2022

Volume 5

APAS MONTHLY

THIS MONTH

We invite our readers and patrons to visit our wealth of knowledge by tuning into our APAS podcasts – “Demystifying Reforms” and “BFSI insights”, where we help demystify the latest reforms and bring market insights of the BFSI sector in India. Hope you will find it insightful. Keep tuning in for more.

https://podcasts.google.com/feed/aHR0cHM6Ly9hdWRpb2Jvb20uY29tL2NoYW5uZWxzLzUwNzEwMDMucnNz?sa=X&ved=0CAMQ4aUDahcKEwjIpO6SwP71AhUAAAAAHQAAAAAQOQ

Also, do visit our APAS blog. It is a place where you will find articles on the latest happenings in the financial sector.

https://ap-as.com/apas-blog/

In this issue, Mr. Anand Pejawar, Dy MD, SBI General, has presented his thoughts on ‘Trends in general insurance industry and way forward: Shape of things to come’. We thank Mr. Pejawar for his contribution to the APAS Monthly.

This month, the APAS column presents its views on ‘Economy and monetary policy outlook’.

The economic indicators showed mixed performance. Manufacturing PMI increased to 54.7 in April from 54 in March. India’s annual infrastructure output in April rose to a 6-month high of 8.4%. India's Index of Industrial Production (IIP) edged up to 1.9% in March. PMI services rose to a 5-month high of 57.9 in April from 53.6 in March, while composite PMI rose to a 5-month high of 57.6 in April from 54.3 in March. CPI inflation surged to a near 8-year high of 7.79% in April from 6.95% in March. WPI inflation rose to a record high of 15.08% in April from 14.55% in March.

The Gross Domestic Product (GDP) growth rate for the fourth quarter (January-March) of 2021-22 grew at 4.1%. In the full fiscal year, the GDP grew by 8.7%.

The Reserve Bank of India (RBI) announced (i) RBI Monetary Policy – June 2022 (ii) Amendment to guidelines on Bharat Bill Payment System (BBPS) (iii) Directive on interoperable card-less cash withdrawal (ICCW) at ATMs (iv) Continuation of lending by commercial banks to NBFCs and SFBs to NBFC-MFIs for the purpose of on-lending to priority sectors.

Insurance Regulatory Development Authority of India (IRDAI) issued a circular on Solvency margin for Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).

Cabinet approved amendments to the National Policy on Biofuels – 2018.

Securities and Exchange Board of India (SEBI) constituted advisory committee on Environmental, Social and Governance (ESG) matters.

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 general insurance industry and way forward: Shape of things to come*]

Anand Pejawar
Dy MD
SBI General

APAS COLUMN

Economy and monetary policy outlook

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- *Index of Industrial Production – March*
- *Inflation update – April*
- *PMI update – April*
- *Core Sector – April*
- *GDP – Q4 – FY 21-22*

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BANKING

- [RBI Monetary Policy – June 2022]
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- [Interoperable card-less cash withdrawal (ICCW) at ATMs]
- [Lending by commercial banks to NBFCs and SFBs to NBFC-MFIs for the purpose of on-lending to priority sectors]

INSURANCE

- [Solvency margin for PMJJBY]

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

- [Cabinet approves amendments to the National Policy on Biofuels – 2018]

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CAPITAL MARKETS

- *SEBI constitutes advisory committee on ESG matters*

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*

Trends in general insurance industry and way forward: Shape of things to come

Anand Pejawar
Dy MD
SBI General

Looking back:

The Indian insurance industry currently has 57 insurance companies - 24 representing life insurance segment, while balance 34 represent non-life insurers segment, which would include the SAHI companies also.

As at FT 2021, India's insurance penetration (contribution of First year NBP to GWP) was pegged at 4.2%, with life insurance penetration at 3.2% and non-life insurance penetration at 1.0%. During the same period, the insurance density for India, (Per capita premiums) stood at US$ 78 in FY21.

In the FY 2021 – 22, Industry GDP aggregate at 2,207 bn (PY @ 1,987 bn) registering a growth of 11%. Public sector market share at 41% and Private sector market at share 59%. The Multi-line Private industry witnessed a growth of 11.9% and multi-line PSUs registered a growth of 4.6%. On the other hand, the stand-alone health (SAHI) sector grew by 32.8% and Specialized PSUs by 14.2%.

India is currently the 15th largest Non-Life Insurance market globally.

Looking forward:

Now that we have seen the performance of GI industry, where are we heading at? Where do we see the GI industry going to from here? Looking at the trend, the future to me, is very bright I make this statement based on several observations.

Substantial rise in the Health Insurance segment: We have seen the impact of Pandemic in the FY 2020-21 and in FY 2021 – 22. In both the waves, the General insurance industry got hit badly dur to claims. The industry settled claims of almost Rs. 25,000 Crs. But the positive side is that due to this pandemic, the overall awareness of having a Health Insurance in once's overall portfolio had grown. General public, irrespective of whether he resides in "India" or "Bharat", have understood the importance and now a days looking at it as a "financial tool" of protection against medical exigencies, like what people faced during the pandemic period 2020 – 22.

For the first time in general insurance industry in India, the premiums generated through Health line of business has overtaken the Motor line which was traditional leader in industry. I would not be exaggerating in saying that slowly & steadily, ***Health Insurance is moving from a "Push product" to a "Pull product", which is a welcome sign***.

The **Ayushman Bharat Yojana** (GoI Health scheme to cover BPL & marginal families up to Rs. 5 lacs of health insurance cover) has also propelled the growth and the understanding & importance of Health Insurance in Rural and those at the bottom of the pyramid, who need the most.

Personal assets coverage: Similarly, looking at the impact of what happened post the Chennai and J&K Floods. A huge gap was noticed between the economic losses incurred and the Insurance claims received. The understanding of the right coverage of such assets is also increasing.

Fasal Bima Yojana (PMFBY): India still continues to be largely driven by Agri Economy. This is totally dependent on may factors, which are external and beyond one's control. Small and marginal farmers suffer whenever there is a major natural calamity. This is now compensated to a large extend through the Fasal Bima Yojana (Crop Insurance), which is perfect example of Govt. (Both Sate & Central) & Private sector participation.

