

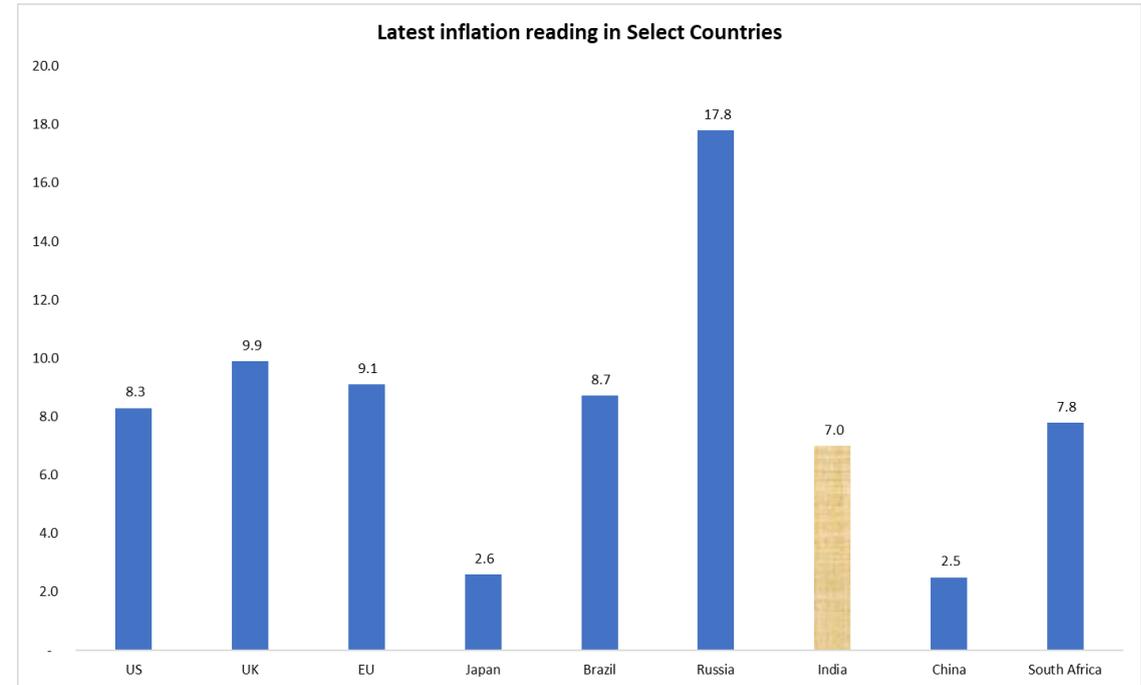
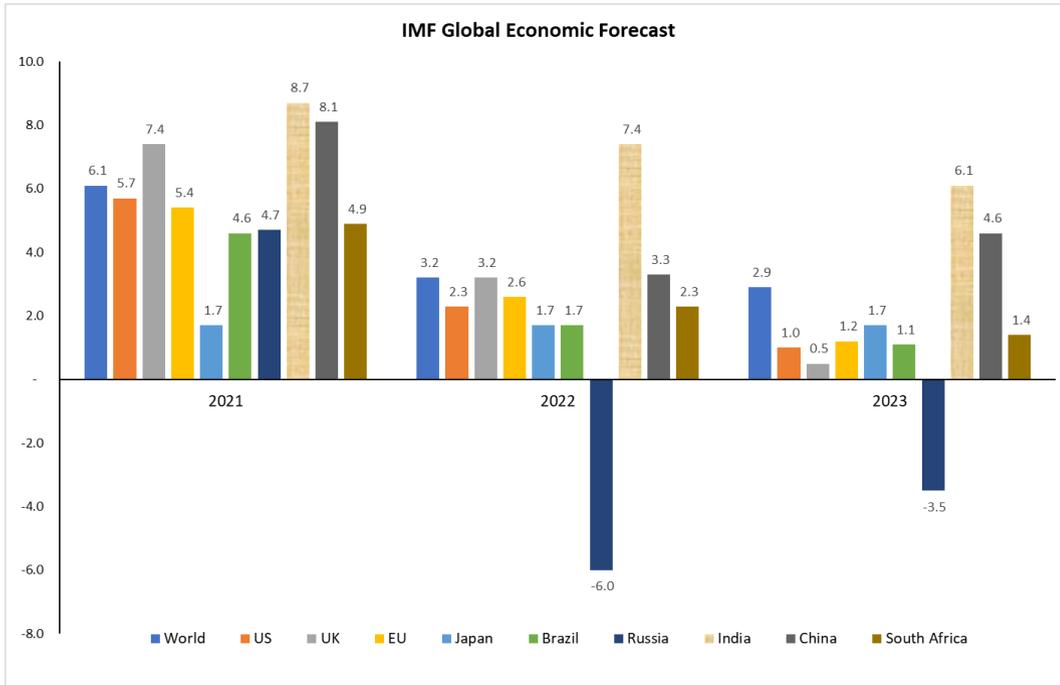
JP Morgan India Investor Summit: Rising to the Challenge

September 20, 2022

**Chairman
State Bank of India
Mumbai**

Global Economic Situation

Economy Status: Growth is slowing down and inflation is trending much higher..... India in a much better position...



- ❑ **Global foreign direct investment (FDI) flows in 2021 were \$1.58 trillion, up 64% from the exceptionally low level in 2020**
 - The recovery showed significant rebound momentum, with booming merger and acquisition (M&A) markets

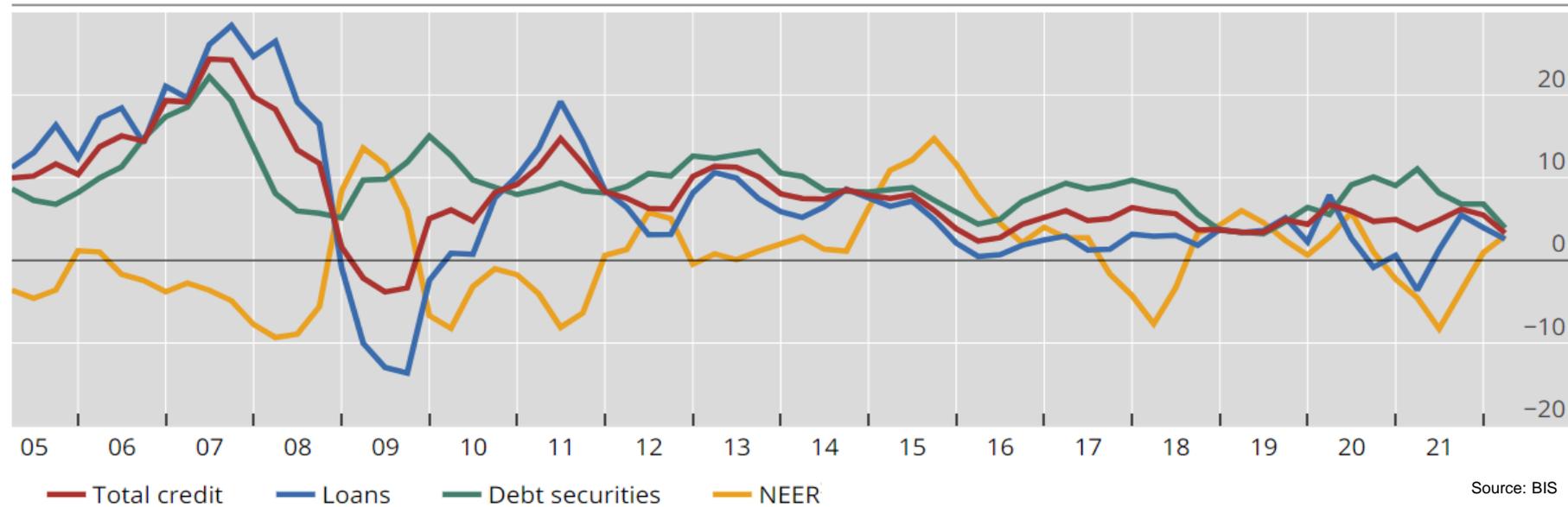
- ❑ **The war in Ukraine – on top of the lingering effects of the pandemic – is causing a triple food, fuel and finance crisis in many countries around the world**

- ❑ **Investor uncertainty could put significant downward pressure on global FDI in 2022**

