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Volume 3

APAS MONTHLY

THIS MONTH

Season's greetings!

In this issue, Mr. Prasanna Balachander, Group Head – Global Markets: Sales, Trading and Research, ICICI Bank, has presented his thoughts on ‘Global Pandemic: Navigating torrid times’. We thank Mr. Prasanna Balachander for his contribution to the APAS Monthly.

This month, the APAS column presents its views on ‘COVID-19 and the impact on the economy’.

Amidst the global crisis caused by the pandemic COVID – 19, quite a few changes in the economy are taking place and many more to come in the coming months. This edition and the future editions of our newsletter will try to give you the economic snapshot, changing parameters and a snapshot of the regulations and government measures to fight the pandemic and make positive impact on the economy and various sectors.

The economic indicators showed mixed performance. Manufacturing PMI eased marginally to 54.5 in February from 55.3 in January. India’s annual infrastructure output in February rose to an 11-month high of 5.5%. India's Index of Industrial Production (IIP) expanded by a 6-month high of 2% in January. PMI services rose to a 7-year high of 57.5 in February from 55.5 in January, while composite PMI rose to an 8-year high of 57.6 in February from 56.3 in January. CPI inflation fell to 6.58% in February from 7.59% in January. WPI inflation softened to 2.26% in February from 3.1% in January. This economic data gives us a picture of the economy prior to India registering and reporting COVID cases. The upcoming editions will consider the impact of the pandemic on the Indian economy.

The Reserve Bank of India (RBI) announced Seventh Bi-monthly Monetary Policy Statement, 2019-20. RBI announced Statement on Developmental and Regulatory Policies/ COVID-19 Regulatory Package. RBI released guidelines on Regulation of Payment Aggregators and Payment Gateways. RBI announced special measures related to annual Closing of Government Accounts – Transactions of Central/ State Governments. RBI announced change in convenor banks for certain states in view of amalgamation of public sector banks. RBI released revised guidelines on limits on exposure to single-party and group borrowers and priority sector lending norms for urban co-operative banks.

The Insurance Regulatory and Development Authority of India (IRDAI) released guidelines on Capital Gearing Treaties for insurers and reinsurers. IRDAI released report on ease of doing business for Reinsurers, FRBs and Lloyd's India. IRDAI announced relaxation of timelines for certain provisions of the IRDAI (Re-insurance) Regulations, 2018. IRDAI announced guidelines on handling of claims reported under Corona Virus.

Finance Minister announced INR 1.70 Lakh Crore relief package under Pradhan Mantri Garib Kalyan Yojana for the poor to help them fight the battle against Corona Virus. Cabinet approved recapitalization of Regional Rural Banks to improve their Capital to Risk Weighted Assets Ratio. Cabinet announced policy on FDI for Make in India. IBBI amended CIRP Regulations to provide relief in corporate insolvency resolution process due to COVID-19 outbreak. Finance Minister announced several relief measures relating to Statutory and Regulatory compliance matters across Sectors in view of COVID-19 outbreak. Cabinet approved release of an additional instalment of Dearness Allowance and Dearness Relief due from 1.1.2020. Cabinet approved mega consolidation in Public Sector Banks (PSBs) with effect from 1.4.2020.

The Securities and Exchange Board of India (SEBI) launched statement on market movement. SEBI released amendments to Securities and Exchange Board of India (Mutual Funds) Regulations, 1996. SEBI announced continuation of Phase II of Unified Payments Interface with Application Supported by Block Amount due to COVID-19 virus pandemic. SEBI announced relaxation from compliance with certain provisions of the circulars issued under SEBI (Credit Rating Agencies) Regulations, 1999 due to the COVID-19 pandemic and moratorium permitted by RBI. SEBI announced relaxation in compliance with requirements pertaining to Mutual Funds.

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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Prasanna Balachander

*Group Head – Global Markets: Sales, Trading and Research
ICICI Bank*

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Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2016*	2017*	Latest	2016*	% of GDP, 2016*	% of GDP, 2016*	(10Y Gov), 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	7.1 Q3	7.2	7.5	3.6 Nov	4.0	-0.5	-3.4	8.51
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

2 Korea	1.6 Q3	1.5	1.8	1.2 Nov	0.8	3.5	-1.3	3.15
Poland	1.7 Q3	1.3	1.0	-0.1 Oct	-0.6	11.2	11.2	1.48
Spain	4.3 Q3	4.3	4.6	1.4 Oct	1.9	1.8	-3.4	4.31
Turkey	2.0 Q3	2.0	2.1	1.9 Nov	1.2	-1.7	-1.9	1.80
Ukraine	1.1 Q3	1.2	1.0	1.3 Nov	1.2	10.2	11.5	1.80

ECONOMIC DATA SNAPSHOT

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



Global Pandemic: Navigating torrid times

Prasanna Balachander

Group Head – Global Markets: Sales, Trading & Research

ICICI Bank

Written on 26th March 2020

The world economy is in the throes of a once in a century kind of event that is likely to test the mettle of all humankind. The COVID-19 pandemic is unique in terms of its effect on the Economy and the Markets as it is a demand, supply and sentiment shock - all rolled into one. It was just a little over a decade ago that the world dealt with a severe global recession that triggered unprecedented responses from policymakers all over the World. The 2020 impact initially began like a development that was limited to China and the supply side impact on the rest of the World. It has now metamorphosed in to something exponentially more severe- with severe supply disruptions - a cratering of demand – and a large scale lockdown all over the World (almost 20% of the global population have been asked to stay home). There is no doubt now that this will lead to a very sharp global recession. Quarterly growth rates in the US and China for H1 2020 are likely to be in steep double digit contraction. We expect global growth for 2020 to notch an outcome just above the 0% YoY mark although given the considerable uncertainties, there are substantial downside risks to these projections with a possibility of an outright contraction in output a realistic possibility. The last time the global economy contracted was during the aftermath of the global financial crisis in 2009 by 0.1%.

Needless to say, India's growth prospects will also be affected adversely. The crisis will work through various channels such as domestic wholesale and retail trade, travel and tourism related sectors, aviation, real estate, construction, SME manufacturing, electricity demand etc. will bear the brunt. Private consumption will take a hit on a sharp fall in demand and also due to strain on incomes for a large section of informal daily wage earners who would be severely affected due to the ongoing lockdown. As a base case we expect GDP growth to decline by at least 200-250 bps from our previous forecast of 5.6% YoY for FY2021.

Against the backdrop of such dire events, policy response becomes crucial. Policymakers globally have to wage a war on multiple fronts- public health response to keep people safe and to “flatten” the infection curve, provide support to the common man and backstop income loss, support corporates across all spectra which will lose revenue streams for a few months and also prop up financial markets which have gone on to a “tailspin” triggering a “Minsky Moment” for global markets.

Global Central Banks have been in the front line of this war, with unprecedented measures being undertaken (Federal Reserve's unlimited quantitative easing being a case in point), spread along a gamut of measures including liquidity provision, rate cuts, purchases of bonds and asset backed securities etc. Governments have

also started outlining fiscal stimulus packages as the understanding dawns that fiscal responsibility rules have to be foregone in times of exceptional stress. The US Congress has just passed an USD 2 tn stimulus package that is one of the highest ever on record. The main focus areas are to support corporates and households that have borne the adverse brunt of the COVID-19 pandemic. Extensive Dollar swap lines and other measures are in place to alleviate any Dollar funding stress. Going forward, stimulus will broadly encompass the following-strengthening of social security nets by various ways including cash transfers or food stamps etc., providing relief to corporates who may be staring at defaults or may face difficulties availing credit lines, companies/individuals would be given moratoriums on payments, banks and financial institutions would be granted forbearance in recognition of NPAs and other broad based fiscal incentives. Backstops will also be provided for corporates as defaults will increase and credit spreads have already started widening.

For India too, we expect a combination of such measures on fiscal, regulatory and monetary policy fronts. RBI will have to come up with “unimaginable measures” to keep up the Economy and the Corporate sector from getting crushed under the impact of the demand destruction. Interest rates need to be reduced sharply by at least 100 bps, substantial liquidity provision tools have to be continued through open market operations, long term repos, targeted repos, exemption on CRR for specific categories of loans, broad based cut in CRR, extending collateral for RBI’s liquidity operations to include securities like corporate bonds and the “holy grail” of all – directly participating in primary bond auctions to undertake deficit financing. The Government will most likely respond in terms of providing some income backstop to vulnerable sections of the population, bailing out industries such as aviation, providing support to SMEs and other affected manufacturing through delays in NPA recognition or delayed payment structure or disbanding the IBC mechanism for now. We must note that schemes like MGNREGA will not work under lock-down so direct benefit transfer will have to be used as a channel.

India has undertaken a phenomenal effort on the front of flattening the infection curve by locking down the entire country for 21 days. Various compliance and regulatory requirements as regards taxes and filings etc. have already been relaxed and a comprehensive stimulus package is expected soon (with an INR 150 bn stimulus for healthcare already announced). The sharp fall in oil prices is a boon for India not only because our import bill reduces but also gives the Government space to mobilise additional revenues, which can be used to fund the stimulus.

Impact on financial markets has also been dire with equities falling drastically and the Rupee touching new highs. In the near term, markets will remain fragile due to heavy capital outflows and also very thin trading volumes due to the lockdown. The continued strength in the Dollar would also weigh on the Rupee and more depreciation pressures are likely. However, over the medium term, lower CAD, stabilisation in economic activity and capital flows should help the Rupee to gain back some lost ground. Even as monetary easing expectations have increased, domestic sovereign bond yields have remained ranged responding to pull-out by foreign investors and some concerns about the fiscal position. However, yields on state development loans have widened reflecting concerns about possible revenue short-fall. A similar bearish trend is visible in the corporate bond market. Corporate bond markets spreads have widened reflecting concerns about a possible build-up of credit risks on the back of weaker than expected growth. Equity markets have tumbled sharply along with other global equity indices and there has been a severe loss in market capitalisation over the past month or so. Sentiment remains fragile as earnings would get progressively downgraded on weaker than expected growth. Markets could however get some support once a stimulus package is announced.

