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DEPARTMENT OF BANKING & FINANCIAL SERVICES

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TOP SPEECHES

New Challenges In A Changing World: Speech by Christine Lagarde, President of the ECB, at the Deutsche Börse Annual Reception in Eschborn

It is a pleasure to speak with you here in Eschborn, marking the start of the New Year. A new beginning often brings with it new challenges, but it also presents us with plenty of opportunities. And today I would like to touch on both. Looking at today's global economy, I am reminded of the playwright and poet Bertolt Brecht, who once observed: "Because things are the way they are, things will not stay the way they are." The global economy finds itself at a crucial turning point. Last year, we began to see the emergence of a "new global map" of economic relationships – one in which geopolitics is increasingly influencing the global economy. And that in turn has important implications for Europe, which will define the year ahead.

A Changing World: This map is defined by three interrelated factors: shocks, supply, and security. First, with support for an open global trading order on the wane, we are facing new types of shocks to the global economy. For the past few decades, open trade has supported global growth by allowing countries to "rotate" demand during slumps. But now it could become a source of volatility. That is because the rise of international free trade – and the stability that comes with it – has historically depended on the backing of a global hegemon. This was evident during the British Empire in the 19 th century, as it was with American support in the wake of the Cold War. However, major economies – led by the United States and China – are now increasingly using trade to limit the ambitions of geopolitical rivals. That could fragment world trade with potentially huge costs. The IMF estimates that severe trade fragmentation may cost global output roughly 7% in the long term – an amount similar to the annual output of Japan and Germany combined. These geopolitical winds are reshaping the second feature of this new map: supply. We are seeing strategic considerations becoming increasingly important in where suppliers are located. The US Inflation Reduction Act, for example, is deliberately aimed at "reshoring" production and reducing the country's reliance on strategic imports like batteries. China is also seeking to reduce its own dependence on the rest of the world. And some surveys suggest that even firms in "non-strategic" sectors are increasingly likely to regionalise their supply chains. This in turn is leading to the third key feature: the growing importance of security. With the security of supply for critical inputs no longer guaranteed, we are likely to see a new "scramble for resources

Russia's unjustifiable invasion of Ukraine has brought supply security back to the top of the agenda for all major economies, most saliently for energy. And over the longer term, it is likely to accelerate the global transition to clean energy production as a way to increase climate and energy security. But such technologies are highly resource-intensive in their installation phase. Getting the global economy on a path to meet the Paris Agreement goals could see total mineral demand from clean energy technologies quadrupling by 2040. This threatens a new era of competition for resources

Challenges for Europe in 2023: As this new global map takes shape, we enter 2023 facing three big challenges. The first challenge is to reconsider how we can best protect Europe's critical interests in a fast-changing world. As an economy that is very open to trade and deeply integrated into global supply chains, we are vulnerable to geopolitical headwinds. For example, 35% of Europe's manufacturing output is absorbed outside the EU, much more than for the United States or China. So, as the next chapter in the globalisation story is being written, we need to ensure that Europe is a leader, not just a follower. And as the French President and German Chancellor have recently argued, we have the capacity to do so. Already now, Europe is the top trading partner for 80 countries, compared to just over 20 countries for the United States. That gives us unique bargaining power to shape openness in a European direction and strengthen ties with key partners, such as those on whom we rely for critical resources. And where we see our interests being threatened, we can use our economic weight more strategically – something we have already started to see with the unprecedented sanctions placed upon Russia. But we must also be prepared for a future in which the global economy could fragment. And the best insurance against a more uncertain world is building more resilience at home. So, the second challenge for Europe is to develop more our own sources of growth. Here, the new global map presents Europe with an opportunity. As energy security becomes imperative, we can put climate-related investment needs – especially in clean energy – at the centre of our growth model, strengthening domestic demand. These investment needs will amount to almost half a trillion euro on average per year until 2030. We can also use the green transition as a spur to digitalise the European economy, since digital technologies could reduce global emissions by one fifth by 2050. That could increase productivity growth and help ensure that green investment does not put excessive pressure on prices. But the ambitions of this new growth model will require an enormous amount of financing. And here the financial sector can play a crucial role, if the enabling policies are put in place. Completing Europe's capital markets union (CMU) will be key to financing the green and digital transitions. Equity investors tend to have a greater appetite than banks for high-risk, high-return projects and equity finance tends to increase green innovation. But the full and swift implementation of the Commission's ambitious CMU Action Plan will be crucial here. Some progress is being made. The Commission has recently put forward proposals on harmonising national insolvency laws and facilitating public listing. It is also tackling issues that have held back the growth of European capital markets, like putting equity financing on an equal tax-footing with debt financing. And Europe's recent agreement on a minimum level of taxation for large corporates will support tax harmonisation within the EU, the absence of which has often been seen as a barrier to capital market integration.

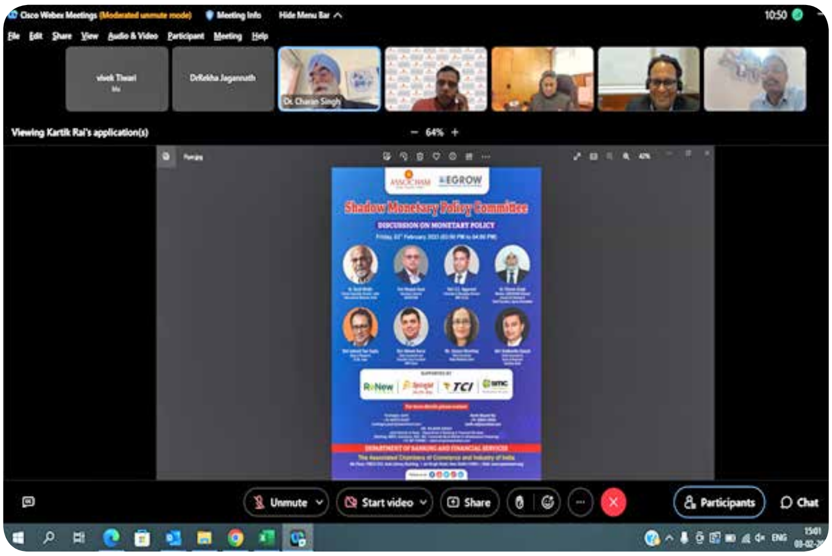
The third big challenge facing Europe is the high inflation environment. And this, of course, is the challenge that concerns me the most. Inflation in Europe is far too high, partly due to our vulnerability to the changing geopolitics of energy. Decoupling from Russia last year pushed up energy inflation in the euro area to extraordinary levels. But while energy inflation has recently been coming down, underlying inflation continues to rise. As a result, it is vital that inflation rates above the ECB's 2% target do not become entrenched in the economy. We must bring inflation down. And we will deliver on this goal. In less than half a year, we have raised the ECB interest rates by 250 basis points, the fastest increase in our history. And we have made it clear that ECB interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive, and stay at those levels for as long as necessary. In other words, we will stay the course to ensure the timely return of inflation to our target.

Conclusion Let me conclude. The transition from one year to the next is traditionally associated with quiet reflection, when we take stock of things that have come to pass. But as the poet Rainer Maria Rilke once wrote: a new year is "full of things that have never been". As we head into 2023, a changing world brings with it new challenges, but also opportunities. And let there be no doubt: with more self-confidence, more assertiveness and the right policies in place fuelling green and digital growth, Europe can adapt and thrive. But some things never change: namely, the ECB's commitment to price stability. We will play our part in Europe's next chapter by bringing inflation back to our 2% target. Thank you.

Source: https://www.bis.org/review/r230124j.pdf

BANKING & FINANCIAL SERVICES ACTIVITIES IN THE MONTH

ASSOCHAM Shadow Monetary Policy Committee, 03rd February 2023



Shri S. C. Aggarwal

- RBI is going to have meeting between 06th To 08th Feb 2023.
- Budget was good for capital investment and allocation.
- 10 Lakh Cr. allocation was done with a multiplier effect.
- Economic survey was good as well.
- RBI may have an increase 25 bps.
- Inflation in November was less than 6%.
- FM also mentioned fiscal deficit prudence.
- It should be last hike then pause.
- FY 23-24 it is expected to have fiscal deficit of 5.9%.
- We have seen 225 bps hike since April 2023.
- Banks NPA have reduced to 5%.
- We should also see an accommodative to neutral stance.
- As per the global economy scenario the fund flow should be seen.

Shri Indranil Sen Gupta

- We are seeing a 25 bps hike in Feb and later 25 bps in April 2023 as well.
- 1% CRR is also expected in Feb 2023.
- RBI should be led by Fed as well not just inflation in domestic market.
- Swap interest is 2% as well.
- Budget borrowing programme is very steep with nearly 18 trillion, including states.
- CRR has to be cut as well.
- Even the lending has gone up as well.
- Two vulnerable sections our Housing & SMEs which are directly linked to RBI rates.

Ms. Upasna Bhardwaj

- As of now much of the growth is showing resilience.
- Service sector is doing good.
- There was pent up demand which needs to fade.
- MNREGA is decline.
- Mix signals are being seen in rural.
- Export growth due to global headwinds are seeing impact as well.
- Softer growth is being expected as compared to government.
- 5.6% GDP growth is our expectation.
- Growth is holding up on the other hand inflation is not moving to 4% ideal rate of MPC.
- Immediate action is required.