- ❑ **New project activity is already showing signs of increased risk aversion among investors**
 - Q1 2022 show greenfield project numbers down 21 per cent and international project finance deals down 4 per cent

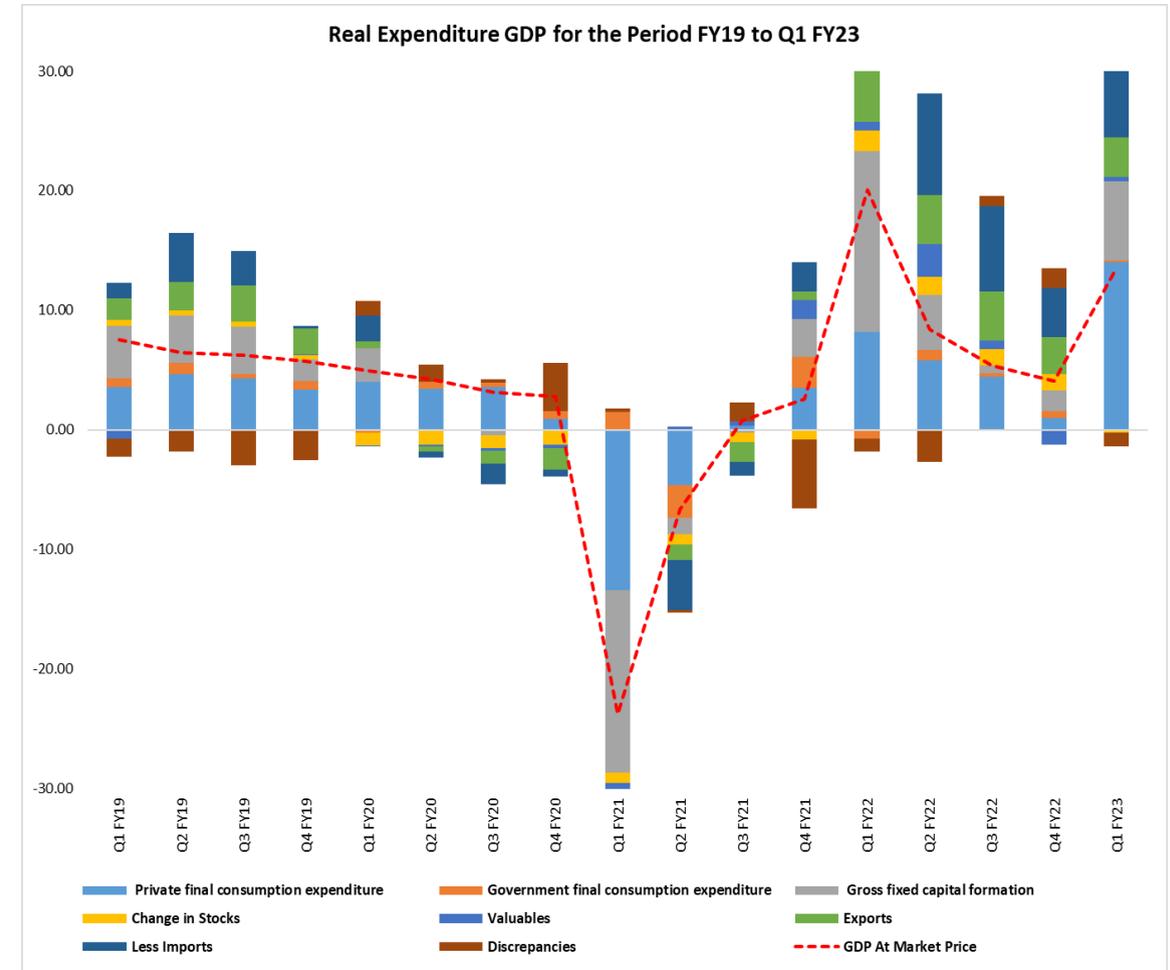
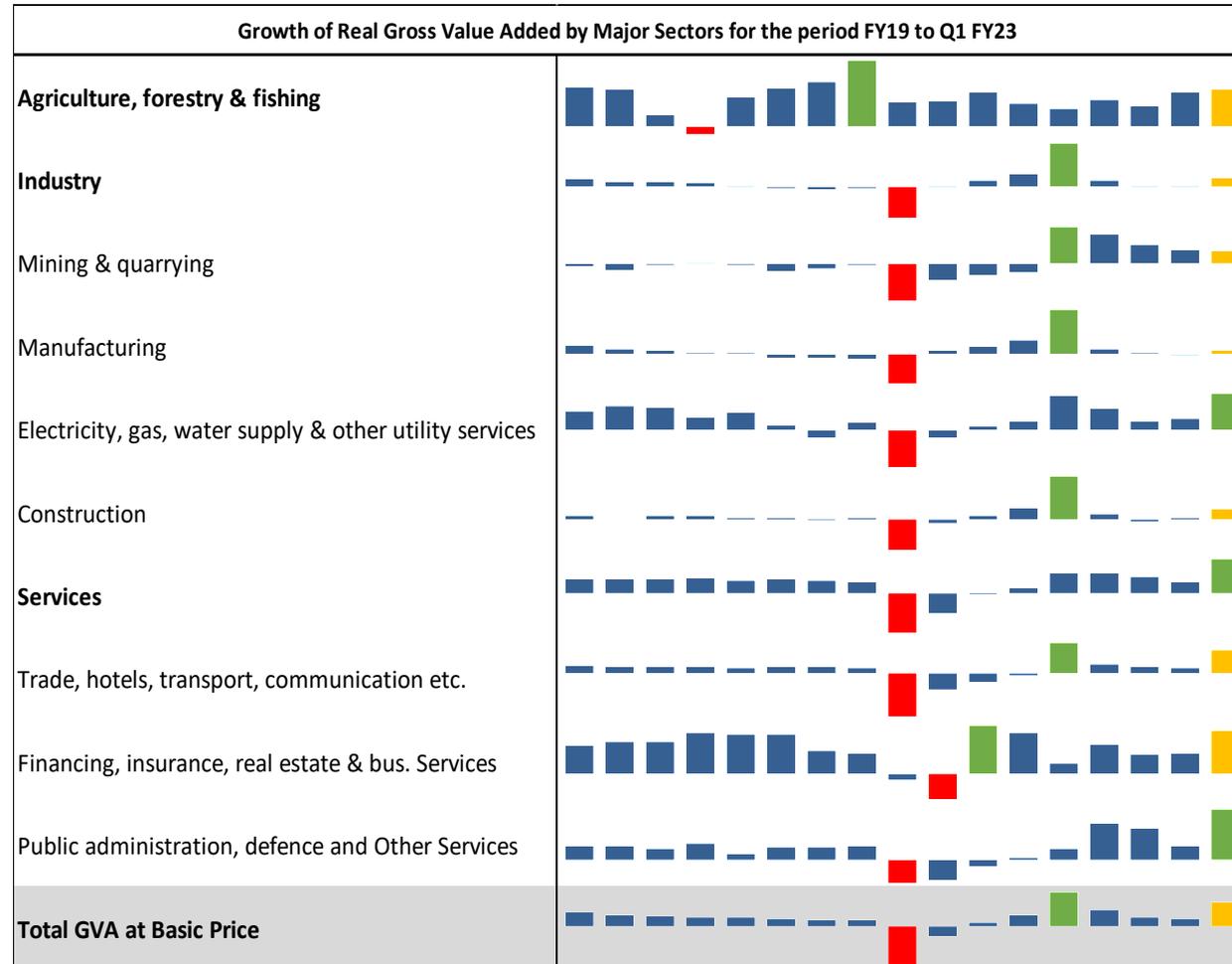
- ❑ **Renewable energy and energy-efficiency projects represent the bulk of climate change investments**
 - International private investment in climate change sectors is directed almost exclusively to mitigation; only 5% goes to adaptation projects

Annual change, in per cent



- ❑ In Q1 2022, foreign currency credit stagnated in dollars but expanded in euros
- ❑ Foreign currency credit to non-banks in EMDEs remained resilient through end-March
- ❑ During Q1, net monthly issuance (gross issuance minus redemptions) of foreign currency-denominated syndicated term loans to NFCs in EMDEs turned negative, by \$8 billion
- ❑ The downward trend continued in Q2