The nature of the crisis is such that globally, apart from market stabilisation measures, stimulus for either demand or supply would not have a near term impact. Hence the entire effort has to be focussed on reducing

the propagation of the virus. Severe lockdowns to facilitate this naturally has very substantial economic costs but has to be done as safety of the human race is unambiguously the top priority. It is after a few months when the spread has hopefully been contained that the stimulus measures will help to support economic recovery worldwide and it is important that backstop measures are put in place right now. There is also a strong case for much more global cooperation, funding released by multilateral organisations to help the emerging economies to fight this crisis. This affects all of us and greater cooperation will surely alleviate some of the hardships that we will all have to weather and speed up the recovery process for the global economy. One suspects that the long term impact of this development could very well be one of Xenophobia. But in the short term what we need is greater cooperation amongst World economies, markets and the population not lesser cooperation to get us out of this crisis.

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



COVID-19 and the impact on the economy

What was initially believed to be a China centric issue is now a global crisis. The economic shock of COVID 19 has sent the global economy into recession, much deeper than the recent global financial crisis of 2008. The numbers related to the COVID cases world-wide or the estimates and forecasts of economic indicators are fast changing rendering any stats we are discussing outdated even before you complete reading this article. Such is the pace of change being brought by COVID. While one thing is clear that the impact of this global pandemic is negative, the extent of damage it causes to the global economy is still difficult to estimate at this point. Implementation of widespread restrictions on social contact to stop the spread of the virus poses serious repercussions on the demand, supply, production, consumption, income levels, and trade bringing down global GDP.

Economic impact due to a pandemic like this is three fold - (a) Medical shocks – workers in their sickbeds aren't producing GDP, (b) economic impact of public and private containment measures – things like school and factory closures, travel restrictions, and quarantines and (c) psychological aspect (wait- and- see attitude). Governmental reactions including public health policy reactions create more and long-lasting disruptions than the virus. Governments across the globe have been taking huge steps to fight the perils of the pandemic – one, deteriorating public health and two- the failing economy amidst falling demand and supply.

The increased uncertainty has led to huge financial market volatility. Global stock markets have suffered dramatic falls due to the outbreak. A decision by two of the world's largest energy producers to maintain current levels of production, despite falling energy prices, has further unnerved the investors. As per Managing Director of International Monetary Fund, global economy has entered recession which is bad or worse than in 2009 and as per IMF's estimate, the overall need of emerging markets is \$2.5 trillion. Some of the worst hit countries – US, China, Japan, Germany, Britain, France and Italy account for 60% of world's supply & demand (GDP), 65% of world's manufacturing, and 41% of world's manufacturing exports. Hence their woes will produce supply chain contagion in virtually all nations.

Coming to India, all efforts to contain the spread of virus are being made with the PM announcing a bold 21 day lock down. India's economy, already reeling, must now weather this COVID storm. Financial markets have declined sharply as foreign portfolio investors pull out of India's equity markets, weakening the rupee, despite \$2 billion of forex-swaps by RBI. S&P has cut India GDP growth forecast to 5.2 percent for FY21. For India, one silver lining is the sharp drop in global oil and gas prices with positive effects on the current account deficit (CAD).

In response to the outbreak, to support the economy, RBI has cut the Repo rate by 75 basis points and CRR by 100 basis points. RBI also announced a moratorium of 3 months on retail loans. It eases the pain of individual as well as institutional debtors and ensures liquidity in the system. Going forward the RBI will have to use its resource in managing inflation, interest rates and currency. This will require a high order of plan and close coordination of the policy makers, the regulators and the industry.

Monetary policy, unlike in a business cycle, is less effective in dealing with a pandemic. Most of the action has to be on the fiscal side. The government has announced a fiscal stimulus of INR 1.7 lakh crore to provide safety net for those hit hardest by the lockdown. Government announced that about 800 million people will get free cereals and cooking gas apart from cash through direct transfers for three months. The Pradhan Mantri Garib Kalyan Yojana includes higher wages under the Mahatma Gandhi National Rural Employment Act (MGNREGA), Rs 1,000 ex-gratia payment to nearly 30 million poor senior citizens, widows and disabled as well as insurance coverage of as much as Rs 50 lakh each for about 2 million healthcare workers battling the disease. States have been asked to use the Building and Construction Workers Welfare Fund to provide relief to construction workers.. Government will provide 5 kg of wheat or rice and 1 kg of pulses free every month for the next three months. Besides, 204 million women Jan Dhan account holders will get Rs 500 per month for the next three months. The government said it will pay the entire provident fund contribution of those who earn less than Rs 15,000 per month in companies having less than 100 workers as they are at risk of losing their jobs. That amounts to 24% of basic pay 12% from the employee and 12% from the employer. This will be paid by the government for three months. In addition, the Employees' Provident Fund Regulations will be amended to include the coronavirus pandemic as grounds for allowing a non-refundable advance of 75% of the corpus or three months of wages, whichever is lower, from their accounts. All these are being done as primary support to the citizens amid the war against the virus. These are tentative measures and to stimulate the economy post the pandemic cloud, a lot more needs to be done.

While large scale measures are being announced, it is still a no match to the global response. We have already seen the number of confirmed COVID cases raise above 3000. With rigorous testing and possible evidence of community transmission, India is soon to face the real problem if the results in India were to be on the same lines as other countries. However, government and RBI are gearing up for the worst to come. Revenue losses will force businesses to either close down or go for mass retrenchment of workers, and the biggest losers will be the workers in the informal sector who comprise more than four-fifths of India's workforce. Most Indian industries will witness decline in sales. Small and medium sized enterprises in general and debt-laden companies will be more susceptible to defaults on bank loans because of the reduced cash flows caused by mass shutdowns. The service sector, which includes approximately 350 million informal workers like waiters, truck drivers and taxi drivers, will suffer particularly. Banks will suffer the secondary effects.

As compared to the other countries, India has a bigger challenge at hand with growing number of cases as government of India does not have the luxury of deep pockets. Given its poor finances, a prudent combination of the financial and non-financial measures is needed. Going forward, one expects reduction of GST burden generally and particularly for the necessity goods. GST reduction in identified sectors will encourage consumption of selected goods and services. Regulatory forbearance and certain time bound actions could be expected. We all expect the government to bring in radical changes in the healthcare sector. The warning bells should make us all look at more efficiency in this regard. There can be no further expectations on relaxation of direct taxes, both for individuals as well as institutions. However, once the situation of pandemic is brought under control which could take a quarter or two, there can be expectations on flow of capital and on divestment plans. More sectors may be relaxed from the point of view of FDIs.

With prudent measures, serious and bold efforts by the government, policy makers and regulators, we hope to tide over the pandemic successfully. Though the damage to the economy is anticipated, the extent can be minimized with due care and preemptive measures.

-APAS



ECONOMY

IIP (Index of Industrial Production) – January

Index of Industrial Production (IIP) or factory output for the month of January 2020 expanded by a 6-month high of 2%, compared to 0.1% in December 2019 and 1.6% in January 2019.

The General Index for the month of January 2020 stands at 137.1, which is 2% higher as compared to that in January 2019.

The growth was mainly due to uptick in mining activity and power generation.

The cumulative growth for the period April-January 2019-20 over the corresponding period of last year was 0.5%, down from 4.4% a year earlier.

As per Use-based classification, the growth rates in January 2020 over January 2019 are 1.8% in primary goods, (-) 4.3% in capital goods, 15.8% in intermediate goods and (-) 2.2% in infrastructure/construction goods.

Consumer durables and non-durables have recorded growth rates of (-) 4% and (-) 0.3% respectively.

The manufacturing sector, which constitutes 77.63% of the index, grew by 1.5% in January, compared to 1.3% last year.

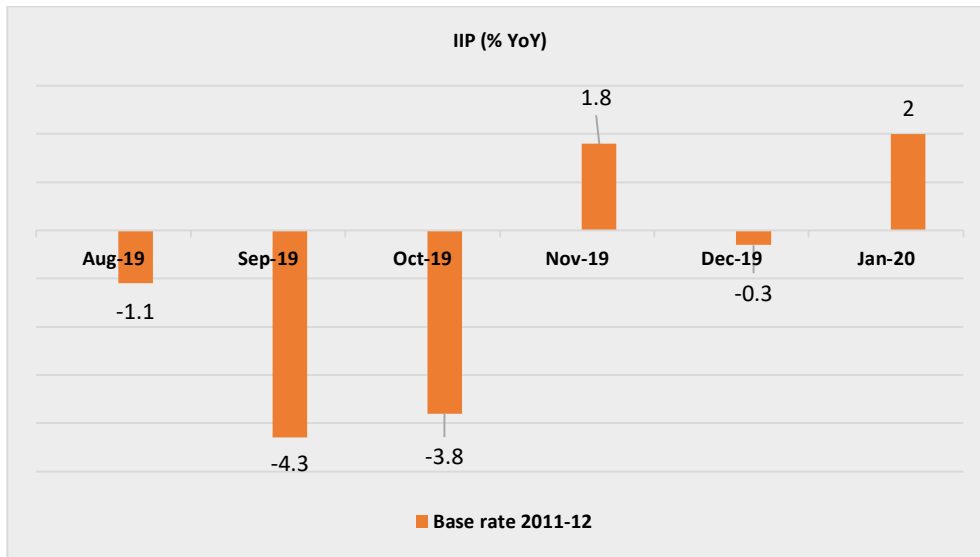
Electricity generation rose by 3.1% in January, compared to 0.9% last year.

Mining sector output grew by 4.4% in January, compared to 3.8% last year.

In terms of industries, 11 out of 23 industry groups in the manufacturing sector have shown positive growth in January 2020 from January 2019.

The industry group 'Manufacture of tobacco products' has shown the highest growth of 22.8%, followed by 14.1% in 'Manufacture of basic metals' and 9% in 'Manufacture of furniture'.

On the other hand, the industry group 'Printing and reproduction of recorded media' has declined most, by 16.3%, followed by 11.6% in 'Manufacture of computer, electronic and optical products' and 10.6% in 'Manufacture of motor vehicles, trailers and semi-trailers'.



Source: APAS BRT, www.mospi.gov.in

CPI (Consumer Price Index) – February

India's consumer price index (CPI) or retail inflation fell to 6.58% in February 2020, compared to 7.59% in January 2020. It was 2.57% in February 2019.

