

2020

Volume 1

# APAS MONTHLY

## THIS MONTH

### Season's greetings!

In this issue, Mr. Navneet Munot, Chief Investment Officer, SBI Funds Management, has presented his thoughts on 'Betting on a sustainable growth model'. We thank Mr. Navneet Munot for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Equity Markets: Shape of Things to Come'.

The economic indicators showed mixed performance. Manufacturing PMI rose to 52.7 in December from 51.2 in November. India's annual infrastructure output in December recovered to 1.3%. India's Index of Industrial Production (IIP) grew by 1.8% in November. PMI services rose to a 5-month high of 53.3 in December from 52.7 in November, while composite PMI rose to 53.7 in December from 52.7 in November. CPI inflation jumped to a 5-year high of 7.35% in December from 5.54% in November. WPI inflation rose to a 7-month high of 2.59% in December from 0.58% in November.

The Union Minister for Finance & Corporate Affairs, Smt. Nirmala Sitharaman, presented the Economic Survey 2019-20 in the Parliament. She also presented the Union Budget 2020-21.

The Reserve Bank of India (RBI) announced Sixth Bi-monthly Monetary Policy Statement, 2019-20. RBI announced National Strategy for Financial Inclusion 2019-2024. RBI announced Supervisory Action Framework for Primary Urban Co-operative Banks (UCBs). RBI launched Mobile Aided Note Identifier (MANI). RBI announced guidelines for reporting of Large Exposures to Central Repository of Information on Large Credits (CRILC) – UCBs. RBI announced Cyber Security controls for Third

party ATM Switch Application Service Providers. RBI announced guidelines on Risk Management and Inter-bank Dealings for permitting AD Cat-I banks to voluntarily undertake user and Inter-Bank transactions beyond onshore market hours.

The Insurance Regulatory and Development Authority of India (IRDAI) released Guidelines on Migration and Portability of health insurance policies. IRDAI announced Guidelines on repatriation of dividends by insurance intermediaries having majority owned by foreign investors.

India Jumped up 79 positions in World Bank Doing Business Rankings, Improving From 142 In 2014 To 63 in 2019.

The Securities and Exchange Board of India (SEBI) launched SEBI Bulletin Volume 18. SEBI released operating guidelines for investment advisors in International Financial Services Centre. SEBI launched guidelines on strengthening of the rating process in respect of 'INC' ratings.

Our newsletter is focused on tracking the performance of the economy and the regulations and laws governing the Banking and Financial Services companies. We hope that this APAS Monthly is insightful. We welcome your inputs and thoughts and encourage you to share them with us.

*Ashwin parekh*

## On the cover



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*Navneet Munot, CFA  
Chief Investment Officer  
SBI Funds Management*

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- [Strengthening of the rating process in respect of 'INC' ratings](#)

## CAPITAL MARKETS SNAPSHOT

- [CNX Nifty, BSE Sensex, India VIX, \\$/₹, GIND 10Y](#)

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2016*	2017*	Latest	2016*	% of GDP, 2016*	% of GDP, 2016*	(10YGov), Latest
Brazil	-2.9Q3	-3.4	0.9	7.0 Nov	8.3	-1.1	-6.4	11.8
Russia	-0.4Q3	-0.5	1.2	5.8 Nov	7.0	2.4	-3.7	8.60
India	7.3 Q3	7.2	7.5	3.6 Nov	4.9	-0.9	-3.8	6.51
China	6.7 Q3	6.7	6.4	2.3 Nov	2.0	2.5	-3.8	3.10^
S Africa	0.7 Q3	0.4	1.3	6.6 Nov	6.3	-4.0	-3.4	9.00
USA	1.6 Q3	1.6	2.2	1.7 Nov	1.3	-2.6	-3.2	2.56
Canada	1.3 Q3	1.2	1.9	1.5 Oct	1.5	-3.5	-2.5	1.78
Mexico	2.0 Q3	2.1	1.9	3.3 Nov	2.8	-2.8	-3.0	7.31
Euro Area	1.7 Q3	1.6	1.3	0.6 Nov	0.2	3.2	-1.8	0.25
Germany	1.7 Q3	1.8	1.4	0.8 Nov	0.4	8.8	1.0	0.25
Britain	2.3 Q3	2.0	1.1	1.2 Nov	0.6	-5.7	-3.7	1.55
Australia	1.8 Q3	2.9	2.8	1.3 Q3	1.3	-3.5	-2.1	2.86
Indonesia	5.0 Q3	5.0	5.2	3.6 Nov	3.5	-2.1	-2.6	7.93
Malaysia	4.3 Q3	4.3	4.6	1.4 Oct	1.9	1.8	-3.4	4.31
Singapore	1.1 Q3	1.3	2.0	-0.1 Oct	-0.6	21.5	21.5	2.49
S Korea	2.6 Q3	2.7	2.5	1.5 Nov	0.9	7.2	-1.3	2.17

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## ECONOMIC DATA SNAPSHOT

- [Global GDP, CPI, Current account balance, budget balance, Interest rates](#)



## Betting on a sustainable growth model

*Navneet Munot, CFA  
Chief Investment Officer  
SBI Funds Management*

2019 was an interesting year for India where even as the GDP growth plummeted to 4.5%, equity markets did well with the Nifty and the Sensex returning 12% and 14.4% respectively. Yet within equities breadth was narrow with the Nifty Midcap 100 and the Nifty Smallcap 100 indices losing 4.3% and 9.5% respectively. Similar divergences were evident in the debt markets too. Even with a 135bps cut in policy rates by the RBI, rate transmission was muted. Term premium stayed elevated until the RBI intervened with 'Operation Twist', whereby it bought long-dated securities and sold short-dated securities. Overall, while government bonds did well thanks to an 81bps decline in 10-year yields, credit spreads stayed elevated beyond the top-rated ones.

2020 promises to be the year of cyclical recovery for the economy, aided by factors such as robust liquidity both local as well as global, food inflation along with good monsoons which should help rural economy, and lagged impact of lower interest rates. And as that happens several of the apparent divergences will begin to fade. Corporate profit growth should pick up the pace with market upmove. Breadth should improve with mid and small caps playing catch-up to large caps. Credit spreads should normalize as confidence on economic growth revives.

A cyclical recovery should help reversion in profitability metrics such as corporate profits to GDP ratio, Return on Equity, Profit to Sales etc., all of which have been declining for over a decade and are at multi-year lows currently. However, for GDP growth and corporate profitability to return even remotely close to the highs of 2007-08, we need to look beyond 2020, and focus energies on ingraining sustainability into our development model.

And on that front, it is important to note that India has undergone a variety of reforms in the past few years focussed on long-term sustainability - formalization of the economy, crackdown on black money, tax reforms, continuous improvement in ease of doing business, insolvency reforms and labour reforms to name a few.

We have also made significant progress on empowering the masses. India has seen integration of rural masses with the mainstream through roads, electricity, financially, digitally and through improved social security and this should go a long way in rural India catching up with urban India. Government schemes focussed on sanitation, cooking gas, electricity, drinking water, affordable housing etc. are all improving living standards



of the masses. The result is rising aspirations which need to be positively channelized. Focus on education and reskilling, and creating jobs are the need of the hour. The large disguised unemployment in agriculture needs to be addressed. The government's focus on making India a manufacturing hub through measures such as tax reforms is step in the right direction.

Environmental risks are bound to gain prominence in India. India ranks amongst the top three nations on deaths from air-pollution. Major cities like Mumbai and Chennai are at risk from rising sea levels. As per a NITI Aayog study, 40 cities are likely to face drinking water shortages over the next decade. There are serious concerns about soil degradation. India is still a US\$ 2000 per-capita country and is yet to catch up meaningfully in the income ladder. In the process, the resource intensity of consumption is bound to rise. Ignoring the sustainability aspect can be damaging.

China serves as a classic example. While high growth facilitated dramatic increase in consumption levels, it led to rapid degradation of the ecosystem, choking pollution and rising social tensions. Eventually, their policymakers had to shut thousands of manufacturing plants.

Recent policy developments, such as Delhi's experiment with odd-even cars, move towards BS-VI compliance and now Electric vehicles, plastic ban in Maharashtra, plant closures in Karnataka around Bellandur lake, a copper plant closure in Tamil Nadu, cancellation of coal block allocations, ban on liquor sales on highways were in response to environment and social concerns. Such policy initiatives create both risks and opportunities for corporates. Some businesses may have had a free ride on these matters in the past, but today they ignore them at their own peril.

On governance, multiple instances of auditor resignations, excessive leverage, questionable 'related party transactions' and accounting issues have come to the fore thanks to the ongoing slowdown. Such issues may remain unattended for years but once brought to the surface, they erode the economic value of businesses in one go. This trend is only accelerating and leading to massive profit and market cap shifts in favour of the cleaner corporates. To be fair, India ranks high on World Bank's 'Protecting Minority Investors' category yet there is room for improvement on compliance and enforcement, and market forces continue playing their part in this.

Overall, even as India battles a near term economic slowdown, we are making strides towards long-term sustainable growth. And businesses and investors will have to play their part. Companies focussing on triple bottom line (People, Planet and Profits) deliver sustained returns over long periods. As investors, focusing on sustainable businesses should not only help portfolio returns, it also sends out a signal to corporates to integrate sustainability in their business practices, which in turn creates long term win-win for all. As one of the country's largest fund houses, we have taken up the mantle on sustainable investing without waiting for our investors asking us to do so.

\*Views are personal. Neither APAS nor any of its employees endorse any view, products or services mentioned in the article.



## Equity Markets: Shape of Things to Come

In the completion of the Q3 FY20, the economic slowdown is still there though the recovery is on the horizon albeit a slow one. Looking at some leading indicators to date, The PMI Index for manufacturing is at 55.3 in January 2020 as compared to 52.7 in December 2019. The services PMI index rose to 55.5 in January from 53.3 in December. The inflation for December 2019, CPI was at 7.35%, and WPI at 2.59% while Core Inflation was at 3.75%. Now, the key lagging indicator with Q2 FY20 is GDP growth number at 4.5%, which was not satisfactory. Since the market's outlook is forward looking, NIFTY 500, which can be judged as the benchmark for broader market has given a decent return of 10.2% but is still a below average return for the market.