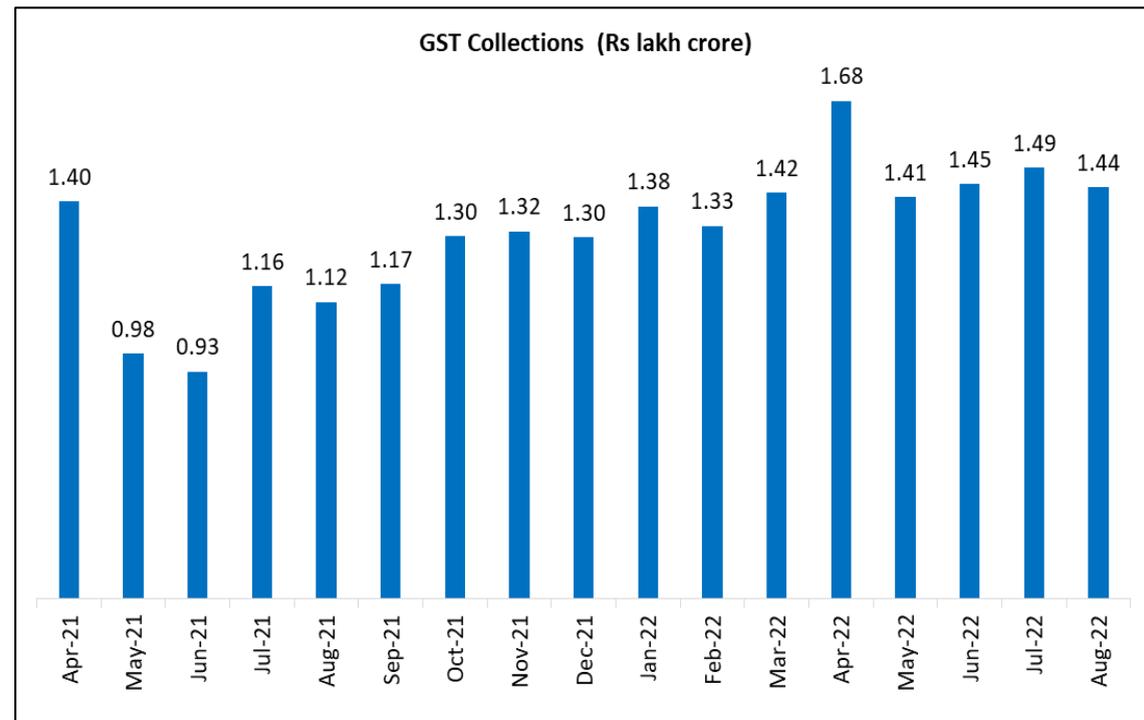
Trends in Indian Economy



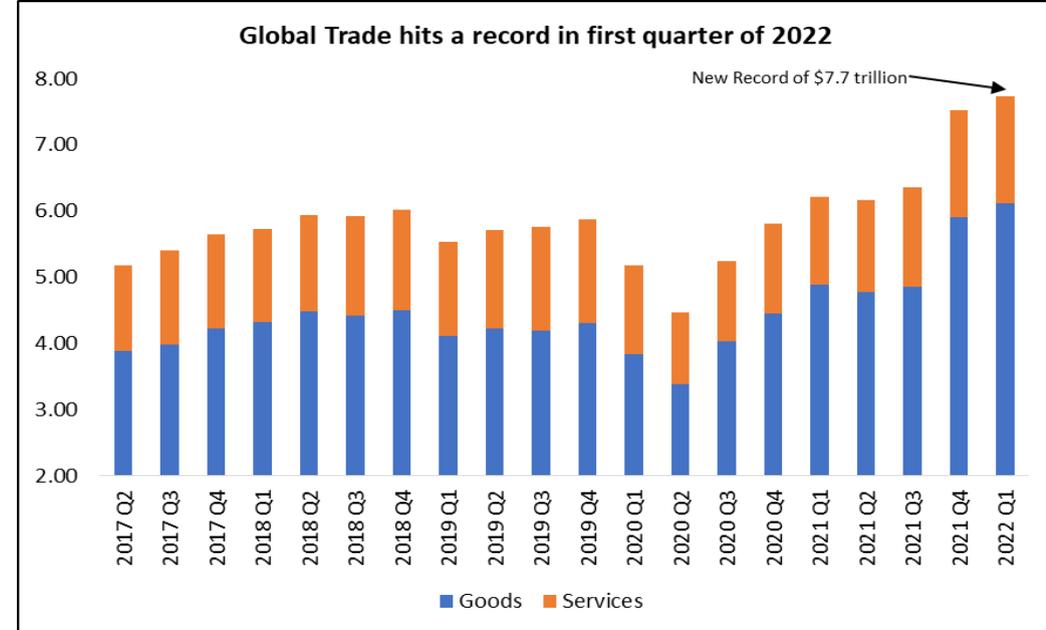
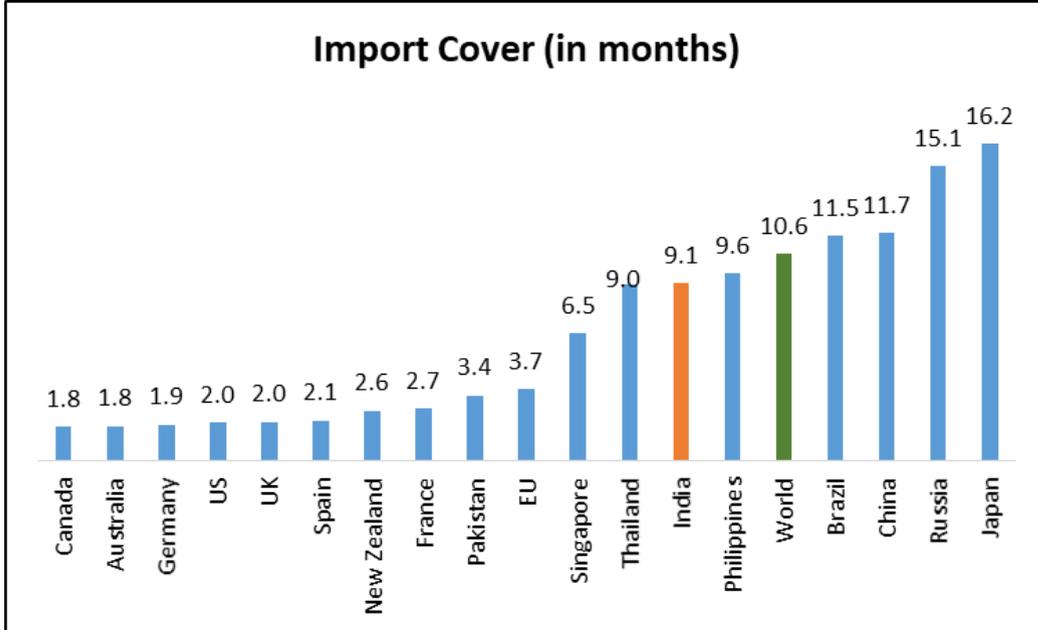
Strong Revenue Receipts to ensure Fiscal Deficit is close to Budgeted Numbers

- ❑ For the seventh time in Aug, the monthly GST collection crossed ₹1.40 trillion mark since inception of GST and sixth month at a stretch since Mar'22
- ❑ The Government has announced several measures in this financial year to arrest rising inflation, including oil excise duty cut, additional fertilizer and gas subsidy resulting in increased expenditure
- ❑ However, windfall gain tax and additional tax revenue owing to GST over and above the budget are expected to provide relief to fiscal situation

