2021

Volume 8

APAS MONTHLY

THIS MONTH

Season’s greetings!

In this issue, Mr. Sashidhar Jagdishan, MD & CEO, HDFC Bank, has presented his thoughts on ‘Trends in Banking’. We thank Mr. Jagdishan for his contribution to the APAS Monthly.

This month, the APAS column presents its views on ‘Growth in bank credit and equity funding’.

The economic indicators showed mixed performance. Manufacturing PMI surged to a 3-month high of 55.3 in July from 48.1 in June. India’s annual infrastructure output in July rose by 9.4%. India's Index of Industrial Production (IIP) rose 13.6% in June. PMI services rose to 45.4 in July from 41.2 in June, while composite PMI rose to 49.2 in July from 43.1 in June. CPI inflation eased to a 3-month low of 5.59% in July from 6.26% in June. WPI inflation eased to 11.16% in July from 12.07% in June.

The Gross Domestic Product (GDP) growth rate for the first quarter (April-June) of 2021-22 grew at a record pace of 20.1%.

The Reserve Bank of India (RBI) released Report of the Expert Committee on Urban Co-operative Banks and Monetary Policy Committee Meeting, August 4 to 6, 2021.

The Insurance Regulatory Development Authority of India (IRDAI) announced revised regulations for Solvency Margin for Crop Insurance Business.

APAS
ashvin parekh advisory services

Cabinet announced summary of major initiatives taken by Government & RBI to mitigate hardship faced by farmers due to COVID-19.

Securities and Exchange Board of India (SEBI) announced (1) Disclosure of risk-o-meter of scheme, benchmark and portfolio details to the investors (2) 'Security and Covenant Monitoring' using Distributed Ledger Technology (3) Calendar Spread margin benefit in commodity futures contracts.

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.

Ashvin parekh

On the cover

GUEST COLUMN

Trends in banking

Sashidhar Jagdishan
MD & CEO
HDFC Bank

APAS COLUMN

Growth in bank credit and equity funding

ECONOMY

- *Index of Industrial Production – June*
- *Inflation update – July*
- *PMI update – July*
- *Core Sector – July*
- *GDP – Q1 – FY 21-22*

APAS
ashvin parekh advisory services

BANKING

- [Report of the Expert Committee on Urban Co-operative Banks]
- [Monetary Policy Committee Meeting, August 4 to 6, 2021]

INSURANCE

- [Solvency Margin for Crop Insurance Business]

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- [Major initiatives taken by Government & RBI to mitigate hardship faced by farmers due to COVID-19]

CAPITAL MARKETS

- *Disclosure of risk-o-meter of scheme, benchmark and portfolio details to the investors*
- *'Security and Covenant Monitoring' using Distributed Ledger Technology*
- *Calendar Spread margin benefit in commodity futures contracts*

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

ECONOMIC DATA SNAPSHOT

- *Global GDP, CPI, Current account balance, budget balance, Interest rates*

APAS
ashvin parekh advisory services

Trends in banking

Sashidhar Jagdishan
MD & CEO
HDFC Bank

India at the cusp of change

After 30 years of economic liberalisation, India's economy has grown to become the 6th largest economy in the world at $2.7 trillion and is further poised to grow from here. The relatively young demography and the changing socio- economic patterns with per capita income upwards of $2000, bodes well for a geometric shift in economic activity in the country, in the future. Successive governments both at the centre and in the States have realised social spending (average spends of $90 billion) for intended purpose and directly to beneficiaries is important for a stable government. This along with the infrastructure spending (average spends of $50 billion) in road, rail, air, telecom and power networks has led to a stable GDP growth rate of 6.5% (median) of between 1991 to 2020 and aided better distribution of income to all parts of society and across both urban and rural India. (Urban per capita income @ $3000 and Rural per capita income @ $ 1400). The changing dynamics of geopolitics will also provide a huge opportunity for exports from India especially to US which is expected to see a massive growth in infrastructure spends.

Changing consumer behaviour

With explosion of telecommunications, telephony, television, internet and social media the world has become flat. Aspirations and desires coupled with increasing per capita income have gone up even in the remotest corners of the country. Consumerism is at the cusp of change. Demand for consumer goods and Banking & Financial services will start to see geometric growth as we saw in the developed countries in the 70s and 80s.

Bharat

With 60% of India living in semi urban and rural India (Bharat), the population in Bharat is hugely under served and under penetrated from a financial services perspective. It is a massive opportunity waiting to be tapped. This will drive economic growth in the future. This requires a fine balance of physical distribution to understand the local population and digitisation of products and services to balance risk and cost of product delivery. Banks will have to continue to expand its distribution coverage through a combination of own branch setups and through partnerships with correspondents.

Micro enterprises

One of the core segments which contributes to economic growth in India is the micro enterprises segment. This contributes to almost 30% of India's GDP. Of the approximate 6 to 8 crore medium, small and micro enterprises, only 15% have been exposed to organised finance. With one of the most advanced and robust payment networks in the country, more and more of these enterprises and their customer ecosystem have adopted digital payments network which is evident in the Teutonic shift in the pace of UPI transactions in the country. This digital footprint of the micro enterprises and their customers will provide greater understanding and acceptance to the organised finance sector in the coming years. This will be one of the fastest growth engines of the future.

Technology needs to pole vault

Technology in banking is still 10 years behind not just in India but globally. In the last 5 to 6 years, Technology and engineering in the e-commerce sector has pole vaulted to stratospheric levels which has demonstrated on demand scalability, unimaginable resiliency and multiple layers of defence mechanisms. Banks will have to reengineer its tech architecture to micro services based architecture on cloud to be able to absorb the growing demand for financial services. It's just not about technology, but also about the way technology is implemented in an agile manner is important, so that banks get it right first time and time to market of launch of products and services is quick.

Cyber attacks will multiply

The benefits of moving more and more to cloud infrastructure also exposes institutions to even more vulnerabilities. This requires sharper understanding and mapping of threats and vulnerabilities and minimise the vulnerability exposures. Artificial intelligence and machine learning will need to play a huge role in prediction and remediation of vulnerabilities. Banks which do not invest in this practice will lose customer and regulatory confidence.