The corresponding provisional inflation rates for rural and urban areas are 6.67% and 6.57% respectively.

The Consumer food price index (CFPI) declined to 10.81% in February 2020 from 13.63% in January 2020 and (-) 0.73% in February 2019.

This is the third month that inflation remained above the upper limit of 6% set by the Reserve Bank of India (RBI).

Inflation was 10.2% in the meat and fish segment in February, compared to 10.5% in January.

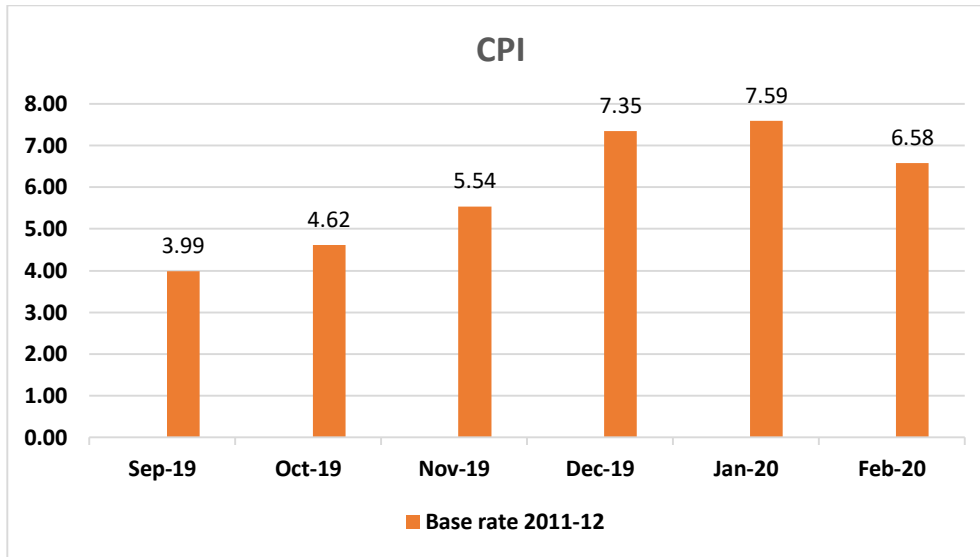
Inflation in vegetable prices cooled off significantly to 31.61% from a high of 50.19% in January.

The rate of price rise was also slower in case of protein-rich items pulses and eggs. Prices of eggs increased by 7.28% and pulses and products by 16.61% in February.

Similarly, prices of fuel and light category rose to 6.36% from 3.7%.

Inflation in miscellaneous items fell to 4.51% from 4.8%.

Inflation in clothing and footwear rose to 2.05% from 1.9% in January.



Source: APAS BRT, www.mospi.gov.in

WPI (Wholesale Price Index) – February

India's wholesale price index (WPI) inflation softened to 2.26% in February 2020, as compared to 3.1% in January 2020 and 2.93% in February 2019.

The rate of inflation based on WPI Food Index decreased to 7.31% in February 2020 from 10.12% in January 2020.

The index for primary articles declined by 2.8% from the previous month.

Under primary articles, 'Food articles' group declined by 3.7% due to lower prices of fruits & vegetables (14%), tea (8%), egg and maize (7% each), condiments & spices and bajra (4% each), gram and jowar (2% each) and fish-inland, pork, ragi, wheat, urad and masur (1% each). However, the prices moved up for beef and buffalo meat and fish-marine (5% each), betel leaves (4%), moong and poultry chicken (3% each), mutton (2%) and barley, rajma and arhar (1% each).

The 'Non-Food Articles' group declined by 0.4% due to lower prices of safflower (kardi seed) (7%), soyabean (6%), cotton seed (4%), castor seed, niger seed and linseed (3% each), gaur seed, rape & mustard seed and fodder (2% each) and raw cotton and mesta (1% each). However, the prices moved up for raw silk (7%), floriculture (5%), groundnut seed and raw jute (3% each), gingelly seed (sesamum) (2%) and skins (raw), coir fibre and raw rubber (1% each).

'Minerals' group rose by 3.5% due to higher prices of iron ore (7%), phosphorite and copper concentrate (4% each) and limestone (3%). However, the prices declined for chromite and bauxite (3% each), lead concentrate and zinc concentrate (2% each) and manganese ore (1%).

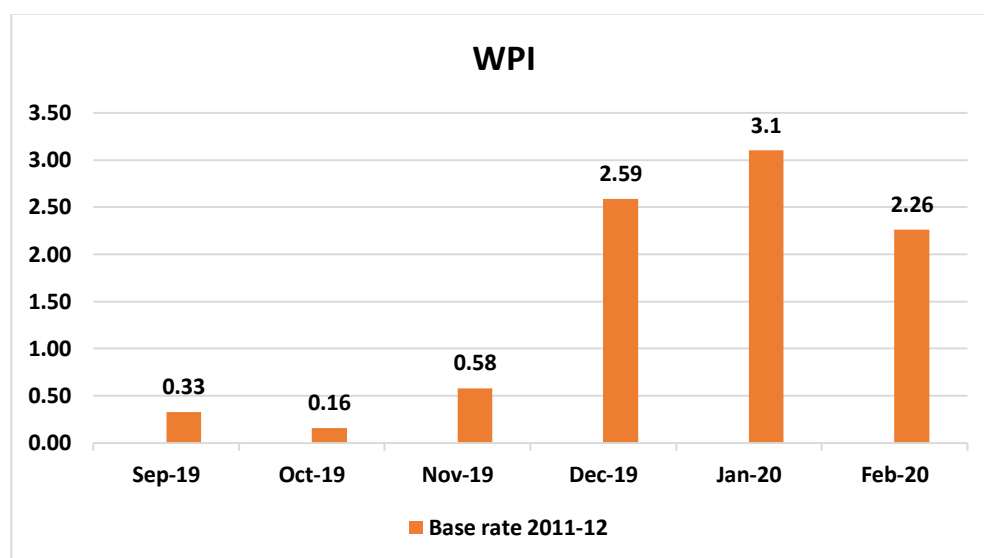
'Crude petroleum and natural gas' group declined by 1.5% due to lower price of crude petroleum (2%).

The index for fuel and power rose by 1.2% from the previous month.

Under fuel and power, 'Mineral oils' group declined by 1.2% due to lower prices of naphtha (7%), HSD (4%) and petrol (3%). However, the price moved up for LPG (15%), petroleum coke (6%), furnace oil and bitumen (4% each), kerosene (2%) and lube oils (1%).

'Electricity' group rose by 7.2% due to higher price of electricity (7%).

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



Source: APAS BRT, www.eaindustry.nic.in

Manufacturing PMI – February

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) eased in February from a near 8-year high in January and business sentiment took a hit amid impact of coronavirus outbreak on exports and supply chains.

The Manufacturing PMI eased marginally to 54.5 in February 2020 from 55.3 in January 2020. It stayed above the 50 level, that separates expansion from contraction, for the 31st consecutive month.

Factories in India continued to benefit from strong order flows in February, from both the domestic and international markets.

The pick-up in demand meant that companies were able to further lift production and input buying at historically elevated rates.

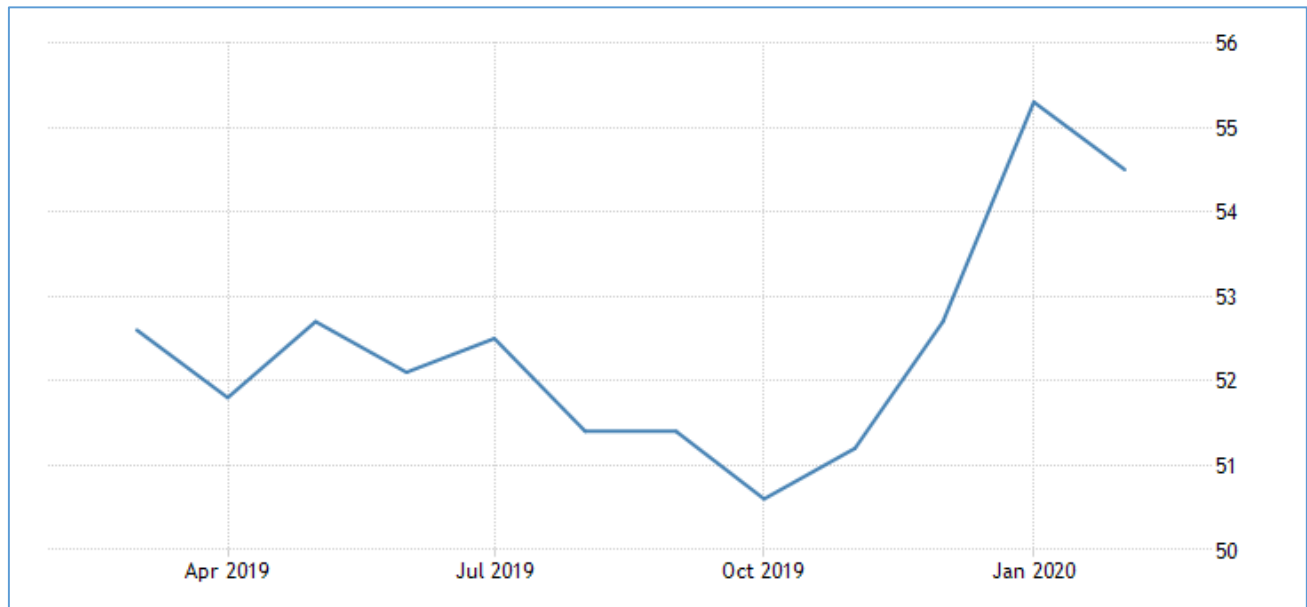
The strong manufacturing sector expansion seen in India at the start of the year was maintained in February, with rates of growth for factory orders, exports and output holding close to January's recent highs.

While firms were willing to step up input buying, hiring activity increased only fractionally.

However, alarm bells are ringing for Indian goods producers as the COVID-19 outbreak poses threats to exports and supply chains.

Businesses became less confident about the year ahead, outlook for output in turn restricting hiring activity.

On the price front, there was only a moderate increase in input costs. Price data continued to highlight a lack of inflationary pressure in the sector. Only modest increases in input costs and output charges were recorded in February, a trend that has been a key theme of the manufacturing PMI survey for over a year.



