पंजाब नैशनल बैंक
punjab national bank

PNB ECO LENS

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STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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FOREWORD

**FROM THE DESK OF
MANAGING DIRECTOR & CEO**

This auspicious day of Baisakhi marks the completion of two years of PNB ECOLENS, our Bank's in-house monthly publication. Our achievement is a testament to our dedication to this ever-evolving industry and to sharing our insights with valued stakeholders.

As I proceed further, I would like to dwell upon global economic growth which has shown resilience in the near term and inflation has started to move southwards. On the domestic front as well, GDP numbers have shown strength supported by way of a pick-up in investment, benign inflation and an improving global macro-economic environment. Economic outlook both at the global and domestic front have improved which presents huge opportunities for overall scenario and demand.

Banking sector, which is fundamental to the growth of the economy, has shown remarkable improvement in terms of business, profitability, asset quality and capital adequacy. Going forward, the outlook of the banking sector will not only hinge upon the financial performance but will also take into consideration the customer service as well as expanding digital footprints.

PNB ECOLENS is tapping these economic and banking developments and disseminating them further thereby becoming a comprehensive source of economic scenario, financial information and industrial outlook. At this significant juncture, we shall recommit ourselves and strive to become more engaging and thought provoking.

Further, I extend my heartfelt congratulations to the Team and express my sincere gratitude to our readers and contributors for their unwavering support, engagement, and precious feedback.

With Best Wishes,

Atul Kumar Goel

FROM THE DESK OF EXECUTIVE DIRECTOR

As we celebrate the culmination of another wonderful year of our monthly Economics Bulletin, PNB ECOLENS, I extend my heartfelt gratitude to the entire SMEAD team for keeping us abreast of the latest happenings in the Indian and world economies.

The global and domestic economic scenario have been showing an uptick, with inflation moving into the desired trajectory. Indian Economy has particularly shown stronger growth as compared to other major economies of the world making India a bright spot. The banking industry has also observed a definite turnaround in the major parameters like asset quality, business growth, profitability with capital adequacy improved for better. Through the pages of ECOLENS, readers can find a diverse collection of data, insights, analyses, and perspectives on the ever-changing landscape of global economics.

From the details of fiscal and monetary policy and shifting paradigms of trade to the impact of technological innovation and implications of emerging trends in finance, our magazine endeavours to provide our readers with a comprehensive understanding of the forces driving the economic and financial landscape.

This annual edition of PNB ECOLENS is special because it includes participation from across our Bank through an Article Writing Competition 2024, thereby adding more value to the journal. I wholeheartedly congratulate the winners of the Article Writing Competition organised by SMEAD, who excellently showcased their skills on the momentous occasion of PNB ECOLENS' two-year anniversary.

We sincerely acknowledge the continued support and dedication of our contributors, readers, and partners. Thank you for joining us on this journey.

With Best Wishes,

Binod Kumar

FROM THE DESK OF GENERAL MANAGER, SMEAD

PNB ECOLENS, in its splendid two-year journey, stands tall and glorious. As we unfurl the banners of our second-anniversary celebration, my heart swells with pride and gratitude. On this momentous occasion, I extend my sincere appreciation to each and every one of you for your continued support. Your enthusiasm and engagement propel us forward, and we are deeply grateful for the privilege of serving as your trusted source of economic insights.

Building upon the success of our inaugural year, we have continued to prioritize inclusivity and engagement, ensuring that PNB ECOLENS remains a platform that resonates with our diverse audience. We have diligently incorporated the latest RBI circulars as well as a Classroom section, ensuring that our readers stay abreast of regulatory developments shaping the banking sector.

Moreover, in line with our commitment to excellence, we have actively solicited feedback from our readers, allowing us to fine-tune our content and deliver an enriching reading experience. In this annual edition, we are proud to showcase the collective talent within our organization through an Article Writing Competition, underscoring our belief in the power of collaboration and teamwork.

Looking ahead, our resolve to provide fresh perspectives and unparalleled insights remains unwavering. We are committed to exploring new themes, delving into emerging trends, and fostering dialogue on issues of strategic importance.

Together, we have woven narratives, captured moments, and highlighted perspectives. Here's to another year of inspiration, innovation, and impactful insights with PNB ECOLENS.

Warm Regards,

Prem Kumar Agrawal

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1. FROM THE DESK OF CHIEF ECONOMIST

Outlook for FY 2024-25

FY 2023-24 exceeded expectations

The financial year gone by i.e. FY 2023-24 was better than expected for the Indian Economy and the Banking sector.

The Indian Economy held many surprises. The economic growth of India, exceeded the expectations and surprised on the upside with growth greater than 8.0% in all the quarters of FY 23-24. It is expected to be at strong 7.6% for the whole year. Indian economy was the fastest growing economy in the world amidst slowing global economy. The year ended on a positive note with high frequency indicators like GST collections, car sales, and UPI transactions hitting high spots. India's manufacturing PMI hit a 16 year high at 59.1 in March, highest level since 2008, and Services PMI hit 61.2 in March 2024.

The financial year also hit the mark for the Banking industry. They have not just held their ground in the face of an uncertain global macroeconomic environment, amid interest rate volatility, but have posted record levels of profitability and decadal low levels of bad assets. Last year, the credit demand remained robust and recorded double digit growth in each month. Throughout 2023, credit growth was on upside 16-17%.

Outlook for FY'2024-25

Economic Growth

The growth momentum of Indian economy is anticipated to remain robust in FY25 as well with a projected GDP growth of 7% as per RBI and close to 7% by different agencies. As per our analysis, following will be the drivers of economic growth in FY25.

1. **Increased Investments** - The government's effective capex is expected to be 4.6 per cent of the gross domestic product (GDP) in FY25, as per the interim budget. This continued focus on capex by government has been successful in crowding in private capex. There has been a broad-based pick-up in investment, as reflected in the rising share of Gross Fixed Capital Formation, which increased to 31.3 per cent of GDP in FY24. Going forward in FY25, we expect the momentum in investments to continue.
2. **Upsurge in Consumption** - In 2024, steady consumption demand was backed by resilient urban demand conditions, though rural demand lagged. In FY25, there is expectations of recovery in the rural consumption demand reinforced by the forecast of a normal monsoon. Both strong rural and urban consumption will drive growth in FY25.
3. **Strengthened Balance Sheets of Corporates & Banks** - Share of corporates with poor debt servicing ability is near its lowest in about a decade. Improved balance sheets are more likely to drive capex in the near term and aid India's infrastructure push. The improved financial health of corporates and banks along with solid structural demand are expected to support Indian growth.
4. **Moderate Inflation** - Inflation is also expected to moderate to 4.5% level in FY25 on account of widespread softening in core inflation along with stabilizing food prices. As a result, monetary policy easing is likely to begin in Q2 FY25 after staying tight for a long while now, which will further support economic growth.

5. **Stable External Sector** - In FY25, the current account deficit (CAD) is expected to remain modest with around 1.2-1.3% of GDP, forex reserves to remain resilient with an expectation of touching USD 700 billion mark and fiscal deficit to fall to 5.1% of GDP as per budget estimates. Further, the improving global investor confidence on India has started reflecting in foreign portfolio investment flows. The inclusion of Indian bonds in JP Morgan and Bloomberg index will bolster foreign inflows further, buoyed by fiscal prudence that the government has demonstrated over the years.

On the whole, India looks positively towards the dawn of FY25.

Banking Sector

In FY25, the Indian banks are expected to continue their dream run. Credit growth is expected to remain healthy at 14-15% in FY 2024-25, driven by strong demand in the services and the retail segments. Rising government and private capex in FY25 will also lead to increased demand for corporate credit. The potential commencement of a rate-cut cycle will further aid credit growth.

Deposit growth for the banking system is expected to moderate to 12-13 per cent in FY25 from 13.8 per cent in FY24, further intensifying the competition for deposit accretion, especially for low-cost current account savings account (CASA) deposits. Lagging deposit accretion poses the risk of constraining credit growth for banks in FY25.

Banks are likely to witness pressure on their Net Interest Margins going forward due to continued re-pricing of deposit rates. Simultaneously expectations of a rate reversal in the next fiscal could start a downward pressure on lending yields and hence pressure on interest margins is likely to continue during FY 2025.

We expect the operating profits for banks to remain steady supported by the loan growth. Public sector banks' (PSBs) profitability would remain strong this fiscal as well with the aggregate profits in all likelihood expected to exceed the record ₹1-lakh crore recorded last fiscal.

Asset quality is expected to remain stable with modest slippages along with higher recoveries and upgrades. According to a research by CareEdge Ratings, the gross non-performing assets (GNPA) of the Indian banking sector are expected to improve even further, reaching up to 2.1 per cent by the end of fiscal year 2024-25.

All the banks are expected to remain well capitalized in FY25 and some banks are expected to raise capital to meet the high credit demand. Recent regulatory measures like an increase in risk weights for exposure towards unsecured loans and non-banking financial companies and an eventual transition to the estimated credit loss (ECL)-based framework could have a negative impact on the capitalization levels, banks are still expected to maintain their capitalization levels above the minimum regulatory requirement.

Collaboration with fintech start-ups will continue that will lead to expansion in banking with solutions in areas of wealth and risk management. Leveraging on Artificial Intelligence, data analytics and digitalization will enhance operational efficiency, reduce costs and improve customer experience further.

The Indian Economy and consequently the banking sector is poised for sustained and robust growth in FY 2024-25 as well.

Deepak Singh
(Deputy General Manager)

2. HIGHLIGHTS of RBI's BI-MONTHLY MONETARY POLICY

Policy Rate	Existing	Now	Change	Stance
Policy Repo Rate	6.50%	6.50%	**No Change**	**Withdrawal of Accomodation**
Standing Deposit Facility (SDF)	6.25%	6.25%		
MSF Rate	6.75%	6.75%		
Bank Rate	6.75%	6.75%		
Cash Reserve Ratio (CRR)	4.50%	4.50%		
Statutory Liquidity Ratio (SLR)	18.0%	18.0%		

Economy Outlook

RBI's GDP Projections	**Q1 FY'25**	**Q2 FY'25**	**Q3 FY'25**	**Q4 FY'25**	**FY'25**
08.02.2024	**7.2%**	**6.8%**	**7.0%**	**6.9%**	**7.0%**
05.04.2024	**7.1%↓**	**6.9%↑**	**7.0%↔**	**7.0% ↑**	**7.0%↔**

- ***Going forward, an expected normal south-west monsoon should support agricultural activity. Manufacturing is expected to maintain its momentum on the back of sustained profitability***. Services activity is likely to grow above the pre-pandemic trend. A rise in discretionary spending expected by urban households, as per the Reserve Bank's consumer survey, and improving income levels augur well for the strengthening of private consumption.

Inflation Outlook

RBI Inflation Projections	**Q1 FY'25**	**Q2 FY'25**	**Q3 FY'25**	**Q4 FY'25**	**FY'25**
08.02.2024	**5.0%**	**4.0%**	**4.6%**	**4.7%**	**4.5%**
05.04.2024	**4.9%↓**	**3.8%↓**	**4.6%↔**	**4.5%↓**	**4.5%↔**

- ***Going ahead, food price uncertainties would continue to weigh on the inflation outlook.*** An expected record Rabi wheat production in 2023-24, however, will help contain cereal prices. Early indications of a normal monsoon also augur well for the Kharif season. On the other hand, the increasing incidence of climate shocks remains a key upside risk to food prices. Tight demand supply conditions in certain pulses and the prices of key vegetables need close monitoring. Geo-political tensions and volatility in financial markets also pose risks to the inflation outlook.

Additional Measures

Financial Markets

a) Trading of Sovereign Green Bonds in IFSC

- With a view to facilitating wider non-resident participation in SGrBs, it has been decided to ***permit eligible foreign investors in the International Financial Services Centre (IFSC) to also invest in such bonds.***

b) RBI Retail Direct Scheme - Introduction of Mobile App

- To further improve ease of access, a mobile application of the Retail Direct portal is being developed. ***The app will enable investors to buy and sell instruments on the go, at their convenience***.

Regulations

a) Review of LCR Framework

- Banks covered under Liquidity Coverage Ratio (LCR) framework are required to maintain a stock of high quality liquid assets (HQLA) to cover the expected net cash outflows in the next 30 calendar days. ***Certain modifications to the LCR framework are being proposed towards facilitating better management of liquidity risk by the banks.***

b) Dealing in Rupee Interest Rate Derivative products – Small Finance Banks

- ➢ Extant guidelines permit Small Finance Banks (SFBs) to use only Interest Rate Futures (IRFs) for the purpose of proprietary hedging. In order to expand the avenues available to the SFBs for hedging interest rate risk, it has now been decided to allow them to deal in permissible rupee interest derivative products in terms of Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019.