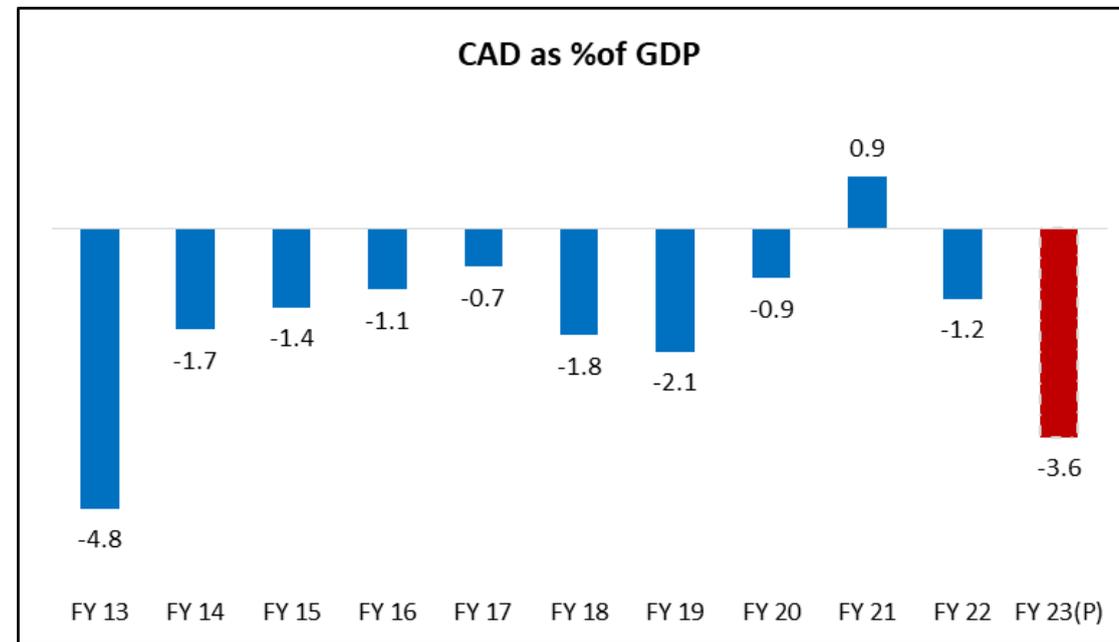
Fiscal arithmetic FY23 (Rs lakh crore)	
Additional Expenditure	
Fertiliser subsidy	1.10
Gas subsidy	0.06
PMGKAY	0.80
Oil excise duty cut	1.00
Higher interest payment owing to increase in rate	0.10
Total increase in expenditure	3.06
Additional Revenue	
Windfall gain tax	0.80
Higher tax collection	0.90
Net fiscal implication	1.36
Fiscal Deficit BE	16.61
Revised Fiscal Deficit	17.97
New GDP	274.6
Revised Fiscal Deficit (% of GDP)	6.5%

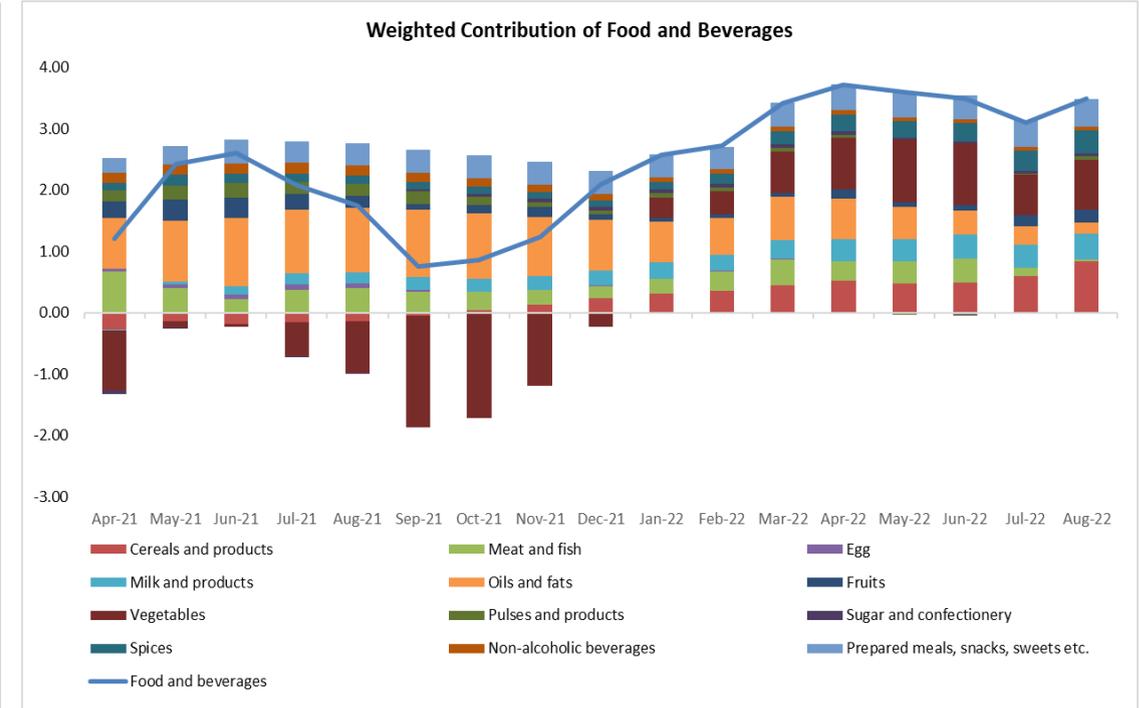
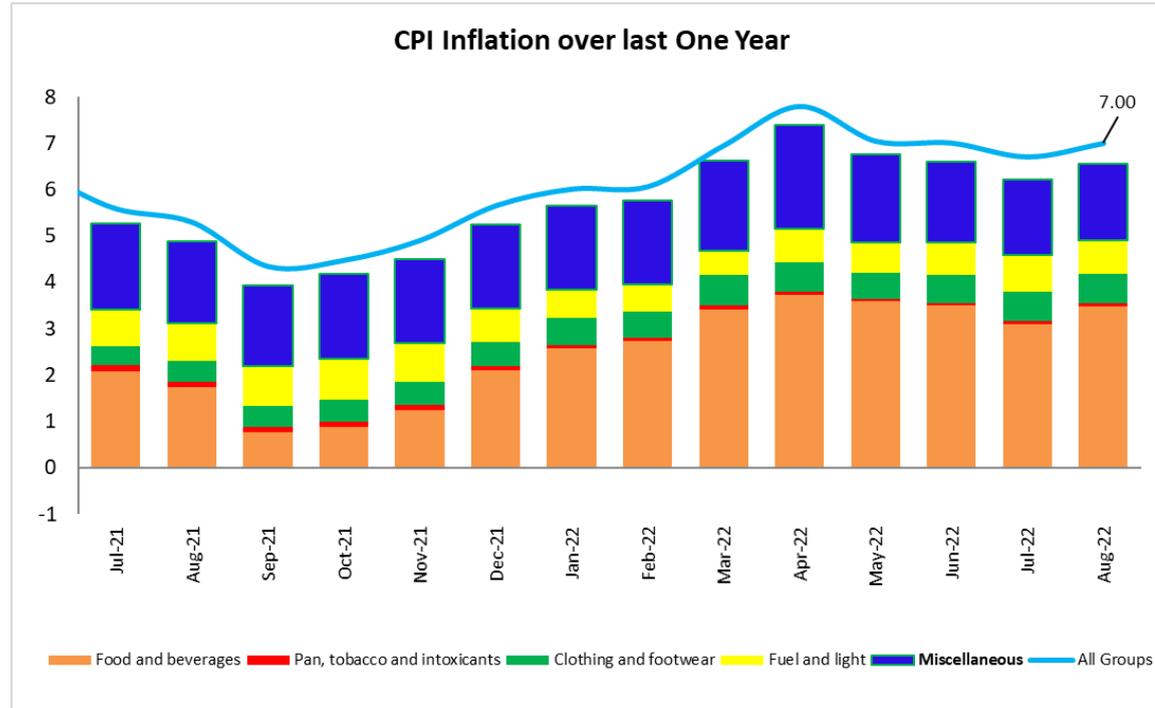


- ❑ Import cover (currently at 9.1 months) is at comfortable level and is better than most economies
- ❑ Global trade has remained robust throughout pandemic and till date and this could continue to have a favorable impact on Indian exports
- ❑ Imports however could remain a sore throat driven mostly by a surge in crude prices
- ❑ Short term debt unlikely to pose any threat as majority of it comprises of trade credit



