

# SECTOR SPECIFIC REPORT

(Finance & Banking)



## *Policies Covered In The Edition*

An Empowered and Inclusive Economy to work as Foundation of Transformative Opportunities in India

Shaping Global Policy Consensus on Crypto Assets under India's G20 Presidency

Multifaceted Achievements of India's Historic Demonetization

Sovereign Green Bonds to Mobilise Fund for India's Green Infrastructure Projects

India's External Sector Shows Resilience amid Global Economic Headwinds

Expert Insight

# Empowered and Inclusive Economy to work as Foundation of Transformative Opportunities in India

India has entered into Amrit Kaal with the priority vision to develop an empowered and inclusive Indian economy by fulfilling the commitment of 'Sabka Saath, Sabka Vikas and Sabka Prayas'. The Union Budget 2023-24 has set the path for inclusive development so that the fruits of prosperity and growth will reach all citizens irrespective of regional disparities with a special focus on youth, women, farmers, OBCs, Scheduled castes and Scheduled Tribes.

## Priority Areas to Build an Empowered and Inclusive Indian Economy



Strong inclusive growth in an empowered society is an optimistic vision that can be only achieved through the effective implementation of robust government policy frameworks universally. India's vision for Amrit Kaal is to make India a technology-driven knowledge-based economy on the global landscape with a strong financial sector. For this, some of the identified transformative areas are as under:

### Transformative Opportunity Areas

- |    |  |    |                                  |
|----|--|----|----------------------------------|
| 01 | Economic Empowerment of Women through SHGs | 06 | Financial Inclusion              |
| 02 | Skill Training, and Knowledge Sharing      | 07 | Technology Advancement           |
| 03 | Universalization of Targeted Benefits      | 08 | Investment in Social Development |
| 04 | Digitalization of Economy                  | 09 | Job Creation                     |
| 05 | Good Governance                            | 10 | Macro-economic Stability         |

Since 2014, India has made steady progress to achieve inclusive growth with the effective implementation of several schemes and initiatives with the universalization of targeted benefits, good governance and digitalization despite unprecedented events like demonetization, Covid 19 pandemic, economic slowdown, etc.

Still, achieving empowerment and inclusive growth for such a large population with various social and regional inequalities bring challenges at every step.



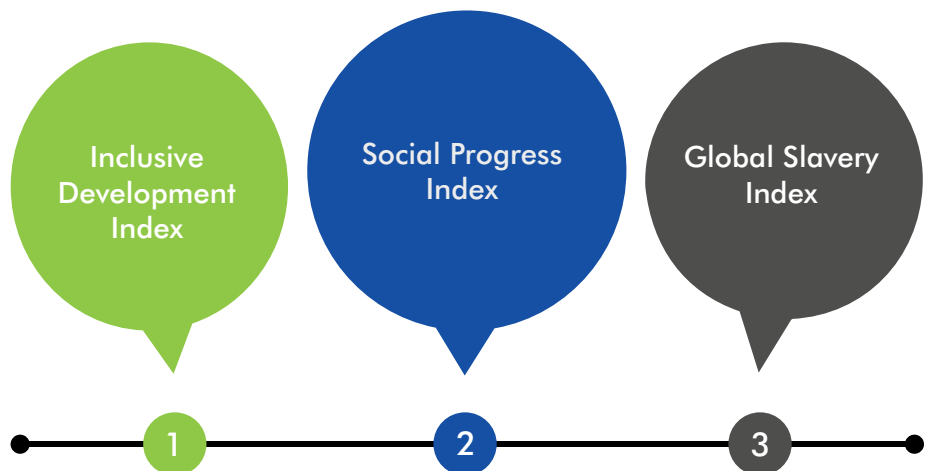
**Achievements Since 2014**  
From 10<sup>th</sup> To 5<sup>th</sup> Largest Economy In The World Within 9 Years

- ✓ 11.7 Cr household toilets under Swachh Bharat Mission
- ✓ 9.6 Cr LPG connections under Ujjawala Yojana
- ✓ 220 Cr Covid vaccinations of 102 crore persons
- ✓ 47.8 Cr bank accounts under PM Jan Dhan Yojana
- ✓ 44.6 crore persons covered under PM Suraksha Bima and PM Jeevan Jyoti Yojana
- ✓ 2.2 Lakh Cr cash transferred to over 11.4 crore farmers under PM Kisan Samman Nidhi
- ✓ Per capita income more than doubled to Rs 1.97 lakh

These challenges impact the inclusive growth index and bring a strong reflection on India's global ranking in various socio-economic.

