पंजाब नैशनल बैंक
punjab national bank

PNB ECOLENS

MONTHLY BULLETIN

पीएनबी इकोलेंस मासिक बुलेटिन

OCTOBER 2023

अक्टूबर 2023

pnb

STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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

_निम्न द्वारा प्रकाशित:_
पंजाब नैशनल बैंक
_कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग_
_कॉर्पोरेट कार्यालय, प्लॉट सं. 4, सेक्टर-10,_
_द्वारका, नई दिल्ली-110075_

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

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

For any feedback or valuable suggestions: _Reach us at eicsmead@pnb.co.in_

CONTENTS

Move on Liquidity Scenario and Way Forward

The importance of liquidity scenario lies in its significant impact on the economic stability & confidence in the Financial Markets. Liquidity in the banking system refers to readily available cash that banks need to meet short-term business and financial needs.

On a given day, if the banking system is a net borrower from the RBI under Liquidity Adjustment Facility (LAF), the system liquidity can be said to be in deficit and if the banking system is a net lender to the RBI, the system liquidity can be said to be in surplus.

The Reserve Bank of India has also been laying adequate emphasis on managing the liquidity in the system and coming out with various measures to manage liquidity in the system. Since the onset of the pandemic, the RBI maintained ample surplus liquidity to support a speedy and durable economic recovery and when the situation eased, the Regulator began to adjust the liquidity. The Regulator seems to be favouring the use of liquidity control measures and it might be a signal for an end to rate hiking cycle.

The importance of liquidity management is all the more important as there is a demand for liquidity due to the availability of payment system on 24*7 basis as against the supply of liquidity is based on various exogenous and internal factors. All the steps taken up by the regulator are aimed at avoiding distortions and ensure smooth functioning of the economy.

At present the domestic economic activities are well within control and is expected to pick up as the festive consumption demand goes up, rising investment intentions and improving consumer and business outlook. The system is in deficit of 85 thousand to 1 lakh crore and went to maximum deficit of Rs.1.5 lakh crore in September. Liquidity in the banking system has been in deficit mode, despite the phased unwinding of the Incremental-Cash Reserve Ratio (ICRR), with the final release on 07.10.2023. As a matter of fact, RBI increased the Incremental Cash Reserve Ratio (ICRR) for the increase in net demand and time liabilities (NDTL) between May 19-July28. The measure aimed at absorbing surplus liquidity generated return of ₹2,000 notes to the system & more.

In the recent Monetary Policy Review, RBI reiterated its stance of managing liquidity and announced OMOs sales as and when situation demands. There is a need to outline the purpose of RBI's Open Market Operations (OMOs) i.e., to adjust the rupee liquidity conditions in the market on a durable basis.

It is expected that the liquidity will remain in surplus due to enhanced government spending and maturity of various bonds. But to counteract the situation, the scenario of liquidity surplus will start to reduce naturally in the ongoing quarter due to upcoming festive season for the demand of cash. Further to it, external sector headwinds remain elevated and the liquidity conditions will remain tight through most of this quarter (Oct-Dec'23).

The immediate repercussion of tighter liquidity conditions is on the prevailing inflationary pressures and the depreciating pressures on the Indian rupee. The firming up of US yields has resulted in dollar appreciation and increased pressures on the Indian rupee.

With the 10-year US Treasury yield breaching the 5 per cent level for the first time since the global financial crisis happened, India is seeing fund outflows as when the yield differential between the two countries narrows, offshore investors start to turn away from India as they don't find the returns from investing in an emerging market attractive than in a developed economy like the US.

It is firmly believed now interest rate cycle in India and globally has peaked and will remain elevated for a long time. However, any unprecedented tightening of global liquidity conditions from major economies may spur market volatility.

By strategically using and executing the various monetary tool, market feels that the Regulator can effectively manage currency and liquidity, thereby contributing to the overall stability and health of the Indian economy. Going forward, to provide a future guidance of liquidity levels that it expects to maintain in line with the inflation and GDP projections provided. Further, it is also likely that the Liquidity forecasting may be conducted taking into consideration cash flow gaps and future cash flows projections.

Hence, RBI's concern of liquidity is well justified and ensuring sufficient liquidity is available to support the credit demand.

Deepak Singh

(Deputy General Manager)

2. KEY TAKEAWAYS: WORLD ECONOMIC OUTLOOK – OCTOBER 2023

- **Economic activity still falls short of its pre-pandemic path**, especially in emerging market and developing economies, and there are widening divergences among regions.
- **Rising interest rates and the war in Ukraine** continue to weigh on economic activity. China's recent reopening has paved the way for a faster-than-expected recovery. **High inflation expectations** is complicating central banks' paths to getting inflation back to their targets. Low-income countries would bear a disproportionate share of the economic cost of commodity trade disruptions, due to their high reliance on agricultural imports. **Fragmented minerals markets** would make the energy transition more costly, reducing investment in renewables and electric vehicles by one-third by 2030 in an illustrative scenario.
- **Several forces are holding back the recovery**. Some reflect the long-term consequences of the pandemic, the war in Ukraine, and increasing geo-economic fragmentation. Others are more cyclical in nature, including the effects of monetary policy tightening necessary to reduce inflation, withdrawal of fiscal support amid high debt, and extreme weather events.
- **Global growth is forecast** to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024. **For advanced economies**, the expected slowdown is from 2.6 percent in 2022 to 1.5 percent in 2023 and 1.4 percent in 2024, amid stronger-than-expected US momentum but weaker-than-expected growth in the euro area.
- **Emerging market and developing economies are projected** to have growth modestly decline, from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024, with a downward revision of 0.1 percentage point in 2024, reflecting the property sector crisis in China.
- **Risks to the outlook are more balanced** than they were six months ago, on account of the resolution of US debt ceiling tensions and Swiss and US authorities' having acted decisively to contain financial turbulence.
- **Near-term inflation expectations** have risen and could contribute, along with tight labor markets, to core inflation pressures persisting and requiring higher policy rates than expected. More climate and geopolitical shocks could cause additional food and energy price spikes.
- **Intensifying geo-economic fragmentation** could constrain the flow of commodities across markets, causing additional price volatility and complicating the green transition. Amid rising debt service costs, more than half of low-income developing countries are in or at high risk of debt distress.
- **Effective Monetary policy frameworks and communication** are vital for anchoring expectations and minimizing the output costs of disinflation.
- **Reforms to reduce structural impediments** to growth–by, among other things, encouraging labor market participation—would smooth the decline of inflation to target and facilitate debt reduction.
- **Faster and more efficient multilateral coordination** is needed on debt resolution to avoid debt distress.

3. ISRAEL PALESTINE WAR – AN IMPACT ANALYSIS

On 7th October, 2023, Saturday, Palestinian group Hamas attacked Israel killing hundreds of people and even took hostages back with them. In response to the attack, Israel has declared war and launched what it called Operation Swords of Iron, with its jets bombing the Gaza Strip. In the aftermath of the event, the global financial market showed a "knee-jerk reaction" where stock indices dipped, funds flown to safe havens as it ignited the fear of geo-political risk. However, we believe that a prolonged war can only affect the world trade and the economy.

1. **Impact on Financial Market and Oil Prices**

- The war has re-ignited the geopolitical tensions and is affecting the stock markets globally. The conflict has shocked equity markets with **investors shifting towards safe-haven assets.** Safe-haven gold prices rose over 1 per cent.

- Even **the oil prices are surging**, showing inflationary concerns. Brent Oil futures climbed by around 5 per cent since the war broke out, and hovering over $88 a barrel as on 9th October, 2023. Even, the US WTI crude rose over 4 per cent to $86.38 a barrel on the same date.

- Israel and Palestine, both are not major oil producers, however the conflict is situated in the major oil producing region of Middle East. Hence, **the impact is expected to be short-term in nature provided the conflict does not escalate further** and becomes a regional war with countries like Saudi Arabia and Iran getting into it.

2. **Impact on Global Economy**

- Even the Global Economy is dependent on the severity and escalation of the conflict. Firstly, it is **impacting the oil prices** with chances of impacting further if the Middle Eastern nations which are key oil producers get involved. With the global economy facing the 'higher for longer' interest rate scenario, further rise in oil prices would be a major risk for the entire world.

- The United States, India, China and other major economies are big importers of oil and **may witness high imported inflation** if the oil prices remain elevated.

3. **Impact on Indian Economy and Trade**

- The development in the Middle East is not only concerning for the global economy but also for India, given its dependency on crude oil and its strong trade ties with Israel.

- Being the third largest importer of crude oil, the **surge in oil prices will have immediate impact** on the Indian economy. The **rise in price of oil will lead to cost push inflation and hamper the growth** of the economy.

- Israel is a significant trade partner for India, ranking as the third-largest in Asia and tenth globally.

- Bilateral trade between the two countries has diversified into several sectors such as pharmaceuticals, agriculture, water, IT and telecom. **From US$ 200 million in 1992 (comprising primarily of diamonds), merchandise trade diversified and reached US$ 10.1 billion (excluding defense) in FY 2022-23** with the balance of trade being in India's favor.

- **In FY 2022-23, Indian merchandise exports to Israel was US $7.89 billion and Israeli exports to India was US $2.13 billion.** Major exports from India to Israel include pearls and precious stones, automotive diesel, chemical and mineral products, machinery and electrical equipment, plastics, textile and apparel products, base metals and transport equipment, agricultural products. On the other hand, major exports from Israel to India include pearls and precious stones, chemical and mineral/fertilizer products, machinery and electrical equipment, petroleum oils, defense, machinery and transport equipment.

- Hence any **further rise in the conflict will lead to trade disruptions** of the mentioned sectors and industries, thereby putting pressure on the economy as a whole.

- The **trade disruption will also put pressure on the exchange rate** as well and could lead to a depreciation of the rupee.

- India also has substantial investments in Israel, which will also be impacted. According to data, the cumulative overseas direct investment from India during April 2000 to May 2023 was $383 million.

4. Conclusion

To conclude, it is quite clear that, even though the impact on the economy is limited, further escalation could lead to a severe impact on various parts of the world, including India.

(Updated till 11.10.2023)

4. HIGHLIGHTS OF RBI's BI-MONTHLY MONETARY POLICY

Highlights of the RBI's Monetary Policy announced on 06.10.2023 are given below:

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

a. **Policy Rates and Stance:** Reserve Bank of India's (RBI) monetary policy commission (MPC) kept the repo rate unchanged at 6.50% for the 4th time in a row. The RBI had already hiked key benchmark lending rate by 250 basis points (bps) since an off-cycle 40 bps increase in repo in May 2022.

