NEWSLETTER

APAS MONTHLY

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ASHVIN PAREKH

THIS MONTH

We invite our readers and patrons to visit our wealth of knowledge e by tuning into our APAS podcasts –

"Demystifying Reforms" and "BFSI insights"

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.

Click the below link to hear our latest podcast:

Apple Podcast

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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/

EDITORIAL

In this issue, Mr. Madan Sabnavis, Chief Economist, Bank of Baroda has presented his thoughts on '**The growth opportunities in BFSI sector arising out of the economic outlook for India in the year 2022 - 23**'. We thank Mr. Sabnavis for his contribution to the APAS Monthly.

This month, the APAS column covers '**Behind the scenes: global banking trends**'.

For our podcast listeners we have an interesting discussion on the shape of Indian economy in the context of Capital markets and investors. We discuss the program with Mr. Piyush Garg, Executive Vice President & CIO - ICICI Securities Limited. The link for the podcast is below:

Demystifying Reforms: The shape of Indian economy in the context of Capital markets and investors on Apple Podcasts

Demystifying Reforms: The shape of Indian economy in the context of Capital markets and investors | Podcast on Spotify

The economic indicators showed mixed performance. Manufacturing PMI climbed to 57.8 in December 2022 from 55.7 November 2022. Services PMI increased to 58.5 in December 2022 from 56.4 in November Infrastructure output in India increased 7.4% year-on-year in December of 2022, following an upwardly revised 5.7% rise in November. Index of Industrial Production (IIP) or factory output recorded a growth of 7.1% in November 2022. India's retail price inflation (CPI) eased 5.72% in December of 2022, compared with 5.88% in November. India Wholesale Price Index (WPI) number is 4.95% (Provisional) for the month of December 2022 (over December 2021) against 5.85% recorded in November 2022.

The Reserve Bank of India (RBI) announced Monetary Policy Statement, 2022-23 Resolution of the Monetary Policy Committee (MPC) February 6-8, 2023. Periodic Updation of KYC details of Customers. State Finances: A Study of Budgets of 2022-23. RBI releases Discussion Paper on Expected Loss (EL)-based Approach for loan loss provisioning by banks. Sectoral Deployment of Bank Credit – December 2022.

Insurance Regulatory Development Authority of India (IRDAI) announced Life Insurers – Jan 2023.

SEBI publishes SEBI introduces Information database and Repository on Municipal Bonds. SEBI underlines the need for analysis and disclosure of risks of trading in F&O.

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

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On the cover

GUEST COLUMN

The growth opportunities in BFSI sector arising out of the economic outlook for India in the year 2022 - 23'

Madan Sabnavis
Chief Economist,
Bank of Baroda

APAS COLUMN

Behind the scenes: global banking trends

ECONOMY

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BANKING

[Monetary Policy Statement, 2022-23 Resolution of the Monetary Policy Committee (MPC) February 6-8, 2023]

[Periodic Updation of KYC details of Customers]

[State Finances: A Study of Budgets of 2022-23]

[RBI releases Discussion Paper on Expected Loss (EL)-based Approach for loan loss provisioning by banks]

[Sectoral Deployment of Bank Credit – December 2022]

INSURANCE

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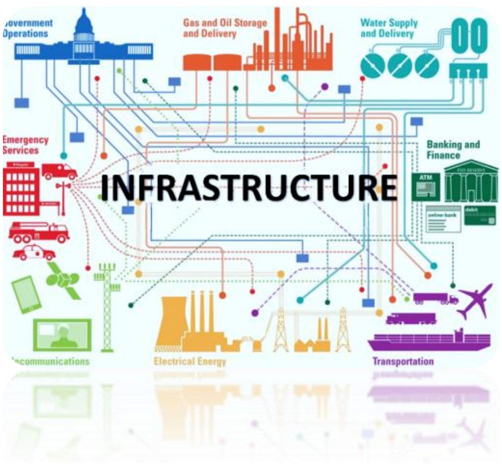


INFRASTRUCTURE & OTHER GOVT. INITIATIVES

[Union Minister inaugurates 18 National Highway projects with a total length of 550 km in Orchha, Madhya Pradesh worth Rs. 6800 crore]

[PM lays foundation stone, inaugurates multiple development initiatives worth around Rs 38,800 crores in Mumbai, Maharashtra]

CAPITAL MARKETS

[SEBI introduces Information database and Repository on Municipal Bonds]

[SEBI underlines the need for analysis and disclosure of risks of trading in F&O]

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]

Growth opportunities in BFSI sector arising out of the economic outlook for India in the year 2022 - 23'.

Madan Sabnavis
Chief Economist,
Bank of Baroda

The Indian economy is quite uniquely positioned today. While statistically we are one of the fastest growing economies with the government expecting growth to be between 6-6.8% in Fy24 at a time when the rest of the world struggles to stay afloat, there are several nagging problems in the economy. one of them is private investment.

There is limited private investment taking place with concentration more in the infra-related sectors which have a link to the spending which the government is undertaking. This has meant that as far as banks are concerned the demand for credit is coming mainly from the SME sector which has certain backstops provided by the government. There needs to be traction in the corporate space for it to test the financial system. Presently the growth in credit is restricted more to the retail and services segments, which is good for the system as the ticket sizes are smaller and risk management easier.

The banking sector is however well positioned today for meeting the challenge of growth. The clean-up operations in the last 7 years has borne results with the banks being well capitalized. The fact that NPA ratios have come down means that they would have to progressively make fewer provisions which in turn will improve their profits and hence add to their net worth. It is not surprising that the Budget for FY24 has not had to make any provisions for capitalizing PSBs. The good part of the story is that the slippage ratio, which refers to incremental NPAs, is less than 2%.

The lessons from the past will make banks better placed when the demand for corporate credit picks up. As India looks to grow at 7-8% in the next 5 years there is bound to be an increase in demand for credit. India is basically a bank driven financial system unlike the USA which is market oriented. This is an advantage and challenge for the banks.

The advantage is that as the corporate bond market is one for higher rated paper there will tend to be preference for bank borrowing for the rest of the companies. Despite all measures being taken by SEBI and RBI to grow the debt market, the space remains constricted to better rated companies. It will remain this way until there is a viable resolution mechanism that develops. The IBC had started with a lot of hope but after the low hanging fruits were plucked has gotten less potent as the recovery rates have again come done to less than 30%.

But the same also means that the lower rated companies which cannot access the bond market would be coming to banks where the risk will be higher. Clearly very good risk management practices have to be in place to ensure that the sanctity of the system is respected. This is something that they need to be cognizant of all the time.

Two other developments have been that companies have been accessing the ECB market when interest rates were low. However, with rates moving up, this channel will be progressively less attractive for companies which will work to the benefit of banks. The second is the process of deleveraging by large corporates. This has been witnessed in the last 3-4 years where loans are being repaid as companies want to lower their debt levels. Wherever investment is taking place, it is being done quite significantly now using their own reserves rather than taking loans. This is progressively becoming commonplace among the large companies (including PSUs).

Further there is competition from fintechs as well as small finance banks when it comes to dealing with SMEs that can intensify in the coming years. Therefore, banking will progressively require strong salesmanship just like a FMCG product when dealing with corporates. It already is at the retail end but will mimic the same while one goes up the borrowing chain. Also, the focus is likely to be more on digitization of operations and getting the consumer within the fold. All banks are now getting into the digital mode more out of necessity to keep pace with the changing times. This will help to also lower operating cost once the initial investment is made.