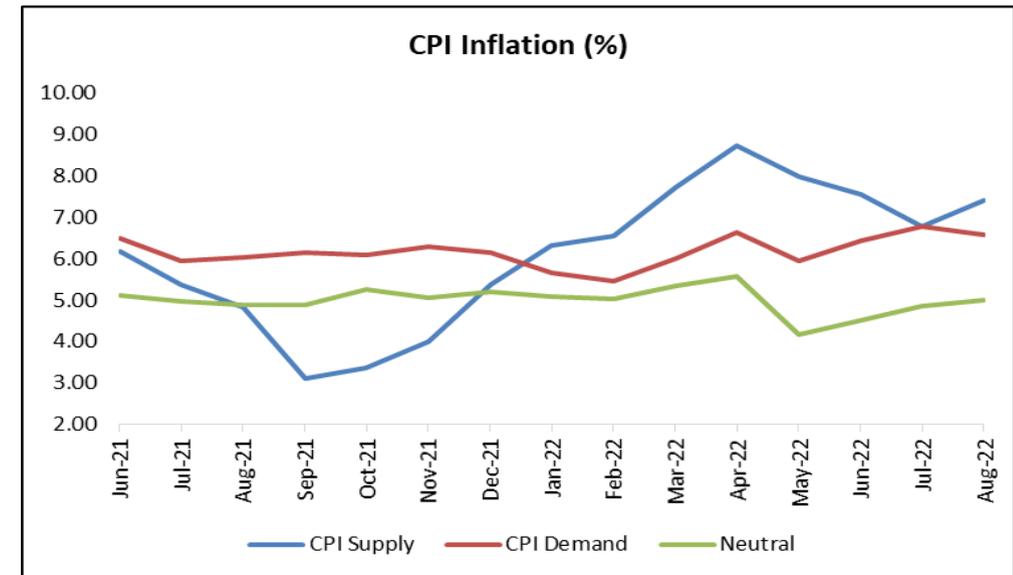
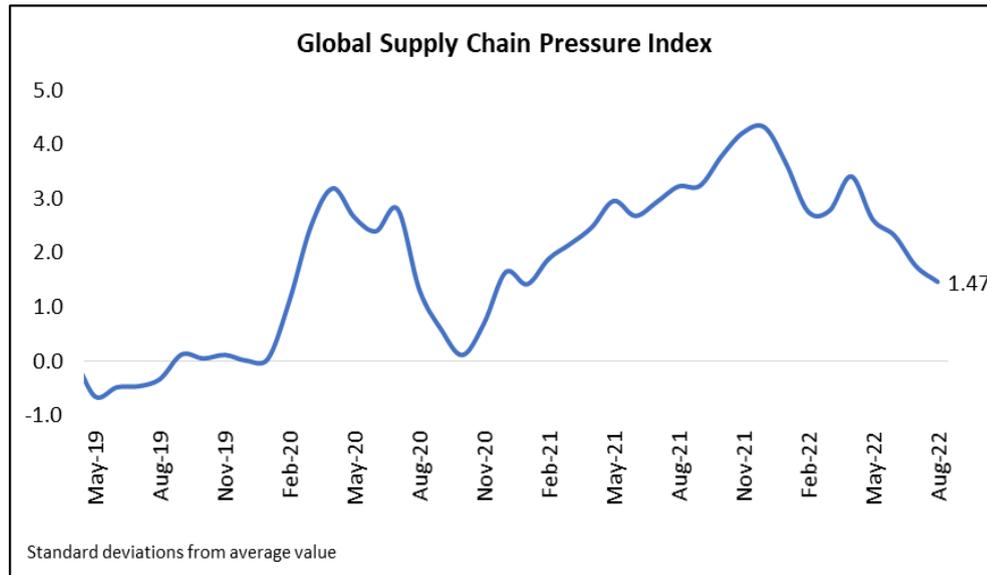
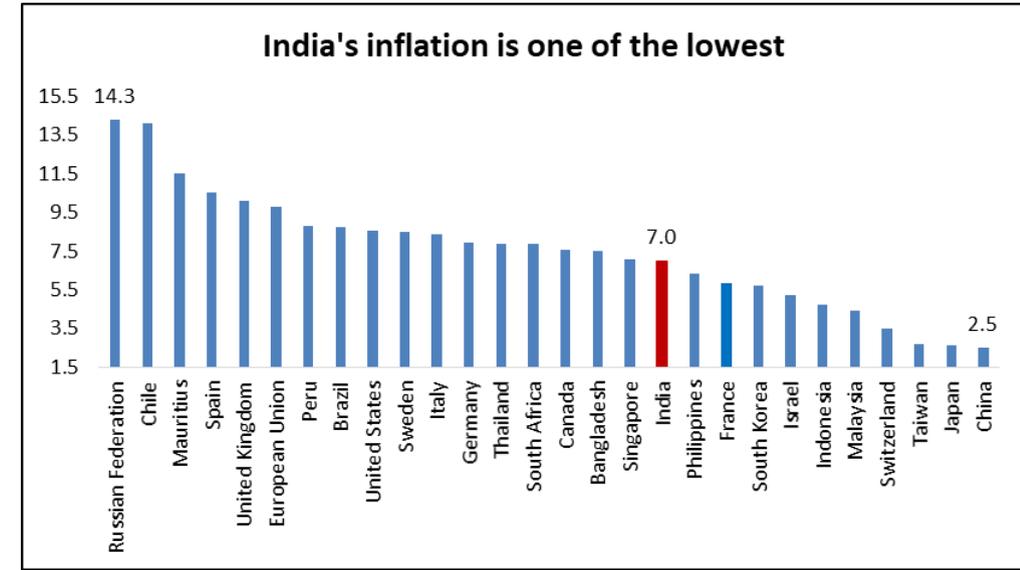
- FY23 will be a challenging year for India since as per our estimates CAD will breach the 3.0% mark and may reach 3.6% of GDP as against 1.2% in FY22
- Meanwhile, FII flows have already turned the corner and have started flowing in since end-Jul, assuming \$5 bn inflows per month for remaining months, FY23 is likely to witness FII inflows amounting to \$20-\$25 billion. Thus, financing of CAD will not be a problem
- We are expecting that RBI could factor in rate hike in Sep'22 (as inflation in Aug'22 is 7%) RBI before it pauses. The terminal rate is expected to be at 6% +/- 25 bps by end of FY23



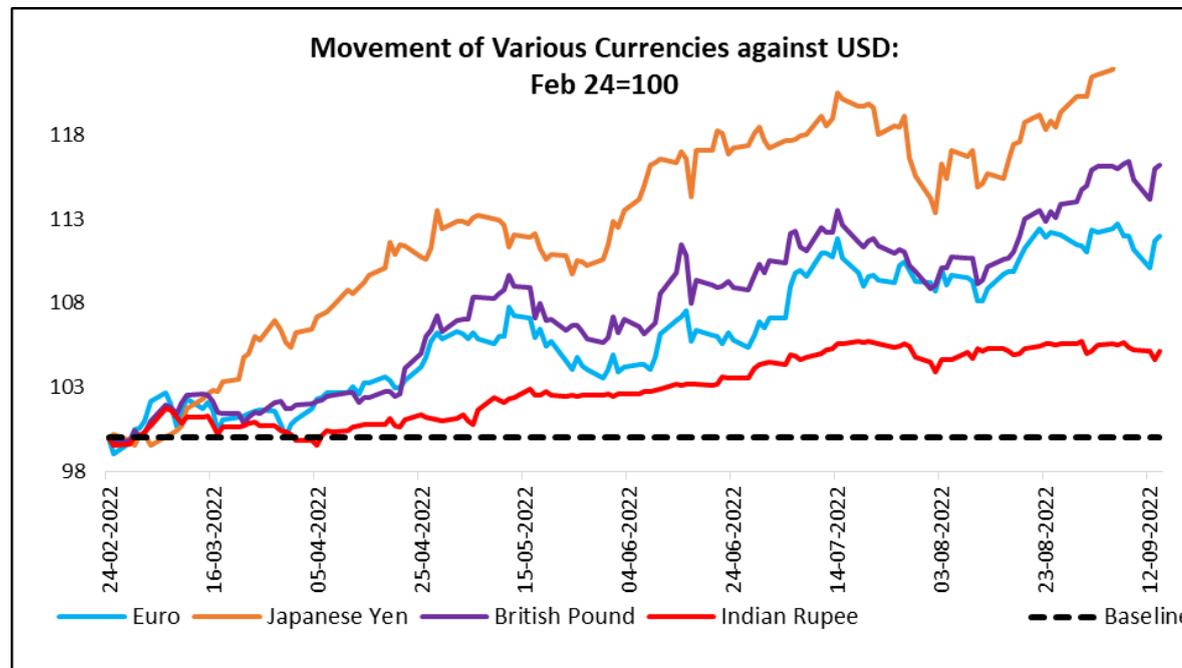


- ❑ Across developed and developing economies, India's latest inflation print is one of the lowest
- ❑ Global supply chain constraints continues to ease (opening of cargo in Black Sea), will improve inflation in H2FY23