However, if we look at the performance of Small cap and Mid cap indices, the Nifty Mid100 has returned 8.4% in the last 1 year and Nifty small cap 250 has returned an abysmal 3.57% in the last 1 year which still indicates that the market is pricing in a much slower recovery in the small and mid-sized companies. The reasons for the below average returns in the broader market as well as the small and mid-cap segment are multifold. Firstly, post the ILFS crisis in September 2018, the liquidity crisis and thereby solvency crisis for many NBFCs got triggered and that spiraled into high borrowing rates for the end customers which are SMEs, MSMEs and retail borrowers with low credit worthiness and therefore, the credit growth declined significantly. Furthermore, the rising NPAs in Public sector banks has led to slow down in lending to some key sectors such as infrastructure, real estate, automotive, capital goods manufacturing and other sub sectors in manufacturing. These are supposed to be the powerhouse sectors of the economy and with depleted funding the slowdown had a multiplier effect. These sectors have seen their share of the problems and have been major contributors to the economic slowdown. Within infrastructure and real estate, we have seen large corporates defaulting. The automobile sales- both passenger as well as commercial came down drastically in the last few quarters and the manufacturing activity is yet to get an impetus and investments to contribute significantly in the job creation process.

Now, what have been the government's and the RBI's steps taken in this regard? On the monetary policy side, there has been 135 basis points reduction in the last 1.5 years. However, the banks have been slow in reducing and passing on the benefits to the customers as we have seen only 40-50 bps reduction on a weighted average basis in the loan portfolio of the banks. So, this shows that monetary policy steps in addressing the economic growth is likely to be delayed and with the rising headline inflation due to increase in food prices, the RBI stance on rate cut is unlikely to turn positive till the August 2020 meeting. But the regulator can be lauded as it has done a well balancing act with growth and inflation and is also taking steps to make the credit flow more



efficient so that the banks pass on the rate cut benefits. So, what could have been a weapon to stimulate growth, the fiscal stimulus, as we have seen in the last 2 budgets, is still missing. Though we have seen the tax cuts on the corporate side, it has only addressed the supply side issues. In the latest budget though, the government has tried to address the demand side issues by segregating the slabs on a much granular level but the evaluation for a taxpayer from the 2 options is likely to complicate things and an individual may stick with the older regime which is unlikely to boost consumption. Moreover, the demand stimulus from the rural side, the key contributor to the economic growth, has largely been missing. Additionally, there hasn't been major infrastructure spending announcement which could have stimulated private investments in this sector and could have checked the growth concern from the point of view of the markets. Instead the government has opted for fiscal prudence and is relying on its Air India, LIC stake sale etc. to meet its disinvestment targets. Agreed, Fiscal deficit has to be kept under check and the cautious approach of the government with regard to that is welcome but the large companies in certain stressed sectors, SMEs, MSMEs and rural consumers needed a larger push and there is still good scope of addressing demand side issues.

In terms of growth, the wider consensus is that FY20-21 is likely to be better than FY19-20 with FY 19-20 GDP growth forecast at 4.8-5.2% as predicted by major global bodies, the government and the regulators. But the good old days of 8-8.5% GDP growth are still far away and is less likely to be achieved by FY20-21. Though the government has taken some steps to stimulate private investments in key sectors such as infrastructure, NBFCs, public sector banks, real estate and rural segments, this has to go on a war footing and more proactive reforms with collaboration from private sector have to be taken. Moreover, if this is done in consonance with more disinvestments or extensive privatization of stressed or low performing public sector enterprises that can keep fiscal deficit under check. These key areas can play a contributory role to help stimulate macroeconomic indicators and push sustainable economic growth which will trickle down to improved performance of NIFTY 500 as well as small and mid-cap indices. However, the key global risks to that are firstly, the coronavirus spread which is leading to supply side disruptions in China though it is not widespread at the moment but if it spirals out then it can impact global and India's markets severely which would be beyond India's control. Lastly, in light of the upcoming US elections 2020, US markets are likely to be volatile in the near term and that is likely to make global and Indian markets volatile.

**-APAS**



## ECONOMY

### **IIP (Index of Industrial Production) – November**

Index of Industrial Production (IIP) or factory output for the month of November 2019 turned positive after 3 months of contraction and grew by 1.8%, compared to -3.8% in October 2019 and 0.2% in November 2018.

The General Index for the month of November 2019 stands at 128.4, which is 1.8% higher as compared to that in November 2018.

The growth was mainly due to growth in the manufacturing sector.

The cumulative growth for the period April-November 2019-20 over the corresponding period of last year was 0.6%, down from 5% a year earlier.

As per Use-based classification, the growth rates in November 2019 over November 2018 are (-) 0.3% in primary goods, (-) 8.6% in capital goods, 17.1% in intermediate goods and (-) 3.5% in infrastructure/construction goods.

Consumer durables and non-durables have recorded growth rates of (-) 1.5% and 2% respectively.

The manufacturing sector, which constitutes 77.63% of the index, grew by 2.7% in November, compared to 0.7% last year.

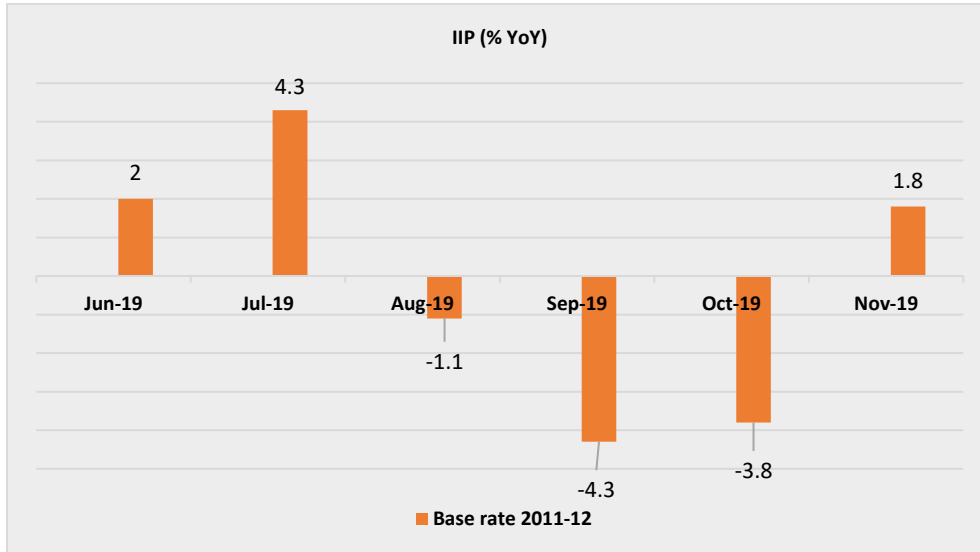
Electricity generation contracted by 5% in November, compared to 5.1% last year.

Mining sector output grew at 1.7% in November, compared to 2.7% last year.

In terms of industries, 13 out of 23 industry groups in the manufacturing sector have shown growth in November 2019 from November 2018.

The industry group 'Manufacture of wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials' has shown the highest growth of 23.2%, followed by 12.9% in 'Manufacture of basic metals'.

On the other hand, the industry group 'Other manufacturing' has declined most by 13.5%, followed by 12.6% in 'Manufacture of motor vehicles, trailers and semi-trailers'.



Source: APAS BRT, [www.mospi.gov.in](http://www.mospi.gov.in)

### **CPI (Consumer Price Index) – December**

India's consumer price index (CPI) or retail inflation jumped to a 5-year high of 7.35% in December 2019, compared to 5.54% in November 2019 and 2.11% in December 2018.

The corresponding provisional inflation rates for rural and urban areas are 7.26% and 7.46% respectively.

The Consumer food price index (CFPI) spiked to 14.12% in December 2019 from 10.01% in November 2019 and (-) 2.65% in December 2018.

The core CPI inflation rose to 3.75% in December from 3.5% in November.

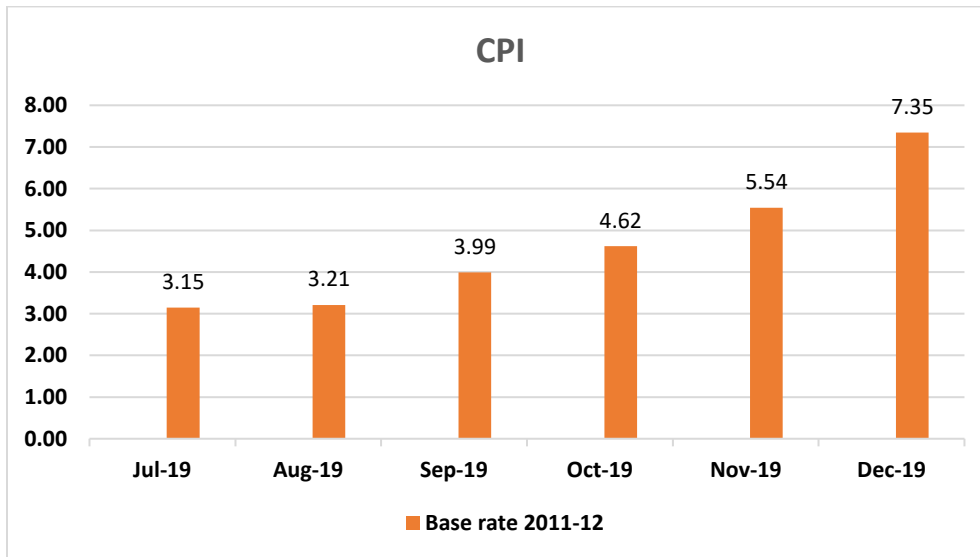
Among the CPI components, inflation for food and beverages jumped to 12.16% in December 2019 from 8.73% in November 2019.

Within the food items, the inflation rose for vegetables to 60.5%, cereals and products to 4.36%, milk and products to 4.22, spices to 5.76%, pulses and products to 15.44%, fruits to 4.45%, prepared meals, snacks, sweets, etc. to 2.2%, oils and fats to 3.11%, sugar and confectionery to 3.35%, meat and fish to 9.57%, eggs to 8.79% and non-alcoholic beverages to 1.42% in December 2019.