Payment Systems and Fintech

a) Enabling UPI for Cash Deposit Facility

- ➢ The facility of cash deposit is presently available only through use of debit cards. Given the popularity and acceptance of UPI, as also the benefits seen from the availability of UPI for card-less cash withdrawal at ATMs, it is now proposed to facilitate cash deposit facility through use of UPI.

b) UPI access for Prepaid Payment Instruments (PPIs) through third-party applications

- ➢ PPIs can currently be used to make UPI transactions only by using the application provided by the PPI issuer. To provide more flexibility to PPI holders, it is now proposed to permit linking of PPIs through third-party UPI applications. This will enable the PPI holders to make UPI payments like bank account holders.

c) Distribution of CBDCs through Non-bank Payment System Operators

- ➢ It is proposed to make CBDC-Retail accessible to a broader segment of users in a sustained manner, by enabling non-bank payment system operators to offer CBDC wallets. This is expected to enhance access and expand choices available to users apart from testing the resiliency of the CBDC platform to handle multi-channel transactions.

3. ARTICIFIAL INTELLIGENCE AND MACHINE LEARNING IN FRAUD RISK PREVENTION IN BANKS

1st

Artificial Intelligence (AI) has several uses in banking and fintech, but its role in fraud detection and prevention is crucial. With the meteoric emergence of digital banking and online payment platforms, banks are now a multi-layered digital entity catering to all of customers' needs in the financial ecosystem in a few clicks. While this has ushered in convenience for all stakeholders, it has also opened the door for malicious elements and miscreants in the financial space.

Globally, online fraud statistics are a cause of major concern. Cybercrime costs the world economy $600 billion annually - 0.8% of global GDP. Post the pandemic, fraud attempts have risen 149% over the previous year. As digitisation improves the end user experience, it also opens the gateway for the malafide elements to use same technology to cheat businesses and customers in new ways. The Reserve Bank of India (RBI) has reported a spike of 68.2% in complaints under its Integrated Ombudsman Scheme (RB-IOS) for the financial year 2023. However, multi-layered banking frauds are now preventable using modern technology, awareness, and proactive approaches for fraud prevention.

In order to understand how AI can help us safeguard this financial landscape, it is important to recognize the modus operandi of these sophisticated and constantly changing patterns as follows:

1. **Wire fraud** involves using various communication modes to convince the bank that large sums of money have been transferred from legitimate sources while covering up with a bogus identity.
2. **Phishing** is identity theft often carried out through emails or SMS. Fraudsters search for sensitive information from legitimate customers by posing as government authorities or banks.
3. **Money laundering** involves 'cleaning' the illegally obtained money using the banking route by carrying out a bank transfer from one account to another.
4. **Accounting fraud** is enabled by fraudsters by setting up accounts with banks to apply for loans using false statements of ghost businesses.

An AI-driven fraud detection and prevention solution is given shape in the following way:

The bank initiates the process of gathering, processing, and categorising historical data. This includes 'good data' (labelled information about legitimate transactions) versus 'bad data' (labelled information about fraudulent transactions). Bank users can then input the machine with varied examples of banking fraud patterns to make the algorithm agile and business-specific. Once the legacy data has been entered, data from every new transaction is made to feedback into the system. The system then uses self-learning and adaptive analytics to enable the machine to incorporate the new data and adjust to the changing fraud environment, enabling it to recognise new forms of fraud.

Such a dynamic model is now capable of detecting and preventing fraud in the following forms:

1. **Monitor transactions**: 24*7*365 transaction monitoring is required in most cases of financial cybercrimes.
2. **Create actionable threat profile**: A robust fraud prevention model will give a bank's analytics team effective behaviour profiling as compared to a traditional model. For example, in the traditional model, sifting through a bank's entire database of inactive accounts is a time consuming and laborious process.
3. **Integration of real-time data:** An AI model will correlate real-time data from multiple sources and digital services. This real-time integration will allow email domain verification, IP address checks, and device recognition methods can alert customers in case of suspicious activities.
4. **Deploy machine learning**: Machine learning (ML) algorithms use vast amounts of data to predict behaviour patterns, content anomalies and other suspicious activities.

How AI can specifically target and prevent some of the more common fraud patterns:

1. **In identity theft**, cybercriminals steal a customer's identity by hacking into their account and changing crucial account user credentials. Since AI is familiar with the customer's behaviour patterns, it can detect unusual activity such as password changes and contact details and can notify the customer and deploy multi-factor authentication to prevent identity theft.
2. **In phishing emails**, scammers aim to extract confidential financial information, such as credit card numbers and bank passwords, by posing as authentic entities. ML algorithms can detect fraudulent activity through email subject lines, content, and other details and classify questionable emails as spam.
3. In case of **debit and credit card theft**, fraudsters use phishing or identity theft to access a legitimate user's debit/credit card details. This allows them to transact without physically acquiring the card. AI can detect anomalies in the card owner's spending patterns and flag them in real time. It can also build predictive models to foretell the user's future expenditure and send notifications in case of divergent behaviour.

As organised cybercrime gets increasingly refined and complex, there is a growing need to migrate from suboptimal fraud management systems to AI-powered systems which can process huge amounts of data faster and more accurately than legacy softwares. Current EFRM solutions deployed by banks are rule based (static parameters) which can only detect the anomalies that they are programmed to identify. In contrast, AI models use complex ML algorithms that self-learn by processing historical data and continuously attune themselves to evolving fraud patterns. More importantly, besides detecting anomalies efficiently, AI in banking systems also minimises false positives, which is crucial in safeguarding the customer experience without compromising on security. This, in turn, helps banks to ensure customer trust, employee compliance, and overall improvement in operational efficiency.

Vivek Bhattacharyya
Senior Manager
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4. BEHAVIOURAL ECONOMICS IN INDIAN BANKING: THE WAY AHEAD

2nd

We are living in interesting times when it comes to banking in India. Banking is past its infancy and has tested new waters. It showed impressive resilience during various slowdowns and befriended computerization and digitalization in a seamless manner. As the path-breaking technologies of fintech standing on the shoulders of Machine Learning and Artificial Intelligence embrace us, the challenge is in remembering the trivial – the customers of banks are humans as of date!

A glance at the present banking patterns reveals a myriad of insights. Many economists and academics think that incorporating the consideration of human behaviour in decision-making would assist the banking industry in realizing its corporate and social objectives.

This is where behavioural economics comes to the forefront. Simply stated, behavioural economics acknowledges the fact that humans are not perfectly rational beings when it comes to decision-making and are driven by emotions and cognitive bias. A look at some of the effects that drive consumer behaviour:

1. **Contrast effect:** This psychological effect suggests that consumer perception about a product or brand intensifies or diminishes when compared to another product. For instance, a consumer maintaining bank accounts with two different banks uses the banking apps of both banks. If the app of one of these banks is more seamless with lesser downtime than the other, the customer would gradually develop the perception that the said bank is better than the other. Thus, designing a signature product or service culture that stands out in the industry increases the chance of it being preferred by dint of contrast and hence is the most effective tool when pursuing market penetration.

2. **Anchoring Effect:** This effect tells us how driving few references can be when we make decisions. Let's say we are planning to start an investment in mutual funds through SIP and are scanning through various funds. At this juncture, a friend comes along and recounts how he started his SIP investment with One Thousand Rupees in XYZ mutual fund. Now, psychology suggests that we are more likely to think that One Thousand Rupees is the standard amount to start an investment in SIP. What's more, in the event of not being able to decide which mutual fund to go for, we are most likely to invest in XYZ mutual fund because that was the first fund we heard of and thus serves as a reference or 'anchor'. Banks can utilize this as an opportunity by providing their customers meaningful insights based on data like the average balance or demography. This would ensure that the customer gets custom products free of aforesaid anchors and would enable them to make optimum decisions.

3. **The Nudge:** One of the remarkable corollaries of behavioural economics is the concept of nudge. Nudges are gentle triggers that reinforce actions and habits. For a budding investor, regular updates about her investment portfolio would motivate her to invest further and explore similar products offered by her bank. Regular reminders regarding upcoming EMIs would minimize defaults. However, nudges work best when they come in the form of assistance and are not forced. The nudges above are most effective when applied at the correct time with appropriate frequency.

The Way Ahead: Customer Segmentation through Behavioural Economics

Banks across the world have been utilizing the theory of behavioural economics to reach out to customers and provide them with tailor-made products and services that match their needs. In this backdrop, the advent of Machine Learning and AI changes the landscape. Presently, products like digital loans are pitched uniformly to all customers with generic features. However, framing a quantitative metric that acknowledges consumer-specific behaviour would enable banks to segment the customer base and then a specific product could be further specialized to match each segmented base. A few such examples of this are:

- Segmenting the customers based on analysis of their response to nudges like product offers and then deciding the product features like waivers in charges for customers who expressed interest in the product through a visit to the product site.

- Analysing the customer spending behaviour through transaction analysis and segregating the customers into regular income group/seasonal income group or salaried/non-salaried with further classification as frequent spenders/occasional spenders and then devising the product features for each segment.

- Devising a model of 'One Bank-One Customer' wherein the whole app interface and product array are customized to such an extent that it is unique for each customer. This would strengthen customer loyalty and increase the banking experience. This might seem futuristic at this stage but is very well possible given the potential of data the world acknowledges.

The banking industry serves as the backbone of the Indian economy and has seen phenomenal changes in recent times. The potential for further advancement in the banking industry lies in acknowledging the fact that the qualitative concept of consumer behaviour is supplementary to the quantitative facet of data. It is the point where the two join, where the journey of an impeccable banking experience for a customer gets fruitful.

Yugant Joshi
Senior Manager
Circle Office, Ujjain

5. THE GREEN WAVE: BANKS LEADING THE CHARGE IN SUSTAINABLE FINANCING

3rd

In recent years, there has been a significant shift in the financial sector towards sustainability. Banks, once seen primarily as profit-driven entities, are now embracing their role as catalysts for environmental change. Green financing, which refers to the financing of projects and initiatives aimed at reducing environmental impact and promoting sustainability, has become a focal point for many banks worldwide.

The urgency to address environmental challenges such as climate change, pollution, and resource depletion has prompted a re-evaluation of traditional banking practices. Recognizing their responsibility in promoting sustainable development, banks have increasingly allocated capital towards environmentally friendly projects including renewable energy projects, energy-efficient buildings, sustainable infrastructure, and green bonds. According to the Climate Bonds Initiative, green bond issuance reached a record high of $258.9 billion in 2020, indicating a growing appetite for sustainable investments. Banks play a pivotal role in facilitating this growth by underwriting and investing in green bonds issued by governments, corporations, and other institutions. Moreover, banks are incorporating environmental criteria into their lending decisions, favoring projects with positive environmental outcomes and encouraging clients to adopt sustainable practices.

Several factors drive banks to prioritize green funding initiatives:

1. **Mitigating Risks**: Environmental risks, such as regulatory changes, carbon pricing, and physical impacts of climate change, pose significant threats to banks' portfolios. By investing in environmentally sustainable projects, banks can mitigate these risks and safeguard their long-term financial performance.

2. **Meeting Stakeholder Expectations**: Customers, investors, and regulators are increasingly demanding greater transparency and accountability regarding environmental practices. Banks that demonstrate a commitment to sustainability not only enhance their reputation but also attract socially responsible investors and customers.

3. **Regulatory Pressures**: Regulators are imposing stricter environmental standards on financial institutions to align with international agreements such as the Paris Agreement and the Sustainable Development Goals (SDGs). Banks face regulatory scrutiny regarding their environmental footprint and are incentivized to invest in green initiatives to comply with regulations and avoid potential penalties.

4. **Seizing Market Opportunities**: The transition to a low-carbon economy presents lucrative opportunities for banks to finance renewable energy projects, sustainable infrastructure, and green technologies. By tapping into these emerging markets, banks can diversify their portfolios and generate sustainable returns.

Despite the progress made in green funding, banks face several challenges in scaling up their sustainability initiatives:

1**. Financial Viability**: Some green projects may face higher upfront costs or longer payback periods compared to conventional projects, posing financial challenges for banks. However, innovative financing mechanisms, such as green bonds, carbon markets, and impact investing, offer opportunities to overcome these barriers and mobilize capital for sustainable projects.

2. **Data and Metrics**: Accurately assessing the environmental impact of projects and monitoring their performance requires robust data and metrics. Banks need standardized methodologies and reporting frameworks to evaluate the sustainability credentials of investments effectively.

3. **Regulatory Uncertainty**: Evolving regulatory frameworks and policy changes may create uncertainty for banks, impacting their investment decisions and risk management strategies. Clear and consistent regulations are essential to provide banks with regulatory certainty and incentivize green investments.