- 25 bps is expected with pause afterwards.
- CRR cut is being said for a while which needs to be addressed.
- 50 bps rate cut of CRR is being looked at.
- MPC framework includes the WACR as well.
- Pre-pandemic we used to have report rate as operative and we need to converge it.
- Softening of interest can be seeing in next fiscal year.
- The stance has become quite immaterial.
- We need OMO as well.
- Purchase of OMO can be seen.

Shri Ahbeek Barua

- Core inflation remaining elevated.
- Rupee is again coming under pressure with rotation of funds.
- Growth might be moderating.
- RBI should hike 25 bps for now and leave additional limit to 25 bps as well.
- Policy stance should change to neutral.

Shri Siddhartha Sanyal

- We would recommend for a pause in this policy rate.
- RBI has changed to lower limit from December onwards.
- We are seeing somewhat conservative stance in MPC committee members.
- Food inflation is working in relatively less harmful manner.
- We have direct exposure at bottom of pyramid.
- EBLR are being passed on by the banks at a rapid phase.
- Policy interest rate make direct impact on people on middle- and lower-class segment people.
- Few months back when RBI hiking cycle from 4%, it was far away from its stance of 6-7%.
- Rupee is behaving slightly better as compared in past.
- We are having around 5.5 % GDP growth phase.
- China is a big elephant in the room.
- We are seeing a terminal rate of 6.5%.
- In case of US, we need to monitor how much they are cutting and at what cycle it is being done.
- There has been a tactical move from central bank to keep it aligned with global central banks.
- Liquidity stage is very tight in current cycle.
- There is a general consensus is one more hike and then pause.
- In coming times, they might move on CRR cycle as well.
- Temporary relief on CRR part for a fortnight can also be seen.

Shri Arjun G. Nagarajan

- The union budget was quite good.
- It was very aggressive for government to be in front foot.
- One can chop many items from Capex which is not Capex.
- Around 20% items were relent for capex.
- Fed might go for another 25 bps as well and then pause.\
- We have see pick up in the market especially from the China factor as well.
- We expect 25 bps rate hike with a pause afterwards.
- Globally rates will be hiked with 25 bps in Fed as well.
- RBI may keep the rate pause in FY 24.
- Indian transmission is not great as compared to global cycle.

Dr. Charan Singh

- Neutral stance with pause.
- We need to create a conducive environment.
- The revenue deficit is good.
- Debt to GDP rate is good as well.
- Overall CPI inflation since April has been coming down.
- 100$ barrel was RBI projection which is now quite good.
- Oil prices is down as well.
- CPI is down and which builds the case.
- Banking sector is robust as well.
- Net NPA is at 1.3% which is best in last 10 years.
- Projection on petrol needs to be relooked.
- Correction in rupee was due to pent-up in the demand.

- The pent-up demand is now getting over.
- If we want private investment to increase, we need to go easy on interest rate cycle.
- US has given a significant work just like Canada & UK on rate hike.
- If the private investment is not increasing, then we should pause the interest rate.
- Transformation cycle in these countries is fast more as compared to other countries.

Dr. Surjit Bhalla

- We are under a dilemma as should be give right forecast or should be related to policy.
- Their argument for hike is from data point.
- Inflation in the world had nothing to do with MPC.
- With globalized world evolution and coming to globalization 2.0 we need to consider this as well.
- It had to do with commodity and supply constraints.
- We need to first consider that should we take step ahead or not.
- The real interest rate with global exchange needs to be checked.
- Post 2008 the real interest rate for west is -1%.
- East Asia has ideal policy rate of 0%.
- Likely to inflation rate by end of this year we might have around 2%.
- We should have 1% as ideal policy rate.
- Repo rate should be taking into all factors at 4% and we have more than 6%.
- Many of the factors discussed is fiscal deficit.
- In case we are assuming Fiscal deficit causing inflation then in current stage it's not the case.
- Commodity prices are on side of angels.
- In India we are always worried to having over-regulation.
- We do not need higher exchange interest rate.
- There is a completely dependency on west and especially USA.
- We can have pause for this time as suggested by Paul (Fed) as need to be data driven.

9th Annual Summit on Non Banking & Financial Services and Infrastructure Financing

NBFCs needs to step in to address the MSME credit gap – Ateesh Kumar Singh, Joint Secretary MSME

Mumbai, Feb 10, 2023: The 9th Annual Summit of ASSOCHAM on NBFC and Infrastructure, held at Mumbai today. Shri Ateesh Kumar Singh, Jt. Secy., MSME, Govt of India graced the event as Chief Guest.

Delivering his address to the august audience, he said, "There exists a considerable credit gap for the MSMEs. According to a recent estimate, by 2024 Indian MSMEs would have a credit gap of Rs. 37 lac crore, of which close to 50 % will impact the manufacturing sector MSMEs. At the same time, the government has been proposing schemes to do its bit towards bridging the gap. The government seems to understand that this gap can't be catered alone by the Banks, and NBFCs must step into the fold more rigorously."

"Another area designed to address the gap is the government's thrust on digitisation and the increasing role of neo-banks and digital banks. The technology being implemented in terms of payments ecosystems, ONDC and digital tools such as AI, Open platforms needs to be imbibed and implemented by the industry to help MSMEs capitalise on the opportunity. In addition, the development of MSME infrastructure is one key area that must be diligently focused on. In the end, sustained long-term growth can only be achieved through a collaborative effort – taking a leaf from Hon'ble Prime Minister Narendra Modi's mantra – **'Sabka Saath, Sabka Prayaas, Sabka Vishwaas'.** Further added Shri Ateesh Kumar Singh.

"NBFCs have steadily increased their market share and are expected to grow by 12 to 13% in FY 23 and by 13 to 14% in FY 24. The sector has witnessed three single-digit growth rate over the last 3.5 years" said **Subha Sri Narayanan, Director, Crisil Ratings Ltd.** "The absolute Asset Under Management (AUM) which was just Rs 4 lakh crore till March 2008, has increased to almost Rs 27 lakh crore until March 2022 and is likely to increase further. This clearly indicates how integral NBFCs are to the overall credit ratings and how they have adapted themselves during the last two years of COVID period. Balance sheets are stronger, and more importantly, pandemic-induced asset quality problems are largely put behind. With a conducive macro-economic business environment, it indicates towards a strong impetus to support the growth momentum. At the same time, with the interest rate cycle and high borrowing costs, the competitiveness of the NBFCs, especially in some of the more traditional sectors such as home loans and new vehicle finance, may be lifted" added **Subha Sri Narayanan.**

"To manage this, NBFCs are realigning their portfolio strategy with an increased focus on non-traditional asset classes such as unsecured loans, MSME loans, where the growth rate is expected to be higher than the traditional segments. While the traditional segments will also grow, the rate is likely to be lower than the pre-pandemic levels. NBFCs, I believe, will also adopt a more dynamic business model." Further added **Subha Sri Narayanan.**

Emphasizing the importance of NBFCs in the infrastructure sector, **Shri Rajkiran Rai G, MD & CEO of the National Bank for Financing Infrastructure & Development (NaBFID)** remarked in his keynote address, "We don't find much presence of NBFCs in the infrastructure space, except for some of the ideas that have come up recently. If you talk about NBFCs in infra space, it is more about PSUs that are doing a great job. And many of the commercial banks find it very comfortable to lend to them as they are able to raise resources at a very low cost. Infrastructure is the most important facilitator of social and economic growth in any country, including India, because it leads to increased competitiveness and efficiencies, improved connectivity, employment and income generation, and increased domestic demand, all of which eventually will lead to economic growth and an improvement in citizens' quality of life. It is critical that any infrastructure investment, while contributing to the growth of certain sectors of the economy, ultimately results in improved quality of life. So, the creation of upgraded infrastructure is imperative to meet needs arising from rapid urbanisation and changing demographics, as well as improve India's competitiveness at the global level."

In his address, **Shri Pawan Kumar, Dy. MD, India Infrastructure Finance Company Limited,** said, "We are seeing a lot of investment in sectors, especially pharma and roads, which have matured in terms of their concession agreements and where probably more safety and security of cash flows is emerging. Water is another sector where much effort has been made. And then, of course, green energy is another player we need to go forward with."

"Airports are also quite mature. However, other sectors, such as Data Centers, would still require a significant amount of work to be done in order to make the financing models more viable for financiers to pursue. I believe that a large amount of capital inflow will be coming in, not only from domestic investors, but also from foreign investors in the near term" added **Shri Pawan Kumar.**

Shri Rishi Gupta, Co-Chairman, Assocham National Council for Banking, and MD & CEO, Fino Payment Bank Ltd. delivered the welcome address and **Shri Arun Mehta, Co-Chairman, ASSOCHAM - National Council for NBFCs & Infrastructure Financing** delivered the vote of thanks.

5th National Summit on Asset Reconstruction Companies, 23rd February 2023

Indian Asset Reconstruction Companies reliant on domestic capital from banks and there is wide variation in the cost of acquisition of book value ratio: N S Vishwanathan, Former Deputy Governor, RBI

Mumbai, 23rd Feb 2023: The evolution of Indian ARCs have been marked by phases of growth and lull, shaped by emerging micro financial conditions and regulatory changes. ARC sector remains reliant on domestic capital, particularly from banks. The cost of acquisition of the book value ratio although posting a slow rise remains low and is marked by wide variations across ARCs, said N S Vishwanathan, Former Deputy Governor, Reserve Bank of India at the National Summit on Asset Reconstruction Companies organised by ASSOCHAM.