Cyber Security: With the growing demand for ***"Work from Home"***, during the pandemic, growing tendency of attaching personal things to internet through IoT (Internet of Things) and more so using one's mobile handsets for transacting all your financial transactions (Banking, MF's, money transfers, etc.) the importance of Cyber security has also increased manifold. People have started to realise that Cybercrime is a big problem, and this risk will only grow over time. As such, General insurance companies have started launching the Cyber Security Insurance policies which people have started subscribing to. This is another area of growth in the times to come. This will be applicable to the whole gamut of customer starting from individuals to Financial Institutions to large corporates.

Infrastructure development: We have seen huge surge in the overall infrastructure development (Roads, Bridges, Tunnels, Canals, Airports, etc.,) in the country. All of this will need Insurance covers to protect the same from various perils.

Climate change Risk: A very important risk that we will have to look at mitigating. Its impact on every aspect of our lives. In recent times, we have seen cyclones hitting our coastal regions almost 2 – 3 times in a year. This was unheard off some years back. Incidentally, India is situated in a position where we are covered by the Bay of Bengal on one side and Arabian Sea on the other side. The huge impact Climate change is causing on the Himalayan ranges is another factor that one must factor in. Nat Cat events have increased and incidents like sudden flash floods in hilly terrain (Uttarakhand) and wiping off almost everything which we have seen in the recent past.

What will drive this growth?

Rise in demand in Rural India: Rural India will be the focus of growth in the next 5 years in General insurance segment. Be it the Pradhan Mantri Suraksha Bima Yojana (PMSBY), small shop keepers' policy, cattle insurance, Crop insurance, Farm equipment coverages including Tractor's, household insurance covers, Motor, two wheelers, etc. will propel growth.

Ease of Distribution: With the Regulator toying with an idea of easing the entry of Micro insurance players this area will be a big area of growth. This will specially benefit rural markets.

Technology: Technology will be the main driver of this growth in the next 5 years. FinTech and Insure tech companies will be leading this growth. One will see big time evolution of technology in this segment. Those companies with a strong technology, Digital support & agility to change will rule this growth.

Innovation in product development: Now that the Regulator has already released the regulations of "Use & File" instead of "File & Use" markets will surely see many more products being introduced. We have seen bigger products getting into small sachet products. The newer products launched will be more innovative, affordable and technology driven.

Conclusion:

With a background of Banking & Life insurance industry for the past over 38 years, (just 6 months in General Insurance), I am very confident that there is a ***"lot of life in General Insurance industry"*** and it is fully poised on a huge growth trajectory. I will not be surprised if India stands within the top 10 General Insurance markets by 2027, which is quite possible.

Economy and monetary policy outlook

Since the RBI Monetary Policy Committee's (MPC) meeting in April 2022, disruptions, shortages and escalating prices induced by the geopolitical tensions and sanctions have persisted and downside risks have increased. The International Monetary Fund (IMF) has revised down its forecast of global output growth for 2022 by 0.8 percentage point to 3.6%, in a span of less than 3 months. The World Trade Organization has scaled down projection of world trade growth for 2022 by 1.7 percentage points to 3%.

Domestic economic activity stabilised in March-April with the ebbing of the third wave of COVID-19 and the easing of restrictions. Urban demand appears to have maintained expansion, but some weakness persists in rural demand. Investment activity seems to be gaining traction. Merchandise exports recorded double digit expansion for the fourteenth consecutive month in April. Non-oil non-gold imports also grew robustly on the back of improving domestic demand.

Overall system liquidity remained in large surplus. Bank credit rose (y-o-y) by 11.1% as on April 22, 2022. India's foreign exchange reserves declined by USD 6.9 billion in 2022-23 (up to April 22) to USD 600.4 billion.

In March 2022, headline CPI inflation surged to 7% from 6.1% in February, largely reflecting the impact of geopolitical spillovers. Food inflation increased by 154 basis points to 7.5% and core inflation rose by 54 bps to 6.4%. The rapid rise in inflation is occurring in an environment in which inflationary pressures are broadening across the world. The IMF projects inflation to increase by 2.6 percentage points to 5.7% in advanced economies in 2022 and by 2.8 percentage points to 8.7% in emerging market and developing economies.

Heightened uncertainty surrounds the inflation trajectory, which is heavily contingent upon the evolving geopolitical situation. Global commodity price dynamics are driving the path of food inflation in India, including prices of inflation sensitive items that are impacted by global shortages due to output losses and export restrictions by key producing countries. International crude oil prices remain high but volatile, posing considerable upside risks to the inflation trajectory through both direct and indirect effects. Core inflation is likely to remain elevated in the coming months, reflecting high domestic pump prices and pressures from prices of essential medicines. Renewed lockdowns and supply chain disruptions due to resurgence of COVID-19 infections in major economies could sustain higher logistics costs for longer. All these factors impart significant upside risks to the inflation trajectory set out in the April statement of the MPC.

As regard the outlook for domestic economic activity, the forecast of a normal southwest monsoon brightens the prospects for kharif production. The recovery in contact-intensive services is expected to be sustained, with the ebbing of the third wave and the growing vaccination coverage. Investment activity should get an uplift from robust government capex, improving capacity utilisation, stronger corporate balance sheets and congenial financial conditions. On the other hand, the worsening external environment, elevated commodity prices and persistent supply bottlenecks pose formidable headwinds, along with volatility spillovers from monetary policy normalisation in advanced economies. On balance, the Indian economy appears capable of weathering the deterioration in geopolitical conditions, but it is prudent to continuously monitor the balance of risks.

Against this background, the MPC was of the view that while economic activity is navigating the vortex of forces confronting the world with resilience on the strength of underlying fundamentals and buffers, the risks to the near-term inflation outlook are rapidly materialising, as reflected in the inflation print for March and the developments thereafter. In this milieu, the MPC expects inflation to rule at elevated levels, warranting resolute and calibrated steps to anchor inflation expectations and contain second round effects. Accordingly, the MPC decided to increase the policy repo rate by 40 basis points to 4.4%. The MPC also decided to remain accommodative while focusing on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

Further, the Reserve Bank will continue with liquidity withdrawal in a phased manner over a multi-year period in sync with monetary policy and macroeconomic developments. Given the persistent liquidity overhang, a 50 bps increase in the cash reserve ratio (CRR) by the Reserve Bank signalled its intent on withdrawing accommodation over a multi-year period.