The Reserve Bank of India (RBI) has been actively promoting green finance initiatives to encourage sustainable development and address environmental concerns:

1. **Green Bonds:** RBI has encouraged the issuance of green bonds, which are debt instruments specifically earmarked to finance or refinance projects that have positive environmental or climate benefits. Green bonds help channel funds into environmentally sustainable projects such as renewable energy, energy efficiency, clean transportation, and sustainable water management.
2. **Guidelines for Banks**: RBI has issued guidelines to banks to integrate environmental and social risk considerations into their lending decisions. This encourages banks to assess the environmental impact of projects they finance and to prioritize lending to environmentally sustainable projects.
3. **Reporting Requirements**: RBI has also mandated reporting requirements for banks and financial institutions to disclose their exposure to environmentally sensitive sectors and their efforts in promoting green finance. This transparency helps in assessing the progress and impact of green finance initiatives.
4. **Capacity Building**: RBI has been involved in capacity building initiatives to enhance awareness and understanding of green finance among banks, financial institutions, and other stakeholders through workshops, seminars, and training programs on green finance-related topics.

The increasing momentum towards sustainability in the banking sector reflects a fundamental shift in priorities, driven by environmental concerns, regulatory pressures, and market dynamics. Green financing initiatives not only benefit the environment but also offer financial opportunities for banks to drive innovation, mitigate risks, and enhance their reputation. By aligning their investments with environmental objectives, banks can play a pivotal role in accelerating the transition to a more sustainable and resilient future.

Komal
Manager - Risk
ZRMC Ludhiana

6. IMF'S STAR PERFORMER: INDIA'S WAY TO ECONOMIC ASCENT

4th

Ever since the onset of COVID-19 pandemic, the global economy is still struggling to regain its footing. Recent geopolitical conflicts such as the Russia-Ukraine war and the Israel- Palestine war, supported by climatic challenges, have pushed the world to the brink of recession. Geopolitical uncertainties cause economic instability and hamper investments. Conflicts disrupt global supply chains, driving inflation and dampening growth.

The Indian Progress Report

Amid the economic turmoil, India emerges as a beacon of resilience, earning accolades from the International Monetary Fund (IMF) as a "Star Performer". India's adoption of prudent macroeconomic policies and reforms in digitization and infrastructure fuels robust growth, positioning it as one of the fastest growing major economies globally. India is projected to contribute over 16% to global growth, thus becoming the leading engine of the world economy. The IMF predicts India's GDP to grow by 6.7% in 2024, underscoring its economic resilience.

In the face of global economic uncertainties, India has navigated its way with resilience, employing strategic measures that have successfully cushioned its economy against potential slowdown:

- **Digitization, the Digital Revolution:** The surge in digital technologies has opened avenues for growth, notably in e-commerce. According to projections, India's e-commerce market will reach $200 billion by 2026, a substantial leap from $38.5 billion in 2017. Digital banking has also democratized financial access particularly benefitting marginalized groups.
- **Demographic Dividend, Catalyst to Growth:** India's youth population presents a significant opportunity for economic expansion. Despite pandemic challenges, the informal sector thrives, supported by ongoing formalization efforts. Although public debt remains a concern, India's fiscal resilience is strengthened by a vigorous financial sector.
- **Infrastructure Development, Building Foundations:** With a substantial allocation of $120 billion towards infrastructure development and a doubling of spending from Rs.67 lakh crore from 2017-23 to Rs.143 lakh crore from 2024 to 2030, the government's unwavering commitment to infrastructure has yielded significant dividends, fuelling industrial expansion and fortifying economic resilience. Investments in key sectors like transportation, healthcare, and telecommunications have not only improved connectivity but also boosted demand for labour and goods.

- **Indian Banks, Strengthening the Monetary Structure:** The performance of the banking sector in 2023 was nothing short of remarkable. Profits soared, witnessing an aggregate increase of 38.4%, with public sector banks leading the charge by nearly tripling their net profits. Asset quality emerged as a shining beacon, with non-performing assets reaching multi-decade lows of 3.2% (Gross NPAs) and 0.80% (Net NPAs) as on September 2023. This significant improvement underscored the sector's focused efforts in risk management and debt recovery. The robust capital adequacy ratios, especially for Public Sector Banks at 15.20%, provided a cushion against potential risks and paved the way for future expansion. With a focus on innovation, adaptable strategies, and prudent risk management, the Indian banking sector endeavours towards a future characterised by sustainable progress and resilience.

As India charts its course towards global economic leadership by becoming ‘Vishwa Guru Bharat’, it needs to confront a myriad of challenges that demand strategic solutions and steadfast approach. India still grapples with hurdles that necessitate careful attention and innovative approaches to sustain its upward trajectory. These include:

- **Adapting amidst globalisation:** In the era of globalisation, India stands at the crossroads of opportunity and vulnerability. Thus, it needs to prepare itself to successfully face the threats that pose hurdles to both imports and exports. As global economic winds shift, Indian markets may face turbulence, emphasizing the need for adaptable economic strategies and diversification tactics to weather the storm.

- **The Duality of Demography:** India's population presents a double-edged sword of potential and peril. While its abundant human capital stimulates economic growth, the untapped potential risks become a liability. IMF advocates investments like healthcare, education, gender equality, unlocking the transformative power of India's workforce. By harnessing demographic resources effectively, India can chart a course towards sustainable prosperity and inclusive development.

- **Agricultural Resilience:** Amidst mounting challenges, ensuring food security becomes paramount. Recent policy responses, including wheat and rice exports and export bans, restrictions and duties, highlight efforts to mitigate inflationary pressures. Thus, agricultural policies implementation, proper assurance of food security and navigation of economic risks must go hand in hand.

Navigating complex currents and waves of global economic dynamics, India's resilience and strategic foresight emerge as guiding beams amidst uncertainty. Despite continual challenges, from geopolitical conflicts to climate change, India's sturdy economic fundamentals and algorithms, driven by digitization, demographic dividends, infrastructure development and significant role of the Indian banks, position it as a steadfast contender on the world stage. By tapping the rapidly evolving landscape and embodying the spirit of a main lead, India is on its path to become a “Vishwa Guru”.

Arvind Kumar Jha
Assistant General Manager
HRDD, Head Office, Dwarka

7. UNDERSTANDING RISK AND THE NEED FOR RISK MANAGEMENT

5th

"If you don't invest in risk management, it doesn't matter what business you're in, it's a risky business"

-Gary Cohn

Risk, in the most basic sense, is the possibility that bad things might happen. Science tells us that we rely too much on our instincts and personal experiences to take a decision. However, our risk awareness is not always suited to the modern world. Hence experience in banking is not everything as there is always an uncertain risk associated with our work.

Most banking disasters are caused by the failure to properly recognize or deal with one or more kinds of risk. Centuries old financial institutions have gone bankrupt because their management procedures ignored a certain type of risk or did not follow the steps in risk management process.

Even the recent fall of the famed Silicon Valley Bank (SVB) due to the mismatch in Asset Liability Management (ALM) stresses the fact that all risks are related to one another and must be managed well. Silicon Valley Bank, the technology focused bank, had major sources of funds from technology and start-up companies which were badly hit over the past year. SVB, also during the same period of time bought billions of dollars' worth of bonds using customer's deposits-as a typical bank normally does. These investments are generally considered safe. However, the Federal Reserve of the United States was aggressively increasing interest rates quarter after quarter to combat inflation. But since the value of those investments fell, SVB fell into the trap of interest rate risk, which caused a huge mismatch between the bank's assets and its liabilities causing the bank to incur unrealised losses of $16 billion by September 2022. Additionally, depositors started to get insecure with their investments with SVB and started to withdraw their investments from the bank at a fast pace due to a loss of reputation or confidence in the bank. Reputational risk finally brought the ship down and on March 10, 2023, bank regulators from the Federal Reserve had no other choice but to freeze SVB's assets.

So, we get an idea as to how different risks in a bank are intertwined with each other and the inability to mitigate one risk leads to another type of risk. Each risk type demands a specific set of skills and its own approach to be calculated, quantified, and mitigated. That is why a sophisticated understanding of risk types and their interaction is an essential building block of risk management.

But why do banks and firms take risk? Risks are undertaken in pursuit of reward. Banks need to invest their liabilities (deposits of the investors) by way of advances and investments in order to increase their assets and revenue. This leads us to two questions:

A) Is the risk worth the reward?

B) Can we lower the risk and still get the reward?

Risk management process thus culminates in a series of choices that both manage risk and help define the identity and the purpose of the firm. In today's fast changing world, risk management is not only about corporate survival it is critical to the broader process of specialization, scaling, efficiency, and wealth creation. A good risk management structure should also calculate the uncertainties and predict their influence on a business. Acceptation or rejection of risks depends wholly on the tolerance levels that a business has already defined for itself. A firm's confidence in a risk measure shapes how the result should be applied in the decision making of the firm's business. For this, businesses' use risk metrics to determine as to what extent the firm can accept or absorb a loss. One such metric is Value-at-Risk or more commonly called VaR. VaR is a statistical measure that tells a firm the possibility of the worst loss that can happen to its business under normal market conditions at a given level of confidence. For example, let us suppose that a bank's trading portfolio has a weekly VaR at the 95% confidence level of INR 10 million. This indicates that under normal market conditions, there is a 5% probability that the bank's trading portfolio will lose maximum of INR 10 million over the next week.

One of the easiest mistakes while managing risks is to focus on the risks that are known and measurable while ignoring those that are unknown. As a risk manager one must attempt to
(a) identify the risk,
(b) analyse and measure the risk,
(c) assess the effects of any risk event, and
(d) manage the risk.

"There are things that we know. There are known unknowns, but there are also unknown unknowns" - Rumsfeld said this when trying to encapsulate the danger of terrorists using weapons of mass destruction. His point was that humans tend to focus on the risks for which they have data and ignore potentially larger risks that are unknown or poorly understood. Yet those risks exist and must be managed. While managing risks, risk managers take responsibility for all sorts of risk, not just those that can be measured. They must continuously search for Rumsfeld's "unknown unknowns."

Shashank Sundriyal
Deputy Manager
BO Shyambazar, Kolkata North Circle

8. CLASSROOM: MONEY SUPPLY

Money supply refers to the total volume of money circulating in an economy at a particular time. It includes cash, coins, and various types of deposits that can be quickly converted into cash. The concept of money supply is crucial in understanding and managing an economy's monetary policy, inflation, and overall economic health.

The measures of money supply are categorized into different aggregates, reflecting the liquidity of different financial assets. These aggregates are standardized by central banks, such as the Reserve Bank of India in India. The definitions and categories can vary from country to country, but they generally follow a similar pattern from the most liquid assets (such as physical currency) to assets that are less easily converted to cash but still considered part of the money supply.

In India, the Reserve Bank of India categorizes money supply into aggregates such as:

M0 (also known as Reserve Money, Monetary Base, or High-Powered Money): This includes all the physical money in circulation within the economy (notes and coins) plus the banks' reserves with the RBI. It represents the most liquid form of money.

M1 (Narrow Money): M1 includes currency with public (coins, currency notes), Net demand deposits held by the public with commercial banks & other deposits with RBI. It is a narrow measure of the money supply that includes the most liquid forms of money.

M2: M2 includes M1 plus savings deposits with post office. This aggregate is more relevant in countries where a significant portion of savings is held in postal savings systems.

M3 (Broad Money): M3 is a broader measure of the money supply. It includes M1 plus time deposits with the banking system (such as fixed deposits) and other deposits that are not as readily accessible as demand deposits but still part of the overall money supply. This is the most commonly used measure of money supply as it provides a comprehensive view of the money available in the economy for spending and investment. M3 is also known as aggregate monetary resources.

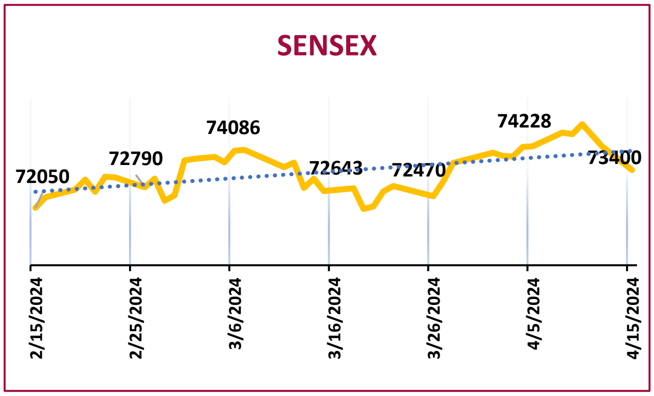
M4: M4 includes M3 plus all deposits with post office savings organizations, excluding National Savings Certificates. This is the broadest measure of money supply and includes all forms of deposits that can be converted into cash and used for transactions.