"The macroeconomic and regulatory landscape is changing. We have never thought of recovery of assets, we have always thought of managing balance sheets. The status-quo has to change and RBI has brought in various regulatory changes in the resolution framework of NPS to achieve that. Many of the changes in the ARC front is also because some of the players in the sector not playing the role that is expected of them. The old role of ARCs had to undergo a change. We don't want banks to be bothered with recovery as their main job, their job is to create market for credit and keep lending."

"There's a move towards more cash based transfer of assets to ARCs but still RBI data says the share of banks in SRs has actually gone up. In absolute terms it has come down by about 5000 crores but as a percentage of total SRs issued banks are still the largest. We need to know why that is happening." he added.

Pradeep Goel, Chairman, ASSOCHAM National Council for ARCs and CMD, Prudent ARC Ltd. said, "The ARC sector has come a long way since the introduction of Sarfaesi Act 2002. Successful asset reconstruction have generated jobs for more than 4000 people, both direct and in-direct and added more than 100 crores to tax collections by the government. Today, there seems to be a lack of interest by banks in selling NPS to ARCs, this may be due to performance issue, perception issue which we need to collectively change and inform the regulators other stakeholders that we mean business and that we are here to do good business."

Delivering the theme address Pallav Mohapatra, Chairman, ASSOCHAM National Council for Banking and MD & CEO, Asset Reconstruction Company (India) Ltd., said, "With a strong, sustainable and positive policy decision taken by the government and strongly supported by the regulators things are undergoing massive change. The positive outcome of the steps taken by both the government and regulators had addressed stress in corporate and large corporate sector to a large extent. SME and retail are two sectors where there is a risk of stress building up. When resolutions do not happen at the right time, there is valuation loss in the assets and also in the business. When a resolution happens, the ecosystem as a whole is benefitted."

Addressing the summit, Sunil Mehta, Chief Executive, Indian Banks Association, said "Today, even with 28 ARCs in business, there is a concentration, 70% of the AUMs is with five ARCs, 54% of the total net on funds is with three ARCs. The basic purpose of creating an ARC to revive, to reconstruct the asset, to bring them to a going concern concept where they can create value for all stakeholders is lost in the process. Do we need ARC just for recovery as banks have their own recovery department and there are laws available for recovery? ARC has become a very convenient conduit for banks to manage their balance sheet and for a promoter to take a backdoor entry to take that asset. That perception has impacted the image of the sector as a whole. In the course of time, regulations evolve and RBI tightened loopholes and in the process, the regulatory arbitrage available to the ARCs is no more available. Lack of capital, lack of management bandwidth and non-availability of regulatory arbitrage, lower recoveries have created the requirement for reconstruction of ARCs."

Highlighting the lenders perspective at the summit, Ashwini Kumar Tewari, MD, State Bank of India said, "Incentivising an early resolution is something we have to look at. Despite the 38% recovery we still have a long way to go. We have to find ways to make it more of an SR and cash structure because there cannot be endless capitalisation. The capital requirement of 300 crores which has been stipulated is good. The regulation is now converging towards banks. While a good corporate governance is always desirable, it also comes with costs. It is in the interest of everybody that whenever ARCs take over assets, there should be some model of SRs plus cash, without which the capital requirement would be too large. The RBI's framework on securitisation of stressed assets is going to be a game changer. We need corporates or other similar structured vehicles that can buy out stressed assets with a mutually agreed haircut."

The summit saw engaging fireside sessions and panel discussions on pertinent topics such as "Recent Regulatory Changes in ARC Industry & its Impact", "Evolution of Stressed Assets Industry in India amid The Changing Business Model: Challenges & The Way Forward", "Sizeable Opportunity in Indian Distressed Asset Market" where leading from ARCs, Banking and regulators shared news, views and opinions on the sector.

TOP BANKING NEWS

- **Indian banks unprepared for RBI's ESG push, survey shows**

Indian banks are not prepared to adopt environmental, social and governance (ESG) norms as part of their lending models due to reasons including a lack of clarity on how they apply to lenders, a survey conducted by an industry body on behalf of the central bank showed, said two people aware of the matter.

The Reserve Bank of India (RBI), which has acknowledged climate change as a source of financial risk, will likely use the findings to frame the first set of guidelines to boost green finance, the people said. The guidelines will likely be issued later this year, they added.

Globally, a rising number of loans are being restructured to link them to a borrower's ESG performance. Such ESG-based lending surged to $322 billion globally in 2021, from $6 billion in 2016, to account for over 12% of total lending, per research by London-based Acuity Knowledge Partners published in January.

The survey in India showed a majority of domestic banks, particularly mid-sized and small ones, are grappling with issues on the ESG definitions applicable to lenders, how the norms will be built into lending decisions and the lack of technology and systems to track their implementation, said one of the people.

"There is also a low incentive to switch to these norms," the person said, speaking on condition of anonymity as the results of the survey are not public.

The RBI and the Indian Banks' Association, which conducted the survey, did not respond to an email seeking comment.

Governor Shaktikanta Das said earlier this month that the central bank will "soon" issue guidelines for regulated entities to increase green lending, accept green deposits and mitigate risks related to climate change. While green loans can be ESG-linked, they are issued solely to finance environmentally sustainable projects.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/indian-banks-unprepared-for-cenbanks-esg-push-survey-shows/articleshow/98297707.cms

- **RBI imposes restrictions on 5 co-operative banks**

The Reserve Bank of India on Friday imposed several restrictions on five cooperative banks, including on withdrawals, in the wake of the deteriorating financial condition of the lenders. The restrictions will remain in place for six months, the Reserve Bank of India (RBI) said in separate statements.

With restrictions in place, the banks, without prior approval of RBI, cannot grant loans, make any investment, incur any liability, and transfer or otherwise dispose of any of its properties.

Customers of HCBL Co-operative Bank, Lucknow (Uttar Pradesh); Adarsh Mahila Nagari Sahakari Bank Maryadit, Aurangabad (Maharashtra); and Shimsha Sahakara Bank Niyamitha, Maddur, Mandya District in Karnataka cannot withdraw funds from their accounts due to present liquidity position of the three lenders.

However, customers of Uravakonda Co-operative Town Bank, Uravakonda, (Anantapur District, Andhra Pradesh) and Shankarrao Mohite Patil Sahakari Bank, Akluj (Maharashtra) can withdraw up to Rs 5,000.

The eligible depositors of all the five cooperative banks would be entitled to receive deposit insurance claim amount of his/her deposits up to Rs 5 lakh from the Deposit Insurance and Credit Guarantee Corporation, RBI said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-imposes-restrictions-on-5-co-operative-banks/articleshow/98216294.cms

- **FM to attend first G20 FMs and central bank guvs meeting on Feb 24-25 in Bengaluru**

Union Finance Minister Nirmala Sitharman will attend G20 finance ministers and central bank governors (FMCBG) meeting in Bengaluru on February 24-25.

According to the official handle of the finance ministry -- @FinMinIndia, it was posted on social media site, "Union Finance Minister Smt. @nsitharaman embarks on visit to #Bengaluru to attend the first #G20 Finance Ministers and Central Bank Governors #FMCBG meeting under #G20 India Presidency, on 24-25 February 2023. #OneEarthOneFamilyOneFuture @g20org"

The FMCBG meeting will be spread over two days with Union Finance Minister and RBI Governor Shaktikanta Das jointly steering the G20 FMCBG discussions under G20 India's Finance Track priorities, it added.

The meeting will focus on priorities under global economy, international financial architecture, sustainable finance, infrastructure, health, international taxation, financial sector and financial inclusion.

Around 500 foreign delegates have gathered in Bengaluru for the first G20 FMCBG meeting. The meeting will see participation of finance ministers and central bank governors of G20 and invitee countries, and heads of various International organisations.

On the sidelines of the G20 FMCBG, the Union Finance Minister will hold bilateral discussions with more than 10 countries, including Italy, US, Spain, Indonesia, and UK; besides engaging discussions with representatives of international organisations.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/fm-to-attend-first-g20-fms-and-central-bank-guvs-meeting-on-feb-24-25-in-bengaluru/articleshow/98158551.cms

- **Banks' asset quality likely to improve further, say analysts**

Indian banks' asset quality improved over the last couple of years and is soon expected to be better than what it was in 2015 before the beginning of the massive cleansing of balance sheets under regulatory guidance, analysts said.

Following the AQR exercise, banks' gross NPA ratio jumped to 11.5% at the end of March 2016 with the public sector banking group leading the stress at 14.5%, data from RBI showed. The banking sector gross NPA was at 3.5% before AQR.

CareEdge expects gross NPA ratio of scheduled commercial banks to reduce in FY24 due to lower incremental slippages, a reduction in special mention accounts and restructuring portfolios, and healthy growth in advances.

"A decline in the overall stressed assets (GNPA plus restructured assets) due to a reduction in GNPAs on account of resolution and/or write-offs and improvement in restructured assets with control on asset slippages is expected to continue," it said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/banks-asset-quality-likely-to-improve-further-say-analysts/articleshow/98155258.cms

- **With UPI-PayNow linkage Modi government makes a grab at the India outside India**

Whenever Prime Minister Narendra Modi visits a foreign country, especially a developed one, his signature move is to galvanise the non-resident Indians (NRIs) there. Modi has turned the NRI soft power into a significant diplomatic chip for India. But now his government also eyes the hard power of the diaspora — the money they send back to their families and relatives in India.

The UPI linkage with Singapore's PayNow for faster and cheaper cross-border fund transfers through mobile apps is a step in that direction. The cost of international money transfer is nearly 5%, which the India-Singapore linkage can cut to less than half.