Source: www.tradingeconomics.com

Services PMI – February

The Indian services sector activity demonstrated a solid performance in February, tracking spike in business orders, renewed export demand and strengthening business confidence.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index rose to a 7-year high of 57.5 in February 2020 from 55.5 in January 2020. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the fourth straight month.

Service providers saw a marked increase in new work intakes during February, the second fastest in over 7 years.

A return to growth of new orders from abroad contributed to the increase in total sales.

The pace of expansion in international demand for Indian services was moderate, but above its long-run average.

Growth in India's service sector accelerated further halfway through the final quarter of fiscal year 2019-20, with the trend for business activity improving in each month since last September, when the sharpest contraction for 19 months was recorded.

Behind the resilience in the trend for business activity stands healthy demand for services from both the domestic and international markets.

Meanwhile, the rate of job creation was modest and the slowest in 3 months.

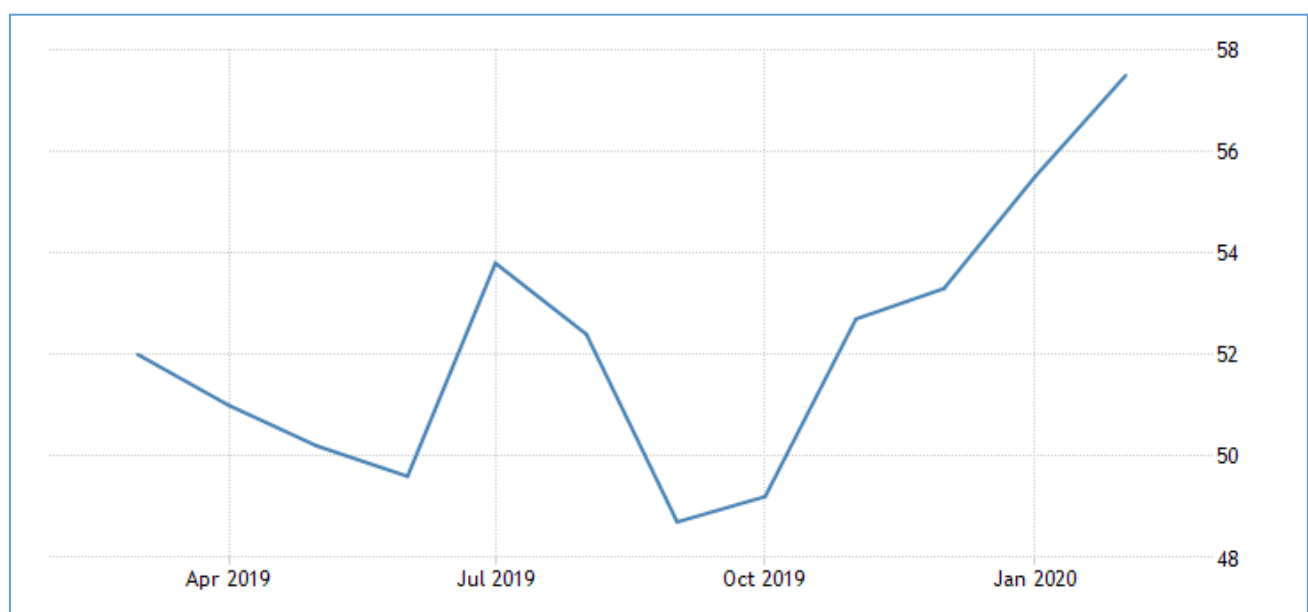
Despite experiencing another increase in outstanding work halfway through the final quarter of fiscal year 2019-20, service providers restricted hiring activity in February.

Further, input costs in the service economy increased amid reports of higher food, labour, material and oil costs.

Only a modest increase in selling prices was recorded in February, one that was softer than in January and much weaker than noted for input costs.

Looking ahead, business sentiment strengthened on the back of projects in the pipeline, supportive market conditions, marketing efforts and the offering of new services.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to an 8-year high of 57.6 in February from 56.3 in January, remaining above its long-run average of 54.6, reflecting robust increases in both the manufacturing and service sector outputs.



Source: www.tradingeconomics.com

Core Sector Data – February

Growth of eight infrastructure sectors rose to an 11-month high of 5.5% in February 2020, mainly due to healthy expansion in output of coal, refinery products and electricity.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had expanded by 1.4% in January 2020 and 2.2% in February 2019.

The combined index of eight core industries stood at 132.9 in February 2020.

Output of coal, refinery products and electricity grew by 10.3%, 7.4% and 11%, respectively, during February.

However, crude oil, natural gas and steel recorded negative growth rates of (-) 6.4%, (-) 9.6% and (-) 0.4% in February.

Fertiliser and cement output grew by 2.9% and 8.6%, respectively.

Cumulatively, the growth in the eight core sectors during April-February 2019-20 was 1%, as against 4.2% in the same period last financial year.



Source: APAS BRT, www.eaindustry.nic.in



BANKING

Seventh 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 \(MPC\)](#) at its meeting decided to:

- Reduce the policy repo rate under the liquidity adjustment facility (LAF) by 75 basis points to 4.40 per cent from 5.15 per cent with immediate effect;
- Accordingly, the marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.65 per cent from 5.40 per cent;
- Further, consequent upon the widening of the LAF corridor as detailed in the accompanying Statement on Developmental and Regulatory Polices, the reverse repo rate under the LAF stands reduced by 90 basis points to 4.0 per cent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of coronavirus (COVID-19) on the economy, while ensuring that inflation remains within the target.

These decisions taken by RBI 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 economic activity has come to a near standstill as COVID-19 related lockdowns and social distancing are imposed across a widening swathe of affected countries. Expectations of a shallow recovery in 2020 from 2019's decade low in global growth have been dashed. The outlook is now heavily contingent upon the intensity, spread and duration of the pandemic. There is a rising probability that large parts of the global economy will slip into recession.

Financial markets have become highly volatile from January onwards due to the outbreak of COVID-19. Panic sell-offs have resulted in wealth destruction in equity markets across advanced and emerging economies alike. In the former, flight to safety has pulled down government bond yields to record lows with some hardening

in recent days. In the latter, the rush to exit has rendered fixed income markets illiquid and resulted in firming up of yields. Emerging and advanced economy currencies are experiencing severe depreciation pressure on a daily basis because of fire sales due to extreme risk aversion. At this point, only the US dollar remains safe haven in a highly uncertain outlook. Japanese yen and gold – the other two safe havens till the early part of March – have given way to a flight to cash. International crude prices initially traded with a softening bias from January in anticipation of demand weakening due to the COVID-19 outbreak. Production cut disagreements among key oil producers, however, set off retaliatory supply scale-ups and a price war that plunged international Brent crude prices to a low of US\$ 25 per barrel on March 18, 2020. These developments are likely to dampen inflation across advanced and emerging economies. Central banks and governments are in war mode, responding to the situation with several conventional and unconventional measures targeted at easing financial conditions to avoid a demand collapse and to prevent financial markets from freezing up due to illiquidity.

Domestic financial conditions have tightened considerably, with equity markets facing massive sell-offs by foreign portfolio investors (FPIs). In the bond market too, yields have risen on sustained FPI selling, while redemption pressures, drop in trading activity and generalized risk aversion have pushed up yields to elevated levels in commercial paper, corporate bond and other fixed income segments. In the forex market, the Indian rupee (INR) has been under continuous downward pressure. Under these conditions, the Reserve Bank has endeavored to keep financial markets liquid, stable and functioning normally. Systemic liquidity surplus, as reflected in net absorptions under the LAF, averaged ₹2.86 lakh crore in March (up to March 25, 2020). In addition, the Reserve Bank undertook unconventional operations in the form of auctions of what is called 'operation twist' involving the simultaneous sale of short-term government securities (of ₹28,276 crore) and purchase of long-term securities (of ₹40,000 crore), cumulatively injecting a net amount of ₹11,724 crore. The Reserve Bank also conducted five long term repo auctions of 1 year and 3 years tenors of a cumulative amount of ₹1.25 lakh crore so far to inject liquidity and improve monetary transmission. It also conducted two sell-buy swap auctions to inject cumulatively US dollar liquidity into the forex market to the tune of US\$ 2.71 billion on March 16 and 23. Open market purchase operations of ₹10,000 crore on March 20 and ₹15,000 crore each on March 24 and March 26 have been conducted to bolster liquidity and smoothen financial conditions.

Governments across the world have unleashed massive fiscal measures, including targeted health services support, to protect economic activity from the impact of the virus. To mitigate the economic difficulties arising out of the virus outbreak, the Government of India has announced a comprehensive package of ₹1.70 lakh crore, covering cash transfers and food security, for vulnerable sections of society, including farmers, migrant workers, urban and rural poor, differently abled persons and women.

Statement on Developmental and Regulatory Policies/ COVID-19 Regulatory Package

RBI has released this statement to cover various [developmental and regulatory policies](#) that directly address the stress in financial conditions caused by COVID-19. The policy initiatives in this section are to be read in conjunction with the MPC's decision on monetary policy actions and stance in its resolution.

I. Liquidity management

1. Targeted Long Term Repos Operations (TLTROs)

In order to mitigate their adverse effects on economic activity leading to pressures on cash flows, RBI has decided that it will conduct auctions of targeted term repos of up to three years tenor of appropriate sizes for a total amount of up to ₹ 1,00,000 crore at a floating rate linked to the policy repo rate.

Liquidity availed under the scheme by banks has to be deployed in investment grade corporate bonds, commercial paper, and non-convertible debentures over and above the outstanding level of their investments in these bonds as on March 27, 2020. Banks shall be required by RBI to acquire up to fifty per cent of their incremental holdings of eligible instruments from primary market issuances and the remaining fifty per cent from the secondary market, including from mutual funds and non-banking finance companies. Investments made by banks under this facility will be classified as held to maturity (HTM) even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility will also not be reckoned under the large exposure framework.

2. Cash Reserve Ratio

As a one-time measure to help banks tide over the disruption caused by COVID-19, RBI has decided to reduce the cash reserve ratio (CRR) of all banks by 100 basis points to 3.0 per cent of net demand and time liabilities (NDTL) with effect from the reporting fortnight beginning March 28, 2020. This reduction in the CRR would release primary liquidity of about ₹ 1, 37,000 crore uniformly across the banking system in proportion to liabilities of constituents rather than in relation to holdings of excess SLR. This dispensation will be available for a period of one year ending on March 26, 2021.