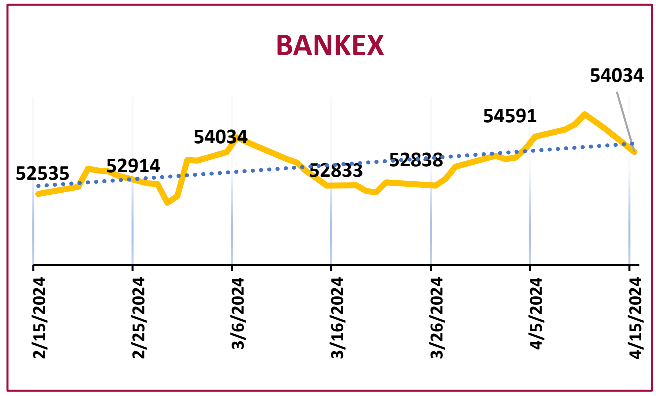
Money Type	Includes	Liquidity
M1	Currency with public (coins, currency notes), Net demand deposits held by the public with commercial banks & other deposits with RBI	Most liquid
M2	M1 + Savings deposits with post office	Less liquid than M1
M3	M1+ time deposits with the banking system (such as fixed deposits)	Less liquid than M2
M4	M3 + all deposits with post office savings organizations, excluding National Savings Certificates	Least liquid

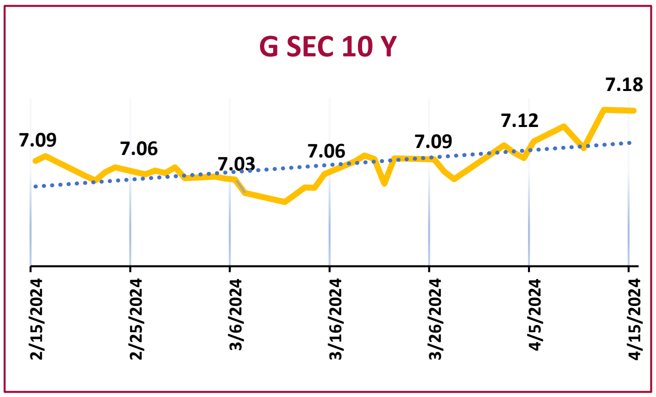
These measures help central banks, economists, and policymakers analyse the money supply's impact on inflation, interest rates, and economic growth.

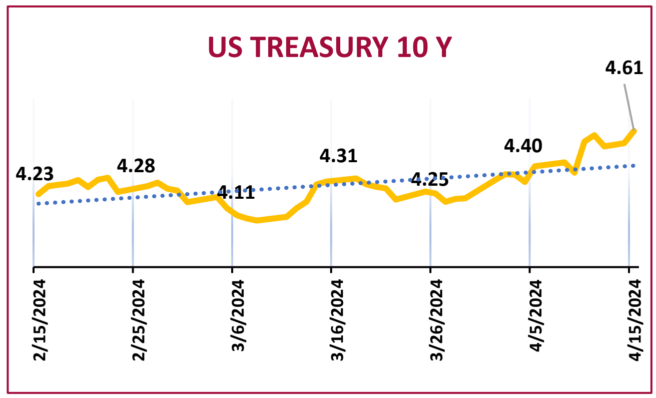
Anoop Varghese
Manager (Economics)
Head Office, SMEAD

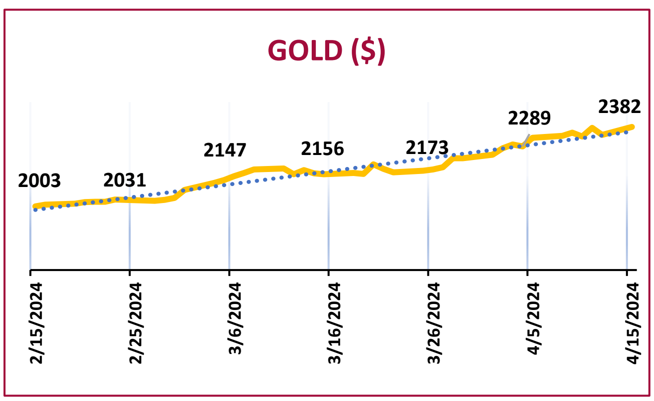
9. DAILY ECONOMIC INDICATORS

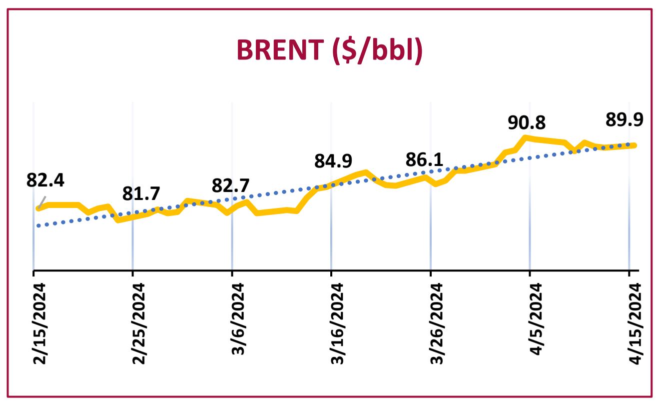


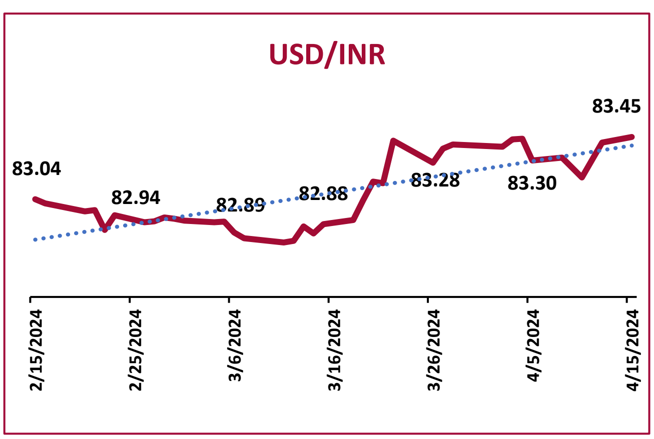


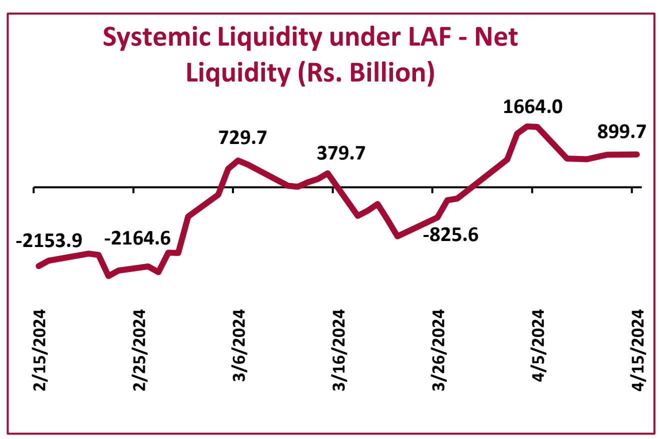








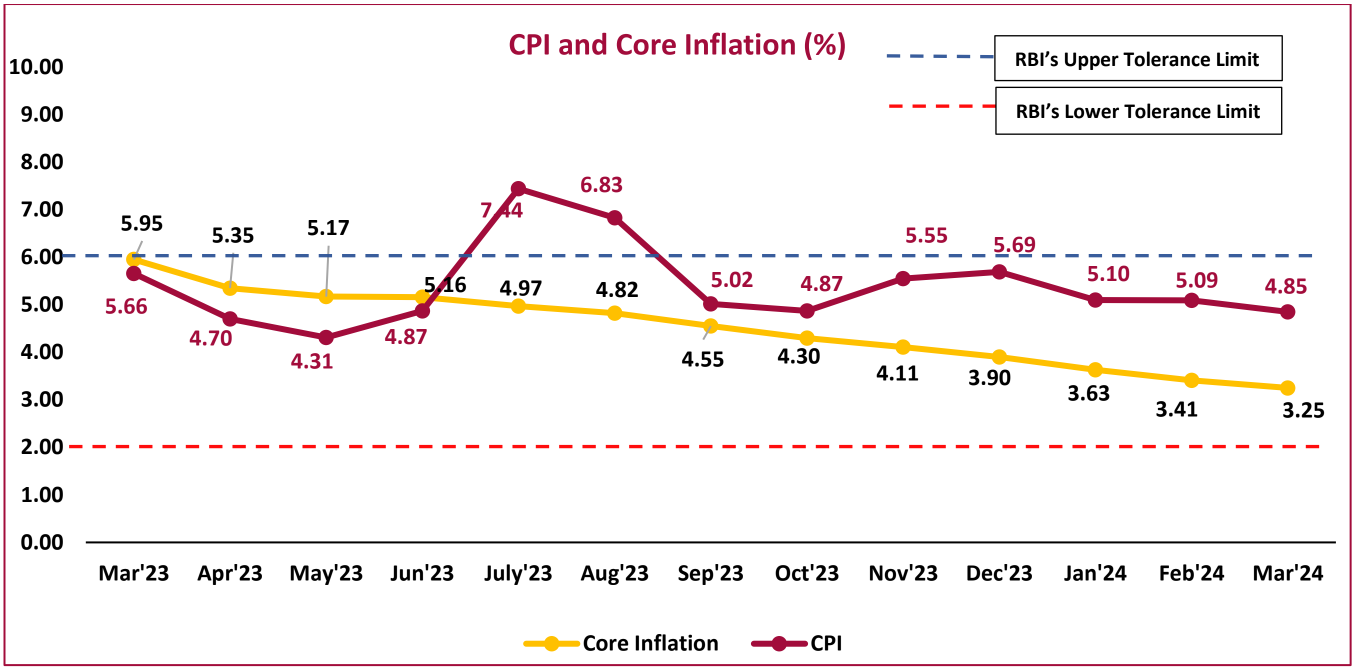


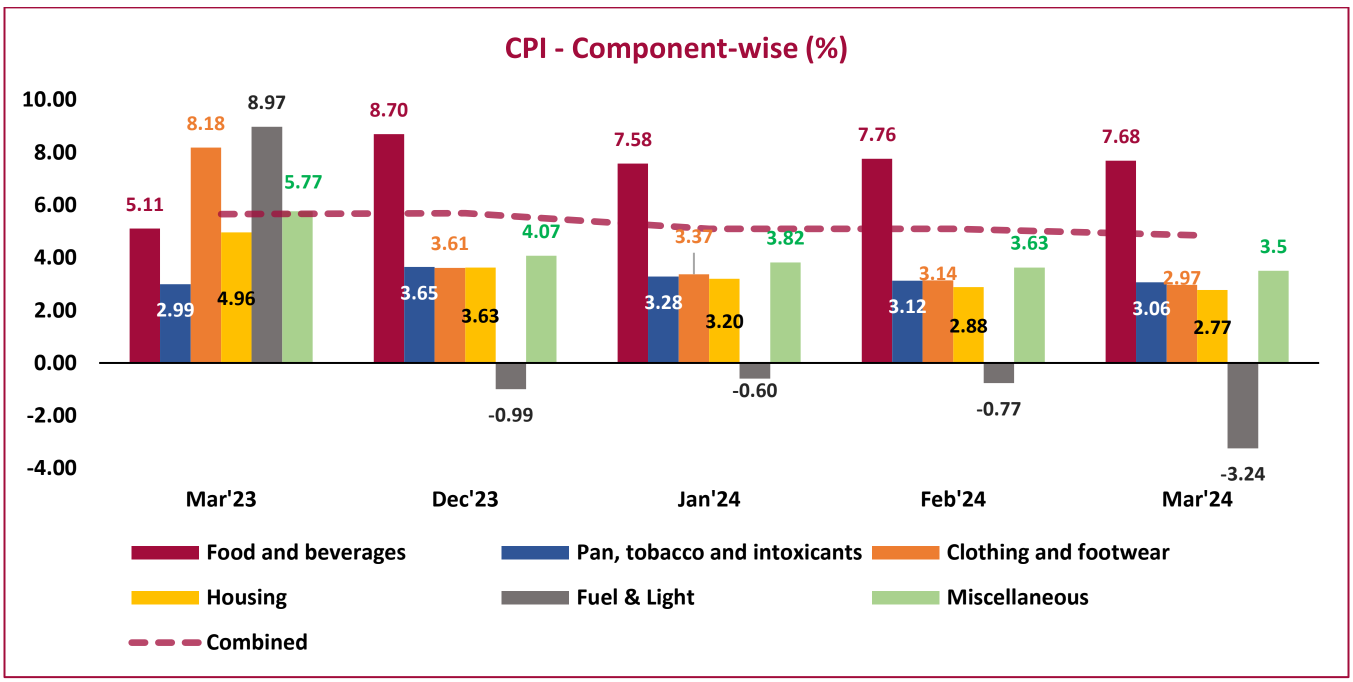


10. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation cools down to 4.85% in March 2024