The inflation for housing eased marginally to 4.3%, while that for miscellaneous items moved up to 4.09% in December.

Within the miscellaneous items, the inflation increased for transport and communication to 4.77%, while it eased for health to 3.8%, education to 3.73%, household goods and services to 1.75%, recreation and amusement to 4.02% and personal care and effects to 6.28% in December 2019.

The inflation for clothing and footwear increased to 1.5%, while that for fuel and light moved up to 0.7% in December.



Source: APAS BRT, [www.mospi.gov.in](http://www.mospi.gov.in)

### **WPI (Wholesale Price Index) – December**

India's wholesale price index (WPI) inflation rose to a 7-month high of 2.59% in December 2019, as compared to 0.58% in November 2019 and 3.46% in December 2018.

The rate of inflation based on WPI Food Index increased to 11.05% in December 2019 from 9.02% in November 2019.

The index for primary articles rose by 1% from the previous month.

Under primary articles, 'Food articles' group rose by 0.1% due to higher prices of betel leaves (13%), urad (9%), egg and mutton (5% each), bajra and jowar (3% each), moong, masur and maize (2% each), barley, pork, milk, wheat, condiments & spices and arhar (1% each). However, the prices declined for peas/chawali (11%), ragi and fish-marine (3% each), coffee, beef and buffalo meat (2% each), fruits & vegetables, fish-inland, gram, tea and rajma (1% each).

The 'Non-Food Articles' group rose by 5.5% due to higher prices of floriculture (46%), raw silk and soyabean (7% each), fodder, rape & mustard seed and mesta (3% each), raw rubber, linseed, sunflower, gingelly seed

(sesamum) and cotton seed (2% each) and skins (raw) (1%). However, the prices declined for guar seed (4%), niger seed (3%), groundnut seed and castor seed (2% each), copra (coconut), raw cotton and hides (raw) (1% each).

'Minerals' group declined by 0.8% due to lower prices of copper concentrate (4%). However, the prices moved up for chromite (6%), limestone (5%), iron ore (3%) and lead concentrate (1%).

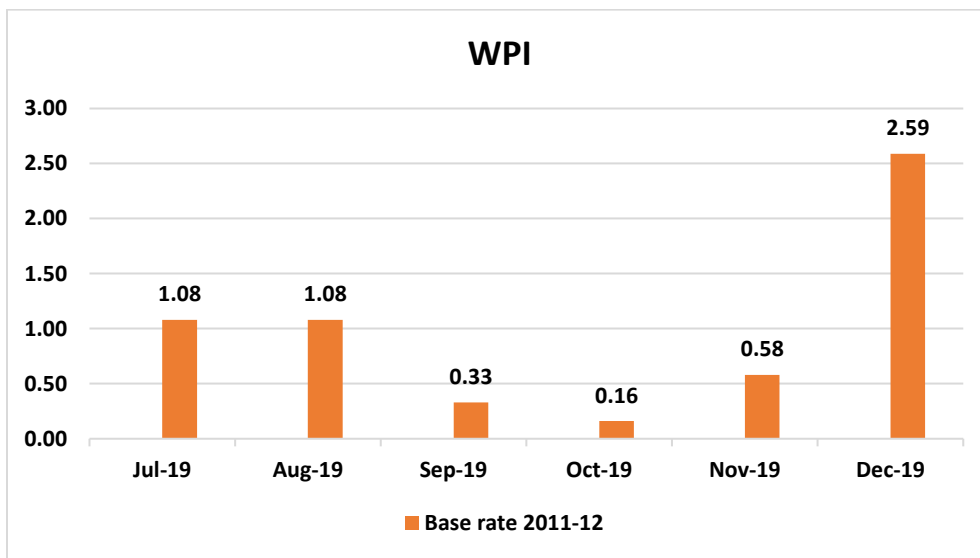
'Crude petroleum and natural gas' group rose by 3.5% due to higher price of crude petroleum (5%).

The index for fuel and power remained unchanged from the previous month.

Under fuel and power, 'Coal' group rose by 1.4% due to higher price of coking coal (4%).

'Mineral oils' group declined by 0.4% due to lower prices of petroleum coke (25%), furnace oil (17%) and bitumen (7%). However, the prices moved up for naphtha (8%), LPG (3%) and petrol (1%).

The index for manufactured products rose by 0.2% from the previous month.



Source: APAS BRT, [www.eaindustry.nic.in](http://www.eaindustry.nic.in)

### **Manufacturing PMI – December**

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) rose at a marked pace in December, the joint fastest in 10 months.

The Manufacturing PMI rose to 52.7 in December 2019 from 51.2 in November 2019. It stayed above the 50 level, that separates expansion from contraction, for the 29<sup>th</sup> consecutive month.

With new orders rising at the fastest pace since July, companies ramped up production and resumed hiring efforts. There was also a renewed upturn in input buying. Rates of input cost and output charge inflation accelerated to 13- and 34-month highs respectively.

4 of the 5 sub-components of the PMI increased in December, while suppliers' delivery times were unchanged from the preceding survey period. At the sub-sector level, growth was led by consumer goods, though intermediate goods also made a stronger contribution to the headline figure. Meanwhile, capital goods remained in contraction.

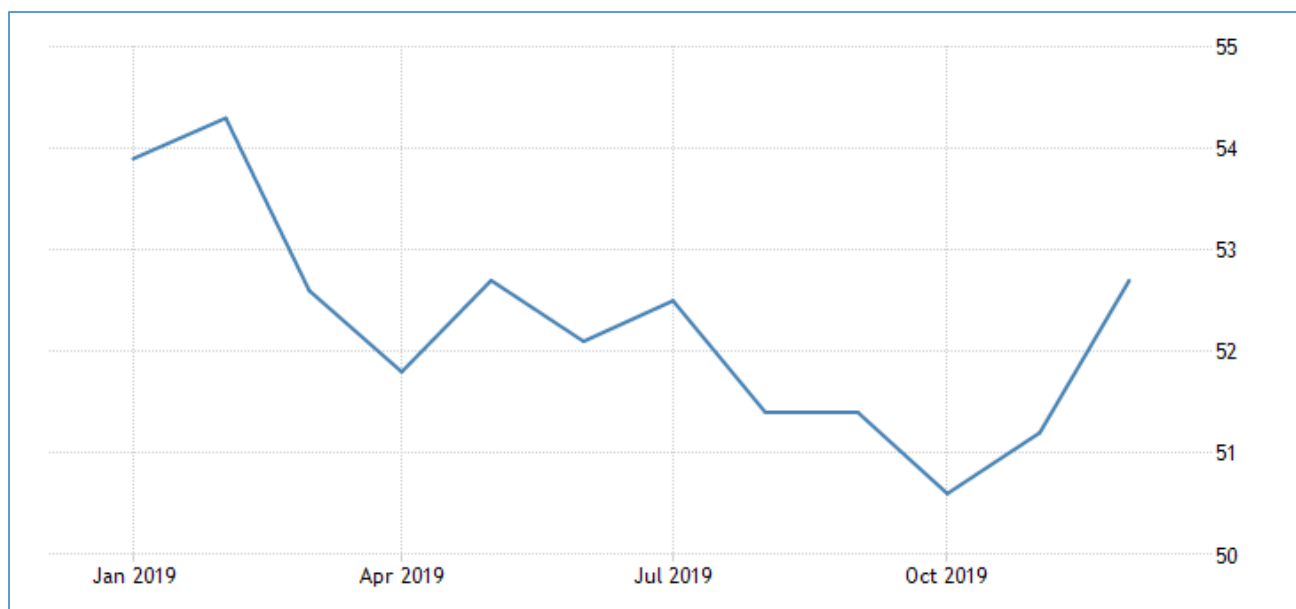
Companies signalled growth due to the securing of new work, the successful launch of new products and improved technology.

New work increased solidly, with the pace of expansion picking up to the fastest since July. Where growth was noted, firms reported marketing successes, new product drives and better demand conditions. The uptick in total sales was supported by higher demand from overseas. New export orders expanded for the 26<sup>th</sup> month in a row, although modestly.

The uptick in Indian manufacturing sector growth signalled by the latest PMI results will be welcomed by policy makers, particularly given the concerning results observed in October. Factories benefitted from a rebound in demand and responded by scaling up production to the greatest extent since May. There were also renewed increases in input purchasing and employment during December. However, a note of caution is evident from the survey's measure of business confidence. The degree of optimism signalled at the end of 2019 was the weakest in just under 3 years, reflecting concerns over market conditions, which could restrict job creation and investment in the early part of 2020.

At the same time, price indicators showed accelerated rates of inflation for both input costs and output charges. The latter reflected a combination of improved pricing power, given the favourable demand environment, and efforts to protect margins from cost rises.





Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

### **Services PMI – December**

The Indian services sector activity accelerated in December, supported by an uptick in new business orders, that boosted output as well as employment.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index rose to a 5-month high of 53.3 in December 2019 from 52.7 in November 2019. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the second straight month. This is the second strongest rate of increase in output in more than a year behind 53.8 in July.

The rise was linked to better market conditions and new business growth. Moreover, total sales expanded for the third consecutive month at the end of the year and at the quickest pace since October 2016.

On the prices front, input costs increased further in December, with firms citing higher charges for food, fuel, medical products and transport.