As several storms hit together, the monetary policy response should be seen as an important step to steady the ship. The Indian as well as global evidence clearly shows that high inflation persistence hurts savings, investment, competitiveness and growth. It also has more pronounced adverse effects on the poorer segments of the population. The monetary policy actions aimed at lowering inflation and anchoring inflation expectations should thus help to strengthen the medium-term growth prospects of the economy and protect the purchasing power of the weaker sections of society. Given the highly uncertain situation, the incoming data and information would be constantly monitored by the RBI to reassess the outlook and take necessary measures. Just as RBI had remained steadfastly vigilant and responded to fragilities in growth caused by the pandemic during the last two years, this time around also, RBI has said that it will remain equally resolute and committed to bringing back inflation closer to the target through all possible instruments at its disposal.

-APAS

ECONOMY

IIP (Index of Industrial Production) – March

Index of Industrial Production (IIP) or factory output for the month of March 2022 edged up to 1.9%, compared to 1.7% in February 2022. It was 24.2% in March 2021.

The General Index for the month of March 2022 stands at 148.3, which is 1.9% higher as compared to March 2021.

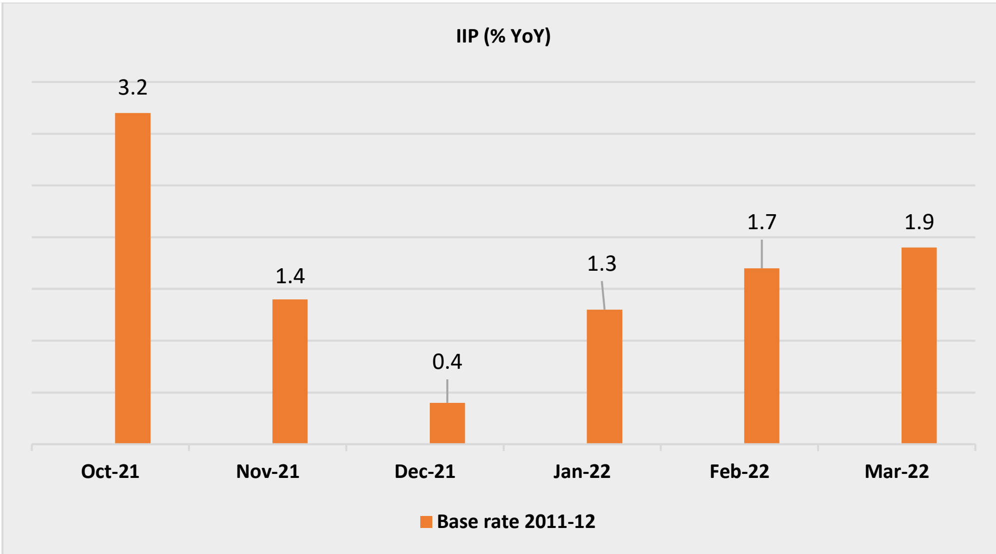
The manufacturing sector, which constitutes 77.63% of the index, grew by 0.9% in March, to 144.6.

Mining sector output grew by 4%, to 144.6.

Electricity generation rose by 6.1%, to 191.

As per Use-based classification, the indices stand at 153.3 for primary goods, 110 for capital goods, 154.8 for intermediate goods and 170.5 for infrastructure/construction goods for March.

Further, the indices for consumer durables and consumer non-durables were at 128.8 and 149.3, respectively.



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

CPI (Consumer Price Index) – April

India's consumer price index (CPI) or retail inflation surged to a near 8-year high of 7.79% in April 2022, compared to 6.95% in March 2022 and 4.23% in April 2021.

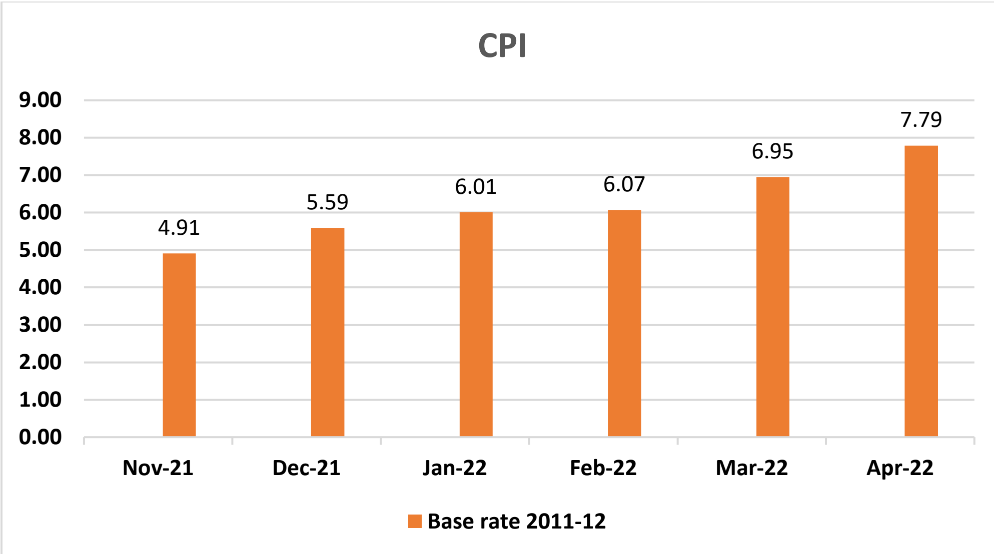
The corresponding provisional inflation rates for rural and urban areas are 8.38% and 7.09% respectively.

The Consumer Food Price Index (CFPI) rose to 8.38% in April from 7.68% in March.

The CPI inflation was the highest since May 2014.

Food inflation accelerated for the 7th straight month to 8.38%, a new high since November 2020, with cost of oils and fats (17.28%), vegetables (15.41%) and spices (10.56%) recording the biggest rises.

