



ਪੰਜਾਬ ਨੈਸ਼ਨਲ ਬੈਂਕ
punjab national bank



JULY 2022
ਜੁਲਾਈ 2022

PNB

EC  LENS

MONTHLY BULLETIN

ਪੀਐਨਬੀ ਈਕੋਲੈਂਸ ਮਾਸਿਕ ਬੁਲੇਟਿਨ



STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

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Published by:

Punjab National Bank

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Dwarka, New Delhi-110075

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कार्यनीति प्रबंधन एवं आर्थिक परामर्श प्रभाग

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Banking Sector Scenario: Deposit and Credit Growth

According to the Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks released by the Reserve Bank of India, Bank Credit growth increased to 10.8 per cent in March 2022 from 5.6 per cent in the same period a year ago. However, when considering the pre-pandemic situation, the Credit growth was 13.1 per cent in March 2019. On the other hand, the Aggregate Deposit growth slowed down to 10.2 per cent in March 2022 from 12.3 per cent in March 2021, even though both the figures are on a higher side when compared to a growth of 9.4 per cent in March 2019.

The latest fortnight data released by the Central Bank, which reflects the current scenario, shows that both the Bank Credit growth and the Aggregate Deposit growth have increased by 13.29 per cent and 9.77 per cent year-on-year respectively, marginally reducing the high Credit-Deposit Gap. Bank advances stood at Rs. 123.81 Lakh Crore and deposits at Rs. 169.61 Lakh Crore in the fortnight ended 1st July, 2022.

It is evident that the Indian economy has overcome the pandemic induced shocks and credit offtake in the system has been improving since the past few months due to several factors, which includes better utilization of working capital limits by companies, healthy growth in housing and consumption loans and rise in wholesale credit. Another factor assisting credit growth is the corporations taking the bank route to fund their working capital as the lending rates from the banking institutions are comparatively lower than the rates for tradable debt securities.

However, the inflated prices lead consumers with lower marginal propensity to save, and thereby the banks may have witnessed a decrease in the deposit growth. Once the surplus liquidity in the system is exhausted, the Banks will likely be increasing the rate of interest in deposits for higher deposit growth and match up with the loan growth in future.

Going forward, the outlook for bank credit is positive due to the economic expansion, rise in government and private capital expenditure, implementation of the PLI scheme and the extension of ECLGS for MSME and retail credit push. Even the stress tests in the latest Financial Stability Report of the Reserve Bank of India, indicate that GNPA ratio of all SCBs may improve from 5.9 per cent in March 2022 to 5.3 per cent by March 2023 under the baseline scenario driven by higher expected bank credit growth and declining trend in the stock of GNPA's, among other factors.

Hence, with the expected growth in deposit due to stabilization of inflation and higher deposit rates, and the prosperous outlook of the bank credit aided by the normal monsoon, the banking system is expected to take its resilience to another level in this financial year.

Rajendra Kumar Saboo

Indian Economy bracing up against stronger Dollar

The rupee has witnessed a significant pressure against the US dollar since the Russia's invasion of Ukraine. The currency has depreciated 6.9 per cent against the green back in this calendar year. The rupee is successively plumbing new lows but is still performing better than other Asian peers. Rupee has appreciated against other major currencies like Euro, British Pound and Yen etc.

High Global Inflation

Significant event in the past week was fresh four decade high inflation in US at 9.1% for June'2022. The inflation in Euro Zone also soared to 8.6% in June'2022. The inflation prints in US and Euro spawned fresh jitters in the global financial markets and further cemented the fears of recession. High inflation with tight labour market in US has raised the odds of a steep rate hike by Fed, expected to be 75-100 bps in its upcoming Federal Open Market Committee meet on 26-27th July. ECB is also weighing bigger rate hikes to rein inflation.

The central banks around the world are trying to tame the inflation by raising the interest rates but the Federal Reserve is moving more quickly and more aggressively than most. As a result, rates are now markedly higher in the United States than they are in many other large economies, luring investors attracted by the higher returns on even relatively conservative investments such as Treasury bonds. As money has poured in, the value of the dollar has increased.

The expected rate hike at end of July will further impart strength to an already stronger dollar i.e. at 20 year high after gaining more than 10% in this calendar year. Such a quick move in the value of the world's most widely used currency can have a destabilizing effect.

In an era where countries are drifting towards "de-globalization", a stronger dollar adds to the political momentum for protectionism and threatens the tenets of globalization.

Twin Deficit Problem in India

Strong dollar has both a direct and an indirect impact on the external sector of the Indian Economy. India being a net importer faces the risk of imported inflation. The strong dollar widens the trade deficit that ballooned to a record of \$26.18 billion in June'22.

With several developed economies expected to fall into recession over this year, the dip in exports could accelerate in coming months. The fresh taxes and restrictions imposed on petroleum exports could weaken outbound volumes further, while Indians' appetite for gold may not be dented much by the higher import duties levied by the Centre.

The weakening rupee will continue to make imports costlier while slowing exports may not be able to capitalise enough on it. We expect the trade deficit to stay elevated and be in the range of \$25-30 billion for the next 3-4 months.

Record trade deficit is expected to push India's current account deficit in the coming quarters. The current account deficit for FY'23 is expected to widen at 3 to 3.5 percent of GDP.

The weakening rupee is further accentuated due to continuous selling by the FPIs. In the first half of this calendar year, the total net outflows were to the tune of \$29.7 billion. Generally capital inflows help India finance its current account deficit, obviating the need to dip into forex reserves.

The measures taken by RBI such as giving banks room to offer higher interest rates on FCNR deposits, relaxing FCNR and NRE deposits from CRR and SLR requirements, sharp increase in limit of ECBs that can be borrowed by firms & expanding the basket of securities that fall under 'fully accessible route' might protect the rupee from sliding. Rupee is expected to trade around Rs.82-84 in the next 6 months.

The measures taken by RBI to help stabilize the rupee will play their part but forex reserves are expected to deplete to the extent of \$45-50 billion during FY23. India's forex reserves at \$588.31 billion are still robust.

The geo-political conflict and the consequent supply side disruptions have caused an upside risk to the fiscal deficit. The cut in excise duties on petrol and diesel and higher subsidy allocation for fertilizers to cushion the impact of rise in international prices pose a risk to the budgeted fiscal deficit. Rise in fiscal deficit leads to higher interest rates that eventually crowds out the private investments. Fiscal deficit is expected to be 6.7-6.8% of GDP for FY23. Twin deficits increase the economy's vulnerability to external shocks.

Inflation

The external pressures driving Indian inflation are likely to weaken in the months ahead. On the domestic front, assuming a normal monsoon, no new supply side disruptions or duty increases on fuel are expected to subside the inflationary pressures. Though, falling rupee poses a risk of imported inflation. Considering all the factors, inflation will continue to remain sticky for the next 4-5 months with a very slow descent and all prints remaining above 6%. CPI inflation is expected at 6.5% for FY2023 with 7.4% in Q2, 6.0% in Q3 and 5.8% in Q4.

RBI in its next scheduled MPC meet during August 2-4, 2022 is expected to go for a 25 bps hike to take the repo rate at 5.15%. After this hike, RBI may adopt a wait and watch strategy before acting on further rate hikes.

Economy & Banking

The Indian economy is still standing strong against intense global headwinds and is on course to becoming the fastest growing economy. The revival of the monsoon and rejuvenation of sowing activity has raised hopes of a bountiful year for agricultural activity, raising expectations that rural demand will pent up and consolidate the recovery.

Credit demand over the next three months is expected to improve on the back of recovery in GDP growth, higher consumer spending, pick up in manufacturing sector activity, public investment in infrastructure and higher demand for working capital. Recent RBI's data showed that bank credit growth was more than 13%. The uptick comes amid a rise in lending rates.

The deposit growth is lagging behind the credit growth and this may persuade banks to raise the deposit rates. As, equity markets are hammered due to sustained selling by FPIs, it may make domestic investors rebalance their portfolio towards bank deposits. Banks are expected to post strong core earnings growth in the June quarter, with healthy traction in advances, improved margins and decline in credit costs. However, rising yields could result in marked-to-market losses impacting the earnings momentum.

Deepak Singh

(Deputy General Manager)

EXCERPTS : GLOBAL ECONOMIC PROSPECTS – JUNE 2022

The World Bank has come out with its Flagship Report Global Economic Prospects- June 2022.

1. The key Highlights of the Report are:

- The world economy continues to suffer from a series of destabilizing shocks. After more than two years of pandemic, the Russian Federation's invasion of Ukraine and its global effects on commodity markets, supply chains, inflation, and financial conditions have steepened the slowdown in global growth.
- In particular, the war in Ukraine is leading to soaring prices and volatility in energy markets, with improvements in activity in energy exporters more than offset by headwinds in most other economies.
- The invasion of Ukraine has also led to a significant increase in agricultural commodity prices, which is exacerbating food insecurity and extreme poverty in many emerging market and developing economies (EMDEs).
- Numerous risks could further derail what is now a precarious recovery. Among them is, in particular, the possibility of stubbornly high global inflation accompanied by tepid growth, reminiscent of the stagflation of the 1970s.
- This could eventually result in a sharp tightening of monetary policy in advanced economies to rein in inflation, lead to surging borrowing costs, and possibly culminate in financial stress in some EMDEs.
- A forceful and wide-ranging policy response is required by EMDE authorities and the global community to boost growth, bolster macroeconomic frameworks, reduce financial vulnerabilities, provide support to vulnerable population groups, and attenuate the long-term impacts of the global shocks of recent years.
- Amid the war in Ukraine, surging inflation, and rising interest rates, global economic growth is expected to slump in 2022.
- Global growth is expected to slow sharply from 5.7 percent in 2021 to 2.9 percent this year.
- Subdued growth will likely persist throughout the decade because of weak investment in most of the world. Inflation will remain higher for longer than currently anticipated.
- External public debt in developing economies is at record levels today. Most of it is owed to private creditors, and much of it involves variable interest rates that could spike suddenly. As global financing conditions tighten and currencies depreciate, debt distress—previously confined to low-income economies—is spreading to middle income countries.
- The removal of monetary accommodation in the United States and other advanced economies, along with the ensuing increase in global borrowing costs, represents another significant headwind for the developing world. In addition, over the next two years, most of the fiscal support provided in 2020 to fight the pandemic will have been unwound. Despite this consolidation, debt levels will remain elevated.

- However, as compared to the situation in 1970s importantly, policy makers are in a better position today to stave off stagflationary headwinds.
 - a. Monetary policy frameworks are more credible—with clear price stability mandates for central banks in advanced and many developing economies alike.
 - b. Long-term inflation expectations are also better anchored.
 - c. Existing technology and capital have the capacity to provide massive increases in supply, holding down price expectations.
- 2. Policy makers across the world will need to focus their efforts in five key areas:**
 - a. Limit the harm to people affected by the war in Ukraine.
 - b. Counter the spike in oil and food prices.
 - c. Step up debt relief efforts.
 - d. Strengthen health preparedness and efforts to contain COVID-19.
 - e. Speed the transition to low-carbon energy sources.