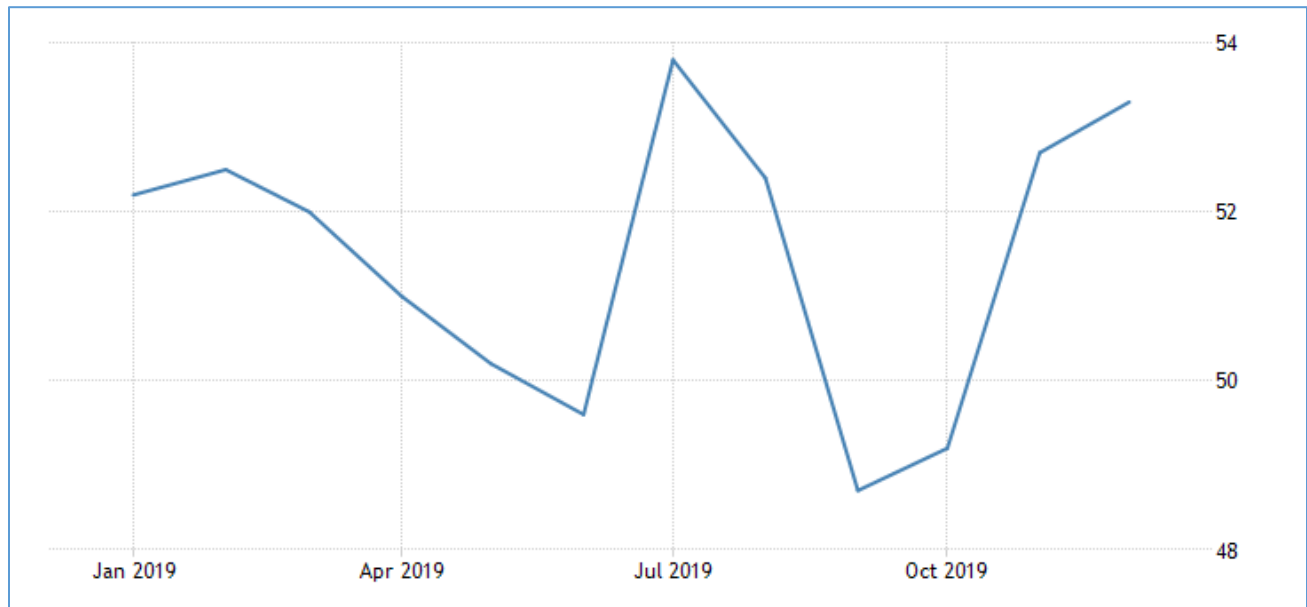
Worryingly, inflationary pressures intensified, with the fastest rise in input costs for almost 7 years pushing output charge inflation to a 22-month high.

On the employment front, driven by rise in new business orders, service providers continued to hire extra staff in December and employment increased for the 28<sup>th</sup> month in succession.

Indian services firms expect marketing efforts and favourable economic conditions to boost business activity during 2020. However, the overall level of positive sentiment remained below its long-run average.

The news of sustained job creation, robust new order growth and a pick-up in business confidence suggest that expansion can be maintained in the early part of 2020.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to 53.7 in December from 52.7 in November, reflecting stronger rates of expansion in both the manufacturing and service sectors.



Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

### **Core Sector Data – December**

Growth of eight infrastructure sectors recovered to 1.3% in December 2019 after remaining in the negative zone in the previous 4 months, helped by expansion in the production of coal, fertiliser and refinery products.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had contracted by 0.6% in November 2019 and grown by 2.1% in December 2018.

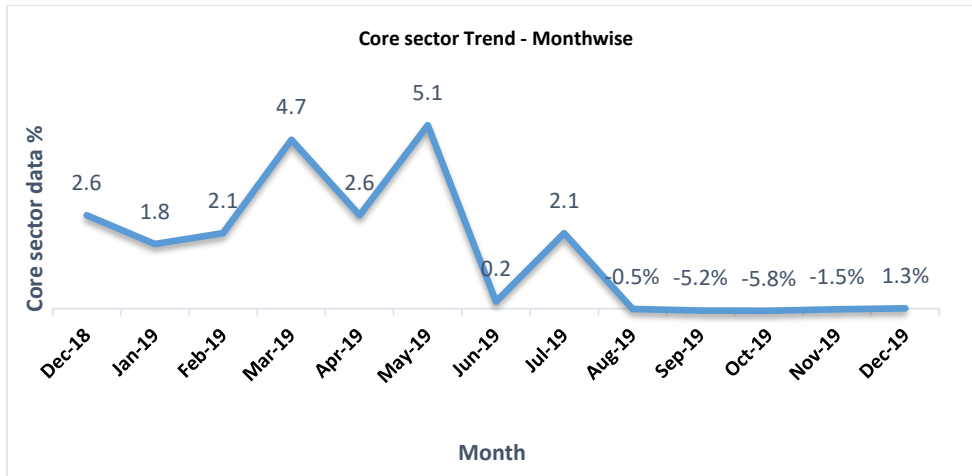
The combined index of eight core industries stood at 133.2 in December 2019.

Production of crude oil, natural gas and electricity contracted in December.

Sectors which recorded positive growth were coal, refinery products and fertiliser.

However, growth rates of steel and cement sectors slowed down to 1.9% and 5.5% respectively.

Cumulatively, the growth in the eight core sectors during April-December 2019-20 was 0.2%, as against 4.8% in the same period last financial year.



Source: APAS BRT, [www.eaindustry.nic.in](http://www.eaindustry.nic.in)

### **Economic Survey 2019-20**

The Union Minister for Finance & Corporate Affairs, Smt. Nirmala Sitharaman presented the Economic Survey 2019-20 in the Parliament. The Key Highlights of the [Economic Survey 2019-20](#) are as follows:

#### **Wealth Creation: The Invisible Hand Supported by the Hand of Trust**

- India's dominance as global economic power for three-fourths of economic history manifests by design.
- Kautilya's Arthashastra postulates the role of prices in an economy (Spengler, 1971).
- Historically, Indian economy relied on the invisible hand of the market with the support of the hand of trust:
  - o Invisible hand of the market reflected in openness in economic transactions.
  - o Hand of trust appealed to ethical and philosophical dimensions.
- Post-liberalisation, Indian economy supports both pillars of the economic model advocated in our traditional thinking.
- Survey illustrates enormous benefits accruing from enabling the invisible hand of the market.
- Exponential rise in India's GDP and GDP per capita post-liberalisation coincides with wealth generation.
- Survey shows that the liberalized sectors grew significantly faster than the closed ones.
- Need for the hand of trust to complement the invisible hand, illustrated by financial sector performance during 2011-13.
- Survey posits that India's aspiration to become a \$5 trillion economy depends critically on:
  - o Strengthening the invisible hand of the market
  - o Supporting it with the hand of trust

Strengthening the invisible hand by promoting pro-business policies to:

- Provide equal opportunities for new entrants
- Enable fair competition and ease of doing business
- Eliminate policies unnecessarily undermining markets through government intervention

- Enable trade for job creation
- Efficiently scale up the banking sector
- Introducing the idea of *trust as a public good*, which gets enhanced with greater use
- Survey suggests that policies must empower transparency and effective enforcement using data and technology.

### Targeting Ease of Doing Business in India

- A jump of 79 positions to 63 in 2019 from 142 in 2014 in World Bank's Doing Business rankings.
- India still trails in parameters such as Ease of Starting Business, Registering Property, Paying Taxes and Enforcing Contracts.
- Survey has numerous case studies:
  - For merchandise exports, the logistics process flow for imports is more efficient than that for exports.
  - Electronics exports and imports through Bengaluru airport illustrate how Indian logistical processes can be world class.
- The turnaround time of ships in India has almost halved to 2.48 days in 2018-19 from 4.67 days in 2010-11.
- Suggestions for further Ease of Doing Business:
  - Close coordination between the Logistics division of the Ministry of Commerce and Industry, the Central Board of Indirect Taxes and Customs, Ministry of Shipping and the different port authorities.
  - Individual sectors such as tourism or manufacturing require a more targeted approach that maps out the regulatory and process bottlenecks for each segment.

### Golden jubilee of bank nationalization: Taking stock

- Survey observes 2019 as the golden jubilee year of bank nationalization
- Accomplishments of lakhs of Public Sector Banks (PSBs) employees cherished and an objective assessment of PSBs suggested by the Survey.
- Since 1969, India's Banking sector has not developed proportionately to the growth in the size of the economy.
- India has only one bank in the global top 100 – same as countries that are a fraction of its size: Finland (about 1/11th), Denmark (1/8th), etc.
- A large economy needs an efficient banking sector to support its growth.
- The onus of supporting the economy falls on the PSBs accounting for 70% of the market share in Indian banking:
  - PSBs are inefficient compared to their peer groups on every performance parameter.
  - In 2019, investment for every rupee in PSBs, on average, led to the loss of 23 paise, while in NPBs, it led to the gain of 9.6 paise.
  - Credit growth in PSBs has been much lower than NPBs for the last several years.
- Solutions to make PSBs more efficient:
  - Employee Stock Ownership Plan (ESOP) for PSBs' employees

- o Representation on boards proportionate to the blocks held by employees to incentivize employees and align their interests with that of all shareholders of banks.

- o Creation of a GSTN type entity that will aggregate data from all PSBs and use technologies like big data, artificial intelligence and machine learning in credit decisions for ensuring better screening and monitoring of borrowers, especially the large ones.

### Financial Fragility in the NBFC Sector

- Survey investigates the key drivers of Rollover Risk of the shadow banking system in India in light of the current liquidity crunch in the sector.
- Key drivers of Rollover Risk:
  - o Asset Liability Management (ALM) Risk
  - o Interconnectedness Risk
  - o Financial and Operating Resilience of an NBFC
  - o Over-dependence on short-term wholesale funding
- Survey computes a diagnostic (Health Score) by quantifying the Rollover risk for a sample of HFCs and Retail-NBFCs (which are representative of their respective sectors).
- The analysis of the Health Score has the following findings:
  - o The HFC sector exhibited a declining trend post 2014 and overall health of the sector worsened considerably by the end of FY2019.
  - o The Score of the Retail-NBFC sector was consistently below par for the period 2014-19.
  - o Larger Retail-NBFCs had higher Health Scores but among medium and small Retail-NBFCs, the medium size ones had a lower score for the entire period of 2014-19.
- Survey suggests that the Health Score provides an early warning signal of impending liquidity problems.
- Equity markets react favourably to increase in Health Score of individual HFCs and Retail-NBFCs.
- The Survey prescribes this analysis to efficiently allocate liquidity enhancements across firms (with different Health Scores) in the NBFC sector, thereby arresting financial fragility in a capital-efficient manner.