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

c. **Rationale:** The rationale behind the same is to ensure that inflation progressively aligns to the target, while supporting growth.

i. Economic and Inflation Outlook

Economy Outlook

- The global economy is slowing under the impact of tight financial conditions, protracted geopolitical tensions and increasing geo-economic fragmentation. In contrast to global trends, domestic economic activity exhibits resilience on the back of strong domestic demand.
- The momentum in agricultural activity in Q2:2023-24 has been sustained, although the monsoon has been uneven. The acreage under kharif crops as on September 29, 2023 was 0.2 per cent above last year's level.
- The industrial sector extended recovery in Q2.Manufacturing sector gained ground in July-August 2023, supported by key sectors such as pharmaceuticals, basic metals, cement, motor vehicles, and food products and beverages. The purchasing managers' index (PMI) for manufacturing remained robust in September.
- Services sector activity is maintaining buoyancy as indicated by healthy expansion in high frequency indicators in August-September.
- Capacity utilization (CU) in the manufacturing sector, on a seasonally adjusted basis, continued to trend up, which augurs well for investment activity.
- Going forward, domestic demand conditions are likely to benefit from sustained buoyancy in services, consumer and business optimism, government's continued thrust on capex, healthy balance sheets of banks and corporates, and supply chain normalization.

- Taking all these factors into consideration, GDP projections are as under with risks are evenly balanced:

RBI Projection GDP	Q2 FY’24	Q3 FY’24	Q4 FY’24	FY’24	Q1 FY’25
10.08.2023	6.5%	6.0%	5.7%	6.5%	6.6%
06.10.2023	6.5%↔	6.0%↔	5.7%↔	6.5%↔	6.6%↔

Inflation Outlook

- The heightened inflation levels in July and August at 7.4 per cent and 6.8 per cent respectively, were largely driven by food price pressures.12 Vegetables, with a weight of around 6 per cent in the CPI basket, contributed to about one third of CPI headline inflation in July and to around one fourth of overall inflation in August.
- Sustained inflationary pressures in cereals, pulses, and spices added to the overall food inflation. While near-term inflation is expected to soften on the back of vegetable price correction, especially in tomatoes, and the reduction in LPG prices, the future trajectory will be conditioned by a number of factors. Together with global financial market volatility, these factors pose risks to the outlook.
- Taking into account these factors, the projections for CPI Inflation is as under:

RBI Inflation Projection	Q2 FY’24	Q3 FY’24	Q4 FY’24	FY’24	Q1 FY’25
10.08.2023	6.2%	5.7%	5.2%	5.4%	5.2%
06.10.2023	6.4%↑	5.6%↓	5.2%↔	5.4%↔	5.2%↔

ii. Liquidity and Financial Market Conditions

- To ensure that liquidity conditions evolve in sync with the monetary policy stance, the Reserve Bank – as a temporary measure – had imposed an Incremental Cash Reserve Ratio (I-CRR) of 10 per cent which impounded about ₹1.1 lakh crore from the banking system. The I-CRR was reviewed on September 8 and is being discontinued in a phased manner, ending October 7, 2023.
- Moderation in excess liquidity conditions as a result of the combined impact of I-CRR and advance tax outflows in September has resulted in greater recourse to the marginal standing facility (MSF) by banks.
- Despite such hardening at the short-end of the term structure, the average term spread in the G-sec market (10-year minus 91-day Treasury Bills) remained at around 40 basis points in August-September suggesting stable financial conditions.
- The release of the remaining impounded I-CRR funds tomorrow along with pickup in government spending are expected to ease liquidity conditions. Festival time increase in currency demand may, of course, act as a counterbalancing factor.
- Going forward, while remaining nimble, OMO-sales (Open Market Operation sales) may be considered to manage liquidity, consistent with the stance of monetary policy. The timing and quantum of such operations will depend on the evolving liquidity conditions.

iii. Financial Stability

- The Indian banking system continues to be resilient, backed by improved asset quality, stable credit growth and robust earnings growth. The credit growth is broad-based and backed by the strong fundamentals of financial institutions.
- Banks and NBFCs would be well advised to strengthen their internal surveillance mechanisms, address the build-up of risks, if any, and institute suitable safeguards in their own interest. The need of the hour is robust risk management and stronger underwriting standards.

iv. External Sector

- India's merchandise exports and imports have remained in the contractionary zone so far during 2023-24, although at a decelerated pace during July and August.
- The current account deficit (CAD) for Q1:2023-24 declined to 1.1 per cent of GDP from a year ago. There was an accretion of US$ 24.4 billion to foreign exchange reserves on balance of payments (BOP) basis during Q1:2023-24.
- In external financing, foreign portfolio investment (FPI) flows have seen a significant turnaround in 2023-24 with net FPI inflows at US$ 20.3 billion up to September 2023 as against net outflows in the preceding two years.
- External vulnerability indicators also indicate lower vulnerability in comparison with EME peers. India's foreign exchange reserves stood at US$ 586.9 billion as on September 29, 2023. India is confident of meeting our external financing requirements comfortably.

v. Additional Measures

I. Regulation

a) Prudential Framework for Income Recognition, Asset Classification and Provisioning pertaining to Advances - Projects Under Implementation

- With a view to strengthen the extant regulatory framework governing the project finance and to harmonise the instructions across all regulated entities, the extant prudential norms for projects under implementation have been reviewed and a comprehensive regulatory framework applicable for all regulated entities is proposed to be issued.
- Detailed draft guidelines on the above will be issued separately.

b) Credit Concentration Norms – Credit Risk Transfer

- With a view to harmonize the Large Exposure Framework norms among NBFCs, it has been decided to permit NBFCs in the Middle Layer (ML) and Base Layer (BL) as well, to offset their exposures with eligible credit risk transfer instruments. The instructions in this regard shall be issued shortly.

c) Gold Loan – Bullet Repayment Scheme – Urban Co-operative Banks (UCBs)

- With a view to incentivizing UCBs that have met the prescribed Priority Sector Lending (PSL) targets as on March 31, 2023, it has been decided to increase the monetary ceiling of gold loans that can be granted under the bullet repayment scheme from ₹2.00 lakh to ₹4.00 lakh. These UCBs will be required to continue to meet the targets and sub-targets thereafter.

d) Framework for recognition of SROs for Regulated Entities (REs) of Reserve Bank

- In view of the potential role of Self-Regulatory Organisations (SROs) in strengthening compliance culture among their members and also providing a consultative platform for policy making, it has been decided to issue an omnibus framework for recognizing SROs for various Regulated Entities (REs) of the Reserve Bank.
- The Reserve Bank may prescribe sector-specific additional conditions at the time of calling for applications for recognizing such SROs. To begin with, a draft of the collective framework for all Regulated Entities will be released for stakeholder comments.

II. Payments Systems

a) Payments Infrastructure Development Fund (PIDF) – Extension of Scheme and Inclusion of PM Vishwakarma Scheme beneficiaries

- It is now proposed to extend the PIDF Scheme by a further period of two years, i.e., upto December 31, 2025. Also, it is proposed to include beneficiaries' of PM Vishwakarma Scheme in all centres under the PIDF Scheme. This is to provide fillip to the Reserve Bank's efforts towards promoting digital transactions at the grassroots level.
- Further, based on the feedback received from industry, deployment of emerging modes of payment acceptance, such as sound-box devices and Aadhaar-enabled biometric devices, are proposed to be encouraged under the PIDF Scheme. *This is expected to accelerate deployment of Payment Acceptance Infrastructure.*

b) Introducing new channels for Card-on-File Tokenization

- At present, Card-on-File (CoF) token can only be created through merchant's application or webpage. It is now proposed to introduce CoF token creation facilities directly at the issuer bank level. *This measure will enhance convenience for cardholders to get tokens created and linked to their existing accounts with various ecommerce applications. Instructions in this regard will be issued separately.*

III. Consumer Protection

a) Master Direction on Internal Ombudsman mechanism in Regulated Entities

- Based on the learnings from the implementation of the extant Internal Ombudsman (IO) guidelines, it has been decided to harmonise the same and issue a consolidated Master Direction. The Master Direction shall bring uniformity in matters like timeline for escalation of complaints to IOs, exclusions, temporary absence of the Internal Ombudsman, minimum qualifications for appointing an Internal Ombudsman and updation of reporting formats, in addition to introduction of the post of Deputy Internal Ombudsman.
- *These instructions are expected to further strengthen the IO mechanism and in turn, the grievance redress system in REs.*

5. GIST OF SPEECH: A CUSTOMER CENTRIC APPROACH- NAVIGATING THE PATH TO EXCELLENCE IN CUSTOMER SERVICE

(Speech by Shri Swaminathan J, Deputy Governor, Reserve Bank of India - September 21, 2023 - at the Conference on Customer Service held in Mumbai)

The Need for a Customer-Centric Approach

- Financial services institutions exist because of their customers. They entrust regulated entities with their hard-earned money, their dreams, and their aspirations. The predominant source of your liabilities is customer deposits whose interest that we all seek to protect. It is, therefore, imperative to place them at the heart of operations of any bank. In fact, a customer-centric approach is not an optional thing; it is a necessity.
- In the world of finance, trust is the currency of the realm. Every transaction, every investment, and every interaction is underpinned by the faith customers place in financial institutions. When you prioritize customer needs and concerns, you strengthen this trust, which in turn promotes your business and financial resilience, side by side.
- Being commercial entities, there is nothing wrong in being target driven but Regulated entities should ensure that employees understand that their primary responsibility is to serve customers' financial needs.
- There should be clear and transparent incentive structures that reward employees for delivering quality financial advice and services rather than just making sales. Staff should ensure that products are recommended based on the customer's financial situation, goals, and risk tolerance.
- Towards this, every financial institution should have a policy for customer appropriateness and product suitability framework. By adhering to such a policy framework in letter and spirit, Regulated Entities can greatly reduce the mis-selling complaints which form a substantial portion of the complaints that we get to see.

Addressing the Root Cause of Customer Complaints

- In order to truly embrace customer centricity, we must delve into the root causes of customer complaints. Complaints are not mere inconveniences but vital feedback.
- Regular analysis of customer feedback, complaints, and suggestions can serve as an invaluable compass in navigating toward a service-oriented future. Root cause analysis will not only allow rectification of individual grievances but also enhance systemic processes to prevent reoccurrence.
- Customer Service Committees to allocate adequate time and focus on discussing the outcome of such root cause analysis to ensure that the institutions put in place mechanisms that can prevent recurrence of such complaints.
- Some of the Banks have adopted an innovative approach to classify certain complaints as queries which results in understating the problem. This results in a false sense of complacency, and the truth will be out in any case.
- Customer Service Committees to keep a close watch and guard against such practices.

Resolution at the Point of First Contact

- Every customer grievance is also an opportunity to prove our commitment to service excellence. Therefore, it is essential that customer complaints are addressed promptly and fairly through a robust and efficient complaint resolution process.
- Regulated entities should empower their customer facing staff to resolve issues at the point of first contact. The objective should be to ensure that complaints rarely need to be escalated to the Internal Ombudsman or the Reserve Bank Ombudsman.
- To achieve this, regulated entities must equip their frontline staff with not only the authority but also the tools and training needed to address customer concerns effectively.
- Well-informed and empowered frontline staff can transform customer grievances into opportunities for building stronger relationships. After all, staff are your ambassadors - they are the face and voice that customers encounter. A less than satisfying work environment results in employee dissatisfaction which in turn may impact their ability to serve their customers with a smile.
- Employees, therefore, must be fully equipped to deal with customer service-related issues. They should be provided adequate training and tools to handle customers well. Further, the commitment to training and development should extend beyond the initial onboarding process. Continuous learning and skill enhancement programs must be in place to adapt to changing customer expectations and the evolving landscape of financial services.
- Complaints emanating from staff misbehavior are to be flagged here. While it may not be possible to fulfil the demands of your clients to their full satisfaction, no one has a right to behave badly with the customer. Such complaints must be dealt with firmly and deterrent action must be initiated quickly to ensure that employees don’t indulge in such misdemeanours.

