

2021

**Volume 1**

# APAS MONTHLY

## **THIS MONTH**

### **Season's greetings!**

In this issue, Mr. Vinod Dhall, Chairman, Dhall Competition Consultancy; Former Head, Competition Commission of India, has presented his thoughts on 'Has the Pandemic dented India's image as an investment destination?' We thank Mr. Dhall for his contribution to the APAS Monthly.

This month, the APAS column presents its views on 'Economic scenario and impact on financial services'.

The economic indicators showed mixed performance. Manufacturing PMI rose to 56.4 in December from 56.3 in November. India's annual infrastructure output in December contracted by 1.3%. India's Index of Industrial Production (IIP) witnessed a contraction of 1.9% in November. PMI services fell to a 3-month low of 52.3 in December from 53.7 in November, while composite PMI fell to a 3-month low of 54.9 in December from 56.3 in November. CPI inflation declined to 4.59% in December from 6.93% in November. WPI inflation fell to 1.22% in December from 1.55% in November.

Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman, presented the Economic Survey 2020-21 and Union Budget 2021-22 in the Parliament.

The Reserve Bank of India (RBI) released (1) Monetary Policy Statement, 2020-21 (2) Risk Based Internal Audit (RBIA) Framework for Strengthening Governance arrangements (3) RBI – Digital Payments Index (4) Legal Entity Identifier for Large Value Transactions in Centralised Payment

Systems (5) Operationalization of Payments Infrastructure Development Fund (PIDF) Scheme (6) Discussion Paper on Revised Regulatory Framework for NBFCs – A Scale-Based Approach (7) Framework for strengthening the grievance redress mechanism in banks.

The Insurance Regulatory Development Authority of India (IRDAI) announced Guidelines on Standard Individual Immediate Annuity Product, “Saral Pension” and Guidelines on Cross Border Re-insurers.

CBIC introduced flagship Liberalised Authorised Economic Operator Package for MSMEs. IFSCA became a member of IOSCO.

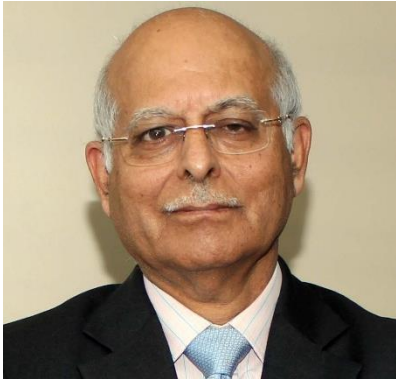
Securities and Exchange Board of India (SEBI) announced (1) Revision in Daily Price Limits (DPL) for Commodity Futures Contracts (2) Review of Volatility Scan Range (VSR) for Option contracts in Commodity Derivatives Segment (3) Transfer of excess contribution made by Stock Exchanges from Core SGF of one Clearing Corporation to the Core SGF of another Clearing Corporation.

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



## GUEST COLUMN

[Has the Pandemic dented India's image as an investment destination?](#)

**Vinod Dhall**  
*Chairman, Dhall Competition Consultancy;  
Former Head, Competition Commission of India*



## APAS COLUMN

[Economic scenario and impact on financial services](#)



## ECONOMY

- [Index of Industrial Production – November](#)
- [Inflation update – December](#)
- [PMI update – December](#)
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- [Economic Survey 2020-21](#)
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- [Reserve Bank of India introduces the RBI – Digital Payments Index](#)
- [Introduction of Legal Entity Identifier for Large Value Transactions in Centralised Payment Systems](#)
- [Operationalization of Payments Infrastructure Development Fund \(PIDF\) Scheme](#)
- [RBI releases Discussion Paper on Revised Regulatory Framework for NBFCs – A Scale-Based Approach](#)
- [RBI releases framework for strengthening the grievance redress mechanism in banks](#)



## INSURANCE

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- [Guidelines on Cross Border Re-insurers](#)

## INFRASTRUCTURE & OTHER GOVT. INITIATIVES



- [CBIC introduces flagship Liberalised Authorised Economic Operator Package for MSMEs](#)
- [IFSCA becomes member of IOSCO](#)



## CAPITAL MARKETS

- Revision in Daily Price Limits (DPL) for Commodity Futures Contracts
- Review of Volatility Scan Range (VSR) for Option contracts in Commodity Derivatives Segment
- Transfer of excess contribution made by Stock Exchanges from Core SGF of one Clearing Corporation to the Core SGF of another Clearing Corporation

## CAPITAL MARKETS SNAPSHOT

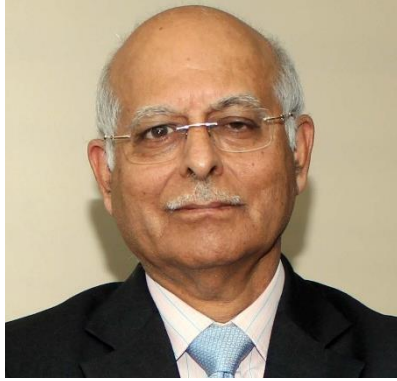
- CNX Nifty, BSE Sensex, India VIX, \$/₹, GIND 10Y

| Countries | GDP    |       |       | CPI      |       | Current Account Balance<br>% of GDP, 2016* | Budget Balance<br>% of GDP, 2016* | Interest Rates<br>(10Y Gov), Latest |
|-----------|--------|-------|-------|----------|-------|--|-----------------------------------|-------------------------------------|
|           | Latest | 2016* | 2017* | Latest   | 2016* |  |                                   |                                     |
| 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 <sup>A</sup>                   |
| 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                                |
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| Singapore | 1.1 Q3 | 1.3   | 2.0   | -0.1 Oct | -0.6  | 21.5                                       | 21.5                              | 2.49                                |
| S Korea   | 2.6 Q3 | 2.7   | 2.5   | 1.5 Nov  | 0.9   | 7.2  | -1.3                              | 2.17                                |

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## ECONOMIC DATA SNAPSHOT

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



## Has the Pandemic dented India's image as an investment destination?

**Vinod Dhall**  
*Chairman, Dhall Competition Consultancy;  
Former Head, Competition Commission of India*

The Covid-19 pandemic has caused havoc around the world. India too has been severely impacted with the total number of cases crossing 10 million and sadly the number of deaths rising to over 1,50,000; the country's numbers have been second only to the United States. The Indian economy too has been badly hit, going south by about 24% in the Q1 of FY2020-21 and an additional 7.9% in Q2. Employment was ravaged with unemployment levels rising to about 23% in Q1 of FY21. Unfortunately, the worst hit have been the poorer sections of society thereby acerbating the existing inequalities in the society.

Government has generally responded swiftly to the crisis, imposing lockdowns, augmenting hospital and other medical services, strategizing and tracking the numbers on a daily basis, though the initial sweeping overnight lockdown had a devastating effect on the economy and the migrant labour. Government has also tried to keep up the people's morale in this dire situation. For now, the worst seems to be over, though there can be no lowering of the guard, as repeat waves of the disease cannot be ruled out especially with new variants of the virus surfacing. If it is any consolation, the recovery rate in India has held at a healthy 98.5 % and the fatality rate has been around 1.47 % making these parameters among the best among major countries.

The Indian economy was already in the slow lane before the pandemic hit. During FY20 GDP growth averaged around 4.2 % with Q4 of the year seeing it hit a historic low of 3.1 %. The pandemic worsened an already distressing economic scene. However, with the infections easing in recent weeks and normal commercial activities resuming to a large extent, visible signs of economic recovery are showing up. The Nomura India Business Resumption Index (NIBRI) was around 90% in December, a mere 10% below the pre-lockdown period. According to several forecasters, India's GDP figures during FY2020-21 may not be as bad as earlier feared; the RBI has revised its projections from a contraction in the GDP of 9.5% GDP to 7.5%. Employment too has rebounded to a considerable extent; according to CMIE figures, unemployment levels that had risen to around 23 % in Q1 have fallen to around 6.5% in November last year.

India has joined the countries that have launched the vaccination drive, bringing a ray of hope and cheer to the country. The government has rolled out a nation-wide vaccination programme starting with the health and other front-end workers. This development is expected to give a boost to the economy and employment apart from alleviating human suffering.

Government had also announced an economic stimulus package including a number of fiscal, monetary and other relief measures such as: cash grants, free food grains and cooking gas for the poor, employment enhancement, credit relief and credit guarantees for certain sectors including SMEs, protection to some

domestic industries and so on. The total value of the package amounted to around INR 29.8 lakh crore. Of this, the scope for direct subventions from the government budget has been limited by the constraint of revenues and fears about inflationary effects.

While the cost to the Indian economy and the people has been huge, India seems not to have significantly lost its sheen as an investment destination. Over the years the country has been taking several measures to attract foreign investment given its evident importance in bringing much needed capital and technology. According to the Invest India site, FDI inflows in India increased to \$55.56 bn in 2015-16, \$60.22 billion in 2016-17, \$60.97 bn in 2017-18 and the country registered its highest ever FDI inflow of \$62.00 bn (provisional figure) during the Financial Year 2018-19. Moreover, India attracted more than \$74 bn in foreign investment across sectors during 2019-20.