We can see bank credit growth once again moving back to the 15% trajectory once GDP growth stabilizes at the 7-8% range. This will not happen in the current year where growth in bank credit will tend to slow down. Typically, growth in credit tracks growth in nominal GDP and hence if the latter grows at 13-14%, the banks will need to also ensure that capital is available.

Besides conventional banking business one can see a plethora of opportunity in other related areas which concern banks. The CBDC for example will be evolving in the coming years and will be something that will be watched closely. The same holds for green bonds where banks will be expected to play a decisive role in its evolution and proliferation. Therefore, banking will transcend these traditional barriers and seek new boundaries.

APAS Column

Behind the scenes: global banking trends

The global banking sector weathered the pandemic shock reasonably well, thanks to the capital buffers and regulatory concessions. However, post pandemic recovery and the on-going geopolitical situation has opened the banking sector to the challenges emanating from the tightening of the monetary policy to tame high inflationary pressures. Policy makers across the globe and the international organizations such as Financial Stability Board (FSB) and Standard Setting Bodies (SSBs), have been working continuously in consultation with various countries to develop policies and standards that can help the nations withstand any global or domestic headwinds and uncertainties.

Global banking policies are evolving to ensure more prudential standards, guidelines, and reporting. At a macro level, global banking policy developments are now focussed on four areas - (i) building resilient financial institutions; (ii) too-big-to-fail (TBTF) reforms; (iii) making derivatives markets safer; and (iv) enhancing the resilience of non-bank financial intermediation (NBFI).

Some of the important steps taken at global level, and the global trends are detailed in this article. To ensure resilience, the deadline for adoption and implementation of the outstanding Basel III standards was set for January 2023. Revised standardised approach for credit risk, revised internal ratings-based (IRB) approach, the revised operational risk framework and the output floor, revised credit valuation adjustment (CVA) framework, the revised minimum requirements for market risk, the revised leverage ratio and the global systemically important banks (G-SIB) leverage ratio buffer have been adopted by various member jurisdictions. Further, various other capital standards and disclosure standards also have been adopted. This indicates increased standardization and control, a step towards building resilient financial systems across the globe. When it comes to globally systemically important banks, the focus is now on fine-tuning and testing resolution preparedness. The Financial Stability Board, together with standard setting bodies and other international organisations, has been working towards enhancing the resilience of the Non-Banking Financial Institutions (NBFI) sector as well.

Another important area that central banks and policymakers around the world are considering is climate change as it is considered as a potential source of systemic risk to the financial system. In recent years, efforts to address climate change risks have been growing across jurisdictions and a large and increasing number of central banks are either contemplating or have put in place plans for addressing financial sector risks from climate change. The lack of sufficiently consistent, comparable, granular and reliable climate data remains a major challenge in measuring exposures to climate-related risks. The global objective is to develop a global baseline standard of sustainability disclosures with consistent, complete, comparable, and verifiable information.

Another major goal of the global banking system is enhancing the Cross-Border Payments. The major challenges in achieving the goal of faster and more efficient cross-border payments include high costs, low speed, limited access, and inadequate transparency. European Central Bank (ECB) after comparing few potential avenues for cross-border payments systems that could be immediate, cheap, universal, and settled in a secure settlement medium found that central bank digital currency (CBDC) and instant domestic payment systems, both interlinked through an FX conversion layer, could be the 'holy grail' of cross-border payments. Globally, a consensus is emerging that CBDCs, if implemented correctly, can promote diversity in payment options, make cross-border payments faster and cheaper, increase financial inclusion and possibly facilitate crisis time –such as a pandemic –

fiscal transfers to targeted beneficiaries. The Bank of International Settlements Innovation Hub (BISIH), along with the central banks of Australia, Malaysia, Singapore and South Africa, designed and developed a multi-CBDC (mCBDC) shared platform called "Project Dunbar" that could enable international settlements using digital currencies issued by multiple central banks. Unlike the correspondent banking model in which banks hold foreign currency accounts with each other, a multi-currency common settlement platform could enable transacting parties to pay each other in different currencies directly without the need for intermediaries and thus reduce the time, effort, cost and settlement risk for cross-border payments.

Collapse of major crypto exchanges have led to policy makers across the world to work towards the development of risk-based and technology-neutral policies for effective regulation and supervision of crypto-assets, commensurate with risks that these assets pose.

Overall, on the performance, global banking remained resilient in the last couple of years in spite of challenges. Top banks maintained sufficient capital buffers and have also seen improvement in their profitability. Impact of the recent aggressive tightening of monetary policy across many countries must be watched. The impending challenges for regulators of the banks include effective regulation of technological innovations in the banking sector and risks emerging out of climate change. Since the areas of challenges have been identified, standard measures are being worked out by the policy makers and global organizations governing the member jurisdictions.

-APAS

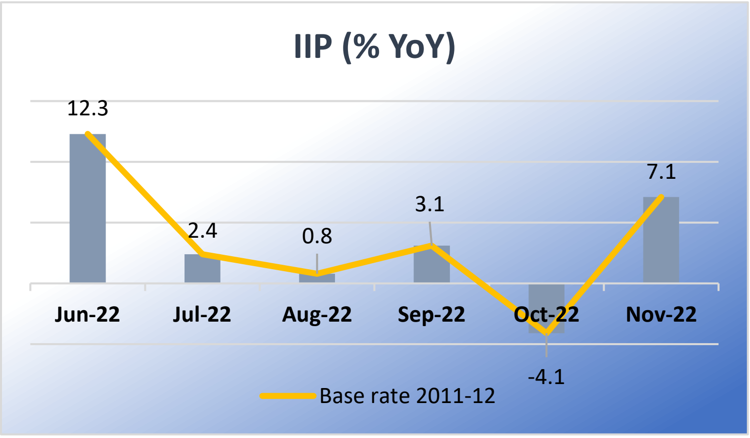
ECONOMY

IIP (Index of Industrial Production) – November

Index of Industrial Production (IIP) or factory output recorded a growth of 7.1% in November 2022, as against -4.1 % in October 2022 and 3.2% in October 2021.

For the month of November 2022, the Quick Estimates of Index of Industrial Production (IIP) with base 2011-12 stands at 137.1 showing an upward movement compared to November 2021.

The manufacturing sector, which constitutes close to 77 % of the index, increased by 6.1% in October, to 136.7.



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

Mining sector grew by 9.7%, to 122.7. Electricity generation grew by 12.7%, to 166.7.

As per Use-based classification, the indices stand at 132.5 for Primary Goods, 99.1 for Capital Goods, 145.6 for Intermediate Goods and 159.6 for Infrastructure/ Construction Goods for the month of November 2022.

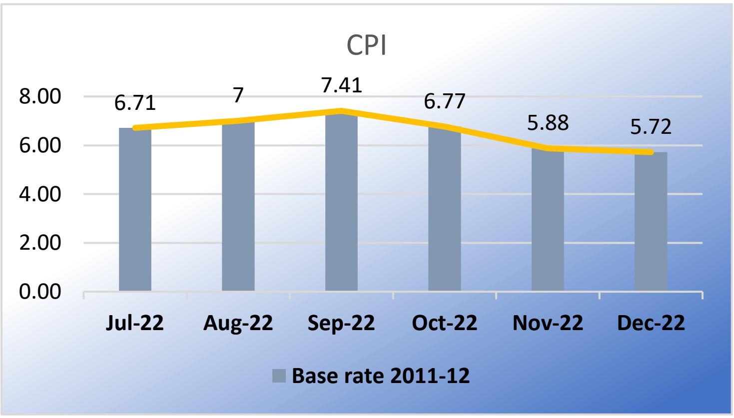
Further, the indices for Consumer durables and Consumer non-durables stand at 112.0 and 161.1 respectively for the month of November 2022.