Fintechs and platforms

Fintechs and platforms have mushroomed over the last decade significantly across the globe. They ride "over the top" (OTT) of the tech platform and business models of the underlying physical businesses and provide seamless customer experience whether for buying goods and services or making payments or enabling credit. Like in any business, this space will see consolidation and rationalisation. The ones which are able to get scale and monetise their data effectively will survive. To do that they need to partner with large institutions which can provide scale whilst the fintechs provide seamless customer experience. Fintechs will not find it economically sustainable to disrupt core financial institutions, especially in a highly regulated environment. Only partnerships will thrive. With partnerships between fintechs and banks, it will be a huge opportunity to take banking to customers as against the traditional approach of customers coming to banks. "Banking as a service" on the fintech platforms which see a huge footfall of customers will be one of the largest feeders of business in the coming decade as against traditional branch banking channels.

Regulatory headwinds

With such rapid increase in digital activity, the regulators have a huge role to play in providing confidence to the robustness, resiliency and security of the financial system. It is quite natural to expect heightened regulatory intensity in times to come not just in India but across the globe. The regulatory oversight on technology infrastructure is expected to be on top of the charts followed by business conduct. Regulators will increasingly take on the role as "consumer activist" to protect the interests of banking consumers.

To sum up, the future in banking is going to see frenetic activity. The large players who are able to adopt and adapt to fast changing consumer, tech and regulatory landscape will thrive and become bigger. There will be room for many players to play in this large market opportunity that India has to offer in financial services space. What will be interesting to watch is the public sector banking. They may be constrained today for several known reasons - but they offer excellent franchise value. There is an opportunity for government to monetize this value with some bold decisions. It's a space to watch out for. **This decade will be the best for banking as the previous one was for the e-commerce platforms.**

Growth in bank credit and equity funding

The financial services industry plays a significant part in the overall growth of an economy by providing capital which is required for economic development. Capital formation through the mobilization of resources by the financial services industry is the key element of economic growth strategy. The banks in the economy aid in making funds accessible by moving excess funds from depositors and channelling those funds as a credit to investors who have good ideas for generating surplus funds in the economy. Bank credit finances production, consumption and capital formation, which stimulates the economic growth.

Bank credit growth is a key indicator of economic growth and a credit-GDP ratio of 100% is considered as ideal, which indicates robust demand for credit without the fear of a bubble in the making. A higher credit-to-GDP ratio indicates aggressive and active participation of the banking sector in the real economy, while a lower number shows the need for more formal credit.

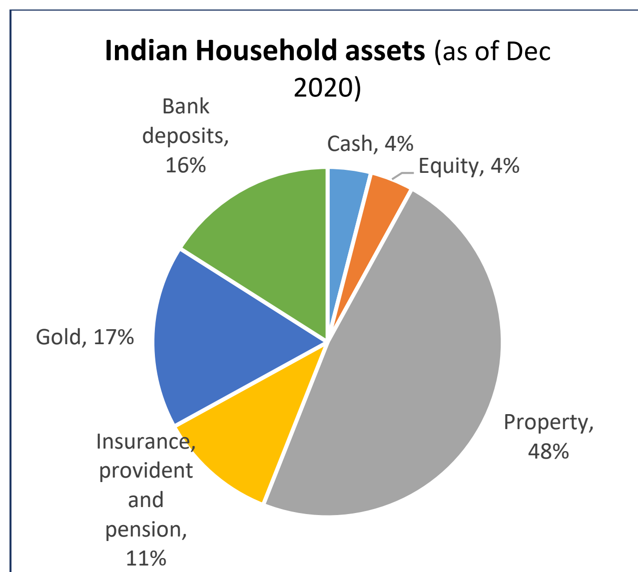
The country's credit-to-GDP ratio improved to 56% in 2020 from a low of 52.7% in 2019. In 2018, it was still lower at 52.4%, marginally better at 53.6% in 2017, and a higher 59% in 2016 and the five-year best of 64.8% in 2015. According to the BIS data at 56%, the ratio is just over half of what G20 economies clocked in the year. It's also much lower than emerging market economies and advanced economies, which grossed up 135.5% and 88.7%, respectively.

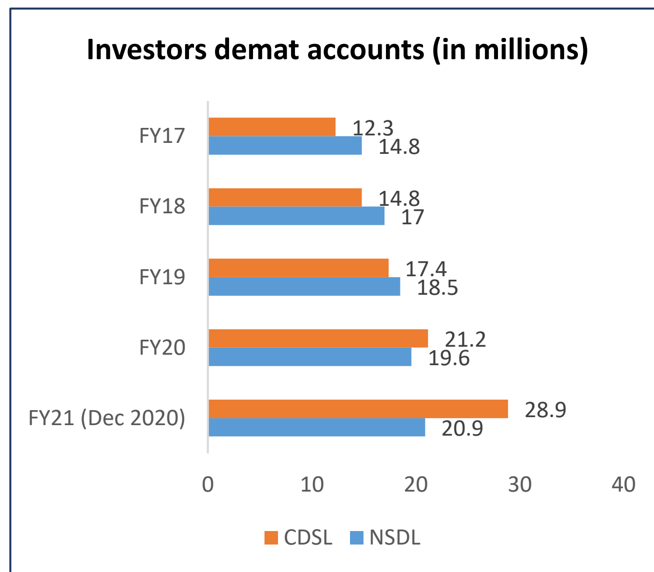
Covid-19 pandemic has also played its destructive role in the growth of bank credit. The government and the RBI have undertaken various measures to protect the banking and finance sector from the adverse impact of the Covid-19 crisis. However, despite historically low interest rates, credit growth has been rather low in recent quarters. Loans to companies and individuals has been growing at a subdued 5.5%-6% in recent months, which is half the pace seen before the pandemic struck. In June 2021, the credit growth of SCBs slowed to 5.8% as against 6.2% a year ago largely driven by bleak lending to the industry, which accounts for the highest share in bank lending at around 27%.

Large companies systematically reduced their leverage measured as ratio of debt to equity and debt to total assets. The decline is especially sharp after the 2015 Financial Year. Buoyant public equity markets and strong investments by private equity firms aided this process, as companies could easily raise equity capital to reduce debt levels.