Total FDI inflow in the country in the last 20 years (April 2000- June 2020) was \$693.3 bn while the total FDI inflow received in the last 5 years alone (April 2014- September 2019) was \$319 bn which amounts to nearly 50% of total FDI inflow in last 20 years. During FY 2020-21, the FDI inflow of \$35.73 bn received was the highest ever for the first five months of a financial year and 13% higher as compared to the first five months of 2019-20 (\$31.60 bn) and FDI equity inflow received during FY 2020-21 was US\$ 27.10 bn which is also the highest ever for the first 5 months of a financial year and 16% more compared to the first five months of 2019-20 (\$23.35 bn). India hopes to cash in on investment leaving China due to concerns ranging from the handling of covid, human rights and the imperatives to diversify the supply chains and reduce dependence on a single country. The global easy money measures taken by governments in the wake of the pandemic, especially in the developed countries, are also expected to channelise more investment capital into the country.

As an investment destination India offers some clear advantages. These include a vast and expanding domestic market, a young work force, trained manpower, familiarity with English in the employable population, and well-regulated corporate sector and stock markets. In recent years, several measures have been taken to enhance the Ease of Doing Business and India's position in the World Bank rankings improved by 79 positions in five years (2014-19). In the recent World Bank's ease of doing business 2020 report, the country jumped to the 63rd position among 190 nations.

The liberalisation measures taken by the government have contributed to significant improvement in the climate for investors. FDI regulations have been progressively liberalised; as of today, only a few industries are closed to foreign investment such as gambling, tobacco, atomic energy, railways, and core agriculture. Similarly, the list of industries under the 'automatic approval' route either completely or up to a defined level of investment has been steadily expanded. Government processes for granting rights to natural resources have been progressively reformed so that rule-based and competitive processes are now the norm, e.g., in the case of leases for coal, mineral resources, and sale of spectrum user rights. Public-private-partnership concessions for infrastructure works such as roads, airports, ports, etc. are also by and large the standard competitive mode for this purpose.

The recent reduction in corporate tax rates for new enterprises is aimed at making the country competitive from this perspective compared with other Asian destinations. In one of the largest tax reforms of its kind in the world, that too in a federal structure, the Goods and Service Tax was introduced recently. Admittedly, there have been several teething issues in the implementation of the GST; but there is a working structure in place to take ongoing decisions for removal of difficulties and simplification of the GST rules.

New farm laws have been introduced by government to reform the agricultural sector which in the long run are aimed to open more opportunities for the farmers across the country to benefit from market forces; it is unfortunate that a huge controversy has arisen around these reforms and a final resolution of the problem is still to emerge. In the case of much needed labour reforms, though a national consensus is yet to emerge, some individual states have taken the lead to announce legislative changes in this area and thereby alleviate a major disincentive in making investments.

The introduction of a modern competition law and the establishment of the Competition Commission signalled government's belief in markets and a resolve to curtail the power of economic monopolies and punish anti-competitive activities such as cartels on the part of enterprises. Another landmark development has been the introduction of a new insolvency and bankruptcy code that has changed the equation between the lending institutions and the recalcitrant promoters, ultimately leading to improvement in the balance sheets of the lenders and recycling of capital.

Government has also announced other measures to boost domestic manufacturing such as the Atmanirbhar programme and the ambitious Production Linked Incentive schemes for ten champion sectors. Some of these have seen an enthusiastic response.

The signs of post-pandemic recovery are visible for example in areas like the railways, automobiles, and FMCGs. Profits in the larger enterprises have shown a robust recovery aided by better capacity utilisation, cost cutting measures, greater use of technology and improved efficiencies. Public capital issues have picked up. The strong inflow of foreign funds is an indication of the investors' continuing confidence in the Indian economy in the medium term. By and large the India story remains intact.

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





## Economic scenario and impact on financial services

As the world reels under the after-effects of lockdown introduced on account of COVID-19, the economies are gathering ways and means for bringing back normalcy again. The global economy shrank by 4.3% during COVID-19, over two and half times that of during global financial crisis in 2009. Economists expect a global growth of 4.7% in 2021. As per a report by United Nations, UN-DESA, Indian economy shall contract by 5.7% in fiscal year 2020, and expected to grow by 7% in year 2021, slowing down to 5.6% again in FY22. Such crest and trough of growth is looking at 4-5% reduction in usual charted growth, implying a loss of almost USD 200 bn over the course.

Both Government and regulators are frantically calculating measures to revive the economy. Major contributing factors towards reviving the growth shall be manufacturing and services industry growth. As per current situation, although industrial output remains volatile, contracting by 1.9 per cent in November 2020 after a record expansion in October by 4.2 per cent, industrial activity is finally turning around. The headline purchasing managers' index (PMI) manufacturing expanded in December 2020 to 56.4, a tick higher than November's reading of 56.3. Both new orders and output continued to grow strongly. The future output index expanded to 60.3 on hopes of improved market conditions, though confidence was stymied by worries on inflationary pressures. Early data from the Ministry of Road and Transport reveal that over 1.8 million vehicles were registered across India in December 2020, the highest ever since April - a growth of 10.3 per cent for the first time in the pandemic period. The quickening of activity was mainly driven in the non-transport vehicles segment. Sales of mini-trucks, pick-up vans and other light commercial vehicles are showing an uptick as more Indians turn to online shopping, increasing the need for last-mile delivery logistics.

In the services sector, a silent improvement is underway. The services PMI for December at 52.3 expanded for the third consecutive month, driven by an increase in new domestic work intakes. Steel consumption – a proximate indicator for construction activity also registered an expansion for the third consecutive month, recording 5.7 per cent y-o-y growth. Within financial services industry, Bank credit demand has increased at a pace above 6 per cent, reversing a 5-month stretch of sub-6 per cent growth. On top of robust credit flow to agriculture, micro and small enterprises and the services sector led by transport, trade and tourism have powered the turning around of the credit cycle.

On other hand, as per an industry survey by CARE Ratings, tourism and hospitality, construction and real estate, aviation, automobiles and retail were the major sectors adversely affected. 53% of respondents to the survey felt that business have recovered to pre-COVID levels and 74% respondents were positive about

revival/growth of business in Q4FY21. The surveyors also found out that the benefits from Atmanirbhar and PLI schemes weren't yet palpable, the industry was however, hopeful of benefits arising out of these schemes by Q4FY21. As per the survey, however, it emerged that the roadblocks for small and medium enterprises, such as low demand, low capacity utilization and difficulty in availing bank credit still persist. An end result may imply a structural hole within funding means for small industries – on account of unavailability of credit and banks still being replenished by Government and regulator. The economy may stare at huge problem of NPAs, which may perhaps have been just pushed back by the regulator by way of granting moratorium.

On the inflation front, CPI inflation in December 2020 eased sharply to 4.6 per cent from 6.9 per cent in the last month. This was primarily on account of a substantial correction in food inflation - by 5 percentage points - to 3.9 per cent in December from 8.9 per cent in November.

As is evident from previous crisis, in downturn economic cycles, Government expenditure become key driving factors for revival of economy. After a hiatus of four months, the Central Government began the public expenditure in November 2020, surging by 48.3% on y-o-y basis. Within this expenditure push, growth-nurturing capital expenditure shrugged off a three-month contraction and expanded by 248.5 per cent, close to half of which is due to increase in transfers to states for capex in line with Aatma Nirbhar 2.0 announcements. Within the Government expenditure space, infrastructure and public health could emerge as winners for strategic long-term focus areas. In the past, private healthcare facilities were seen as alternatives for public health infrastructure, however, the pandemic has proven that private institutions can't replace weak public health systems.

Economists have been actively monitoring gross fiscal deficit (GFD), which reeled under the dual pressure of stretching expenditure for fiscal support to the economy and contraction in revenues as activity in the economy went into catatonic withdrawal with lockdowns. As a result, the general government gross fiscal deficit (GFD) rose to 14.5 per cent in H1:2020-21, with Q1 recording a spike to 22.0 per cent that necessitated consolidation in Q2 in the form of rationalization and reprioritization of expenditure.

With key economic indicators restoring themselves back in place, we are witnessing an eventual recovery in both, the manufacturing and services industry. Government's efforts in H1 in form of Atmanirbhar schemes and PLI schemes were both targeted towards reviving such small industries and may eventually put growth back in its place. An important imperative, recognized early on by the Government remains expenditure, specifically in strategic areas such as infrastructure and healthcare could boost the economy further by job creation. Key focus areas for Government and regulator would be managing gross fiscal deficit and inflation respectively. An ultimate recovery in GDP to normalcy might take few more years from now, however, one remains hopeful of bringing about infrastructural and fiscal adequacy in the meantime.

**-APAS**



## ECONOMY

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

Index of Industrial Production (IIP) or factory output for the month of November 2020 witnessed a contraction of 1.9%, compared to a growth of 3.6% in October 2020 and 2.1% in November 2019.

The General Index for the month of November 2020 stands at 126.3, which is 1.9% lower as compared to November 2019.

