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## RBI is likely to focus on non-rate steps to fight rising inflation.

The Reserve Bank of India (RBI) is set to use alternative methods beyond interest rate hikes to ensure that the increased borrowing costs, which have risen by 250 basis points since May 2022, are effectively transmitted to borrowers to curb inflation. Although the RBI stopped raising rates in early 2023, banks have been slow to adjust, with lending and deposit rates not fully reflecting the RBI's rate increases. With the government projecting a lower fiscal deficit and reduced borrowing for FY25, this fiscal prudence is expected to support bond yields and liquidity. The RBI may maintain the current repo rate at 6.50% during its February 8 meeting, while continuing its tight liquidity stance to keep inflation in check. Food inflation remains high, but core inflation is within the RBI's target. Analysts anticipate a potential easing of rates later in the year, with a forecast of 100 basis points in rate cuts starting from August, possibly sooner.

## ADB appoints Mio Oka as country director for India.

The Asian Development Bank (ADB) appointed Mio Oka as the new country director for India. She replaces Takeo Konishi, who is now the ADB Director General for South Asia based in Manila. Oka's role will focus on guiding ADB operations in India, strengthening ties with the government, and collaborating with development partners. She will oversee the execution of ADB's country partnership strategy for India from 2023 to 2027, aimed at fostering private sector-led growth that is robust, climate-resilient, and inclusive. The strategy emphasizes structural transformation, job creation, green growth, and improved social and economic inclusivity.

ADB, partnering with India since 1986, continues to support the nation's development and economic expansion. Oka, with nearly three decades of experience, including over 18 years at ADB, has held various roles within the organization, providing strategic direction in the agriculture and natural resources sector and the South Asia region.

India, as ADB's fourth-largest shareholder and a key borrower, received USD 2.59 billion in sovereign lending, USD 16.31 million in technical assistance, and USD 5.25 million in grants in 2023. The ADB's current sovereign portfolio in India includes 73 projects totaling USD 15.7 billion. ADB's overarching goal is a prosperous and sustainable Asia-Pacific region, with continued efforts to eliminate extreme poverty. Founded in 1966, ADB has 68 member countries, with 49 from the Asia-Pacific region.

## OECD marginally raises India's GDP growth forecast to 6.2% for FY25.

The OECD has revised India's economic growth forecast for the fiscal year 2024-25 (FY25) to 6.2%, slightly up from the 6.1% projected in November. This outlook reflects solid growth in emerging-market economies despite tighter financial conditions, benefitting from improved policies, robust infrastructure investment, particularly in India, and steady employment growth. For FY25-26, the forecast remains at 6.5%, with activity indicators suggesting moderate growth and services performing stronger than manufacturing. Inflation in emerging markets is expected to gradually ease through FY25, aligning with central bank targets by the end of 2025. The Indian finance ministry anticipates the economy to grow around 7% in FY25, marking the fourth consecutive year of such expansion post-pandemic, showcasing the economy's resilience and potential. Globally, the OECD predicts a slowdown in GDP growth to 2.9% in 2024, with a recovery to 3% in 2025 as financial conditions improve.

## Customers, competitors redraw plans with Paytm.

Paytm Payments Bank is facing a crisis, prompting customers and rivals to reconsider their dealings with the company. Banks interested in acquiring Paytm's accounts are seeking assurances from the Reserve Bank of India (RBI) to protect them from potential liabilities related to Know Your Customer (KYC) and anti-money laundering regulations. Paytm's parent company, One 97 Communications, may also face repercussions, impacting its loan sourcing partnerships with non-banking financial companies (NBFCs). Following RBI's directive to halt Paytm's payment operations like UPI and IMPS from February 29, banks are cautious about assuming responsibility for any prior compliance issues. As funds begin to move away from Paytm Payments Bank, major banks like HDFC Bank, Yes Bank, Axis Bank, and State Bank of India (SBI) are discussing how to facilitate uninterrupted customer transactions, with SBI expressing willingness to support merchants and possibly allow a one-time account migration from Paytm.