CPI (Consumer Price Index) – December

India's annual retail price inflation eased 5.72% in December of 2022 from 5.88% in November.

The lowest reading since December of 2021, also marking the second straight month the inflation stays below the Reserve Bank of India target of 2-6%. The CPI went down 0.45%, the biggest decline since January of 2021.

Prices slowed for food (4.19% vs 4.67%), pushed down by a 15.1% fall in vegetables; clothing and footwear (9.58% vs 9.83%); and housing (4.47% vs 4.57%). On the other hand, prices rose faster for fuel and light (10.97% vs 10.62%), pan, tobacco, and intoxicants (2.55% vs 2.02%), and miscellaneous (6.17% vs 6.07%).

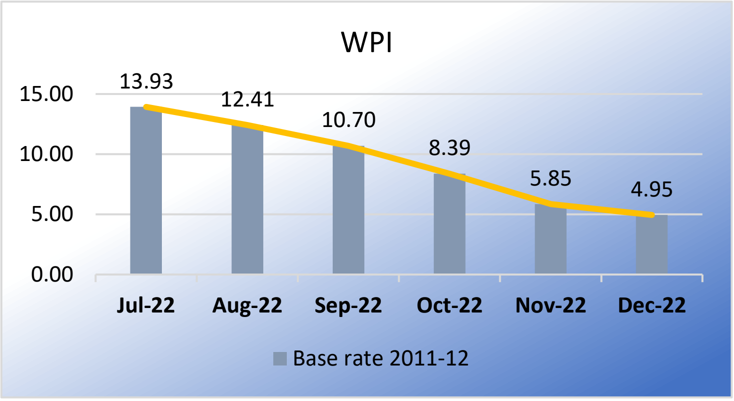


Source: APAS BRT, www.mospi.gov.in

Compared to the previous month, the CPI went down 0.45%, the biggest decline since January of 2021.

WPI (Wholesale Price Index) – December

India Wholesale Price Index (WPI) number is 4.95% (Provisional) for the month of December 2022 (over December 2021) against 5.85% recorded in November 2022.



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

Decline in the rate of inflation in December 2022 is primarily contributed by fall in prices of food articles, mineral oils, crude petroleum & natural gas, food products, textiles and chemicals & chemical products.

The month over month change in WPI for the month of December 2022 stood at (-)1.12% as compared to November 2022. The index for primary articles declined by 2.98% to 172.4 (provisional) in December 2022 from 177.7 (provisional) for the month of November 2022

Prices of Crude Petroleum & Natural Gas (10.81%) declined in December 2022 and Non-food Articles (1.49%) increased in December 2022 as compared to November 2022.

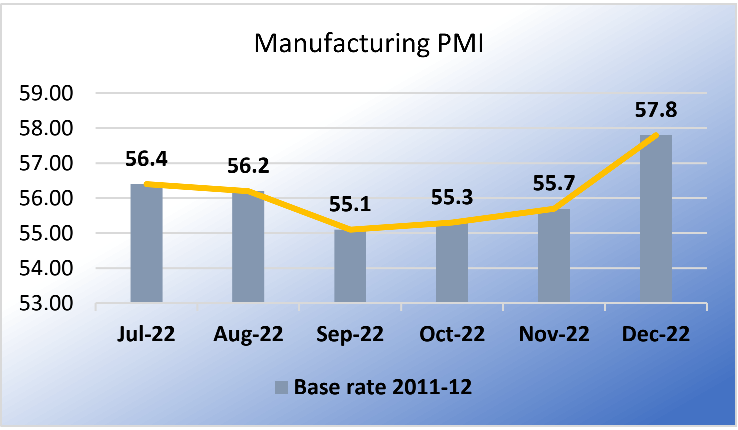
The index for fuel and power declined by 1% to 158 (provisional) in December 2022 from 159.6 (provisional) for the month of November 2022.

Prices of Mineral Oils ((4.64%) declined in December 2022 and Electricity (9.51%) increased in December 2022 November 2022.

The index for manufactured products declined by 0.28% to 141.1 (provisional) in December 2022 from 141.5 (provisional) for the month of November 2022.

Manufacturing PMI – December

The S&P Global India Manufacturing PMI climbed to 57.8 in December 2022 from 55.7 in the prior month, pointing to the highest reading since October 2020 and marking the 18th straight month of expansion.



Source: www.tradingeconomics.com

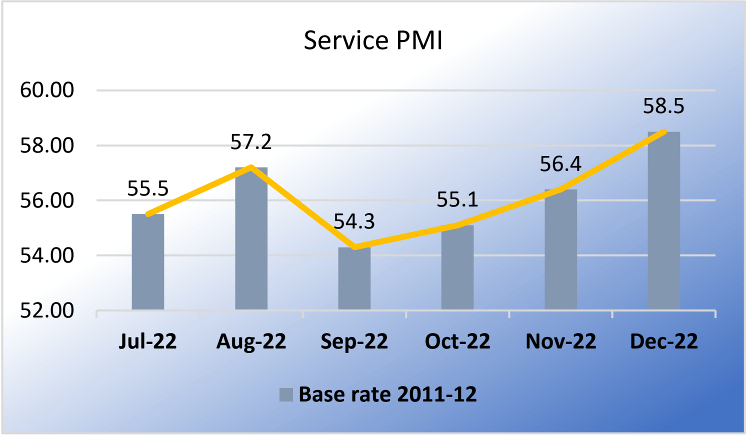
Output growth hit a 13-month high, new orders rose the most since February 2021, and buying levels grew at the strongest pace since May 2020. Also, employment gained for the tenth month in a row, while an accumulation in outstanding business slowed.

Meantime, foreign sales improved, but the pace of increase was the softest in 5 months. Lead times were unchanged, as suppliers were comfortably able to accommodate the uptick in input demand.

Cost pressures were muted, with the rate of inflation little-changed and the second slowest since September 2020. On the other hand, selling price inflation outpaced that seen for input costs for the first time in near 2-1/2 years. Finally, sentiment was upbeat, due to growth prospects that were supported by advertising efforts and solid demand.

Services PMI – December

The S&P Global India Services PMI increased to 58.5 in December 2022 from 56.4 in November, exceeding market forecasts of 55.5. The latest reading pointed to the strongest expansion in the services sector since June, supported by a faster rise in both new orders and output, amid favourable market conditions.