- ❑ Across developed and developing economies, India's latest inflation print is one of the lowest
- ❑ June inflation print data confirms that peak in India has passed
- ❑ SBI research shows that supply side factors are currently responsible for almost 61% of the current elevated level of CPI inflation. This in part reflects supply constraints from continued global supply disruptions and increase in unseasonal rains
- ❑ As the global supply chain continues to improve (as indicated in global supply chain pressure index) inflation may come down rapidly in H2FY23

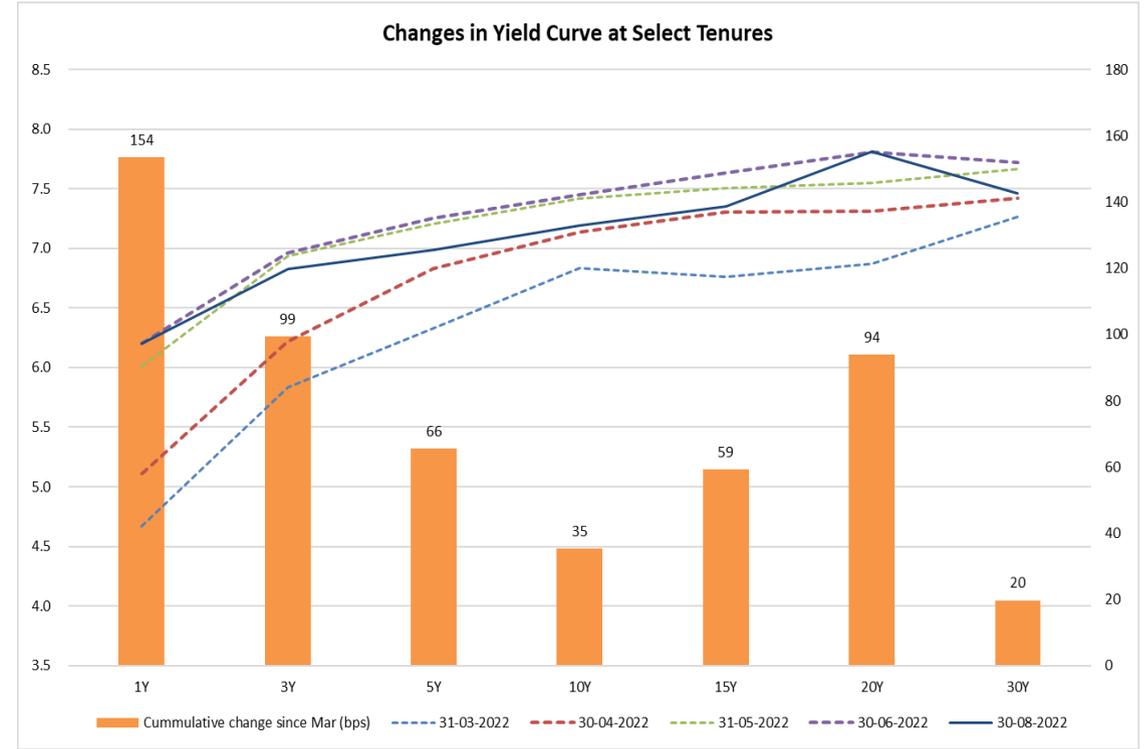
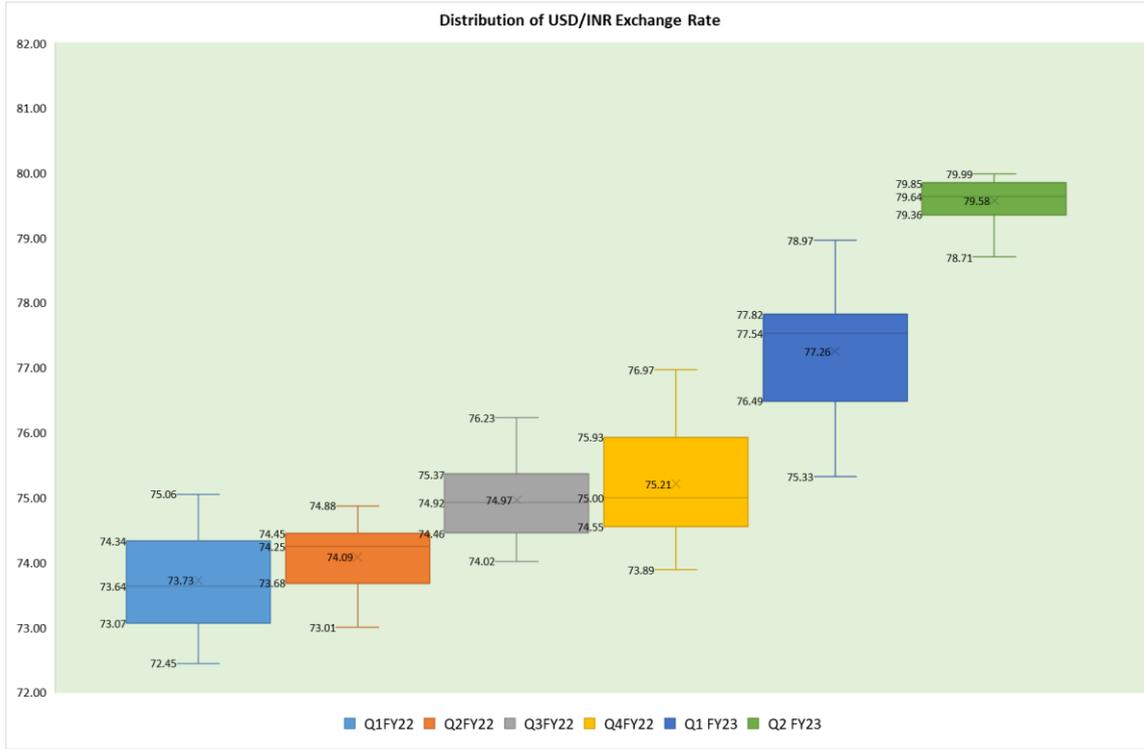


- If we take February 24 as the starting point of our measurement and index it to 100, rupee has depreciated by 5.3%. Because:
 - The dollar index (DXY) appreciated by 12.9% during the same period. If the economy was weak, the quantum of rupee depreciation would be much higher than DXY appreciation
 - That's what happened earlier. In the period after the GFC, rupee had lost 48.4%, even as DXY appreciated by 5.2%
 - Therefore, the current weakening of rupee reflects dollar's strengthening and not weak domestic macro fundamentals
 - Bear in mind that there's very little one can do when the dollar appreciates because of global uncertainty



- ❑ The Indian rupee (INR) depreciated by a modest 5.3% vis-à-vis the US dollar since the war broke out. The US \$ Index has appreciated by 12.9% during the same period, thus indicating that much of the weakness in rupee was in lieu of a strong dollar and not our domestic economic fundamentals
- ❑ There have been instances in the past which shows that rupee depreciation has been much more than the appreciation of the Dollar (like Jan-08 to Feb-12 and Oct-12 to May-14), which had happened because of our weak domestic macro-economic fundamentals

USD INR Rates & Dollar Index (2008 till current)				
Period	Depreciation of Rupee	Appreciation of Rupee	Net movement of Rupee	Movement of Dollar index during the period
Jan-08 to Feb-12	-33.5	6.4	-27.1	3.9
Feb-12 to Oct-12	-12.7	4.3	-8.4	1.0
Oct-12 to May-14	-20.2	7.0	-13.2	0.3
May-14 to Jan-18	-15.0	6.7	-8.3	13.6
Jan-18 to Jul-19	-15.7	6.6	-9.1	7.2
Jul-19 to Mar-21	-10.9	4.5	-6.4	-5.5
Mar-21 to Sep -22	-9.5	-	-	17.5
Source: SBI Research, Bloomberg				



- New investment announcements in FY22, touch all time high of Rs 20 trillion led by private sectors, which announced record investments of Rs 13.75 trillion in FY22
- The share of private participation in the investment announcements has increased to around 70% from less than 50% in earlier years, indicating revival of the capex in the economy