The inclusive growth paradigm not only supports economic growth but a holistic view to create employment and skill development opportunities without gender discrimination with overall social development in an environment-friendly scenario. For this, the Government of India provides comprehensive policy support for the fair distribution of opportunities and benefits to its citizens over time.

**Measuring Indexes for Inclusive Growth**



Some of the effective policy interventions made by the government to create an overarching impact in achieving the goal of empowered and inclusive growth for the Indian economy are as under:

**Policy Initiatives to Support India's Inclusive Growth**

01	Mahatma Gandhi National Rural Employment Guarantee Act Scheme	08	Sarv Siksha Abhiyan
02	Skill India Mission	09	Housing for All
03	Mudra Bank Scheme	10	Swachh Bharat Mission
04	Pt Deen Dayal Upadhyay Grameen Kaushal Yojna	11	Ayushman Bharat Mission
05	Deendayal Antyodaya Yojna- National Urban Livelihood Mission	12	Pradhan Mantri Jan Dhan Yojna
06	National Rural Health Mission	13	Integrated Rural Development Programme
07	Direct Benefit Transfer Scheme	14	Aspirational District Programme

The policy interventions at both micro and macro levels are important along with the reduction in income inequality, poverty with a clear focus on improvement of social infrastructure development, education, healthcare, women empowerment, and equal and easy access to essential services for all with a strong institutional and regulatory framework to continue its sustainable journey on the inclusive growth trajectory.



# Shaping Global Policy Consensus on Crypto Assets under India's G20 Presidency

India under its G20 Presidency set the tone for **global financial sector reform with a priority to make the digital financial system efficient, secure and stable** with a special focus on making global policy consensus on Crypto Assets.

## Important Points for Making Global Consensus

Need of a Common Taxonomy

Need of Systematic Classification of the Crypto Asset Universe

Benefits and risk Associated with Crypto Assets

Evaluation of Macroeconomic Policy Questions

Financial Stability issues and Regulatory Responses thereof

With the **G20 Presidency theme of “Vasudhaiva Kutumbakam”**, India advocates **equitable growth across the globe for a shared resourceful future**. While discussing several key issues related to global economic recovery, including cryptocurrency regulation, the platform will unearth various aspects related to virtual assets. Virtual currencies such as Crypto are borderless and thus need strong international collaborations and commitments to prevent regulatory arbitrage.



India has been a vocal critic of crypto currencies, with RBI banning financial institutions from dealing in them in 2018. However, the country has also shown interest in exploring the potential benefits and challenges of block chain technology, which underpins **the emergence of many cryptocurrencies to come up with a Digital Rupee as legal tender**.



## Evolution of Cryptocurrency Regulation in India

2013

- RBI Issued a Circular Warning Against the Use of Virtual Currencies/ Crypto currencies

2017

- Reserve Bank of India and Ministry of finance issued Warning about Virtual Currencies being not a Legal Tender in India

2019

- RBI Announced Trading, Mining, Holding or Transferring of Cryptocurrencies subjected to Punishment in India
- RBI Announced the likely Future Launch of Digital Rupee as Legal Tender in India

2020

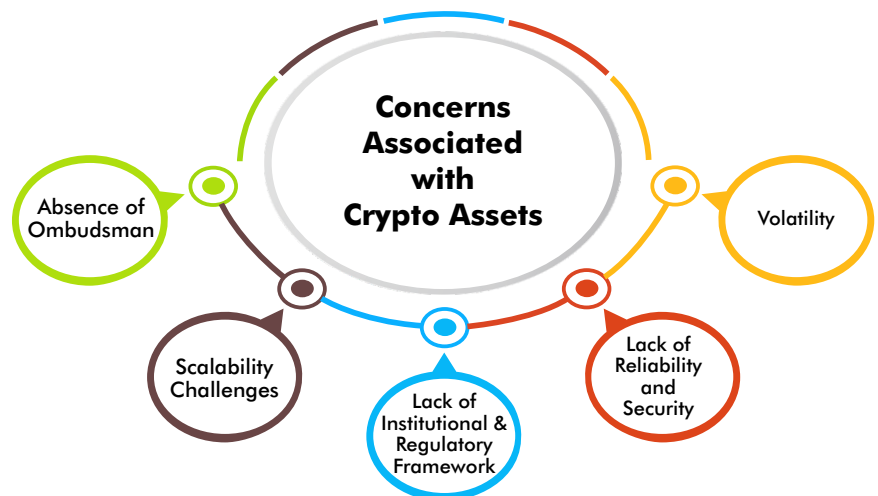
- Supreme Court of India Removed the Ban on Cryptocurrency imposed by RBI