Furthermore, RBI has decided to reduce the requirement of minimum daily CRR balance maintenance from 90 per cent to 80 per cent effective from the first day of the reporting fortnight beginning March 28, 2020. This is a one-time dispensation available up to June 26, 2020.

3. Marginal Standing Facility

Under the marginal standing facility (MSF), banks can borrow overnight at their discretion by dipping up to 2 per cent into the Statutory Liquidity Ratio (SLR). In view of the exceptionally high volatility in domestic financial markets which bring in phases of liquidity stress and to provide comfort to the banking system, RBI has decided to increase the limit of 2 per cent to 3 per cent with immediate effect. This measure will be applicable up to June 30, 2020. This is intended to provide comfort to the banking system by allowing it to avail an additional ₹ 1, 37,000 crore of liquidity under the LAF window in times of stress at the reduced MSF rate announced in the MPC's resolution.

These three measures relating to TLTRO, CRR and MSF will inject a total liquidity of ₹ 3.74 lakh crore to the system.

4. Widening of the Monetary Policy Rate Corridor

In view of persistent excess liquidity, RBI has decided to widen the existing policy rate corridor from 50 bps to 65 bps. Under the new corridor, the reverse repo rate under the liquidity adjustment facility (LAF) would be 40 bps lower than the policy repo rate. The marginal standing facility (MSF) rate would continue to be 25 bps above the policy repo rate.

II. Regulatory and supervision measures

5. Moratorium on Term Loans

All term loans (including agricultural term loans, retail and crop loans), all commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, all-India Financial Institutions, and NBFCs (including housing finance companies) (“lending institutions”) have been permitted to grant a moratorium of three months on payment of all instalments falling due between March 1, 2020 and May 31, 2020. The repayment schedule for such loans as also the residual tenor, will be shifted across the board by three months after the moratorium period. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

6. Deferment of Interest on Working Capital Facilities

In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions have been permitted to allow a deferment of three months on payment of interest in respect of all such facilities outstanding as on March 1, 2020. The accumulated interest for the period will be paid after the expiry of the deferment period.

7. Easing of Working Capital Financing

In respect of working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions may recalculate drawing power by reducing margins and/or by reassessing the working capital cycle for the borrowers. Also, lending institution have been permitted to defer the recovery of interest applied in respect of all such facilities during the period from March 1, 2020 up to May 31, 2020 (‘deferment’). Such changes in credit terms permitted to the borrowers to specifically tide over the economic fallout from COVID-19 will not be treated as concessions granted due to financial difficulties of the borrower, and consequently, will not result in asset classification downgrade. The accumulated accrued interest shall be recovered immediately after the completion of this period.

8. Deferment of Implementation of Net Stable Funding Ratio (NSFR)

As part of reforms undertaken in the years following the global financial crisis, the Basel Committee on Banking Supervision (BCBS) had introduced the Net Stable Funding Ratio (NSFR) which reduces funding risk by requiring banks to fund their activities with sufficiently stable sources of funding over a time horizon of a year in order to mitigate the risk of future funding stress. As per the prescribed timeline, banks in India were required to maintain NSFR of 100 per cent from April 1, 2020. RBI has now decided to defer the implementation of NSFR by six months from April 1, 2020 to October 1, 2020.

9. Deferment of Last Tranche of Capital Conservation Buffer

Considering the potential stress on account of COVID-19, RBI has decided to further defer the implementation of the last tranche of 0.625 per cent of the CCB from March 31, 2020 to September 30, 2020. Consequently, the pre-specified trigger for loss absorption through conversion/write-down of Additional Tier 1 instruments

(PNCPS and PDI) shall remain at 5.5 per cent of risk-weighted assets (RWAs) and will rise to 6.125 per cent of RWAs on September 30, 2020.

10. Classification as Special Mention Account (SMA) and Non-Performing Asset (NPA)

Since the moratorium/deferment/recalculation of the 'drawing power' is being provided specifically to enable the borrowers to tide over economic fallout from COVID-19, the same will not be treated as concession or change in terms and conditions of loan agreements due to financial difficulty of the borrower. Consequently, such a measure, by itself, shall not result in asset classification downgrade.

The asset classification of term loans which are granted relief as per above shall be determined on the basis of revised due dates and the revised repayment schedule. Similarly, working capital facilities where relief is provided as per above, the SMA and the out of order status shall be evaluated considering the application of accumulated interest immediately after the completion of the deferment period as well as the revised terms, as permitted above.

The rescheduling of payments, including interest, will not qualify as a default for the purposes of supervisory reporting and reporting to Credit Information Companies (CICs) by the lending institutions. CICs shall ensure that the actions taken by lending institutions pursuant to the above announcements do not adversely impact the credit history of the beneficiaries.

III. Financial Markets

11. Permitting Banks to Deal in Offshore Non-Deliverable Rupee Derivative Markets (Offshore NDF Rupee Market)

RBI has decided to remove segmentation between the onshore and offshore markets and improve efficiency of price discovery. Accordingly, RBI has decided to permit banks in India which operate International Financial Services Centre (IFSC) Banking Units (IBUs) to participate in the NDF market with effect from June 1, 2020. Banks may participate through their branches in India, their foreign branches or through their IBUs.

Guidelines on Regulation of Payment Aggregators and Payment Gateways

RBI has decided to regulate the entire payment aggregators and payment gateways universe. In this regard, RBI draws knowledge from its previous circulars related to directions for opening and operation of accounts and settlement of payments for electronic payments involving intermediaries and discussion papers on guidelines for regulation of Payment Aggregators (PAs) and Payment Gateways (PGs).

Thereby, the detailed guidelines on regulation of payment aggregators and payment gateways have been described [here](#).

Annual Closing of Government Accounts – Transactions of Central / State Governments – Special Measures for the Current Financial Year (2019-20)

All government transactions done by agency banks for Financial Year 2019-20 must be accounted for within the same financial year. Taking into account the current unprecedented situation across the country to tackle the COVID-19 situation, RBI has put in place the following arrangements to report and account for [Government transactions](#) for March 31, 2020.

1. All agency banks should keep their designated branches open for over the counter transactions related to government transactions up to the normal working hours on March 31, 2020.
2. Government transactions through Real Time Gross Settlement (RTGS) System will operate for extended time on March 31, 2020 for which Department of Payment and Settlement Systems (DPSS), Reserve Bank of India will issue necessary instructions. Transactions through National Electronic Funds Transfer (NEFT) will continue up to 2400 hours as hitherto on March 31, 2020.
3. Special clearing will be conducted for collection of government cheques on March 31, 2020 for which DPSS, RBI will issue necessary instructions.
4. Regarding reporting of Central and State Government transactions to RBI, including uploading of GST / e-receipts luggage files, the reporting window on March 31, 2020 will be extended and kept open till 1200 hours on April 1, 2020.

Amalgamation of Public Sector Banks - Assignment of SLBC/ UTLBC Convenorship and Lead Bank responsibilities

Cabinet cleared the amalgamations of Oriental Bank of Commerce and United Bank of India with Punjab National Bank; Andhra Bank and Corporation Bank with Union Bank of India; Syndicate Bank with Canara Bank and Allahabad Bank with Indian Bank.

Accordingly, RBI has decided to assign the [SLBC/UTLBC](#) (state level bankers' committee/union territory level bankers' committee) convenorship for the following states/union territories as under:

Sr. No	State/UT	Existing SLBC/UTLBC convener bank	SLBC/UTLBC convenorship assigned to:
1	Andhra Pradesh	Andhra Bank	Union Bank of India
2	Karnataka	Syndicate Bank	Canara Bank
3	Tripura	United Bank of India	Punjab National Bank
4	West Bengal	United Bank of India	Punjab National Bank
5	New Delhi	Oriental Bank of Commerce	Punjab National Bank
6	Lakshadweep	Syndicate Bank	Canara Bank

There is no change in the SLBC/ UTLBC Convenorship of other States/ Union Territories and Lead Bank responsibilities of other districts across the country.

Limits on exposure to single and group borrowers/parties and large exposures and Revision in the target for priority sector lending – UCBs

As per an earlier announcement in statement on regulatory and development policies by RBI, RBI had announced realignment of limits on exposures to single and group borrowers / parties and large exposures and revised targets for priority sector lending for [urban co-operative banks](#).

The final guidelines on the subject are given below.

Prudential Exposure Limits

On review by RBI, it has decided that, henceforth, the prudential exposure limits for UCBs for a single borrower/party and a group of connected borrowers/parties shall be 15 per cent and 25 per cent, respectively, of their tier-I capital.

The revised exposure limits shall apply to all types of fresh exposures taken by UCBs. UCBs shall bring down their existing exposures which are in excess of the revised limits to within the aforesaid revised limits by March 31, 2023. However, where the existing exposure comprises only term loans and non-fund-based facilities, while no further exposure shall be taken on such borrowers, these facilities may be allowed to continue as per their respective repayment schedule / till maturity.

Priority Sector target limits

The overall priority sector lending (PSL) target for UCBs stood at 40% of the adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure (CEOBSE), whichever is higher. RBI has decided that the overall PSL target for UCBs shall stand increased to 75 per cent of ANBC or CEOBSE, whichever is higher.

UCBs shall have comply with the above target by March 31, 2024 as per the following milestones:

PSL targets to be achieved by			
March 31, 2021	March 31, 2022	March 31, 2023	March 31, 2024
45% of ANBC or CEOBSE, whichever is higher	50% of ANBC or CEOBSE, whichever is higher	60% of ANBC or CEOBSE, whichever is higher	75% of ANBC or CEOBSE, whichever is higher

The extant sub-targets under the priority sector shall remain unchanged.

UCBs shall have to prepare, with the approval of their Board, an Action Plan for compliance with the aforesaid revised exposure limits and priority sector lending targets. They are also advised to establish an appropriate mechanism to regularly monitor the progress made under the Action Plan for compliance with the given instructions.