A cheaper and faster way to transfer money from abroad to India is likely to boost remittances. If the Singapore model works, it can be replicated with a large number of other countries.

Inward remittances, or the money that the NRIs send back to India, fuel consumption and investment and bolster India's macroeconomic stability. Yesterday's announcement of the India-Singapore payment linkage comes at the right time — first, India's inward remittances are set to rise on their own in the coming years; and second, India needs still more foreign money coming home now as the country's current account deficit (roughly the difference between the value of exports and imports) has been under stress.

Remittances are a macroeconomic cushion

Remittances account for a significant chunk of nearly 3% of India's GDP. They are a buffer to India's external sector, which has been stressed recently due to various global economic woes. When India's trade deficit widens, remittances — being the second largest source of external financing after services' exports — provide a much-needed cushion. Lately, India's external trade position has become stable with a narrowing of merchandise trade deficit, higher services exports and, of course, more-than-expected remittance growth.

Source: https://economictimes.indiatimes.com/industry/banking/finance/banking/with-upi-paynow-linkage-modi-government-makes-a-grab-at-the-india-outside-india/articleshow/98152334.cms

- **Finance Ministry to meet heads of top PSBs, private lenders on Wednesday**

To review the progress of emergency credit line guarantee scheme to help businesses affected by COVID-19, the finance ministry is likely to meet the heads of public sector banks and top four private lenders on Wednesday.

The meeting will be chaired by Financial Services Secretary Vivek Joshi. The heads of HDFC Bank, ICICI Bank, Axis Bank and Kotak Mahindra Bank are also expected to attend the meeting, news agency PTI reported.

Extension of emergency credit line guarantee scheme (ECLGS) and Loan Guarantee Scheme for COVID-Affected Sectors (LGSCAS) beyond March 31 will be on agenda. The meeting will review progress ECLGS for Ministry of Micro, Small and Medium Enterprises (MSMEs) and also discuss on the challenges related to these.

The Union Budget 2022-23 announced the extension validity of the scheme up to March 2023 and an increase in the limit of guaranteed cover of ECLGS by ₹50,000 crore to a total cover of ₹5 lakh crore, with the additional amount being earmarked exclusively for the enterprises in hospitality and related sectors.

Finance Minister Nirmala Sitharaman in the latest Budget said, "Last year, I proposed revamping scheme will take effect from 1st April 2023 through the infusion of ₹9,000 cr in the corpus. This will enable additional collateral-free guaranteed credit of ₹2 lakh crore. Further, the cost of the credit will be reduced by about 1%."

The ECLGS was announced as part of the Atmanirbhar Bharat Package in May 2020 with the objective to help businesses including MSMEs to meet there to help businesses including MSMEs to meet their operational liabilities and resume business in view of the distress caused by the COVID-19 crisis, suffered by them due to non-repayment of the funding by borrowers.

The overall ceiling initially announced for ECLGS was ₹3 lakh crore which was subsequently enhanced to ₹4.5 lakh crore.

Source: https://www.livemint.com/industry/banking/finance-ministry-to-meet-heads-of-top-psbs-private-lenders-on-wednesday-11676843631838.html

- **Govt takes 'pragmatic' view on disinvestment targets**

The government has set a lower disinvestment target for FY24 at ₹51,000 crore as compared with the previous financial year, while also lowering the revised estimates from FY23 to ₹50,000 crore from the earlier target of ₹65,000 crore, according to the budget documents issued on Wednesday.

"Disinvestment is based on market conditions and other factors, therefore a practical and prudent target has been kept," Tuhin Kanta Pandey, secretary, department of investment and public asset management (DIPAM) said during the finance minister's press conference on Wednesday, after the union budget presentation.

He had told Mint in a recent interview that disinvestment should be looked at from the point of view of reforms and employment creation instead of only capital generation.

"It should be looked at from the point of view of reforms. If you have to keep your fiscal deficit in control and still be able to put capex and social sector expenditure, you've got to be raising money apart from revenue. So, non-tax revenue is important, and then disinvestment is miscellaneous capital receipts. But generating resources is a small part of the story; it's how productivity enhancement takes place in the economy," he said last month.

Mint reported on 10 November that the government plans to go for a realistic disinvestment target in FY24, lower than FY23, since it had missed targets set for prior financial years.

The most recent was the ₹1.75 trillion target for FY22 which was revised downwards to ₹78,000 crore in the revised estimates in the union budget last year.

Source: https://www.livemint.com/news/india/govt-takes-pragmatic-view-on-disinvestment-targets-11675276285805.html

- **Shaktikanta Das on Adani-Hindenburg impact on banks; here's what RBI Governor said today**

RBI Governor Shaktikanta Das today sought to allay concerns on the banks' financial health in the aftermath of Adani-Hindenburg showdown, reiterating the resilience of the banking system, while steering clear of making any comment on Adani Group business itself. Hindenburg alleged that the Adani Group is overleveraged, which prompted questions regarding Indian banks' exposure to the indebted conglomerate. To this, RBI Governor Shaktikanta Das spoke about the inherent strength of the domestic banking system, shortly after the Monetary Policy announcement of a 25 bps repo rate hike.

"The Reserve Bank has taken a number of steps to strengthen the resilience of Indian banks," said Governor Das, adding that the central bank has made it mandatory for lenders to appoint chief risk officers and chief compliance officers. "We have also rationalised, in the last two years, the large exposure to norms. Last Friday, as the Adani rout continued to simmer, RBI said it maintains a "constant vigil on the banking sector and on individual banks with a view to maintain financial stability. The RBI has a Central Repository of Information on Large Credits (CRILC) database system where the banks report their exposure of Rs 5 crore and above which is used for monitoring purposes."

The central bank also added that the banking sector is stable. "Various parameters relating to capital adequacy, asset quality, liquidity, provision coverage and profitability are healthy. Banks are also in compliance with the Large Exposure Framework (LEF) guidelines issued by the RBI. The RBI remains vigilant and continues to monitor the stability of the Indian banking sector," said the note. The Governor ensured not to make overt comments or mention the name of the Group, instead said, "Regarding the exposure of one particular business conglomerate, we have issued a press release on last Friday; I have nothing more to add to that. Individual cases and numbers we do not discuss in the public domain."

Source: https://www.financialexpress.com/industry/banking-finance/shaktikanta-das-on-adani-hindenburg-impact-on-banks-heres-what-rbi-governor-said-today/2975069/

- **RBI publishes list of 54 existing online payment aggregators**

The Reserve Bank on Wednesday released a list of 54 entities, including Amazon (Pay) India, Google India Digital Services, NSDL Database Management, and Zomato Payments, which can continue to operate as Online Payment Aggregators (PAs).

In a statement, the RBI said while the exercise of scrutiny of applications of PAs is an ongoing process, for the purpose of disseminating information and ensuring greater transparency, the list of entities that have submitted applications to RBI seeking authorisation to act as online PAs with the current status of their application as of February 15, 2023, is published.

The list has three tables. One of the tables is on 'Existing PAs who can operate as Online Payment Aggregators' and has 54 names. Another table is on 'New PAs who have been granted in-principle authorisation and whose application is currently under process – Cannot operate'. It has 28 names.

The third is on 'List of PAs whose applications were returned/withdrawn – Cannot operate' and has 57 entities.

"All stakeholders are advised to transact with only those existing PAs who have been granted in-principle authorisation or whose application is currently under process," the RBI said.

It further said that stakeholders may transact with new PAs only after these entities have received 'authorisation' under the Payment and Settlement Systems Act from the Reserve Bank of India.

With a view to bringing entities undertaking online payment aggregation business within the regulatory fold, the Reserve Bank of India issued circulars on "Guidelines on Regulation of Payment Aggregators and Payment Gateways"

Source: https://www.financialexpress.com/industry/banking-finance/rbi-publishes-list-of-54-existing-online-payment-aggregators/2982734/

- **Banks' financial performance improved post-merger: RBI paper**

Financial performance of banks has improved on account of mergers, according to a paper released by the Reserve Bank of India (RBI). That also holds true for the recent bank mergers in 2019 and 2020, although there is limited post-merger data.

The relatively lower managerial and organisational competencies in acquired banks did not affect the efficiency of the merged entity. Also, benefits to acquirers on account of increased scale of productive capacity were statistically significant, the paper said. It was written by members of the RBI's department of economic and policy research.

"A deep dive into factors that may have led to efficiency gains identifies post-merger geographical diversification and improvement in the share of interest income as the significant factors," the paper said.

The researchers compiled data on bank mergers since 1997 and analysed the impact of mergers on the short-term and medium-term performance of the merged entity.

From 1997 to 2022, there were 40 bank amalgamations, of which 12 were between private sector banks (PVBs) and public sector banks (PSBs), 16 among PSBs and the remaining 12 between PVBs and foreign banks. The consolidation of State Bank of India with its associates from 2008 to 2017 and the mega merger of 10 banks into four in April 2020 account for the majority of PSB mergers.

Source: https://www.financialexpress.com/industry/banking-finance/banks-financial-performance-improved-post-merger-rbi-paper/2987276/

- **Bank credit grows 16.8% in Q3: RBI**

The Reserve Bank of India (RBI) on Monday said the credit growth of the banking system stood at 16.8% for the three months ended December 31, compared with an 8.4% rise in the year-ago period and a 17.2% increase at the end of the second quarter of the current fiscal.

The loan growth was led by bank branches in metropolitan centres, which account for nearly 60% of the total credit by banks and recorded a 17.2% Y-o-Y rise in lending. Urban, semi-urban and rural centres recorded an over 10% credit growth, the RBI said.