Due to fall in interest rates and with the advent of technology, investing in stock markets has taken off in India, and it's the younger investors, including millennials, who are driving the big shift. The moves are part of a broader shift away from traditional physical assets, such as real estate and gold, as well as bank deposits. Rural farmers and the urban working class have traditionally relied on gold as both an insurance policy and a retirement plan in a country that lacks robust social welfare systems or widespread access to formal credit. But Indian millennials are more inclined to take risks in the market and people are moving from safe investment options such as bank deposits to riskier investment avenues such as equity market. Traditionally, metropolitan cities have been the topmost contributors to the equities market. Over the last three to five years, however, an increasing number of retail investors, particularly from tier-2 and tier-3 cities have been actively contributing to India's growth story, reflecting the booming interest in equities among all socioeconomic strata. Undoubtedly, small towns are playing a crucial role in the socioeconomic transformation. Due to improving investor education via enhanced availability of information on digital modes and growing awareness amongst the general public, a sizeable fragment of small towners has now begun to diversify their investments to newer financial asset classes from traditional, conventional fixed savings avenues.

Retail ownership in more than 1,500 companies listed on the National Stock Exchange of India jumped to 9 per cent in the third quarter of 2020, the highest since March 2018. However, it should be noted that in India, only about 4% of individuals invest in the equity market. However, in China, this figure is at 12% and in USA, 55% individuals own stocks directly or through mutual funds. Therefore, it can be said that there is still a huge scope for Indian equity market to grow in terms of participants. Following charts show that investors investing in equity asset class have increased by good percentage in FY20 and FY21.





Source: RBI, BS Research Bureau, CDSL

Simultaneously, it should be seen that people are not investing in riskier investment avenues beyond their risk-taking capacity as it may wipe out their savings completely. However, if there is a good ratio of investments in safer assets to riskier assets, then it is good for the nation that most of the people are getting into the equity market and understanding several other financial assets apart from traditional assets like gold

and property. People should understand that financial knowledge is required before investing in equity market. Otherwise, people with no or less financial knowledge can opt for investing in mutual funds.

Looking at entry of large number of retail investors in the equity market, it seems that organizations are also moving from bank credit to IPO route to raise funds, either for expansion or to offload some of their stake. Retail investors are participating exorbitantly in the IPOs. However, a few companies are taking advantage of the situation. Even the IPOs of companies which have been incurring losses over several years are getting oversubscribed and overenthusiastic retail investors are falling in the trap. Promoters, early-stage investors and Institutional investors are offloading their stake to retail investors. Therefore, even if retail investors are jumping into the equity market, only individuals with financial knowledge will survive in it and others may lose their savings in the market.

Currently, the equity market is in a bullish phase and hence, both the companies and investors are happy, as companies are able to get a good value and the investors are getting good returns. Once the market starts to move downwards, it is expected that the companies will move back to bank credit and retail investors will move to safer assets.

To conclude, it is good for the nation that retail investors are increasingly participating in India’s growth story, however, the nation’s savings could be wiped out if risks in equity market are not properly managed by retail investors. There should be a good balance between investing in safer assets and riskier assets, depending on the capacity to take risks.

-APAS

ECONOMY

IIP (Index of Industrial Production) – June

Index of Industrial Production (IIP) or factory output for the month of June 2021 rose 13.6%, compared to 28.6% in May 2021 and a contraction of 16.6% in June 2020.

The General Index for the month of June 2021 stands at 122.6, which is 13.6% higher as compared to June 2020.

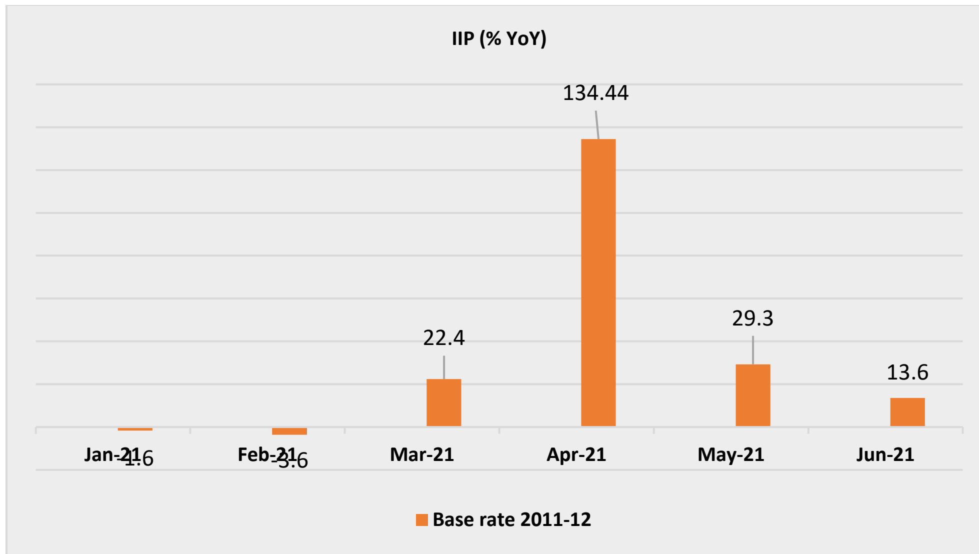
The manufacturing sector, which constitutes 77.63% of the index, went up by 13% in June, to 121.

Mining sector output grew by 23.1%, to 105.5.

Electricity generation rose by 8.3%, to 169.1.

As per Use-based classification, the indices stand at 122.4 for primary goods, 80.2 for capital goods, 132.6 for intermediate goods and 136.8 for infrastructure/construction goods for June.

Further, the indices for consumer durables and consumer non-durables were at 101.7 and 140.8, respectively.



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

CPI (Consumer Price Index) – July

India's consumer price index (CPI) or retail inflation eased to a 3-month low of 5.59% in July 2021, compared to 6.26% in June 2021.