2022

- The Government of India under the Union Budget 2022-23 mentioned the Transfer of Any Virtual Currency/ Cryptocurrency Asset Subject to 30% Tax Deduction
- Gifted Virtual Assets/ Cryptocurrencies will be Taxed in the Hand of Receiver
- RBI Recommended Ban on Cryptocurrencies Citing 'Destabilising Effects' on India's Monetary and Fiscal Health

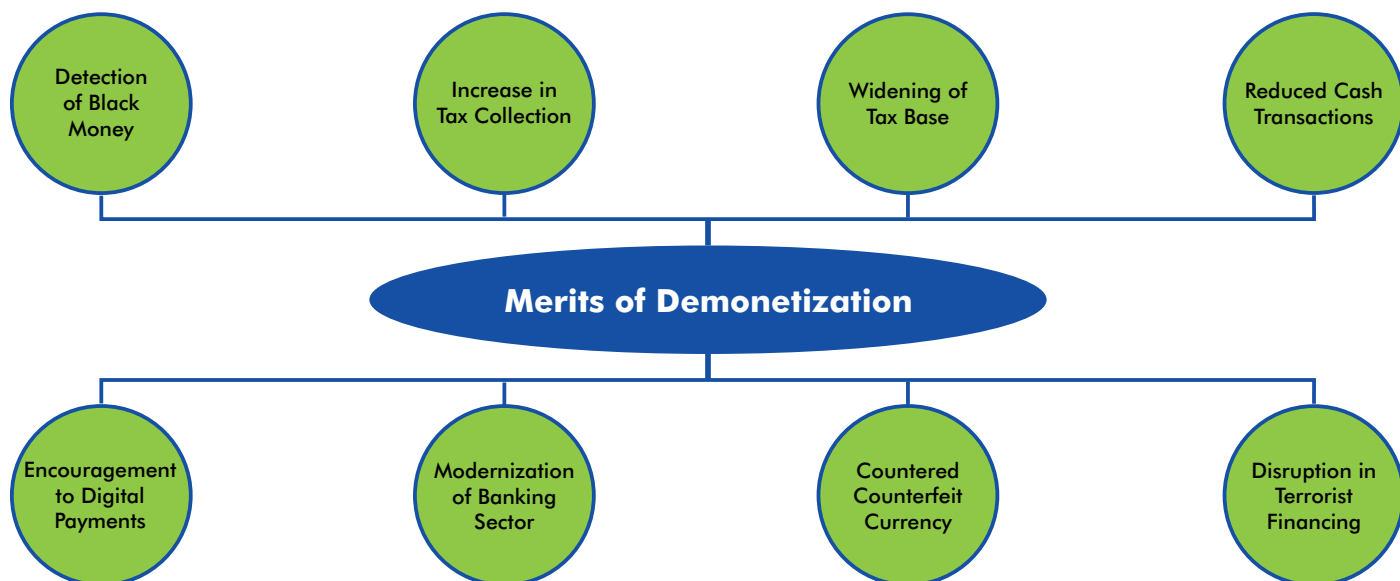
Under India's G20 presidency, **discussions on crypto currencies and their regulation are likely to focus on issues such as investor protection, financial stability, money launder in and terrorist financing.** India may also push for greater international cooperation in regulating them, given their global nature including the wide range of challenges experienced by global financial systems over time.

It is worth noting that G20 member countries have different views and approaches to cryptocurrencies. Some countries are embracing them wholeheartedly while others are sceptical or outright hostile. Therefore, reaching a consensus on cryptocurrency regulation under India's G20 presidency may prove challenging. But the broader dialogue on such a global platform will indeed pave the way for finding an optimal solution for the ongoing challenges of global financial systems.