Global outlook:

- Global economic activity is now expected to slow to 2.9 percent in 2022. Growth in emerging market and developing economies (EMDEs) this year has been downgraded to 3.4 percent, as negative spillovers from the invasion of Ukraine more than offset any near-term boost to some commodity exporters from higher energy prices.
- Global growth is forecast to edge up only slightly to a still-subdued 3 percent in 2023, as many headwinds—in particular, high commodity prices and continued monetary tightening—are expected to persist.
- Moreover, the outlook is subject to various downside risks, including intensifying geopolitical tensions, growing stagflationary headwinds, rising financial instability, continuing supply strains, and worsening food insecurity.
- EMDE policy makers need to refrain from implementing export restrictions or price controls, which could end up magnifying the increase in commodity prices.
- With rising inflation, tightening financial conditions, and elevated debt levels sharply limiting policy space, spending can be reprioritized toward targeted relief for vulnerable households.
- Over the long run, policies will be required to reverse the damage inflicted by the dual shocks of the pandemic and the war on growth prospects, including preventing fragmentation in trade networks, improving education, and raising labor force participation.

Real GDP

Country	2019	2020	2021 ^e	2022 ^f	2023 ^f	2024 ^f	Percentage point differences from January 2022 projections	
							2022 ^f	2023 ^f
United States	2.3	-3.4	5.7	2.5	2.4	2.0	-1.2	-0.2
Euro area	1.6	-6.4	5.4	2.5	1.9	1.9	-1.7	-0.2
Japan	-0.2	-4.6	1.7	1.7	1.3	0.6	-1.2	0.1
China	6.0	2.2	8.1	4.3	5.2	5.1	-0.8	-0.1
Indonesia	5.0	-2.1	3.7	5.1	5.3	5.3	-0.1	0.2
Thailand	2.2	-6.2	1.6	2.9	4.3	3.9	-1.0	0.0
India ³	3.7	-6.6	8.7	7.5	7.1	6.5	-1.2	0.3

e: estimate ; f: forecast ; 3 : GDP growth rates are on a fiscal year basis

About India:

- In India, growth slowed in the first half of 2022 as activity was disrupted both by a surge in COVID19 cases, accompanied by more-targeted mobility restrictions, and by the war in Ukraine.
- The recovery is facing headwinds from rising inflation. The unemployment rate has declined to levels seen prior to the pandemic, but the labour force participation rate remains below pre-pandemic levels and workers have shifted to lower-paying and less-secure jobs.
- India's growth in fiscal year 2021/22, which ended in March 2022, was 8.7 percent, with the release of pent-up demand late last year following the mid-2021 wave of the pandemic offset by weakness in early 2022
- In India, both headline and core consumer inflation have breached the upper end of the central bank's headline inflation target range of 2-6 percent.
- In India, growth is forecast to edge down to 7.5 percent in fiscal year 2022/23, with headwinds from rising inflation, supply chain disruptions, and geopolitical tensions offsetting buoyancy in the recovery of services consumption from the pandemic.
- Growth will also be supported by fixed investment undertaken by the private sector and by the government, which has introduced incentives and reforms to improve the business climate.
- This forecast reflects a 1.2 percentage point downward revision of growth from the January projection. Growth is expected to slow further to 7.1 percent in 2023/24 back towards its longer-run potential.
- In India, the focus of government spending has shifted toward infrastructure investment, labor regulations are being simplified, underperforming state-owned assets are being privatized, and the logistics sector is expected to be modernized and integrated.

EXCERPTS : RBI's FINANCIAL STABILITY REPORT

Financial Stability Report (FSR) is published by RBI semi-annually. Recently, the RBI has released the 25th Issue of Financial Stability Report (FSR). Highlights of FSR-June '2022 are given below:

CHAPTER 1: MACROFINANCIAL RISKS

Global Economy

Shock waves from the war in Ukraine and retaliatory economic and financial sanctions have jolted the global economy, already beleaguered by successive waves of the COVID-19 pandemic, the quickening pace of monetary policy normalisation and the associated surges of volatility in global financial markets. Global growth is slowing, and downside risks weigh on the outlook.

REGION	GDP Growth %			CPI Growth %		
	2021	2022	2023	2021	2022	2023
Global Economy	6.1	3.6	3.6	-	-	-
Advanced Economies	5.2	3.3	2.4	3.1	5.7	2.5
Emerging Economies	6.8	3.8	4.4	5.9	8.7	6.5

Indian Economy

- The recovery in domestic economic activity has been gaining traction in spite of the globally overwhelming geopolitical shock of the war in Ukraine.
- The Indian economy and the domestic financial system remain strong and resilient in a hostile international environment, supported by robust domestic macroeconomic fundamentals.

Key Takeaways for the Banking Sector

- Indian banking system is well positioned to support economic growth, with bank credit growing in double digits after a long hiatus in wake of adequate capital buffers and improving asset quality levels
- Gross non-performing assets (GNPA) ratios down to their lowest levels in six years and a modest return to profitability.
- Within the banking sector, private sector banks (PVBs) continue to outpace their counterparts in the public sector in credit growth, both wholesale and retail.
- A significant portion of new industrial loans was extended as working capital loans. Loan growth to private corporate sector turned positive after two successive years of decline and deleveraging.
- The decline in risk-weighted assets continues, indicating that banks are still careful about the risk profile of borrowers in a dynamic environment characterised by considerable uncertainty.
- Most banks have chosen the Reserve Bank's repo rate as their external benchmarks. Under the EBLR regime, the shift in interest rate cycle will have a quicker impact on both deposit and lending rates of banks.
- MSME sector is showing signs of revival: aggregate credit to the sector witnessed a strong revival during Q4:2021- 22, supported by significant growth in lending by PVBs. The Emergency Credit Line Guarantee Scheme (ECLGS) has played a key role in reviving the MSME sector.
- PVBs showed greater appetite than PSBs in utilizing different ECLGSs, though the number of repeat borrowers remained similar for PSBs and PVBs.
- The aggregate GNPA Ratio (PSBs and PVBs) in the MSME sector has moderated from 11.3 per cent in September 2021 to 9.3 per cent in March 2022. They, however, remain relatively high.

- Deposits growth has also seen an upward trend however remained lower than last year.
- Under different stress scenarios, the CRAR of all banks would remain above the regulatory minimum of 9 per cent. Average CRAR of banks is found to be higher than under a similar stress test exercise conducted a year ago with March 31, 2021 as the reference date.
- Macro stress tests reveal that SCBs would be able to withstand adverse macroeconomic circumstances. Also, any negative shock to house prices is not likely to significantly impact banks' capital positions.

Risks going forward for the Banking Sector

20 per cent of the loan book linked to EBLR has reset frequency less than the underlying benchmark. This may expose banks to basis risk.

Over a third of the advances are at fixed rates in the case of PVBs, which may experience unrealized losses through reduction in the NPV of future cash flows in a rising interest rate cycle and reduce their economic value of equity (EVE).

PSBs, which have larger share of MCLR-linked loans may also be exposed to erosion in EVE as their deposit and lending rates are sticky and change less frequently than market interest rates.

Market risks are rising as spells of volatility are unleashed by foreign portfolio investment outflows and the sharp appreciation of the US dollar.

Diminished ability of governments to support banks in times of stress due to deteriorating government finances.

Headwinds to economic recovery as monetary tightening adversely impacts corporate profitability and increases credit risk for banks.

Way forward for the Banking Sector

Credit demand over the next three months is expected to improve on the back of recovery in GDP growth, higher consumer spending, pick up in manufacturing sector activity, public investment in infrastructure and higher demand for working capital.

On the back of adequate capital buffers and improving asset quality levels, the Indian banking system is well positioned to support economic growth, with bank credit growing in double digits.

CHAPTER 2:- FINANCIAL INSTITUTIONS: SOUNDNESS AND RESILIENCE

1. Credit and Deposit Growth:

- Bank credit growth picked up momentum during FY'22 and registered the growth of 11.5% on YoY basis in March'22.
- Deposit growth has been moderated at 9.9% on YoY basis in comparison to robust growth of 11.9% in March'21.
- Growth in Current and Savings also moderated during the period which reflects liquidity preference in the face of higher uncertainty.

Credit and Deposit Growth*

	Credit Growth (YOY %)			Deposits Growth (YOY %)		
	Mar'21	Sep'21	Mar'22	Mar'21	Sep'21	Mar'22
PSBs	3.5	3.5	9.1	10.1	7.3	8.1
PVBs	9.7	10.8	15.0	15.9	13.9	13.3
All SCBs	5.4	6.7	11.5	11.9	9.7	9.9

CASA and Term Deposit Growth*

	CASA Growth (YOY %)			Term Deposits Growth (YOY %)		
	Mar'21	Sep'21	Mar'22	Mar'21	Sep'21	Mar'22
PSBs	-	11.6	10.1	-	4.5	5.6
PVBs	-	22.8	18.0	-	7.6	7.6
All SCBs	17.6	15.4	13.0	9.2	5.7	6.4

*SCBs here include PSBs, PVBs and Foreign Banks

2. Asset Quality:

- Asset quality of SCBs continued to improve reflected in declining GNPA ratio of SCBs to 5.9% (Six Year Low) in March'22 from 7.4% in March'21.
- All SCBs' Net NPA ratio also declined by 70 bps in March'22 to 1.7%.
- Slippage ratio declined across Banks.
- PCR% (PCR without Technical write-off) has improved in case of PSBs, PVBs and All SCBs to 69.5%, 74.7% and 70.9% respectively.

3. Sectoral Asset Quality:

- The asset quality of all SCBs improved across sectors and broad based improvement in GNPA ratio in respect of the industrial sector, though it remained elevated for gems and Jewellery and construction subsectors.
- The Asset quality of personal loans improved especially for credit card receivables and education loans. Restructured assets constituted 2.4% each of advances under MSME and Retail. PSBs had relatively larger share of restructured loan assets in their books.

4. Credit quality of large borrowers:

- The share of large borrowers are declining in case of All SCBs, indicating reduction in credit concentration and diversification of borrowers. The GNPA Ratio of Large Borrowers declined in last two years to reach 7.7% in March'22.
- Their SMA-2 accounts and NPAs also declined during Q3 and Q4 FY'22 while SMA 0 and SMA 1 rise indicate towards potential risk going forward.

5. Capital Adequacy:

- Capital To Risk-Weighted Assets Ratios (CRARs) at 16.7 per cent for all SCBs in March 2022 has been continuously rising since March'20
- The system level Tier-I leverage ratio has also been rising after March 2020 and stood at 7.1 per cent in March 2022 for all SCBs. Tier 1 Leverage Ratio is the ratio of tier 1 Capital to total Assets.

6. Earnings & Profitability:

- Net Interest Margin (NIM) of SCBs increased marginally during 2021-22 and stood at 3.4 per cent. While NIMs of all bank groups increased during H2:2021-22, they remained lower for PSBs than PVBs. PSBs recorded high growth in profit after tax (PAT).