## Fintechs must take laws seriously, follow regulations in full force, advises DFS Secretary Vivek Joshi

A senior Finance Ministry official has emphasized that fintech companies in India must comply with legal and regulatory mandates. This statement comes amid Paytm Payments Bank's operational crisis following the Reserve Bank of India's (RBI) discovery of regulatory lapses. The RBI has instructed the bank to cease most operations by February 29, which has led to a severe decline in the share price of its parent company, One 97 Communications, resulting in a 40% drop over three days. Despite assurances from One 97 Communications that neither the company nor its founder is under investigation by the Enforcement Directorate, the shares continue to fall. The Finance Ministry indicated that the Securities and Exchange Board of India (SEBI) is the appropriate authority to consider protections for retail investors in such situations.

## India’s January Services PMI hits 6-month high

India’s services sector saw a significant performance boost in January, with the Purchasing Managers’ Index (PMI) reaching a six-month peak of 61.8, indicating job growth and robust service exports. The services sector, which makes up over half of India’s gross value added (GVA), has experienced an acceleration in new business and a strong outlook for future activity. An increase in backlogs and employment was noted, with the latter marking the most significant rise in three months. The PMI, reflecting around 400 service companies across various sectors, showed the highest new export order increase in three months, with global gains and a positive business sentiment. Additionally, the HSBC India Composite PMI Output Index, which includes manufacturing, also surged, suggesting a broader economic improvement.

## FSSAI approves amendments in regulations to do away with Agmark, BIS certification for food products.

The Food Safety and Standards Authority of India (FSSAI) has decided to streamline food safety regulations by eliminating the need for Bureau of Indian Standards (BIS) or Agmark certifications for food products. This decision aligns with the “One Nation, One Commodity, One Regulator” initiative, aiming to simplify the process for food businesses by making only the FSSAI certification mandatory. This change, expected to ease the operations for food businesses, was approved in the FSSAI’s 43rd meeting in New Delhi. The meeting also approved setting standards for various food products, including honey wine, alcoholic beverages, and milk fat products. Additionally, standards will be established for ‘Haleem’, a traditional dish that currently lacks specific standards. A manual for methods of analysis for food product regulatory compliance was also agreed upon. The meeting, chaired by Health Secretary Apurva Chandra, was attended by officials from several ministries, as well as representatives from industry, consumer groups, and research institutes. Stakeholder comments will be invited before the finalization of the amendments.

## SEBI may enhance large-cap stocks categorisation.

SEBI is set to revise the classification criteria for large, mid, and small-cap stocks due to the significant rise in equity market capitalization last year. The proposed change will see large-cap stocks encompass the top 125 companies by market cap, up from 100, shifting mid-caps to ranks 126 to 276 from the current 101 to 250, and labeling stocks ranked 277th and beyond as small-caps. This shift is in response to a 35% increase in market capitalization on the NSE and BSE within a year, driven by heightened retail participation and a wave of IPOs. Despite the growth in market breadth, where mid-caps and small-caps have increased their market share, concerns arise about the heightened risk for retail investors as these segments have grown in the overall market. The move to adjust stock classifications aims to mitigate concentration risk for investors, reflecting the substantial increase in stock capitalizations and sustained inflow of SIP investments.

## Pharma exports rise 8.2% in the last 9 months of 2023 to $20.40 billion.

India’s pharmaceutical exports experienced an 8.2% increase in April-December 2023, reaching $20.40 billion, up from $18.85 billion in the same period the previous year. Notably, exports to the US rose by 11.5%, contributing to a 10.4% overall growth in exports to the NAFTA region. Formulations remained the largest export category, comprising around 73% of total pharmaceutical exports. There was also a significant rise in exports to the UK (20.5%) and the West Asia and North Africa (WANA) region. Conversely, exports to Russia saw a decline, with Russia dropping to the 10th position among India’s pharmaceutical export markets. The Indian government and Pharmexcil are implementing strategies to bolster exports to Russia. Despite initial forecasts of $27 billion for FY24, the uptick in exports from October suggests that the figure could reach $28 billion, surpassing FY23’s $25.3 billion. The NAFTA region, Europe, and Africa are India’s primary markets, accounting for nearly 69% of its total pharmaceutical exports.