### Privatization and Wealth Creation

- Survey examines the realized **efficiency gains from privatization** in the Indian context and bolsters the case for aggressive disinvestment of CPSEs.
- Strategic disinvestment of Government's shareholding of 53.29% in HPCL led to an increase of around INR 33,000 crore in national wealth.
- Survey presents an **analysis of the before-after performance of 11 CPSEs** which underwent strategic disinvestment from 1999-2000 to 2003-04:
  - o Financial indicators such as net worth, net profit, return on assets (ROA), return on equity (ROE), etc. of the privatized CPSEs, on an average, have improved significantly.
  - o Privatized CPSEs have been able to generate more wealth from the same resources.
- Survey suggests **aggressive disinvestment of CPSEs** to:

- o Bring in higher profitability
- o Promote efficiency
- o Increase competitiveness
- o Promote professionalism

### **Is India's GDP Growth Overstated? No!**

- GDP growth is a critical variable for decision-making by investors and policymakers. Therefore, the recent debate about accuracy of India's GDP estimation following the revised estimation methodology in 2011 is extremely significant.
- As countries differ in several observed and unobserved ways, cross-country comparisons have to be undertaken by separating the effect of other confounding factors and isolating effect of methodology revision alone on GDP growth estimates.
- Models that incorrectly over-estimate GDP growth by 2.7% for India post-2011 also misestimate GDP growth over the same period for 51 out of 95 countries in the sample.
- Several advanced economies such as UK, Germany and Singapore have their GDPs misestimated with incompletely specified econometric model.
- Correctly specified models that account for all unobserved differences and differential trends in GDP growth across countries fail to find any misestimating of growth in India or other countries.
- Concerns of a misestimated Indian GDP are unsubstantiated by the data and are thus unfounded.

### **Thalinomics: The Economics of a Plate of Food in India**

- An attempt to quantify what a common person pays for a Thali across India.
- A shift in the dynamics of Thali prices since 2015-16.
- Absolute prices of a vegetarian Thali have decreased significantly since 2015-16 across India and the four regions; though the price has increased during 2019-20.

Post 2015-16:

- Average household gained close to INR 11, 000 on average per year from the moderation in prices in the case of vegetarian Thali.
- Average household that consumes two non-vegetarian Thalīs gained close to INR 12, 000 on average per year during the same period.

From 2006-07 to 2019-20:

- Affordability of vegetarian Thalīs improved 29%.
- Affordability of non-vegetarian Thalīs improved by 18%.



## India's Economic Performance in 2019-20

- India's GDP growth moderated to 4.8% in H1 of 2019-20, amidst a weak environment for global manufacturing, trade and demand.
- Real consumption growth has recovered in Q2 of 2019-20, cushioned by a significant growth in government final consumption.
- Growth for 'Agriculture and allied activities' and 'Public administration, defense, and other services' in H1 of 2019-20 was higher than in H2 of 2018-19.
- India's external sector gained further stability in H1 of 2019-20:
- Current Account Deficit (CAD) narrowed to 1.5% of GDP in H1 of 2019-20 from 2.1% in 2018-19.
- Impressive Foreign Direct Investment (FDI)
- Rebounding of portfolio flows
- Accretion of foreign exchange reserves
- Sharper contraction of imports as compared to that of exports in H1 of 2019-20, with easing of crude prices
- Headline inflation expected to decline by year end:
- Increased from 3.3% in H1 of 2019-20 to 7.35% in December 2019-20 due to temporary increase in food inflation.
- Rise in CPI-core and WPI in December 2019-20 suggests building of demand pressure.
- Deceleration in GDP growth can be understood within the framework of a slowing cycle of growth:
- Financial sector acted as a drag on the real sector (investment-growth-consumption).
- Reforms undertaken during 2019-20 to boost investment, consumption and exports:
- Speeding up the insolvency resolution process under Insolvency and Bankruptcy Code (IBC)
- Easing of credit, particularly for the stressed real estate and NBFC sectors
- Announcing the National Infrastructure Pipeline 2019-2025
- Survey expects an uptick in the GDP growth in H2 of 2019-20:
- 5% GDP growth for 2019-20 based on CSO's first Advance Estimates
- Expeditious delivery on reforms for enabling the economy to strongly rebound in 2020-21

## Fiscal Developments

- Revenue Receipts registered a higher growth during the first 8 months of 2019-20, compared to the same period last year, led by considerable growth in Non-Tax revenue.
- Gross GST monthly collections have crossed the mark of INR 1 lakh crore for a total of 5 times during 2019-20 (up to December 2019).
- Structural reforms undertaken in taxation during the current financial year:
- Change in corporate tax rate
- Measures to ease the implementation of GST
- Fiscal deficit of states within the targets set out by the FRBM Act
- Survey notes that the General Government (Centre plus States) has been on the path of fiscal consolidation.

## Monetary Management and Financial Intermediation

- Monetary policy:
- Remained accommodative in 2019-20.
- Repo rate was cut by 110 basis points in four consecutive MPC meetings in the financial year due to slower growth and lower inflation.
- However, it was kept unchanged in the fifth meeting held in December 2019.
- In 2019-20, liquidity conditions were tight for initial 2 months; but subsequently it remained comfortable.
- The Gross Non Performing Advances ratio:
- Remained unchanged for Scheduled Commercial banks at 9.3% between March and September 2019
- Increased slightly for the Non-Banking Financial Corporations (NBFCs) from 6.1% in March 2019 to 6.3% in September 2019.
- Credit growth:
- The financial flows to the economy remained constrained as credit growth declined for both banks and NBFCs.
- Bank Credit growth (YoY) moderated from 12.9% in April 2019 to 7.1% as on December 20, 2019.
- Capital to Risk-weighted Asset Ratio of SCBs increased from 14.3% to 15.1% between March 2019 and September 2019.

## Industry and Infrastructure

- The industrial sector as per Index of Industrial Production (IIP) registered a growth of 0.6% in 2019-20 (April-November) as compared to 5% during 2018-19 (April-November).
- Fertilizer sector achieved a growth of 4% during 2019-20 (April-November) as compared to (-) 1.3% during 2018-19 (April-November).
- Steel sector achieved a growth of 5.2% during 2019-20 (April-November) as compared to 3.6% during 2018-19 (April-November).
- Total telephone connections in India touched 119.43 crore as on September 30, 2019.
- The installed capacity of power generation has increased to 3,64,960 MW as on October 31, 2019 from 3,56,100 MW as on March 31, 2019.
- Report of the Task Force on National Infrastructure Pipeline released on 31.12.2019 has projected total infrastructure investment of INR 102 lakh crore during the period FY 2020 to 2025 in India.

## Services Sector

- Increasing significance of services sector in the Indian economy:
- About 55% of the total size of the economy and GVA growth
- Two-thirds of total FDI inflows into India
- About 38% of total exports
- More than 50% of GVA in 15 out of the 33 states and UTs

- Gross Value Added growth of the services sector moderated in 2019-20 as suggested by various high-frequency indicators and sectoral data such as air passenger traffic, port and shipping freight traffic, bank credit etc.
- On the bright side, FDI into services sector has witnessed a recovery in early 2019-20.

### **Social Infrastructure, Employment and Human Development**

- The expenditure on social services (health, education and others) by the Centre and States as a proportion of GDP increased from 6.2% in 2014-15 to 7.7% in 2019-20 (BE).
- India's ranking in Human Development Index improved to 129 in 2018 from 130 in 2017:
- With 1.34% average annual HDI growth, India is among the fastest improving countries
- Gross Enrolment Ratio at secondary, higher secondary and higher education level needs to be improved.
- The share of regular wage/salaried employees has increased by 5 percentage points from 18% in 2011-12 to 23% in 2017-18.
- A significant jump of around 2.62 crore new jobs with 1.21 crore in rural areas and 1.39 crore in urban areas in this category.
- Total formal employment in the economy increased from 8% in 2011-12 to 9.98% in 2017-18.
- Gender disparity in India's labour market widened due to decline in female labour force participation especially in rural areas:
- Around 60% of productive age (15-59) group engaged in full time domestic duties.
- Access to health services inter-alia through Ayushman Bharat and Mission Indradhanush across the country has improved.
- Mission Indradhanush has vaccinated 3.39 crore children and 87.18 lakh pregnant women of 680 districts across the country.
- About 76.7% of the households in the rural and about 96% in the urban areas had houses of pucca structure.
- A 10 Year Rural Sanitation Strategy (2019-2029) launched to focus on sustaining the sanitation behaviour change and increasing access to solid and liquid waste management.

### **Union Budget 2020-21**

The [Union Budget](#) has been structured on the overall theme of "Ease of Living."

Major announcements in taxation and financial services sector are as follows:

#### **Financial Sector**

In the last few years, Government of India has infused about Rs 3,50,000 crore by way of capital into Public Sector Banks for regulatory and growth purposes. Governance reforms would be carried out in these banks, so that they become more competitive. Government has already approved consolidation of 10 banks into four. Further, the Deposit Insurance and Credit Guarantee Corporation (DICGC) has been permitted to increase Deposit Insurance Coverage for a depositor, which is now Rs one lakh to Rs five lakh per depositor.

The limit for NBFCs to be eligible for debt recovery under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002 is proposed to be reduced from Rs. 500 crores to asset size of Rs 100 crore or loan size from existing Rs 1 crore to Rs 50 lakh. To meet the need for greater private capital, it is proposed to sell the balance holding of Government of India IDBI Bank to private, retail and institutional investors through the stock exchange.

More than five lakh MSMEs have benefitted from restructuring of debt permitted by RBI in the last year. The restructuring window was to end on March 31, 2020. Government has asked RBI to consider extending this window till March 31, 2021. For selected sectors such as pharmaceuticals, auto components and others, it is proposed to extend handholding support – for technology upgradations, R&D, business strategy etc. A scheme of Rs 1000 crore will be anchored by EXIM Bank together with SIDBI.