# Multifacet Achievements of India's Historic Demonetization

India's demonetization, which was **announced on November 8, 2016**, aimed to curb black money, corruption and counterfeit currency in the country, faced several criticism and challenges over time. But, the Government of India and the Central Bank, RBI have recognized many notable achievements and outcomes of this bold step in favour of the growth and digitalization of India's Financial and Banking system.

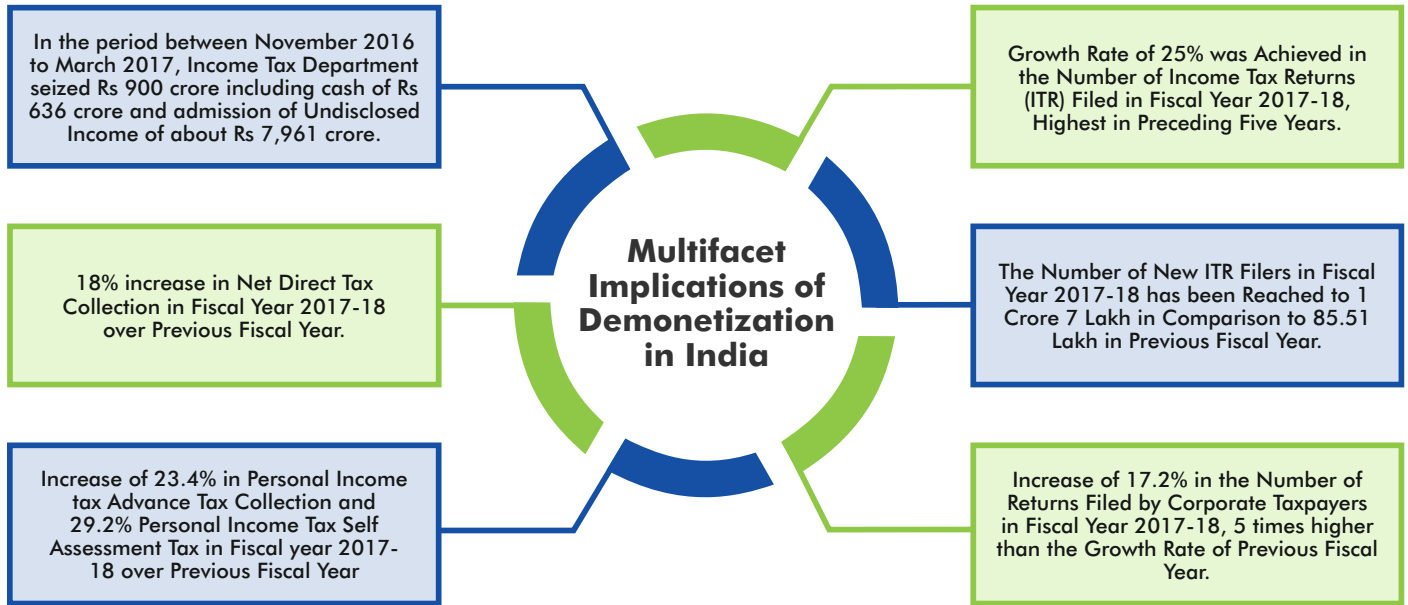


Through demonetization, **the Government of India put a blanket ban on the use of high-value banknotes of Rupee 500 and 1000**. The announcement was made for its immediate withdrawal from circulation. Following the move, there was a significant increase in digital transactions, as people were forced to adopt electronic payment methods as an alternative to short-term cash shortages. This has led to increased transparency and reduced reliance on cash transactions among the general public and even for the smallest businesses.

The government's crackdown on black money has led to a decline in unaccounted cash and tax evasion. **According to the Reserve Bank of India, the amount of cash in circulation was reduced by around 20% following the demonetization.** As per the

Government of India following outcomes have been achieved through this exercise despite of short-term impact on growth and liquidity.





Demonetization has checked the gap between currency with the public and currency in circulation. **The move has hit small businesses badly for a brief period and GDP growth declined nearly 1.5% because of this.** The expeditious move has gained significant global recognition also and accelerated innovation in the area of digital payments and banking solutions.

But comprehensively, this bold policy decision has transformed India's banking system for good. It has shown its resilience in the challenging time to tackle short-term liquidity shortage to achieve its outcome to cleanse the Indian economy. It has provided long-term macroeconomic stability along with countering black money, counterfeit currencies and issues related to the parallel economy for India's stable economic growth.