Profitability Ratios

Banks	ROA %			ROE %			Cost of Funds %		
	Mar'21	Sep'21	Mar'22	Mar'21	Sep'21	Mar'22	Mar'21	Sep'21	Mar'22
PSBs	0.3	0.5	0.5	4.3	7.7	7.9	4.6	4.1	4.1
PVBs	1.2	1.3	1.4	10.7	10.8	12.2	5.0	4.5	4.4
All SCBs	0.7	0.8	0.9	7.7	9.2	9.7	4.7	4.2	4.1

7. Resilience – Macro Stress Tests:

- Macro-stress tests for credit risk reveal that SCBs are well-capitalized and all banks would be able to comply with the minimum capital requirements even under adverse stress scenarios.
- The projected GNPA under Baseline scenario for PSBs stood at 7.1 Per cent (vis-à-vis PVBs: 3.0 per cent) while severe stress scenario may go upto 10.5 per cent in March'23 for PSBs (vis-à-vis 5.7 per cent).

8. Sensitivity Analysis:

- **Credit Risk:** Bank-level stress test results show that under the severe scenario, 11 banks with a share of 25.6 per cent in SCBs' total assets, fail to maintain the regulatory minimum level of CRAR.
- **Credit Concentration Risk:** Stress tests on banks' credit concentration show that in the extreme scenario of the top three individual borrowers of respective banks failing to repay, no bank would face a situation of the CRAR falling below the regulatory minimum.
- **Sectoral Credit Risk:** Shocks applied on the basis of volatility of industry sub-sector wise GNPA ratio indicate varying magnitudes of increases in banks' GNPA in different sub-sectors.
- **Interest Rate Risk:** PSBs hold more than half of the total trading book portfolio of SCBs, though their share has come down in the recent period.

9. Small Finance Banks: CRAR, of Small Finance Banks remains comfortable at 19.3 per cent in March 2022, which is higher than the larger group of SCBs, though their PCR at 53.9 per cent stood significantly lesser than other banking groups in the SCB cohort.

10. Primary (Urban) Cooperative Banks: Priority sector lending of primary (urban) cooperative banks (UCBs) crossed the March 31, 2022 target of 50 per cent and is nearing the March 31, 2023 target of 60 per cent.

CHAPTER III: REGULATORY INITIATIVES IN THE FINANCIAL SECTOR

Initiatives from Regulators/Authorities

Financial sector regulators launched several initiatives for the development of the financial system and enhancement of its robustness and resilience:

- The Reserve Bank issued a comprehensive regulatory framework for microfinance loans effective April 1, 2022, which has been made applicable to all Regulated Entities (REs) of the Reserve Bank and includes, inter alia, a common definition of microfinance loan for all Res
- Reserve Bank issued guidelines on establishment of Digital Banking Units (DBUs) applicable to all Domestic SCBs (excluding RRBs, PBs and local area banks (LABs) to widen the reach of digital banking services.

- iii. To improve the adoption of digital payments, and based on the results of a pilot scheme for small value offline payments, the Reserve Bank has issued a framework to enable small value digital payments in offline mode.
- iv. The Reserve Bank issued Master Directions on Credit Derivatives to provide a fillip to the CDS market and to facilitate the development of a liquid market for corporate bonds, especially for bonds of lower-rated issuers.
- v. The Legal Entity Identifier (LEI) code, which has been conceived as a key measure to improve the quality of financial data systems for better risk management, is a 20- digit unique code to identify parties to financial transactions worldwide.
- vi. Under the scheme, retail individual investors can open a Retail Direct Gilt (RDG) account with the Reserve Bank, using an online portal. Subsequent to the launch of the scheme, a market making scheme for the Primary Dealers (PDs) was announced.
- vii. Financial entities have been on-boarded to CERT-In's Cyber Swachhta Kendra (CSK) for providing automated feeds regarding malware infections, botnets and vulnerable services. CSIRT-FIN has been issuing vulnerability notes and tailored threat intelligence alerts to financial entities that have been on-boarded on CERT-In's threat intelligence platform.
- viii. FinTech innovations are ubiquitous, especially in retail and wholesale payments, financial market infrastructures, investment management, insurance, credit provision and equity capital raising and may lead to material changes in the financial landscape.
- ix. The Reserve Bank issued Master Directions for variation margin, which will come into effect from December 01, 2022 and will be applied to foreign exchange derivatives, interest rate derivatives and credit derivative contracts that are non-centrally cleared.
- x. Taking into account the increase in housing prices and customer needs, the Reserve Bank increased the limits on housing loan sanctioned by Urban Co-operative Banks UCBs for individual borrowers.
- xi. After reviewing various aspects of the public issue framework, including price bands, non-institutional investor (NII) allocation, objects of the issue and monitoring of issue proceeds, SEBI took steps to strengthen the process for public issues.
- xii. Since the outbreak of pandemic, SEBI has taken several steps to protect the retail investors from misconducts by regulated entities.
- xiii. The SEBI has also introduced a programme called Securities Market Trainers (SMARTs) to conduct investor awareness programmes and media campaigns on cautioning investors against unsolicited investment tips.
- xiv. The International Financial Services Centres Authority (IFSCA) aims at fostering innovation in financial services through a regulatory/innovation sandbox for FinTech activities and enabling pure play technology companies in providing allied activities/ services to banking and financial services.

OUTLOOK

The core of the financial system continues to exhibit resilience, a triumph for the post-Global Financial Crisis regulatory reforms that improved banking system resilience through higher capital buffers and improved liquidity standards. The growing threat of the crypto-assets ecosystem warrants drastic approaches by national authorities. Ongoing challenges relating to cyber risk and climate-related financial risks are the two other major focus areas for policy makers. On the domestic front, efforts to improve financial system resilience continues. Regulators took several measures to strengthen financial intermediaries, accelerate digitalization of the economy, develop market segments, improve access of retail investors and protect the interests of depositors/investors. The fast-changing financial landscape is keeping regulators on the vigil to not only safeguard the financial system from shocks, but also unlock its potential to drive economic growth.

EXCERPTS : RBI's PAYMENT VISION 2025

RBI has released a Payment Vision 2025, which aims to provide every user with safe, secure, fast, convenient, accessible, and affordable e-payment options.

Core Theme: E-Payments for Everyone, Everywhere, Everytime (4Es)

Vision: Provide every user with Safe, Secure, Fast, Convenient, Accessible, and Affordable e-payment options (6 Attributes).

Goalposts: The activities to be taken up by the RBI till 2025 have been captured across five anchor goal posts: 1) Integrity, 2) Inclusion, 3) Innovation, 4) Institutionalization and 5) Internationalization.

The ten expected outcomes during the Vision period is as under:

- Volume of cheque-based payments to be less than 0.25 per cent of the total retail payments
- More than 3x increase in number of digital payment transactions
- UPI to register average annualized growth of 50 per cent and IMPS/NEFT at 20 per cent.
- Increase of payment transaction turnover vis-à-vis GDP to 8
- Increase in debit card transactions at PoS by 20 per cent
- Debit card usage to surpass credit cards in terms of value
- Increase in PPI transactions by 150 per cent
- Card acceptance infrastructure to increase to 250 lakh
- Increase of registered customer base for mobile based transactions by 50 per cent CAGR
- Reduction in Cash in Circulation (CIC) as a percentage of GDP

Brief details of the 5 anchor goal posts are as under:-

1. Integrity

- Concerns with OTP-based authentication for divulgence of customer confidentiality, alternate risk-based authentication mechanisms leveraging behavioural biometrics, location / historical payments, digital tokens, in-app notifications shall be explored.
- The use of Legal Entity Identifier (LEI) in areas like sanctions screening, Know Your Customer (KYC), corporate invoice reconciliation, fraud detection, etc. shall be explored.
- Expand Inter-Operability to Contactless Transit Card Payments in Offline Mode.
- To further reduce the settlement risk as also to improve efficiency by making the payments near-real time and Leverage Online Dispute Resolution (ODR) System for Fraud Monitoring and Reporting.
- Increase proportionate oversight of Payment System Operators (PSOs) and include assessment of RTGS and NEFT under Principles for Financial Market Infrastructures (PFMIs).

2. Inclusion

- Enable Geo-tagging of digital payment infrastructure and transactions.
- Currently, Payments Infrastructure Development Fund (PIDF) Scheme subsidizes deployment of PoS infrastructure in tier-3 to tier-6 centres and north-eastern states of the country. Post the successful roll-out of geo-tagging of payment system touch points, scope of the Scheme shall further be reviewed.

- A comprehensive review of all aspects related to charges involved in various channels of digital payments shall be undertaken.
- Given the dominant role of BigTechs and FinTechs, a discussion paper on the need for proportionate regulation by the Reserve Bank encompassing domestic incorporation, reporting, data use etc. shall be published.
- To migrate all the government receipts and payments to digital mode, central bank shall coordinate with the central and state governments to integrate their payment platforms with the Reserve Bank's eKuber.

3. Innovation

- An enabling framework on Internet of Things (IoT)-based payments covering aspects of data security, authentication, identity validation, etc. shall be facilitated.
- To offer more avenues and greater convenience to users in making payments through UPI platform, feasibility of linkage of credit cards and credit components of banking products to UPI shall be explored.
- Create payment system for processing online merchant payments using internet/mobile banking.
- The need for IFSC to make funds transfer shall be reviewed and alternative options with suitable provision for collecting beneficiary bank details shall be explored to make funds transfer simpler and hassle-free for customers.
- Explore guidelines on payments involving Buy Now Pay Later (BNPL) services.

4. Institutionalization

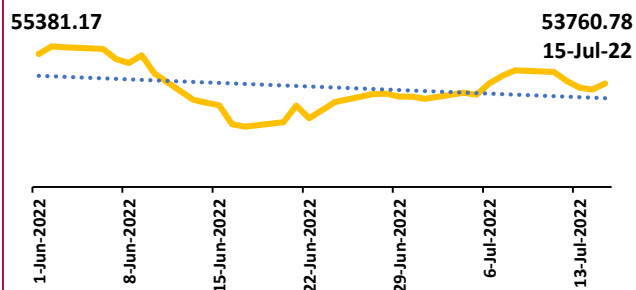
- Considering the emerging requirements of the highly dynamic and fast evolving payment ecosystem, both domestic and cross-border, Reserve Bank shall endeavour to comprehensively review the Payment and Settlement Systems (PSS) Act and the corresponding Regulations.
- Constitute Payments Advisory Council (PAC) to assist Board for Regulation and Supervision of Payment and Settlement Systems (BPSS).
- Operationalize National Card Switch for card transactions at PoS and resultant settlements.
- Active engagement and involvement in international fora.

5. Internationalization

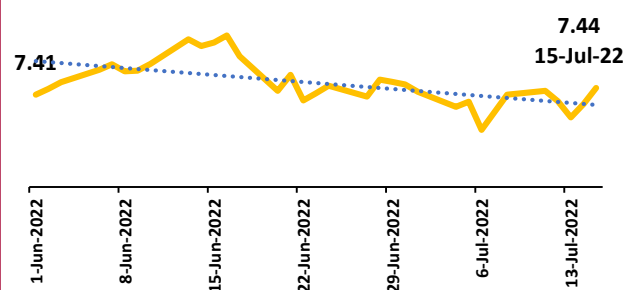
- The feasibility of expanding RTGS to settle transactions in major trade currencies such as USD, Pound, Euro, etc. shall be explored through bi-lateral or multilateral arrangements.
- The feasibility of providing membership/technology of Indian Financial Network (INFINET) to other jurisdictions shall be explored.
- To give a similar experience and increase safety of international transactions done using cards issued in India, implementing Additional Factor of Authentication (AFA) for crossborder transactions shall be explored.
- With excellent Financial Market Infrastructures (FMIs) already in place and deepening of forex and financial markets, a mechanism for international INR settlement through Continuous Linked Settlement (CLS) Bank would help increase global acceptance of INR.
- Reserve Bank is working towards introduction of CBDC in India. Various use cases shall be studied and explored to bring in further efficiencies in domestic and crossborder payment processing and settlement using CBDCs.