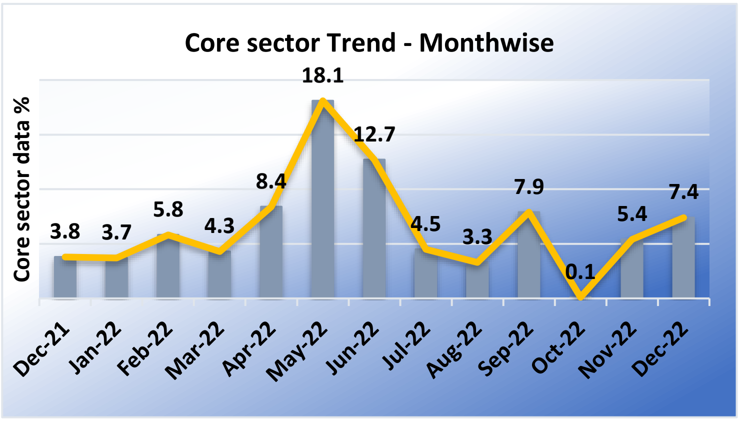
Source: www.tradingeconomics.com

Meanwhile, the pace of job creation was above its long-run average, but eased to a five-month low, with the backlogs of work rising at a faster pace. Regarding inflation, input cost inflation accelerated and was above its long-run average, amid higher prices for energy, food, transportation, and wage costs.

Meanwhile, output cost inflation slowed, but remained solid and historically elevated. Finally, business confidence weakened slightly amid concerns over rising cost pressures.

Core Sector Data – December

The combined Index of Eight Core Industries (ICI) increased by 7.4 per cent (provisional) in December 2022 as compared to the Index of December 2021. The production of Coal, Electricity, Steel, Cement, Fertilizers, Refinery Products and Natural Gas increased in December 2022 over the corresponding month of last year. ICI measures combined and individual performance of production of eight core industries viz. Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizers, Steel, Cement and Electricity. The Eight Core Industries comprise 40.27 percent of the weight of items included in the Index of Industrial Production (IIP). Details of annual and monthly indices and growth rates are provided at Annex I & II respectively.



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

Final growth rate of Index of Eight Core Industries for September 2022 is revised to 8.3 per cent from its provisional level 7.9 per cent. The cumulative growth rate of ICI during April-December 2022 was 8.0 per cent (provisional) as compared to the corresponding period of last year.

The summary of the Index of Eight Core Industries is given below:

Coal - Coal production (weight: 10.33 per cent) increased by 11.5 per cent in December 2022 over December, 2021. Its cumulative index increased by 16.4 per cent during April to December 2022 over corresponding period of the previous year.

Crude Oil - Crude Oil production (weight: 8.98 per cent) declined by 1.2 per cent in December 2022 over December 2021. Its cumulative index declined by 1.3 per cent during April to December 2022 over the corresponding period of previous year.

Natural Gas - Natural Gas production (weight: 6.88 per cent) increased by 2.6 per cent in December 2022 over December 2021. Its cumulative index increased by 0.9 per cent during April to December 2022 over the corresponding period of previous year.

Petroleum Refinery Products - Petroleum Refinery production (weight: 28.04 per cent) increased by 3.7 per cent in December 2022 over December 2021. Its cumulative index increased by 5.5 per cent during April to December 2022 over the corresponding period of previous year.

Fertilizers - Fertilizers production (weight: 2.63 per cent) increased by 7.3 per cent in December 2022 over December 2021. Its cumulative index increased by 9.6 per cent during April to December 2022 over the corresponding period of previous year.

Steel - Steel production (weight: 17.92 per cent) increased by 9.2 per cent in December 2022 over December 2021. Its cumulative index increased by 7.7 per cent during April to December 2022 over the corresponding period of previous year.

Cement - Cement production (weight: 5.37 per cent) increased by 9.1 per cent in December 2022 over December 2021. Its cumulative index increased by 10.6 per cent during April to December 2022 over the corresponding period of previous year.

Electricity - Electricity generation (weight: 19.85 per cent) increased by 10.0 per cent in December 2022 over December 2021. Its cumulative index increased by 9.8 per cent during April to December 2022 over the corresponding period of previous year.

BANKING

Monetary Policy Statement, 2022-23 Resolution of the Monetary Policy Committee (MPC) February 6-8, 2023

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (February 8, 2023) decided to:

Consequently, the standing deposit facility (SDF) rate stands adjusted to 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 6.75 per cent.

- 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 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 outlook on global growth has improved in recent months, despite the persistence of geopolitical hostilities and the impact of monetary policy tightening by central banks across the world. Nonetheless, global growth is expected to decelerate during 2023. Inflation is exhibiting some softening from elevated levels, prompting central banks to moderate the size and pace of rate actions. However, central banks are reiterating their commitment to bring down inflation close to their targets. Bond yields remain volatile. The US dollar has come off its recent peak, and equity markets have moved higher since the last MPC meeting. Weak external demand in major advanced economies (AEs), the rising incidence of protectionist policies, volatile capital flows and debt distress could, however, weigh adversely on prospects for emerging market economies (EMEs).

  Domestic Economy

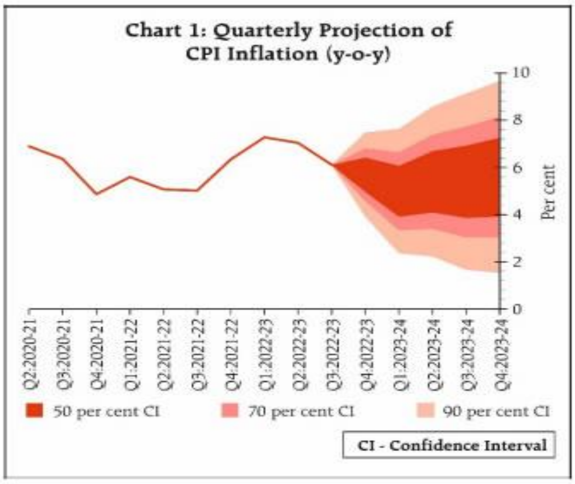
- The first advance estimates (FAE) released by the National Statistical Office (NSO) on January 6, 2023, placed India's real gross domestic product (GDP) growth at 7.0 per cent year-on-year (y-o-y) for 2022-23, driven by private consumption and investment. On the supply side, gross value added (GVA) was estimated at 6.7 per cent.
- High frequency indicators suggest that economic activity has remained strong in Q3 and Q4:2022-23. Rabi acreage exceeded last year's area by 3.3 per cent as on February 3, 2023. Industrial production expanded by 7.1 per cent in November, after contracting by 4.2 per cent in October. Capacity utilisation in manufacturing is now above its long period average. Port freight traffic, e-way bills and toll collections were buoyant in December. Purchasing managers' indices (PMIs) for manufacturing as well as services remained in expansion in January, despite some moderation compared to the previous month.
- Domestic demand has been sustained by strong discretionary spending. Urban demand exhibited resilience as reflected in healthy passenger vehicle sales and domestic air passenger traffic. Rural demand

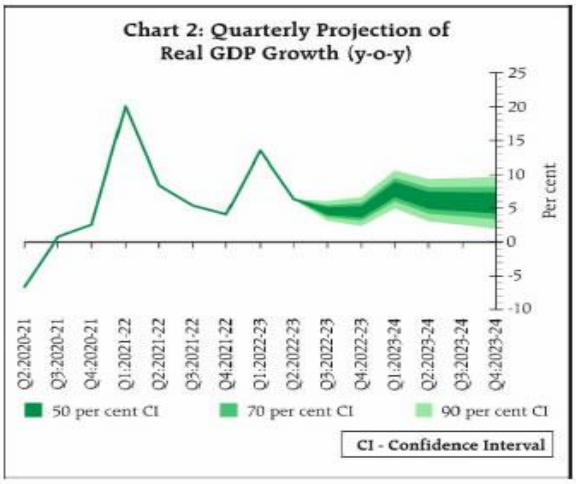
is improving. Investment activity is gradually gaining ground. Non-oil non-gold imports expanded in December. Merchandise exports, on the other hand, contracted in December on weak global demand.