Additional upward pressure came from costs of transportation & communication (10.91%), health (7.21%), footwear (12.12%) and clothing (9.51%).



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

WPI (Wholesale Price Index) – April

India's wholesale price index (WPI) inflation rose to a record high of 15.08% in April 2022, as compared to 14.55% in March 2022 and 10.74% in April 2021.

The rate of inflation based on WPI Food Index increased to 8.88% in April 2022 from 8.71% in March 2022.

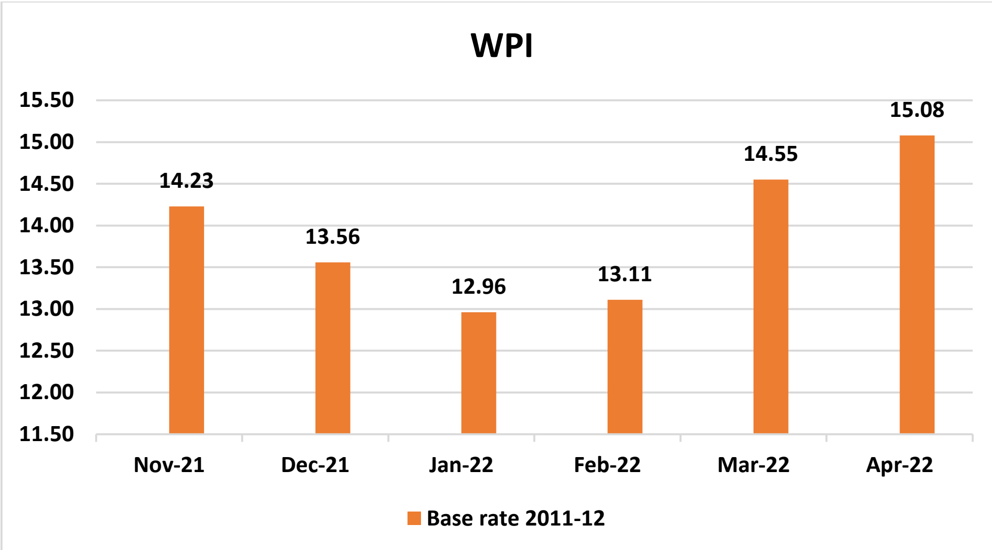
The index for primary articles increased by 2.7% from the previous month.

Prices increased for food articles (3.61%), non-food articles (1.2%), crude petroleum & natural gas (0.59%) and minerals (0.13%).

The index for fuel and power increased by 2.79% from the previous month.

Prices increased for mineral oils (7.58%). Prices declined for electricity (9.68%).

The index for manufactured products increased by 1.69% from the previous month.



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

Manufacturing PMI – April

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) in April increased, with marked and accelerated expansions in new orders and production.

The Manufacturing PMI increased to 54.7 in April 2022 from 54 in March 2022. It remained above the 50 level, that separates expansion from contraction, for the tenth straight month.

The expansion was due to faster expansions in both new orders and output, amid an easing of Covid-19 restrictions.

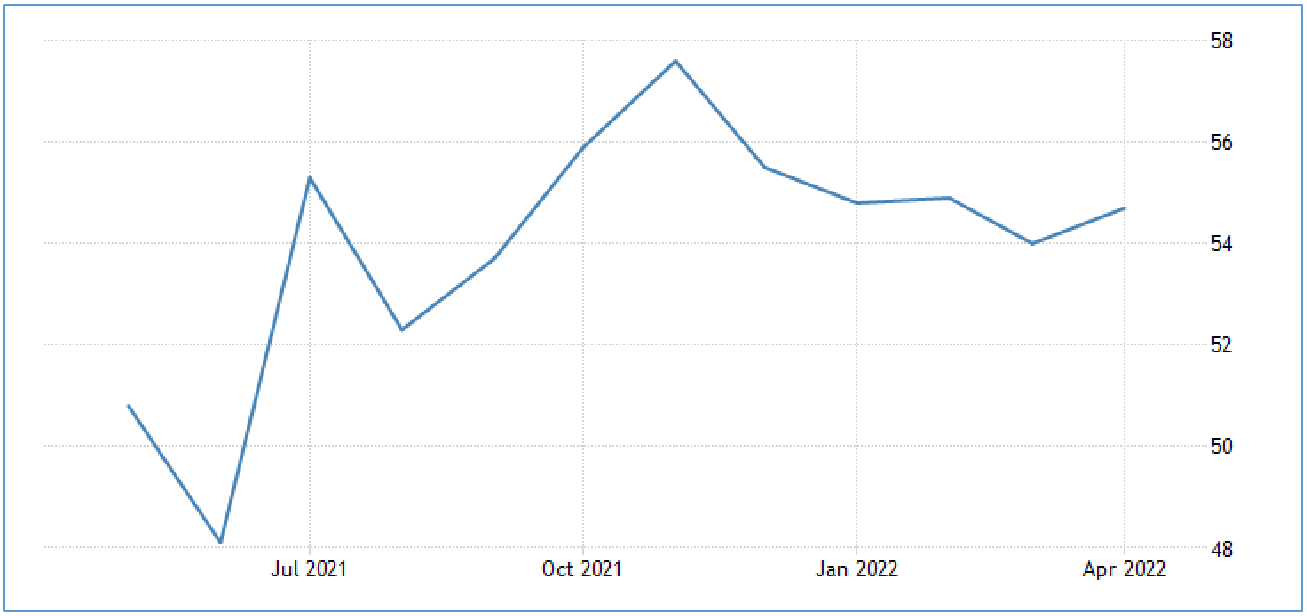
Meanwhile, new export orders increased solidly and the strongest since last July.

At the same time, buying level rose the most since last November, while employment increased modestly, with backlogs of work rising marginally and vendor performance continued to worsen, albeit only modestly.

On the price side, input price inflation quickened to a 5-month high and outpaced its long run trend.

Output prices, meanwhile, rose the most in 12 months.

Finally, sentiment remained subdued by historical standards, with some firms foreseeing further improvement in demand, while others noted that the business outlook was hard to predict.