The manufacturing sector, which constitutes 77.63% of the index, fell by 1.7% in November, to 128.4.

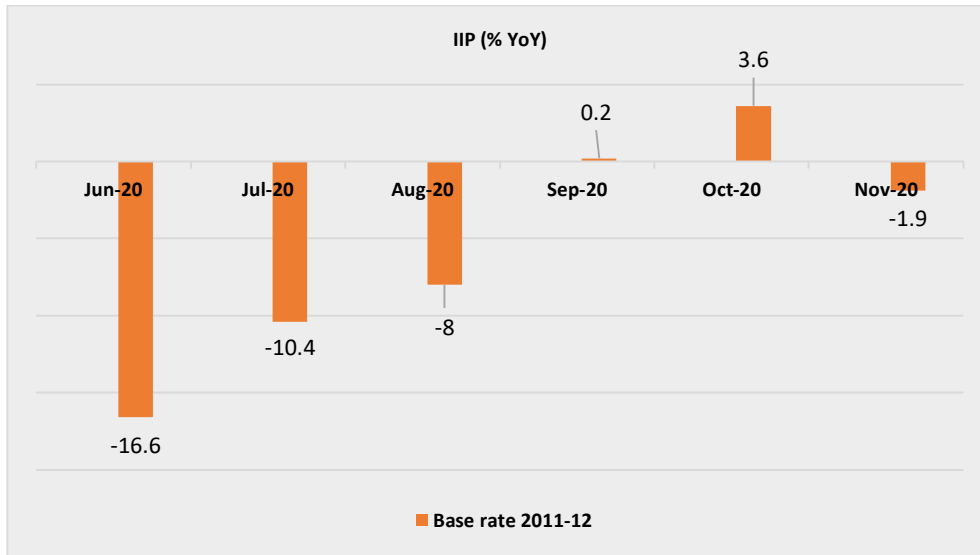
Mining sector output contracted by 7.3%, to 104.5.

Electricity generation rose by 3.5%, to 144.8.

As per Use-based classification, the indices stand at 121.3 for primary goods, 84.6 for capital goods, 136.7 for intermediate goods and 135.5 for infrastructure/construction goods for November.

Further, the indices for consumer durables and consumer non-durables were at 115.9 and 149.1, respectively.

The IIP for April-November period has contracted by 15.5%. It had registered a growth of 0.3% during the same period last fiscal.



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

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

India's consumer price index (CPI) or retail inflation declined to 4.59% in December 2020, compared to 6.93% in November 2020 and 7.35% in December 2019.

The corresponding provisional inflation rates for rural and urban areas are 4.07% and 5.19% respectively.

The core CPI inflation eased to 5.34% in December 2020, compared with 5.56% in November 2020.

The Consumer Food Price Index (CFPI) eased to 3.41% in December from 9.5% in November.

Among the CPI components, inflation for food and beverages dipped to a 16-month low of 3.87% in December from 8.76% in November.

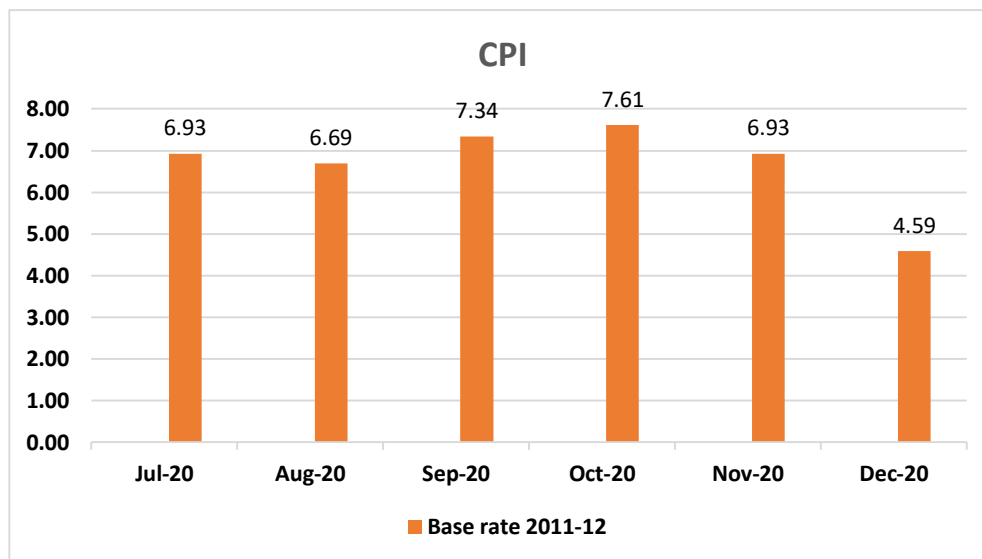
Within the food items, vegetable inflation turned negative at 10.41% in December, compared to an increase of 15.63% in November.

Apart from the sharp fall in vegetable prices, inflation in other categories such as cereals and pulses also fell. Inflation in cereals and products fell to 0.98% from 2.32% in November. Inflation in the pulses category fell to 15.98%, compared to 17.91% in November.

The inflation for housing rose to 3.21%, while that for miscellaneous items fell to 6.6% in December.

Within the miscellaneous items, the inflation declined for transport and communication to 9.32%, personal care and effects to 11.68%, while it rose for recreation and amusement to 5.2% and health to 5.98% and it was steady for household goods and services at 2.95% and education at 2.38% in December 2020.

The inflation for clothing and footwear rose to 3.49%, while that for fuel and light rose to 2.99% in December.



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

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

India's wholesale price index (WPI) inflation fell to 1.22% in December 2020, as compared to 1.55% in November 2020 and 2.76% in December 2019.

The rate of inflation based on WPI Food Index decreased to 0.92% in December 2020 from 4.27% in November 2020.

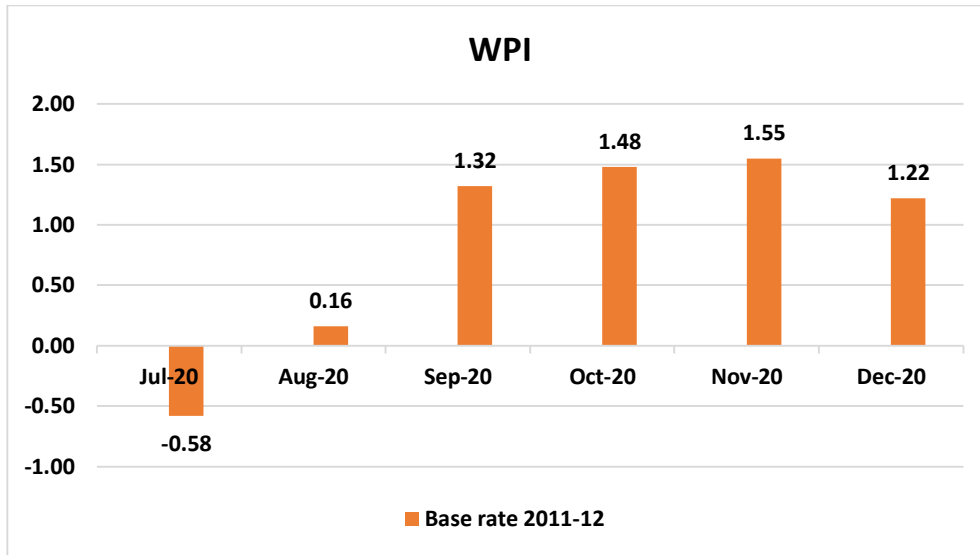
The index for primary articles declined by 3.11% from the previous month.

Prices increased for non-food articles (0.36%), crude petroleum and natural gas (5.47%) and minerals (5.36%). Prices declined for food articles (4.85%).

The index for fuel and power increased by 3.18% from the previous month.

Prices increased for mineral oils (6.01%) and coal (0.4%), while prices of electricity remained unchanged.

The index for manufactured products increased by 1.4% from the previous month.



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

### **Manufacturing PMI – December**

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) remained steady, even as employment fell for 9 straight months.

The Manufacturing PMI rose to 56.4 in December 2020 from 56.3 in November 2020. It stayed above the 50 level, that separates expansion from contraction, for the fifth straight month.

The reading was consistent with a marked improvement in business conditions across the sector, as the economy continued to recover amid the loosening of Covid-19 restrictions, strengthening demand and improved market conditions.