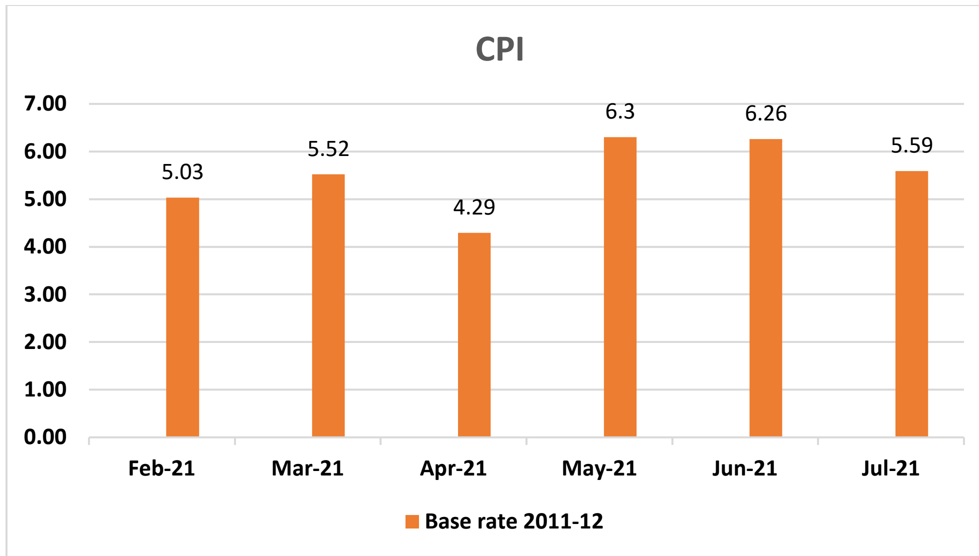
The corresponding provisional inflation rates for rural and urban areas are 5.49% and 5.82% respectively.

The Consumer Food Price Index (CFPI) fell to 3.96% in July from 5.15% in June.

The core CPI inflation eased to 5.7% in July 2021 from 5.9% in June 2021.

Among the CPI components, inflation for food and beverages fell to 4.46% in July.

Apart from food and beverages, the inflation rate for pan, tobacco and intoxicants was at 4.71%, the fuel and light segment rose 12.38%, clothing and footwear gained 6.46% and the housing segment inched up 3.86%.



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

WPI (Wholesale Price Index) – July

India's wholesale price index (WPI) inflation eased to 11.16% in July 2021, as compared to 12.07% in June 2021 and (-) 0.25% in July 2020.

The rate of inflation based on WPI Food Index decreased to 4.46% in July 2021 from 6.66% in June 2021.

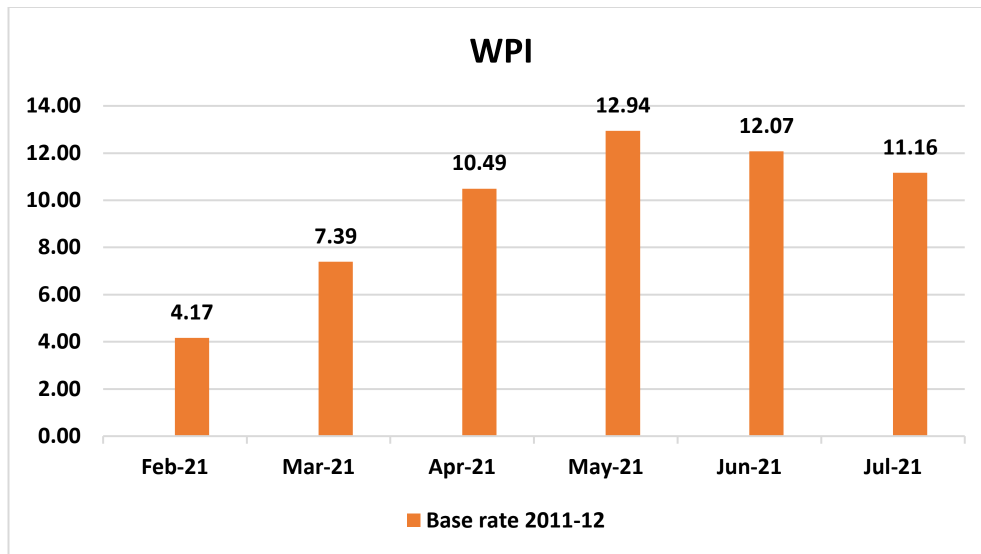
The index for primary articles increased by 1.05% from the previous month.

Prices increased for crude petroleum and natural gas (7.91%), non-food articles (2.35%) and food articles (0.69%). Prices declined for minerals (8.11%).

The index for fuel and power increased by 0.53% from the previous month.

Prices increased for mineral oils (5.41%). Prices declined for electricity (11.61%). Prices of coal remained unchanged.

The index for manufactured products increased by 0.38% from the previous month.



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

Manufacturing PMI – July

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in July expanded after a month as local lockdowns imposed to curb the deadlier second wave of the Covid-19 pandemic eased.

The Manufacturing PMI surged to a 3-month high of 55.3 in July 2021 from 48.1 in June 2021. It moved back above the 50 level, that separates expansion from contraction.

This was the strongest growth in the sector since April, as output, new orders, exports, quantity of purchases and input stocks, all returned to expansion territory.

At the same time, employment rose marginally, ending a 15-month sequence of job shedding.

Also, the buying activity growth was solid by historical standards.

Prices data showed input cost inflation easing to a 7-month low, but remained above its long-run average.

As a result, selling prices inflation slowed to the weakest in 2021 so far.

Lastly, confidence strengthened from June's 11-month low, but remained historically subdued as companies were concerned about the path of the pandemic.

Source: www.tradingeconomics.com

Services PMI – July

The Indian services sector activity in July indicated some improvement as local lockdowns to contain the deadlier second Covid-19 wave eased.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index rose to 45.4 in July 2021 from 41.2 in June 2021. The index remained below the neutral mark of 50, which separates expansion from contraction, for the third straight month.

The reading pointed to the third straight month of contraction in the sector, due to the Covid-19 pandemic and local restrictions.

Both output and new orders shrank at a softer rate, while employment contracted for the eighth consecutive month, albeit at a moderate pace that was slower than that seen in June.

On the price front, input cost inflation accelerated, due to a faster rise in prices of fuel, medical equipment and raw material.

As a result, selling prices inflation accelerated to the fastest in the current 5-month sequence of increase.