INSURANCE

Capital Gearing Treaties

Insurance Regulatory and Development Authority of India (IRDAI) has observed that few [capital gain reinsurance treaties](#) are being developed between the companies as financial arrangements rather than as instruments of risk managements. According to IRDAI, Insurers have been entering such treaties as a way to improve their solvency margins.

In view of the above, the Authority has directed that:

- a. No insurer shall enter into any fresh Capital Gearing treaties
- b. Insurers who are having such treaties on their books shall take the following steps:
 - i. Submit Board approved Action Plan to the Authority on or before 30th June, 2020 for phasing out the treaties along with timelines such that it complies with the Solvency Stipulations.

The plan of action shall also include assessment of requirement of capital infusion and sources of funds for the capital infusion so required due to prospective closure of these Capital Gearing treaties.

- ii. The direct insurers (cedants) shall create appropriate reserves towards Unearned Premium Reserves, Premium Deficiency Reserves, Outstanding Claims Reserves (including IBNR/IBNER) in accordance with IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016. Further, such treaties have to be accounted for, based on the principle of “Substance over Form”, as prescribed by para 2.13 of Master Circular on Preparation of Financial Statements issued by the Authority in October 2012.

Report on ease of doing business for Reinsurers, FRBs and Lloyd's India

Based on submissions by committee constituted within IRDAI on [“Ease of doing business for reinsurers, FRBs and Lloyd’s India.”](#)

The Committee within the terms of reference deliberated various aspects on ease of doing business for Reinsurers, FRBs and Lloyd’s India. All issues from the angle of insurance and re-insurance domain including legal and regulatory requirements and its implementation were discussed in making the recommendations. The recommendations could provide a focused regulatory oversight in providing control over the re-insurance industry in India and at the same time will enable the re-insurance industry to move in the right direction in doing its business.

The main topics covered in this report are as under:

1. Capital and solvency
2. Underwriting, product and claims
3. Investments
4. Operations
5. Corporate Governance
6. Others

Relaxation of timelines for certain provisions of the IRDAI (Re-insurance) Regulations, 2018

In view of [COVID-19 pandemic](#), Government of India has initiated various measures including enforcement of lock-down in various areas. In the interest of operation of affairs of insurance companies pertaining to their submission of their final reinsurance programme for financial year 2020-21, the IRDAI has permitted following relaxations:

1. As per extant regulatory provisions, insurers has to file its Board approved Final Re-insurance Programme by 30th April 2020 along with a synopsis of catastrophe modelling report;
2. In view of COVID-19 pandemic, it might become difficult for some insurers to adhere with above stipulated time lines. Thus, IRDAI has allowed the insurers to comply with the above regulatory provisions on or before 31st May, 2020;
3. These timelines have been relaxed for financial year 2020-21 only

Guidelines on handling of claims reported under Corona Virus

In order to facilitate policyholders in trying times during the spread of such epidemic as [Corona Virus](#), the Authority has instituted following measures as guidance for health insurance companies regarding claim settlements related to corona virus, where coverage is granted for treatment of hospitalization expenses

- i) Where hospitalization is covered in a product, insurers shall have to ensure that the cases related to Corona virus disease (COVID-19) shall be expeditiously handled.
- ii) The costs of admissible medical expenses during the course of treatment including the treatment during quarantine period shall be settled in accordance to the applicable terms and conditions of policy contract and the extant regulatory framework.
- iii) All the claims reported under COVID 19 shall be thoroughly reviewed by the claims review committee before repudiating the claims.
- iv) In order to provide need based health insurance coverage, insurers are introducing products for various specific diseases including vector borne diseases. For the purpose of meeting health insurance requirements of various sections, insurers are advised to design products covering the costs of treatment for Corona Virus.



INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Finance Minister announces Rs 1.70 Lakh Crore relief package under Pradhan Mantri Garib Kalyan Yojana for the poor to help them fight the battle against Corona Virus

The Union Finance & Corporate Affairs Minister Smt. Nirmala Sitharaman announced [Rs 1.70 Lakh Crore relief package](#) under **Pradhan Mantri Garib Kalyan Yojana** for the poor to help them fight the battle against Corona Virus.

Following measures have been introduced under the package:

1. Insurance scheme for health workers fighting COVID-19 in Government Hospitals and Health Care Centres

This would cover Safai karamcharis, ward-boys, nurses, ASHA workers, paramedics, technicians, doctors and specialists, other health workers. Any health professional, who while treating COVID-19 patients, meet with some accident, then he/she would be **compensated with an amount of Rs 50 lakh under the scheme**. All government health centres, wellness centres and hospitals of Centre as well as States would be covered **under this scheme approximately 22 lakh health workers would be provided insurance** cover to fight this pandemic.

2. PM Garib Kalyan Ann Yojana

Pulses: To ensure **adequate availability of protein** to all the above mentioned individuals, 1 kg per family, would be provided pulses according to regional preferences for next three months.

3. Under Pradhan Mantri Garib Kalyan Yojana

The first instalment of Rs 2,000 due in 2020-21 will be front-loaded and paid in April 2020 itself under the PM KISAN Yojana.

4. Cash transfers Under PM Garib Kalyan Yojana

A total of **20.40 crores PMJDY women account-holders** would be given an ex-gratia of **Rs 500 per month for next three months**.

5. Gas cylinders

Under PM Garib Kalyan Yojana, gas cylinders, free of cost, would be provided to 8 crore poor families for the next three months.

6. Help to low wage earners in organised sectors:

Wage-earners below Rs 15,000 per month in businesses having less than 100 workers are at risk of losing their employment. Under this package, government proposes to pay 24 percent of their monthly wages into their PF accounts for next three months.

7. Support for senior citizens (above 60 years), widows and Divyang:

There are around 3 crore aged widows and people in Divyang category who are vulnerable due to economic disruption caused by COVID-19. Government will give them Rs 1,000 to tide over difficulties during next three months.

8. MNREGA

Under PM Garib Kalyan Yojana, MNREGA wages would be increased by Rs 20 with effect from 1 April, 2020. Wage increase under MNREGA will provide an additional Rs 2,000 benefit annually to a worker. This will benefit approximately 13.62 crore families.

9. Self-Help groups:

Women organised through 63 lakhs Self Help Groups (SHGs) support 6.85 crore households. Limit of collateral free lending would be increased from Rs 10 to Rs 20 lakhs.

10. Other components of PM Garib Kalyan package

Employees' Provident Fund Regulations will be amended to include Pandemic as the reason to allow non-refundable advance of 75 percent of the amount or three months of the wages, whichever is lower, from their accounts. Families of four crore workers registered under EPF can take benefit of this window.

11. Building and Other Construction Workers Welfare Fund:

Welfare Fund for Building and Other Constructions Workers has been created under a Central Government Act. There are around 3.5 Crore registered workers in the Fund. State Governments will be given directions to utilise this fund to provide assistance and support to these workers to protect them against economic disruptions.

12. District Mineral Fund

The State Government will be asked to utilise the funds available under District Mineral Fund (DMF) for supplementing and augmenting facilities of medical testing, screening and other requirements in connection with preventing the spread of COVID-19 pandemic as well as treating the patients affected with this pandemic.

Cabinet approves recapitalization of Regional Rural Banks to improve their Capital to Risk Weighted Assets Ratio

The Cabinet Committee on Economic Affairs, chaired by Prime Minister Shri Narendra Modi, has given its approval for continuation of the process of [recapitalization of Regional Rural Banks \(RRBs\)](#) by providing minimum regulatory capital to RRBs for another year beyond 2019-20, that is, up to 2020-21 for those RRBs which are unable to maintain minimum Capital to Risk weighted Assets Ratio (CRAR) of 9%, as per the regulatory norms prescribed by the Reserve Bank of India.

The CCEA also approved utilization of Rs. 670 crore as central government share for the scheme of Recapitalization of RRBs (i.e. 50% of the total recapitalization support of Rs.1340 crore), subject to the condition that the release of Central Government's share will be contingent upon the release of the proportionate share by the sponsor banks.

Benefits

A financially stronger and robust Regional Rural Banks with improved CRAR will enable them to meet the credit requirement in the rural areas.

As per RBI guidelines, the RRBs have to provide 75% of their total credit under PSL (Priority Sector Lending). RRBs are primarily catering to the credit and banking requirements of agriculture sector and rural areas with focus on small and marginal farmers, micro & small enterprises, rural artisans and weaker sections of the society. In addition, RRBs also provide lending to micro/small enterprises and small entrepreneurs in rural areas. With the recapitalization support to augment CRAR, RRBs would be able to continue their lending to these categories of borrowers under their PSL target, and thus, continue to support rural livelihoods.

Background:

Consequent upon RBI's decision to introduce disclosure norms for Capital to Risk Weighted Assets Ratio (CRAR) of RRBs with effect from March 2008, a committee was set up under the Chairmanship of Dr. K.C. Chakrabarty.

Based on the Committee's recommendations, a Scheme for Recapitalization of RRBs was approved by the Cabinet in its meeting held on 10th February, 2011 to provide recapitalization support of Rs. 2,200 crore to 40 RRBs with an additional amount of Rs. 700 crore as contingency fund to meet the requirement of the weak RRBs, particularly in the North Eastern and Eastern Region. Therefore, based on the CRAR position of RRBs, as on 31st March of every year, National Bank for Agriculture and Rural Development (NABARD) identifies those RRBs, which require recapitalisation assistance to maintain the mandatory CRAR of 9%.

Post 2011, the scheme for recapitalization of RRBs was extended upto 2019-20 in a phased manner with a financial support of Rs. 2,900 crore with 50% Government of India's share of Rs. 1,450 crore. Out of Rs. 1,450 crore approved as Govt's share for recapitalization, an amount of Rs. 1,395.64 crore has been released to RRBs, upto 2019-20 so far. During this period, Government has also taken various initiatives for making the RRBs economically viable and sustainable institutions. With a view to enable RRBs to minimize their overhead expenses, optimize the use of technology, enhance the capital base and area of operation and increase their

exposure, the Government has initiated structural consolidation of RRBs in three phase, thereby reducing the number of RRBs from 196 in 2005 to the present 45.

