DIRECTORS' REPORT

I. Economic Backdrop and Banking Environment

Global Economic Scenario

The global economic growth has faced an arduous journey in 2020, with the COVID-19 pandemic leading to significant loss of both lives and livelihood. Global economy is expected to have contracted ~3.3% in 2020 against the growth of 2.8% in 2019. After the severe dent in the first half owing to lockdowns and restrictions, economic momentum picked up in the latter half of the year, owing to the removal of restrictions and unleashing of pent-up demand. The prompt measures taken by the governments and central banks have also prevented much deeper global recession. However, concerns about debt sustainability have started to surface as countries spend as much as they can to protect the vulnerable and to limit long-lasting damage to economies. Shifting market expectations can bring challenges to countries with higher levels of external debt.

Meanwhile, vigorous efforts of scientific community have helped in making multiple vaccines available globally. This has provided the necessary hope of coming out of this crisis. But the uneven distribution of vaccines globally is a matter of concern. Furthermore, the new virus mutations and increasing transmission are other factors that are dampening global growth prospects. Against this backdrop, IMF has projected a smart recovery of the world economy at 6% growth in 2021. The outlook for growth would improve if the production and distribution of Vaccines is accelerated, is better co-ordinated around the world and gets ahead of virus mutations. This in turn would allow various restrictions imposed to be relaxed quickly and speed up economic recovery. Furthermore, the outlook depends not only on the injection to infection ratio but also on the effectiveness of economic policies in limiting the damage caused by this crisis.

The pandemic has brought with it certain lessons for the world to learn. First is the necessity to improve health infrastructure. The countries, which were worst affected by the virus also faced acute health crisis. Equally important is the accelerated adoption of technology and increased focus on digitalisation and automation of various processes.

The quality and access to digital infrastructure has played a key role in the pace of economic recovery. This is another area that will have to be focused by all nations going forward.

India's Economic Scenario

FY2021 was the most tumultuous year in the history of last 75 years of independent India, as the COVID-19 pandemic wreaked havoc locally, as well as globally. Indian economy contracted by 7.3% (as against 4.0% growth in FY2020 and 6.5% growth in FY2019) owing to nation-wide lockdown imposed in Apr-May of 2020 and its after-effects in the subsequent months.

Industrial sector GVA, driven by the manufacturing sector emerged out of contraction in Q3 FY2021 and for the whole fiscal it declined by 7.0% as compared to the contraction of 1.2% in FY2020.

The services sector stepped out of contraction in Q4 FY2021 with the phased unlocking of the economy but declined by 8.4% in FY2021 as against 7.2% growth in FY2020. Despite gaining some traction, the contact-intensive services sector may take some time to reach pre-Covid levels.

Growth in agriculture and allied activities is the only silver-lining in such a gloomy year. Agri GVA expanded by 3.6% in FY2021 due to sufficient access to inputs, adequate and well-spread south-west and north-east monsoon rains, sufficient reservoir levels and improved soil moisture. As per the Third Advance Estimates for 2020-21, total foodgrain production in the country is estimated at record 305.44 million tonnes, an increase of 2.7% over the previous year. Foodgrains production has touched another record for the fifth consecutive year.

In FY2021, CPI inflation breached the upper tolerance band of 6% for eight consecutive months in the lockdown and post-lockdown period (Apr-Nov 2020) due to a series of cost-push shocks: supply chain disruptions, weather shocks, higher crude oil and other commodity prices and higher taxes. The increase in petrol and diesel prices is showing up in trade and transport costs, taxi and auto fares and its second-round effects could push-up the prices of goods and services further in a broad-based manner. Owing to this, the annual average CPI inflation was 6.2% for FY2021 as against 4.8% in FY2020.

The contraction in merchandise exports and imports during FY2021 is an indication of fragile situation of world trade and global demand. India's merchandise exports (y-o-y) declined by 7.3% in FY2021 vis-à-vis a decline of 5.1% in FY2020 while imports shrank by a whopping 18.0% in FY2021 compared to 7.7% contraction in FY2020. The larger decline in imports as compared to exports led to a current account surplus of 1.7% of GDP in April-December of FY2021 as against a deficit of 1.2% in April-December of FY2020.

Reserve Bank of India (RBI) projects real GDP growth of 10.5% for FY2022 on the back of buoyant rural demand, strengthening of urban demand, strong investment demand and exports. The fiscal stimulus under AatmaNirbhar 2.0 and 3.0, coupled with increased allocation for capital expenditure under the Union Budget 2021-22, will definitely accelerate public investment and crowd in private investment. However, surge in infections, new mutants, partial lockdowns, high non-oil commodity prices and global financial market volatility impart downside risks to the growth.

The outlook for inflation will depend upon plethora of factors. While lingering supply chain disruptions, rising global crude oil prices and stronger pass-through of input costs could push up headline inflation, there is also a probability of softer international crude oil prices on the back of a weaker than anticipated global demand, bountiful food grains production and effective supply management. Preliminary estimates indicate that India will have normal monsoon this year (third time in a row).

With robust services exports and remittances, India is expected to see a current account surplus in FY2021. With strengthening US recovery leading to capital outflows, Rupee is expected to see depreciation pressures. However, the external sector metrics remain sustainable as RBI has ample forex reserves to defend the currency, which is not expected to

SBI is happy to announce the launch of YONO SBI in Sri Lanka, South Africa and Bangladesh. The virtual launch was done on 18-Mar-21 by Chairman, in the presence of other top executives of the Bank.

see a speculative attack as the weakness stems only from current account deficit and less capital flows.