Looking ahead, business sentiments were pessimistic for the first time in a year, due to concerns over the pandemic, margins and inflation.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to 49.2 in July from 43.1 in June.

Source: www.tradingeconomics.com

Core Sector Data – July

Growth of eight infrastructure sectors rose by 9.4% in July 2021, as all sectors except crude oil registered an increase in output.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 9.3% in June 2021 and contracted by 7.6% in July 2020.

Positive growth was seen in 7 out of 8 sectors, with crude oil continuing to remain in negative territory.

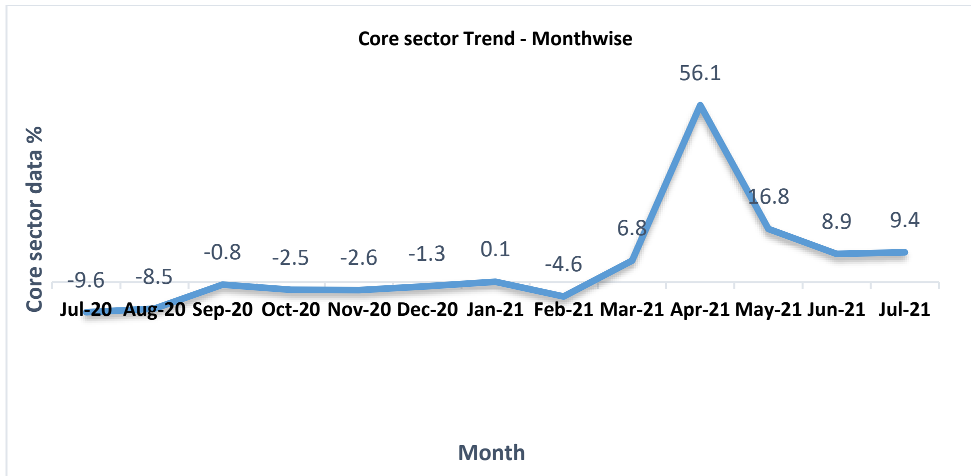
The cement sector registered the highest growth of 21.8%, followed by natural gas as 18.9% and coal at 18.7%.

Steel production grew 9.3%, while electricity generation rose 9%.

Petroleum refinery production grew 6.7%, while fertiliser production increased 0.5%.

Crude oil output contracted by 3.2%.

Cumulatively, the growth in the eight core sectors during April-July 2021-22 grew by 21.2%, as against a contraction of 19.8% in the same period last financial year.



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

GDP – Quarter 1 – FY 2021-22

The country's Gross Domestic Product (GDP) growth rate for the first quarter (April-June) of fiscal year 2021-22 grew at a record pace of 20.1%, on the back of a weak base and a sharp rise in consumption demand.

The GDP growth rate in Q1 FY 2020-21 was (-) 24.4% and in Q4 FY 2020-21 was 1.6%.

GDP at constant (2011-12) prices in Q1 FY 2021-22 is estimated at INR 32.38 lakh crore, as against INR 26.95 lakh crore in Q1 FY 2020-21, showing a growth of 20.1%, as compared to a contraction of 24.4% in Q1 FY 2020-21.

Quarterly GVA at basic price at constant (2011-12) prices for Q1 FY 2021-22 is estimated at INR 30.48 lakh crore, as against INR 25.66 lakh crore in Q1 FY 2020-21, showing a growth of 18.8%, as against a contraction of 22.4% in the previous year.

GDP in nominal terms, which factors in inflation, grew by 31.7% in Q1, as against 22.3% contraction last year.

The rebound came despite the drag from the deadly second wave of the coronavirus, which forced states across India to reimpose localized lockdowns and stop mobility completely from late April to early June.

But unlike during the nationwide lockdown last year, repeat state level lockdowns had a less pronounced impact on the economy, as they left more room for consumers to spend.

This is India's fastest growth since official quarterly data started being released in the mid-1990s.

Amongst sectors, manufacturing and construction imparted a significant push to the economy.

GVA growth in the manufacturing sector accelerated to 49.63% in Q1, compared to a contraction of 36% last year.

Farm sector GVA growth was up at 4.5%, compared to 3.5% earlier.

Construction sector GVA grew by 68.3%, compared to 49.5% contraction earlier.

Mining sector grew by 18.6%, as against a contraction of 17.2% a year ago.

Electricity, gas, water supply and other utility services segment grew by 14.3%, against 9.9% contraction a year ago.

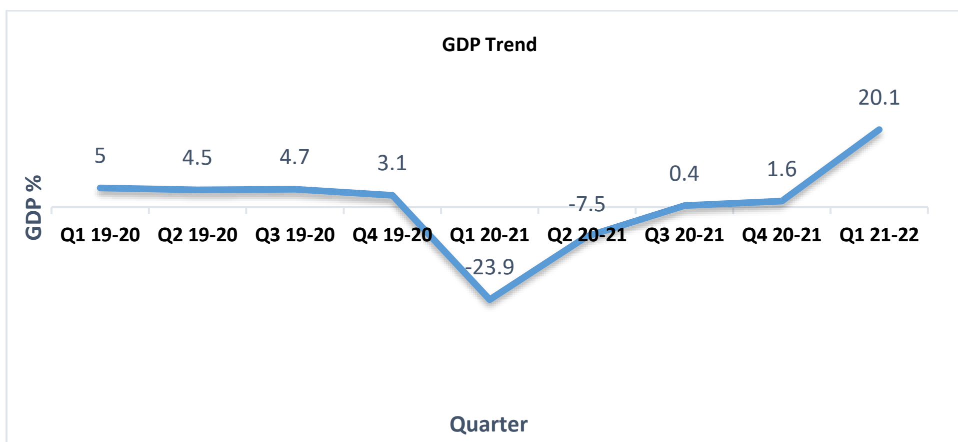
Similarly, trade, hotels, transport, communication and services related to broadcasting grew by 34.3%, compared to 48.1% contraction earlier.

Financial, real estate and professional services grew by 3.7%, compared to a contraction of 5%.

Public administration, defence and other services grew at 5.8% during the quarter, compared to (-) 10.2% a year earlier.

In terms of expenditure, private final consumption expenditure, a measure of consumer spending, grew 19.34% and gross fixed capital formation, an indicator for private investment, jumped 55.26%.