Responsible Handling of Complaints

- The Reserve Bank launched the Internal Ombudsman (IO) Scheme in banks in India in May 2015 which was subsequently extended to other regulated entities such as non-banking financial companies, non-bank payment system participants and more recently to credit information companies. The intent behind the IO Scheme is to enhance the level of customer service by providing an independent and impartial apex level authority within the regulated entity itself to address customer complaints that are not resolved satisfactorily.
- Accordingly, complaints should only be rejected after careful examination by the Internal Ombudsman. To do this effectively, regulated entities must ensure that the Internal Ombudsman is adequately resourced. The role of the IO is pivotal in ensuring fair and just resolution. Therefore, their resources should match the scale and complexity of the task at hand.
- By investing in the Internal Ombudsman's capabilities, regulated entities demonstrate their commitment to transparent and fair grievance redress. This, in turn, reinforces the trust of customers, knowing that their concerns will be addressed impartially within the regulated entity itself.

Combating Cybercrime

- In today's digital age, the battle against cybercrime is constant. Regulated entities must strengthen their systems, raise customer awareness and collaborate with other banks and law enforcement agencies. Cybersecurity is not just a technological challenge; it is sine qua non for safeguarding customers' trust.
- Enhancing cybersecurity involves not only implementing robust technologies but also fostering a culture of vigilance amongst employees.
- Cybersecurity awareness campaigns, regular drills, and collaborative initiatives can fortify our defences against the ever-evolving threats in the digital realm.

Cultivating a culture of continuous improvement

- Finally, it's crucial to cultivate a culture of continuous improvement. Customer expectations evolve, and so must the services offered. We must bear in mind that the way in which Banking as a service being rendered and consumed is rapidly changing. Therefore, regulated entities should actively seek feedback from customers, encourage innovation, and be willing to adapt to changing circumstances.
- Continuous improvement is not a one-time effort but an ongoing commitment. Further, the commitment to continuous improvement should extend to every aspect of your operations, from product offerings to digital services to branch experiences. By embracing change and innovation, regulated entities can stay ahead in a rapidly evolving financial landscape.
- Fintech companies are reshaping the industry by leveraging technology to provide innovative and convenient financial services. These companies often have agility and flexibility that can outpace traditional institutions. Rather than viewing fintech as a threat, we should see it as an opportunity. Embracing change and innovation is not just about staying competitive; it's about staying relevant. To navigate this changing landscape, traditional institutions must be willing to adapt and evolve as well as collaborate.
- Warren Buffet says "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you will do things differently". The manner in which you handle customer complaints impacts your reputation to a large extent. There is a need to focus on a customer centric approach in implementing robust, effective and efficient customer grievance redress mechanisms in your respective institution.

6. CLASSROOM - SECURITIZATION

IMF defines securitization as "*the process in which certain types of assets are pooled so that they can be repackaged into interest-bearing securities. The interest and principal payments from the assets are passed through to the purchasers of the securities*."

In its most basic form, the process involves two steps. In step one, a company with loans or other income-producing assets—the originator—identifies the assets it wants to remove from its balance sheet and pools them which is referred to as reference portfolio. It then sells this asset pool to an issuer, such as a Special Purpose Vehicle (SPV)—an entity set up, usually by a financial institution, specifically to purchase the assets and realize their off-balance-sheet treatment for legal and accounting purposes.

The issuer then finances the acquisition of the pooled assets by issuing tradable, interest-bearing securities that are sold to capital market investors. The investors receive fixed or floating rate payments from a trustee account funded by the cash flows generated by the reference portfolio. In most cases, the originator services the loans in the portfolio, collects payments from the original borrowers, and passes them on, less a servicing fee, directly to the SPV or the trustee

The reference portfolio is divided into several sections, called tranches, each of which has a different level of risk associated with it and is sold separately. The tranches consist of individual assets grouped by factors such as loan type, maturity date, interest rate, and remaining principal. Each tranche carries different degrees of risk and offers different yields.

Both investment return (principal and interest repayment) and losses are allocated among the various tranches according to their seniority. The least risky tranche, for example, has first call on the income generated by the underlying assets, while the riskiest has last claim on that income.

Mortgage-backed securities (MBS) or asset-backed securities (ABS) are examples of securitization and can be divided into tranches. Examples of Asset-backed securities (ABS) are- bonds backed by financial assets, such as auto loans, mobile home loans, credit card loans, and student loans. After combining debt into one portfolio, the issuer can divide the pool into smaller pieces based on the inherent risk of default. These smaller portions are sold to investors, each packaged as a type of bond. The income generated by these assets is used to make regular interest and principal payments to the investors in the Securitised Debt Instrument (SDI). SDI are typically issued by financial institutions, such as banks and non-banking financial companies (NBFCs), and are used as a means of raising capital and diversifying risk.

In India, SDIs are regulated by the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI). SDI can be issued in the form of bonds, commercial papers, or pass-through certificates. SDIs offer a number of benefits to both issuers and investors. For issuers, SDIs provide a means of raising capital and diversifying risk by transferring the credit risk of the underlying assets to the investors. For investors, SDIs provide an opportunity to invest in a diversified portfolio of assets and earn a regular stream of income.

Pubali Mitra
Chief Manager
Head Office, SMEAD

7. GIST OF LATEST RBI CIRCULARS FOR BANKS

Date of Circular	30- September-2023
Ref. No.	RBI/2023-24/64 DCM (Plg) No. S-1288/10.27.00/2023-24
Subject	**₹2000 Denomination Banknotes – Withdrawal from Circulation – Review**

Gist: Of the total value of ₹3.56 lakh crore of ₹2000 banknotes in circulation as on May 19, 2023, ₹3.42 lakh crore has been received back leaving only ₹0.14 lakh crore in circulation as at the close of business on September 29, 2023; thus, 96% of ₹2000 banknotes in circulation as on May 19, 2023 has since been returned.

As the period specified for the withdrawal has come to an end, and based on a review, it has been decided to extend the current arrangement for deposit/exchange of ₹2000 banknotes until October 07, 2023. Banks shall continue to maintain daily data on deposit / exchange of ₹2000 banknotes in the format prescribed vide circular dated May 22, 2023 referred to above and submit the same to RBI.

With effect from October 8, 2023, banks stopped accepting ₹2000 banknotes for credit to accounts or exchange to other denomination banknotes. ₹2000 banknotes shall continue to be allowed to be presented at the 19 Regional Offices of RBI having Issue Departments (RBI Issue offices) for credit to the bank accounts in India or exchange as indicated in the Press Release.

All instructions issued under para 3A of our circular DCM(Plg)No.S-236/10.27.00/2023-24 dated May 19, 2023 in the matter shall continue to remain in force. Banks shall also ensure that ₹2000 banknotes collected by their branches till October 07, 2023, are deposited at currency chests on or before October 13, 2023. ₹2000 banknotes shall continue to be legal tender.

Date of Circular	25- September-2023
Ref. No.	RBI/2023-24/63 DoR.FIN.REC.41/20.16.003/2023-24
Subject	**Display of information - Secured assets possessed under the SARFAESI Act, 2002**

Gist: As a part of the move towards greater transparency, it has been decided that the Regulated Entities (REs) of the Reserve Bank which are secured creditors as per the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, shall display information in respect of the borrowers whose secured assets have been taken into possession by the REs under the Act.

REs shall upload this information on their website in the prescribed format. The first such list shall be displayed on the website of REs within six (6) months from the date of this circular, and the list shall be updated on monthly basis.

Date of Circular	20- September-2023
Ref. No.	RBI/2023-24/62 DoR.FIN.REC.39/20.16.056/2023-24
Subject	**Data Quality Index for Commercial and Microfinance Segments by Credit Information Companies**

Gist: With a view to enable further implementation of DQI, it has been decided that Credit Information Companies (CICs) shall prepare DQIs for Commercial and Microfinance segments.

Further, CICs are advised as under:

i. CICs shall provide DQIs for Commercial and Microfinance segments in the form of numeric scores on a monthly basis to all member credit institutions.

ii. DQI scores for Commercial and Microfinance segments shall be provided at CI and file level. The DQI scores for Commercial and Microfinance segments at CI level shall be computed as weighted average of file level DQI scores of commercial and microfinance segment respectively of that CI.

iii. CICs shall compute industry level DQIs for each of the three reporting segments[1] as weighted average of the CI level DQI in their respective category (e.g. Public Sector Banks, Private Sector Banks, Foreign Banks, Co-operative Banks, RRBs, NBFCs etc.) on monthly basis. Further, a half yearly Industry Benchmark shall be calculated as a rolling average of preceding six months Industry level DQI score of respective category of CIs.

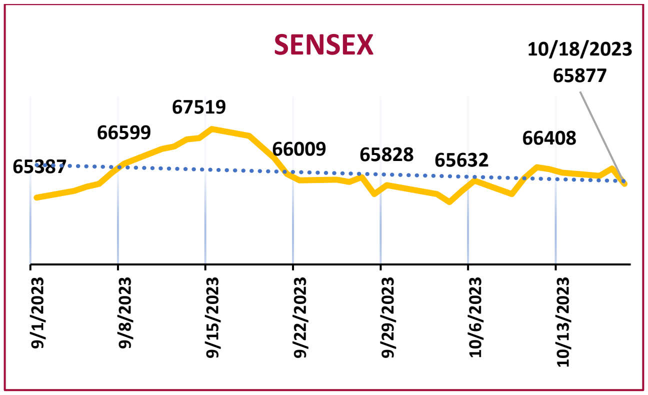
iv. CICs shall provide reasons for decline in score to each CI, if its (a) CI level score has declined over the previous month or (b) CI level score is lower than the half yearly industry benchmark.

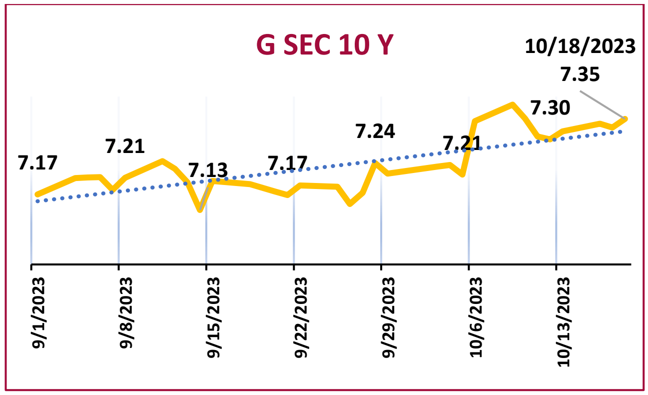
v. CICs shall provide monthly data of CI level DQI and industry level DQI of all segments to Department of Supervision, Reserve Bank of India, Central Office at half yearly intervals as on September 30 and March 31 each year, for information and monitoring purposes.

