

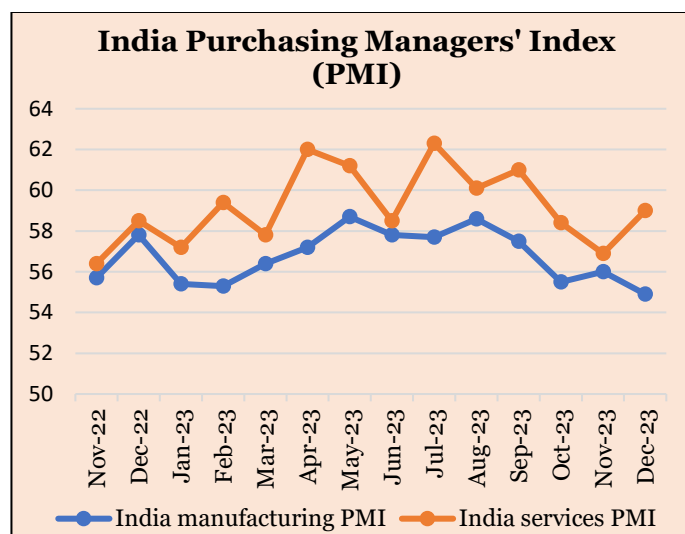
## ECONOMY

### State of the Indian Economy

**NSO projects 7.3% GDP growth for FY24:** The first advance estimates released by the National Statistical Office (NSO) projects that India's gross domestic product (GDP) may expand at a higher-than-expected rate of 7.3% in real terms in the current fiscal, compared with 7.2% last year. The estimate, calculated on the basis of the national income data computed for the first half of the year and several high-frequency indicators for the October/November period, is significantly higher than forecast by most agencies, including the RBI, which in December raised the growth forecast sharply from 6.5% to 7%. Expectations that growth deceleration in the second half may be marginal (with implied growth of 7%), robust goods and services tax collections, and lesser subsidy outgo, boosted the headline number.

### India's manufacturing activity fell to an 18-month low in December, while services sector PMI rose to 59.0 in December:

The pace of growth in India's manufacturing activity fell to an 18-month low in December as output growth and new orders softened. India's manufacturing PMI fell to 54.9 in December from 56 in November and 55.5 in October. India's services activity growth momentum showed a pick-up at the end of the 2023 calendar year, rising from 56.9 in November to 59.0 in December, according to the data released by S&P Global. The seasonally adjusted HSBC India Services PMI Business Activity Index highlighted a sharp increase in output that was the most pronounced since September. Due to lower readings in October and November, the latest quarterly average was the lowest since Q4 fiscal year 2022-2023. Employment in the sector rose slightly, at a faster rate than in November. On the prices front, input cost inflation for service providers fell to the lowest in 40 months in December. According to the survey data, the demand buoyancy spurred sales, subsequently fuelling business activity. Job creation extended into a nineteenth successive month, while business optimism strengthened. Meanwhile, cost pressures receded further, reaching their lowest in nearly three-and-a-half years. Still, there was a quicker and solid upturn in selling charges. Not only did new business intakes rise further in December, but also to the greatest extent in three months. The rise in total new business was supported by continued growth of international sales.



### Rabi sowing higher than normal, wheat acreage recovers, mustard output higher:

The total area under rabi crops is slightly higher (1%) than the normal acreage but still marginally lower (1%) than the previous year. However, the gap between this year and the previous year's sowing has reduced. Wheat sowing has now nearly reached the level of the previous year. Uttar Pradesh and Bihar have shown increased area coverage for wheat. The overall acreage for winter-grown pulses is down by 5%. This decrease is primarily due to a decline in gram (chana) acreage. However, lentils saw a 5% increase in sowing area. Sowing area for coarse cereals has increased by 3%. Jowar and maize both show slight increases in acreage. Barley sowing has also increased compared to the previous year. Mustard sowing has surpassed normal acreage and increased by 2% compared to the previous year. Overall rabi oilseeds acreage has slightly increased from the year-ago period. However, groundnut area is down by 19%.

### Area Coverage Under Rabi Crops (As on 5 January, 2024 compared to one year ago)

Crops	Diff in area coverage (in lakh hectare)	% of increase/decrease
Wheat	-0.19	-0.06
Rice	-2.04	-10.18
Pulses	-7.97	-5.10
Coarse cereals	1.50	3.10
Oilseeds	0.50	0.47
<b>Total</b>	<b>-8.18</b>	<b>-1.23</b>

Source: National Food Security Mission



With record sowing this season, the production of mustard seed is likely to touch an all-time high of 13.14 million tonne (MT) in 2023-24 season, boosting domestic supplies of edible oils. This may force the government to review the import duty relief for edible oils like palm, soybean, and sunflower. According to the agriculture ministry, mustard this season has been sown in a record 9.88 million hectare (mh), 2.2% more than last year.