Government final consumption expenditure was recorded at INR 4.21 lakh crore in Q1, lower than INR 4.42 lakh crore last year.



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

BANKING

Report of the Expert Committee on Urban Co-operative Banks

As per an announcement in the Statement of developmental and regulatory policies Reserve Bank of India (RBI) had, on February 15, 2021, announced the constitution of an Expert Committee on Primary (Urban) Co-operative Banks under the chairmanship of Shri N. S. Vishwanathan, former Deputy Governor, Reserve Bank of India. The Expert Committee was required to examine the issues and to provide a road map for strengthening the sector, leveraging on the recent amendments to the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies).

The Committee has since submitted its report for public review. The report has been divided into two parts:

I. Vision document
II. Report examining and giving the Committee's recommendations on various aspects of functioning of Urban co-operative banks on their regulation and supervision

Key summary points of the Committee's recommendations include:

The UCBs can be split into four categories —

a. Tier-1 with deposits up to ₹100 crore
b. Tier-2 with deposits between ₹100- ₹1,000 crore,
c. Tier-3 with deposits between ₹1,000 crore to ₹10,000 and
d. Tier-4 with deposits of over ₹10,000 crore.

The minimum Capital to Risk-Weighted Assets Ratio (CRAR) for cooperative banks could vary from 9% to 15% and for Tier-4 UCBs the Basel III prescribed norms.

The committee has also prescribed separate ceilings for home loans, loan against gold ornaments and unsecured loans for different categories of UCBs.

Supervisory Action Framework (SAF)

The committee says a twin indicator approach should be followed, i.e., asset quality should be considered and capital measured through NNPA and CRAR. The committee says the objective of SAF should be to find a time-bound remedy to the financial stress of a bank.

Resolution of UCBs

In case of resolutions of UCBs, the committee suggests, compulsory amalgamation with another banking institution, Reconstruction through reconstitution of the capital, etc., allotment of shares/long term debt instruments of the transferee bank (acquiring bank) to the depositors/creditors/members without reducing their claims.

Other key points include:

i. Understand the heterogeneity of the sector and frame regulations to harness the USP of each sub-segment
ii. Umbrella Organisation should be expedited and empowered
iii. Enable the larger UCBs to raise capital
iv. Strengthen Governance, particularly in the Larger UCBs
v. Make Regulatory Authorisations Automatic to grow organically
vi. Maintain Regulatory Neutrality towards Voluntary Mergers in the normal course but encourage them as an alternative to mandatory amalgamations; Strengthen Supervisory Action Framework
vii. Empower TAFCUB (Task force on urban co-operative banks)

Monetary Policy Committee Meeting, August 4 to 6, 2021

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.

The MPC also decided to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

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 MPC's meeting during June 2-4, 2021, the pace of global recovery appears to be moderating with the resurgence of infections in several parts of the world, especially from the delta variant of the virus. In June and July, global purchasing managers' indices (PMIs) slipped from the highs scaled in May. The growing consensus is that the recovery is occurring on a diverging two-track mode. Countries that are ahead in vaccination and have been able to provide or maintain policy stimulus are rebounding strongly. Growth in

other economies remains subdued and vulnerable to new waves of infections. There has been a slowing of momentum in global trade volumes in Q2:2021, with elevated shipping charges and logistics costs posing headwinds.

There has been a considerable hardening of commodity prices, particularly of crude oil. The latest agreement within the Organisation of Petroleum Countries (OPEC) plus to raise oil production for a likely restoration of output to the pre-pandemic levels by September 2022 imparted transient softening to spot and future crude prices from the recent peak in early July. Headline inflation has ratcheted up in several advanced economies (AEs) as well as most emerging market economies (EMEs), prompting a few central banks in EMEs to tighten monetary policy. In contrast, sovereign bond yields have softened across AEs as markets seem to have acquiesced to the views of central banks that inflation is largely transitory. In EMEs, bond yields remain relatively high on inflation concerns and country-specific factors. In the foreign exchange market, EME currencies have depreciated in the wake of portfolio outflows since mid-June as risk appetite ebbed, while the US dollar has strengthened.

Domestic economy

On the domestic front, economic activity picked up pace in June-July as some states eased pandemic containment measures. As regards agriculture, the south-west monsoon regained intensity in mid-July after a lull; the cumulative rainfall up to August 1, 2021, was one per cent below the long-period average. The pace of sowing of kharif crops picked up in July along with some high frequency indicators of rural demand, notably tractor and fertiliser sales.

INSURANCE

Solvency Margin for Crop Insurance Business

As per an earlier circular by IRDAI in regard solvency margin for crop insurance, the section 6.1.1 in the said circular read as follows:

"Premiums receivables relating to State/Central Government sponsored schemes, to the extent they are not realized within a period of one year should be placed with value zero."

The revised regulations read as below:

"Premium receivables related to State / Central Government sponsored schemes for all quarters of the FY 2021-22 to the extent that they are not realized within a period of 270 days should be placed with value zero."

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Major initiatives taken by Government & RBI to mitigate hardship faced by farmers due to COVID-19

The Government and the Reserve Bank of India (RBI) have taken major initiatives to mitigate the hardship being faced by farmers due to COVID-19. This was stated by Union Minister of State for Finance Dr Bhagwat Kisanrao Karad in a written reply to a question in Lok Sabha today.

The Minister further stated the efforts made/being made by the Government for the remedy of the problems regarding agriculture loan being faced by the farmers in the country as under:

- The moratorium for the total period of six months upto 31st August, 2020, was permitted in respect of all term loans (including agricultural term loans, retail and crop loans). This was aimed at providing temporary reprieve to borrowers affected by the pandemic, while attempting to preserve the resilience of the financial system. In order to ensure that farmers do not pay higher interest during the moratorium period, the benefit of 2% Interest Subvention and 3% Prompt Repayment Incentive was also extended to them for the moratorium period up to 31st August, 2020 or date of repayment, whichever is earlier. As advised by RBI, the moratorium has not been extended beyond August 31, 2020 taking into account the larger implications on the banking sector, credit culture and financial stability.
- In respect of loans to allied activities viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture, RBI has also issued a clarification that these loans can be taken up for resolution under the Resolution Framework for Covid-19 related Stress issued on 6th August 2020 which, inter alia, provides for a moratorium upto two years.
- Further, RBI's extant directions on relief measures to be provided by respective lending institutions in areas affected by natural calamities, such as flood, cyclone, drought, hailstorm, cold wave/frost, etc., inter alia, include, restructuring/rescheduling of existing crop loans and term loans, extending fresh loans, relaxed security and margin norms, moratorium, etc. These directions have been so designed that the moment calamity is declared by the concerned State Governments/District Authorities they are automatically set in motion without any intervention, thus saving precious time. The benchmark

for initiating relief measures by banks has also been reduced to 33% crop loss in line with the National Disaster Management Framework.