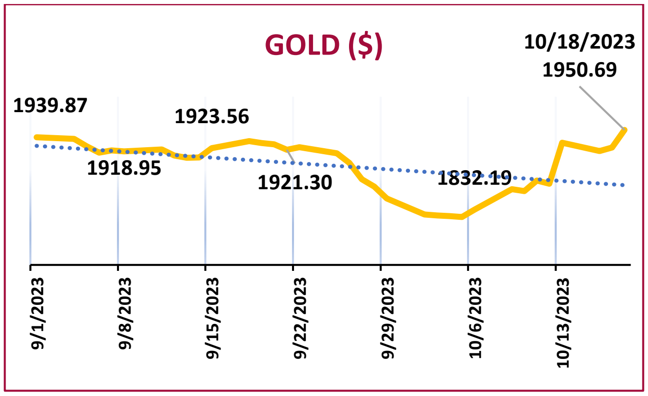
CIs are advised to undertake half yearly review of the DQI for all segments to improve the quality of the data being submitted to CICs. Corrective steps taken on the above issues along with a report on the same shall be placed before its top management by each CI for review within two months from the end of that half-year.

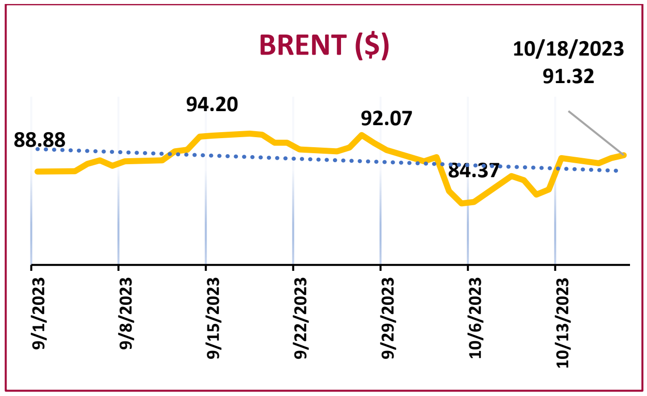
(20th September'23-30th September'23)