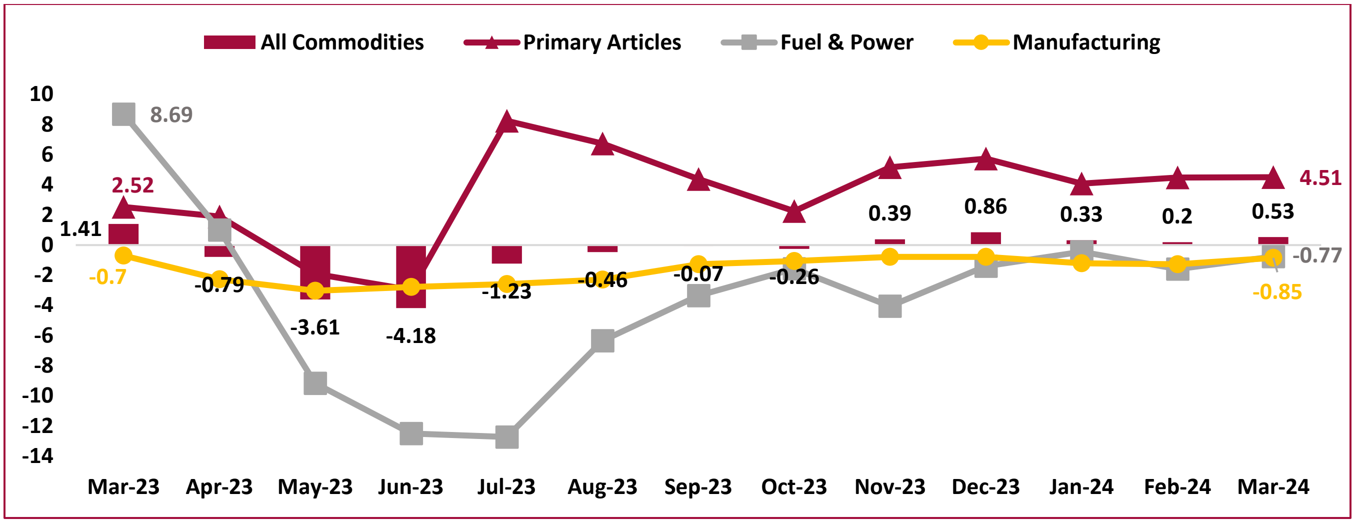




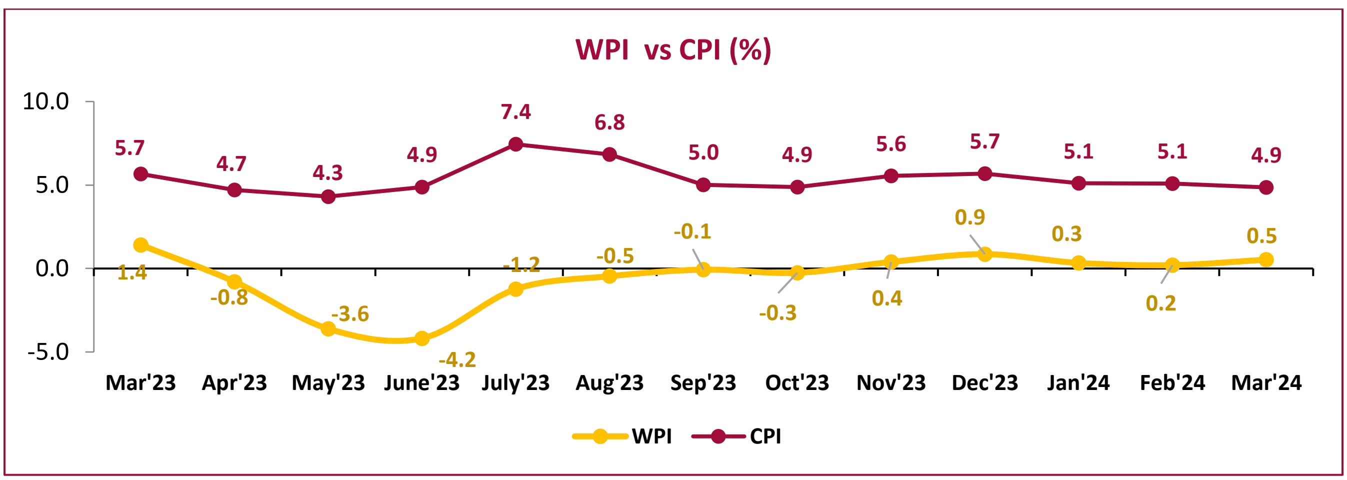
India's Consumer Price Index (CPI) based inflation moderated to a nine-month low of 4.85 per cent in March 2024 compared to 5.09 per cent in the previous month. Food Price index eased to 8.52 per cent in March 2024 vis-à-vis 8.66 per cent in February 2024. Core inflation is declining steadily month on month.

WHOLESALE PRICE INDEX (WPI)

WPI inflation increases to 0.53% in March 2024



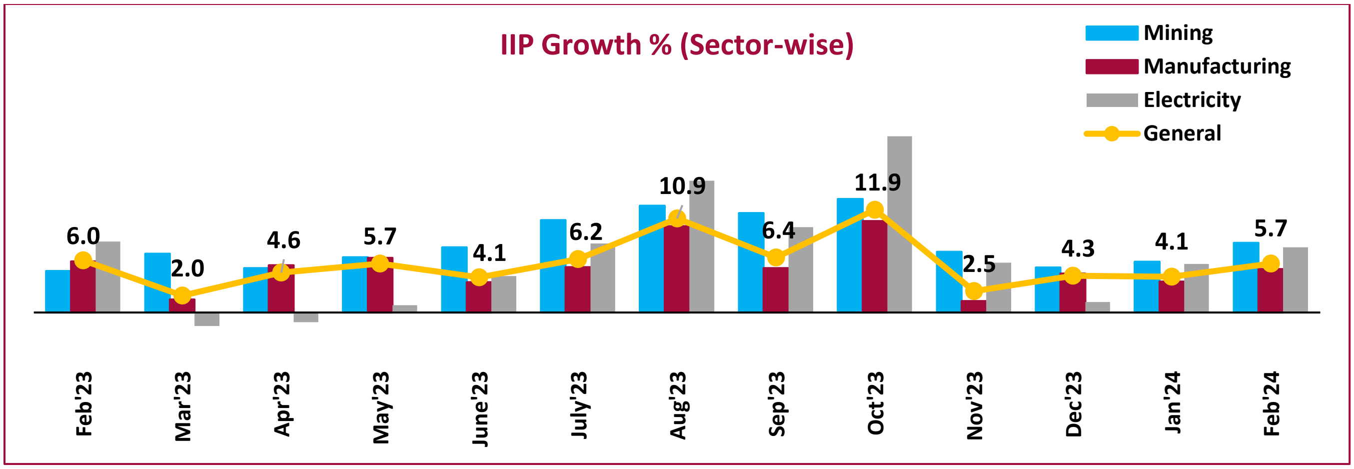
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2023	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**	**2023**	**2024**
January	4.06	**4.07**	15.00	**-0.45**	3.06	**-1.20**	2.67	**6.91**	4.80	**0.33**
February	3.64	**4.49**	13.96	**-1.59**	1.94	**-1.27**	3.81	**6.95**	3.85	**0.20**
March	2.52	**4.51**	8.69	**-0.77**	-0.70	**-0.85**	5.42	**6.88**	1.41	**0.53**



India's WPI saw an acceleration in March 2024, following two consecutive months of decline. It has remained in positive territory since November 2023. Positive rate of inflation in March 2024 is primarily due to increase in prices of food articles, electricity, crude petroleum & natural gas, machinery & equipment and other manufacturing etc. Fuel and power prices showed continued deflation of 0.77 per cent year-on-year.

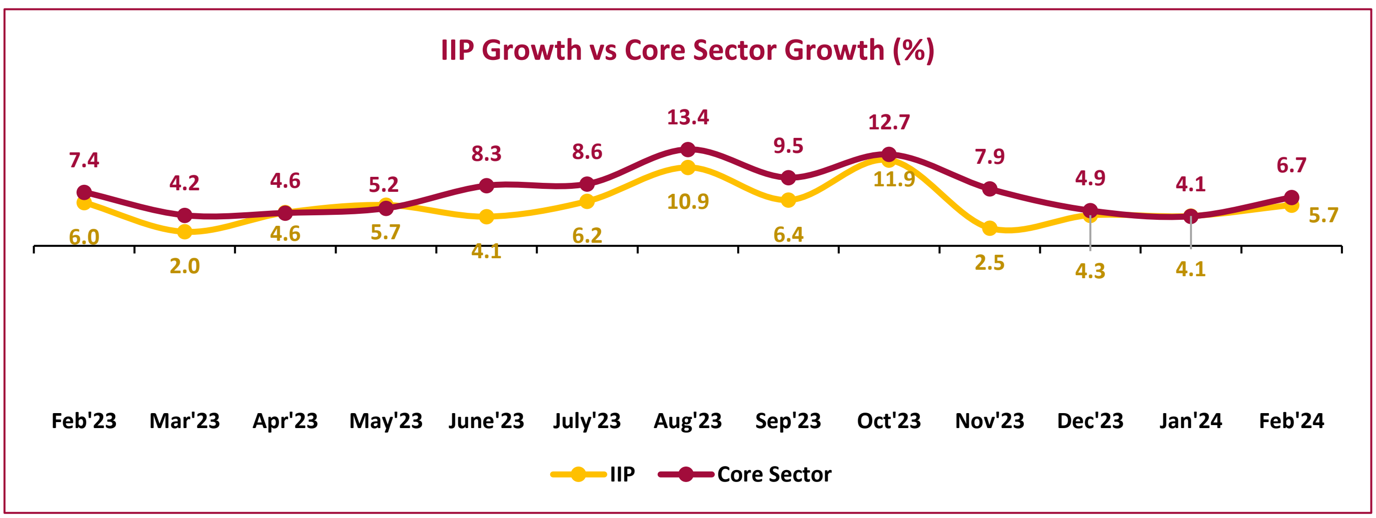
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP growth jumps to 5.7% in February 2024



IIP Growth % (Usage-wise)

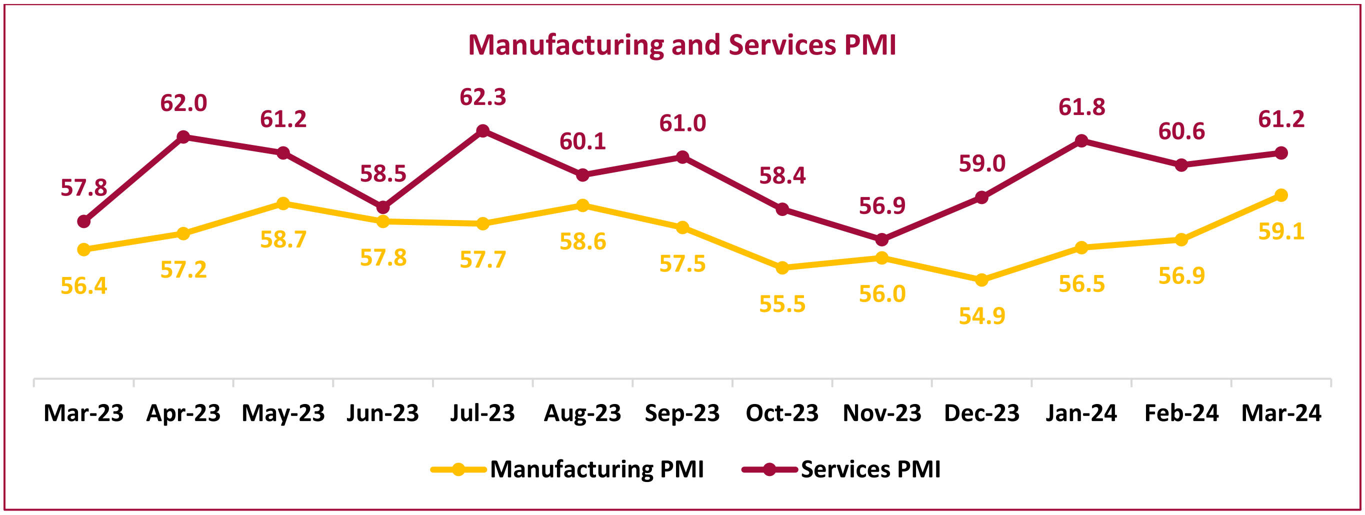
Component	Weight	Feb'23	Jan'24	Feb'24	Apr-Feb'23	Apr-Feb'24
Primary Goods	34.05%	7.0	2.9	**5.9**	7.9	**6.5**
Capital Goods	8.22%	11.0	3.4	**1.2**	13.4	**6.2**
Intermediate Goods	17.22%	1.0	5.3	**9.5**	4.1	**5.3**
Infra/Construction Goods	12.34%	9.0	5.5	**8.5**	8.5	**10.0**
Consumer Durables	12.84%	-4.1	11.9	**12.3**	1.5	**3.1**
Consumer Non- Durables	15.33%	12.5	-0.2	**-3.8**	0.9	**3.8**



IIP growth accelerated 5.7 per cent in February 2024 while it was 4.1 per cent in January 2024 - trailing the activity in the eight core industries (6.7 per cent growth). Highest growth was observed in the mining sector (8.0 per cent) while manufacturing sector grew by 5.0 per cent in February 2024. Consumer non-durables sector, however, recorded a contraction of 3.8 per cent.