- CPI headline inflation moderated to 5.7 per cent (y-o-y) in December 2022 – after easing to 5.9 per cent in November – on the back of double digit deflation in vegetable prices. On the other hand, inflationary pressures accentuated across cereals, protein-based food items and spices. Fuel inflation edged up primarily from an uptick in kerosene prices. Core CPI (i.e., CPI excluding food and fuel) inflation rose to 6.1 per cent in December due to sustained price pressures in health, education and personal care and effects.
- The overall liquidity remains in surplus, with average daily absorption under the LAF increasing to ₹1.6 lakh crore during December-January from an average of ₹1.4 lakh crore in October-November. On a y-o-y basis, money supply (M3) expanded by 9.8 per cent as on January 27, 2023, while non-food bank credit rose by 16.7 per cent. India's foreign exchange reserves were placed at US$ 576.8 billion as on January 27, 2023.

Outlook

- The outlook for inflation is mixed. While prospects for the rabi crop have improved, especially for wheat and oilseeds, risks from adverse weather events remain. The global commodity price outlook, including crude oil, is subject to uncertainties on demand prospects as well as from risks of supply disruptions due to geopolitical tensions. Commodity prices are expected to face upward pressures with the easing of COVID-related mobility restrictions in some parts of the world. The ongoing pass-through of input costs to output prices, especially in services, could continue to exert pressures on core inflation. The Reserve Bank's enterprise surveys point to some softening of input cost and output price pressures in manufacturing. Taking into account these factors and assuming an average crude oil price (Indian basket) of US$ 95 per barrel, inflation is projected at 6.5 per cent in 2022-23, with Q4 at 5.7 per cent. On the assumption of a normal monsoon, CPI inflation is projected at 5.3 per cent for 2023-24, with Q1 at 5.0 per cent, Q2 at 5.4 per cent, Q3 at 5.4 per cent and Q4 at 5.6 per cent, and risks evenly balanced (Chart 1).
- The stronger prospects for agricultural and allied activities are likely to boost rural demand. The rebound in contact-intensive sectors and discretionary spending is expected to support urban consumption. Businesses and consumers surveyed by the Reserve Bank are optimistic about the outlook. Strong credit growth, resilient financial markets, and the government's continued thrust on capital spending and infrastructure create a congenial environment for investment. On the other hand, external demand is likely to be dented by a slowdown in global activity, with adverse implications for exports. Taking all these factors into consideration, real GDP growth for 2023-24 is projected at 6.4 per cent with Q1 at 7.8 per cent, Q2 at 6.2 per cent, Q3 at 6.0 per cent and Q4 at 5.8 per cent, and risks broadly balanced (Chart 2).





- The easing of inflation in the last two months was driven by strong deflation in vegetables, which may dissipate with the summer season uptick. Headline inflation excluding vegetables has been rising well above the upper tolerance band and may remain elevated, especially with high core inflation pressures. Inflation, therefore, remains a major risk to the outlook. Domestic economic activity is expected to remain resilient aided by the sustained focus on capital and infrastructure spending in the Union Budget 2023-24, even as continuing fiscal consolidation creates space for private investment. While the policy repo rate increases undertaken since May 2022 are working their way through the system, it is imperative to remain alert on inflation so as to ensure that it remains within the tolerance band and progressively aligns with the target. On balance, the MPC is of the view that further calibrated monetary policy action is warranted to keep inflation expectations anchored, break core inflation persistence and thereby strengthen medium-term growth prospects. Accordingly, the MPC decided to increase the policy repo rate by 25 basis points to 6.50 per cent. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

- The next meeting of the MPC is scheduled during April 3, 5 and 6, 2023.

Periodic Updation of KYC details of Customers

The Reserve Bank has, from time to time, taken measures to rationalise the KYC related instructions taking into account the available technological options for enhancing customers' convenience within the framework prescribed under the Prevention of Money Laundering Act, 2002 (PMLA) and rules framed thereunder. The process for the periodic updation of KYC (re-KYC) was simplified in May 2021 (Section 38 of RBI Master Direction on KYC).

As per the present guidelines, if there is no change in KYC information, a self-declaration to that effect from the individual customer is sufficient to complete the re-KYC process. The banks have been advised to provide facility of such self-declaration to the individual customers through various non-face-to-face channels such as registered email-id, registered mobile number, ATMs, digital channels (such as online banking / internet banking, mobile application), letter, etc., without need for a visit to bank branch. Further, if there is only a change in address, customers can furnish revised / updated address through any of these channels after which, the bank would undertake verification of the declared address within two months.

As the banks are mandated to keep their records up-to-date and relevant by undertaking periodic reviews and updations, a fresh KYC process / documentation may have to be undertaken in certain cases including where the KYC documents available in bank records do not conform to present list of the Officially Valid Documents (viz., passport, driving license, proof of possession of Aadhaar number, the Voter's Identity Card, job card issued by NREGA and letter issued by the National Population Register) or where the validity of the KYC document submitted earlier may have expired. In such cases, the banks are required to provide an acknowledgement of the receipt of the KYC documents / self-declaration submitted by the customer.

Fresh KYC process can be done by visiting a bank branch, or remotely through a Video based Customer Identification Process (V-CIP) (wherever the same has been enabled by the banks), as provided in Section 18 of the Master Direction on KYC.

Individual customers of banks are encouraged to get more information on the different options available to them from their bank for (a) completing re-KYC (such as submission of self-declaration through various non-face–to-face channels mentioned in para 2); OR (b) completing fresh KYC by visiting a bank branch or remotely through V-CIP.

State Finances: A Study of Budgets of 2022-23

The Reserve Bank of India (RBI) released the Report titled "State Finances: A Study of Budgets of 2022-23", an annual publication that provides information, analysis and an assessment of the finances of State governments for 2022-23 against the backdrop of actual and revised/provisional accounts for 2020-21 and 2021-22, respectively. The theme of this year's Report is "Capital Formation in India - The Role of States".

Highlights:

i. The fiscal health of the States has improved from a sharp pandemic-induced deterioration in 2020-21 on the back of a broad-based economic recovery and resulting high revenue collections - States' gross fiscal deficit (GFD) is budgeted to decline from 4.1 per cent of gross domestic product (GDP) in 2020-21 to 3.4 per cent in 2022-23.

ii. While States' debt is budgeted to ease to 29.5 per cent of GDP in 2022-23 as against 31.1 per cent in 2020-21, it is still higher than 20 per cent recommended by FRBM Review Committee, 2018 (Chairman: Shri N. K. Singh), warranting prioritization of debt consolidation.

iii. In 2022-23, States have budgeted higher capital outlay than in 2019-20, 2020-21 and 2021-22. Going forward, increased allocations for sectors like health, education, infrastructure and green energy transition can help expand productive capacities if States mainstream capital planning rather than treating them as residuals and first stops for cutbacks in order to meet budgetary targets.

iv. It is worthwhile to consider creating a capex buffer fund during good times when revenue flows are strong so as to smoothen and maintain expenditure quality and flows through the economic cycle.

v. To crowd in private investment, the State governments may continue to focus on creating a congenial ecosystem for the private sector to thrive. States also need to encourage and facilitate higher inter-state trade and businesses to realize the full benefit of spillover effects of State capex across the country.