DAILY ECONOMIC INDICATORS

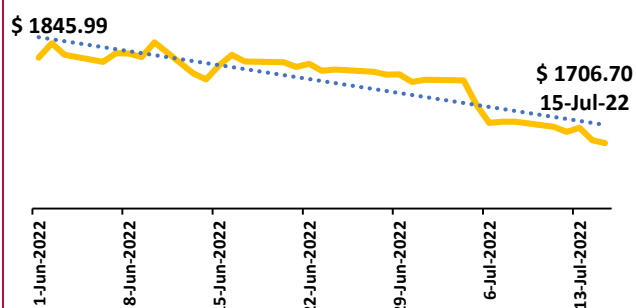
SENSEX



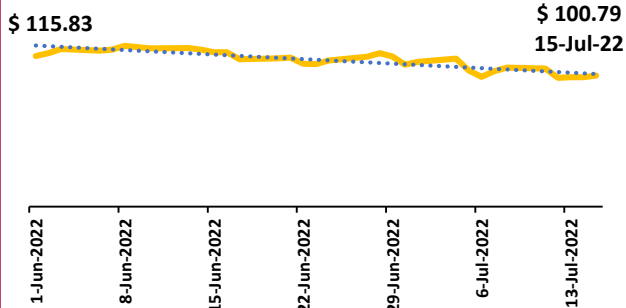
G SEC 10 Y



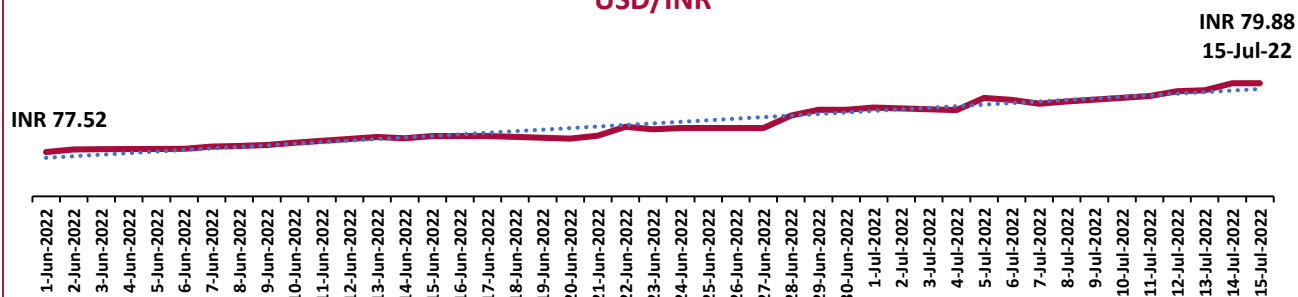
GOLD



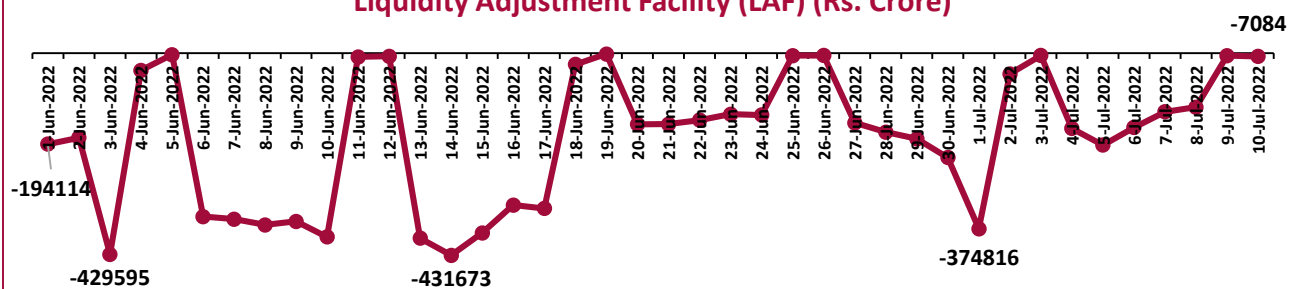
BRENT



USD/INR



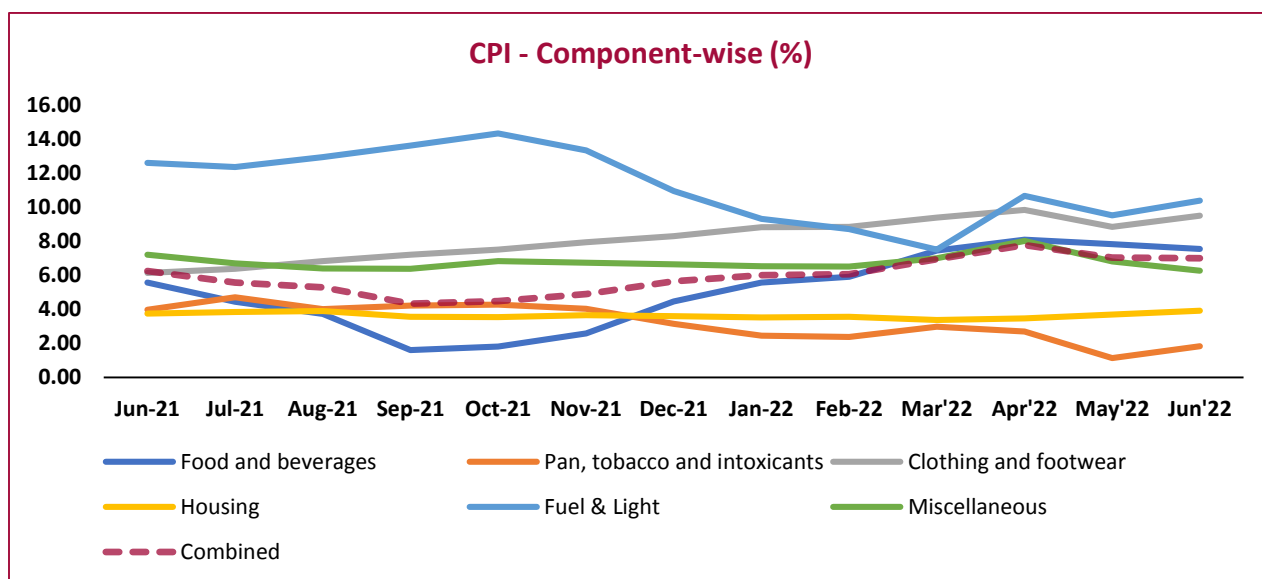
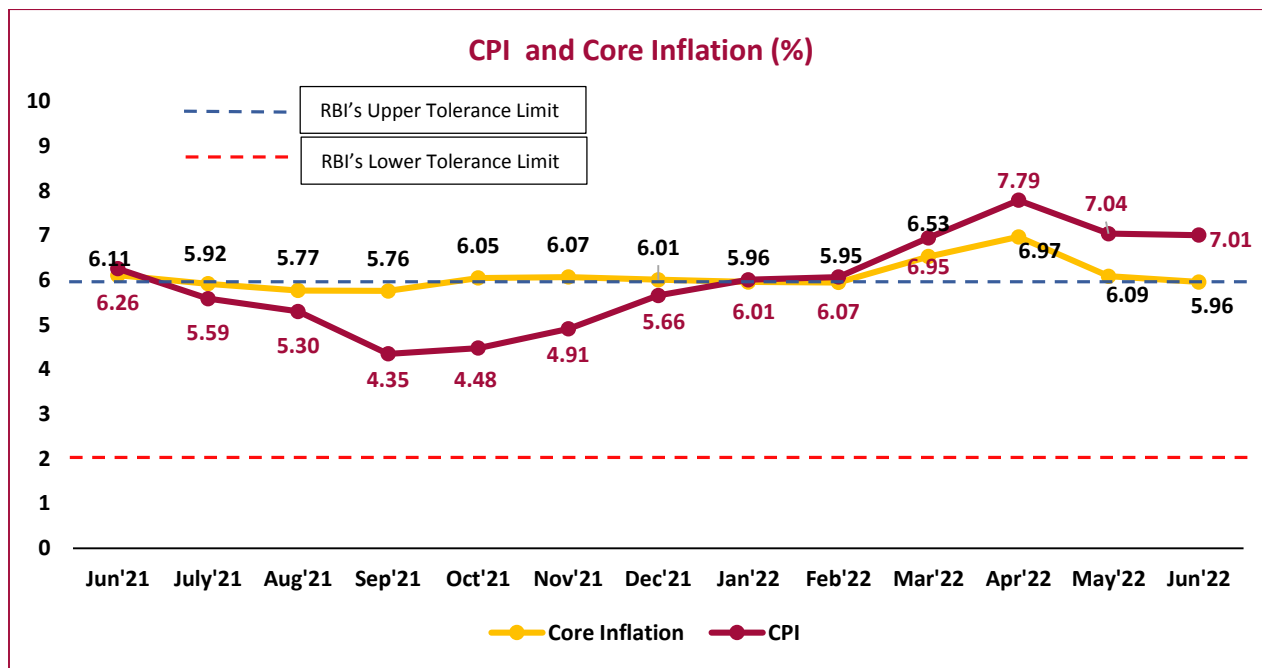
Liquidity Adjustment Facility (LAF) (Rs. Crore)



MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

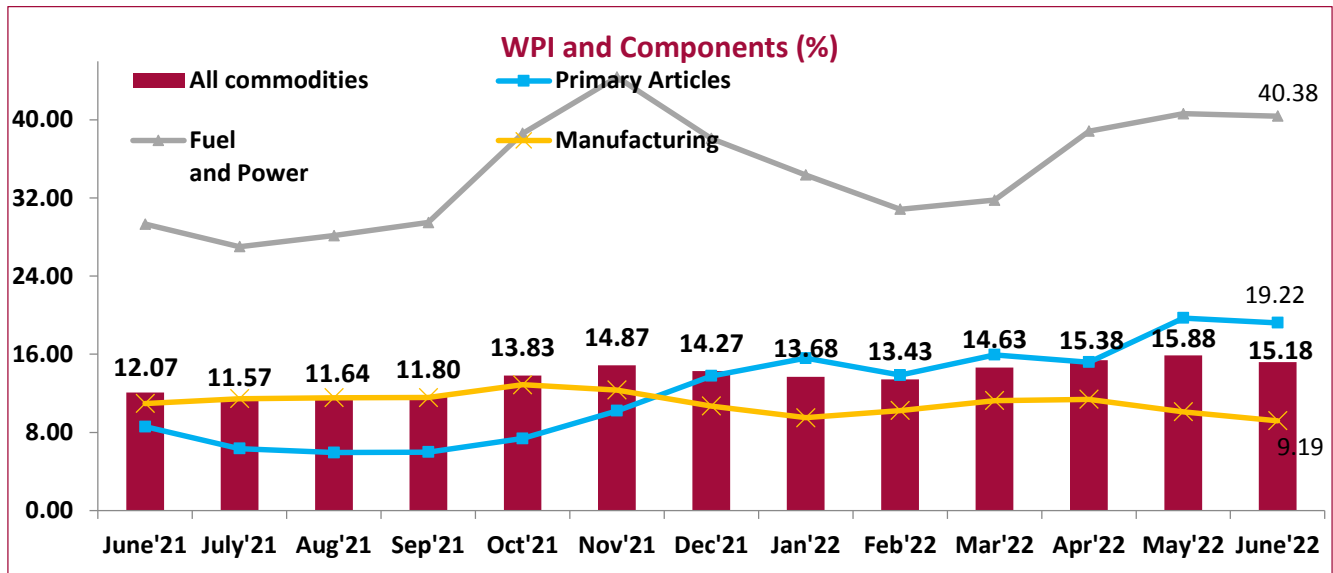
CPI Inflation drops to 7.01 per cent owing to easing crude and edible oil prices