PURCHASING MANAGERS' INDEX (PMI)

Manufacturing PMI reaches new high in March'24



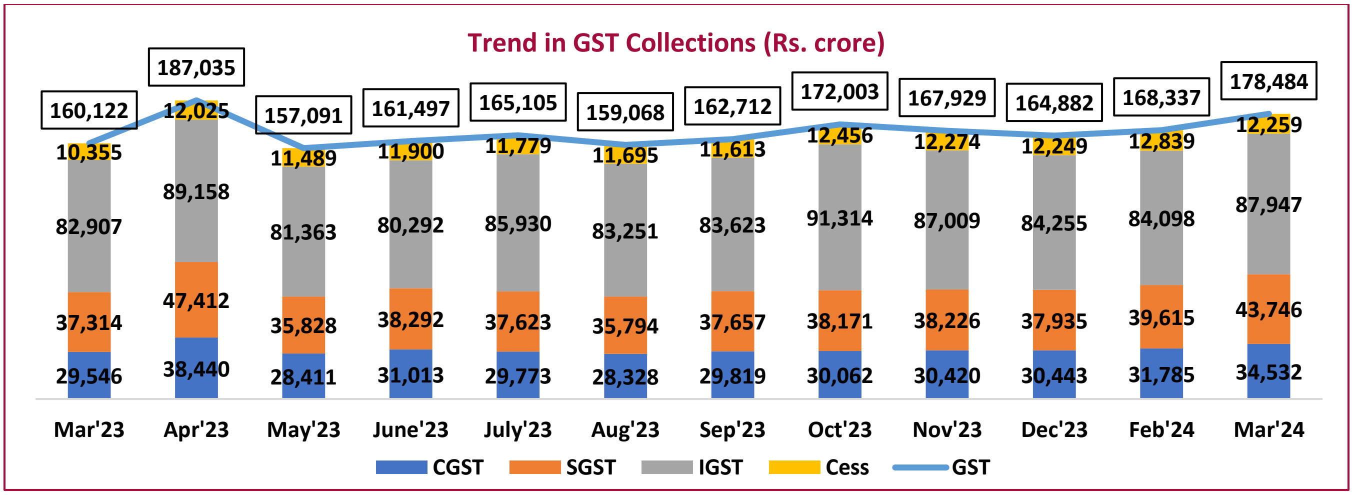
The HSBC India Manufacturing PMI rose to 16-year high of 59.1 in March 2024 from 56.9 in February 2024 on the back of the strongest increases in output and new orders since October 2020. Employment returned to positive territory and firms scaled up buying levels. Strong demand also pushed the Services PMI to 61.2 in March 2024 from the previous month's reading of 60.6. **HSBC India Composite PMI Index to an eight-month high of 61.8 from the previous month's 60.6.**

PERFORMANCE OF OTHER LEADING INDICATORS

Parameters	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Coal production (YoY %)	8.8	7.0	9.7	15.1	17.7	16.0	18.5	11.0	10.8	10.3	11.8
Electricity Generation (YoY %)	-2.5	1.1	2.4	6.2	13.2	8.8	21.9	5.8	0.4	7.9	6.4
Consumption of petroleum products (YoY %)	1.4	12.6	5.2	3.1	8.1	8.0	4.8	-2.2	2.6	8.3	5.7
Railways: freight traffic (YoY %)	3.5	1.9	-1.9	1.5	6.4	6.7	8.5	4.3	6.4	6.4	10.1
Cargo handled at major ports (YoY %)	1.3	3.2	-2.0	4.2	4.1	0.3	13.8	16.9	0.6	3.2	2.1
Cement production (million tonnes)	35.9	35.9	36.5	31.0	33.9	31.0	33.9	29.4	35.9	36.5	-
Steel consumption (million tonnes)	10.0	10.4	10.1	10.6	11.1	11.2	11.6	11.3	12.1	11.6	11.6
Fertiliser sales (YoY %)	-13.9	2.1	1.7	4.5	2.7	5.7	10.5	-5.5	-3.1	-9.1	-13.5
Two-wheelers sales (Nos. in Lakhs)	16.0	17.3	16.0	15.8	18.6	20.5	21.9	19.0	15.0	17.6	18.5
Tractors sales (Nos. in Thousand)	86.9	91.3	106.6	67.0	62.1	105.5	125.4	79.0	52.1	62.8	51.8

GOODS AND SERVICES TAX (GST)

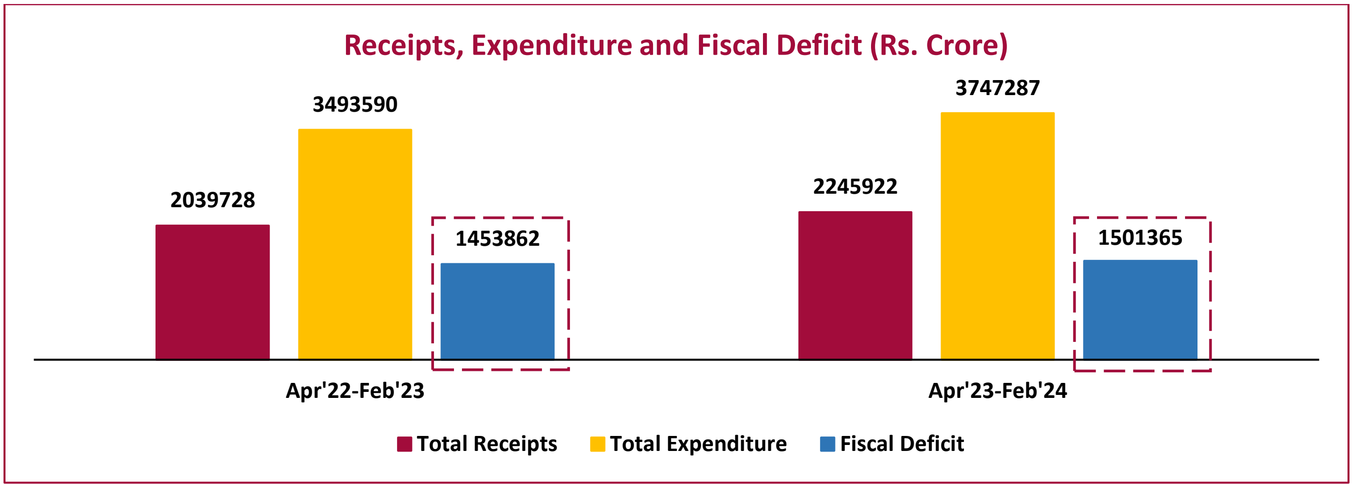
GST Collections rise by 11.5% per cent in March 2024, shows 2nd highest collection in FY24



Gross Good and Services Tax (GST) collections for March 2024 witnessed the second highest collection ever at Rs. 1.78 lakh crore, with an 11.5 per cent year-on-year growth. This surge was driven by a significant rise in GST collection from domestic transactions at 17.6 per cent. **FY 2023-24 marks a milestone with total gross GST collection of Rs. 20.18 lakh crore, an 11.7 per cent increase compared to the previous year.**

	Mar'-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
E-way bill Generation (Nos. in Cr.)	9.1	8.4	8.8	8.6	8.8	9.3	9.2	10.0	8.8	9.5	9.6	9.7

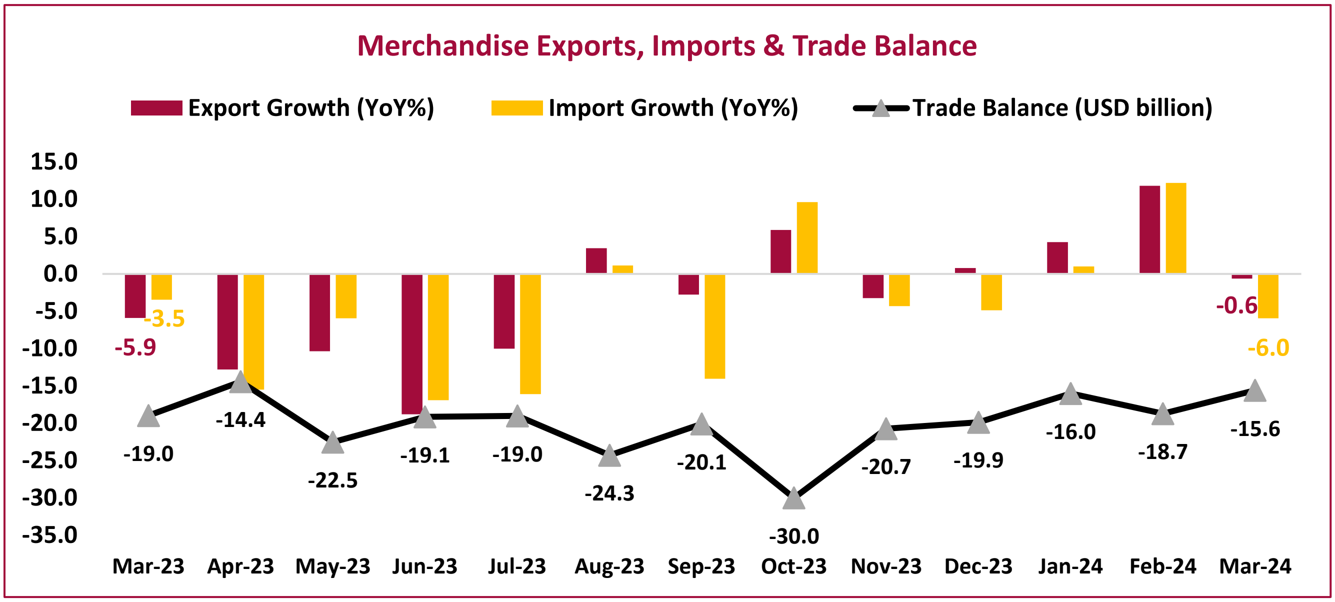
FISCAL DEFICIT

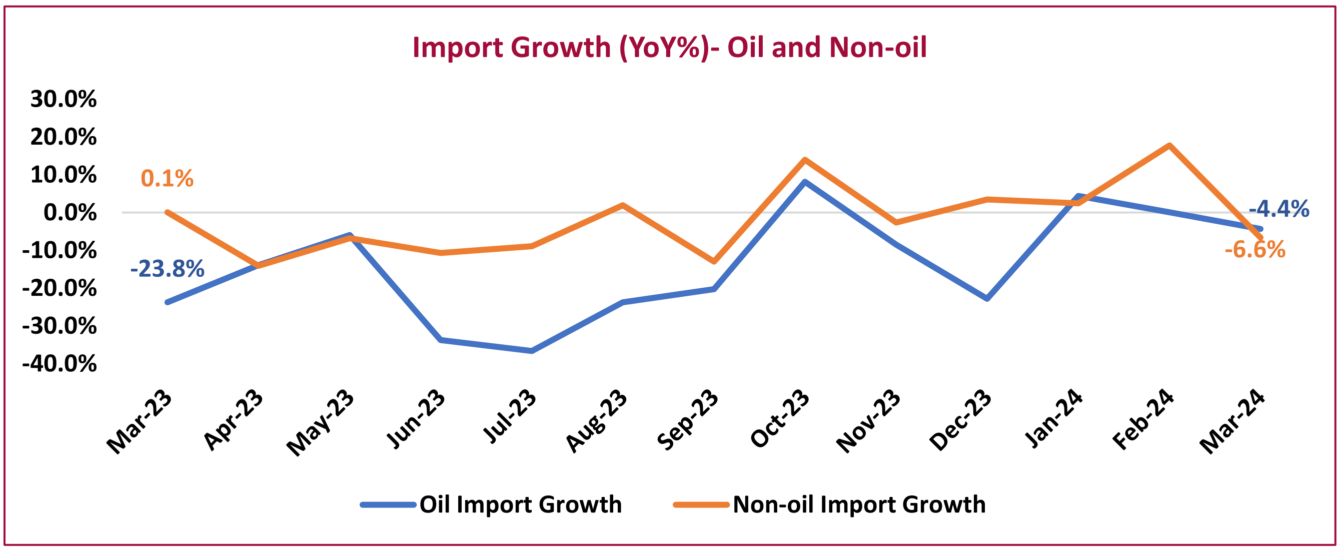


The government's fiscal deficit in the April 2023-February 2024 period increased to 15.01 lakh crore-amounting to 86.5 per cent of the BE- a big jump from 63.6 per cent of BE reached till last month.