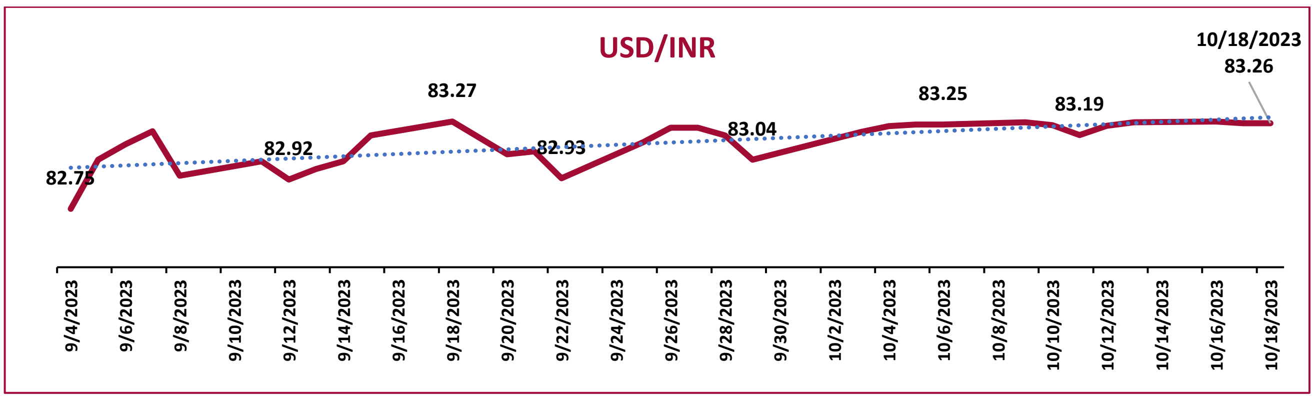
8. DAILY ECONOMIC INDICATORS

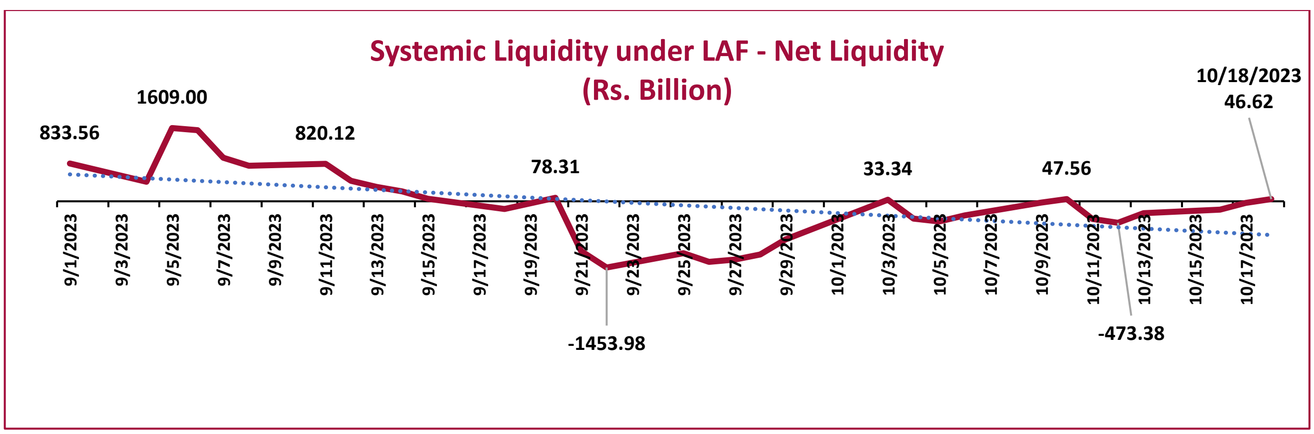








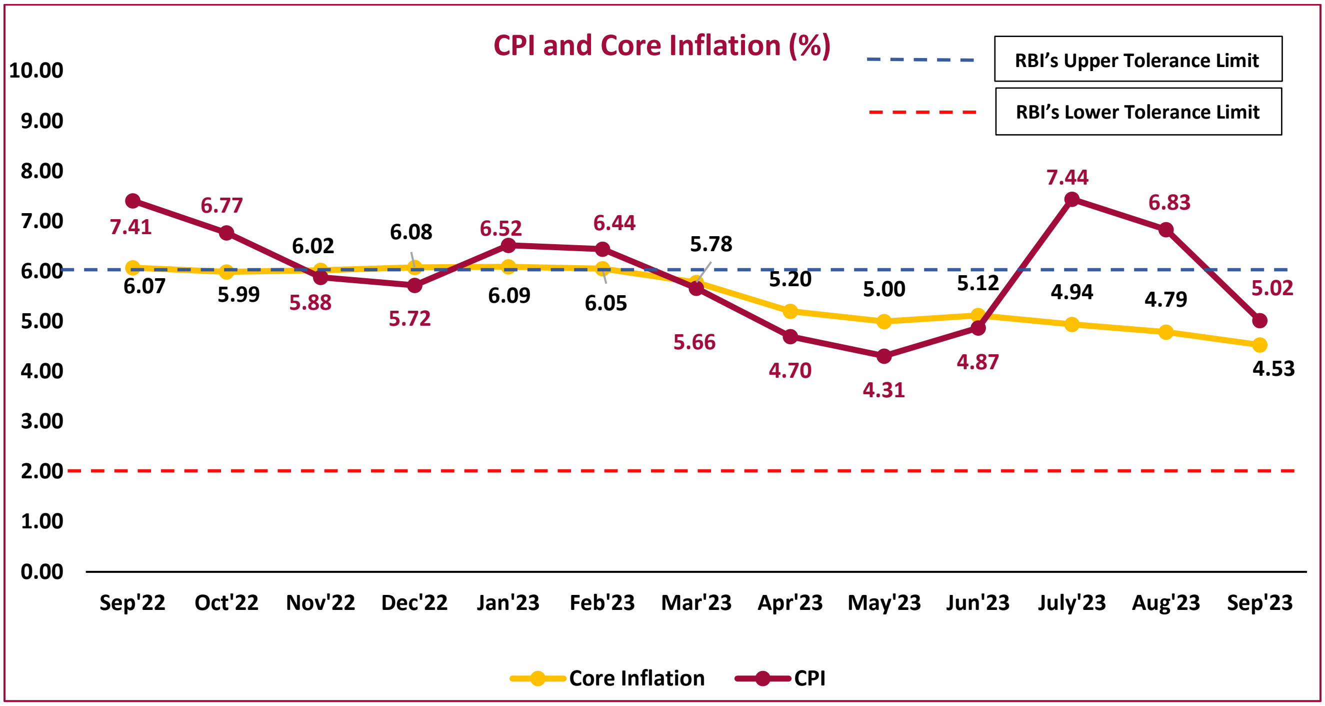


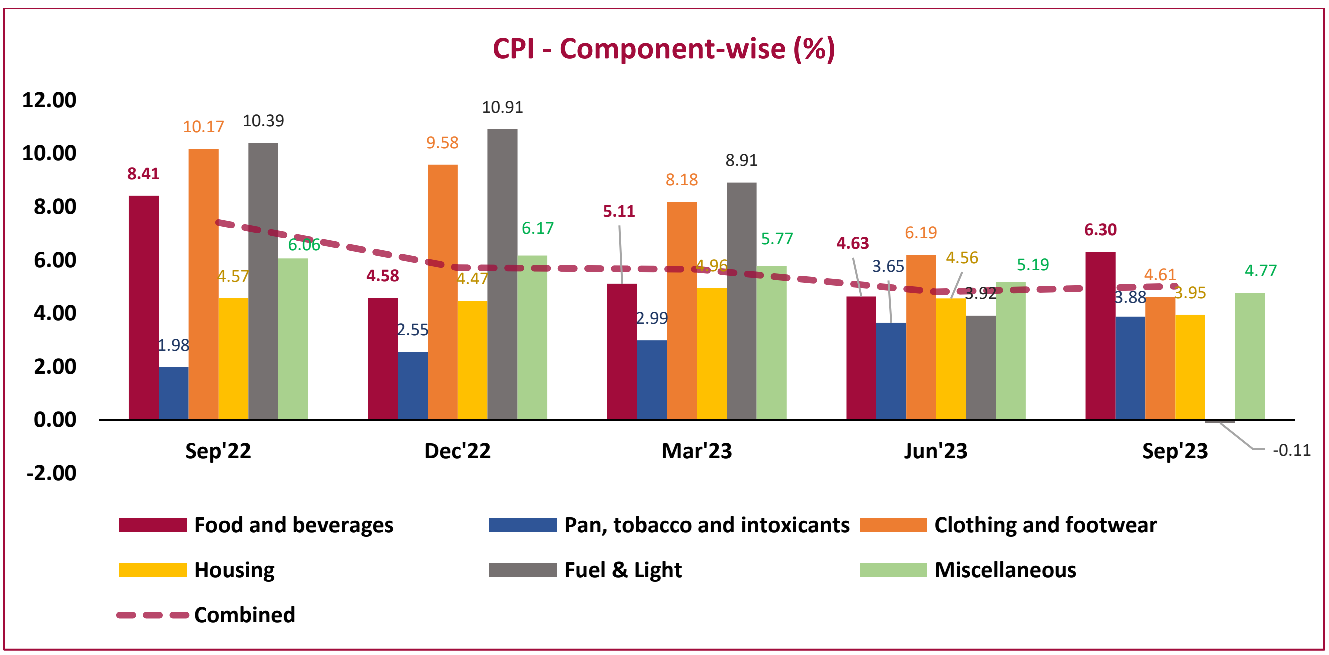


9. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

Retail Inflation eases to 5.02 per cent

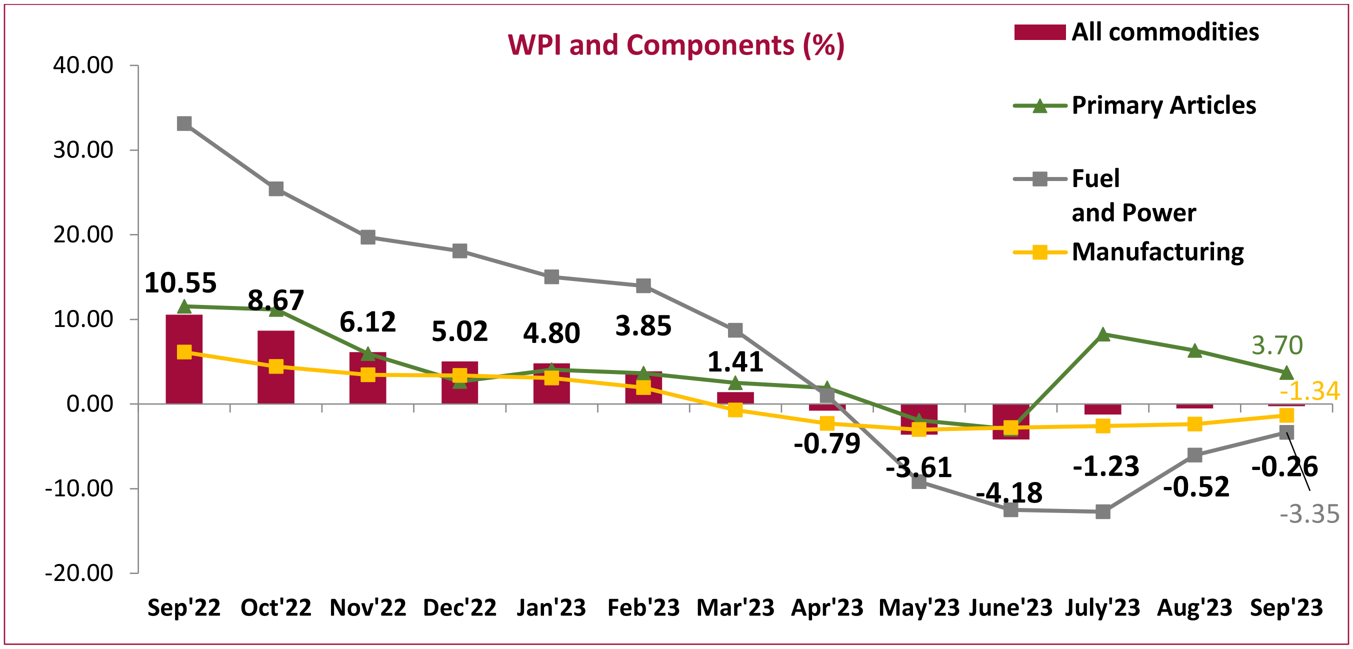




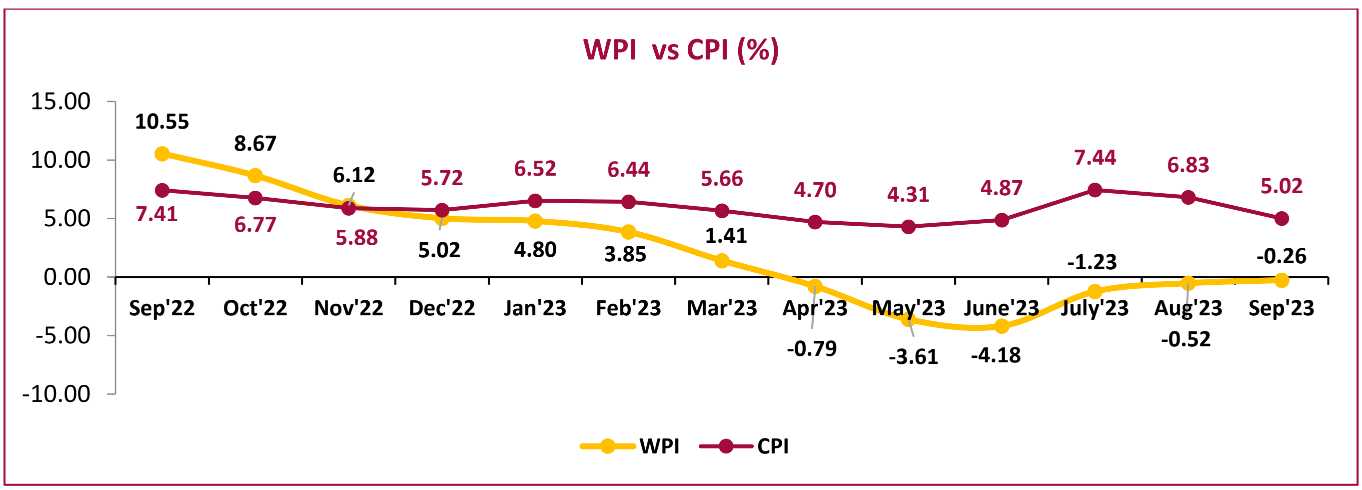
India's retail inflation moderated in September'2023 to 5.02 per cent, due to a softening of vegetable, milk and edible oil prices. CPI came back in the tolerance band of RBI of 2 to 6 per cent after 2 months.

WHOLESALE PRICE INDEX (WPI)

WPI negative for 6 consecutive months



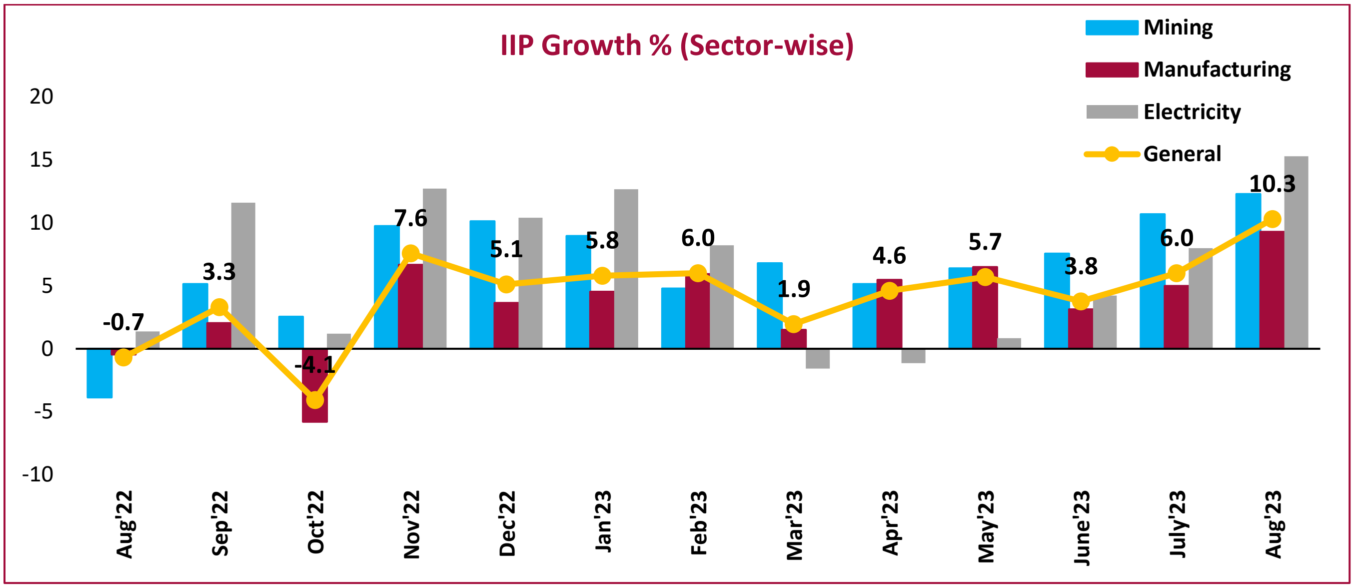
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles *(Part of Primary Articles)*		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
Jul	14.78	**8.24**	44.62	**-12.73**	8.24	**-2.58**	10.77	**15.09**	14.07	**-1.23**
Aug	14.74	**6.34**	35.03	**-6.03**	7.51	**-2.37**	12.55	**10.60**	12.48	**-0.52**
Sep	11.54	**3.70**	33.11	**-3.35**	6.12	**-1.34**	11.03	**3.35**	10.55	**-0.26**



Deflation in September 2023 was primarily due to fall in prices of chemical & chemical products, mineral oils, textiles, basic metals and food products. The manufactured products category, having the highest weightage in WPI basket, continues to be in the deflationary zone.

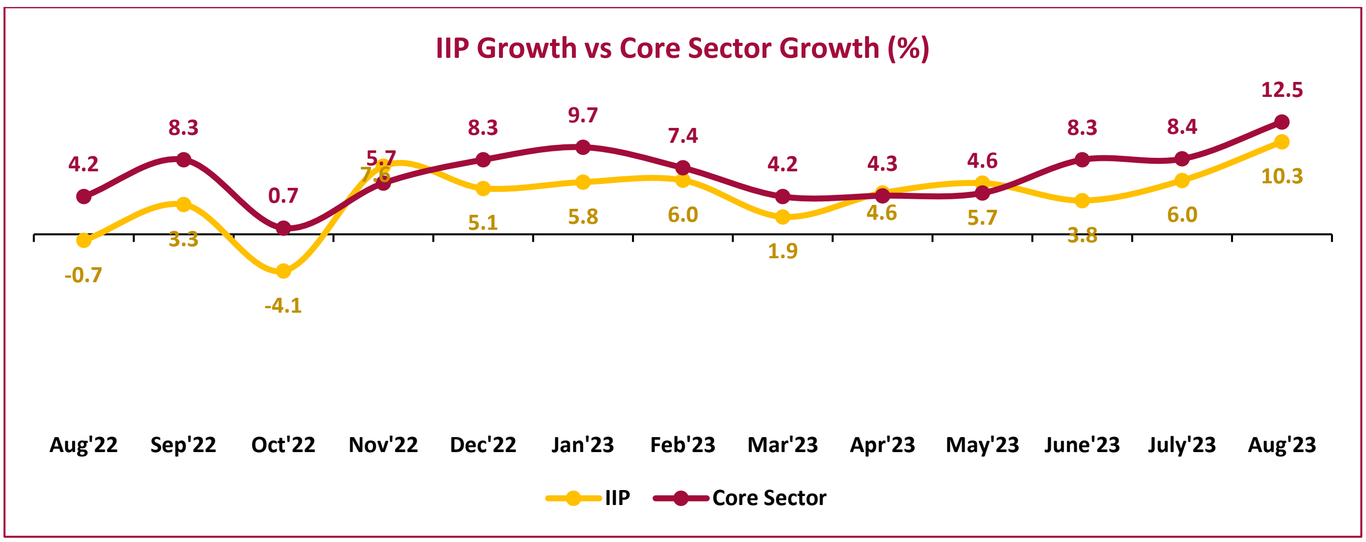
INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