RBI releases Discussion Paper on Expected Loss (EL)-based Approach for loan loss provisioning by banks

As part of the Statement on Developmental and Regulatory Policies released on September 30, 2022, RBI had proposed to adopt an expected loss-based approach for loss allowances required to be maintained by banks in respect of their loan exposures. It was announced that a discussion paper on the various aspects of the transition will be issued shortly.

Accordingly, RBI has released the Discussion Paper (DP) that comprehensively examines various issues and proposes a framework for adoption of an expected loss-based approach for provisioning by banks in India.

The proposed approach is to formulate principle-based guidelines supplemented by regulatory backstops wherever necessary. Further, regional rural banks and smaller cooperative banks (based on a threshold to be decided based on comments) are proposed to be kept out of the above framework.

The key requirement under the proposed framework shall be for the banks to classify financial assets (primarily loans, including irrevocable loan commitments, and investments classified as held-to-maturity or available-for-sale) into one of the three categories - Stage 1, Stage 2, and Stage 3, depending upon the assessed credit losses on them, at the time of initial recognition as well as on each subsequent reporting date and make necessary provisions.

Banks would be allowed to design and implement their own models for measuring expected credit losses for the purpose of estimating loss provisions in line with the proposed principles. However, to mitigate the concerns relating to model risk and considering the significant variability that may arise, the DP proposes the following mitigants:

i. RBI shall be issuing broad guidance that will be required to be considered while designing the credit risk models. The guidance shall specify detailed expectations on the factors and information that should be considered by banks while making determination of credit risk, drawing from the guidance provided in IFRS 9 and principles laid out by BCBS.

ii. The expected credit loss models proposed to be adopted by banks shall have to be independently validated to verify whether the models follow the guidance issued by RBI, based on sound reasoning, calibrated use of relevant data that is available with the bank and, whether proper back-testing and internal validation of the models have been done to remove any bias, etc.

iii. The provisions as per the banks' internal assessments shall be subject to a prudential floor, to be specified by the RBI based on comprehensive data analysis, rather than merely re-prescribing extant provisioning norms.

iv. A non-exhaustive list of disclosures by banks shall be prescribed.

Considering the complexities involved in designing the models and the time required to test them, sufficient time shall be provided by RBI for implementation of the framework after issue of the final guidelines. Further, in order to enable a seamless transition, as permitted under the Basel guidelines, banks shall be provided an option to phase out the effect of increased provisions on Common Equity Tier I capital, over a maximum period of five years.

Sectoral Deployment of Bank Credit – December 2022

Data on sectoral deployment of bank credit for the month of December 2022 collected from 40 select scheduled commercial banks, accounting for about 93 per cent of the total non-food credit deployed by all scheduled commercial banks.

On a year-on-year (y-o-y) basis, non-food bank credit2 registered a growth of 15.3 per cent in December 2022 as compared with 9.4 per cent a year ago.

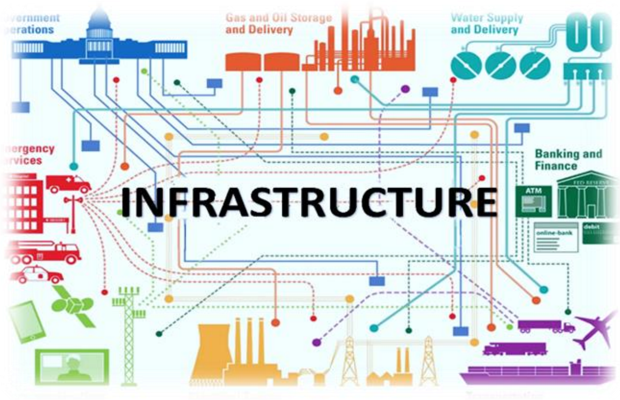
Highlights of the sectoral deployment of bank credit are given below:

- Credit to agriculture and allied activities rose by 11.5 per cent (y-o-y) in December 2022 as compared with 14.2 per cent a year ago.
- Credit growth to industry improved to 8.7 per cent (y-o-y) in December 2022 from 7.3 per cent in December 2021. Size-wise, credit growth to large industry increased by 7.0 per cent as compared with a growth of 1.1 per cent a year ago. Credit growth to medium industries was 15.4 per cent in December 2022 against 64.6 per cent last year. Credit to micro and small industries registered a growth of 13.7 per cent in December 2022 (24.5 per cent a year ago).
- Within industry, credit growth to ‘all engineering’, ‘basic metal & metal products’, ‘beverage & tobacco’, ‘cement & cement products’, ‘chemicals & chemical products’, ‘construction’, ’glass & glassware’, ‘gems & jewellery’, ‘vehicles, vehicle parts & transport equipment’ and ‘wood & wood products’ accelerated in December 2022 as compared with the corresponding month of the previous year. Credit growth to ‘food processing’, ‘infrastructure’, ‘leather & leather products’, ‘mining & quarrying’, ‘petroleum, coal products & nuclear fuels’, ‘paper & paper products’, ‘rubber, plastic & their products’ and ‘textiles’ decelerated.
- Credit to services sector rose by 19.6 per cent (y-o-y) in December 2022 as compared with 10.2 per cent a year ago, primarily due to the improved credit offtake to ‘NBFCs’.
- Personal loans grew by 20.2 per cent (y-o-y) in December 2022 from 14.9 per cent a year ago, largely driven by ‘housing’ and ‘vehicle loans’.

INSURANCE

New Business Statement of Life Insurers for the Period ended ended 31st January 2023										
		Premium			No. of Policies / Schemes			No of Lives Covered under Group		
Sl No.	Insurer	Up to 31st January, 2023	Growth in %	Market Share	Up to 31st January, 2023	Growth in %	Market Share	Up to 31st January, 2023	Growth in %	Market Share
1	**Aditya Birla Sun Life**	5828.76	38.44	1.97	183301	6.88	0.88	4601746	158.47	2.27
2	**Aegas Federal Life**	702.73	14.32	0.24	36681	9.05	0.18	25918	15.76	0.01
3	**Aegon Life**	4.99	-68.82	0.00	1726	-79.67	0.01	32376	-41.80	0.02
4	**Aviva Life**	222.64	9.28	0.08	20449	31.97	0.10	381516	72.76	0.19
5	**Bajaj Allianz Life**	8130.95	23.49	2.75	464364	31.19	2.22	21819505	-3.25	10.77
6	**Bharti Axa Life**	739.39	6.41	0.25	78494	-12.65	0.38	351348	16.30	0.17
7	**Canara HSBC Life**	2946.84	37.12	1.00	135045	4.42	0.65	5685783	43.96	2.81
8	**Edelweiss Tokio Life**	337.68	2.71	0.11	37144	-18.05	0.18	207352	-26.54	0.10
9	**Exide Life***	435.65	NA	0.15	61374	NA	0.29	144394	NA	0.07
10	**Future Generali Life**	509.28	58.45	0.17	30757	10.89	0.15	95716	29.44	0.05
11	**HDFC Life**	20798.72	9.12	7.04	731735	2.53	3.50	50987187	27.19	25.16
12	**ICICI Prudential Life**	12726.55	10.62	4.31	455775	-10.24	2.18	37111269	64.70	18.31
13	**India First Life**	2172.03	3.58	0.73	246924	22.47	1.18	6724464	32.36	3.32
14	**Kotak Mahindra Life**	5488.19	30.73	1.86	235030	1.78	1.12	18795638	17.70	9.27
15	**Max Life**	6246.06	7.41	2.11	428455	-6.57	2.05	3057396	6.14	1.51
16	**PNB Met Life**	2413.09	36.82	0.82	223162	14.80	1.07	2274327	16.69	1.12
17	**Pramerica Life**	488.71	113.08	0.17	26929	22.61	0.13	1416102	75.36	0.70
18	**Reliance Nippon Life**	843.27	-14.35	0.29	121056	-1.99	0.58	305955	66.97	0.15
19	**Sahara Life**	0.00	NA	0.00	0	NA	0.00	0	NA	0.00
20	**SBI Life**	24082.44	16.11	8.15	1749338	17.06	8.36	12416002	44.97	6.13
21	**Shriram Life**	848.66	21.12	0.29	222417	14.92	1.06	3895999	15.34	1.92
22	**Star Union Dai-ichi Life**	2560.47	78.05	0.87	152380	53.53	0.73	5705840	16.19	2.82
23	**Tata AIA Life**	5783.72	51.40	1.96	494081	26.36	2.36	1108969	34.36	0.55
	Private Total	104310.81	18.22	35.29	6136617	9.54	29.32	177144802	28.84	87.41
24	**LIC of India**	191303.44	37.68	64.71	14792601	-0.17	70.68	25515561	15.99	12.59
	Grand Total	295614.25	30.12	100.00	20929218	2.49	100.00	202660363	27.07	100.00