- To meet the credit needs for post-harvest and kharif sowing requirements of farmers including small and marginal farmers, a front-loaded Special Liquidity Facility (SLF) of Rs. 55,000 crore under SLF–I and SLF-II has been extended by NABARD during COVID-19 pandemic for Regional Rural Banks, Cooperative Banks and Non Banking Financial Company (NBFCs)-Micro Finance Institutions (mFIs). This additional special liquidity facility to the rural financial institutions at concessional rate of interest will ensure enhanced credit flow to the agriculture and the allied sector.

CAPITAL MARKETS

Disclosure of risk-o-meter of scheme, benchmark and portfolio details to the investors

As per an earlier circular by SEBI, SEBI had mandated asset management companies to incorporate following disclosures on its scheme document:

1. risk-o-meter of the scheme and the benchmark along with the performance disclosure of the scheme vis-à-vis benchmark and
2. details of the portfolio while communicating the fortnightly, monthly and half-yearly statement of scheme portfolio via email.

In view of such disclosures, further disclosures are to be incorporated in the scheme document, including promotional material or that stipulated by SEBI:

1. risk-o-meter of the scheme wherever the performance of the scheme is disclosed
2. risk-o-meter of the scheme and benchmark wherever the performance of the scheme vis-à-vis that of the benchmark is disclosed.

'Security and Covenant Monitoring' using Distributed Ledger Technology

SEBI in its earlier circular had outlined the process of independent 'due diligence' by debenture trustee(s) on assets of an issuer company for the purpose of creation of security and 'periodical monitoring' of security created and enhanced disclosures on the website by debenture trustee(s) on continuous basis.

In order to strengthen the process of security creation, monitoring of security created, monitoring of asset cover and covenants of the non-convertible securities, a working group comprising of officials from SEBI, Depositories, Stock Exchanges and Trustees Association of India (TAI) was constituted by SEBI. Based on the recommendations of the working group, a platform for 'Security and Covenant Monitoring System' ('system') hosted by Depositories shall be developed.

In line with current market practices, related to issuance of non-convertible securities, the system, as per the nature of the non-convertible securities, shall enable various stakeholders to record information for the following aspects:

1. Security creation, asset cover and covenants
2. Periodical monitoring of security cover, asset cover and covenant
3. Interest and redemption payment (part and full) of non-convertible securities
4. Credit Rating information

All the key constituents of the value chain have been assigned responsibilities in the report.

Calendar Spread margin benefit in commodity futures contracts

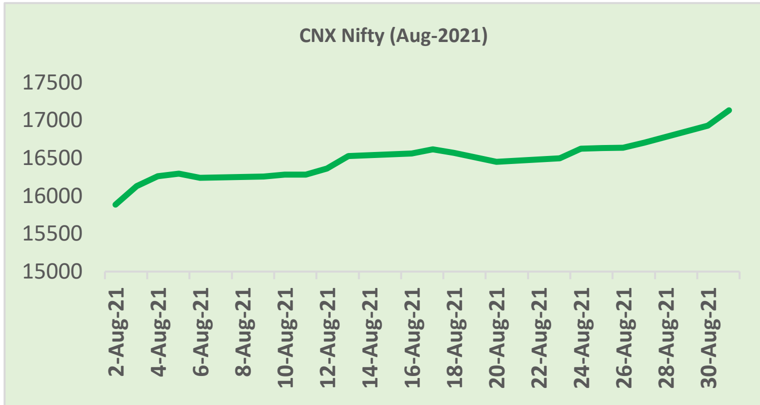
SEBI had prescribed norms, inter-alia, for providing margin benefit on calendar spread positions in commodity futures contracts.

The calendar spread margin benefit is presently applicable for the first three expiries only. It has been submitted by the market participants that the extension of this benefit beyond the first three expiries is expected to increase liquidity in far month contracts, facilitate hedging by value chain participants and reduce cost of trading. Therefore, considering the possible benefits likely to accrue to the investors, in consultation with clearing corporations, SEBI has decided to extend the spread margin benefit beyond the first three expiries.

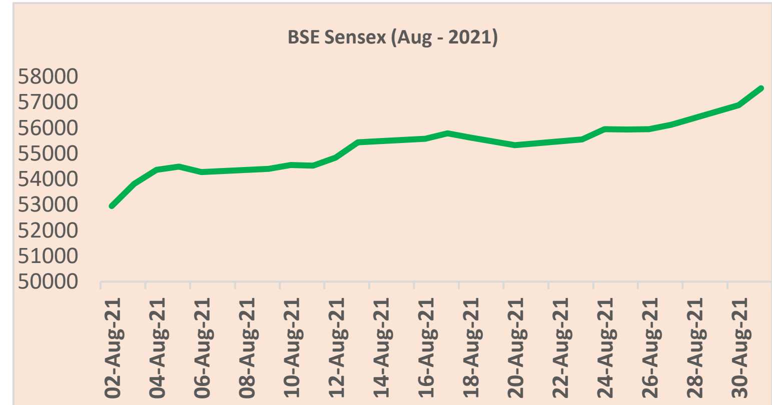
SEBI has thereby modified clause 2.5 of the earlier circular as linked here, to incorporate following clause:

"In case of calendar spreads or spreads consisting of two contract variants having the same underlying commodity (wherein currently 75% benefit in initial margin is permitted), benefit in initial margin shall be permitted when each individual contract in the spread is from amongst the first six expiring contracts."