Source: www.tradingeconomics.com

Services PMI – April

The Indian services sector activity in April recorded strong growth, driven by a surge in incoming new work orders that boosted business activity and supported a renewed increase in employment.

The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index rose to a 5-month high of 57.9 in April 2022 from 53.6 in March 2022. The index stayed above the neutral mark of 50, which separates expansion from contraction, for the ninth straight month.

This was the highest reading since last November, due to the relaxation of Covid-19 restrictions.

Both output and new order growth accelerated to a 5-month high, boosted by robust domestic demand, while employment increased for the first time in 5 months.

Those firms that hired extra staff, linked the rise to ongoing growth of new business.

However, export orders fell at the quickest pace since last September, amid mounting global uncertainty from the war in Ukraine and persistent supply chain issues.

On the price front, input price inflation accelerated to the second strongest since data began in December 2005, on higher chemical, fuel, raw material and retail costs.

Meanwhile, output cost inflation accelerated to the fastest rate since July 2017.

Looking ahead, business sentiment weakened amid concerns of inflationary pressures.

The seasonally adjusted Nikkei India Composite PMI Output Index rose to a 5-month high of 57.6 in April from 54.3 in March, highlighting the quickest pace of growth in 5 months.

Source: www.tradingeconomics.com

Core Sector Data – April

Growth of eight infrastructure sectors rose to a 6-month high of 8.4% in April 2022.

The eight core sectors – coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity – had grown by 4.9% in March 2022 and 62.6% in April 2021.

Barring crude oil and steel, all sectors recorded positive growth in April 2022.

Coal output rose sharply by 28.8%, while electricity production increased by 10.7%.

The output of petroleum refinery products increased by 9.2% in April.

The production of natural gas, fertilisers and cement rose by 6.4%, 8.7% and 8%, respectively.

On the other hand, the output of crude oil declined by 0.9% and steel production dipped by 0.7%.

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

GDP – Quarter 4 – FY 2021-22

The country's Gross Domestic Product (GDP) for the fourth quarter (January-March) of fiscal year 2021-22 grew at 4.1%, even as the rate of growth slowed sequentially for a third straight quarter, with the Omicron wave induced restrictions and high commodity prices weighing on economic activities.

For the full financial year of 2021-22, the National Statistical Office (NSO) marginally pruned its GDP growth forecast to 8.7% from 8.9% estimated in February.

The economy had witnessed a 6.6% contraction in 2020-21.

The GDP growth rate in Q4 FY 2020-21 was 2.5% and in Q3 FY 2021-22 was 5.4%.

In FY 22, all sectors, except trade, hotels, transport and communication services were above the pre-pandemic levels of FY 20.

Growth in private final consumption expenditure or private spending decelerated to 1.8% in Q4, proving to be the weakest link.

Government spending, however, picked up to grow at 4.8%, supporting overall growth.

Gross fixed capital formation, an indicator of investment activity, slowed to 5.1%.

On the supply side, the manufacturing sector contracted 0.2% in Q4 due to supply chain disruptions, while agriculture growth remained robust at 4.1%.

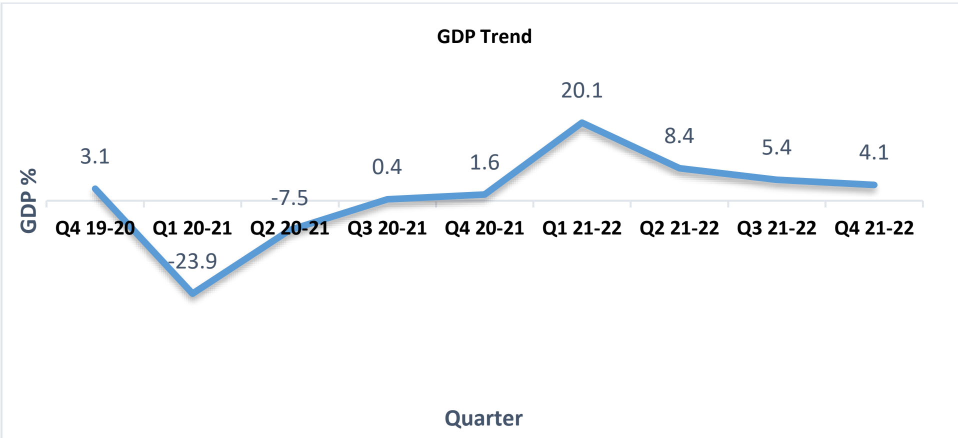
Mining and quarrying sector grew at 6.7%.

The labour-intensive construction sector returned to positive growth in Q4 at 2% due to the government's capex push and a pick-up in the real estate sector.

Growth in services output slowed to 5.5% as a result of sluggish performance of trade, hotels, transport, communications services at 5.3%.

Gross Value Added (GVA) at basic prices grew at 3.9% in Q4 and 8.1% in FY 22.

Nominal GDP is estimated to grow 19.5% in FY 22 to INR 236.4 trillion.



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

BANKING

RBI Monetary Policy – June 2022

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting on June 8, 2022, decided to:

- Increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 4.9% with immediate effect.

Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65% and the marginal standing facility (MSF) rate and the Bank Rate to 5.15%.

- The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth.

The main considerations underlying the decision are set out in the statement below.

Assessment

Global Economy

Since the MPC's meeting in May 2022, the global economy continues to grapple with multi-decadal high inflation and slowing growth, persisting geopolitical tensions and sanctions, elevated prices of crude oil and other commodities and lingering COVID-19 related supply chain bottlenecks. Global financial markets have been roiled by turbulence amidst growing stagflation concerns, leading to a tightening of global financial conditions and risks to the growth outlook and financial stability.

Domestic Economy

According to the provisional estimates released by the National Statistical Office (NSO) on May 31, 2022, India's real gross domestic product (GDP) growth in 2021-22 was 8.7%. This works out to 1.5% above the pre-pandemic level (2019-20). In Q4:2021-22, real GDP growth decelerated to 4.1% from 5.4% in Q3, dragged down mainly by weakness in private consumption on the back of the Omicron wave.

Available information for April-May 2022 indicates a broadening of the recovery in economic activity. Urban demand is recovering and rural demand is gradually improving. Merchandise exports posted robust double-digit growth for the fifteenth month in a row during May while non-oil non-gold imports continued to expand at a healthy pace, pointing to recovery of domestic demand.