### **Financial Markets**

On Financial Markets, about deepening of the bond market, certain specified categories of Government securities would be opened fully for non-resident investors, apart from being available to domestic investors as well. Government also proposes to expand by floating a new Debt-ETF consisting primarily of government securities. This will give retail investors access to government securities as much as giving an attractive investment for pension funds and long-term investors. To address the liquidity constraints of the NBFCs/HFCs, post the Union budget 2019-20, the government formulated a Partial Credit Guarantee scheme for the NBFCs. The Government and RBI has taken various measures to permit Rupee derivatives to be traded in the International Financial Services Centre at GIFT city, Gujarat.

### **Disinvestment**

On Disinvestment, the Finance Minister said that listing of companies on stock exchanges discipline a company and provides access to financial markets and unlocks its value. It also gives opportunity for retail investors to participate in the wealth so created. The government now proposes to sell a part of its holding in LIC by way of Initial Public Offer (IPO).

### **Dividend Distribution Tax**

Currently, companies are required to pay Dividend Distribution Tax (DDT) on the dividend paid to its shareholders at the rate of 15% plus applicable surcharge and cess, in addition to the tax payable by the company on its profits. In order to increase the attractiveness of the Indian Equity Market and to provide relief to a large class of investors, the Finance Minister has proposed to remove DDT, and adopt the classical system of dividend taxation, under which the companies would not be required to pay DDT. The dividend shall be taxed only in the hands of the recipients at their applicable rate.

In order to remove the cascading effect, the Finance Minister has proposed to allow deduction for the dividend received by holding company from its subsidiary. The removal of DDT will lead to estimated annual revenue foregone of Rs. 25,000 crore. This will further make India an attractive destination for investment.

### **Concessional Tax Rate for Electricity Generation Companies**

New provisions were introduced in September 2019, offering a concessional corporate tax rate of 15% to the newly incorporated domestic companies in the manufacturing sector which start manufacturing by 31st March 2023.

In order to attract investment in the power sector, it has been proposed to extend the concessional corporate tax rate of 15% to new domestic companies engaged in the generation of electricity.

### **Tax Concession for Foreign Investments**

To incentivize investment by Sovereign Wealth Fund of foreign governments, the Finance Minister has proposed to grant 100% tax exemption to their interest, dividend and capital gains income in respect of the investment made in infrastructure and other notified sectors before 31st March, 2024 and with a minimum lock-in period of 3 years.

### **Start-ups**

The Finance Minister noted that during their formative years, Start-ups generally use Employee Stock Option Plan (ESOP) to attract and retain highly talented employees. Currently, ESOPs are taxable as perquisites at the time of exercise. In order to give a boost to the start-up ecosystem, the Finance Minister has proposed to ease the burden of taxation on the employees by deferring the tax payment for five years or till they leave the company or when they sell their shares, whichever is earliest.

An eligible Start-up having turnover upto 25 crore is allowed deduction of 100% on its profits for three consecutive assessment years out of seven years if the total turnover does not exceed 25 crore rupees. The Finance Minister has proposed to increase this limit to Rs. 100 crore. She has also proposed to extend the period of eligibility for claim of deduction from the existing 7 years to 10 years.

### **Concessional Tax Rate for Cooperatives**

Cooperative societies are currently taxed at a rate of 30% with surcharge and cess. As a major concession, and in order to bring parity between the cooperative societies and corporates, the Finance Minister has proposed to provide an option to cooperative societies to be taxed at 22% plus 10% surcharge and 4% cess with no exemptions/deductions. She has also proposed to exempt these societies from Alternative Minimum Tax (AMT), just like companies under the new tax regime are exempted from the Minimum Alternate Tax (MAT).

### **Medium, Small and Micro Enterprises**

In order to reduce the compliance burden on small retailers, traders, shopkeepers who comprise the MSME sector, the Finance Minister has proposed to raise by five times, the turnover threshold for audit from the existing Rs. 1 crore to Rs. 5 crores. In order to boost less-cash economy, she has proposed that the increased limit shall apply only to those businesses which carry out less than 5% of their business transactions in cash.

### **Affordable Housing**

In the last budget, the Finance Minister had announced an additional deduction of up to one lakh, fifty thousand rupees for interest paid on loans taken for purchase of an affordable house. The date of loan sanction for availing this additional deduction is proposed to be extended by one year, beyond 31st March, 2020.



## BANKING

### *Sixth Bi-monthly Monetary Policy Statement, 2019-20 Resolution of the Monetary Policy Committee (MPC) Reserve Bank of India*

On the basis of an assessment of the current and evolving macroeconomic situation, the [Monetary Policy Committee \(MPC\)](#) decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.15 per cent.  
Consequently, the reverse repo rate under the LAF remains unchanged at 4.90 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 5.40 per cent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth. The main considerations underlying the decision are set out in the statement below

#### **Assessment**

##### *Global Economy*

Since the last monetary policy in December 2019, global economic activity has remained slow-paced, but is getting differentiated across geographies. Among the key advanced economies (AEs), the US economy grew by 2.1 per cent in Q4:2019, the same pace as in Q3, with slack in consumer spending offset by government expenditure. In the euro area, economic activity slowed down in Q4 as France and Italy shrank unexpectedly amid waning consumer confidence. Growth momentum in the UK appears to have weakened in Q4 as reflected in a decline in industrial production and tepid retail sales. The Japanese economy was weighed down in Q4 by weak retail sales as reflected in subdued consumer spending in the wake of the sales tax hike in October. Industrial production in Japan was pulled down by muted global demand.

Among emerging market economies (EMEs), the Chinese economy slowed down to a 29-year low of 6.1 per cent in 2019, caused by sluggish domestic demand and prolonged trade tensions. In Russia, available indicators point to a loss of momentum in activity in Q4:2019 with industrial production easing, although private consumption may have provided some cushion. In Brazil, activity seems to have slowed down, as



reflected in a contraction in industrial production and depressed retail sales. The South African economy recorded a growth of -0.6 per cent in Q3 and is likely to have also contracted in Q4 as industrial production slumped and household spending remained subdued amidst lingering consumer pessimism.

Crude oil and gold prices shot up in early January sparked by the US-Iran confrontation, but both softened from mid-January as geo-political tensions eased. By end January, crude oil prices dipped sharply due to sell-offs triggered by the outbreak of the coronavirus. Gold prices, on the other hand, inched up towards end-January because of haven demand. International food prices have been rising on higher demand and supply disruptions from major exporting countries. Reflecting these developments, inflation has edged up in some major AEs and EMEs.

Global financial markets remained resilient in December 2019 and for the most part of January 2020 as thawing US-China trade relations and improved prospects of an orderly Brexit buoyed investors' sentiment.

The weighted average call rate (WACR) traded below the policy repo rate (on an average) by 10 bps in December and by 19 bps in January on easy liquidity conditions.

Monetary transmission across various money market segments and the private corporate bond market has been sizable. As against the cumulative reduction in the policy repo rate by 135 bps since February 2019, transmission to various money and corporate debt market segments up to January 31, 2020 ranged from 146 bps (overnight call money market) to 190 bps (3-month CPs of non-banking finance companies). Transmission through the longer end of government securities market was at 73 bps (5-year government securities) and 76 bps (10-year government securities). Transmission to the credit market is gradually improving. The 1-year median marginal cost of funds-based lending rate (MCLR) declined by 55 bps during February 2019 and January 2020. The weighted average lending rate (WALR) on fresh rupee loans sanctioned by banks declined by 69 bps and the WALR on outstanding rupee loans by 13 bps during February-December 2019.

After the introduction of the external benchmark system, most banks have linked their lending rates for housing, personal and micro and small enterprises (MSEs) to the policy repo rate of the Reserve Bank. During October-December 2019, the WALRs of domestic (public 5 and private sector) banks on fresh rupee loans declined by 18 bps for housing loans, 87 bps for vehicle loans and 23 bps for loans to micro, small and medium enterprises (MSMEs).

The MPC recognizes that there is policy space available for future action. The path of inflation is, however, elevated and on a rising trajectory through Q4:2019-20. The outlook for inflation is highly uncertain at this juncture. On the other hand, economic activity remains subdued and the few indicators that have moved up recently are yet to gain traction in a more broad-based manner.

### **National Strategy for Financial Inclusion 2019-2024**

The National Strategy for Financial Inclusion 2019-2024 sets forth the vision and key objectives of the financial inclusion policies in India to help expand and sustain the financial inclusion process at the national level through a broad convergence of action involving all the stakeholders in the financial sector. The strategy aims to provide access to formal financial services in an affordable manner, broadening & deepening financial inclusion and promoting financial literacy & consumer protection. The detailed report can be referred to [here](#).

### **Supervisory Action Framework for Primary (Urban) Co-operative Banks (UCBs)**

Reserve Bank of India has decided to rationalize the SAF to make it more effective in bringing about the desired improvement in the UCBs as also expeditious resolution of UCBs experiencing financial stress. Reserve Bank will continue to monitor asset quality, profitability and capital / net worth of UCBs under the revised SAF. The main features of the revised SAF are indicated herein below:

1. Thresholds/triggers and Supervisory Action
  - a. Asset Quality
  - b. Profitability
  - c. Capital to Risk-weighted assets ratio (CRAR)
2. Implementation of revised SAF

The detailed circular on Supervisory Action Framework can be referred to [here](#).

### **Launch of Mobile Aided Note Identifier (MANI) by RBI**

As per Statement on Development and Regulatory Policies, RBI has launched “[Mobile Aided Note Identifier \(MANI\)](#)’ a mobile application for aiding visually impaired persons to identify the denomination of Indian Banknotes.

Indian banknotes contain several features which enable the visually impaired (color blind, partially sighted and blind people) to identify them, viz., intaglio printing and tactile mark, variable banknote size, large numerals, variable color, monochromatic hues and patterns. Technological progress has opened new opportunities for making Indian banknotes more accessible for the visually impaired, thereby facilitating their day to day transactions.