FOREIGN TRADE

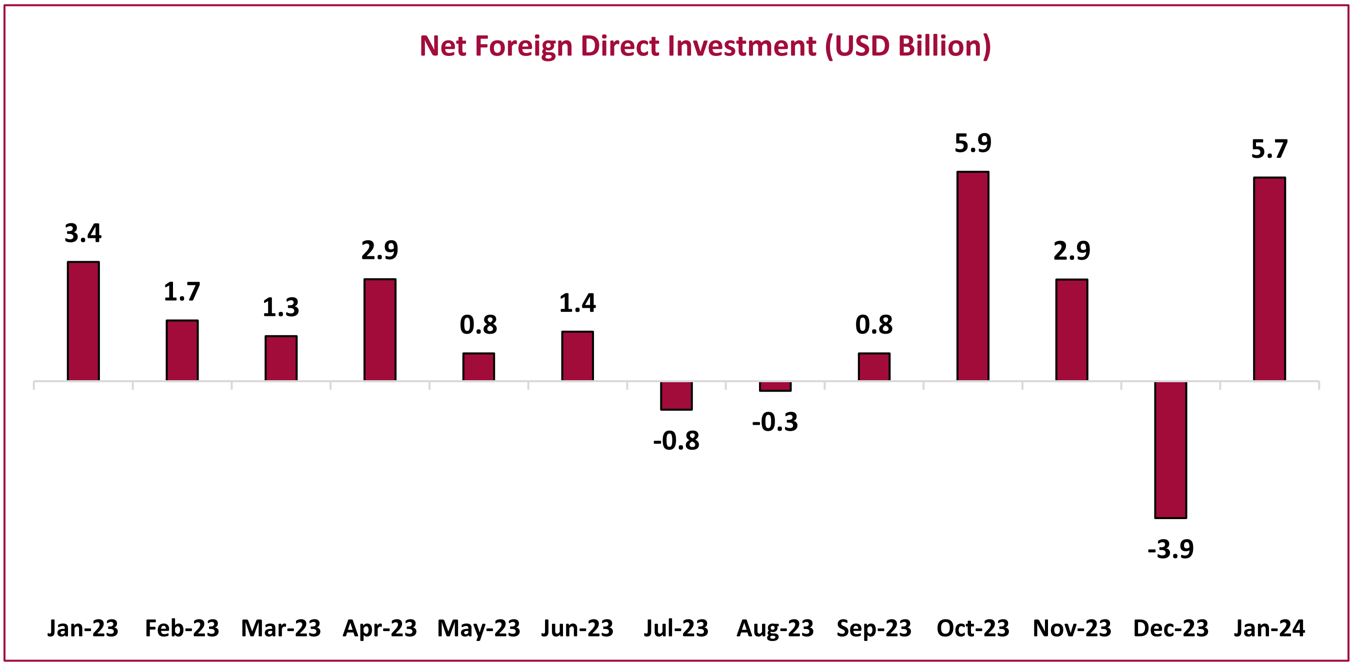
Trade deficit narrows to USD 15.6 Billion in March 2024



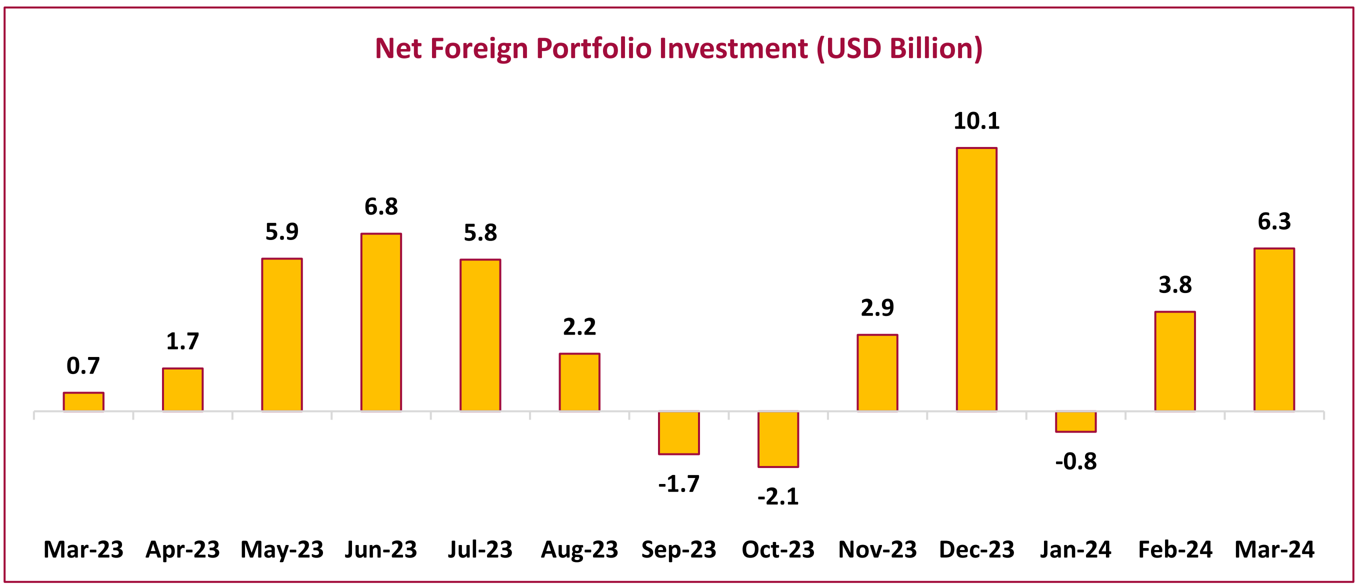


India's merchandise trade deficit narrowed by approximately 17 per cent to USD 15.6 billion in March 2024 from USD 18.7 billion in the previous month. This is the lowest in 11 months—the last time the deficit was lower was in April 2023 when it came in at USD 14.4 billion. Merchandise exports rose marginally to USD 41.7 billion in March 2024, from USD 41.4 billion in February 2024 amid the slow pace of pickup in global trade, following a contraction in 2023 that was driven by the lingering effects of high energy prices and inflation. Geopolitical challenges like conflicts in West Asia and Ukraine and the Red Sea crisis further impacted trade. The main drivers of merchandise export growth included electronic goods, drugs and pharmaceuticals, engineering goods, iron ore, cotton yarn/fabric, handloom products, and ceramic products & glassware. Merchandise imports fell to USD 57.3 billion in March 2024, down from USD 60.1 billion in the previous month.

FOREIGN INVESTMENTS



Net Foreign Direct Investments into the country improved in January 2024 to USD 5.7 billion- up from a net outflow of USD 3.9 billion in December 2023 on the back of India's economic health and better growth prospects.



Net FPI inflows into the country stayed robust with net inflows growing from USD -0.8 billion in January 2024 to USD 3.8 billion in February 2024 and further to USD 6.3 billion in March 2024. Specifically, FPI investments in the debt market have surged considerably over the past five months ahead of the inclusion of Indian G-secs in the JP Morgan and Bloomberg Indices. Inflows are expected to stabilize post the Index inclusion. India's strong growth prospects coupled with prudent fiscal and monetary policies have remained favourable for bond yields.

BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	24.03.23	08.03.24	22.03.24	YoY (%)	Fortnightly (%)
Deposits	180.44	204.20	204.75	***13.47%***	***0.27%***
Advances	136.75	163.14	164.35	***20.18%***	***0.74%***
Business	317.19	367.34	369.10	***16.36%***	***0.48%***

SECTORAL DEPLOYMENT OF CREDIT- INDUSTRY WISE

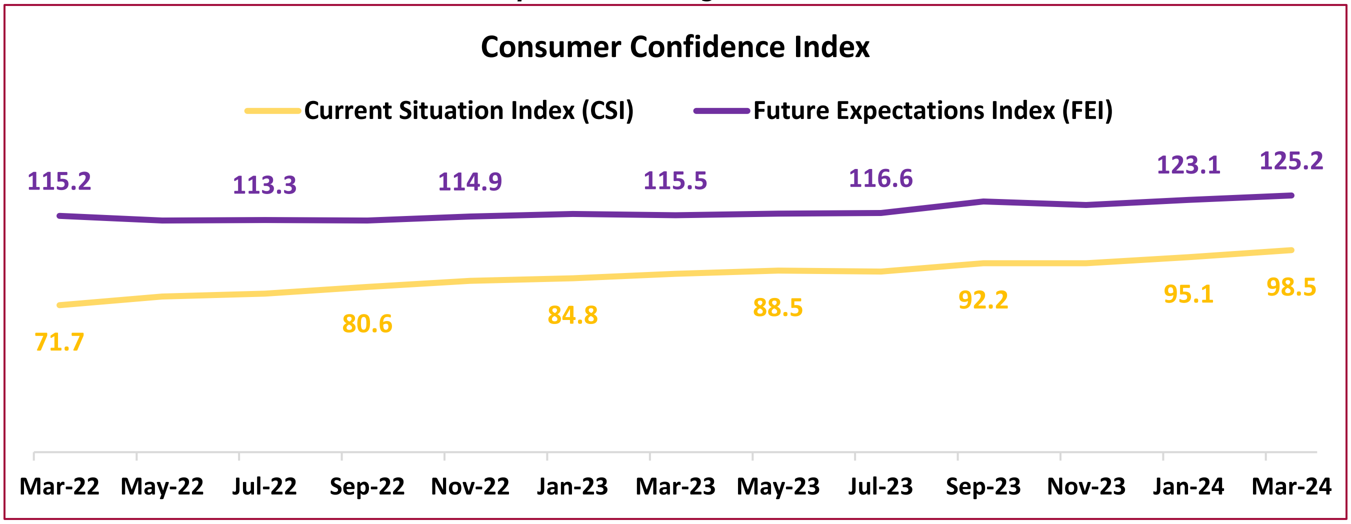
Parameter (Rs. Lakh Crore)	Feb-23	Dec-23	Jan-24	Feb-24
Total Non-food	**134.1**	**159.2**	**160.0**	**161.7**
Agriculture and allied activities	**17.0**	**19.9**	**20.1**	**20.4**
Industry	**33.6**	**36.6**	**36.5**	**36.7**
Of which				
Micro & small	6.9	7.0	7.1	7.9
Medium	2.7	2.9	2.9	3.1
Large	24.1	26.7	26.5	25.8
Personal loans	**41.1**	**51.8**	**52.2**	**52.7**
Of which				
Housing (Including priority sector housing)	19.6	26.4	26.6	26.8
Education	1.0	1.1	1.2	1.2
Vehicle loans	5.0	5.8	5.8	5.8
Services	**36.2**	**44.1**	**44.2**	**44.9**
Of which				
Computer software	0.2	0.3	0.3	0.3
Tourism, hotels & restaurants	0.7	0.8	0.8	0.8
Shipping	0.1	0.1	0.1	0.1
Aviation	0.3	0.5	0.5	0.4
Retail trade	4.2	4.7	4.7	4.8
Commercial real estate	3.2	4.4	4.4	4.4

Non-food bank credit registered a growth of 20.5 per cent YoY in February 2024 as compared with 15.5 per cent a year ago. Credit growth to agriculture and allied activities remained robust at 20.1 per cent (y-o-y) in February 2024 (15.0 per cent a year ago), while credit to industry grew by 9.1 per cent (6.8 per cent a year ago). Food processing, infrastructure, and textile were among the major contributors of credit growth to industry. Credit to services sector grew by 24.0 per cent (y-o-y) in February 2024 (20.5 per cent a year ago) owing to trade and commercial real estate.

11. BI-MONTHLY ECONOMIC INDICATORS

RBI CONSUMER CONFIDENCE INDEX

Consumer Confidence at its highest level since mid-2019



Note: CSI and FEI are compiled on the basis of net responses on the economic situation, income, spending, employment and the price level for the current period (as compared with one year ago) and a year ahead, respectively. CSI and FEI = 100 + Average of Net Responses of the above parameters.

Households' sentiments on general economic situation and employment prospects recorded notable improvements for both the current period as well as the upcoming year. Their outlook on discretionary spending improved. Respondents assessed better income situation compared to a year ago and expected further rise in income in the year ahead.