Overall system liquidity remains in large surplus, with the average daily absorption under the LAF moderating to INR 5.5 lakh crore during May 4 - May 31 from INR 7.4 lakh crore during April 8 - May 3, 2022 in consonance with the policy of gradual withdrawal of accommodation. Money supply (M3) and bank credit from commercial banks rose (y-o-y) by 8.8% and 12.1%, respectively, as on May 20, 2022. India's foreign exchange reserves were placed at USD 601.4 billion as on May 27, 2022.

CPI headline inflation rose further from 7% in March 2022 to 7.8% in April 2022, reflecting broad-based increase in all its major constituents. Food inflation pressures accentuated, led by cereals, milk, fruits, vegetables, spices and prepared meals. Fuel inflation was driven up by a rise in LPG and kerosene prices. Core inflation (i.e., CPI excluding food and fuel) hardened across almost all components, dominated by the transport and communication sub-group.

Outlook

The tense global geopolitical situation and the consequent elevated commodity prices impart considerable uncertainty to the domestic inflation outlook. The restrictions on wheat exports should improve the domestic supplies but the shortfall in the rabi production due to the heat wave could be an offsetting risk. The forecast of a normal south-west monsoon augurs well for the kharif agricultural production and the food price outlook. Edible oil prices remain under pressure on adverse global supply conditions, notwithstanding some recent correction due to the lifting of export ban by a major supplier. Consequent to the recent reduction in excise duties, domestic retail prices of petroleum products have moderated. International crude oil prices, however, remain elevated, with risks of further pass-through to domestic pump prices. There are also upside risks from revisions in the prices of electricity. Early results from manufacturing, services and infrastructure sector firms polled in the Reserve Bank's surveys expect further input and output price pressures going forward. Taking into account these factors, and on the assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of USD 105 per barrel, inflation is now projected at 6.7% in 2022-23, with Q1 at 7.5%; Q2 at 7.4%; Q3 at 6.2%; and Q4 at 5.8%, with risks evenly balanced.

The recovery in domestic economic activity is gathering strength. Rural consumption should benefit from the likely normal south-west monsoon and the expected improvement in agricultural prospects. A rebound in contact-intensive services is likely to bolster urban consumption, going forward. Investment activity is expected to be supported by improving capacity utilisation, the government's capex push, and strengthening bank credit. Growth of merchandise and services exports is set to sustain the recent buoyancy. Spillovers from prolonged geopolitical tensions, elevated commodity prices, continued supply bottlenecks and tightening global financial conditions nevertheless weigh on the outlook. Taking all these factors into consideration, the real GDP growth projection for 2022-23 is retained at 7.2%, with Q1 at 16.2%; Q2 at 6.2%; Q3 at 4.1%; and Q4 at 4%, with risks broadly balanced.

Inflation risks flagged in the April and May resolutions of the MPC have materialised. The projections indicate that inflation is likely to remain above the upper tolerance level of 6% through the first three quarters of 2022-23. Considerable uncertainty surrounds the inflation trajectory due to global growth risks and geopolitical tensions. The supply side measures taken by the government would help to alleviate some cost-push pressures. At the same time, however, the MPC notes that continuing shocks to food inflation could sustain pressures on headline inflation. Persisting inflationary pressures could set in motion second round effects on headline CPI. Hence, there is a need for calibrated monetary policy action to keep inflation expectations anchored and restrain the broadening of price pressures. Accordingly, the MPC decided to increase the policy repo rate by 50 basis points to 4.9%. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

Bharat Bill Payment System – Amendment to guidelines

This has reference to the guidelines on Bharat Bill Payment System (BBPS) issued by the Reserve Bank of India (RBI) vide circular DPSS.CO.PD.No.940/02.27.020/2014-2015 dated November 28, 2014. As announced in the Statement on Development and Regulatory Policies dated April 08, 2022, the minimum net-worth requirement for non-bank Bharat Bill Payment Operating Units (BBPOUs) stands reduced to INR 25 crore. The BBPS guidelines have been suitably amended.

This circular is issued under Section 10 (2) read with Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007), and shall come into effect immediately.

Interoperable Card-less Cash Withdrawal (ICCW) at ATMs

All banks, ATM networks and WLAOs may provide the option of ICCW at their ATMs. NPCI has been advised to facilitate Unified Payments Interface (UPI) integration with all banks and ATM networks. While UPI would be used for customer authorisation in such transactions, settlement would be through the National Financial Switch (NFS) / ATM networks. The on-us / off-us ICCW transactions shall be processed without levy of any charges other than those prescribed under the circular on Interchange Fee and Customer Charges.

Withdrawal limits for ICCW transactions shall be in-line with the limits for regular on-us / off-us ATM withdrawals. All other instructions related to Harmonisation of Turn Around Time (TAT) and customer compensation for failed transactions shall continue to be applicable.

This directive is issued under Section 10(2) read with Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

Lending by commercial banks to NBFCs and SFBs to NBFC-MFIs for the purpose of on-lending to priority sectors

Earlier, lending by commercial banks to NBFCs and lending by Small Finance Banks (SFBs) to NBFC-MFIs, for the purpose of on-lending to certain priority sectors, was permitted up to March 31, 2022.

To ensure continuation of the synergies that have been developed between banks and NBFCs in delivering credit to the specified priority sectors, it has been decided to allow the above facility on an on-going basis.

Bank credit to NBFCs (including HFCs) for on-lending will be allowed up to an overall limit of 5% of an individual bank's total priority sector lending in case of commercial banks. In case of SFBs, credit to NBFC-MFIs and other MFIs (Societies, Trusts, etc.) which are members of RBI recognized 'Self-Regulatory Organisation' of the sector, will be allowed up to an overall limit of 10% of an individual bank's total priority sector lending. These limits shall be computed by averaging across four quarters of the financial year, to determine adherence to the prescribed cap.