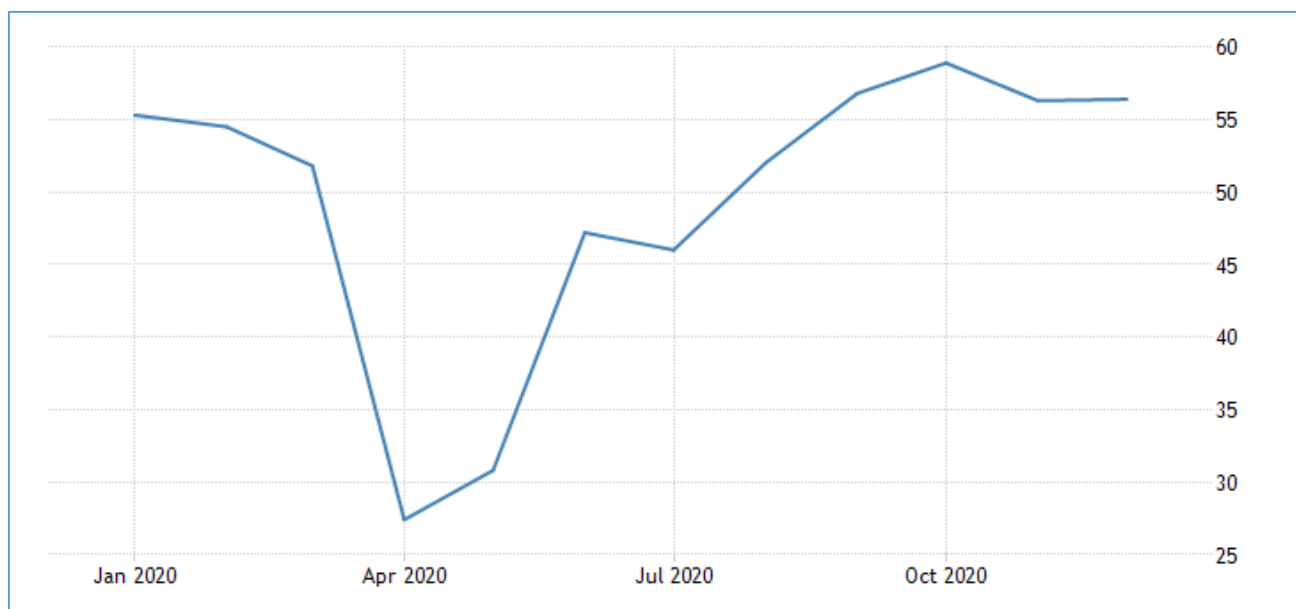
The latest PMI results for the Indian manufacturing sector continued to point to an economy on the mend as a supportive demand environment and firms' efforts to rebuild safety stocks underpinned another sharp rise in production.

Output and new orders grew solidly, albeit at the softest pace in 4 months, while employment declined for a ninth straight month.

On the price front, input cost inflation accelerated to a 26-month high, due to higher prices for chemicals, metals, plastics and textiles.

As a result, output charges rose marginally.

Finally, business confidence weakened to a 4-month low as some firms were concerned about the lasting effect of the Covid-19 pandemic on the global economy.



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

### **Services PMI – December**

The Indian services sector activity slowed down to its lowest level in 3 months in December 2020.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index fell to a 3-month low of 52.3 in December 2020 from 53.7 in November 2020. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the third straight month.

The reading pointed to the third straight month of expansion in the services sector, but the weakest rate in the current sequence, as both output and new orders growth eased to 3-month lows, due to the negative impact of Covid-19 on demand.

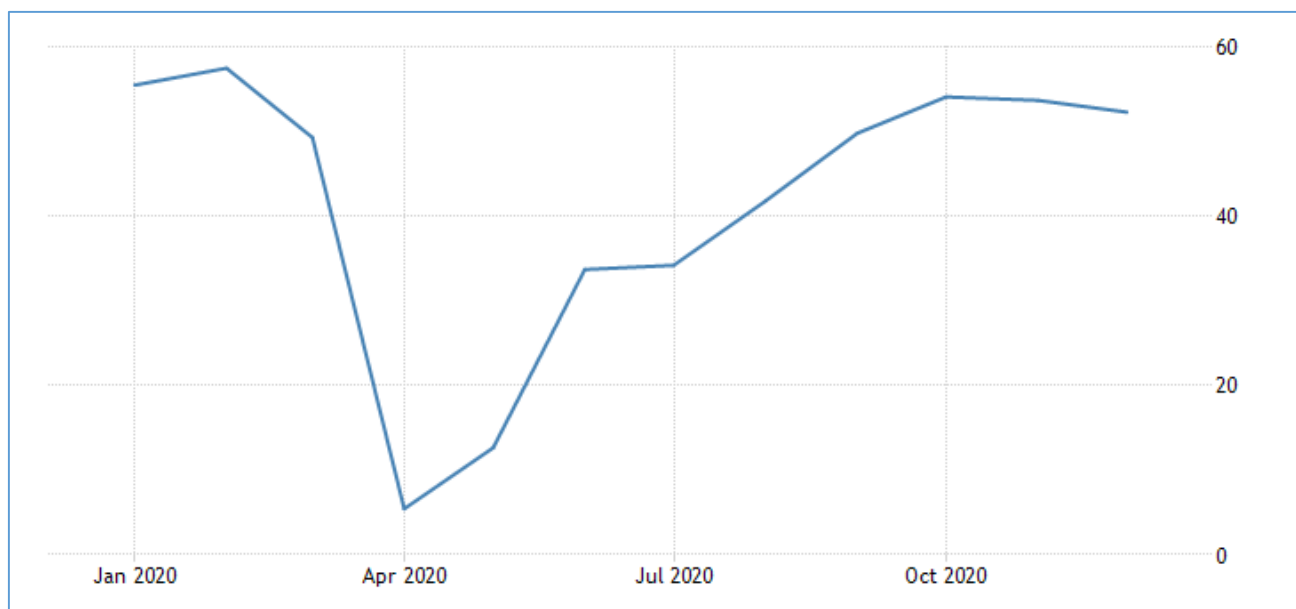
Meanwhile, employment fell, after increasing in the previous month.

On the price front, input cost inflation accelerated to the fastest pace since February, due to higher prices for a number of items, including cleaning products and fuel.

Meanwhile, selling prices declined, as some firms sought to beat competition and secure new work.

Looking ahead, business sentiment weakened, as optimism was curbed by uncertainty surrounding the Covid-19 pandemic, rupee depreciation and inflationary pressures.

The seasonally adjusted Nikkei India Composite PMI Output Index fell to a 3-month low of 54.9 in December from 56.3 in November.



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

### **Core Sector Data – December**

Growth of eight infrastructure sectors contracted by 1.3% in December 2020, shrinking for the third straight month.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had declined by 1.4% in November 2020 and grown by 3.1% in December 2019.

Barring coal and electricity, all sectors – crude oil, natural gas, refinery products, fertilisers, steel and cement – recorded negative growth in December 2020.

The output of crude oil, natural gas, refinery products, fertilisers, steel and cement declined by 3.6%, 7.2%, 2.8%, 2.9%, 2.7% and 9.7%, respectively.

Growth in coal production slowed to a 5-month low of 2.2% from 3.3% in November and 6.1% in December 2019.

Electricity output rose 4.2% in December against 3.5% last month.

Cumulatively, the growth in the eight core sectors during April-December 2020-21 contracted by 10.1%, as against an expansion of 0.6% in the same period last financial year.





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

### **Economic Survey 2020-21**

Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman presented the [Economic Survey 2020-21](#) in the Parliament. The key highlights of Economic Survey 2020-21, which is **dedicated to the COVID Warriors**, are as follows:

#### **State of the Economy in 2020-21: A Macro View**

- COVID-19 pandemic ensued **global economic downturn**, the most severe one since the Global Financial Crisis
- The lockdowns and social distancing norms brought the already slowing **global economy to a standstill**
- Global economic output estimated to fall by 3.5% in 2020 (IMF January 2021 estimates)
- Governments and central banks across the globe deployed various policy tools to support their economies such as lowering policy rates, quantitative easing measures, etc.
- India adopted a **four-pillar strategy** of containment, fiscal, financial, and long-term structural reforms:
  - **Calibrated fiscal and monetary support** was provided, cushioning the vulnerable during the lockdown and boosting consumption and investment while unlocking
  - A **favourable monetary policy** ensured abundant liquidity and immediate relief to debtors while unclogging monetary policy transmission
- As per the advance estimates by NSO, India's GDP is estimated to grow by (-) 7.7% in FY21 – a **robust sequential growth of 23.9%** in H2: FY21 over H1: FY21
- India's **real GDP** to record a **11.0% growth in FY2021-22** and **nominal GDP** to grow by **15.4%** – the **highest since independence**:
  - Rebound to be led by low base and continued normalization in economic activities as the rollout of COVID-19 vaccines gathers traction
- **Government consumption** and **net exports** cushioned the growth from diving further down, whereas investment and private consumption pulled it down