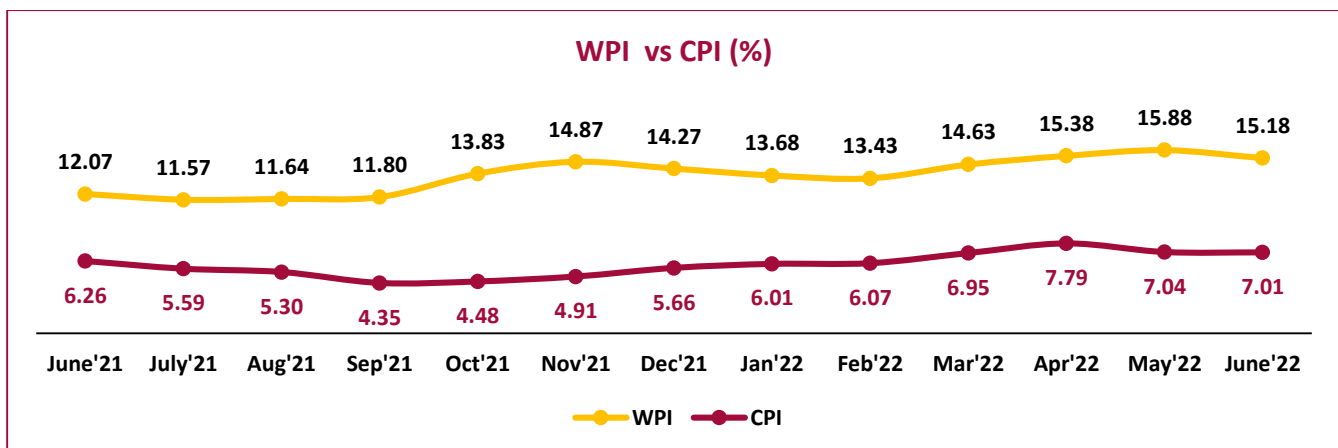
The Retail Inflation, even after easing, stayed well above the upper limit of the Reserve Bank of India's (RBI's) target range for the sixth consecutive time.

WHOLESALE PRICE INDEX (WPI)

WPI inflation stays in double digit for 15 consecutive months



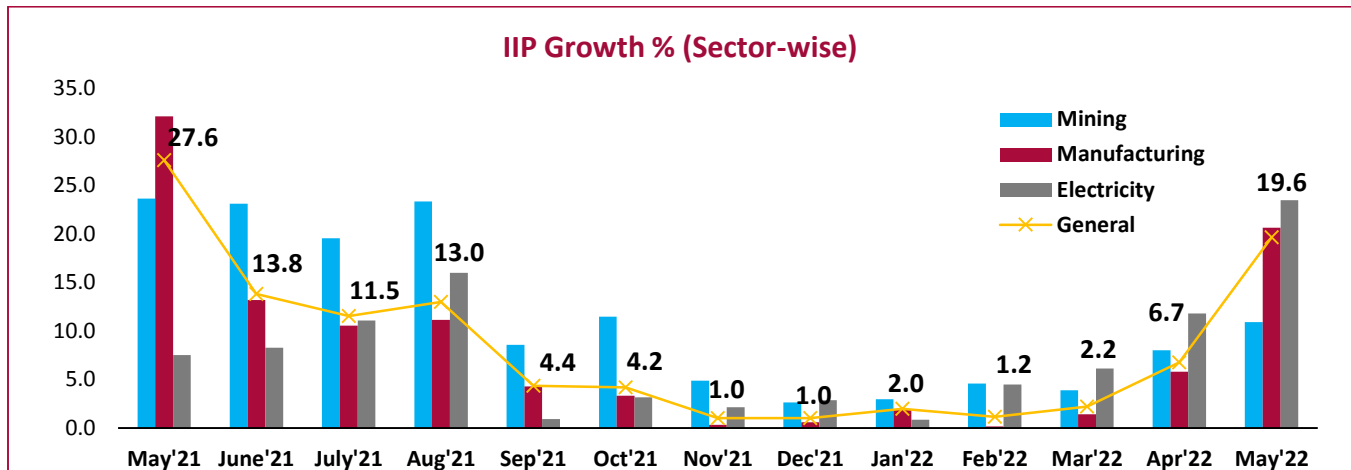
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles (Part of Primary Articles)		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
April	9.94	15.18	21.27	38.84	9.44	11.39	4.60	8.48	10.74	15.38
May	9.40	19.71	36.74	40.62	11.25	10.11	4.25	12.34	13.11	15.88
June	8.59	19.22	29.32	40.38	10.96	9.19	3.28	14.39	12.07	15.18



The high rate of inflation was primarily due to rise in prices of mineral oils, food articles, crude petroleum & natural gas, basic metals, chemicals & chemical products, food products etc. as compared to the corresponding month of the previous year.

INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

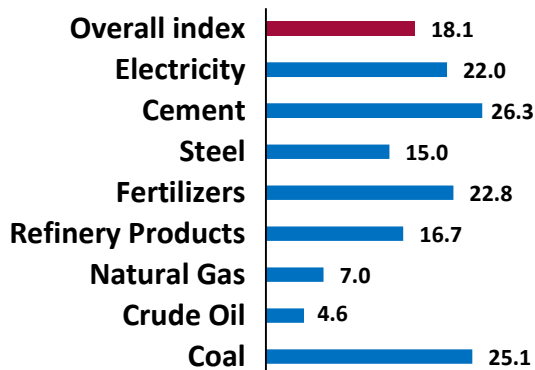
Favourable base drives IIP to 19.6 per cent



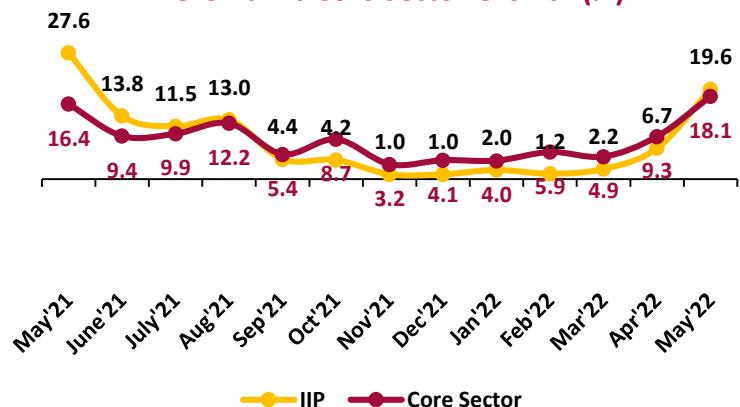
IIP growth % (Usage-wise)

Component	Weight	Dec'21	Jan'22	Feb'22	Mar'22	Apr'22	May'22	Apr-May'22
Primary Goods	34.05%	2.8	1.6	4.6	5.7	10.1	17.7	13.8
Capital Goods	8.22%	-3.0	1.8	1.3	2.0	13.3	54.0	31.1
Intermediate Goods	17.22%	1.0	2.5	4.1	1.8	7.0	17.9	12.2
Infrastructure/Construction Goods	12.34%	2.0	5.9	8.6	6.7	4.0	18.2	10.7
Consumer Durables	12.84%	-1.9	-4.4	-9.7	-2.6	7.4	58.5	28.2
Consumer Non- Durables	15.33%	0.3	3.1	-6.8	-4.6	-0.6	0.9	0.1

Core Sectors Growth for May'22 (%)



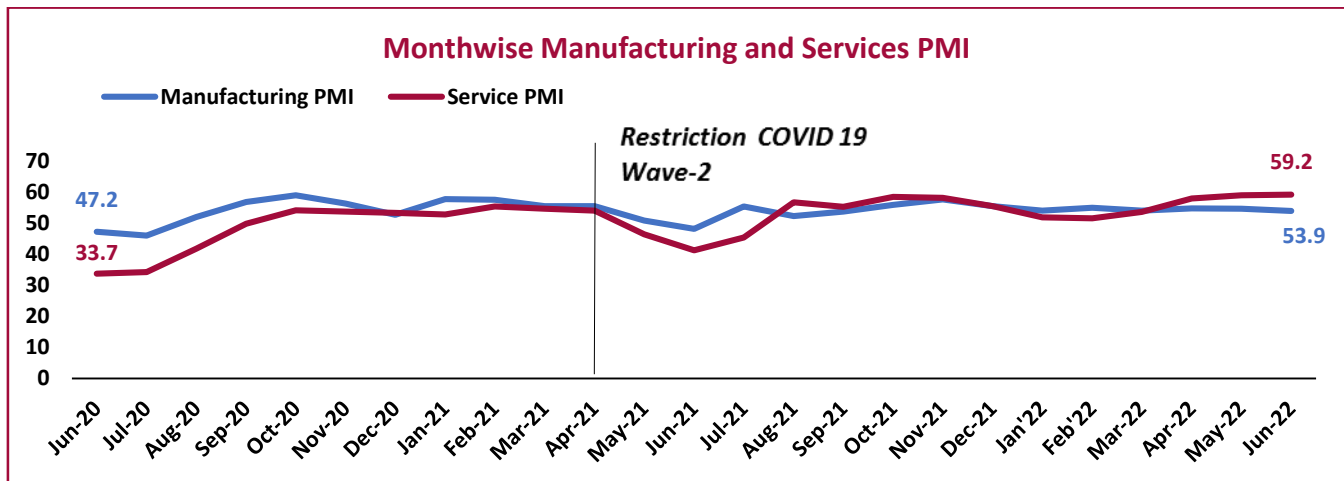
IIP Growth vs Core Sector Growth (%)



Apart from base effect, the improvement has been duly backed by strong demand. The manufacturing sector output, which accounts for more than three-fourths of the total weight of the Index of Industrial Production, rose 20.6 per cent in May.