SFBs are allowed to lend to registered NBFC-MFIs and other MFIs which have a 'gross loan portfolio' (GLP) of up to INR 500 crore as on March 31 of the previous financial year, for the purpose of on-lending to priority sector. In case the GLP of the NBFC-MFIs/other MFIs exceeds the stipulated limit at a later date, all priority sector loans created prior to exceeding the GLP limit will continue to be classified by the SFBs as PSL till repayment/maturity, whichever is earlier.

INSURANCE

Solvency margin for Pradhan Mantri Jeevan Jyoti Bima Yojana

The IRDAI has issued a circular under section 14(2)(e) of the Insurance Regulatory and Development Authority Act, 1999.

On examination of representations received from life insurers seeking relaxation in the solvency capital requirements for Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), it has been decided to revise the solvency factors as below, with the objective of efficient capital utilization for popularizing this scheme and increasing the insurance penetration in the country.

For PMJJBY, the second factor for calculation of Required Solvency Margin as per Form KT-1 of IRDAI (Actuarial Report and Abstract for Life Insurance Business) Regulations, 2016 is revised from 0.10% to 0.05%.

This circular shall come into force with immediate effect.

INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Cabinet approves amendments to the National Policy on Biofuels – 2018

The Union Cabinet, chaired by Prime Minister Shri Narendra Modi, has approved the Amendments to the National Policy on Biofuels – 2018.

The "National Policy on Biofuels – 2018" was notified by Ministry of Petroleum and Natural Gas on 04.06.2018 in supersession of National Policy on Biofuels, promulgated through the Ministry of New & Renewable Energy, in 2009.

Due to advancements in the field of Biofuels, various decisions taken in the National Biofuel Coordination Committee (NBCC) meetings to increase biofuel production, recommendation of the Standing Committee and the decision to advance to introduce Ethanol Blended Petrol with up to twenty per cent ethanol throughout the country from 01.04.2023, amendments are done to the National Policy on Biofuels.

The following are the main amendments approved to the National Policy on Biofuels:

i. to allow more feedstocks for production of biofuels,

ii. to advance the ethanol blending target of 20% blending of ethanol in petrol to ESY 2025-26 from 2030,

iii. to promote the production of biofuels in the country, under the Make in India program, by units located in Special Economic Zones (SEZ)/ Export Oriented Units (EoUs),

iv. to add new members to the NBCC,

v. to grant permission for export of biofuels in specific cases, and

vi. to delete/amend certain phrases in the Policy in line with decisions taken during the meetings of National Biofuel Coordination Committee.

This proposal will also attract and foster developments of indigenous technologies which will pave the way for Make in India drive and thereby generate more employment.

The existing National Policy on Biofuels came up during year 2018. This amendment proposal will pave the way for Make in India drive thereby leading to reduction in import of petroleum products by generation of more and more biofuels. Since many more feedstocks are being allowed for production of biofuels, this will promote the Atmanirbhar Bharat and give an impetus to Prime Minister's vision of India becoming 'energy independent' by 2047.

CAPITAL MARKETS

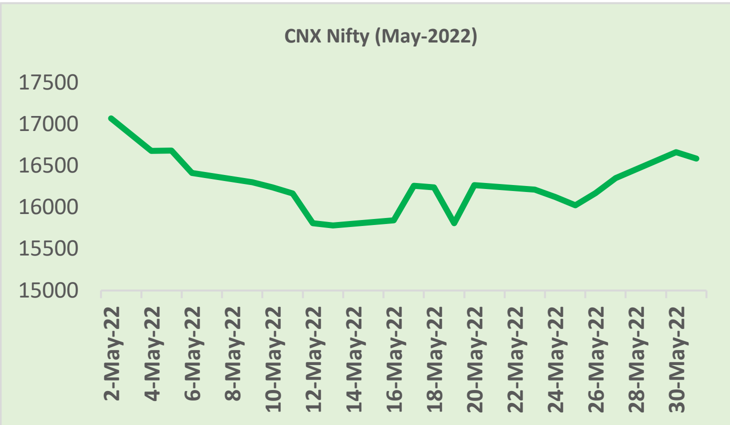
SEBI constitutes advisory committee on ESG matters

SEBI has constituted a [committee for advising on ESG-related matters] in the securities market.

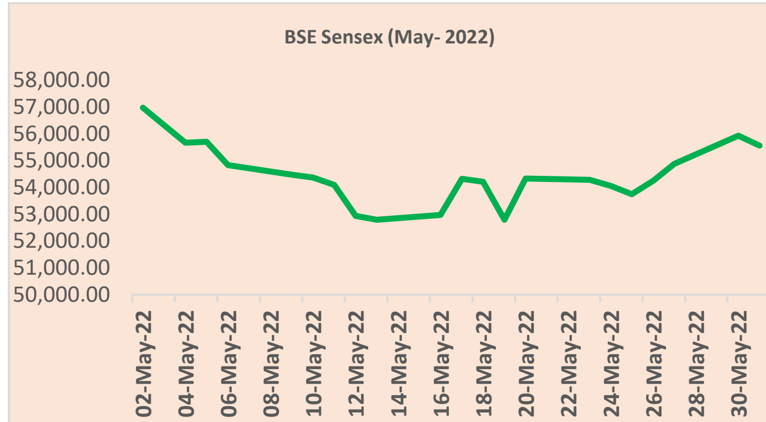
The terms of reference of the Committee include the following:

a. Enhancements in Business Responsibility and Sustainability Report (BRSR)
   i. Review of leadership indicators that may be made essential – including those related to value chain
   ii. Developing sector specific sustainability disclosures
   iii. Evolving disclosures/ metrics that are relevant to the Indian context
   iv. Identify areas for assurance and roadmap for its implementation
b. ESG Ratings
   i. Developing separate/ parallel approach for ESG rating adapted to emerging market, e.g., focus on 'S' including employment generation, etc.
   ii. Developing uniform indicators of 'G' as input to ESG ratings and / or credit ratings
   iii. Disclosures in the rationale by ESG rating providers on what and how qualitative factors were factored in the ESG ratings / observations
c. ESG Investing
   i. Continuous enhancement of disclosures specific to ESG Schemes of Mutual Funds with particular focus on mitigation of risks of mis-selling and greenwashing. The evolution of standards and norms for ESG is a dynamic process which necessitates continuous evaluation.
   ii. Examine whether ESG funds need to have prudential norms, if any.
   iii. Long term plan to prescribe ESG disclosures for all Mutual Fund schemes.