**India's forex reserves jump \$2.75 billion to \$623.2 billion:** India's forex reserves jumped by \$2.76 billion and stands at \$623.2 billion in the week ended December 29. In the previous reporting week, the overall reserves had increased by \$4.471 billion to \$ 620.44 billion. In October 2021, the country's forex reserves had reached an all-time high of \$645 billion. The reserves took a hit as the central bank deployed the forex to defend the rupee amid pressures caused majorly by global developments since last year. For the week ended December 29, the foreign currency assets, a major component of the reserves, increased by \$1.869 billion to \$551.615 billion and the Special Drawing Rights (SDRs) were up by \$38 million to \$18.365 billion.

### Inflation Outlook

**CPI increases to 5.5% in November, expected to surge further in December:** Retail inflation jumped to a three-month high of 5.55% in November, primarily due to a rise in food inflation, even as other components such as housing, clothing and footwear registered a moderation, data released by the NSO showed. The inflation rate for consumers had moderated to 4.87% in October 2023 and has picked pace again in November, marking the 50th month of staying above 4% mark in the 4+/-2% band of medium-term inflation target set by the Reserve Bank of India (RBI). Consumer Food Price Index (CFPI) recorded an inflation rate of 8.70% in November, up from 6.61% in October 2023 and 4.67% in November 2022. However, core inflation – non-food, non-fuel segment eased further to 4.2% in November 2023 from 4.4% in the previous month in an indication of moderate input cost pressures and weakening of demand. CMIE projects that Consumer Price Index, is expected to have closed at around 6.25% in December 2023, compared to 5.55% in November 2023. After three consecutive months of remaining within range, inflation is projected to cross the RBI's upper tolerance band of 6% in December. Food inflation is expected to have surged to 10.6%, as per CMIE estimates.

**India's wholesale prices in November rise 0.26%; rebounds from negative territory after seven months:** Wholesale price-based inflation increased by 0.26% in November compared to (-)0.52% in October. WPI inflation, which had been negative for the last seven months, rose sharply in November due to higher food prices. Inflation of food articles spiked to 8.18% in November, from 2.53% in October. Inflation in onion zoomed 101.24% in November, from 62.60% in the previous month. Inflation in vegetables was 10.44%, as against (-)21.04% in October. Apart from food inflation, positive rate of inflation in November 2023 is also due to increase in prices of minerals, machinery & equipment, computer, electronics & optical products, motor vehicles, other transport equipment and other manufacturing etc. The inflation for primary articles increased to 4.76% as against 1.82% in the previous month. Meanwhile, the fuel and power and manufacturing sector contracted to (-)4.61% and (-)0.64%, respectively.

### Interest Rate Outlook

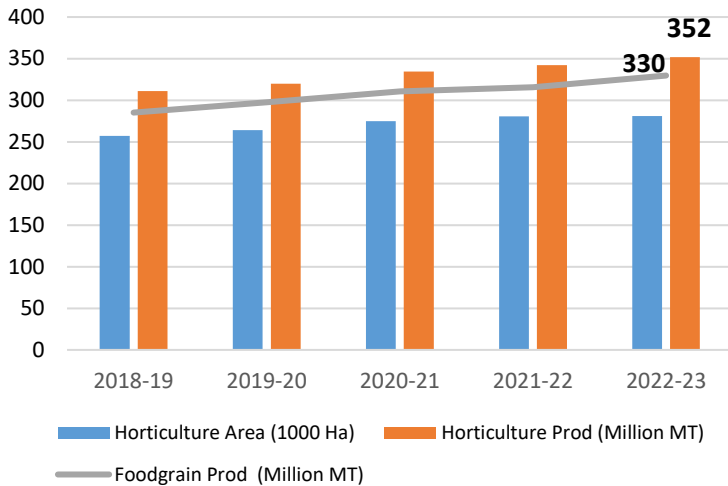
**Bond Yield Movement:** In December 2023, Government securities (g-secs) of residual maturities of 1-year, witnessed a rise in yield by 1 bp, climbing from 7.13% to 7.14% in December. 3-year g-sec yields saw the biggest fall of 13 bps from 7.23% to 7.1%. 5-year yields dropped to 7.15% by 9 bps while 10-year yields fell by 6 bps from 7.27% to 7.21%. The Monetary Policy Committee (MPC) in its meeting on December 6, 2023, kept the repo rate unchanged at 6.50%. A week later, the US Federal Reserve remained dovish in its approach towards interest rates in its meeting on December 13. A combined effect led India's 10-year g-sec yields to decline gradually post December 6 and even steeper post December 13, 2023.