PURCHASING MANAGERS' INDEX (PMI)

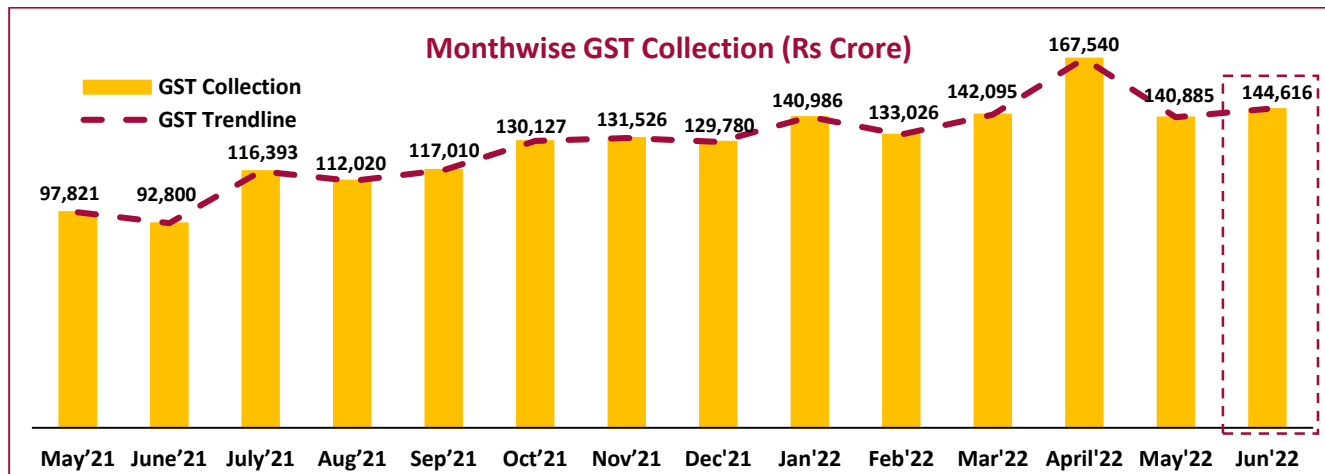
Services PMI again records an 11-year high



India's services sector activity expanded at the fastest pace, it was the highest in 11 years which increased from 58.9 in May 2022 to 59.2 in June 2022, the seasonally adjusted S&P Global India Services PMI Business Activity Index was at its highest mark since April 2011. India's manufacturing declined from 54.6 in May 2022 to 53.9 in June 2022, according to the survey, inflation concerns continued to dampen business confidence.

GOODS AND SERVICES TAX (GST)

GST collection 56% higher than GST revenues in June 2021

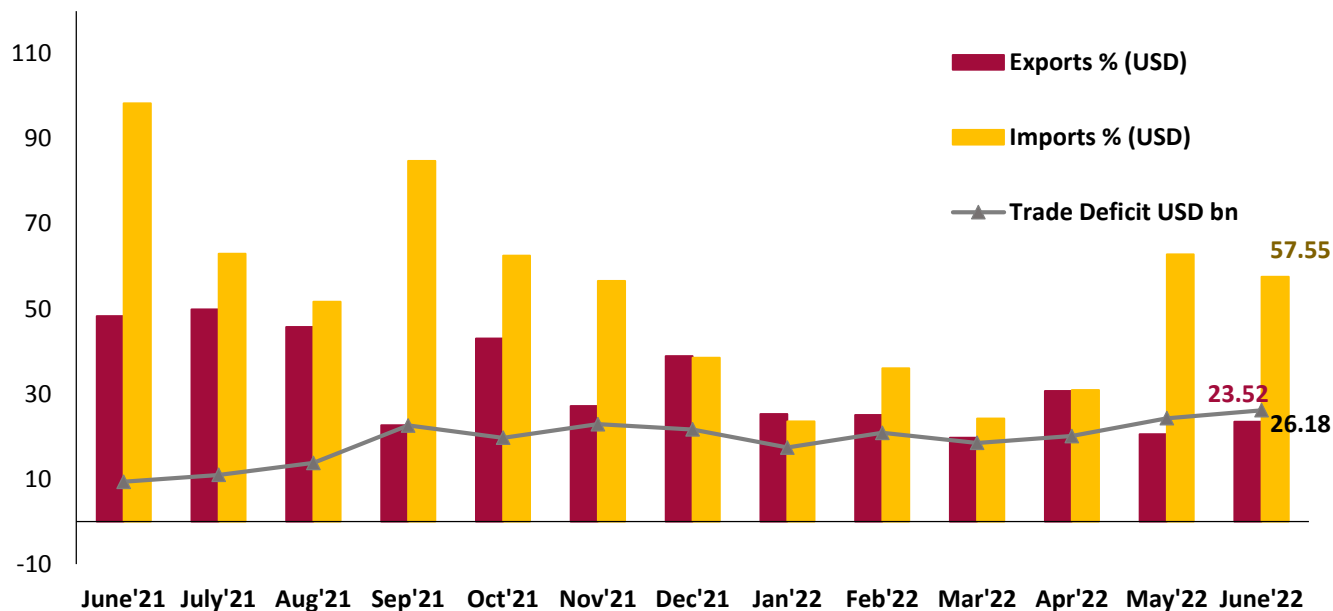


The gross GST revenue collected is Rs. 1,44,616 Crore in June'22 i.e. around 3% higher than GST revenues from the last month and 56% higher than the GST revenues in June 2021. This is the fifth time the monthly GST collection crossed ₹1.40 lakh crore mark since inception of GST and fourth month at a stretch since March 2022. These consistent high collections indicate recovery from the pandemic hit and can be attributed to inflation and tight check and balances implemented by the Government.

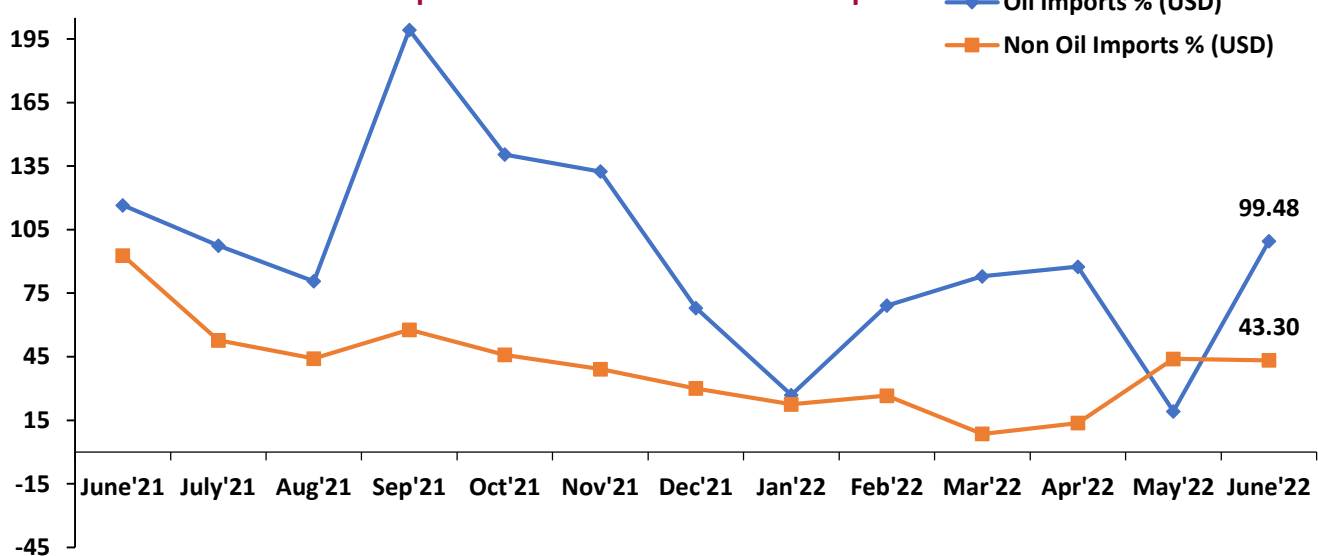
FOREIGN TRADE

Country's trade deficit swelled to a record of \$26.18 billion

Export & Import YOY growth and Trade Deficit

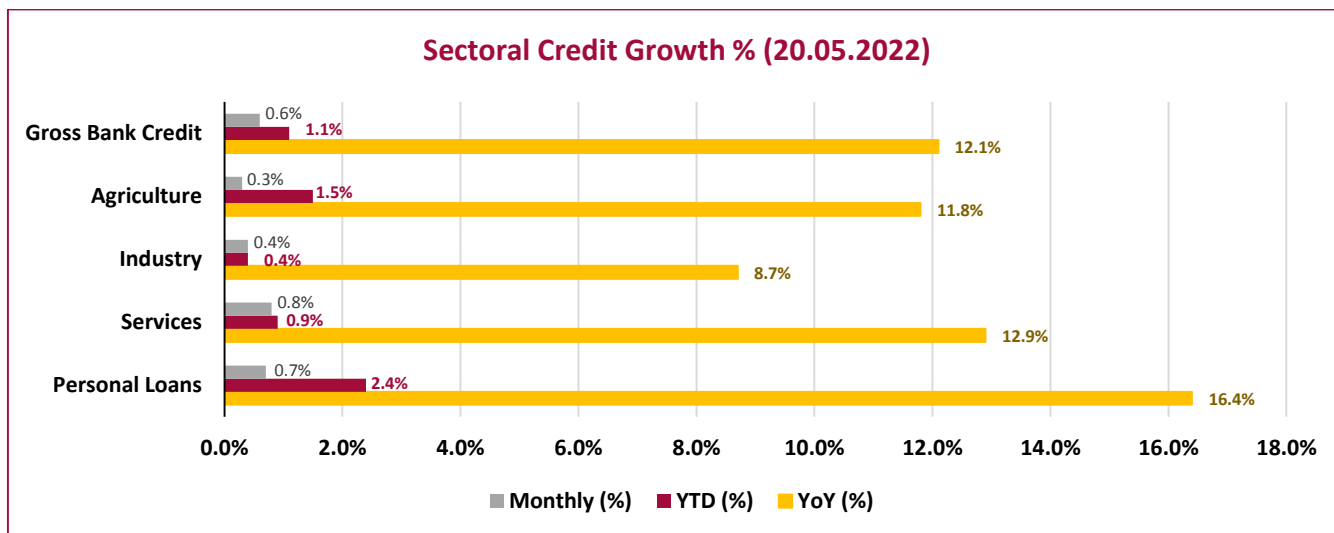


Import Growth % - Oil & Non Oil Imports



- India's merchandise exports in June jumped 23.52 per cent year-on-year to \$40.13 billion, while imports increased 57.55 per cent to \$66.31 billion.
- The trade deficit during the first three months of this fiscal widened to \$70.80 billion from \$31.42 billion in the year-ago period.