The loan growth was led by private sector banks, which saw a 19.1% Y-o-Y rise in 2022, compared with 13.1% a year ago. Public sector banks increased their credit portfolio by 15.7% during the calendar year, against 4.7% in 2021.

On the other hand, total deposits increased 10.3% y-o-y in Q3FY23, compared with 9.6% a year ago, led by a 13.2% growth in term deposits. Current and savings deposits recorded a moderate growth of 4.6% and 7.3%, respectively. Deposit mobilisation by PSBs improved to 8.8% during the quarter, compared to 6.9%, though it remained lower than a 13.2% growth in deposits for private lenders.

The all-India credit-deposit (CD) ratio increased to 75.9% during the quarter compared to 74.8% in Q2FY23 and 71.6% a year ago. The CD ratio of banks remained above 100% in Andhra Pradesh, Maharashtra, Tamil Nadu and Telangana.

Source: https://www.financialexpress.com/industry/banking-finance/bank-credit-grows-16-8-in-q3-rbi/2994502/

SELECT RBI CIRCULARS FEBRUARY 2023

Circular Number	Date of Issue	Department	Subject	Meant For
RBI/2022-2023/183 DOR.AML. REC.105/14.06.001/ 2022-23	28.2.2023	Department of Regulation	Designation of 1 individual and 2 organi-sations under Section 35(1) (a) and 2(1) (m) of the Unlawful Activities (Pre-vention) Act,1967 and their listing in the Fourth and First Schedule of the Act- Reg.	The Chairpersons/ CEOs of all the Regulated Entities
RBI/2022-2023/182 DOR.ACC.REC. No.104/21.07.001/ 2022-23	20.2.2023	Department of Regulation	Implementation of Indian Ac-counting Standards (Ind AS)	All ARCs
RBI/2022-2023/181 DOR.ACC.REC. No.103/21.04.018/ 2022-23	20.2.2023	Department of Regulation	Reserve Bank of India (Fi-nancial State-ments - Presentation and Disc-lo-sures) Direc-tions, 2021 – Disclosures for State Co-operative Banks and Central Co-operative Banks	All Commercial Banks and Primary (urban) Co-operative Banks, State Co-operative Banks and Central Co-operative Banks
RBI/2022-2023/180 DOR.MRG.REC.102/00-00-009/ 2022-23	17.2.2023	Department of Regulation	Governance, measure-ment and manage-ment of Inter-est Rate Risk in Banking Book	all commercial banks (other than Regional Rural Banks, Small Fi-nance Banks, Pay-ments Banks and Local Area Banks)
RBI/2022-2023/179 A.P. (DIR Series) Circular No. 23	16.2.2023	Foreign Ex-change Depart-ment	Exim Bank's GOI-support-ed Line of Credit (LOC) for USD 100 million to the Govern-ment of the Republic of Maldives (GO-MDV), for fi-nancing new developmental projects and to meet spill over costs from developmental projects in Maldives al-ready included under Lines of credit extend-ed to GO-MDV by Exim Bank	All Category – I Au-thorised Dealer Banks

RBI/2022-2023/178 CO.DPSS.RPPD. No.S1931/04-03-001/2022-23	16.2.2023	Department of Payment and Set-tle-ment System	Introduction of Foreign Con-tribution (Regu-lation) Act (FCRA) related trans-action code in NEFT and RTGS Systems	The Chairman / Man-aging Director / Chief Executive Officer of member banks par-ticipating in NEFT and RTGS Systems
RBI/2022-2023/177 FIDD.CO.LBS. BC.No.18/02.08.001/ 2022-23	13.2.2023	Financial In-clu-sion and Devel-opment Depart-ment	Formation of new district in the State of Sik-kim – Assign-ment of Lead Bank Responsi-bility	The Chairman / Managing Director & Chief Executive Of-ficer Lead Banks Concerned
RBI/2022-2023/176 CO.DPSS.POLC.No.S–1907/02.14.006/2022-23	10.2.2023	Department of Payment and Settle-ment Sys-tems	Issuance of PPIs to Foreign Nationals / Non-Resident Indians (NRIs) visiting India	All Prepaid Payment Instrument (PPI) Is-su-ers (Banks and Non-banks) and Na-tional Payments Corporation of India (NPCI)
RBI/2022-2023/175 FMOD.MAOG. No.149/01.01.001/ 2022-23	08.2.2023	Financial Mar-kets Op-eration De-partment	Liquidity Adjust-ment Fa-cility - Change in rates	All Liquidity Ad-just-ment Facility (LAF) participants
RBI/2022-2023/174 DOR.RET. REC.101/12.01.001/ 2022-23	08.2.2023	Department of Regulation	Change in Bank Rate	All Banks
RBI/2022-2023/173 REF.No.MPD.BC. 397/07.01.279/2022-23	08.2.2023	Monetary Policy De-partment	Standing Liquidity Facility for Prima-ry Dealers	All Primary Dealers
RBI/2022-2023/172 DOR.AML. REC.100/14.06.001/ 2022-23	03.2.2023	Department of Regulation	Implementation of Section 51A of UAPA,1967: Up-dates to UNSC's 1267/ 1989 ISIL (Da'esh) & Al-Qa-ida Sanctions List (Amend-ments to 29 entries)	The Chairper-sons/ CEOs of all the Regu-lated Entities

STATISTICAL SUPPLEMENT – RBI

Date : February, 2023					
Reserve Bank of India – Bulletin Weekly Statistical Supplement – Extract					
1. Reserve Bank of India - Liabilities and Assets*					
(₹ Crore)					
Item	2022	2023		Variation	
	Feb. 18	Feb. 10	Feb. 17	Week	Year
	1	2	3	4	5
4 Loans and Advances					
4.1 Central Government	-	-	-	-	-
4.2 State Governments	4065	2401	12425	10024	8360

** Data are provisional.*

2. Foreign Exchange Reserves								
Item	As on February 17, 2023		Variation over					
			Week		End-March 2022		Year	
	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.	₹ Cr.	US$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	4649018	561267	-28507	-5681	50199	-46042	-76864	-71685
1.1 Foreign Currency Assets #	4109014	496072	-20971	-4515	14449	-44652	-124770	-70988
1.2 Gold	346376	41817	-7251	-1045	24163	-734	36463	308
1.3 SDRs	151307	18267	-119	-87	8255	-624	8238	-895
1.4 Reserve Position in the IMF	42321	5111	-166	-34	3332	-32	3206	-110

** Difference, if any, is due to rounding off*

 # Excludes (a) SDR holdings of the Reserve Bank, as they are included under the SDR holdings; (b) investment in bonds issued by IIFC (UK); and (c) amounts lent under the SAARC Currency swap arrangements.

3. Scheduled Commercial Banks - Business in India						
(₹ Crore)						
Item	Outstand-ing as on Feb. 10, 2023	Variation over				
		Fort-night	Financial year so far		Year-on-year	
			2021-22	2022-23	2022	2023
	1	2	3	4	5	6
2 Liabilities to Others						
2.1 Aggregate Deposits	17773801	54373	1014621	1308488	1346788	1645668
2.1a Growth (per cent)		0.3	6.7	7.9	9.1	10.2
2.1.1 Demand	2091828	-64920	32983	19081	263177	197652
2.1.2 Time	15681973	119292	981638	1289407	1083611	1448015
2.2 Borrowings	463282	3513	23057	188688	23598	196200
2.3 Other Demand and Time Liabilities	774595	42895	-34900	133747	2598	152888
7 Bank Credit*	13417468	79932	714475	1526154	960784	1855705
7.1a Growth (per cent)		0.6	6.6	12.8	9.1	16.1
7a.1 Food Credit	44296	-5869	16726	-10714	2693	-33684
7a.2 Non-food credit	13373172	85801	697749	1536868	958091	1889389

**Bank credit growth and related variations from December 3, 2021 to November 18, 2022 are adjusted for past reporting errors by select scheduled commercial banks (SCBs).*

4. Money Stock: Components and Sources

(₹ Crore)

Item	Outstanding as on		Variation over									
	2022	2023	Fortnight		Financial Year so far				Year-on-Year			
					2021-22		2022-23		2022		2023	
	Mar. 31	Feb. 10	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	1	2	3	4	5	6	7	8	9	10	11	12
M3	20493729	21988277	93243	0.4	1241427	6.6	1494548	7.3	1665902	9.0	1902273	9.5
1 Components (1.1.+1.2+1.3+1.4)												
1.1 Currency with the Public	3035689	3207073	37353	1.2	223880	8.1	171384	5.6	230206	8.4	231364	7.8
1.2 Demand De-posits with Banks	2212992	2231412	-65380	-2.8	37329	1.9	18420	0.8	279364	15.9	198962	9.8
1.3 Time Deposits with Banks	15186605	16485963	121262	0.7	974984	6.9	1299359	8.6	1147032	8.3	1460701	9.7
1.4 'Other' De-posits with Re-serve Bank	58444	63830	9	0	5234	11.1	5386	9.2	9301	21.5	11245	21.4
2 Sources (2.1+2.2+2.3+2.4-2.5)												
2.1 Net Bank Credit to Gov-ernment	6477629	6784046	126681	1.9	307612	5.3	306417	4.7	305790	5.2	626061	10.2
2.1.1 Reserve Bank	1450596	1216727	53998	4.6	92432		-233870		52480		24609	
2.1.2 Other Banks	5027033	5567320	72683	1.3	215179	4.5	540287	10.7	253310	5.4	601452	12.1
2.2 Bank Credit to Commercial Sec-tor	12616520	14154572	82114	0.6	601580	5.2	1538051	12.2	1011212	8.9	1884525	15.4
2.2.1 Reserve Bank	16571	11850	627		-6752		-4720		-6458		9893	
2.2.2 Other Banks	12599950	14142721	81487	0.6	608332	5.2	1542771	12.2	1017670	9.0	1874632	15.3