FDI for Make in India

Make in India initiative was launched along with action plans prepared for various sectors with the objective of facilitating investment, fostering innovation, building best in class manufacturing infrastructure, making it easy to do business and enhancing skill development. The initiative is further aimed at creating a conducive environment for investment, modern and efficient infrastructure, opening up new sectors for foreign investment and forging a partnership between government and industry through positive mindset.

Make in India initiative has been reviewed by the Government and is now focusing on 27 sectors under Make in India 2.0. List of 27 sectors under Make in India 2.0 has been attached as per [here](#). Department for Promotion of Industry and Internal Trade is coordinating action plans for 15 manufacturing sectors while Department of Commerce is coordinating 12 service sectors.

IBBI amends CIRP Regulations to provide relief in corporate insolvency resolution process due to COVID-19 outbreak

To address this difficulty faced by the lockdown due to COVID-19, the [Insolvency and Bankruptcy Board of India \(IBBI\)](#) amended the CIRP Regulations to provide that the period of lockdown imposed by the Central Government in the wake of COVID-19 outbreak shall not be counted for the purposes of the time-line for any activity that could not be completed due to the lockdown, in relation to a corporate insolvency resolution process. This would, however, be subject to the overall time-limit provided in the Code.

The IBBI amended the Insolvency and Bankruptcy Board of India (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 (CIRP Regulations) on 29th March 2020.

The amended regulations are effective from 29th March 2020. These are available at www.mca.gov.in and www.ibbi.gov.in.

Finance Minister announces several relief measures relating to Statutory and Regulatory compliance matters across Sectors in view of COVID-19 outbreak

The Union Finance & Corporate Affairs Minister Smt. Nirmala Sitharaman today announced several important relief measures taken by the Government of India in view of COVID-19 outbreak, especially on statutory and regulatory compliance matters related to several sectors. Smt. Sitharaman announced much-needed relief measures in areas of Income Tax, GST, Customs & Central Excise, Corporate Affairs, Insolvency & Bankruptcy Code (IBC) Fisheries, Banking Sector and Commerce.

The detailed declarations can be referred to as [here](#).

Cabinet approves release of an additional instalment of Dearness Allowance and Dearness Relief due from 1.1.2020

The Union Cabinet, chaired by the Prime Minister, Shri Narendra Modi has approved to release an additional instalment of [Dearness Allowance \(DA\)](#) to Central Government employees and Dearness Relief (DR) to pensioners w.e.f. 01.01.2020. There will be an increase of 4 percent over the existing rate of 17 percent of the Basic Pay/Pension, to compensate for price rise.

The combined impact on the exchequer on account of both Dearness Allowance and Dearness Relief would be Rs.12,510.04 crore per annum and Rs.14,595.04 crore in Financial Year 2020-21 (for a period of 14 months from January, 2020 to February, 2021). It will benefit about 48.34 lakh Central Government employees and 65.26 lakh pensioners.

The increase is in accordance with the accepted formula, which is based on the recommendations of the 7th Central Pay Commission.

Cabinet approves Mega Consolidation in Public Sector Banks {PSBs} with effect from 1.4.2020

The Union Cabinet, chaired by the Prime Minister, Shri Narendra Modi has approved the [mega consolidation](#) of ten PSBs into four which include the –

- (a) Amalgamation of Oriental Bank of Commerce and United Bank of India into Punjab National Bank
- (b) Amalgamation of Syndicate Bank into Canara Bank
- (c) Amalgamation of Andhra Bank and Corporation Bank into Union Bank of India
- (d) Amalgamation of Allahabad Bank into Indian Bank

The amalgamation would be effective from 1.4.2020 and would result in creation of seven large PSBs with scale and national reach with each amalgamated entity having a business of over Rupees Eight lakh crore. The Mega consolidation would help create banks with scale comparable to global banks and capable of competing effectively in India and globally. Greater scale and synergy through consolidation would lead to cost benefits which should enable the PSBs enhance their competitiveness and positively impact the Indian banking system.

In addition, consolidation would also provide impetus to amalgamated entities by increasing their ability to support larger ticket-size lending and have competitive operations by virtue of greater financial capacity. The adoption of best practices across amalgamating entities would enable the banks improve their cost efficiency and risk management, and also boost the goal of financial inclusion through wider reach.

Further, with the adoption of technologies across the amalgamating banks, access to a wider talent pool, and a larger database, PSBs would be in a position to gain competitive advantage by leveraging analytics in a rapidly digitalising banking landscape.



CAPITAL MARKETS

SEBI statement on market movement

Over the last few days the Indian Stock Market has been moving in tandem with other global markets owing to concerns relating to [COVID-19 pandemic](#), resultant fear of economic slowdown, recent fall in global crude prices, etc. As can be seen from the following table giving a comparative market movement of global indices, it indicates that the fall in the Indian indices has been significantly lower than the stock market in other countries. Movement of major global indices are tabulated below:

Region	Index	Closing Index Value as on 12/03/2020	Closing Index Value as on 31/01/2020	% Change
Russia	RTS	966.40	1,517.07	-36.30%
Brazil	BOVESPA	72,583.00	113,760.60	-36.20%
France	CAC	4,044.26	5,806.34	-30.35%
Germany	DAX	9,161.13	12,981.97	-29.43%
Argentina	MERVAL	28,351.89	40,105.04	-29.31%
United Kingdom	FTSE 100	5,237.50	7,286.01	-28.12%
United States	DJIA	21,200.62	28,256.03	-24.97%
United States	NASDAQ	7,201.80	9,150.94	-21.30%
Japan	Nikkei	18,559.63	23,205.18	-20.02%
India	Nifty 50	9,590.15	11,962.10	-19.83%
India	Sensex 30	32,778.14	40,723.49	-19.51%
Singapore	Strait Times	2,678.64	3,153.73	-15.06%
South Korea	KOSPI	1,834.33	2,119.01	-13.43%
Taiwan	TAIEX	10,422.32	11,495.10	-9.33%
Hong Kong	Hang Seng	24,309.07	26,312.63	-7.61%
China	Shanghai Composite	2,923.49	2,976.53	-1.78%

SEBI mentioned that SEBI and Stock Exchanges have a robust risk management framework in place which automatically gets triggered in response to movements in the indices (BSE Sensex and NSE Nifty) as well as individual stocks both in cash and derivatives market. Some of these measures include:

- Value at Risk (VaR) Margin with initial margin to cover 99% risk of a transaction
- Extreme Loss Margin (ELM) to cover the residual risk of a transaction
- Collection of mark to market losses on daily basis
- Additional surveillance margins based on stress tests
- Circuit filters at index levels
- Circuit filters at stock levels
- Action on the basis of surveillance inputs
- Regular follow up by the clearing corporations with the clearing members for collection of margin and pay-in obligations.

The positions of margin payments, margin utilization, adequacy of collaterals (securities deposited by the brokers with the clearing corporations) and the pay-in's obligations being met by the clearing members (brokers) are being continuously monitored. Similarly, the settlement and clearance of trades are also being constantly monitored.

Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 [Last amended on March 06, 2020]

Securities and Exchange Board of India has amended the (Mutual Funds) Regulations, 1996. The revised regulations are [here](#).

Continuation of Phase II of Unified Payments Interface with Application Supported by Blocked Amount due to COVID-19 virus pandemic

As per an earlier circular by SEBI, the timeline for implementation of [Phase III of Unified Payments Interface](#) with Application Supported by Blocked Amount was extended till March 31, 2020.

In such circumstances, several stakeholders in the industry have submitted to SEBI that given the prevailing uncertainty due to the COVID- 19 pandemic, the timelines of Phase II of Unified Payments Interface with Application Supported by Blocked Amount may be continued at present. It has been stated that the systems and processes for achieving Phase III timelines of T+3 need to be further deliberated and finalized in light of the experience gained during one of the major IPOs that opened and closed in the first week of March 2020.

In view of the aforesaid representations and also taking into account that introducing any new changes under the prevailing circumstances where staff at the stakeholders are sparsely populated may not be workable, it has been decided to continue with the current Phase II of the UPI ASBA till further notice.

The modalities for the implementation of the Phase III of the UPI ASBA shall be notified later after deliberations with stakeholders.

Relaxation from compliance with certain provisions of the circulars issued under SEBI (Credit Rating Agencies) Regulations, 1999 due to the COVID-19 pandemic and moratorium permitted by RBI

In view of the developments arising due to COVID-19 pandemic and in light of the moratorium permitted by Reserve Bank of India (RBI) on loan servicing, working capital facilities etc. for three months, a need for temporary relaxations in compliance by [Credit rating Agencies CRAs](#) has been felt by SEBI. Accordingly, SEBI has decided to grant relaxations from the requirements stipulated as under:

Recognition of Default

1. Currently, CRAs recognize default based on the guidance issued by SEBI earlier.
2. In view of the nationwide lockdown and the three month moratorium/ deferment on payment permitted by RBI, a differentiation in treatment of default, on a case to case basis, needs to be made as to whether such default occurred solely due to the lockdown or loan moratorium.
3. Accordingly, based on its assessment, if the CRA is of the view that the delay in payment of interest/principle has arisen solely due to the lockdown conditions creating temporary operational challenges in servicing debt, including due to procedural delays in approval of moratorium on loans by the lending institutions, CRAs may not consider the same as a default event and/or recognize default. Appropriate disclosures in this regard shall be made in the Press Release.
4. The above shall also be applicable on any rescheduling in payment of debt obligation done by the issuer, prior to the due date, with the approval of the investors/lenders.
5. The above relaxation is extended till the period of moratorium by the RBI.

Extension in timelines for press release and disclosures on website

1. Considering that the CRAs are dependent on the issuers and third parties for information collection which is impaired due to current lockdown, relaxation from timelines for rating action/ issue of press release by CRAs stipulated vide SEBI circular dated June 30, 2017 is being granted. However, CRAs should endeavor to finish the exercise on a best effort basis. Such cases shall be put up for ratification by the Rating Sub-Committee of the Board of CRA.
2. Further, an extension of 30 days is being granted for making annual and semiannual disclosures by CRAs on its website for the period ended March 2020.