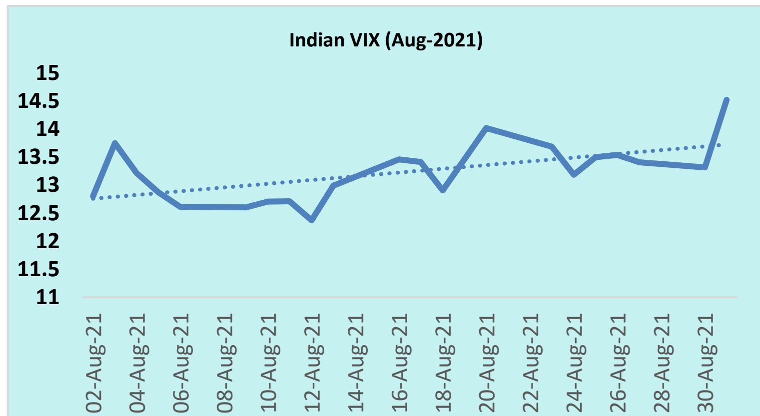
CAPITAL MARKETS SNAPSHOT



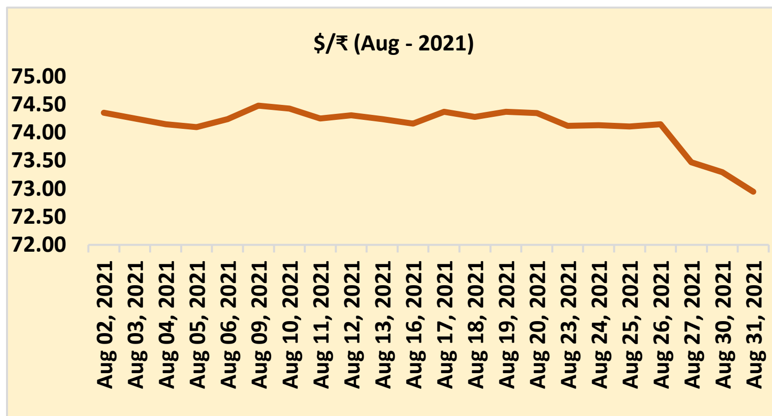
Source: National Stock Exchange



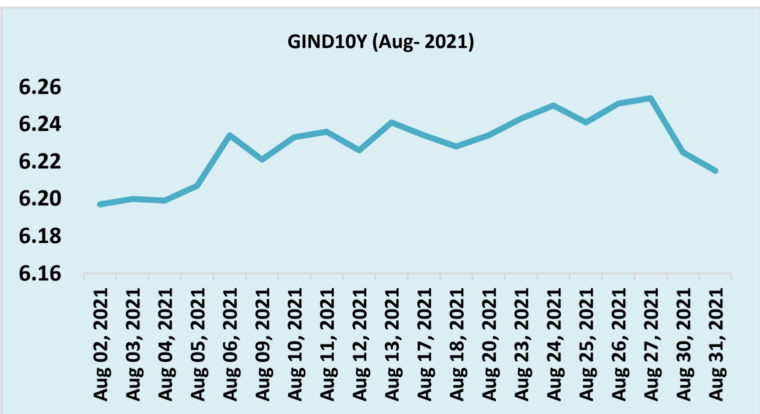
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

The market rose initially as robust July auto sales numbers indicated a pickup in economic activity. Encouraging domestic manufacturing and services activity data and upbeat corporate earnings boosted the sentiments further. The International Monetary Fund cut India's growth forecast to 9.5% for fiscal 2022 from its previous projection of 12.5% owing to the second wave of Covid-19 during March-May.

ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2021*	2022*	Latest	2021*	% of GDP, 2021*	% of GDP, 2021*	(10YGov), Latest
Brazil	12.4 Q2	5.5	1.8	9.7 Aug	7.5	0.1	-5.9	11
Russia	10.3 Q2	3.8	2.6	6.7 Aug	5.8	4.5	-1.8	7.12
India	**20.1 Q2**	**10.4**	**7.0**	**5.6 Jul**	**5.4**	**-1**	**-7.2**	**6.18**
China	7.9 Q2	8.5	5.2	0.8 Aug	1.3	2.8	-4.9	2.70^
S Africa	19.3 Q2	3.0	2.4	4.7 Jul	4.0	1.8	-9.4	8.85
USA	12.2 Q2	6.0	3.7	5.4 Jul	3.6	-3.0	-12.6	1.30
Canada	12.7 Q2	5.4	4.2	3.7 Jul	3.0	-1.7	-8.9	1.18
Mexico	19.6 Q2	6.4	2.8	5.6 Aug	5.2	1.6	-2.8	6.94
Euro Area	14.3 Q2	4.6	4.4	3.0 Aug	1.9	3.4	-7.1	0.0
Germany	9.4 Q2	2.9	4.1	3.9 Aug	2.5	7.1	-5.7	0.0
Britain	22.2 Q2	6.6	5.6	2.0 Jul	2.6	-4.5	-10.9	0.72
Australia	9.6 Q2	4.3	2.2	3.8 Q2	2.5	1.9	-6.1	1.23
Indonesia	7.1 Q2	3.0	5.0	1.6 Aug	2.0	0.3	-6.0	6.14
Malaysia	16.1 Q2	3.8	4.0	2.2 Jul	2.4	4.0	-6.0	3.24
Singapore	14.7 Q2	5.4	3.7	2.5 Jul	1.8	17.3	-4.4	1.39
S Korea	6.0 Q2	3.9	2.7	2.6 Aug	2.2	4.9	-4.4	2.0

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

APAS
ashvin parekh advisory services

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.

Contact Us: 022-6789 1000

info@ap-as.com

www.ap-as.com

Disclaimer – This informative APAS Monthly has been sent only for reader's reference. Contents have been prepared on the basis of publicly available information which has not been independently verified by APAS. Neither APAS, nor any person associated with it, makes any expressed or implied representation or warranty with respect to the sufficiency, accuracy, completeness or reasonableness of the information set forth in this note, nor do they owe any duty of care to any recipient of this note in relation to this APAS Monthly. Reader should not pursue any information provided in the Monthly as an investment advice. Neither APAS nor any person associated with it are responsible for any loss due to such persuasion.

APAS

ashvin parekh advisory services