### **Reporting of Large Exposures to Central Repository of Information on Large Credits (CRILC) – UCBs**

RBI has launched a circular on Reporting of Large Exposures to Central Repository of Information on Large Credits (CRILC) – UCBs. In terms of the instructions, Primary (Urban) Co-operative Banks (UCBs) having total assets of ₹500 crore and above as on 31st March of the previous financial year (hereinafter referred to as “banks”) shall report credit information, including classification of an account as Special Mention Account (SMA), on all borrowers having aggregate exposures of ₹5 crore and above with them to Central Repository of Information on Large Credits (CRILC) maintained by the Reserve Bank. Aggregate exposure shall include all fund-based and non-fund-based exposure, including investment exposure on the borrower.

In terms of same, RBI has launched the operational guidelines for reporting the CRILC – UCBs as per [here](#).

### **Cyber Security controls for Third party ATM Switch Application Service Providers**

As per a statement in Statement on Developmental and Regulatory policies of the Fifth Bi-monthly Monetary Policy Statement for 2019-20 dated December 5, 2019, RBI has introduced further instructions on cyber security controls for third party ATM Switch application service providers.

The detailed circular on instructions to RBI – regulated entities is attached as [here](#).

### **Risk Management and Inter-bank Dealings- Permitting AD Cat-I banks to voluntarily undertake user and Inter-Bank transactions beyond onshore market hours**

As per a statement in the Statement on regulatory and development authority, RBI has decided to accept the recommendation of the Task Force on Offshore Rupee Market to permit AD Cat-I banks to offer foreign exchange prices to users at all times, out of their Indian books, either by a domestic sales team or through their overseas branches.

Authorised dealers may undertake customer (persons resident in India and persons resident outside India) and inter-bank transactions beyond onshore market hours. Transactions with persons resident outside India, through their foreign branches and subsidiaries may also be undertaken beyond onshore market hours.”

The detailed circular can be referred [here](#).



## INSURANCE

### **Guidelines on Migration and Portability of health insurance policies**

The guidelines on [migration and portability of health insurance policies](#) have been covered under following broad topics:

#### A: Norms on portability

Portability shall be allowed under all individual indemnity health insurance policies issued by General Insurers and Health Insurers including family floater policies.

#### B: Norms on migration

In addition to the migration option to be provided to the policyholders as specified under Regulation 17(i) of IRDAI (Health Insurance) Regulations 2016:

- i. Every individual policyholder (including members under family floater policy) covered under an indemnity based individual health insurance policy shall be provided an option of migration at the explicit option exercised by the policyholder;
  - a. to an individual health insurance policy or a family floater policy, or;
  - b. to a group health insurance policy, if the member complies with the norms relating to the health insurance coverage under the concerned group insurance policy.
3. Every individual member, including family members covered under an indemnity based group health insurance policy shall be provided an option of migration at the time of exit from group or in the event of modification of the group policy (including the revision in the premium rates) or withdrawal of the group policy:
  - a. to an individual health insurance policy or a family floater policy.
4. Migration shall be applicable to the extent of the sum insured under the previous policy and the cumulative bonus, if any, acquired from the previous policies.
5. Only the unexpired/residual waiting period not exceeding the applicable waiting period of the previous policy with respect to pre-existing diseases and time bound exclusions shall be made applicable on migration under the new policy.

6. Migration may be subject to underwriting as follows:
  - a. For individual policies, if the policyholder is continuously covered in the previous policy without any break for a period of four years or more, migration shall be allowed without subjecting the policyholder to any underwriting to the extent of the sum insured and the benefits available in the previous policy.
  - b. Migration from group policies to individual policy will be subject to underwriting.
  - c. Where underwriting is done, the insurance company shall convey its decision to the policyholder within 15 days as per Regulation 8(6) of IRDAI (Protection of Policyholders' interests) Regulations 2017.
7. A policyholder desirous of migrating his/her policy shall be allowed to apply to the insurance company to migrate the policy along with all members of the family, if any, at least 30 days before the premium renewal date of his/her existing policy. However, if the insurer is willing to consider even less than 30 days period, then the insurer may do so.
8. Insurer shall not levy any charges exclusively for migration.
9. Insurers shall clearly draw the attention of the policyholder in the policy contract and the prospectus that:
  - i. Migration is allowed as per these Guidelines as amended from time to time.
  - ii. Policyholder should initiate action to approach the insurer to exercise migration option well before the renewal date to avoid any break in the policy coverage.
10. Individual members, including the family members covered under an indemnity based group health insurance policy shall have the right to migrate from such a group policy to an individual health insurance policy or a family floater policy, thereafter Portability shall be allowed as per Clause (1) above and in accordance to the norms specified under IRDAI (Health Insurance) Regulations, 2016.

***Guidelines on repatriation of dividends by insurance intermediaries having majority stake by foreign investors***

Authority has notified [IRDAI \(insurance intermediaries\) \(Amendment\) Regulations, 2019](#) for allowing 100% Foreign Direct investment in insurance intermediaries. One of the conditions specified in the said regulation is that the insurance intermediary that has majority shareholding of foreign investors shall take prior permission of the Authority for repatriating dividend.

As per the guidelines, the insurance intermediaries shall have to carry out repatriation in following steps:

- 1) Application for grant of permission for repatriation of dividends by insurance intermediaries that has majority shareholding of foreign investors an insurance intermediary that has majority shareholding of foreign investors seeking permission for repatriation of dividends, shall make an application to the Authority
- 2) Consideration by the Authority for granting permission - The Authority shall take into consideration the following points while considering the request made by the insurance intermediary:

- a. The insurance intermediary has a net-worth of 1.5 times of the statutorily required minimum paid-up capital as specified in the respective insurance intermediary regulations after the proposed dividend payout
- b. The insurance intermediary has not made any payments (other than dividends) beyond 10% of the total expenses of the company in the financial year to related parties taken as a whole.
- c. Latest technological, managerial and other skills brought by the insurance intermediary
- d. The proposed dividend shall be payable out of the current year's profit.
- e. The Authority has not placed any restrictions on the insurance intermediary for declaration of dividends
- f. The insurance intermediary has complied with the provisions of the insurance Act,1938, IRDA Act, 1999, Rules, Regulations, guidelines, circulars, directions issued by the Authority

### 3) Quantum of dividend payable

- i. The dividend payout ratio shall not exceed 75%. Dividend payout ratio shall be calculated as a percentage of "dividend payable in a year" (excluding dividend tax) to "profit after tax during the year"
- ii. In case the profit for the relevant period includes any extra-ordinary profits/ income, the payout ratio shall be computed after excluding such extra-ordinary items for reckoning compliance with prudential payout ratio
- iii. The financial statements pertaining to the financial year for which the insurance intermediary is declaring a dividend should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

4) Time period for disposal of application - If an application is not cleared/ approved without any query raised or clarification sought within 30 days of receipt of the application, it would be deemed as approved. Further if a query is raised or clarification sought, then on receipt of satisfactory reply to the query or satisfactory clarification from the applicant, the application shall be disposed off within 30 days of receipt, failing which the application shall be deemed to have been approved.





## INFRASTRUCTURE & OTHER GOVT. INITIATIVES

### **India Jumps up 79 positions in World Bank Doing Business Rankings, Improving From 142 In 2014 To 63 in 2019**

The FM informed that India has jumped up 79 positions in [World Bank's Doing Business rankings](#), improving from 142 in 2014 to 63 in 2019. It has progressed on seven out of the 10 parameters. The Goods and Service Tax (GST) and the Insolvency and Bankruptcy Code (IBC) top the list of reforms that have propelled India's rise in rankings. However, it continues to trail in parameters such as Ease of Starting Business (rank 136), Registering Property (rank 154), Paying Taxes (rank 115), and Enforcing Contracts (rank 163).

The number of procedures required to set up a business in India, for example, has reduced from 13 to 10 over the past ten years. Today, it takes an average of 18 days to set up a business in India, down from 30 days in 2009.

#### **Construction permits**

India has considerably improved the process to obtain construction permits over the last five years. Compared to 2014, when it took approximately 186 days and 28.2 per cent of the warehouse cost; in 2019 it takes 98-113.5 days and 2.8-5.4 per cent of the warehouse cost.

#### **Trading across borders**

The turnaround time of ships in India has been on a continuous decline, almost halving from 4.67 days in 2010-11 to 2.48 days in 2018-19. This shows that achieving significant efficiency gains in the case of seaports is possible. The simplification of the Ease of Doing Business landscape of individual sectors such as tourism or manufacturing, however, requires a more targeted approach that maps out the regulatory and process bottlenecks for each segment. Once the process map has been done, the correction can be done at the appropriate level of government - central, state or municipal.



## CAPITAL MARKETS

### **SEBI Bulletin Volume 18**

SEBI issued SEBI Bulletin Volume 18. It included key messages from the Chairman and Board of Directors at SEBI.

It also included key inclusions on:

1. Capital Market review
2. Review of global financial markets
3. Highlights of developments in international securities market
4. Policy developments
5. Regulatory actions taken by SEBI

The detailed report can be accessed [here](#).

### **Operating Guidelines for Investment Advisers in International Financial Services Centre**

The operating guidelines for [investment advisers](#) in International financial services center are issued under following sub-heads:

1. Applicability of SEBI (Investment Advisers) Regulations, 2013 ('Investment Adviser Regulations')
2. Registration of Investment Advisers for operating in IFSC
3. Compliance Requirements, Conditions and Restrictions
4. Certification Requirement
5. Net Worth Requirement
6. Amount to be paid as Fees

### **Strengthening of the rating process in respect of 'INC' ratings**

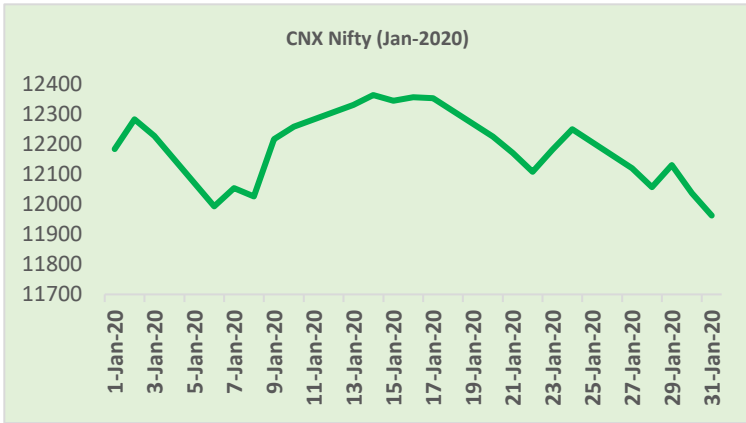
SEBI earlier this year mandated listed companies to make public disclosure on stock exchanges of:

- a. default in payment of interest/installment obligations on loans, including revolving facilities like cash credit, from banks/financial institutions which continues beyond 30 days and
- b. default in case of unlisted debt securities i.e. NCDs and NCRPS, promptly but not later than 24 hours from the occurrence of the default.