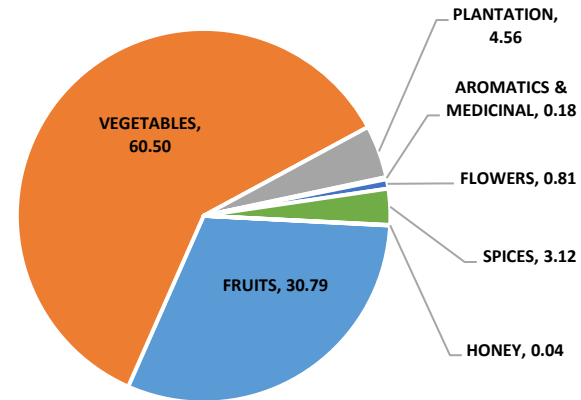
Source: CMIE

## Dashboard of Horticulture Sector: Recent Trends

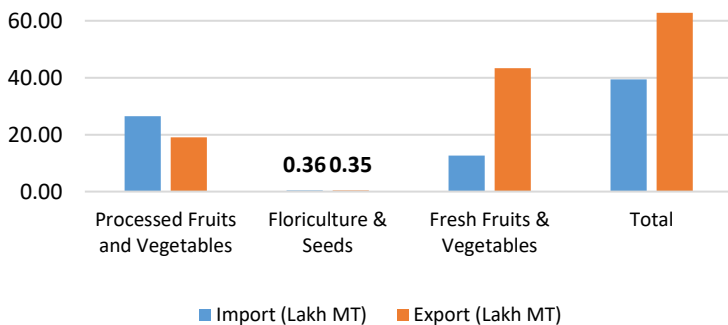
### Area and Production of Horticulture Crops



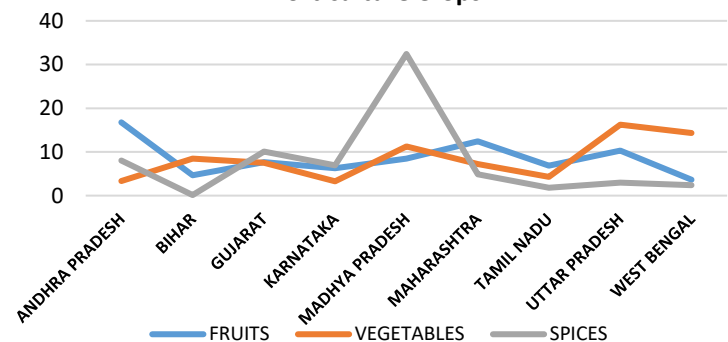
### Share of Crops in Total Horticulture Production (in %) 2022-23



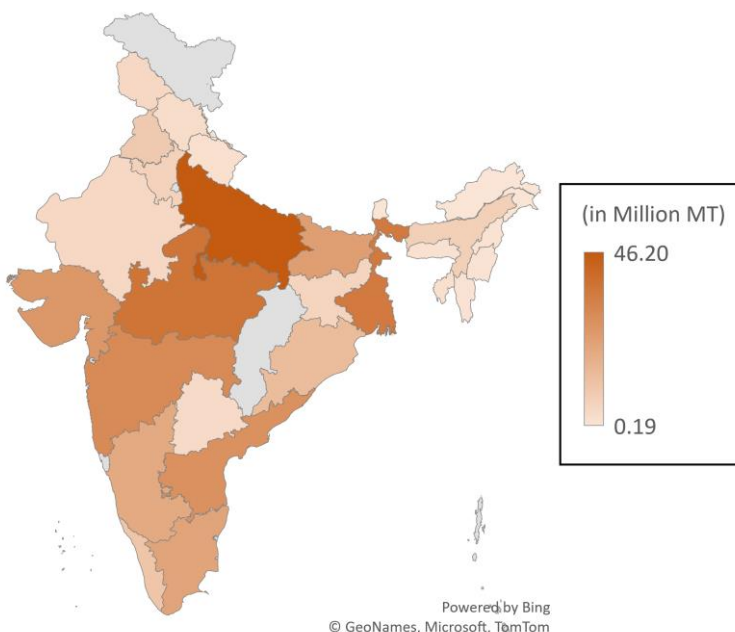
### Export-Import of Major Horticulture Product Grp (2022-23)



### Share (in %) of select states in total prod of major Horticulture Crops



### State wise production of Horticulture Crops 2022-23



As per the 2<sup>nd</sup> advance estimates for 2022-23, the total horticulture production is estimated to be 351.92 Million Tonne, surpassing the total foodgrain production of 329.69 Million Tonne during the year. At present, India is the second largest producer of vegetables and fruits in the world. Country ranks first in the production of number of crops like Banana, Lime & Lemon, Papaya, Okra.