- The recovery in second half of FY2020-21 is expected to be powered by **government consumption**, estimated to grow at **17% YoY**
- Exports expected to decline by 5.8% and imports by 11.3% in the second half of FY21
- India expected to have a **Current Account Surplus of 2% of GDP** in FY21, a **historic high after 17 years**
- On supply side, Gross Value Added (GVA) growth pegged at -7.2% in FY21 as against 3.9% in FY20:
  - **Agriculture set to cushion the shock of the COVID-19 pandemic on the Indian economy in FY21 with a growth of 3.4%**
  - **Industry and services estimated to contract by 9.6% and 8.8% respectively during FY21**
- Agriculture remained the silver lining while **contact-based services, manufacturing, construction were hit hardest**, and recovering steadily
- India remained a **preferred investment destination** in FY 2020-21 with FDI pouring in amidst global asset shifts towards equities and prospects of quicker recovery in emerging economies:
  - Net **FPI inflows** recorded an **all-time monthly high of US\$ 9.8 billion** in November 2020, as investors' risk appetite returned
  - **India was the only country among emerging markets to receive equity FII inflows in 2020**
- Buoyant SENSEX and NIFTY resulted in India's **market-cap to GDP ratio crossing 100% for the first time since October 2010**
- **Softening of CPI inflation** recently reflects easing of supply side constraints that affected food inflation
- Mild contraction of 0.8% in investment (as measured by Gross Fixed Capital Formation) in 2<sup>nd</sup> half of FY21, as against 29% drop in 1<sup>st</sup> half of FY21
- Reignited **inter and intra state movement** and record-high monthly **GST collections** have marked the unlocking of industrial and commercial activity
- The **external sector** provided an effective cushion to growth with India recording a **Current Account Surplus of 3.1% of GDP** in the first half of FY21:
  - **Strong services exports** and weak demand leading to a sharper contraction in imports (merchandise imports contracted by 39.7%) than exports (merchandise exports contracted by 21.2%)
  - **Forex reserves** increased to a level so as to cover 18 months worth of imports in December 2020
  - **External debt** as a ratio to GDP increased to 21.6% at end-September 2020 from 20.6% at end-March 2020
  - Ratio of forex reserves to total and short-term debt improved because of the sizable accretion in reserves
- **V-shaped recovery** is underway, as demonstrated by a sustained resurgence in high frequency indicators such as power demand, e-way bills, GST collection, steel consumption, etc.
- India became the **fastest country to roll-out 10 lakh vaccines** in 6 days and also emerged as a **leading supplier of the vaccine** to neighbouring countries and Brazil
- **Economy's homecoming to normalcy** brought closer by the initiation of a mega vaccination drive:
  - **Hopes of a robust recovery** in services sector, consumption, and investment have been rekindled

- Reforms must go on to enable India realize its potential growth and erase the adverse impact of the pandemic
- India's **mature policy response** to the 'once-in-a-century' crisis provides important lessons for democracies to avoid myopic policy-making and demonstrates benefits of focusing on **long-term gains**

## **Union Budget 2021-22**

The [Budget](#) proposals for 2021-2022 rest on 6 pillars.

- i. Health and Wellbeing
- ii. Physical & Financial Capital, and Infrastructure
- iii. Inclusive Development for Aspirational India
- iv. Reinvigorating Human Capital
- v. Innovation and R&D
- vi. Minimum Government and Maximum Governance

*Key Budgetary announcements include:*

### **1. Infrastructure**

- i. Infrastructure financing - Development Financial Institution (DFI): The Finance Minister introduced a bill to set up a DFI and allotted a sum of INR 20,000 crore to capitalize the institution.
- ii. A "National Monetization Pipeline" of potential brownfield infrastructure assets will be launched. An Asset Monetization dashboard will also be created for tracking the progress and to provide visibility to investors. Some important measures in the direction of monetization are:
  - a. National Highways Authority of India and PGCIL each have sponsored one InvIT that will attract international and domestic institutional investors. Five operational roads with an estimated enterprise value of ` 5,000 crores are being transferred to the NHAI InvIT. Similarly, transmission assets of a value of `7,000 crores will be transferred to the PGCIL InvIT.
  - b. Other core infrastructure assets that will be rolled out under the Asset Monetization Programme are: (i) NHAI Operational Toll Roads (ii) Transmission Assets of PGCIL (iii) Oil and Gas Pipelines of GAIL, IOCL and HPCL (iv) AAI Airports in Tier II and III cities, (v) Other Railway Infrastructure Assets (vi) Warehousing Assets of CPSEs such as Central Warehousing Corporation and NAFED among others and (vii) Sports Stadiums.
- iii. Sharp Increase in Capital Budget
  - a. In 2020-21, the Government had provided a capital budget of INR 4.12 lakh crore for capital expenditure. For 2021-22, the Government has provided a budget of INR 5.54 lakh crore. Of this, INR 44,000 crore has been allotted for projects/programmes/ departments showing need for further allotment. Also, amidst this, INR 2 lakh crore to Autonomous bodies for their capital expenditure.

### **2. Financial Capital**

- i. The Finance Minister consolidated the provisions of SEBI Act, 1992, Depositories Act, 1996, Securities Contracts (Regulation) Act, 1956 and Government Securities Act, 2007 into a rationalized single Securities Markets Code.
- ii. Increase in FDI in insurance sector: The Government proposed an amendment in the Insurance Act, 1938 to increase the permissible FDI limit from 49% to 74% in Insurance Companies and allow foreign ownership and control with safeguards. Under the new structure, the majority of Directors on the Board and key management persons would be resident Indians, with at least 50% of Directors being Independent Directors, and specified percentage of profits being retained as general reserve.
- iii. Stressed Asset Resolution by setting up a New Structure: The high level of provisioning by public sector banks of their stressed assets calls for measures to clean up the bank books. An Asset Reconstruction Company Limited and Asset Management Company would be set up to consolidate and take over the existing stressed debt and then manage and dispose of the assets to Alternate Investment Funds and other potential investors for eventual value realization.
- iv. Recapitalization of PSBs: To further consolidate the financial capacity of PSBs, further recapitalization of `20,000 crores is proposed in 2021-22.
- v. To instill confidence amongst the participants in the Corporate Bond Market during times of stress and to generally enhance secondary market liquidity, it is proposed to create a permanent institutional framework. The proposed body would purchase investment grade debt securities both in stressed and normal times and help in the development of the Bond market.
- vi. In the budget of 2018-19, Government had announced its intent to establish a system of regulated gold exchanges in the country. For the purpose, SEBI will be notified as the regulator and Warehousing Development and Regulatory Authority will be strengthened to set up a commodity market eco system arrangement including vaulting, assaying, logistics, etc. in addition to warehousing.
- vii. The Government has proposed divestment of 2 more public sector banks and 1 general insurance company
- viii. The Government announced IPO of LIC in 2021-22. The Government would make requisite amendments in the session itself.



## BANKING

### **Monetary Policy Statement, 2020-21**

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 – at least during the current financial year and into the next financial year – to revive growth on a durable basis and mitigate the impact of COVID19 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*

The global economic recovery slackened in Q4 (October-December) of 2020 relative to Q3 (July-September) as several countries battle second waves of COVID19 infections, including more virulent strains. With massive vaccination drives underway, risks to the recovery may abate and economic activity is expected to gain momentum in the second half of 2021. In its January 2021 update, the International Monetary Fund (IMF) has revised upward its estimate of global growth in 2020 to (-) 3.5 per cent from (-) 4.4 per cent and increased the projection of global growth for 2021 by 30 basis points to 5.5 per cent. Barring some emerging market economies, inflation remains benign on weak aggregate demand, although rising commodity prices carry upside risks. Financial markets remain buoyant, supported by easy monetary conditions, abundant liquidity and optimism from the vaccine rollout. Global trade is also expected to rebound in 2021, with services trade on a slower recovery than merchandise trade.

## *Domestic Economy*

The first advance estimates of GDP for 2020-21 released by the National Statistical Office (NSO) on January 7, 2021 estimated real GDP to contract by 7.7 per cent, in line with the projection of (-)7.5 per cent set out in the December 2020 resolution of the MPC. High frequency indicators – railway freight traffic; toll collection; e-way bills; and steel consumption – suggest that revival of some constituents of the services sector gained traction in Q3 (October-December). The agriculture sector remains resilient - rabi sowing was higher by 2.9 per cent year-on-year (y-o-y) as on January 29, 2021, supported by above normal north-east monsoon rainfall and adequate reservoir level of 61 per cent (as on February 4, 2021) of full capacity, above the 10 years average of 50 per cent.

Systemic liquidity remained in large surplus in December 2020 and January 2021, engendering easy financial conditions. Reserve money rose by 14.5 per cent y-o-y (on January 29, 2021), led by currency demand. Money supply (M3), on the other hand, grew by only 12.5 per cent as on January 15, 2021, but with non-food credit growth of scheduled commercial banks accelerating to 6.4 per cent. Corporate bond issuances at ₹5.8 lakh crore during April-December 2020 were higher than ₹4.6 lakh crore in the same period of last year. India's foreign exchange reserves were at US\$ 590.2 billion on January 29, 2021 – an increase of US\$ 112.4 billion over end-March 2020.

The Union Budget 2021-22 has introduced several measures to provide an impetus to growth. The projected increase in capital expenditure augurs well for capacity creation thereby improving the prospects for growth and building credibility around the quality of expenditure. The recovery, however, is still to gather firm traction and hence continued policy support is crucial. Taking these developments into consideration, the MPC in its meeting decided to continue with an accommodative stance of monetary policy till the prospects of a sustained recovery are well secured while closely monitoring the evolving outlook for inflation.

### **Risk Based Internal Audit (RBIA) Framework – Strengthening Governance arrangements**

As per a Guidance Note on [Risk-based Internal Audit](#) issued by RBI, banks, inter alia, are required to put in place a risk based internal audit (RBIA) system as part of their internal control framework that relies on a well-defined policy for internal audit, functional independence with sufficient standing and authority within the bank, effective channels of communication, adequate audit resources with sufficient professional competence, among others.