IIP grows highest since June 2022



IIP growth % (Usage-wise)

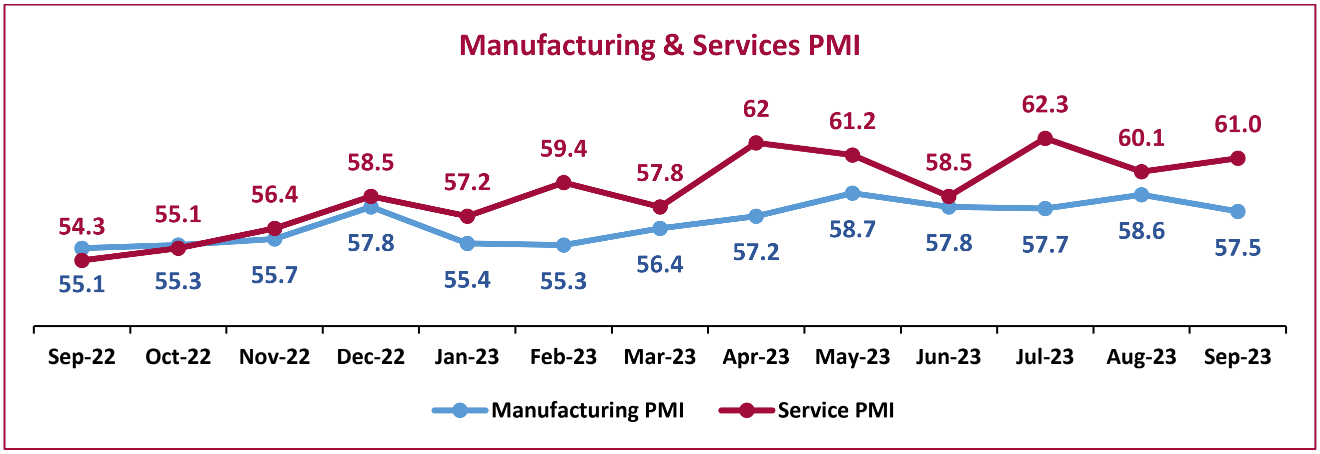
Component	Weight	Aug'22	Mar'23	June'23	Aug'23
Primary Goods	34.05%	1.7	3.3	5.2	12.4
Capital Goods	8.22%	4.3	9.1	2.2	12.6
Intermediate Goods	17.22%	1.3	1.8	4.5	6.5
Infra/Construction Goods	12.34%	3.0	7.0	11.3	14.9
Consumer Durables	12.84%	-4.4	-8.0	-6.9	5.7
Consumer Non- Durables	15.33%	-9.0	-1.9	1.2	9.0



IIP growth rises to 10.3 per cent in August 2023 from 6.0 per cent in July'23. In sector based IIP, all the sectors barring one i.e., Manufacturing Sector, showed double digit growth. None of the sectors showed negative growth in August 2023 under IIP sectors which is a positive sign.

PURCHASING MANAGERS' INDEX (PMI)

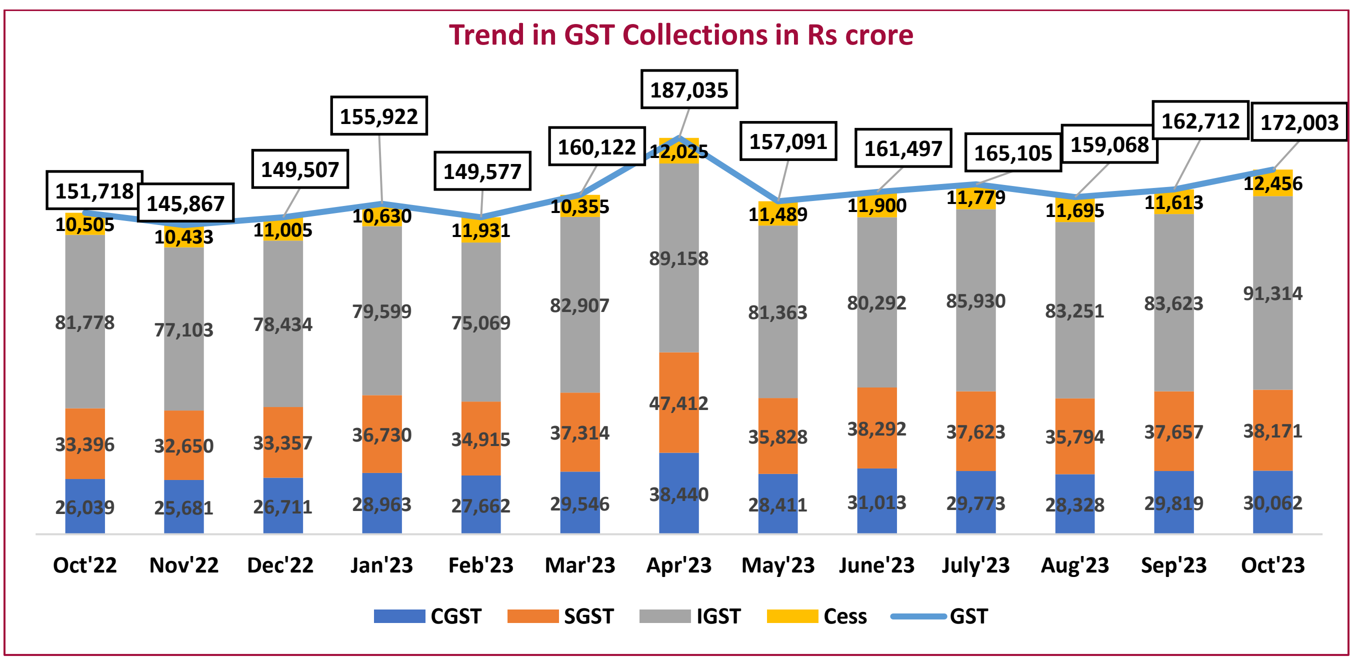
Services PMI rises while Manufacturing PMI dips from previous month



India's services sector witnessed strongest output in 13 years in September'23 owing to strengthened domestic demand along with higher international sales to Asia, Europe and North America. Manufacturing PMI in September'23 is lowest in last 5 months owing to the decline in new orders and slow growth in the output from factories. The composite PMI, a combination of the manufacturing and services indices, increased to 61.0 in September'23 from 60.90 in August'23. (A reading above 50 means expansion while a reading below it shows contraction.)

GOODS AND SERVICES TAX (GST)

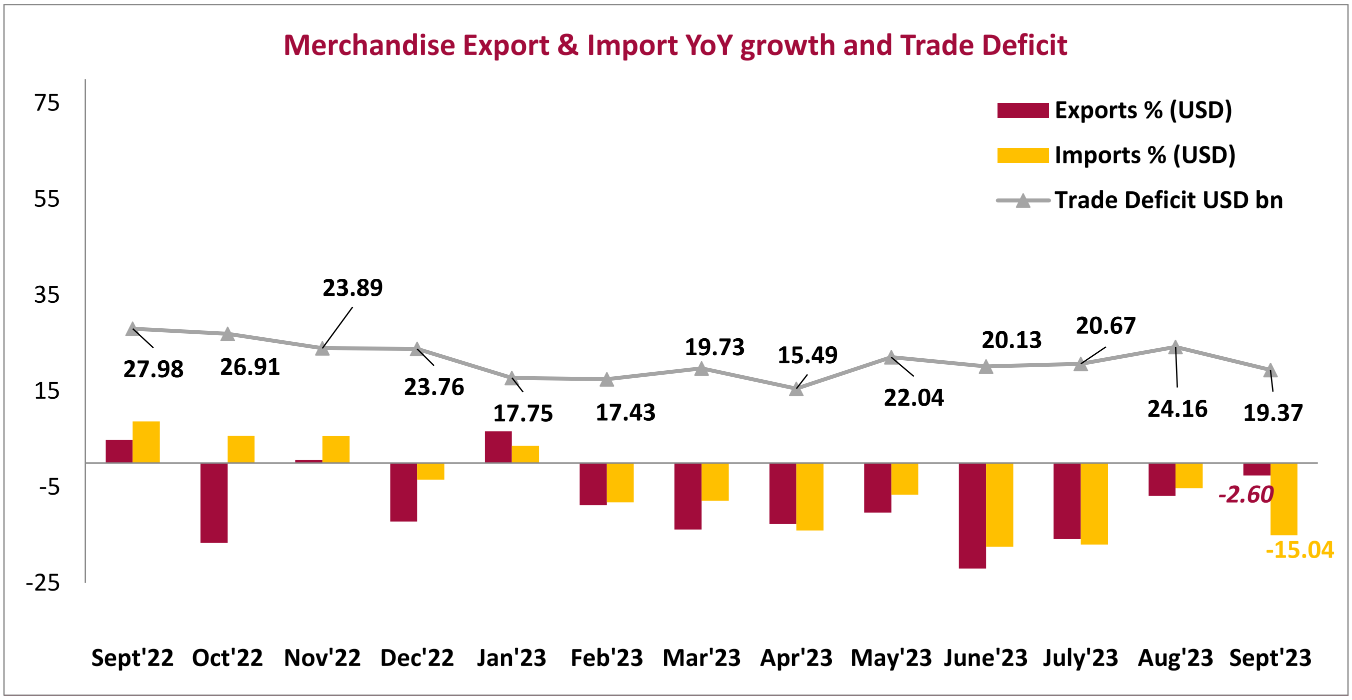
GST Collection rises by 13 per cent and crosses Rs. 1.70 Lakh Crore mark after April'23