5. Liquidity Operations By RBI

(₹ Crore)

Date	Liquidity Adjustment Facility						Stand-ing Li-quidity Facili-ties	OMO (Out-right)		Net Injection (+)/ Absorption (-) (1+3+5+7+9-2-4-6-8)
	Re-po	Re-verse Repo	Varia-ble Rate Repo	Varia-ble Rate Re-verse Repo	MSF	SDF		Sale	Pur-chase	
	1	2	3	4	5	6	7	8	9	10
Feb. 13, 2023	–	–	–	–	720	92422	–309	–	–	-92011
Feb. 14, 2023	–	–	–	–	1996	90336	–	–	–	-88340
Feb. 15, 2023	–	–	–	–	702	122837	–	–	–	-122135
Feb. 16, 2023	–	–	–	–	713	134132	–	–	–	-133419
Feb. 17, 2023	–	–	–	–	967	126267	–	–	–	-125300
Feb. 18, 2023	–	–	–	–	2685	18360	–	–	–	-15675
Feb. 19, 2023	–	–	–	–	47	2696	–	–	–	-2649

SDF: Standing Deposit Facility; MSF: Marginal Standing Facility.

TOP NBFC & MICRO FINANCE INSTITUTIONS NEWS

- **How digital escrow solutions are helping NBFCs optimize their collections**

Financial intermediation by NBFCs has increased significantly in recent years, contributing to the financial services sector's explosive growth. The expansion of access to financial services, boosting competition, and diversification of the financial industry are all made possible by non-banking financial companies (NBFCs). As they can absorb shocks and disperse risks during times of financial difficulty, they are increasingly seen as an important component of the banking system.

Digital escrow services have helped NBFCs revolutionise the lending industry by accessing unserved and underserved areas and meeting the varied financial demands of enterprises, particularly micro and small businesses services. The NBFCs have been helped by digital escrow solutions to offer financial services instantly to businesses. Fintech and microfinance have grown significantly in India in recent years. According to Inc42's most recent report, "State of Indian Fintech Ecosystem Q3 2022," the size of the digital lending market is expected to witness an exponential growth from $270 Bn in 2022 to $670 Bn between 2022 and 2030 at a CAGR of 22%.

Digital escrow aiding challenges faced by NBFCs

The main difficulty that lending NBFCs encounter is ensuring that the loan money is utilised for the desired purpose by the borrowing NBFCs. The way in which the borrowers use their borrowed money is hidden from and beyond the lenders' awareness and control. The on-lending proceeds are frequently mishandled by the borrowing NBFCs. Rather than disbursing loans to borrowers, they use the borrowed money for operations costs, and as a result, the lending NBFCs' security coverage is undercollateralized.

Source: https://www.financialexpress.com/money/how-digital-escrow-solutions-are-helping-nbfcs-optimize-their-collections/2987934/

- **Tight regulations, rising cost of funds can pose challenges to NBFCs, say experts**

A sharp increase in cost of funds and tightening of regulations by the Reserve Bank of India (RBI) may pose challenges to non-banking financial companies (NBFCs), said experts.

"We could see a rise in borrowing cost for NBFCs due to the competition with banks as players are offering higher and competitive rates," said Vijay Gour, lead analyst, BFSI research, at CareEdge.

In a rising interest scenario, the cost of borrowings for NBFCs is expected to rise by 100-120 basis points (bps) in 2022-23, a CRISIL report said.

Echoing this, Jinay Gala, associate director, India Ratings and Research, said that there is an uptick in funding demand from NBFC players due to strong growth seen in fiscal 2023.

"One may expect funding costs to increase for lenders as liabilities get repriced higher in the coming months and we would see lenders passing on the rate hike pressure to certain floating segments like housing, unsecured etc," Gala said.

The RBI in its Trend and Progress Report for 2021-22 highlighted that NBFCs have to be mindful of the rising borrowing costs they face in the wake of tightening monetary policy measures.

"With strong capital buffers, adequate provisions, and sufficient liquidity, NBFCs are poised for expansion. Nevertheless, going forward, NBFCs need to be wary of rising borrowing costs as financial conditions tighten," the RBI said.

Highlighting this, Kishore Lodha, Chief Financial Officer, U GRO Capital, said: "NBFCs cost of fund would continue to depend on overall available liquidity, Benchmark rates, rating of the NBFC, parentage and vintage and quality of assets and governance."

Source: https://www.moneycontrol.com/news/business/tight-regulations-rising-cost-of-funds-can-pose-challenges-to-nbfcs-say-experts-10149341.html

- **MC Exclusive | India Post Payments Bank plans to convert to a universal bank: CEO J. Venkatramu**

India Post Payments Bank (IPPB) plans to approach the Reserve Bank of India (RBI) with a request to get itself converted to a universal bank, Chief Executive Officer J Venkataramu said.

IPPB, a division of the vast postal service, has so far not made any formal application with the central bank on the subject yet.

"We are planning to approach RBI to make India Post Payments Bank a universal bank with a special focus on small credit products to solve financial inclusion though we have not filed any written application to RBI so far," Venkataramu told Moneycontrol.

A payments bank works on a small scale, eschewing credit risk, while a universal bank is a full-service bank, operating as a commercial entity with the ability to operate as an investment house and place money in businesses that are not related to it.

Venkatramu said IPPB wants to extend credit services to the most remote areas and needed a distinctive approach to diverge from its present banking infrastructure.

Source: https://www.financialexpress.com/industry/banking-finance/nbfcs-yields-may-get-impacted-on-higher-costs/2939480/

- **NBFCs' collection efficiency to remain strong, says ICRA**

The collection efficiency of non-banking financial companies (NBFCs) is expected to remain robust and rate hikes are unlikely to have a significant bearing on it, ratings agency ICRA said on February 9.

The ICRA release comes a day after the Reserve Bank of India raised the repo rate, the rate at which the central bank lends funds to banks, by 25 basis points to 6.5 percent, which will push up home loan EMIs.

Attributing the growth to the strong outlook for the majority of sectors, ICRA said the impact of the uncertain global environment is difficult to ascertain at present.

"For pools carrying interest rate risks, typically housing loan and loan against property pools, the continuation of rate hikes will not have a significant bearing on the collection efficiencies, given the association of the borrower with the underlying collateral (residential properties) and the priority given by borrowers to repay such loans," the release said.

Abhishek Dafria, Vice President and Group Head-Structured Finance Ratings, ICRA said collections across retail pools were expected to remain steady over the near to medium term "should there be no material macro or business-related disruptions".

Earlier, the collection efficiency for NBFCs and housing finance companies (HFC)s has been healthy in the range of 97 to 105 percent till December 2022.

"This was supported by improved economic activity, a favourable operating environment and non-banks (i.e NBFCs and HFCs) returning to normalcy after two years of interrupted operations during the pandemic," the release said.

Source: https://www.moneycontrol.com/news/business/nbfcs-collection-efficiency-to-remain-strong-says-icra-10040401.html

- **Ahead of ban order, RBI gave a list of apps working with NBFCs to govt.**

The Reserve Bank of India gave a list of apps, which were working with non-bank lenders registered with the central bank, to the government ahead of the ban imposed on some apps earlier this week, officials said on Wednesday.

"We have given a list of apps which work with NBFCs (non-banking finance companies) to the government. On that basis, the government has taken this step," Governor Shaktikanta Das told reporters here.

Earlier this week, the Ministry of Electronics and Information Technology banned 94 loan apps, which included entities not connected to China as well. It included some apps involved in what reports described as predatory lending with unfair terms, which led to a debt trap for the borrowers.

The list of banned apps include 'Buy Now Pay Later' (BNPL) apps such as LazyPay and Kissht.

Das said the RBI sought a list of apps the NBFCs registered with it work with, adding that this was done because "there are many illegal and illegitimate apps" which promise to lend by sending messages on mobiles even though no NBFC has appointed them.

Deputy Governor M Rajeshwar Rao said the RBI has not suggested imposing ban on any of the digital lending apps, and the central bank's role is limited to sharing the list of apps used by entities registered with the RBI.

"The ministry has requested the play stores to remove these apps which are not what you call operated by the regulated entities from the play stores," he added.

Source: https://www.zeebiz.com/india/news-ahead-of-ban-order-rbi-gave-a-list-of-apps-working-with-nbfcs-to-govt-221232

- **Stock Radar: Up 13% so far in Feb! This NBFC stock hits a fresh 52-week high; should you buy, sell or hold?**

The data from Indian Mutual Fund Tracker by Motilal Oswal shows that in January, six of the top 10 stocks that saw the maximum increase in value were ICICI Bank, Axis Bank and SBI

Indian equity fund managers have increased their allocation towards private banks, non-banking financial companies (NBFCs) and auto in January. The data from Indian Mutual Fund Tracker by Motilal Oswal shows that in January six of the top 10 stocks that saw the maximum increase in value were ICICI Bank, Axis Bank and SBI.