For the holistic development of horticulture, for increasing area, production and creation of post-harvest infrastructure, the Government is implementing Mission for Integrated Development of Horticulture (MIDH), a Centrally Sponsored Scheme in the States/UTs since 2014-15. Under MIDH, support for production of quality planting material, area expansion of fruits, vegetables, spices and plantation crops, protected cultivation and creation of post-harvest management infrastructures, training and capacity building etc., of farmers are provided.





## Report THINK

### Report on Trend and Progress of Banking in India 2022-23:

The Report on Trend and Progress of Banking in India 2022-23 is an annually published statutory document of Reserve Bank of India, as mandated by the Banking Regulation Act, 1949. This report presents the performance of the banking sector, including co-operative banks and non-banking financial institutions.

**The key takeaways from the report are as follows:**

**Global economy:** Global growth is faltering under the impact of tightening financial conditions, geopolitical tensions and geoeconomic fragmentation. The growth in global goods and services trade is also expected to decelerate to 0.9% in 2023 from 5.1% a year ago, reflecting services-led growth, rising trade barriers and the lagged effects of USD appreciation on terms of trade. Under these circumstances, credit growth is likely to remain subdued, bank profitability could dampen and asset quality could see some stress, although banks are well-capitalised.

#### Performance of Scheduled Commercial Banks:

The consolidated balance sheet of SCBs expanded by 12.2% in FY23 - the highest in nine years, driven by credit to retail and services sectors. The capital to risk weighted assets ratio (CRAR) of SCBs was 16.8% at end-September 2023, with all bank groups meeting the regulatory minimum requirement and the common equity tier 1 (CET1) ratio requirement. The report also showed that higher net interest income and lower provisioning led to a boost in net interest margin (NIM) and profitability in FY23. The gross non-performing asset (GNPA) ratio of scheduled commercial banks (SCBs) fell to 3.2% at end-September from 3.9% at end-March. The GNPA ratio remained the highest for the agricultural sector and the lowest for retail loans as at end-September. The slippage ratio, which measures new accretions to NPAs as a share of standard advances at the beginning of the year moderated during 2022-23 and further in the first half (H1) of FY24. A mix of write-offs, upgradations and recoveries contributed to reduction in NPAs.

**Cyber frauds on the rise:** Technology in the banking system has helped create a more inclusive and efficient financial ecosystem like digitalisation of KCC and operationalisation of Central Bank Digital Currency. Indian banks are increasingly leveraging technology to enhance customer experience and address last mile issues. However, with the adoption of new technology, the risks of cyberattacks, data breaches and operational failures have also increased. As many as 14,483 frauds involving an amount

of ₹2,642 crore were reported in the first half of the current financial year, as compared to 5,396 cases (₹17,685 crore) in the same period a year ago. The average amount involved in fraud was the lowest in a decade, though the number of reported crimes increased. It emphasizes the need to safeguard the banking and payments systems from the threats of fraud and data breaches stemming from cyber threats.

#### Developments in Cooperative Banking Sector:

The consolidated assets of the cooperative banking sector at end-March 2022 were ₹21.6 lakh crore, around 10% of that of the SCBs. Rural co-operatives comprise more than two-thirds of this sector. The health of Urban Cooperative Banks (UCBs) improved further in 2022-23, which was reflected in stronger capital buffers, higher profitability, and reduction in their GNPA ratio. With expenditure growth exceeding income growth, net profits of District Central Cooperative Banks (DCCBs) contracted during 2021-22. The growth in the total resources of Primary Agricultural Credit Societies (PACS) accelerated during 2021-22, led by borrowings. 46% of total PACS are profit making, although their consolidated profits contracted by 65.8% in 2021-22. During the year, small farmers replaced others and marginal farmers as the largest category of borrowers of PACS. The consolidated balance sheet growth of Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) decelerated during 2021-22, led by a slowdown in borrowings on the liabilities side and a reduction in investments on the assets side. Robust internal governance practices and continuous technological upgradation and innovations are required to help co-operative banks to expand their operations and improve their financial health.

**Performance of NBFCs:** The consolidated balance sheet of non-banking financial companies (NBFCs) expanded by 14.8% in 2022-23, led by double digit credit growth, mainly on account of unsecured loans. Profitability and asset quality of the sector also improved in 2022-23 and in H1:2023-24, even as the sector remained well-capitalised with CRAR higher than the regulatory requirement. Due to the increasing share of unsecured loans, the RBI, as part of a calibrated and targeted macroprudential measure, has increased the risk weights on select retail loans by NBFCs and on SCBs' credit to NBFCs, which is pre-emptive in nature and in the interest of overall sustainability. Aggregate income of NBFCs grew steeply in 2022-23, led by interest income. With expenditure increasing at a slower pace than total income, net profit of NBFCs grew significantly. The cost to income ratio declined, indicating improvement in operational efficiency. NBFCs are steadily expanding their MSMEs portfolio, thereby addressing the credit requirements of the sector more actively.

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