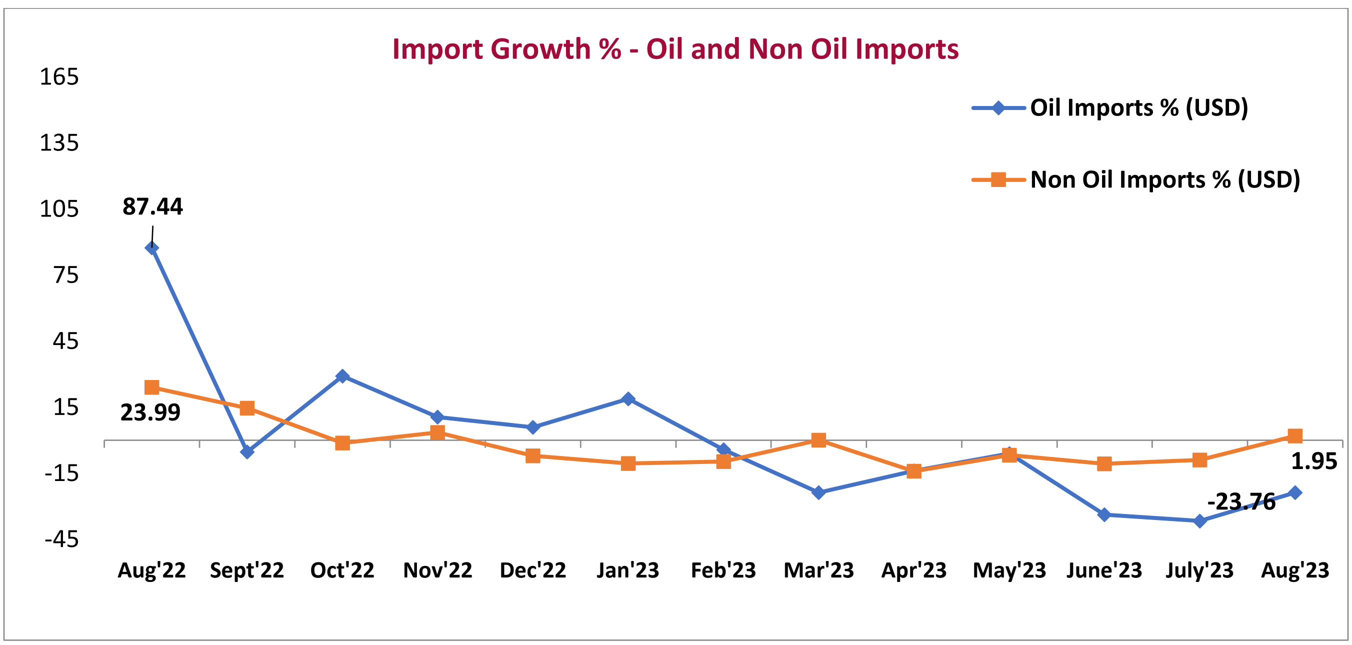


The current growth spurts in the GST collection has been due to marked improvement in administrative efficiency as well as a structural shift also. Pickup in consumption and economic activity along with settlement through payments by businesses have also aided the rise in GST collections.

FOREIGN TRADE

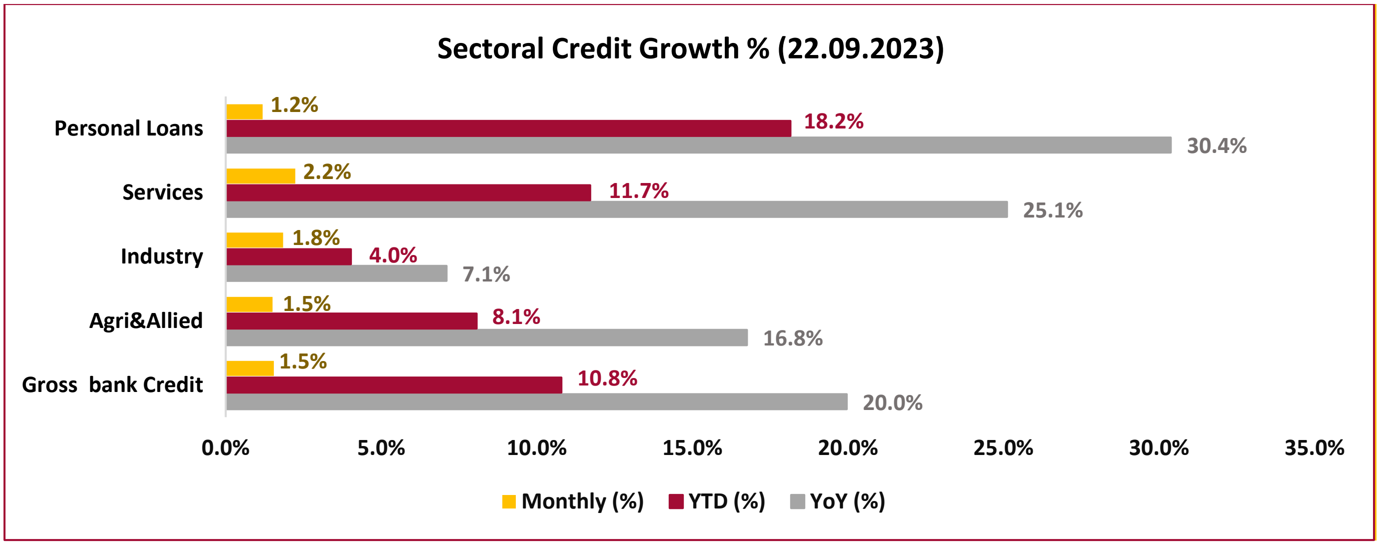
Trade deficit narrows to USD 19.37 Billion





India's exports declined to \$34.47 billion in September against \$35.4 billion in September 2022. Overall imports to the country also declined by 15% YoY to \$53.84 billion in September 2023 against September 2022. With this, the trade deficit stood at \$19.37 billion in the month of September.

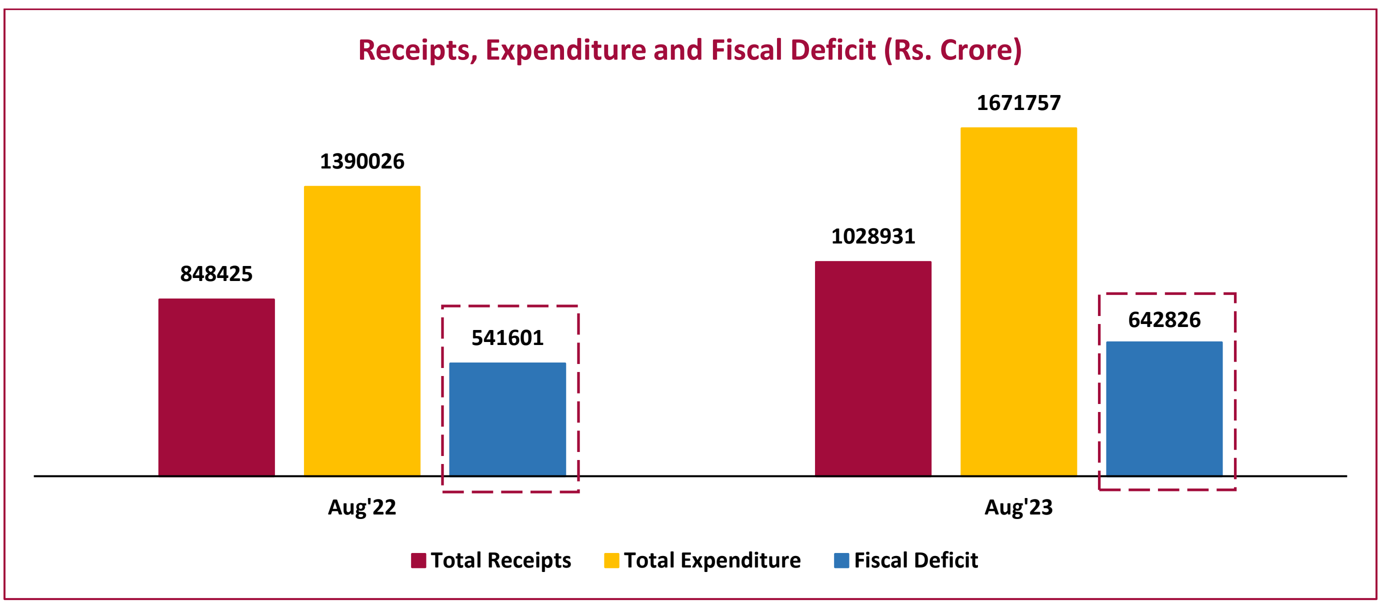
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	07.10.22	24.03.23	22.09.23	06.10.23	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	172.64	180.44	192.36	196.07	**13.6%**	**8.7%**	**1.9%**
Advances	128.59	136.75	149.17	153.43	**19.3%**	**12.2%**	**2.9%**
Business	301.22	317.19	341.53	349.50	**16.0%**	**10.2%**	**2.3%**

FISCAL DEFICIT

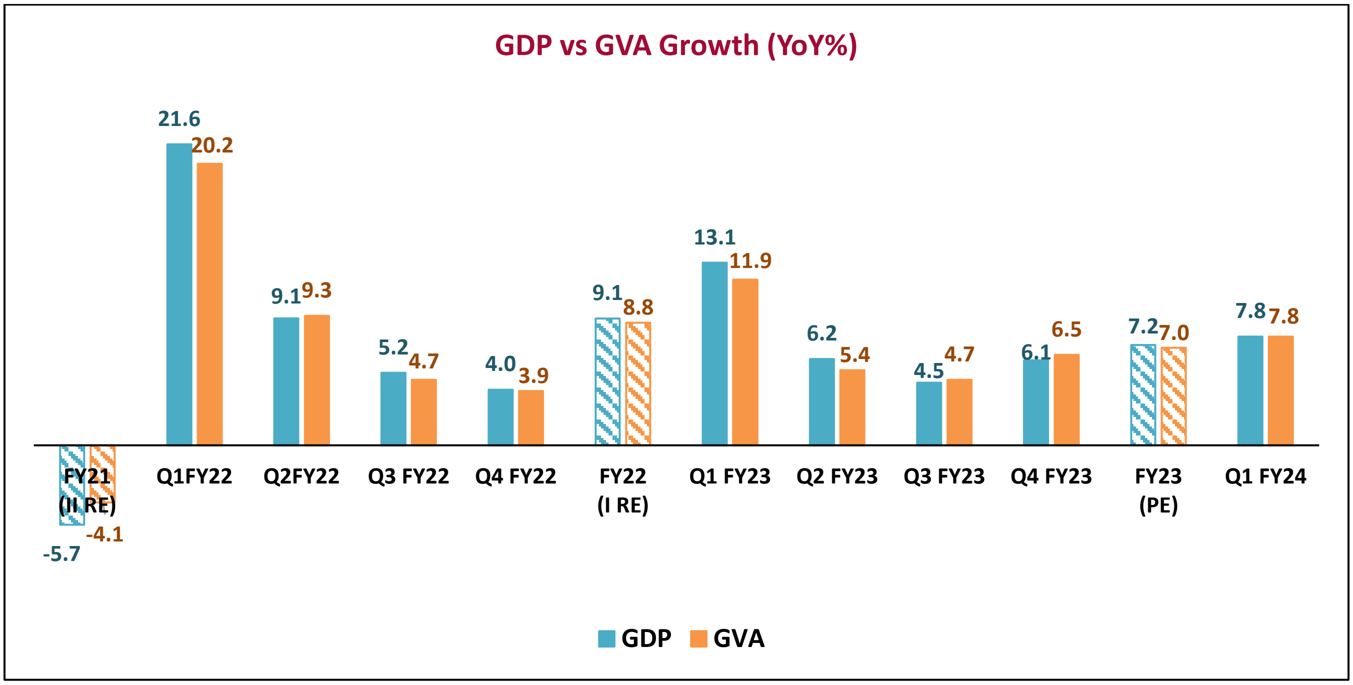


The fiscal deficit for the month of August 2023 is 36.0% of annual estimates.