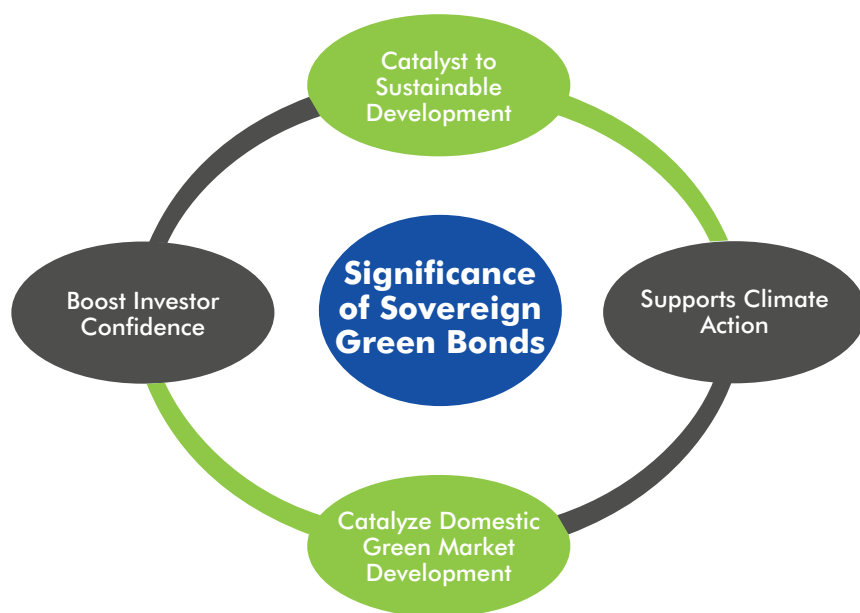




# Sovereign Green Bonds to Mobilise Fund for India's Green Infrastructure Projects

Recently India joined the **Sovereign Green Bond Club with an issuance of Rs 16,000 crore in the fiscal year 2022-23**, to mobilize financial resources and attract investors for green infrastructure project development. This will strengthen India's fight against climate change and help it to achieve its targeted commitment of achieving net-zero carbon emissions by 2070.

The proceeds received from this debt instrument will be utilized in public infrastructure development projects that **will inturn work for reducing the Carbon intensity of the Indian economy**. The introduction of Sovereign Green Bonds in India is a positive step towards mobilizing funds for environmentally-friendly projects and promoting sustainable development that **will be in sync with the country's commitment to the Paris Agreement on climate change and its goal of reducing greenhouse gas emissions**.



## Sovereign Green Bond Status

### National

The Government of India joined the Sovereign Green Bonds Club on 25 January 2023.

The Proceeds of these Bonds will be Earmarked to the Expenditures in the area of Clean Energy Infrastructure Development.

This Debt Instrument is Effective in Unlocking the Demand for Sustainable Investment to Achieve Updated NDC Targets of India.

### Global

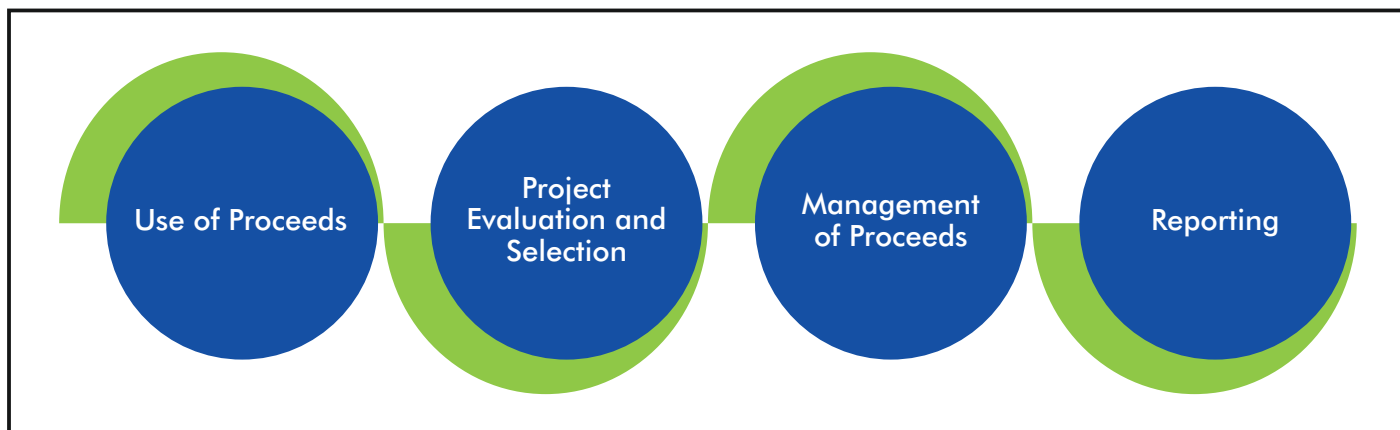
The Sovereign Green Bond Issuance at Global Level has Find its Recognition Since 2020