Banks have been encouraged to adopt the International Internal Audit standards, like those issued by the Basel Committee on Banking Supervision (BCBS) and the Institute of Internal Auditors (IIA).

To bring uniformity in approach followed by the banks, as also to align the expectations on Internal Audit Function with the best practices, banks shall follow guidance under following areas:

1. Authority, Stature and Independence
2. Competence
3. Staff Rotation
4. Tenor for appointment of Head of Internal Audit
5. Reporting Line
6. Remuneration

Also, the internal audit function shall not be outsourced. However, where required, experts, including former employees, could be hired on contractual basis subject to the ACB being assured that such expertise does not exist within the audit function of the bank. Any conflict of interest in such matters shall be recognised and effectively addressed. Ownership of audit reports in all cases shall rest with regular functionaries of the internal audit function.

Banks shall have to ensure and demonstrate through proper documentation that their risk-based internal audit framework captures all the significant criteria / principles suited for their organisational structure, the business model and the risks.

### **Reserve Bank of India introduces the RBI – Digital Payments Index**

As per announcement in Statement on developmental and regulatory policies, as a part of sixth bi-monthly Monetary Policy dated 6th February 2020, RBI has constructed a composite [Digital Payments Index \(DPI\)](#) to capture the extent of digitisation of payments across the country.

The RBI-DPI comprises of 5 broad parameters that enable measurement of deepening and penetration of digital payments in the country over different time periods. These parameters are – (i) Payment Enablers (weight 25%), (ii) Payment Infrastructure – Demand-side factors (10%), (iii) Payment Infrastructure – Supply-side factors (15%), (iv) Payment Performance (45%) and (v) Consumer Centricity (5%). Each of these parameters have sub-parameters which, in turn, consist of various measurable indicators. The major sub-parameters under each parameter are available here.

The RBI-DPI has been constructed with March 2018 as the base period, i.e. DPI score for March 2018 is set at 100. The DPI for March 2019 and March 2020 work out to 153.47 and 207.84 respectively, indicating appreciable growth. Going forward, RBI-DPI shall be published on RBI's website on a semi-annual basis from March 2021 onwards with a lag of 4 months.

### **Introduction of Legal Entity Identifier for Large Value Transactions in Centralised Payment Systems**

The [Legal Entity Identifier \(LEI\)](#) is a 20-digit number used to uniquely identify parties to financial transactions worldwide. It was conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis.

LEI has been introduced by the Reserve Bank in a phased manner for participants in the over the counter (OTC) derivative and non-derivative markets as also for large corporate borrowers.

RBI has decided to introduce the LEI system for all payment transactions of value ₹50 crore and above undertaken by entities (non-individuals) using Reserve Bank-run Centralised Payment Systems viz. Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT).

In preparation for the wider introduction of LEI across all payment transactions, member banks shall have to:

- i. advise entities who undertake large value transactions (₹50 crore and above) to obtain LEI in time, if they do not already have one

- ii. include remitter and beneficiary LEI information in RTGS and NEFT payment messages (details of the identified fields in the messaging structures of RTGS and NEFT for inclusion of LEI information)
- iii. Maintain records of all transactions of ₹50 crore and above through RTGS and / or NEFT.

Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF), the body tasked to support the implementation and use of LEI. In India, LEI can be obtained from Legal Entity Identifier India Ltd. (LEIL), which is also recognized as an issuer of LEI by the Reserve Bank under the Payment and Settlement Systems Act, 2007.

### **Operationalization of Payments Infrastructure Development Fund (PIDF) Scheme**

As per announcement in Statement on developmental and regulatory policies, as a part of bi-monthly Monetary Policy dated 4th October 2019, RBI announced the creation of [Payments Infrastructure Development Fund \(PIDF\)](#). PIDF is intended to subsidise deployment of payment acceptance infrastructure in Tier-3 to Tier-6 centres with special focus on North-Eastern States of the country. It envisages creating 30 lakh new touch points every year for digital payments.

The framework of PIDF has been enclosed in the above mentioned link. An Advisory Council (AC), under the Chairmanship of the Deputy Governor, RBI, has been constituted for managing the PIDF. PIDF will be operational for a period of three years from January 01, 2021 and may be extended for two more years depending upon the progress. PIDF presently has a corpus of ₹ 345 crore (₹ 250 crore contributed by RBI and ₹ 95 crore by the major authorised card networks in the country).

### **RBI releases Discussion Paper on Revised Regulatory Framework for NBFCs – A Scale-Based Approach**

As per announcement in Statement on developmental and regulatory policies, as a part of bi-monthly Monetary Policy the Reserve Bank of India has released, the [Discussion Paper on Revised Regulatory Framework for NBFCs- A Scale-Based Approach](#). Key inclusions of this paper are as follows:

1. Introduction
2. Regulatory arbitrage and systemic risk
3. Need for review: Introduction of scale-based approach to regulation
4. Proposed scale-based framework

The objective of the discussion paper is to revisit the broad principles which underpin the current regulatory framework and examine the need to develop a scale-based approach to regulation from a 'systemic significance' vantage point and recommend appropriate regulatory measures in support of a strong and resilient financial system. The primary focus of the discussion paper is examination of the principles and processes for identification of NBFCs that have significant systemic risk spill-overs and development of a conceptual framework on which regulations could be based.

The intention is to identify a small set of NBFCs, which are significant from the point of view of systemic risk spill-overs and are therefore required to be subjected to tighter regulation. In order to identify such NBFCs in



the Upper Layer, a range of parameters can be considered; viz., size, leverage, interconnectedness, substitutability, complexity, nature of activity of the NBFC, etc.

The paper discusses primarily about the structural construct of NBFCs and their differentiation from banks in terms of structural arbitrage and prudential arbitrage. The paper further discusses the probable systemic risks that can arise out of such prudential arbitrage and increasing acceptability of NBFCs as one of financing sources for retail and corporate needs.

The paper proposes to introduce a regulatory framework anchored on proportionality. Regulatory and supervisory framework of NBFCs shall be based on a four-layered structure– Base Layer, Middle Layer, Upper Layer and a possible Top Layer. NBFCs in lower layer will be known as NBFC-Base Layer (NBFC-BL). NBFCs in middle layer will be known as NBFC-Middle Layer (NBFC-ML). An NBFC in the Upper Layer will be known as NBFC-Upper Layer (NBFC-UL) and will invite a new regulatory superstructure. There is also a Top Layer, which is ideally supposed to be empty. Such a differentiation shall be based on size and significance and activity. With increase in size and significance, the level of regulatory supervision shall grow.

### **RBI releases framework for strengthening the grievance redress mechanism in banks**

RBI announced in Statement on developmental and regulatory policies, as a part of bi-monthly Monetary Policy the Reserve Bank of India, that with a view to strengthen and improve the efficacy of the [grievance redress mechanism of banks](#), a comprehensive framework will be put in place during January 2021.

Accordingly, a framework comprising of i) enhanced disclosures on complaints to be made by the banks; ii) recovery of the cost of redress of maintainable complaints from the banks against whom the number of complaints received in the Offices of Banking Ombudsman (OBOs) are in excess of their peer group averages; and iii) intensive review by RBI of the grievance redress mechanism of banks having persisting issues in their redress mechanism.

The redress of complaints will continue to be cost-free for the customers of banks and members of public.

The framework intends to, inter-alia, provide greater insight into the volume and nature of complaints received by the banks as also the quality and turnaround time of redressal, promote satisfactory customer outcomes and improved customer confidence, and identify remedial steps to be taken by the banks having persisting issues in grievance redress mechanism.



## INSURANCE

### **Guidelines on Standard Individual Immediate Annuity Product, “Saras Pension”**

#### **Preamble:**

Indian life insurance market currently has several individual immediate annuity products marketed by life insurers, with each product having its own features, terms and conditions and annuity options. With a view to having uniformity across Insurers, and to make available a product by all Life Insurers that will broadly meet the needs of an average customer, it is felt necessary to introduce a standard, individual immediate annuity product, with simple features and standard terms and conditions. Such a standard product will make it easier for the customers to make an informed choice, enhance the trust between the Insurers and the insured, and reduce mis-selling as well as potential disputes.

IRDAI has therefore, mandated all the insurers to offer this product [“Saras Pension”](#).

#### **The Standard Immediate Annuity Product:**

- 1) The standard individual immediate annuity product shall be called, “Saras Pension”, prefixed by the Insurer’s name.
- 2) The product offers the following annuity options, and no other options:
  - a) Life annuity with 100% Return of Purchase Price; and
  - b) Joint Life annuity with a provision of 100% annuity to the secondary annuitant on death of the primary annuitant and Return of 100% Purchase Price on death of last survivor.
- 3) The Insurers shall have to file the product as per the above parameters and in compliance with the extant regulatory provisions through File and Use (F&U).