Banking Environment

The banking sector saw tepid demand for credit in H1FY2021. However, credit offtake improved in H2, with the momentum picking up beginning October and registering a growth (financial year basis) since November. As per the provisional data released by RBI for FY2021, ASCBs credit has declined to a 59-year low of 5.6%, compared to 6.1% growth in FY2020. On the other hand, deposit growth remained robust and grew by 11.4% in FY2021, compared to 7.9% growth in FY2020, reflecting precautionary saving in the face of high uncertainty. Further, RBI's report on 'Quarterly statistics on Deposits and Credit of SCBs', indicates that credit by Public Sector Banks (PSBs) and private sector banks recorded 3.6% and 9.1% growth respectively, whereas lending by foreign banks declined during FY2021. The slowdown in SCBs' credit growth during FY2021 has been broad-based across all major sectors, except agriculture.

According to data on the sectoral deployment of bank credit for March 2021, credit growth to Agri & and Allied activities has accelerated to 12.3% in March 2021 (4.2% a year ago), the highest since April 2017. Credit growth to industry decelerated marginally to 0.4% (0.7% a year ago) mainly due to credit to large industries, which contracted by 0.8% in March 2021 (as compared with a growth of 0.6% a year ago). This is primarily on account of large industries raising resources from non-bank sources. Credit growth to the services sector decelerated to 1.4% during FY2021 from 7.4% in the previous year, primarily driven down by sharp deceleration in credit growth to NBFCs after a spurt in the preceding year and contraction in credit to professional services. Further, personal loans accounted for one fourth of total bank credit and continued to record double-digit growth of 10.2%, compared to last year growth of 15.0%, led by housing and other personal loans.

To give support to the market and economy during pandemic, RBI announced several liquidity measures and also reduced the key policy repo rate by 115 bps to 4.0% and CRR by 100 bps to 3.0%. Thus, the downward interest rate scenario has continued with decline in deposit and lending rates, aided by large surplus liquidity, the implementation of the external benchmark linked lending rates and subdued credit demand. If we look at SCBs, the lending rate (weighted average lending rates on fresh loans) has declined by 79 bps (PSBs: 120 bps, Pvt Banks: 22 bps) and weighted average domestic term deposit rate has reduced by 100 bps (PSBs: 89 bps, Pvt banks: 101 bps) during FY2021.

The current pandemic has highlighted the importance of maintaining business continuity in times of complete absence of physical interaction and building a robust digital banking infrastructure. The trend for mobile banking is encouraging. From ₹3.6 lakh crore in April 2020, the mobile banking payments have increased to ₹9.3 lakh crore in January 2021, fuelled by COVID panic led lockdown. Similarly, transactions in UPI have increased from ₹1.5 lakh crore in April 2020 to ₹5.0 lakh crore in March 2021, indicating an increase of 145%. The rapid rise of UPI has been due to features

like round the clock availability, single application for accessing different bank accounts, use of Virtual ID, which is more secure and requires no credential sharing. This shows that going forward, too, banks will have to focus on providing safe, secure, and easy to use digital applications for the expansion of their businesses and better customer service.

Outlook

The last financial year was exceptional by all standards in the recorded history of banking sector. The spread of the virus and subsequent lockdown in FY2021 was testing time for the Bank. The Bank's banking operations were sustained despite all odds.

FY2021 was practically under lockdown with progressive opening by February 2021. This naturally had taken a toll on the economy. The sudden loss in domestic demand had its impact on demand for credit. For most of the year the deposit growth outpaced the credit growth, reflecting the sudden drop in discretionary consumption. This has put sustained pressure on deposits rates, which have trended southwards.

The pandemic has also brought to light latent supply side inflationary trend, which has now become visible in price indices. The recent minutes of the meeting of Monetary Policy Committee has therefore highlighted this as a risk that needs monitoring and warrants concrete actions.

Besides the COVID-19 pandemic, FY2021 also had to contend with other local disasters such a locust attack affecting northern states, outbreak of bird flu and floods in eastern part of the country.

The GDP growth for FY2022 has been projected at 10.5% (RBI) as compared to contraction of 7.3% in FY2021. However, the current financial year has begun with second COVID-19 wave and experts have informed that virus strain has mutated in India. Accordingly, quick immunisation of working population will be the most optimal scenario, which will impact the growth outlook. There is considerable uncertainty on how the demand will pick up in this financial year – notably it is difficult to predict if capital formation will see sustained recovery.

In this backdrop, the Bank's business needs careful assessment. The business continuity plans chalked out in FY2021 have worked well. Bank's support under AatmaNirbhar Abhiyan has been satisfactory. But with second wave, more detailed planning will be required. Banks have created contingency buffers to cover losses over and above what was provided. The impact on asset quality of the banks due to second wave needs to be reassessed in respect of possible unexpected losses over and above what has been provided. Bank must resort to recently notified pre-package insolvency route to address stress in MSME segment.

However, as noted last year, the COVID-19 pandemic has also opened opportunities for the banks. Reordering of global supply chains presents unique opportunity to India to position itself as manufacturing hub to meet global demand, a proposition that continues to hold good. Rapid adoption of digital technology as seen in response to the COVID-19 has benefited the Bank considerably last year.

In a nutshell, the outlook on Bank's business and the economy will be conditional on time frame by which the virus is completely eliminated, and normalcy is restored. The headroom for another fiscal package has narrowed down and potential revenue generation has sharply dropped by 400 basis points as noted by Chairman of Finance Commission. Thus, for the Bank it is imperative that business procedures keep adapting to new operating environment.