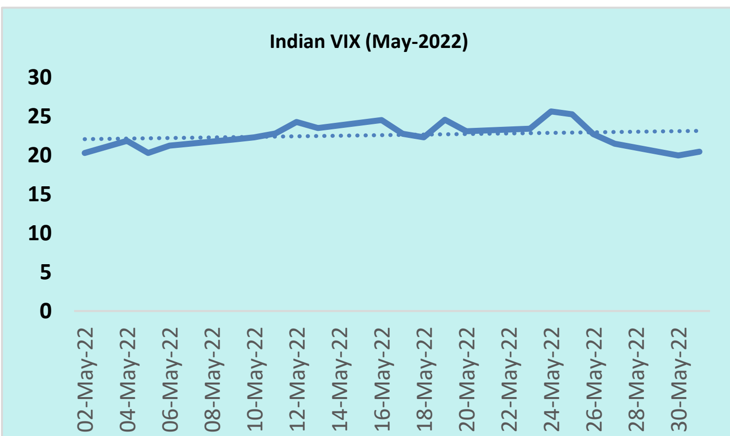
CAPITAL MARKETS SNAPSHOT



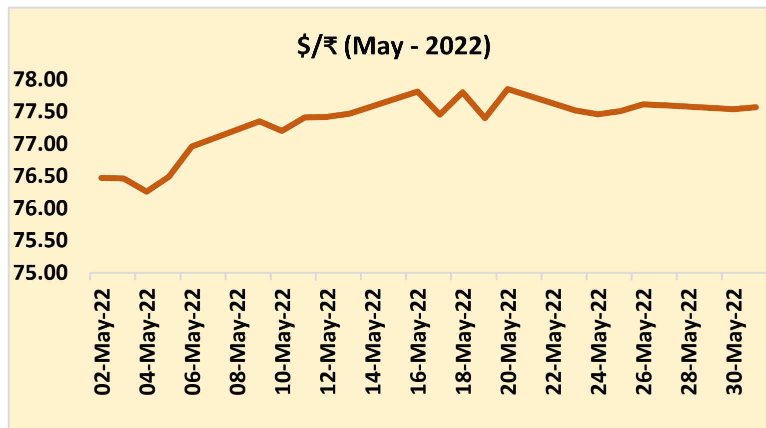
Source: National Stock Exchange



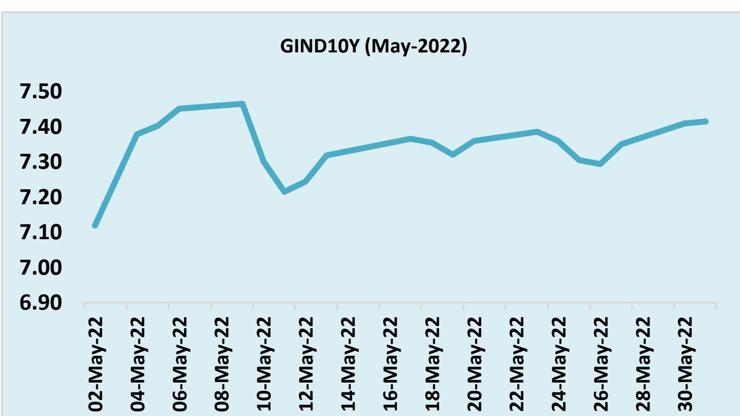
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Crude at USD 123/bbl as of the end of May shows a clear hardening of Brent in May compared to April. Oil prices climbed on EU deciding to ban Russian oil imports to the tune of 90% by December 2022. OPEC also suggested that Russia may be ejected from the OPEC Plus consortium in setting oil prices. There was no respite in FPI selling in May 2022 as another USD 5.86 billion of equities got sold by FPIs from about USD 3 billion in April. That was more than compensated by the domestic inflows in May 2022, but the damage was visible in the rupee value. Towards the end of May 2022, there was a bounce in the rate sensitives and that was the key positive for markets in May 2022.

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ECONOMIC DATA SNAPSHOT

Countries	GDP			CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2022*	2023*	Latest	2022*	% of GDP, 2022*	% of GDP, 2022*	(10YGov), Latest
Brazil	1.7 Q1	1.3	1.1	11.7 May	10.4	0.0	-6.7	12
Russia	3.5 Q1	-10.0	1.9	17.1 May	18.0	5.6	-4.5	9.05
India	**4.1 Q1**	**6.9**	**5.0**	**7.8 Apr**	**7.3**	**-1.5**	**-6.6**	**7.49**
China	4.8 Q1	5.0	5.1	2.1 Apr	2.2	2.3	-6.2	2.58^
S Africa	3.0 Q1	1.9	2.4	6.0 Apr	5.8	-1.6	-6.1	9.95
USA	3.5 Q1	2.3	1.3	8.3 Apr	7.7	-4.2	-5.8	3.03
Canada	2.9 Q1	3.8	3.2	6.8 Apr	5.7	1.2	-3.6	3.27
Mexico	1.8 Q1	1.9	2.6	7.7 May	7.5	-0.9	-3.5	8.95
Euro Area	5.4 Q1	3.2	2.4	8.1 May	6.8	2.3	-4.3	1.36
Germany	3.8 Q1	1.6	2.0	7.9 May	6.8	5.9	-2.9	1.36
Britain	8.7 Q1	3.9	1.7	9.0 Apr	6.7	-3.2	-5.3	2.19
Australia	3.3 Q1	3.0	2.5	5.1 Q1	5.0	3.1	-3.2	3.55
Indonesia	5.0 Q1	5.1	4.6	3.6 May	5.3	0.2	-4.8	7.22
Malaysia	5.0 Q1	5.0	4.2	2.3 Apr	3.0	2.8	-6.2	4.21
Singapore	3.7 Q1	3.6	3.1	5.4 Apr	6.0	18.3	-0.9	2.93
S Korea	3.0 Q1	2.7	2.5	5.4 May	4.4	3.4	-2.3	3.47

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

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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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