New Investment Announcements Sectorwise (major sector) FY22		
Sectors	Projects	Amount Rs Crore
Roadways	1,613	2,67,356
Iron & Steel	287	2,65,589
Basic Chemicals	1,345	2,12,957
Real Estate	1,585	1,73,722
Community Services	2,605	1,72,316
Non Conventional Energy	231	1,09,907
Industrial & Software Parks	173	80,416
Electronics	78	75,124
Hydel Based Power	18	48,199
Commercial Complexes	410	46,606
Automobiles	45	46,296
Coal	45	42,435
Plastic & Plastic Products	155	42,064
Cement & Asbestos	83	39,488
Airways (Aviation Infrastructure)	37	25,603
Railways	73	25,310
Power Distribution	358	24,817
Storage & Distribution	161	24,516
Electrical Machinery	63	23,985
Metallic Ore, Slag, etc.	48	23,564
Shipping Infrastructure	61	23,437
Non Ferrous Metals	23	23,019
Non Electrical Machinery	75	22,919
Food Products	303	21,687
Textiles	122	15,425
Pipelines	95	10,729
All Sectors	10,662	20,01,369

Source: Projects Today; SBI Research

Global Banking Outlook

- ❑ The significant build-up of capital and other buffers over the past decade will allow the global banking sector to show significant resilience
- ❑ Despite a mostly stable rating outlook, global banks will face tougher tests as economic growth weakens and higher-for-longer inflation affects borrowers
- ❑ For most banks the immediate effect of higher interest rates is positive because it will benefit their net interest income
- ❑ Key risks include:
 - an economic downside scenario materially base case;
 - potentially higher corporate insolvencies exacerbated by high corporate leverage;
 - high government leverage; and
 - a weak property sector as in China
- ❑ Banks will increasingly face nontraditional risks associated with digitalization and new financial technologies, cyber, and climate risk

Indian Banking Outlook

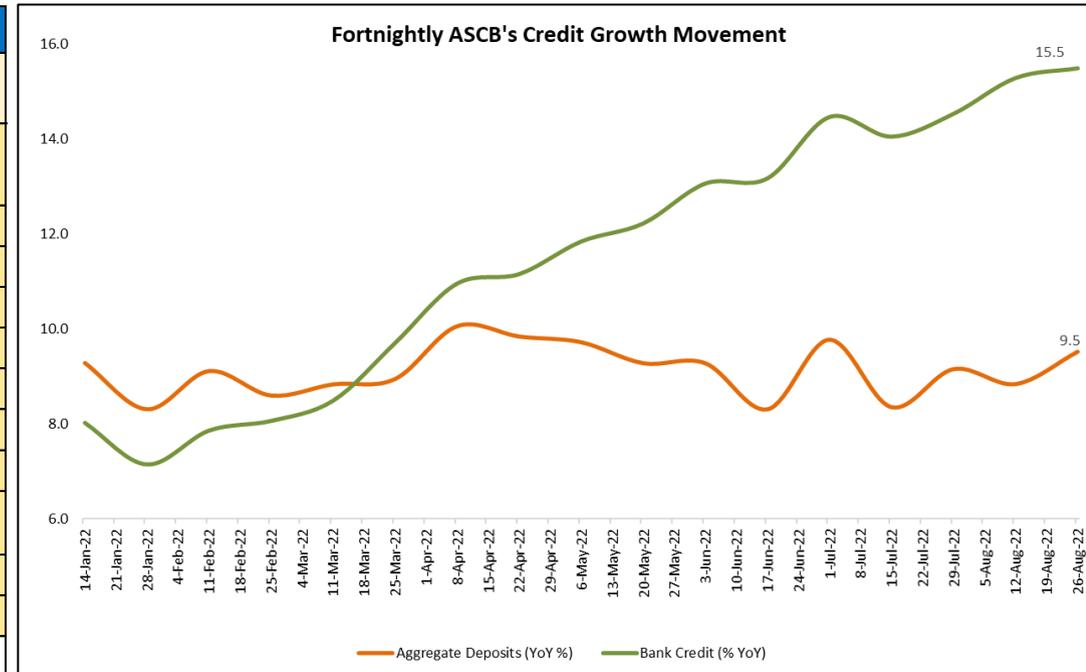
ASCB's Business Growth Cycle: Sharp Slowdown to Sharp Recovery

- ❑ The banking and financial sector has fared reasonably well amidst a pickup in credit growth, lower provisioning costs and improvement in asset quality
- ❑ Credit growth continues to remain strong and has been consistently rising since February 2022, with latest number at 15.5% y-o-y as on 26 Aug 2022 (6.7% a year ago). The incremental growth (YTD) in credit is Rs 5.66 lakh crore till date (vis-à-vis degrowth of Rs 0.5 lakh crore last year). The demand for credit is continuing and is likely to grow at 15% (YoY) in FY23
- ❑ Aggregate deposits grew by Rs 5.2 lakh crore or 3.2% (YTD) compared to last year YTD growth of Rs 4.03 lakh crore/2.7%. YoY deposits growth is at 9.5%, same as last year
- ❑ The demand for credit is continuing and is likely to grow at 14%-15% (YoY) and deposits 12-15% in FY23, but we don't rule out the prospects of an even larger credit growth

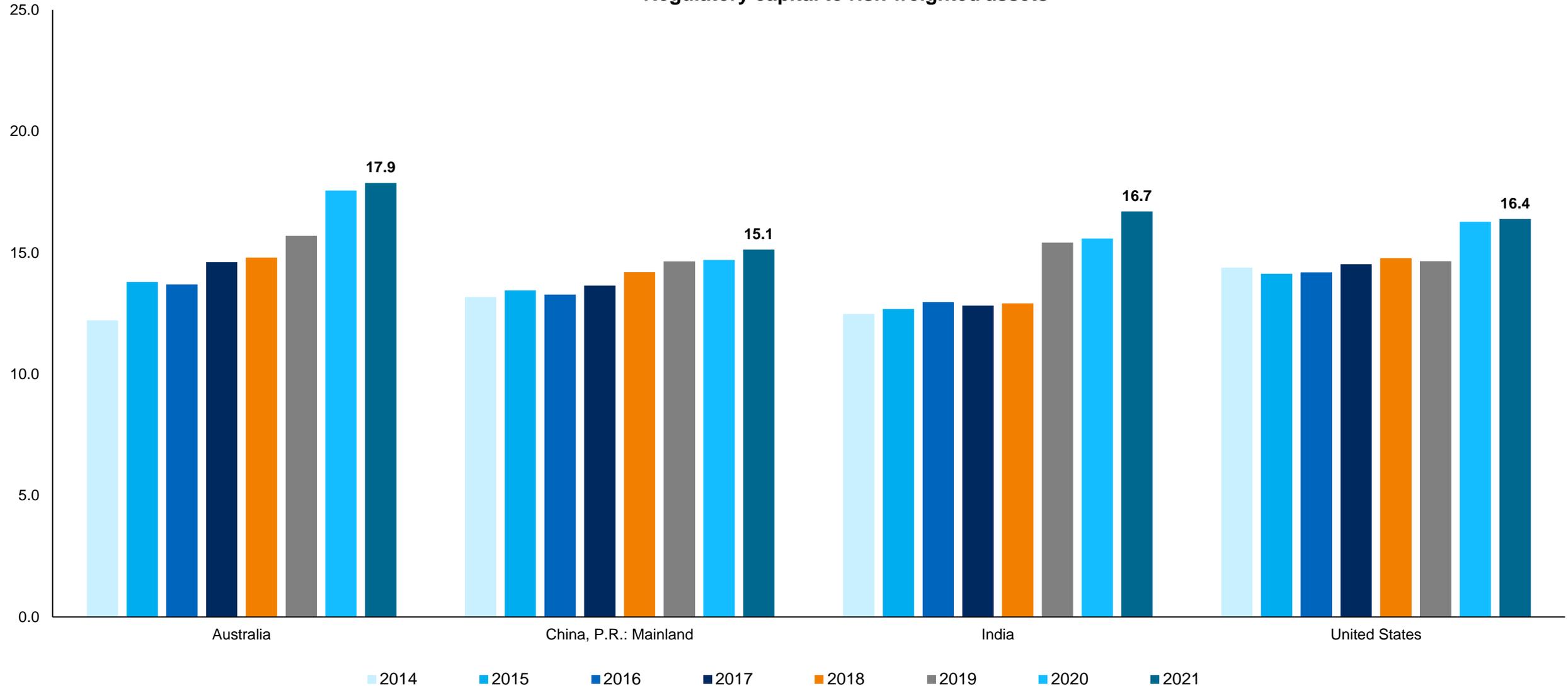
ASCBs Sector-Wise Credit Flow (Rs bn): July 2022