Source: IRDAI Website



INFRASTRUCTURE & OTHER GOVT. INITIATIVES

Union Minister inaugurates 18 National Highway projects with a total length of 550 km in Orchha, Madhya Pradesh worth Rs. 6800 crore

Union minister for Road Transport and Highways Shri Nitin Gadkari inaugurated 18 National Highway projects with a total length of 550 km in Orchha, Madhya Pradesh worth Rs. 6800 crores in presence of Chief Minister Shri Shivraj Singh Chouhan, Union Minister Dr. Shri Virendra Kumar, Union Minister of State Shri Prahlad Singh Patel and other ministers of Madhya Pradesh and MP-MLAs, officers and other dignitaries.

He said this 665-meter-long bridge has been built at a cost of 25 crores. The connectivity of Orchha, Jhansi, Tikamgarh will improve with the construction of 2-lane paved shoulder bridge and footpath.

Shri Gadkari also announced the construction of a 4-lane greenfield road of 105 km length from Bamitha to Satna at a cost of Rs 2000 crore.

PM lays foundation stone, inaugurates multiple development initiatives worth around Rs 38,800 crores in Mumbai, Maharashtra

Prime Minister laid the foundation stone of multiple development initiatives in Mumbai. The projects include Mumbai Metro Rail Lines 2A & 7, laying the foundation stone for the redevelopment of Chhatrapati Shivaji Maharaj Terminus and seven sewage treatment plants, inaugurating 20 Hinduhridaysamrat Balasaheb Thackeray Aapla Dawakhana, and starting road concretisation project for around 400 kilometres of roads in Mumbai.

CAPITAL MARKETS

SEBI introduces Information database and Repository on Municipal Bonds

As part of SEBI's initiative to develop Bond markets, an outreach programme on Municipal Bonds and Municipal Finance was organized on January 20 and 21, 2023 at New Delhi to provide a common platform for stakeholders to discuss the concerns of the issuers of Municipal Debt Securities, the requirements of investors, the extant regulatory framework and to recommend measures to increase awareness of and improve traction in the market for Municipal Debt Securities.

The two - day event saw participants representing all stakeholders including the Ministry of Housing and Urban Affairs, Municipal Corporations, Stock Exchanges, Credit Rating Agencies, Merchant Bankers, Debenture Trustees, Lawyers, NGOs and Institutional investors.

Participants at the workshop had detailed discussions among various stakeholders on their concerns, suggestions and recommendations. The two-day event also brought focus to the use of existing revenue-generating assets managed by Municipal Corporations and the financing of green projects undertaken by Municipal Corporations.

Ms. Madhabi Puri Buch (Chairperson, SEBI) delivered the keynote speech on the event emphasizing the potential of Municipal Bonds in infrastructure development and Nation building.

Ms. Thara D (Additional Secretary, MOHUA) in her address, to the stakeholders, gave confidence to municipalities that Government will support Municipal Corporations who desire to raise funds through Municipal Bonds.

To assist municipal debt issuers and other stakeholders in the Municipal Debt market, Mr. Ashwani Bhatia (Whole-Time Member, SEBI) launched an Information Database including a repository of information pertaining to Municipal Bonds on its website.

The information database contains a wide range of information in the form of statistics and regulations, circulars, guidance note, and Frequently Asked Questions issued by SEBI in respect of Municipal Debt Securities. Significantly, the repository contains various checklists for pre-listing requirements and sample letters and certificates from various intermediaries to be obtained by an Issuer who plans to tap the Municipal Bond Market. Templates for agreements between various stakeholders and an indicative Due Diligence Questionnaire for Merchant Bankers are also included. While this repository would serve as a guide, it is also hoped that it would result in more awareness.

SEBI, in 2015, introduced a regulatory framework for the issue, listing and trading of Municipal Debt Securities; the same was further reviewed by SEBI in 2019. Municipal bonds are a good alternative source of finance to fund projects undertaken by Municipal Corporations. In India, the Municipal Debt market is in a nascent stage. SEBI is taking steps to increase awareness through such events. Since 2017, twelve issues of Municipal Bonds have been made by ten Municipal Corporations in the country, raising almost Rs. 2000 Cr. The funds raised have been used for various developmental projects like liquid waste management projects, water supply projects, tertiary sewage treatment plants, residential projects etc.

SEBI underlines the need for analysis and disclosure of risks of trading in F&O

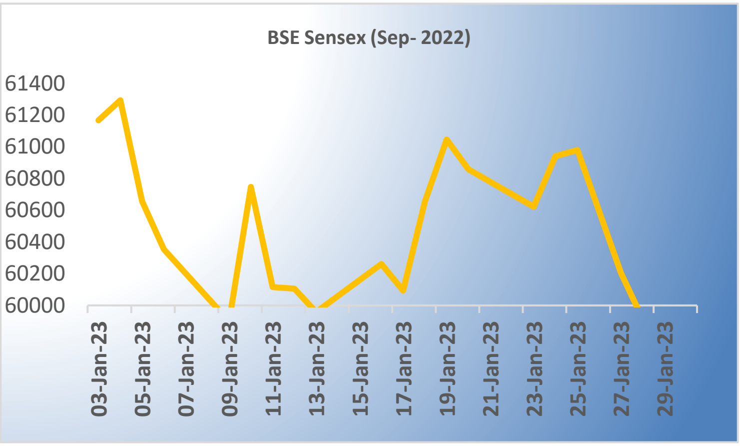
Under the supervision of a working group, SEBI has conducted a study analysing the trends in both participation and in profits and losses of individual traders in the equity F&O segment. The working group had representation from academia, clearing corporations, brokers, and market experts.

To compare results in a contextual manner before and after the pandemic, the study covers the periods of FY 2018 -19 and FY 2021-22. The study is based on a sample of all individual clients of all the top-10 stockbrokers, accounting for 67% of the overall individual client turnover in the equity F&O segment during FY 2021-22.