Source: https://www.business-standard.com/article/markets/equity-funds-hike-exposure-to-banking-nbfc-and-auto-stocks-in-jan-data-122021501232_1.html

TOP INSURANCE NEWS

- **Bill to reform insurance sector may come in monsoon session**

  The government is likely to introduce the Insurance Laws (Amendment) Bill 2022 in the monsoon session of Parliament to bring deep reforms in the insurance sector, including a provision for composite insurance licence and flexibility in entry barriers, two people aware of the development said.

  According to them, stakeholder consultation on the draft bill is expected to be completed by the end of March before the final version is presented for cabinet approval, followed by its introduction and passage in Parliament.

  "The Bill is almost ready but the industry wants certain clarifications and changes in some of the provisions. We were expecting it to get Parliamentary approval in the Budget session itself but a need is felt to discuss the provisions of the Bill threadbare considering inputs from stakeholders so that a progressive and growth-oriented legislation is drafted," said one of the people quoted above.

  Queries to the finance ministry remained unanswered till press time.

  However, an official said anonymously that insurance sector reforms were top of the government agenda and that a progressive, forward-looking legislation is on its way.

  The government is not looking at intruding into the independence of general and life insurance councils and the insurance law is thus unlikely to change the composition of councils by including a government representative. The person said the industry wanted wider representation in the councils and if the changes impact autonomy, it should be avoided.

  Source: https://www.livemint.com/news/india/bill-to-reform-insurance-sector-may-come-in-monsoon-session-11675962819752.html

- **ESIC scheme adds 18.03 lakh new members in December**

  Around 28,000 new establishments were registered under ESI Scheme in December 2022, and 18.86 lakh new workers were added during the month. The Employees' State Insurance Scheme (ESI Scheme) provisional payroll data was released on Monday.

  According to a labour ministry release, the year-on-year comparison of payroll data reflects an increase of 14.52 lakh employees who paid contribution in ESI Scheme in December 2022 as compared to December 2021.

  As per data, around 27,700 new establishments were registered in the month of December under the Employees' State Insurance Corporation ensuring social security cover for their employees.

  Of the total 18.03 lakh employees added during the month, the number of employees aged up to 25 years stood at 8.30 lakh.

  "It shows that the youth of the nation are getting good employment opportunities in the country," the release said.

  Gender-wise analysis of payroll data indicates that enrolment of net female members was at 3.44 lakh in December 2022.

  The data also shows that a total 80 transgender employees were registered under the scheme in December. The payroll data is provisional since the data generation is a continuous exercise, it added.

  Source: https://www.livemint.com/insurance/news/esic-scheme-adds-18-03-lakh-new-members-in-december-11676898160171.html

- **More insurance players, wider range of products key to achieve insurance for all goal by 2047:Irdai's Debasish Panda**

India needs more number of insurance players, much wider range of products and also more distribution partners to achieve the insurance for all goal by 2047, Irdai chairman Debasish Panda said here on Tuesday. The insurance sector was opened up more than two decades ago and the market has grown much bigger, but still there is too much scope for faster and deeper growth, he said addressing the annual summit of the Indian Private Equity and Venture Capital Association.

In the past five years, the sector has grown 10 per cent each year, still insurance penetration is too low at 4.2 per cent in 2021 and we need to cover much more, he said.

"We're a diverse nation of 1.4 billion people. We can't have a one-size-fits-all approach, instead we need more unique products that can meet the insurance needs of both the super rich as well as the very poor. And such unique products cannot be served by the limited number of players we have today at 70.

"Therefore, we need more players, a much wider range of products and also more distribution partners to achieve the insurance for all goal by 2047," Panda said.

Before the nationalization of the sector in the mid-1950, the country with much lower population (over 350 million), had as many as 245 life insurance and 145 non-life firms, 15 of them foreign-owned. There were also 75 provident funds at the time of nationalization.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/more-insurance-players-wider-range-of-products-key-to-achieve-insurance-for-all-goal-by-2047irdais-debasish-panda/articleshow/98120322.cms

- **Total exposure of 5 state-run general insurers in Adani group at Rs 347 cr: MoS Finance**

Five state-run general insurance companies have a total exposure of Rs 347.64 crore, or 0.14 per cent of their total assets under management (AUM), in Adani group of companies, Finance Ministry said on Monday.

In reply to a question on details of money lent by banks and financial institutions to the Adani group, the Minister of State for Finance Bhagwat Karad said in a written reply to the Lok Sabha that the RBI Act prohibits disclosure of credit information submitted by a bank.

With regard to exposure by insurance companies, Karad said the state-run Life Insurance Corporation of India (LIC), on January 30, said that LIC's total holding under equity and debt is Rs 35,917.31 crores as on December 31, 2022, in Adani group of companies.

The exposure in the Adani group is 0.975 per cent of LIC's total AUM at book value of Rs 41.66 lakh crore.

"As per data received from Public Sector General Insurance companies, namely New India Assurance Company Ltd, United India Insurance Company Ltd, National Insurance Company Ltd, Oriental Insurance Company Ltd and General Insurance Corporation of India, total exposure in Adani Group of Companies as on January 31, 2023 is Rs 347.64 crore which is 0.14 per cent of the total AUM of all of all the five companies," Karad said.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/total-exposure-of-5-state-run-general-insurers-in-adani-group-at-rs-347-cr-mos-finance/articleshow/97870482.cms

- **Govt asks IRDA & insurance cos to address six major concerns to reduce pendency of consumer cases**

he government on Wednesday flagged six major issues, including ambiguity in insurance contracts and inflexible policy terms, before regulator IRDAI and other stakeholders, and urged them to address those to reduce the huge pendency of consumer cases.

The other issues raised before the key stakeholders include lack of powers delegated to representatives of insurance companies to take decisions during out-of-the-court settlements, agents not sharing full policy documents with consumers at the time of signing of policy, repudiation of claims on the basis of pre-existing diseases and crop insurance claims tied up with a central scheme which is not flexible, it said.

Currently, more than one-fifth of the total consumer complaints are pertaining to the insurance sector across the country.

"We have raised these concerns before IRDAI and other stakeholders. We are hopeful that the insurance companies will address them voluntarily. If the need arise we will also request the regulator to make it mandatory," Consumer Affairs Secretary Rohit Kumar Singh told media after a roundtable conference here.

He said there is huge pendency in consumer cases related to the insurance sector across the country because of these issues.

"As the industry seeks to achieve 8 per cent penetration, it is critical that we put in place the building blocks to avoid a significant build-up of complaints," he added.

The Secretary asserted that consumer cases can be reduced if the insurance policy terms and conditions are made simpler, clear and in understandable language. It is also important to to create awareness among consumers that they should not sign the policy document without properly understanding terms and conditions of the policy.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/govt-asks-irda-insurance-cos-to-address-six-major-concerns-to-reduce-pendency-of-consumer-cases/articleshow/97733096.cms

- **Union Budget 2023: Amid new tax regime, credit guarantee schemes, here's how insurers react on budget**

The Finance minister Nirmala Sitharaman announced the Union Budget for 2023-24 on 1st February 2023 which was also referred to as the first budget of 'Amrit Kaal'.

Starting from the Saptarishi, the top 7 priorities of this year's budget, FM Sitharaman made big ticket announcements for various sectors and individuals, which is expected to promote ease of doing business and leave people with more disposable income.

Be it in Agriculture Accelerator Fund, Personal Income Tax, revamping the Credit Guarantee Scheme for MSMEs, increased outlay for infrastructure to KYC Simplification, leaders think this year's budget to be all inclusive and forward looking.

Here's what Insurance Leaders think of Union Budget 2023:

Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance. The Union Budget is an all-inclusive progressive budget with a strong impetus on growth and development. The proposed ecosystem for the agricultural space will be a game changer for our farmer friends and will enhance their ability to get more significant insights, tools, and materials. It will also help them gain access to credit and insurance in a big way.

What impresses me more is the move towards increased outlay for infrastructure, which compliments the announcement of surety bond insurance in the last budget and lays the foundation for a strong, connected India.

Bhargav Dasgupta, MD & CEO, ICICI Lombard General Insurance

With fiscal deficit being reduced to 5.9% whilst providing an extremely bullish capex investment of Rs. 10 lac crs (highest ever); will in effect convert revenue expenditure to capital expenditure which has a higher multiplier effect.

It will also mean net borrowing by the Govt being lower than anticipated at Rs. 11.8 lac crs and that augurs well for the bond market and the corporate sector as a whole. Moreover with tax relief at an individual level would mean an additional Rs. 35,000 crs available for consumption. For a category like general insurance, these macro-economic indicators would provide the much-needed thrust for bridging the penetration gap in the country.

Anup Rau, MD & CEO, Future Generali India Insurance

Some key areas insurance companies will be closely looking at going forward are the proposed investments by the Government in technology and AI, data governance policy, simplified KYC process, common business identifier and MSME sector-related initiatives.

Source: https://economictimes.indiatimes.com/industry/banking/finance/insure/union-budget-2023-amid-new-tax-regime-credit-guarantee-schemes-heres-how-insurers-react-on-budget/articleshow/97549700.cms

TOP CORPORATE BOND MARKET NEWS

- **States bond prices down by 7 bps to 7.61% despite sharp spike in supply**

  Even though the states have borrowed heavily from the market -- bond issuances at the weekly auction on Tuesday rose sharply by 42 per cent -- the average prices came down by 7 bps to a three-week low of 7.61 per cent.

  Twelve states have raised Rs 20,300 crore through state government securities on Tuesday, which is a sharp 42 per cent increase on-year, though the amount raised is 23 per cent lower than what was indicated for the week in the auction calendar.