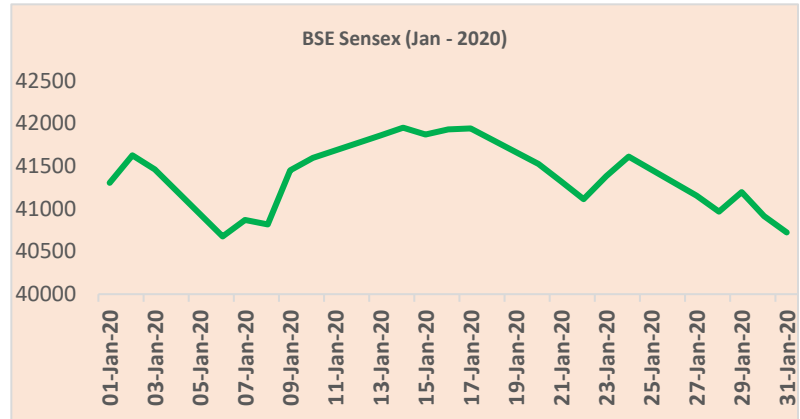
In order to further strengthen the rating process of the CRAs with regard to ['Issuer not cooperating' \(INC\)](#) ratings, following directions are being issued:

- a. If an issuer has all the outstanding ratings as non-cooperative for more than 6 months, then the CRA shall downgrade the rating assigned to the instrument of such issuer to non-investment grade with INC status. If non-cooperation by the issuer continues for further six months from the date of downgrade to non-investment grade, no CRA shall assign any new ratings to such issuer until the issuer resumes cooperation or the rating is withdrawn.
- b. in case of multiple ratings on an instrument (where there is no regulatory mandate for multiple ratings), a CRA may withdraw a rating earlier than stipulated in the circular, provided the CRA has:
  - i. rated the instrument continuously for 3 years or 50 per cent of the tenure of the instrument, whichever is higher; and
  - ii. received No-objection Certificate (NOC) from 75% of bondholders of the outstanding debt for withdrawal of rating; and
  - iii. received an undertaking from the issuer that another rating is available on that instrument.
- c. At the time of withdrawal, the CRA shall assign a rating to such instrument and issue a press release, as per the format prescribed vide Circular dated November 01, 2016. The Press Release shall also mention the reason(s) for withdrawal of rating.

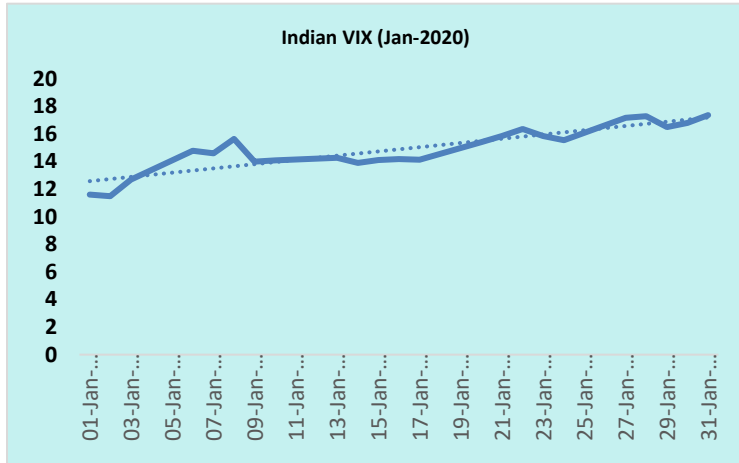
# CAPITAL MARKETS SNAPSHOT



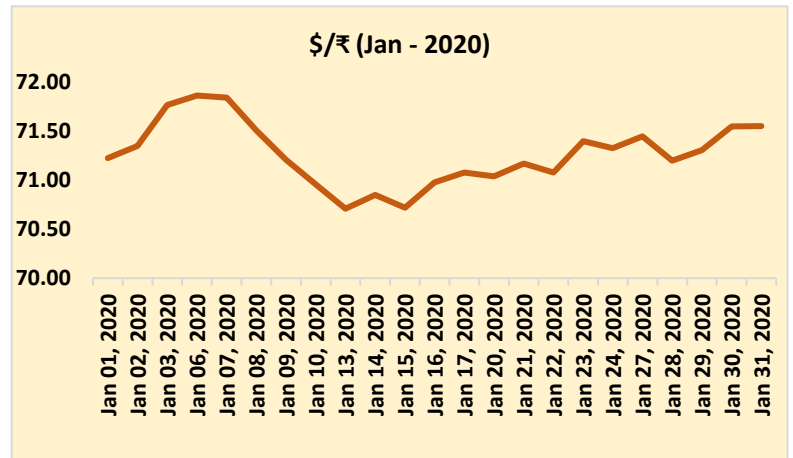
Source: National Stock Exchange



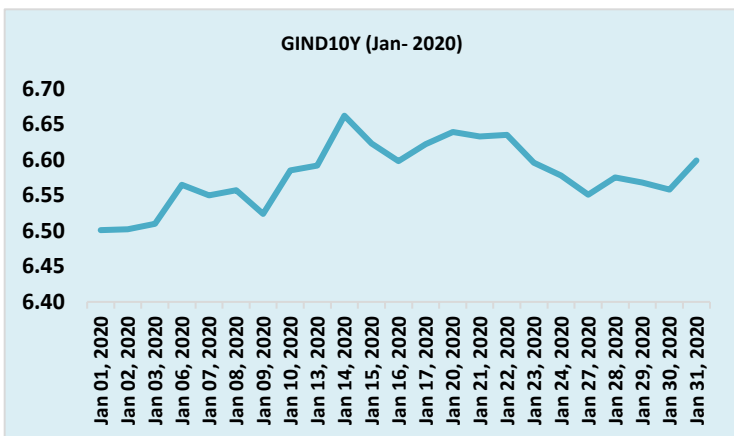
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Lackluster corporate earnings season and profit booking ahead of the Union Budget, due next week, weighed on the market. The sentiment was dented further after the International Monetary Fund (IMF) lowered India's growth forecast. The benchmark also mirrored losses in global equities, which were weak due to concerns about infectious coronavirus virus that has hit China. According to a UN report, India was among the top 10 recipients of Foreign Direct Investment (FDI) in 2019, attracting \$49 billion in inflows, up 16% from the previous year.

## ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2019*	2020*	Latest	2019*	% of GDP, 2019*	% of GDP, 2019*	(10YGov), Latest
Brazil	1.2 Q3	0.9	2.1	3.3 Nov	3.6	-1.7	-5.8	4.58
Russia	1.7 Q3	1.1	1.6	3.1 Dec	4.5	6.2	2.3	6.41
<b>India</b>	<b>4.5 Q3</b>	<b>4.9</b>	<b>6.1</b>	<b>5.5 Nov</b>	<b>3.4</b>	<b>-1.8</b>	<b>-3.9</b>	<b>6.50</b>
China	6.0 Q3	6.1	5.9	4.5 Nov	2.9	1.5	-4.3	2.82 <sup>^</sup>
S Africa	0.1 Q3	0.6	1.4	3.6 Nov	4.2	-3.9	-5.9	8.26
USA	2.1 Q3	2.3	1.7	2.1 Nov	1.8	-2.4	-4.6	1.76
Canada	1.7 Q3	1.7	1.8	2.2 Nov	1.9	-2.2	-0.9	1.70
Mexico	-0.3 Q3	0.1	1.1	3.0 Nov	3.6	-0.8	-2.7	6.85
Euro Area	1.2 Q3	1.2	1.3	1.0 Nov	1.2	3.2	-1.0	0.0
Germany	0.5 Q3	0.6	0.9	1.1 Nov	1.3	7.3	1.0	0.0
Britain	1.1 Q3	1.3	1.3	1.5 Nov	1.8	-4.3	-2.0	0.89
Australia	1.7 Q3	1.7	2.0	1.7 Q3	1.5	0.4	0.1	1.37
Indonesia	5.0 Q3	5.1	5.1	2.7 Dec	3.0	-2.3	-2.0	7.00
Malaysia	4.4 Q3	4.5	4.4	0.9 Nov	0.8	3.1	-3.5	3.32
Singapore	0.8 Q4	0.6	1.0	0.6 Nov	0.5	17.9	-0.3	1.78
S Korea	2.0 Q3	1.8	2.2	0.7 Dec	0.4	3.0	0.8	1.67

Sources: The Economist

\* The Economist poll or Economist Intelligence Unit estimate/forecast;

<sup>^</sup> 5-year yield

Quarter represents a three-month period of a financial year beginning 1st April

# ABOUT APAS

APAS is a management advisory firm specializing in banking, financial services and the insurance space. APAS assists business leaders of some of the leading domestic and global organizations, acting as an extended arm to the management in coping with the ever changing internal and external dynamics. Leveraging deep business insights APAS develops business and operational strategy for its clients. APAS provides transaction advisory services (Buy, sell and merge), and also specializes in governance and board training. APAS facilitates investors and sellers with directional guidelines of pursuing transactions, by utilizing subject knowledge, vast experience and deep market outreach. APAS has capability to identify and analyze key transaction drivers, recognize possible partnerships, and initiate discussions with them for possible growth opportunity. We help major insurance companies, payment institutions, and other financial organizations to identify their growth potential, innovative opportunity and possible benefits of consolidation, and hence comprehend the possible merger or acquisition. Buying or selling a major asset or a business, undertaking a merger, or performing an IPO can be risky and complex especially in this globalization era. Hence, the need of a trusted advisor who can help clients preserve, create and enhance value in transactions.

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