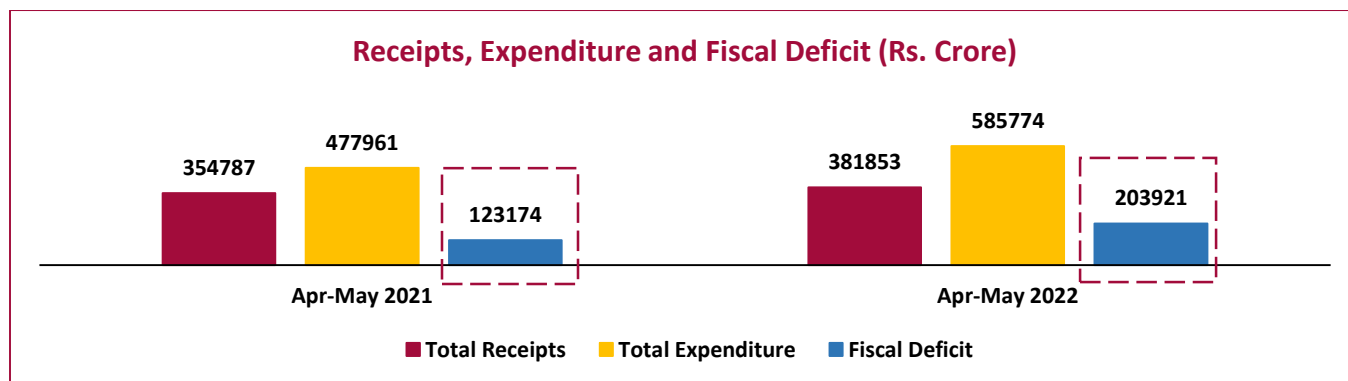
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	02.07.21	25.03.22	17.06.22	01.07.22	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	154.51	164.65	165.69	169.61	9.77%	3.0%	2.4%
Advances	109.29	118.91	121.50	123.81	13.29%	4.1%	1.9%
Business	263.80	283.56	287.20	293.42	11.23%	3.5%	2.2%

FISCAL DEFICIT

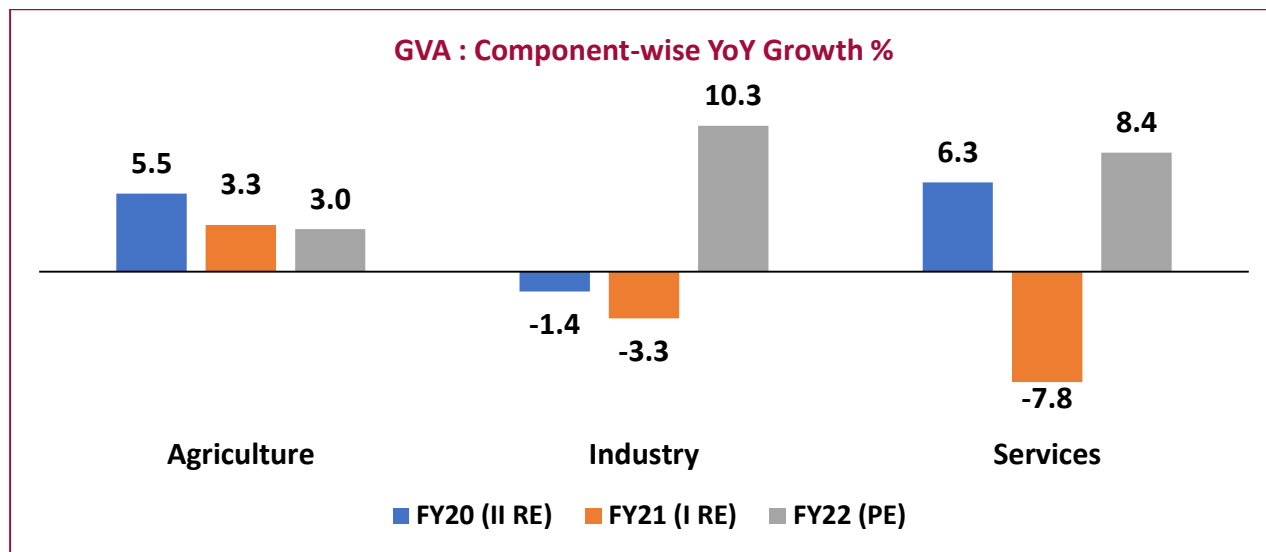
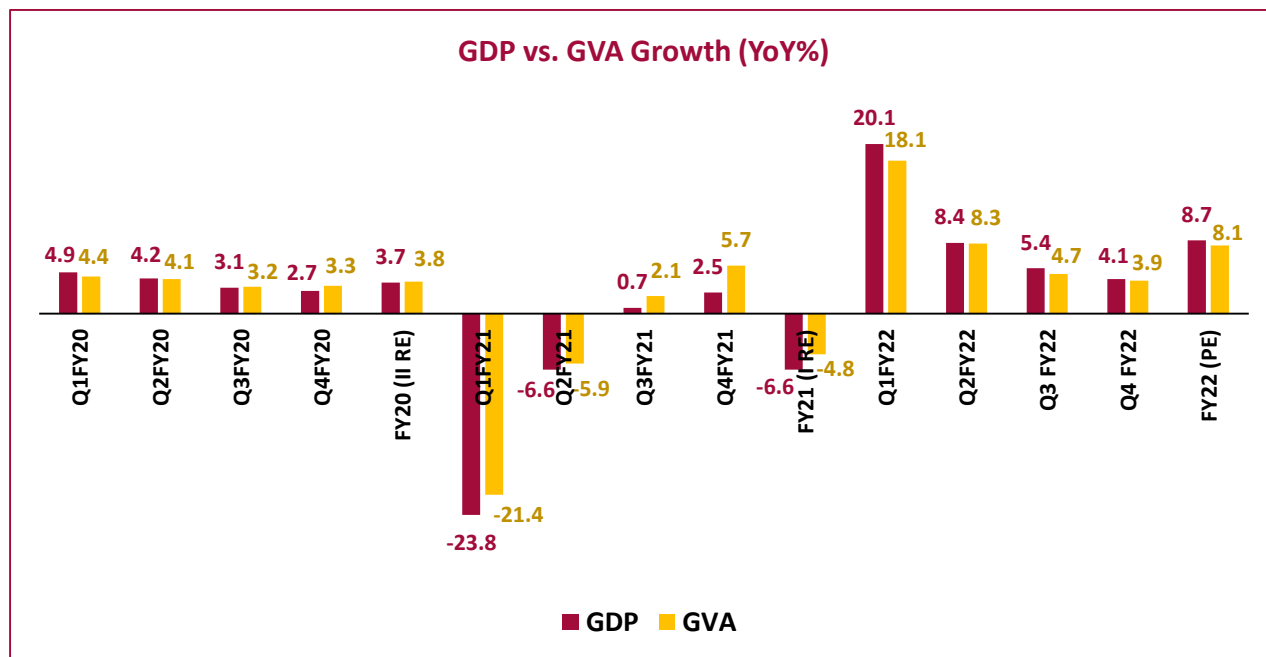


Fiscal deficit during April-May was at Rs 2,03,921 Crore, or 12.3 per cent of the target for the entire current financial year, mainly due to higher expenditure. The total receipts at the end of May stood at Rs. 3.81 Lakh Crore or 16.7 per cent of the FY23 BE, while the total expenditure was at Rs 5.85 Lakh Crore or 14.8 per cent of this year's BE.

QUARTERLY ECONOMIC INDICATORS

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

Indian economy grows by 8.7%, above pre-pandemic level



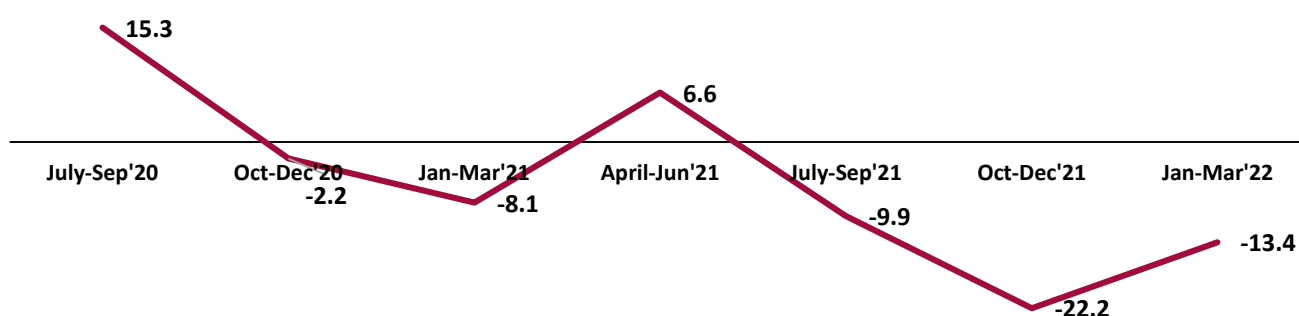
Gross Domestic Product (GDP) for FY22 grew by 8.7 per cent as compared to a decline of 6.6 per cent in the previous year. Also, **Real Gross Value Added (GVA)** at basic prices (which captures what accrues to the producer/service provider before a product or service is sold) **in FY22 grew by 8.1 per cent** in comparison to a decline of 4.8 per cent in FY21. For the last quarter of FY22, GDP grew by 4.1 per cent while GVA grew by 3.9 per cent.

India's GDP Outlook Of Various Agencies

Agency	FY23
RBI	7.2%
World Bank	7.5%
IMF	8.2%
ADB	7.5%
Economic Survey	8-8.5%

CURRENT ACCOUNT DEFICIT

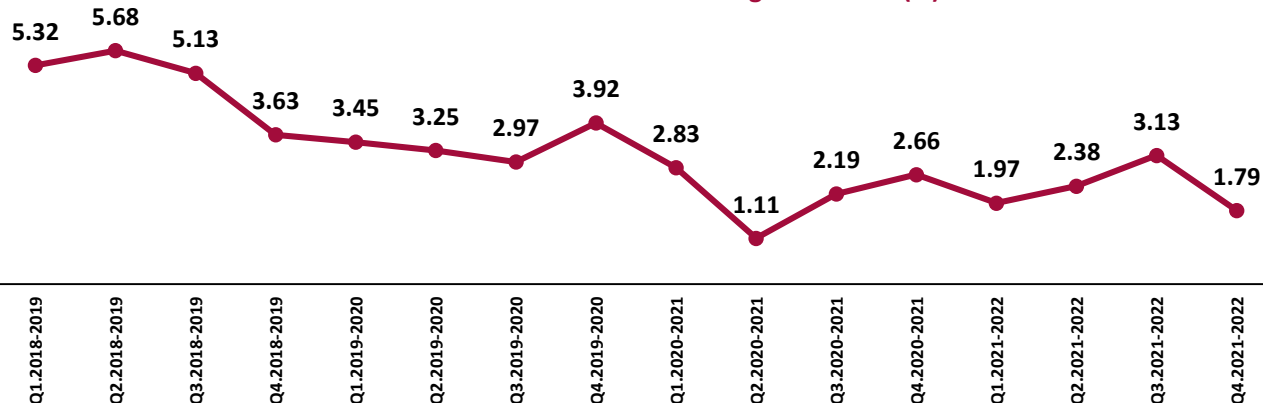
Quarterly Movement of Current Account Deficit (USD \$ Billion)



India's Current Account Deficit declined to \$ 13.4 billion (1.5 per cent of GDP) in Q4 FY'22 from \$ 22.2 billion (2.6 per cent of GDP) in Q3 FY'22 mainly on account of increase in remittances from overseas Indians and software exports. Further, there was a fall in the outflow from dividend and interest pay-outs.