The Countries around the Globe especially European Union has Accelerated their Green transition through these Debt Instruments.

The Key Issuance Currency for Sovereign Green Bonds Remain the Euro and US Dollar .

Sovereign Green Bonds are a type of financial instrument that is issued by governments to raise funds specifically for climate and environmental projects. These bonds are usually offered to investors at a fixed interest rate and have a specific maturity period. **India released the framework for Sovereign Green Bonds on 9<sup>th</sup> November 2022.** The frame work was in line with the recommendations of the **International Capital Market Association (ICMA) Green Bond Principles, 2021** and developed harmony between international and domestic regulations and standards for the green bond market.

### Principles of ICMA Green Bond Principles



India issued **two tranches of a total of Rs 80 billion in January 2023 with 5-year and 10-year maturity tenures.** Another **two tranches of a total of Rs 80 billion with the same maturity tenure have been offered in February 2023.** The proceeds from these bonds will be routed to the projects like renewable energy capacity generation, energy efficiency, green transport, green infrastructure, sustainable water, waste management, etc.

India following the global standard for sovereign green bonds is working to build the capacity to spread knowledge and benefits of this instrument for the growth of India's green economy. The regulatory strength through Sovereign Green Bond Framework will address the market barriers and attract international investment for green growth and green infrastructure development of the country over time.