### **Guidelines on Cross Border Re-insurers**

IRDAI has issued following guidelines with regard to [cross border reinsurers](#) and will supersede existing Guidelines, in order to streamline current regulations related to allotment of reference number to cross border reinsurers. The key provisions include:

#### **Allotment of Filing Reference Number (FRN) to CBRs:**

- a. All Cross Border Reinsurers (CBR) shall necessarily comply with the eligibility criteria as stipulated in Reg. 4 (1) of the IRDAI (Re-insurance) Regulations, 2018.
- b. Filing of application for allotment of FRN to CBR shall be commensurate with Re-insurance programme of the insurer, as submitted with the Authority.
- c. The insurer who wishes to place re-insurance business with CBR shall file an online application with the Authority in the form, for allotment of FRN for CBRs under the category of Eligible CBR or Non-Eligible CBR, as the case may be.
- d. The Authority may raise any other requirements if necessary, for processing of such application for allotment of FRN to CBR. After examination of submissions made by the insurer the Authority may allot system generated FRN to the CBR within three (3) working days from receipt of last document.

#### **General Provisions:**

- a. The insurer shall not transact re-insurance business with any CBR without valid FRN
- b. The Authority will allot country wise separate FRN to the CBR
- c. The FRN allotted shall be valid for one financial year for which application is filed by the insurer
- d. Once FRN is allotted for any particular CBR the same may be used by other insurer for placement of re-insurance business with such CBR
- e. The insurer, within thirty (30) days of the commencement of the financial year, shall submit a certificate of compliance to the Authority confirming that, the re-insurance placements made to CBRs who comply with the eligibility criteria or with those CBRs prescribed in these guidelines. This certificate is to be filed with the Authority along with necessary submissions required.



## INFRASTRUCTURE & OTHER GOVT. INITIATIVES

### **CBIC introduces flagship Liberalised Authorised Economic Operator Package for MSMEs**

Recognizing their critical contribution in supporting the economy especially during the present difficult times of COVID-19 pandemic, Central Board of Indirect Taxes & Customs (CBIC) has taken a new initiative to introduce its flagship “[Liberalized MSME AEO Package](#)” for Micro Small and Medium Enterprises (MSMEs).

In order to attract MSMEs to become Authorized Economic Operators (AEOs) and avail the various benefits, the CBIC has relaxed the compliance criteria provided the MSMEs have a valid certificate from their line-Ministry. The relaxed requirements allow MSMEs who have filed minimum 10 Customs clearance documents in one year and who have a clean compliance record over 2 years to apply for the scheme. The documentary requirements have also been appreciably simplified. Another feature is that the CBIC commits to take a decision on an application for grant of AEO status within only 15 days from electronic submission of complete documents for AEO Tier T1. Additional benefits, like further reduction in Bank Guarantee requirements, have been introduced for MSMEs, and will be expanded subsequently.

CBIC’s flagship “Liberalized MSME AEO Package” scheme is a voluntary compliance programme which enables swifter Customs clearance for accredited stakeholders in the global supply chain viz. importers, exporters, logistic service providers, custodians etc. The approved AEOs derive various benefits such as, *inter alia*, the facility of Direct Port Delivery (DPD) of imported containers, Direct Port Entry (DPE) of their Export Containers, high level of facilitation in customs clearance of their consignments thereby ensuring shorter cargo release time, exemption from Bank guarantees, priority for refund/ rebate/ duty Drawback, as well as a Client Relationship Manager at the customs port as a single point of interaction. Another important benefit available to specified AEOs is that their payment of Customs duty is deferred and need not to be paid before the clearance of the imported goods by Customs. An added advantage for Tier 2 AEOs is that their exports to certain countries are accorded facilitation by the foreign Customs administration with whom India enters into a Mutual Recognition Agreement/Arrangement. Through “Liberalized MSME AEO Package”, CBIC encourages all eligible MSMEs to avail advantages of faster Customs clearances and other related benefits.

### **IFSCA becomes member of IOSCO**

The International Financial Services Centres Authority (IFSCA) has become an [Associate Member](#) of the International Organization of Securities Commissions (IOSCO).

The IOSCO is the international organization that brings together the world's securities regulators, covering more than 95% of the world's securities markets, and is the global standard setter for the securities sector.

IOSCO works closely with the G20 and the Financial Stability Board (FSB) in setting up the standards for strengthening the securities markets. The IOSCO Objectives and Principles of Securities Regulation have been endorsed by FSB as one of the key standards for sound financial systems.

The membership of IOSCO would provide IFSCA the platform to exchange information at the global level and regional level on areas of common interests. Further, the IOSCO platform would enable IFSCA to learn from the experiences and best practices of the regulators of other well established financial centres.

The IOSCO's membership is a significant milestone in connecting IFSCA with the regulators of securities markets globally and would contribute immensely towards the development and regulation of the financial products, financial services and financial institutions at the Gujarat International Finance Tec-City International Financial Services Centre.



## CAPITAL MARKETS

### Revision in Daily Price Limits (DPL) for Commodity Futures Contracts

The [Daily Price Limits](#) in commodity futures market serve an important function of defining the maximum range within which the price of a commodity futures contract can move in one trading session. The defined daily price limits protect investors from sudden and extreme price movements and provides cooling-off period to re-assess the information and fundamentals impacting the price of the commodity futures contract. Thus, DPLs can neither be too narrow nor too wide as it will restrict fair price discovery.

The revised norms are given below.

**Base price for DPL:** The base price for fixing the DPL slabs shall be the previous day's closing price of the underlying contract on the respective stock exchange.

**Order Acceptance:** The stock exchanges shall ensure that their system should only accept those orders which are within the relevant prescribed slab at any point of time.

**Breach of slab:** A breach of the slab shall be considered when trading in a contract is executed at the upper or lower band of the prescribed slab.

Accordingly, the regulator has announced limits in following areas:

- i. DPL for Commodity futures contracts which are based on agricultural and agri-processed goods
- ii. DPL for Commodity futures contracts which are based on nonagricultural goods
- iii. DPL on First Trading Day of the Contract
- iv. Calculation of closing price or daily settlement price (DSP)

## **Review of Volatility Scan Range (VSR) for Option contracts in Commodity Derivatives Segment**

As per an earlier circular by SEBI, regarding 'Options on futures' SEBI advised Exchanges to fix and determine the [volatility scan range \(VSR\)](#) values as below:

“Exchanges shall fix prudent price scan range, volatility scan range and/or plausible changes in any other parameters impacting options price. Exchange shall impose appropriate short option minimum margin, calendar spread charge and extreme loss margin for option contracts.”

Further, SEBI advised on 'Options on Goods' advised Clearing Corporations (CCs) to fix prudent VSR.

Currently, in light of the increased market volatility in the recent past, the adequacy of current VSR values used by CCs in their margin framework was examined. This was done in the context of CPSS-IOSCO prescription for margin models which limits the need for destabilizing and pro-cyclical changes. SEBI has therefore, decided, in consultation with CCs, to prescribe minimum VSR values for underlying commodities based on their volatility, i.e., high, medium and low.

The VSR in respect of various categories of commodities shall be subject to following minimum values:

| Volatility category | Minimum VSR%<br>Non Agri commodities | Minimum VSR%<br>Agri commodities |
|---------------------|--------------------------------------|----------------------------------|
| Low                 | 4                                    | 5                                |
| Medium              | 5                                    | 6                                |
| High                | 6                                    | 7                                |

CCs (providing clearing and settlement for options) shall review the value of VSR by back testing on a monthly basis using last 3 years' data by 15th of every month and any change in VSR shall be implemented from 1st trading day of the following month.

The back testing shall be done by using appropriate models to extract volatility (such as EWMA (Exponentially Weighted Moving Average) volatility of the underlying futures contract, implied volatility of options, etc.) over the relevant MPOR (Margin Period of Risk) period.

**Transfer of excess contribution made by Stock Exchanges from Core SGF of one Clearing Corporation to the Core SGF of another Clearing Corporation**

SEBI via its earlier circular prescribed norms for contribution by a [Stock Exchange to Core SGF](#) of a Clearing Corporation. Further SEBI prescribed broad guidelines for operationalizing the interoperable framework among Clearing Corporations.

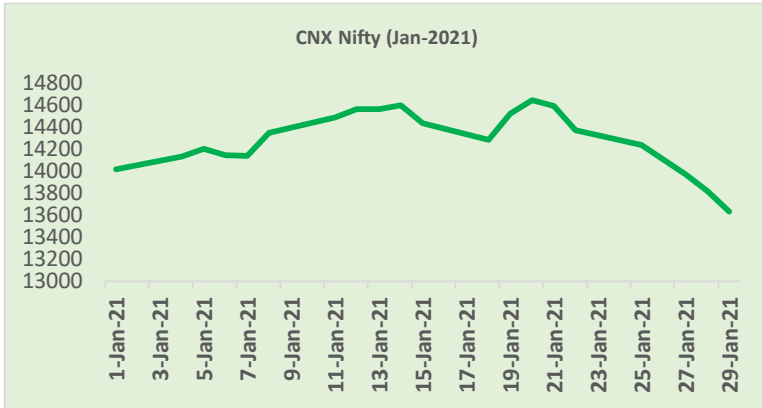
SEBI has been receiving representations from Stock Exchanges, requesting to allow transfer of excess contribution made by Stock Exchanges from Core SGF of one Clearing Corporation to the Core SGF of another Clearing Corporation, in inter-operable scenario.