Sectors	FY22 (YTD)		Monthly Growth (Rs bn)					FY23 (YTD)		YoY %	
	Rs bn	%	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Rs bn	%	Jul-21 (FY22)	Jul-22 (FY23)
Agri. & Allied	216	1.6	124	172	50	173	283	679	4.6	11.1	13.2
Industry	-508	-1.7	172	-0.4	125	32	138	296	0.9	0.4	10.5
MSE (Priority)	-67.889	-0.6	647	318	150	60	115	643.34	4.7	1.4	19.2
Infrastructure	-9	-0.1	-6	89	-40	125	32	205	1.7	0.3	11.1
Services	-530	-1.9	505	17	244	273	1010	1544	5.1	3.8	16.5
NBFCs	-558	-5.8	513	128	46	53	626	852	7.9	0.3	27.4
Personal Loans	167.68	0.6	792	572	248	523	740	2082	6.1	11.9	18.8
Housing (Including Priority)	305	2.0	1063	219	26	320	283	848	5.0	10.7	16.2
Other Personal Loans	-7	-0.1	-1308	174	184	74	103	536	6.1	13.2	21.9
Gross Bank Credit	-468	-0.4	2643	633	727	1217	2202	4779	4.0	5.0	14.5

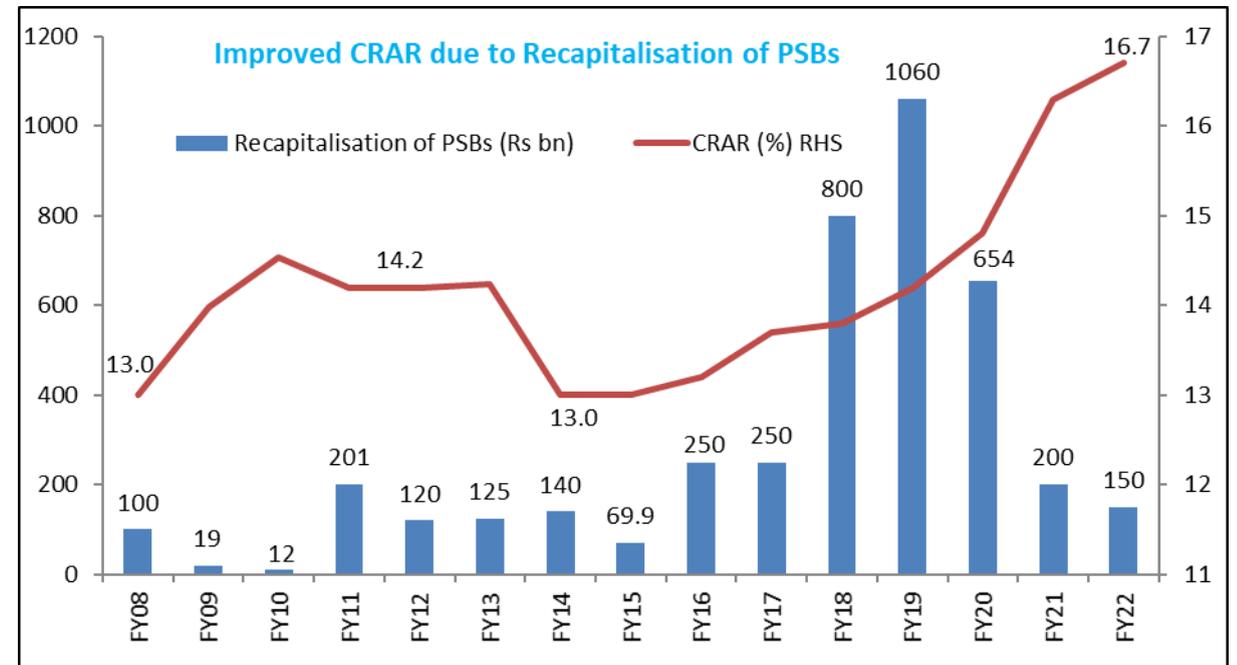
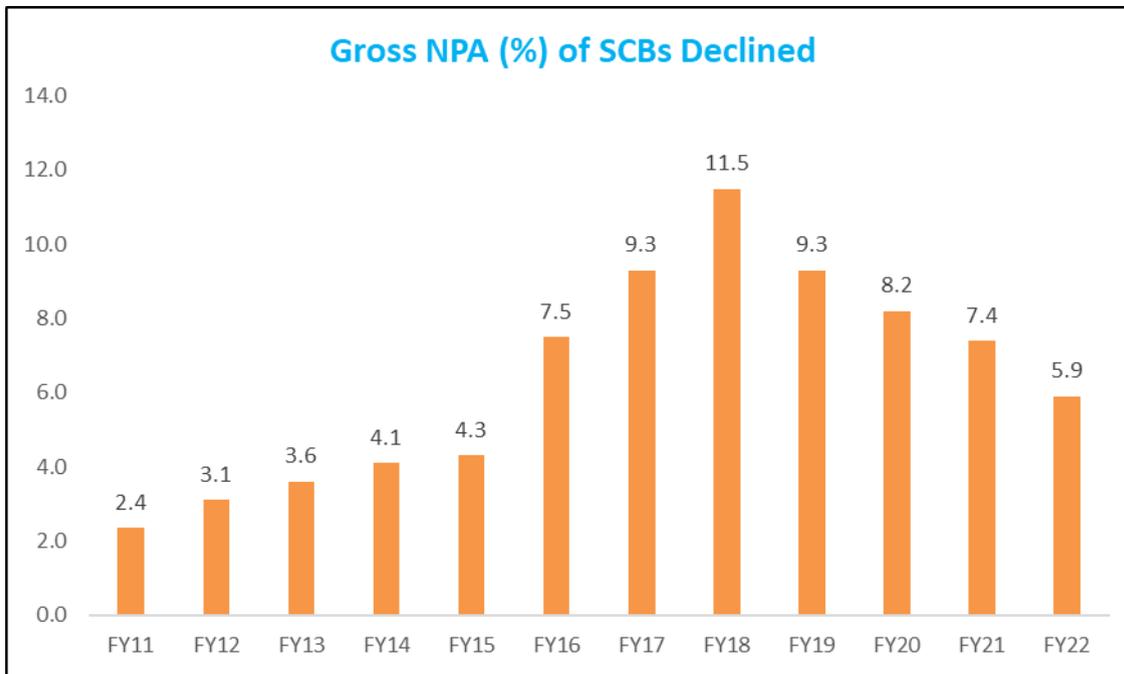
Source: SBI Research



Regulatory capital to risk-weighted assets



- ❑ The CRAR of SCBs rose to a new high of 16.7%, while their GNPA ratio fell to a six-year low of 5.9% in March 2022. The PCR has improved to 70.9% in March 2022 from 67.6% March 2021 and slippage & Write-off ratio also declined for the second successive year in 2021-22
- ❑ Macro stress tests reveal that SCBs are well-capitalised and capable of absorbing macroeconomic shocks even in the absence of any further capital infusion by stakeholders
- ❑ Under the baseline scenario, GNPA may improve to 5.3% by March 2023, driven by higher expected bank credit growth and declining trend in the stock of GNPA, among other factors



SBI as a strategic partner

- ❑ Under the Indo-German Strategic Partnership the Make in India Mittelstand (MIIM) Programme was launched by the Embassy of India, Berlin in September 2015
 - Along with Deutsche Bank, SBI is also a banking partner in this venture

- ❑ Japan, the Country Partner for Make in Odisha Conclave in 2018
 - SBI chosen as the banking partner for this venture

- ❑ State Bank of India (SBI) has a collaboration with the Korea Development Bank (KDB)
 - Bank is the window to inbound Korean Investments in India and vice-versa

Thank
you