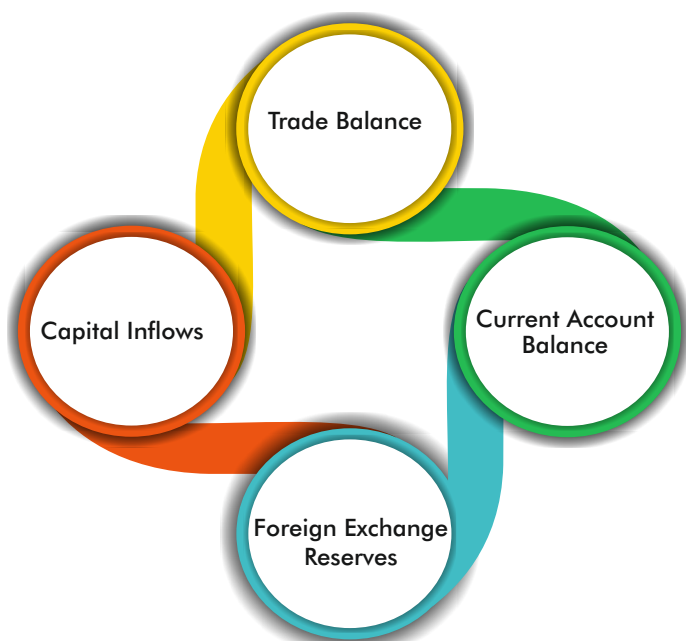


# India's External Sector Shows Resilience amid Global Economic Headwinds

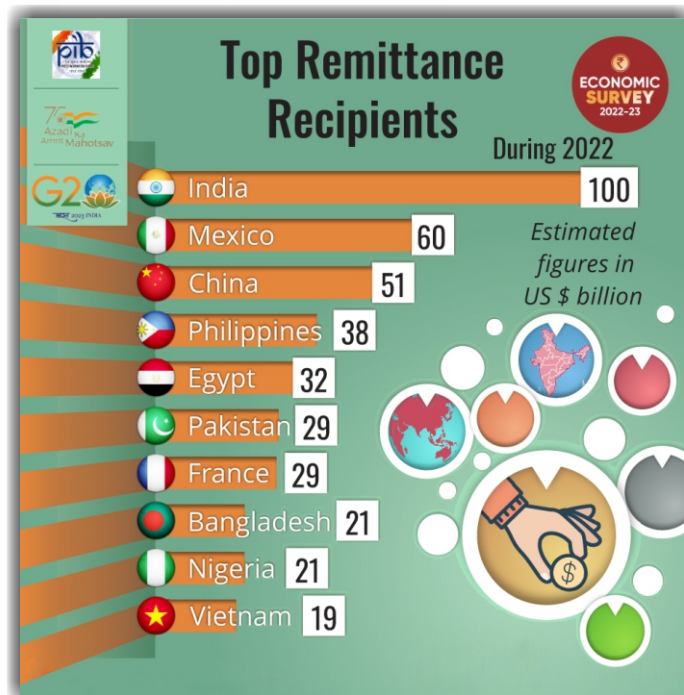
India with a strong position in its external sector is facing global economic headwinds very well. It is providing a strong macroeconomic fundamental to economic growth and provides a cushion of relief during a global economic slowdown. The Economic Survey 2022-23 has outlined **the strong performance of India's external sector amid volatile international financial, capital depreciation and continuously slowing down global trade impacting world economies.**

The Government of India over time has improved the resilience of India's external sector keeping the medium and long-term growth of the economy as well as trade on priority. The impact has been assessed as a result of the effective implementation of various export promotion measures at the policy level.

## Components of External Sector Performance

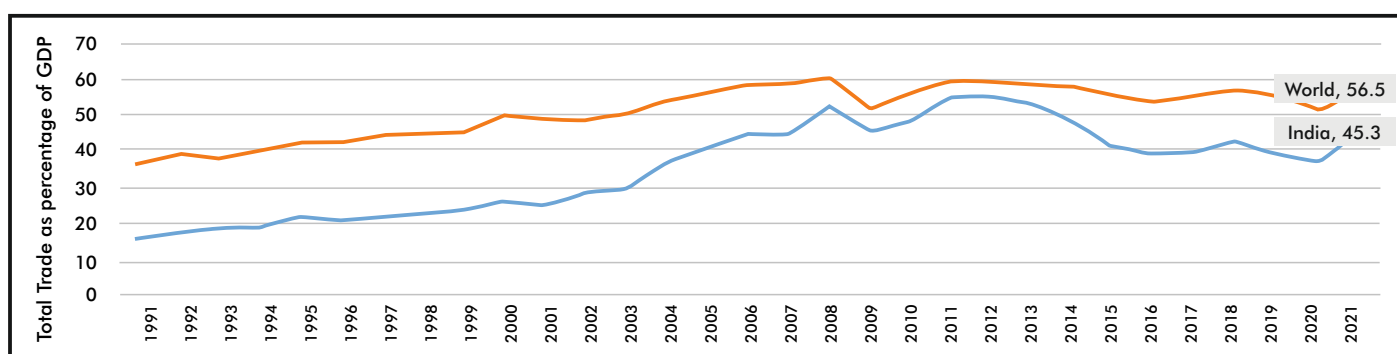


**The sharp rise in oil prices has widened India's Current Account Deficit which was better absorbed by the surplus on Invisibles (services, transfer and income).** India has seen a rise in remittance receipts and further crude oil deal with Russia at the lowest prices has **resulted in keeping the Current Account Deficit into sustainable limits in the fiscal year 2022-23.**



India's foreign trade policy is also bringing an overarching impact on India's external sector performance along with handling the global volatile economic/geopolitical situations and currency fluctuation in the international market. India's signing of Free Trade Agreements (FTA) with various trading partner countries like the USA and Australia are providing greater market access to India's exporters at competitive prices.

### India's Trade Performance



Source: World Bank Database

Over the years **India's global trade has shown continuous growth by keeping the external debt situation under control**. This has led to India's positive growth potential forward and brought new opportunities for India to cater to global demands through export promotion schemes. The Reserve Bank of India's circular about **the International Trade Settlement in Indian Rupees in July 2022 has been also welcomed by India's global trading partners through Rupee Vostro9 Account**.