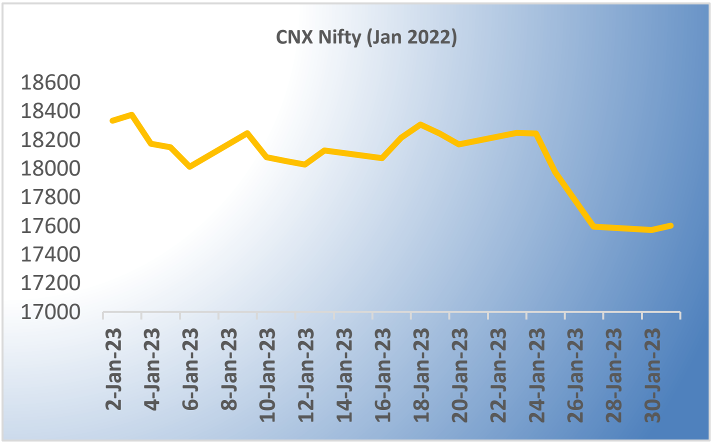
Some of the major findings of the study are as under:

- There has been a significant increase of over 500% in the number of individual traders in the equity F&O segment in FY 2021-22, as compared to FY 2018-19.
- 98% of individual traders in the equity F&O segment traded in options during FY 2021-22.
- 9 out of 10 individual traders in the equity F&O segment incurred net losses during both the years FY 2018-19 and FY 2021-22.
- On average, loss makers registered net trading loss close to ₹50,000 in FY 2021- 22. The average absolute net loss of a loss maker was over 15 times the net profit made by a profit maker. *
- Over and above the net trading losses incurred, loss makers expended an additional 28%* of net trading losses as transaction costs.

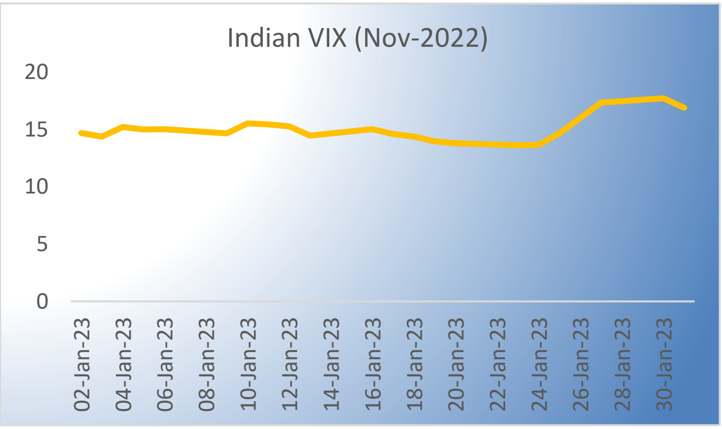
CAPITAL MARKETS SNAPSHOT



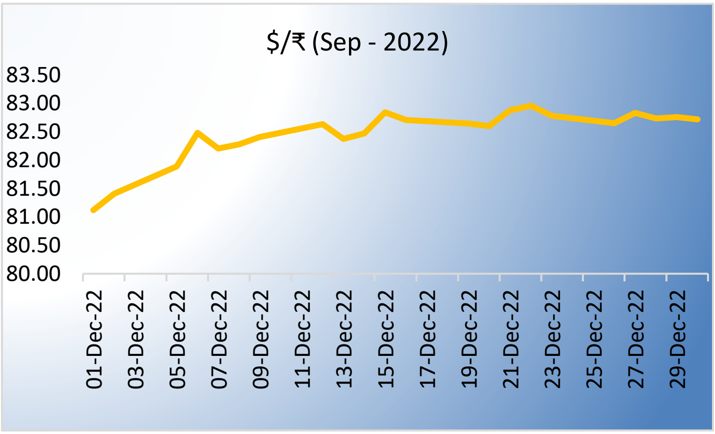
Source: Bombay Stock Exchange



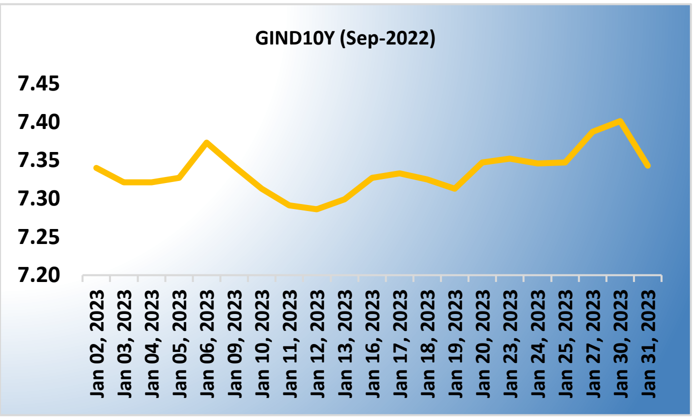
Source: Bombay Stock Exchange



Source: National Stock Exchange



Sources: APAS Business Research Team



Sources: APAS Business Research Team

Economic Survey 2022-23 tabled in the parliament reveals that the India's economy to grow 6.5% in 2023-24, compared to 7% this fiscal and 8.7% in 2021-22. Real GDP growth to be in the range of 6-6.8% next fiscal depending on global economic, political developments.

India to remain the fastest growing major economy in the world. GDP in nominal terms to be 11% in next fiscal.

Amidst high volatility, the Nifty 50 index closed 13 points higher at 17,662, while the S&P BSE Sensex ended 50 points higher at 59,550.

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ECONOMIC DATA SNAPSHOT

Countries	GDP		CPI		Current Account Balance	Budget Balance	Interest Rates
	Latest	2022*	Latest	2022*	% of GDP, 2022*	% of GDP, 2022*	(10YGov), Latest
Brazil	3.6 Q3	2.8	5.8 Dec	9.3	-2.9	-4.7	13.0
Russia	- 3.7 Q3	-2.3	11.9 Dec	13.2	12.3	-1.1	10.5
India	**6.3 Q3**	**6.9**	**5.7 Dec**	**6.5**	**-2.7**	**-6.4**	**7.3**
China	2.9 Q4	3.1	1.8 Dec	2.0	2.4	-5.6	2.8
S Africa	4.1 Q3	2.3	7.5 Dec	7.0	-1.5	-5.5	9.7
USA	1.9 Q3	2.1	6.5 Dec	8.0	-3.7	-5.5	3.5
Canada	3.9 Q3	3.4	6.3 Dec	6.7	-0.6	-2.2	2.8
Mexico	4.3 Q3	2.8	7.8 Dec	7.9	-1.0	-2.5	8.6
Euro Area	2.3 Q3	3.1	10.1 Nov	8.4	0.9	-4.0	2.1
Germany	1.3 Q3	1.7	8.6 Dec	8.7	4.2	-3.5	2.1
Britain	1.9 Q3	4.0	10.5 Dec	7.9	-5.9	-6.8	3.4
Australia	5.9 Q3	3.5	7.8 Q4	6.4	2.1	-1.9	3.5
Indonesia	5.7 Q3	5.1	5.5 Dec	4.2	1.1	-3.8	6.7
Malaysia	14.2 Q3	7.3	3.8 Dec	3.4	2.4	-5.3	3.7
Singapore	2.2 Q4	3.5	6.5 Dec	6.1	18.7	-1.0	2.8
S Korea	1.3 Q4	2.6	5.0 Dec	5.1	1.2	-3.1	3.2

Sources: The Economist

***** The Economist poll or Economist Intelligence Unit estimate/forecast.**
^ 5-year yield

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

ABOUT APAS

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

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