infrastructure of India is unique. It is based on open systems, open architecture and open network, which allows everyone to plug in and removes entry barriers," Jain said.
- Department for Promotion of Industry and Internal Trade (DPIIT) secretary made the remarks during an interactive session on 'Inclusion on the Back of Technology: Best Practices' at the CII Partnership Summit 2023.

8. **Net direct tax collections for FY23 jump 17% YoY, reaching Rs.13.73 lakh crore (ET, 11.03.2023)**

- Net direct tax collection so far this fiscal grew 17 per cent to reach Rs.13.73 lakh crore, which is 83 per cent of the revised target for the full financial year, the Central Board of Direct Taxes (CBDT) said.
- The growth in direct tax mop-up, which comprises personal income tax and corporate taxes, was driven by PIT collections. On a gross basis, the collection grew 22.58 per cent to Rs.16.68 lakh crore.

9. **Daily UPI transactions jump 50% to 36 crore: RBI governor (ET, 06.03.2023)**

- Reserve Bank of India governor Shaktikanta Das said payments through UPI (unified payment interface) have grown exponentially in the past 12 months with daily transactions crossing 36 crore, which is up 50 per cent from 24 crore in February 2022.
- In value terms, these transactions are worth Rs. 6.27 lakh crore, registering a growth of 17 per cent from Rs.5.36 lakh crore in February 2022, the governor told reporters while launching the Digital Payments Awareness Week at the RBI headquarters.
- He also said the overall monthly digital payment transactions crossed over Rs.1,000-crore-mark each month during the past three months.

DATA SOURCES

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

*****

QUOTE OF THE MONTH

"Reading is to the mind what exercise is to the body."

- Joseph Addison

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