SEBI examined such representations and has decided to allow transfer of excess contribution made by Stock Exchanges from Core SGF of one Clearing Corporation to the Core SGF of another Clearing Corporation, in inter-operable scenario. However, Stock Exchanges and Clearing Corporations are advised to ensure the following:

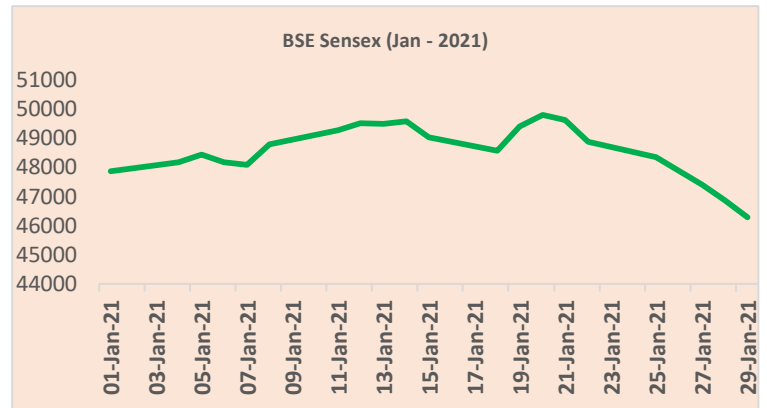
- a) Upon receipt of request from an Exchange in this regard, the Clearing Corporation which receives such request shall transfer directly such excess contribution of the Exchange, in its Core SGF to the core SGF of another Clearing Corporation, under intimation to that Exchange. For Example, if Exchange 'A' requests to transfer its excess contribution from Core SGF of Clearing Corporation 'B' to Core SGF of Clearing Corporation 'C' then after receipt of such request from 'A', 'B' would transfer directly the excess contribution of 'A' from Core SGF of 'B' to Core SGF of 'C', under intimation to Exchange 'A'.
- b) The Clearing Corporations shall ensure compliance with requirements of Minimum Required Corpus (MRC) of Core SGF as prescribed by SEBI.



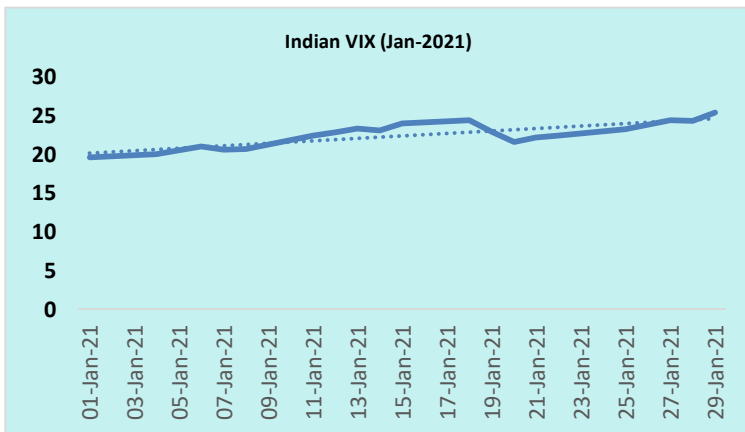
# CAPITAL MARKETS SNAPSHOT



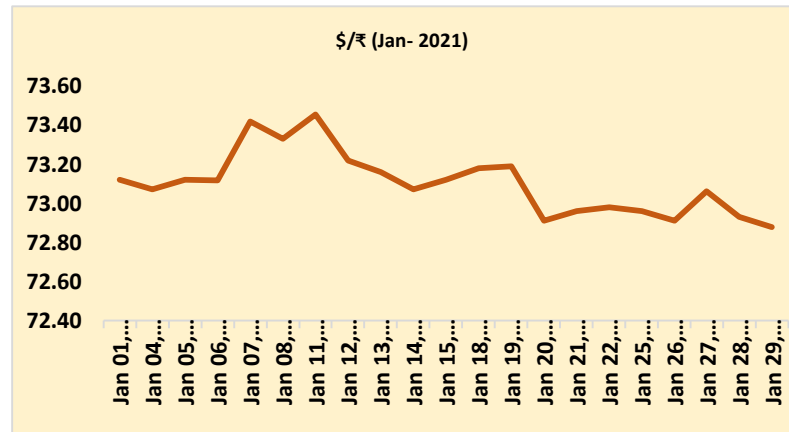
Source: National Stock Exchange



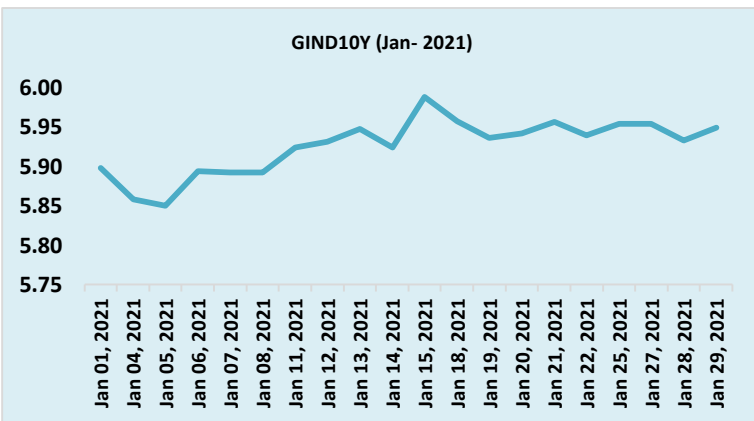
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Positive global cues, including optimism over additional US spending to boost the economy, supported investor sentiments. India's trade deficit was estimated at \$15.44 billion for December 2020 against a deficit of \$12.49 billion in December 2019. Exports rose to \$27.15 billion and imports to \$42.59 billion in December. The RBI said State Bank of India, ICICI Bank and HDFC Bank continue to be domestic systemically important banks (D-SIBs) or institutions that are 'too big to fail'. The International Monetary Fund (IMF) pegged the contraction in India's economy at 8% in the current fiscal, but it expects a growth rate of 11.5% in the next fiscal year before a decline to 6.8% in fiscal 2023.

## 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       | -3.9 Q3        | -4.4        | 3.2        | 4.5 Dec        | 3.2        | -0.7                    | -15.8           | 7.32              |
| Russia       | -3.4 Q3        | -3.8        | 2.8        | 4.9 Dec        | 3.4        | 2.1                     | -4.3            | 6.67              |
| <b>India</b> | <b>-7.5 Q3</b> | <b>-7.9</b> | <b>6.3</b> | <b>4.6 Dec</b> | <b>6.6</b> | <b>1.3</b>              | <b>-7.2</b>     | <b>6.08</b>       |
| China        | 6.5 Q4         | 1.9         | 8.7        | 0.2 Dec        | 2.5        | 1.5                     | -5.2            | 3.05 <sup>^</sup> |
| S Africa     | -6.0 Q3        | -7.3        | 1.8        | 3.1 Dec        | 3.3        | 0.6                     | -16.0           | 8.45              |
| USA          | -2.5 Q4        | -3.6        | 3.7        | 1.4 Dec        | 1.2        | -2.2                    | -14.9           | 1.15              |
| Canada       | -5.2 Q3        | -5.3        | 4.0        | 0.7 Dec        | 0.8        | -2.1                    | -13.5           | 0.95              |
| Mexico       | -4.5 Q3        | -8.9        | 3.5        | 3.2 Dec        | 3.4        | 2.3                     | -4.5            | 5.18              |
| Euro Area    | -5.1 Q4        | -7.6        | 4.7        | 0.9 Jan        | 0.3        | 2.6                     | -9.2            | 0.0               |
| Germany      | -3.9 Q4        | -5.4        | 4.3        | 1.0 Jan        | 0.4        | 6.8                     | -7.0            | 0.0               |
| Britain      | -8.6 Q3        | -11.4       | 4.5        | 0.6 Dec        | 0.9        | -1.3                    | -19.7           | 0.45              |
| Australia    | -3.8 Q3        | -2.9        | 2.7        | 0.9 Q4         | 0.9        | 1.2                     | -7.3            | 1.14              |
| Indonesia    | -3.5 Q3        | -2.2        | 3.3        | 1.6 Jan        | 2.0        | -1.6                    | -7.2            | 6.08              |
| Malaysia     | -2.7 Q3        | -5.3        | 4.4        | -1.4 Dec       | -1.1       | 4.8                     | -7.4            | 2.72              |
| Singapore    | -3.8 Q3        | -5.8        | 5.1        | Nil Dec        | -0.2       | 18.2                    | -13.9           | 1.09              |
| S Korea      | -1.3 Q4        | -1.0        | 3.1        | 0.6 Jan        | 0.5        | 3.8                     | -5.7            | 1.77              |

Sources: *The Economist*

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

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

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

# ABOUT APAS

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

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