Relaxation in compliance with requirements pertaining to Mutual Funds

SEBI has decided to grant [relaxation to Mutual funds](#) with regard to filing disclosures. The relaxations are as under:

The timelines for certain disclosures are extended, as follows:

Sr. No	Regulations / Circular and associated disclosures	Filings		Timelines	
		Frequency	Due within	Due date	Extended date
1	Half yearly disclosures of unaudited financial results	Half yearly	One month from the close of half year, i.e March 31, 2020.	April 30, 2020	May 31, 2020
2.	Disclosure of commission paid to distributors	Half yearly	Within ten days from the half year end i.e March 31, 2020.	April 10, 2020	May 10, 2020
3	Yearly disclosure of investor complaints with respect to Mutual Funds a	Yearly	Within 2 months of the close of the financial year i.e. March 31, 2020.	May 31, 2020	June 30, 2020

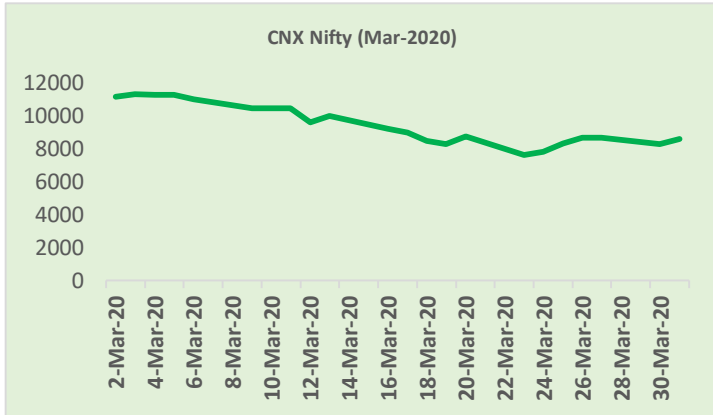
Policy implementation dates:

Sr. no	Circular name	Particulars	Due date	Extended date
1	Risk management framework for liquid and overnight funds and norms governing investment in short term deposits dated Sept. 20, 2019	Liquid funds shall hold at least 20% of its net assets in liquid assets.	April 1, 2020	May 1, 2020
2	Review of investment norms for mutual funds for investment in Debt and Money Market Instruments dated October 1, 2019	Existing open ended mutual fund schemes shall comply with the revised limits for sector exposure.	April 1, 2020	May 1, 2020
3	Review of investment norms for mutual funds for investment in Debt and Money Market Instruments dated October 1, 2019 Maximum investment in unlisted NCDs as % of the	Maximum investment in unlisted NCDs as % of the debt portfolio of the scheme.	15% - March 31, 2020	15% - April 30, 2020

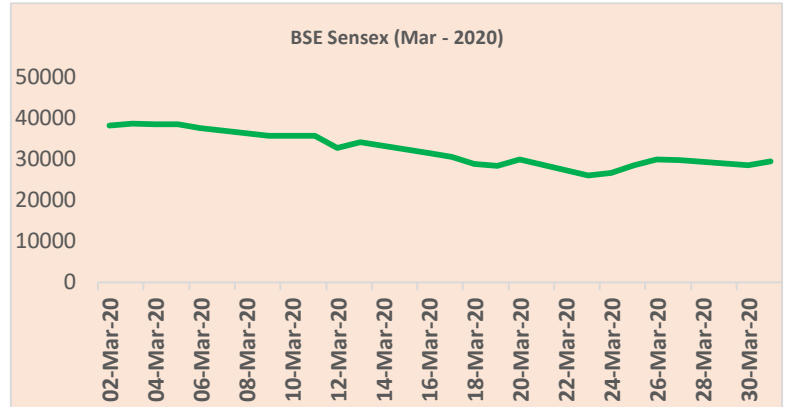
	debt portfolio of the scheme. 15% - March 31, 2020 15% - April 30, 2020			
4	Valuation of money market and debt securities dated September 24, 2019	Amortization based valuation shall be dispensed with and irrespective of residual maturity, all money market and debt securities shall be valued	April 1, 2020	May 1, 2020

Further, in light of difficulties expressed by AMCs, the access control presently exercised in the AMC's dealing room including call recording of deals is temporarily relaxed subject to checks and balances including electronic confirmation by way of email or other system having audit trail are in place.

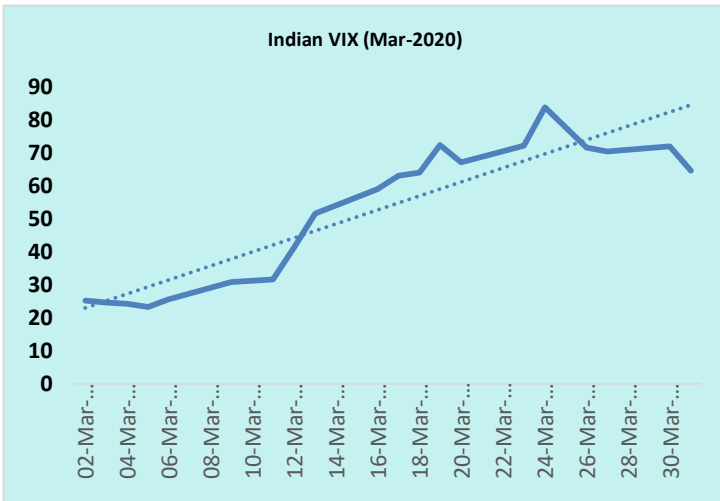
CAPITAL MARKETS SNAPSHOT



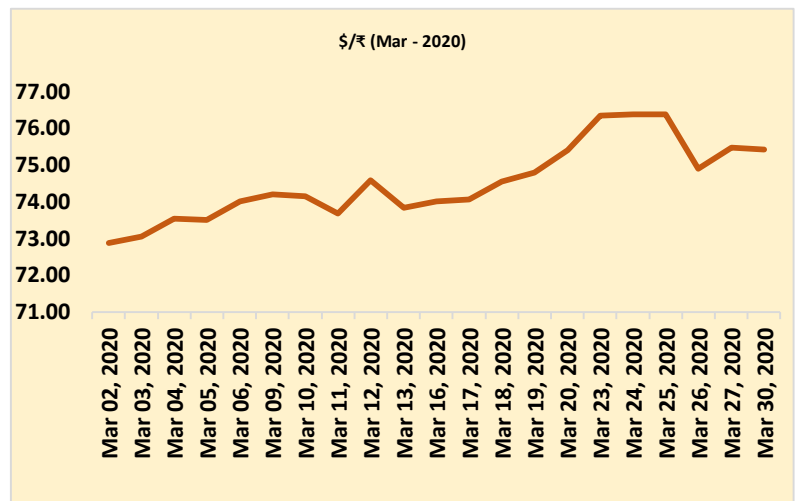
Source: National Stock Exchange



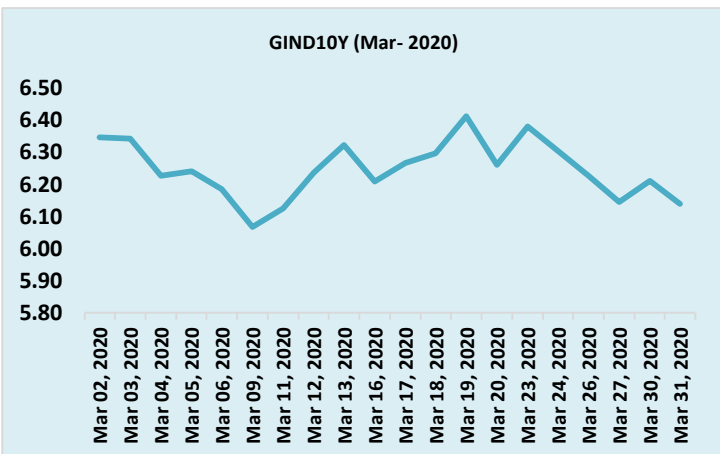
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

The market was battered by intensifying fears of a global recession driven by the Novel Coronavirus (COVID-19) pandemic. The downward momentum persisted in Indian equities even in March. S&P BSE Sensex and Nifty 50 fell 0.3% and 1%, respectively. The market slipped after the government announced lockdown of several districts to contain the spread of coronavirus pandemic. However, losses were trimmed on tracking upbeat global equities after the US government and the US Federal Reserve (Fed) rolled out a slew of stimulus measures to fight the economic fallout from the coronavirus pandemic. Sentiments were supported further after the domestic government and the Reserve Bank of India (RBI) announced various measures to prop up the economy.

ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2020*	2021*	Latest	2020*	% of GDP, 2020*	% of GDP, 2020*	(10YGov), Latest
Brazil	1.7 Q4	-1.0	1.5	4.0 Feb	4.2	-2.9	-5.3	3.34
Russia	2.1 Q4	-2.6	1.4	2.3 Feb	6.8	1.2	2.7	7.00
India	4.7 Q4	2.1	5.1	6.6 Feb	5.7	-0.3	-5.1	6.14
China	6.0 Q4	1.0	8.1	5.2 Feb	5.2	1.8	-5.5	2.31 [^]
S Africa	-0.5 Q4	0.7	1.2	4.5 Feb	4.5	-3.9	-5.9	8.26
USA	2.3 Q4	-2.9	1.6	2.3 Feb	0.1	-2.1	-12.3	0.70
Canada	1.5 Q4	0.4	2.2	2.2 Feb	2.2	-3.2	-2.9	0.70
Mexico	-0.5 Q4	-6.5	2.4	3.7 Feb	2.9	-2.0	-4.2	7.3
Euro Area	1.0 Q4	-0.3	1.3	0.7 Mar	0.8	2.1	-1.8	0.0
Germany	0.5 Q4	-1.0	1.2	1.4 Mar	0.9	4.9	-0.5	0.0
Britain	1.1 Q4	0.8	0.9	1.7 Feb	1.3	-4.3	-2.4	0.36
Australia	2.2 Q4	1.6	2.4	1.8 Q4	1.8	-0.2	-0.1	0.77
Indonesia	5.0 Q4	1.0	5.0	3.0 Mar	0.7	-1.6	-5.1	7.86
Malaysia	3.6 Q4	-1.0	4.6	1.3 Feb	1.5	3.3	-6.2	3.37
Singapore	-2.2 Q1	0.4	2.3	0.3 Feb	1.0	16.7	-1.6	1.26
S Korea	2.3 Q4	-1.8	3.2	1.1 Feb	-0.2	3.7	-3.7	1.55

Sources: *The Economist*

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

[^] 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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