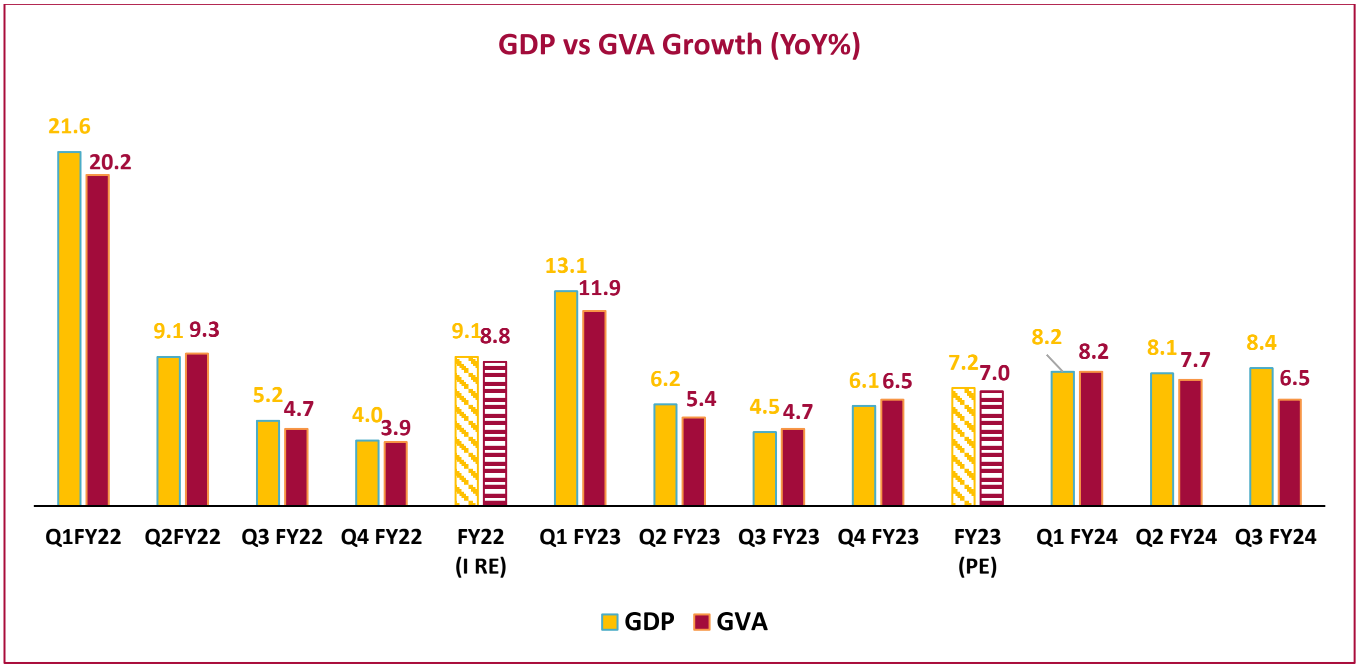
12. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	0.10%	Mar 19, 2024 (20bps)	-
European Central Bank	Europe	4.50%	Sep 14, 2023 (25 bps)	June 06, 2024
Federal Reserve	U.S.A	5.50%	Jul 26, 2023 (25bps)	May 01, 2024
Bank of England	U.K	5.25%	Aug 03, 2023 (25 bps)	May 09, 2024
Peoples Bank of China	China	3.45%	Aug 21, 2023 (-10 bps)	-
Reserve Bank of India	India	6.50%	Feb 08, 2023 (25 bps)	June 05, 2024

13. QUARTERLY ECONOMIC INDICATORS

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

India's GDP growth surpasses expectations

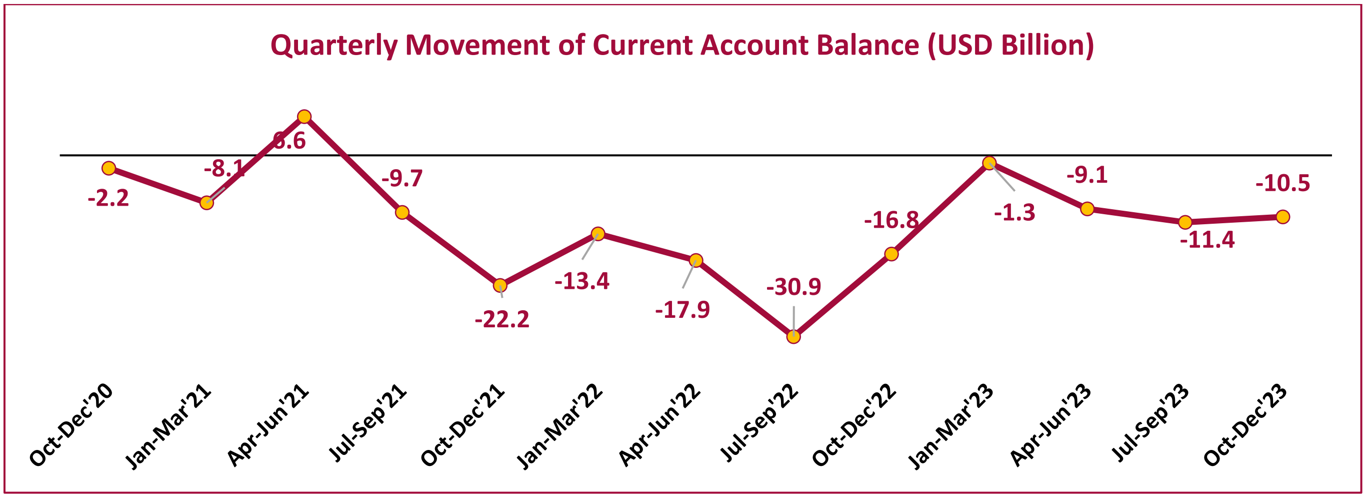


India accounted for the highest GDP growth in the last 6 quarters at 8.4 per cent in Q3 FY'24, marking the third consecutive quarter of 8 per cent plus growth in FY'24. GVA growth, which excludes indirect tax and subsidies, was pegged at 6.5 per cent in Q2 FY'24. The growth was mainly driven by a remarkable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

INDIA'S GDP OUTLOOK BY VARIOUS AGENCIES

Agency	FY25
RBI	7.0% ⇔
World Bank	6.6% ⇧
IMF	6.8% ⇧
ADB	7.0% ⇧

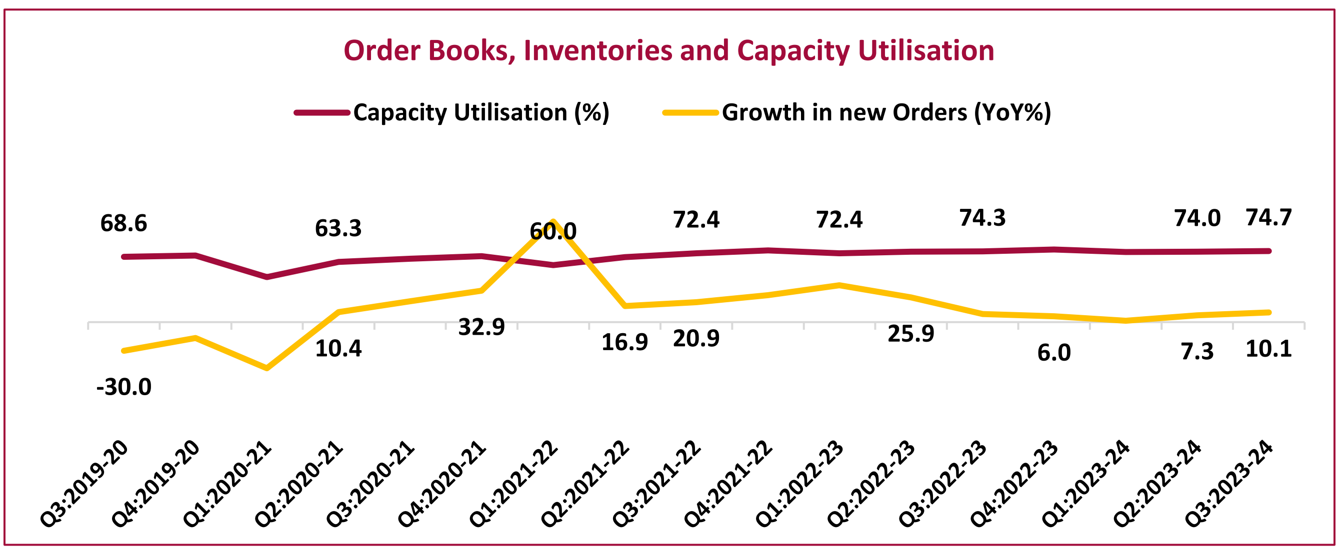
CURRENT ACCOUNT BALANCE



India's Current Account Deficit (CAD) moderated slightly from USD 11.4 billion (1.3 per cent of GDP) in Q2 FY'24 to USD 10.5 billion (1.2 per cent of GDP) in Q3 FY'24. In the same quarter last year, CAD stood at USD 16.8 billion (2.0 per cent of GDP). CAD narrowed despite a wider merchandise trade deficit primarily due to growth in service exports (5.2 per cent YoY) and private transfers (2.1 per cent YoY).

RBI ORDER BOOKS, INVENTORIES AND CAPACITY UTILISATION (OBICUS) SURVEY ON THE MANUFACTURING SECTOR

Capacity Utilisation increased to 74.7% in Q3 FY24 on the back of new order growth

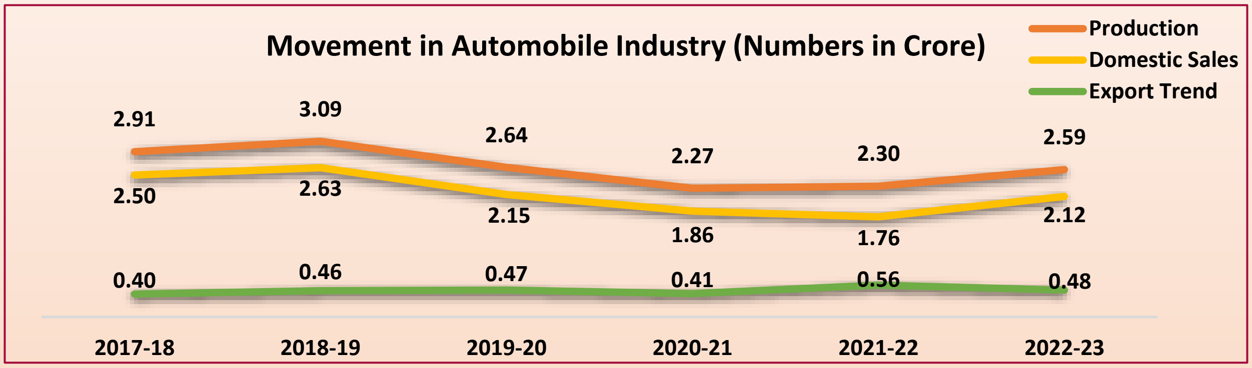


Capacity Utilization (CU) in the manufacturing sector marginally improved to 74.7 per cent in Q3:2023-24 from 74.0 per cent in the previous quarter. Manufacturers reported significantly higher new orders in Q3:2023-24 as compared to the previous quarter as well as the corresponding quarter a year ago.

14. INDUSTRY OUTLOOK

AUTOMOBILE

Automobile is one of the important industries in India and is a major employment provider as well. The industry with strong backward and forward linkages and mindful policy interventions from time to time has become one of the most promising sectors of the economy. There has been growth across all the segments of the industry.



There are many factors which are driving the market for automobiles:

- **Rising disposable income and growing middle class:** More Indians will have the means to purchase vehicles, particularly in the two-wheeler and small/mid-size car segments.
- **Urbanization:** As more people move to cities, the demand for personal transportation will increase.
- **Government initiatives**: The Indian government is keen to support the auto industry and is introducing policies to attract investments and promote electric vehicles (EVs).
- **EV revolution:** The EV market is expected to see significant growth driven by government incentives and increasing environmental awareness.

However, there are also challenges which the industry is facing which may keep it from realizing its full potential. Some of the challenges are as under:

- **Supply chain disruptions**: Global chip shortages and other supply chain issues can affect production.
- **Rising input costs**: Increasing costs of raw materials and labor could push up vehicle prices.
- **Shifting consumer preferences:** Consumers may become more interested in ride-hailing services or car-sharing options, impacting car ownership rates.

Overall, the Indian automobile industry has a promising outlook, but it's not without its challenges. The industry's ability to adapt to these challenges and capitalize on the growth opportunities will be key to its future success. The Indian automobile industry is expected to keep growing in the coming years with the kind of measures and importance being accorded to the industry.

Surabhi Tewari
Senior Manager (Economics)
Head Office, SMEAD

15. DATA SOURCES

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

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QUOTE OF THE MONTH

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

—Jim Rohn

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