  Accordingly, the weighted average cut-off eased considerably by 7 bps to 7.61 per cent, which is a three-week low, despite the weighted average tenor remaining stable at 15 years, according to a note by Icra Ratings.

  The spread between the 10-year state bonds and the new G-sec stood at 38 bps today, while same between the 10-year state bonds and old G-sec rose a notch to 34 bps from 33 bps last week. This had the yield curve remaining inverted at the longer end, the agency said.

  Source: https://www.business-standard.com/article/economy-policy/states-bond-prices-down-by-7-bps-to-7-61-despite-sharp-spike-in-supply-123020701808_1.html

- **India 10-year bond yield at 4-month peak as higher U.S. peers hurt**

  Indian government bond yields ended higher on Monday, with the benchmark bond yield closing at levels last seen nearly four months ago, tracking the increase in their U.S. peers.

  Bond yields also rose as the market braces for heavy state debt supply on Tuesday.

  The 10-year benchmark 7.26% 2032 bond yield ended at 7.4533%, its highest since Nov. 4, after closing at 7.4181% on Friday. The yield has risen by an aggregate of 15 basis points (bps) in the last three weeks.

  "Bond yields have inched higher factoring in one more rate hike by the RBI (Reserve Bank of India). The yield curve has become flatter and we expect this to continue till the fiscal year-end," said Puneet Pal, head of fixed income at PGIM India Mutual Fund.

  Pal said he expects the 10-year benchmark bond yield to trade between 7.30% and 7.50% till the end of the financial year.

  U.S. Treasury prices fell as data showed that consumer spending, which accounts for more than two-thirds of economic activity, jumped 1.8% last month, while the personal consumption expenditures price (PCE) index, shot up 0.6% - the highest since June 2022 and after gaining 0.2% in December.

  Source: https://economictimes.indiatimes.com/markets/bonds/india-10-year-bond-yield-at-4-month-peak-as-higher-u-s-peers-hurt/articleshow/98279401.cms

- **Bond yields up as debt auction adds to supply, rise for third week**

  Indian government bond yields ended higher on Friday, as the financial year's last debt auction added to supply, propelling yields to rise for the third consecutive week.

  The 10-year benchmark 7.26% 2032 bond yield ended at 7.4181%, after closing lower at 7.3905% on Thursday. The yield rose three basis points this week, after rising nine and three basis points in the previous two.

  "Underlying sentiment remains bearish, as we have a huge supply lined up next year. Liquidity has also tightened," said Soumyajit Niyogi, director, core analytical group, at India Ratings and Research.

  "Also, with more rate hikes on the cards, yields should remain under upward pressure."

  DBS Bank expects the benchmark bond yield to rise to the 7.50%-7.55% zone in the next quarter.

  New Delhi raised 260 billion rupees ($3.14 billion) through the sale of bonds, while the cut off yield for the liquid 14-year paper was higher than expected which further dampened sentiment.

The central government's debt auction cycle ended on Friday, but it aims to raise 15.43 trillion rupees through the sale of bonds in the next financial year.

The 10-year U.S. yield though off its recent highs, is set to post its third consecutive weekly climb, hovering close to 3.90%.

U.S. yields have gained on bets that the Federal Reserve may hike rates by 75 bps over the next few months. The Fed has raised rates by 450 bps to 4.50%-4.75% since March 2022.

Meanwhile, the minutes of the RBI's latest monetary policy meeting reiterated the hawkish stance, while a majority of market participants now expect the central bank to hike one one more time in April.

Source: https://economictimes.indiatimes.com/markets/bonds/bond-yields-up-as-debt-auction-adds-to-supply-rise-for-third-week/articleshow/98212576.cms

- **Bond yields dip amid low activity in absence of fresh cues**

Indian government bond yields eased on Monday, after rising sharply in the previous session, amid sluggish trading activity in the absence of fresh cues.

The 10-year benchmark 7.26% 2032 bond yield ended at 7.3726% on Monday.

Yields rose 4 basis points (bps) to close at 7.3889% on Friday after the Reserve Bank of India (RBI) devolved a bulk of the 10-year bond on primary dealers at an auction.

"Devolvement on Friday dampened investor sentiment, but we didn't see any major selling today because the overall activity was sluggish in the absence of fresh triggers," Yogesh Kalinge, vice-president at AK Capital Services, said.

U.S. markets were shut on Monday for the Presidents' Day holiday, which resulted in lower participation of foreign investors, dealers said.

Meanwhile, market participants await the minutes of the RBI's monetary policy meeting, due to be released on Wednesday, and of the U.S. Federal Reserve, due on Thursday.

The market will look out for divergence in views of the RBI panel members on inflation, while the overall commentary will lend cues for the future interest rate trajectory, Kalinge said.

Source: https://economictimes.indiatimes.com/markets/bonds/bond-yields-dip-amid-low-activity-in-absence-of-fresh-cues/articleshow/98093892.cms

- **Bond yields jump after RBI devolves 10-year note at auction**

Indian government bond yields jumped on Friday after the Reserve Bank of India (RBI) devolved a bulk of the 10-year bond on primary dealers at an auction, while a relentless spike in U.S. yields further weighed.

The 10-year benchmark 7.26% 2032 bond yield ended at 7.3889%, after closing at 7.3426% on Thursday. The yield rose for the second consecutive week.

"Devolvement, which is unlikely to be followed by any action, will hurt the market, especially at the fag end of the auction cycle," said Naveen Singh, head of trading at ICICI Securities Primary Dealership.

The RBI devolved 82.54 billion Indian rupees (nearly $1 billion) of the 7.26% 2033 bond on primary dealers of the total 120-billion-rupee auction size. This was the first devolvement from the central bank in five months.

New Delhi raised 280 billion rupees via debt sale on Friday, its penultimate sale for the current financial year.

The auction cycle comes to an end at a time when the government bond yield curve has flattened after an unexpected hawkish turn to monetary policy on tight domestic liquidity, analysts said.

This has dampened appetite for short-term securities, and the trend is likely to continue in the near term, they added.

Source: https://economictimes.indiatimes.com/markets/bonds/bond-yields-jump-after-rbi-devolves-10-year-note-at-auction/articleshow/98014971.cms

- **No proposal to issue foreign currency govt bonds, says finance secretary**

The government does not plan to raise money from overseas through foreign currency bonds, finance secretary TV Somanathan said on February 16.

"...are we proposing to issue foreign currency denominated sovereign government securities? The answer is no," Somanathan said in response to a question at a post-budget interaction in Hyderabad.

While such bonds did have some benefits, there were risks too, Somanathan said.

"The negative effects are in the region of atmanirbharta, sovereignty, exposure to risks which are non-Indian and there is a lot of worldwide experience on this," the finance ministry official said.

"And in this very volatile world where we have seen that even central bank money can be stopped by a foreign country for political reasons. So, this is not a simple question of yields alone."

A proposal to issue foreign currency-denominated government bonds was made in the Budget for 2019-20 to raise some of the Centre's market borrowing from abroad. The then economic affairs secretary Subhash Chandra Garg said 10 percent of that year's gross borrowing programme could be financed by these bonds.

The controversial proposal died a quick death, with economists, including former Reserve Bank of India governor Raghuram Rajan, criticising the proposal.

Garg, who was thought to be the chief architect of the proposal, was transferred from the finance ministry to the power ministry a day after the 2019-20 Budget was passed by Parliament. Garg sought voluntary retirement and exited in late 2019.

Source: https://www.moneycontrol.com/news/business/economy/no-proposal-to-issue-foreign-currency-govt-bonds-says-finance-secretary-10098731.html

- **Indian states' outstanding liabilities rise 43% since pandemic, ringing alarm bells**

Indian states are climbing a fiscal cliff with no end in sight. Data shared by the ministry of finance during the budget session of parliament shows that the outstanding liabilities of 28 states are projected to rise 43 percent in the three years from March 2020 to March 2023.

In all, the outstanding liabilities of all these states are forecasted to reach Rs 75 lakh crore by the end of the current financial year, up from Rs 52 lakh crores in March 2020 when the Covid-19 pandemic had forced a nationwide lockdown in India.

States' finances have come under the spotlight recently amid a raging debate over freebies or pre-election doles by political parties. Several states have also moved back to the so-called old pension regime which guarantees defined returns for retiring government employees.

Meanwhile, India's central bank continues waging a battle against inflation that seems to be getting entrenched. To this end, it has raised interest rates sharply from the record lows of the pandemic era.

The Centre's borrowing is also projected at a record high in the next financial year even as it aims to lower the fiscal deficit as a percentage of gross domestic product.

States' outstanding debt has shown a gradual upward movement due to implementation of Ujjwal DISCOM Assurance Yojana, farm loan waivers, pandemic-related revenue losses, additional expenditures and growth slowdown, the ministry of finance said February 7.

To be sure, the states have been regularly servicing their debt obligations and have typically not been punished much by a bond market that generally charges a spread of 50-100 basis points for state debt wider than the central government debt.

Source: https://www.moneycontrol.com/news/business/economy/indian-states-outstanding-liabilities-rise-43-since-pandemic-ringing-alarm-bells-10080511.html

Department of Banking & Financial Services Upcoming Programme

ASSOCHAM National Summit on 7th Insolvency and Bankruptcy Code & Valuation	03rd March 2023
ASSOCHAM National Seminar New India @ 2030: Tailoring for Sustainable Growth	04th March 2023
ASSOCHAM Annual Session 2023	28th March 2023
ASSOCHAM Bi-Monthly Shadow Monetary Policy Meeting	30th March2023

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