HOUSING PRICE INDEX

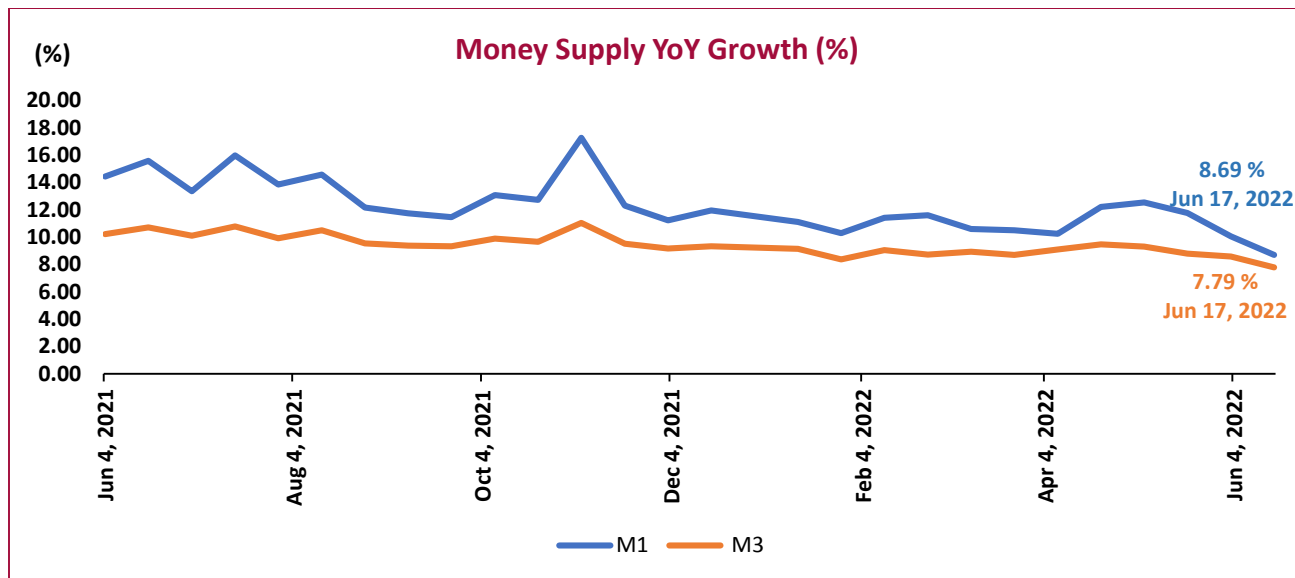
All India YoY Growth Rate of Housing Price Index (%)



All-India HPI recorded 1.79 per cent annual growth (y-o-y) in Q4:2021-22 (provisional data) as compared with 3.13 per cent growth in the previous quarter and 2.66 per cent a year ago.

MONEY SUPPLY

Both the growth rate of M1 and M3 drops



GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	-0.10	Jan 29, 2016 (-20bps)	July 21, 2022
European Central Bank (ECB)	Europe	0.00	Mar 10, 2016 (-5bps)	July 21, 2022
Federal Reserve	U.S.A	1.75	June 15, 2022 (75 bps)	July 27, 2022
Bank of England	U.K	1.25	June 16, 2022 (25 bps)	August 4, 2022
Peoples Bank of China	China	3.70	Jan 20, 2022 (-10bps)	-
Reserve Bank of India	India	4.90	June 08, 2022 (50bps)	August 04, 2022
Central Bank of Russia	Russia	9.50	June 10, 2022 (-150bps)	July 22, 2022

INDUSTRY OUTLOOK

Tourism

The Indian Tourism and Hospitality Industry is one of the prime industries and key drivers of growth in India. Indian has a great potential in the industry seeing India's rich and historical significance, natural beauty, etc. In addition to it, the sector is also an important source of foreign exchange in India though it experienced dip in the year 2020 due to pandemic situation. However this was the worldwide phenomena.

The industry in India also offers great opportunities for Job growth as well which make it all the more lucrative industry for investing. The Government of Indian has been taking up various initiative to rejuvenate the sector and make it more growth oriented. With all the efforts being made towards the sector, it is expected that the Indian tourism sector is likely to grow at 6.7% per annum and achieve 9.2% of GDP with USD 488 billion by 2029.

Also, Tourism Ministry has undertaken 'Namaste India' Campaign for encouraging International visitors to travel to India. Ministry of Tourism launched the National Strategy for Sustainable Tourism and Responsible Traveller Campaign that identifies the strategic pillars for the development of sustainable tourism like Promoting Environmental Sustainability, Protecting Biodiversity, Promoting Economic Sustainability, Promoting Socio-Cultural Sustainability, Scheme for Certification of Sustainable Tourism, IEC and Capacity Building and Governance.

India's travel and tourism industry has huge growth potential. Further, it is also expected that the flow of tourists would double with the expansion of e-Visa scheme. Government has been focusing on the sector and has come out with various initiatives to boost the sector.

Tea

India is among the largest producers and consumers of tea across the globe. India is the second-largest producer of tea globally. Indian tea is one of the finest in the world due to strong geographical indications, heavy investment in tea processing units, continuous innovation, augmented product mix, and strategic market expansion.

The market will continue to be underpinned by robust demand in developing and emerging countries, creating new rural income opportunities and contributing to food security in tea-producing countries. Tea consumption has grown particularly rapidly in China, India and other emerging economies, driven by a combination of higher incomes and diversification into other market segments, such as organic and specialty teas. Tea prices and trade are also expected to be adversely impacted by the Russia-Ukraine conflict, as the Russian Federation is the largest importer of Indian tea.

India is among the top 5 tea exporters in the world making about 10% of the total exports. Moreover, the increasing consumer preference for premium and packaged tea brands is providing a thrust to the market growth. The war between Russia and Ukraine had affected the Indian tea industry. Around 18% of Indian tea are exported to Russia. Last fortnight, however, Russia intensifying its demand of Indian tea has resulted in zooming up prices of Indian Tea. Crisis in Sri Lanka, the 4th largest tea exporter of the world, affected their trade. However, it posed as unseen benefit to other tea exporting countries including India as demand for these countries' tea soared. India's tea sector contributes to socio-economic development, representing a major source of employment and income for millions of poor families.

EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

- 1. Govt, RBI measures help banks recover bad loans worth over Rs 8.6 lakh crore in last 8 fiscal (FE, 19.07.2022)**
 - Concrete steps taken by the government and RBI helped banks recover bad loans worth over Rs 8.6 lakh crore in the last eight financial years, the government informed Parliament.
 - Government and RBI (Reserve Bank of India) regularly issue guidelines and have taken several initiatives aimed at resolution of long-standing stressed assets on the books of banks as well as timely identification and recognition of stress immediately upon default and take corrective action for mitigation of the same, Minister of State for Finance said.
- 2. Bank credit grows by 13.3%, deposits by 9.7% in fortnight ended on July 1 (BS, 15.07.2022)**
 - Bank credit grew by 13.29 per cent to Rs.123.81 lakh crore and deposits by 9.77 per cent to Rs.169.61 lakh crore in the fortnight ended on July 1, RBI data showed.
 - In the fortnight ended June 2, 2021, bank advances stood at Rs.109.28 lakh crore and deposits at Rs.154.51 lakh crore, according to the Scheduled Banks' Statement of Position in India as on July 1, 2022 released.
- 3. ICICI, Axis, HDFC Bank allowed to offer services to DefMin in global buys (BS, 08.07.2022)**
 - The Ministry of Defence has allowed HDFC Bank, Axis Bank, and ICICI Bank to provide financial services in overseas procurement done by the department, a first after the Centre opened up allocation of government business for private banks.
 - These private banks will provide Letter of Credit (LC) and direct bank transfer business for overseas procurement by the defence ministry. These banks may be allocated with LC business of Rs 2,000 crore, each on the capital and revenue side, for one year on concurrent basis (Rs.666 crore for each bank under both capital, as well as revenue.
 - Until now, only authorised public sector banks were allowed to provide these services to the defence ministry.
 - Even as the quantum of business may not be significant, the move showcases the government's intent of opening up business for private banks.
 - This would further give a leg up to the government's efforts to bring in more competition and improve efficiency in the system.

4. **RBI notifies measures to boost forex inflows (BS, 06.07.2022)**
 - RBI issued notifications relaxing provisions for overseas investments in debt market and foreign currency lending by banks, measures which were announced as part of efforts to shore up the rupee. The measures were announced amid the rupee falling against the US dollar.
 - Banks can utilise the funds raised from overseas foreign currency borrowing between July 8 and October 31, 2022 for lending in foreign currency to constituents in India, as per the notification on 'Overseas foreign currency borrowing of Authorised Dealer Category-I banks'
 - Investments by FPIs in government securities and corporate bonds made between July 8 and October 31, 2022 will be exempted from the limit on short-term investments till maturity or sale of such investments.
5. **PSBs back on growth path as India's economic recovery gains traction (BS, 01.07.2022)**
 - As economic recovery gains traction, loan demand from banks started improving from the second half of the 2021-22 with credit hitting 13 per cent in June.
- According to the Reserve Bank of India's Financial Stability Report (FSR), public sector banks recorded growth in industrial credit after almost three years of contraction.
- A significant portion of new industrial loans was extended as working capital loans. Loan growth to the private corporate sector turned positive after two successive years of decline and deleveraging.
6. **Share of CASA in Total Bank Deposits rose to 44.8% in March 2022: RBI data (BS, 29.06.22)**
 - The share of current and savings accounts (Casa) deposits of commercial banks has increased to 44.8 per cent as of March 2022-end, from 41.7 per cent three years ago, latest data released by RBI showed.
 - Casa are low-cost deposits of banks, which are margin accretive. Casa deposits accounted for 60.9 per cent and 55.6 per cent of incremental deposits during 2020-21 and 2021-22, respectively.
 - Interest rates on fixed deposits, which have begun rising recently, were quite low during the past few years as RBI followed an ultra-loose monetary policy since the start of the Covid-19 pandemic.

7. HDFC Bank to shift payments from core banking, ensure minimal downtime (BS, 21.06.22)

- The country's largest private lender HDFC Bank is planning to facilitate a shift in its payments module from the existing core banking platform. This would ensure minimal payments downtime, even if core banking is not available.
- The bank has partnered a new-age start-up to set up new core banking modules and the project will aid in setting up a fully-resilient active payments architecture.

8. FinMin asks PSBs to expedite NPA resolution; focus on credit growth (BS, 21.06.22)

- The Finance Ministry held a meeting with heads of public sector banks (PSBs) to review their annual performance and progress made by them on various government schemes.
- However, the annual performance review of PSBs was chaired by Minister of State for Finance Bhagwat K Karad. Besides the minister, Financial Services Secretary Sanjay Malhotra and other senior officials of the Department of Financial Services (DFS) were present at the meeting.

• According to sources, banks were asked to sanction loans for productive sectors to accelerate the revival of the economy facing headwinds, including from the Russia-Ukraine war.

- During the Iconic Week celebration of the finance ministry earlier this month, banks conducted outreach programmes across the country where eligible borrowers have sanctioned loans on the spot.

9. Banks' gross NPA drop below 6% in March 2022, lowest in six years (BS, 17.06.22)

- Gross non-performing assets (NPAs) of the banking sector dropped below 6 per cent as of March 2022 — the lowest since 2016 — and net NPAs fell to 1.7 per cent during the same period, indicating that the sector has remained largely unscathed from the ill-effects of the Covid-19 pandemic so far.
- At the same time, it would be important to assess if the improvement in the asset quality is broad based or only because of regulatory forbearance, he said. “The preliminary assessment of the health of the banking sector is encouraging.

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

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QUOTE OF THE MONTH

*“The tree laden with fruits always bends low.
If you wish to be great, be lowly and meek.”*

- Sri Ramakrishna Paramahansa

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