10. QUARTERLY ECONOMIC INDICATORS

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

India witnesses strong GDP growth

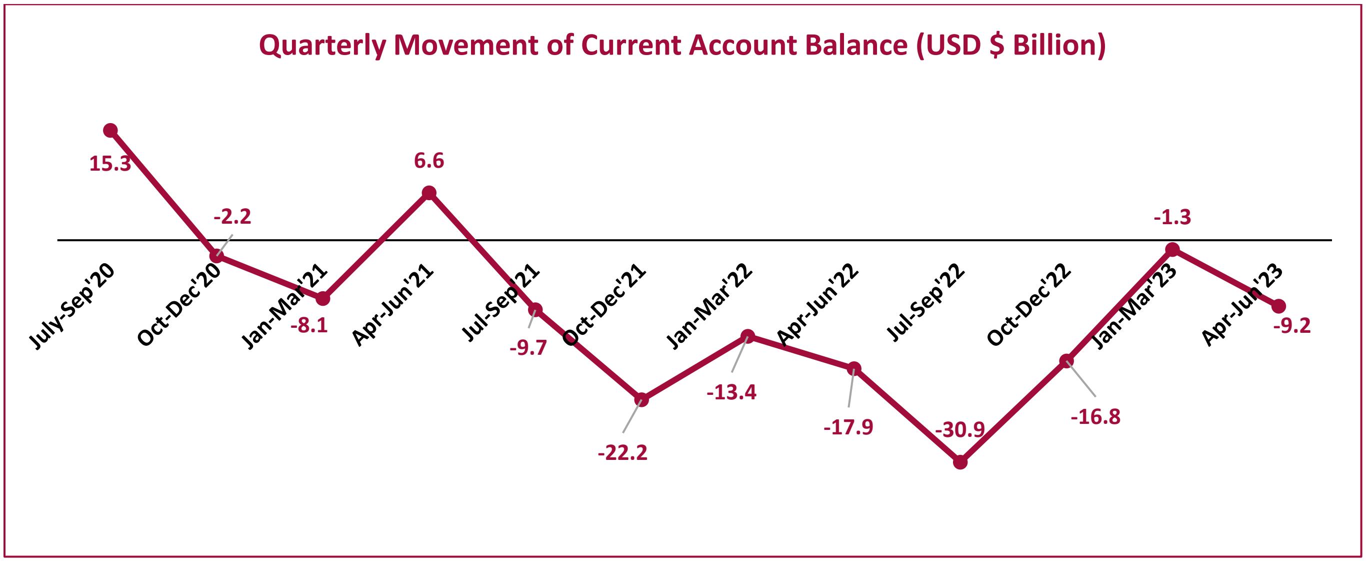


GDP growth of the Indian economy in Q1 FY24 grew by **7.8%,** mainly driven by the **Agriculture Sector.** The figure was better than the growth rate of the previous quarter (6.1%), **however quite below the growth of the previous year in the same quarter (13.1%). GVA growth** was also pegged at **7.8% in Q1 FY24.**

INDIA'S GDP OUTLOOK OF VARIOUS AGENCIES

Agency	FY24
RBI	6.5%
World Bank	6.3%
IMF	6.3%
ADB	6.7%
Economic Survey	6.5%

CURRENT ACCOUNT DEFICIT



The Current Account Deficit was at $ 9.2 billion in the June quarter of FY24 against a deficit of $1.3 billion in the preceding three months. It is 1.1% of GDP. The widening of CAD on a quarter-on-quarter basis was primarily on account of a higher trade deficit coupled with a lower surplus in net services and decline in private transfer receipts.

11. 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)	Dec 19, 2023
European Central Bank (ECB)	Europe	4.50	Sep 14, 2023 (25 bps)	Dec 14, 2023
Federal Reserve	U.S.A	5.50	Jul 26, 2023 (25bps)	Dec 13, 2023
Bank of England	U.K	5.25	Aug 03, 2023 (25 bps)	Nov 02, 2023
Peoples Bank of China	China	3.45	Aug 21, 2023 (-10 bps)	-
Reserve Bank of India	India	6.50	Feb 08, 2023 (25 bps)	Dec 08, 2023

12. INDUSTRY OUTLOOK

Construction Industry

The Indian construction industry is a vital part of the country's economy, employing over 50 million people and contributing over 9% to India's GDP. The government's focus on infrastructure development, urbanization, and rising demand for housing and commercial space is expected to drive the growth of the industry in the coming years.

One of the key drivers of growth for the construction industry is the government's focus on infrastructure development. The government has allocated a budget of INR 10 lakh crore for infrastructure development in the Union Budget 2023-24. This increased investment is expected to drive the growth of the infrastructure segment in the coming years.

Another key driver of growth for the construction industry is urbanization. India is one of the fastest urbanizing countries in the world. The urban population in India is expected to increase from 33% in 2023 to 40% by 2030. This urbanization is expected to lead to increased demand for housing, commercial space, and infrastructure facilities in urban areas.

Rising demand for housing and commercial space is also driving the growth of the construction industry. The demand for housing and commercial space in India is expected to rise in the coming years due to a growing population and increasing disposable incomes. This increased demand is expected to drive the growth of the real estate segment in the coming years.

However, the Indian construction industry is also facing some challenges. One of the key challenges is the shortage of skilled labor. The Indian construction industry faces a shortage of skilled workers in key areas such as engineering, architecture, and construction management. This shortage is expected to become more acute in the coming years as the industry grows.

Another key challenge is delays and cost overruns in projects. Delays and cost overruns in projects are a common problem in the Indian construction industry. This is due to a number of factors, such as complex approval procedures, bureaucratic delays, and land acquisition problems.

The Indian government is taking steps to address the challenges facing the construction industry. For example, the government has launched skill development programs to address the shortage of skilled labor. The government is also working to streamline approval procedures and reduce bureaucratic delays.

Despite the challenges, the Indian construction industry is poised for significant growth in the coming years. The government's focus on infrastructure development, urbanization, and rising demand for housing and commercial space are expected to drive the growth of the industry.

13. EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. **Wilful defaults rise to Rs 3.53 lakh Crore, to spike further (FE, 16.10.2023)**

- After rising by close to Rs 50,000 Crore in fiscal 2023, banks are expected to witness a spike in wilful defaults following the Reserve Bank of India (RBI) proposal to classify a borrower as wilful defaulter within six months of the account becoming a non-performing asset (NPA).
- According to TransUnion CIBIL, wilful defaults rose by nearly Rs 50,000 crore to Rs 353,874 crore involving 16,883 accounts as of March 2023 as against Rs 304,063 crore (14,899 accounts) in March 2022.
- The State Bank of India (SBI) reported 1,921 wilful default accounts, involving Rs 79,271 Crore, Punjab National Bank Rs 41,353 crore, Union Bank Rs 35,623 crore, Bank of Baroda Rs 22,754 crore, and IDBI Bank Rs 24,192 crore.

2. **PSBs asked to focus on robust risk management practices (Mint, 15.10.2023)**

- The government has asked public sector banks to focus on robust risk management practices and mitigate cyber security risk as part of the three-year strategic roadmap designed for them to further strengthen the sector and prevent build-up of bad debts.
- A review of banks by the finance ministry is expected later this month that will evaluate reform goals of each bank individually and prepare a medium-term strategy to maintain the positive momentum in the banking sector, two persons aware of the development said.
- As part of the strategy, banks will further use technology to process automation across every domain including back-office operations.
- Banks will also strengthen their underwriting processes and increase coverage of Early Warning Systems (EWS) to identify and reach out to high-risk borrowers preventing any build-up of bad debts that have been successfully arrested by several banks over past few years.

3. **RBI starts pilot programme for wholesale digital rupee in call money market (BS, 12.10.2023)**

- The Reserve Bank of India (RBI) initiated a pilot program for the wholesale segment of its central bank digital currency (CBDC) in the interbank call money market, according to dealers from participating banks.
- Dealers said nine banks, including four public sector banks and five private sector banks, are participating in the e-rupee call money pilot. This is the second use case of testing wholesale CBDC, the first being the government securities market introduced in November last year.
- Sources familiar with the wholesale CBDC pilot said that there will be more use cases in the coming days.

4. **RBI Monetary Policy Meet Highlights: RBI delivers hawkish pause again; reiterates inflation target is 4% and not 2-6% (Mint, 06.10.2023)**

- The Reserve Bank of India (RBI) announced its fourth bi-monthly monetary policy on October 6.
- The MPC decided unanimously to keep the policy repo rate unchanged at 6.50%. Consequently, the standing deposit facility (SDF) rate remains at 6.25% and the marginal standing facility (MSF) rate and the Bank Rate at 6.75%.
- The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.

5. **RBI includes PM Vishwakarma under PIDF scheme; extends tenure of scheme by another two years (FE, 06.10.2023)**

- Reserve Bank Governor Shaktikanta Das said it has been decided to include PM Vishwakarma under the Payments Infrastructure Development Fund (PIDF) Scheme as well as extend the tenure of the scheme by another two years.
- It is now proposed to extend the PIDF Scheme by a further period of two years that is up to December 31, 2025 in bi-monthly monetary policy.
- Operationalised in January 2021, the PIDF Scheme aims at incentivizing the deployment of payment acceptance infrastructure such as physical Point of Sale (PoS), Quick Response (QR) codes in tier-3 to tier-6 centres, north-eastern states and Union Territories of Jammu & Kashmir and Ladakh.

6. **RBI constitutes 9-member panel on ECL framework (FE, 04.10.2023)**

- The Reserve Bank of India (RBI) constituted a nine-member committee to suggest, among other things, provisioning for Expected Credit Loss (ECL) framework.
- The terms of reference for the working group include delineating the principles that will be required to be considered by banks while designing the credit risk models to be used for assessing and measuring expected credit losses.
- The panel is expected to recommend factors that banks should consider for determining credit risk based on the guidance provided in International Financial Reporting Standards (IFRS) 9 and principles laid out by Basel Committee on Banking Supervision (BCBS).
- Besides, the panel is entrusted with the task of suggesting the methodology to be used for undertaking external independent validation of the models and recommending prudential floors for provisioning.

7. **30 banks on UDGAM portal to help people claim, search unclaimed deposits: RBI (ET, 06.10.2023)**

- The Reserve Bank said that as many as 30 banks have been on-boarded on the UDGAM (Unclaimed Deposits- Gateway to Access information) portal to enable people to claim and search unclaimed deposits.
- The RBI launched the UDGAM portal to facilitate the public to search their unclaimed deposits across multiple banks in one place. Initially, the facility was launched with seven banks on board.
- The 30 banks include all major public sector lenders like SBI, Bank of Baroda, Punjab National Bank, Canara Bank and Bank of India, and foreign banks like Citibank, Standard Chartered and HSBC. The list of private sector lenders includes HDFC Bank, ICICI Bank and Axis Bank.
- The web portal has been designed to aid the public in identifying their unclaimed deposits/accounts and enable them to either claim the deposit amount or make their deposit accounts operative at their respective banks.

8. **RBI proposes changes in wilful defaulter norms (ET, 22.09.2023)**

- The Reserve Bank of India (RBI) has proposed a transparent mechanism for declaring a borrower a wilful defaulter. It's also expanding the definition and is planning to make it harder for such defaulters to secure funding for future ventures.
- The move follows a Supreme Court decision earlier this year that made it mandatory for lenders to give borrowers a chance to represent themselves before declaring an account as fraudulent.

14. DATA SOURCES

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

*****

QUOTE OF THE MONTH

“"Books and doors are the same thing. You open them, and you go through into another world."

- Jeanette Winterson

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