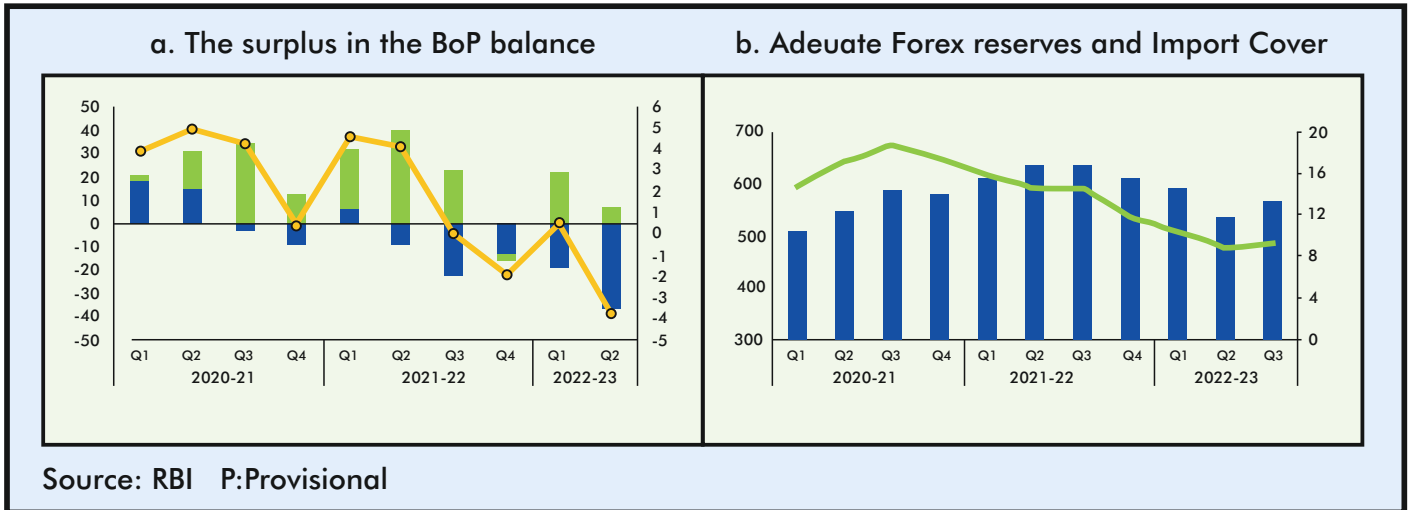
### Year-wise Performance of India's Trade

	2019	2020	2021
<b>Export Performance (in percent)</b>			
Share in World Merchandise Exports	1.7	1.6	1.8
Share in World Commercial Services Exports	3.5	4.0	4.0
Share in World Merchandise Plus Services Exports	2.1	2.1	2.2
<b>Import Performance (in percent)</b>			
Share in World Merchandise Imports	2.5	2.1	2.5
Share in World Commercial Services Imports	3.0	3.2	3.5
Share in World Merchandise Plus Services Imports	2.6	2.3	2.7
<b>India's rank in world trade</b>			
Merchandise Exports	18	21	
Merchandise Imports	10	14	
Services Exports	8	7	
Services Imports	10	10	

Source: DGFT, Monthly Foreign Trade Statistics, November 2022 (based on data till October 2022)

The declining import of fossil fuels to meet India's energy sector demand has also played a crucial role in retaining India's foreign reserves intact. This has brought positive reflection on the Balance of Payments and kept the performance of India's external sector performance safe, stable and sound.

**Year-wise Performance of Balance of Payment and Foreign Reserves**



No doubt external sector of the Indian economy faces challenges from time to time but due to comprehensive long-term policy vision, the macroeconomic fundamentals prove their resilience time and again. In this regard, continuously the Indian economy is performing relatively better in comparison to its peers and keeping its best foot forward to achieve sustainable growth.



## Expert Insight

India's performance has been quite impressive. For this year, we expect India to retain a high growth rate, 6.8% for the year that ends in March. For FY 2023/24 (April 2023 to March 2024) we project 6.1%, a bit of slow down like the rest of the world economy, but way above the global average. And in that way, India is providing about 15% of global growth in 2023.

Why is India a bright spot? Because one, the country has done really well to turn the digitalisation that has been already moving quite well into a major driver of overcoming the impact of the pandemic and creating opportunities for growth and jobs.

**Kristalina Georgieva**  
Managing Director  
International Monetary Fund



# Resources

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