## Ahead of RBI deadline, most banks make AIF provisions in Q3.

Most private banks in India provisioned for investments in alternative investment funds (AIFs) during the quarter ending December 2023, due to limited options for existing investments and anticipation of regulatory relaxations. HDFC Bank and ICICI Bank led these provisions, setting aside ₹1,220 crore and ₹627 crore respectively. HDFC Bank’s CFO mentioned that despite the fair value of investments being higher, the bank opted for full provisioning prudently, waiting for potential RBI concessions. The RBI had directed banks not to invest in AIFs with recent borrower connections and to liquidate such existing investments within 30 days or make full provisions for them. With minimal AIF redemptions by the January 2024 deadline, banks had to provision these funds, with Axis Bank detailing an exposure of ₹207 crore and RBL Bank provisioning ₹115 crore, largely in venture debt funds. IndusInd Bank, with ₹113 crore in AIFs, is considering selling them due to sufficient demand and hence did not make additional provisions. Federal Bank reported no AIF exposure. The banking sector is hoping the RBI will reconsider and potentially relax these norms.

## Banking system liquidity deficit shrinks to ₹1.40 lakh crore.

India’s banking system saw its liquidity deficit decrease to ₹1.40 lakh crore on February 4, down from ₹3.46 lakh crore on January 24, following increased government expenditure. This reduction in the liquidity gap positively impacted overnight money market rates, which fell to an average of 6.33% from the previous 6.50% to 6.75%. The Reserve Bank of India (RBI) has been deliberately maintaining a tighter liquidity framework as part of its strategy to control inflation while still fostering economic growth. According to the Head of Treasury at Karur Vysya Bank, government disbursements for contracts and salaries contributed to the reduction in the liquidity deficit. However, the deficit may rise again to between ₹2 lakh crore and ₹2.5 lakh crore due to upcoming GST payments. RBI Governor Shaktikanta Das has previously stated that liquidity conditions are aligned with the monetary policy stance and assured that the RBI will stay flexible in managing liquidity.

## Banks to expedite resolution with exporters for trade facilitation.

The Indian Finance Ministry has directed banks to proactively resolve the issues of exporters and importers, ensuring they comply with relevant regulations. This initiative, aimed at trade facilitation, will involve collaboration between banks, the Department of Commerce, and export promotion councils. A review meeting led by Financial Services Secretary Vivek Joshi focused on banking and insurance challenges affecting trade entities. The meeting, which included high-level officials from various ministries, the RBI, and the IRDAI, also discussed categorizing issues for better resolution, potentially seeking RBI's regulatory guidance, and establishing a standard operating procedure via the Indian Banks Association.

## Sitharaman proposes Rs 1.18 lakh cr interim Budget for J&K for 2024-25.

India's Finance Minister Nirmala Sitharaman presented an interim budget of ₹1.18 lakh crore for the 2024-25 fiscal year for Jammu & Kashmir. This budget forecasts a fiscal deficit of ₹20,760 crore, aiming for a 7.5% GSDP growth. Capital expenditure is set at ₹38,566 crore, accounting for 14.64% of the GSDP. Revenue receipts are projected at ₹97,861 crore. Sitharaman attributed the territory's developmental progress to reforms initiated in 2019, which led to decentralized governance, inclusive growth, improved revenue, and infrastructure development. She emphasized that maintaining law and order and a zero-tolerance policy against terrorism are priorities, noting that security conditions in Jammu & Kashmir have notably improved due to consistent counterterrorism efforts.

## Kerala Budget 2024 Highlights: Liquor, power tariff to go up.

Kerala's Finance Minister KN Balagopal unveiled the state's 2024-25 budget amidst financial strain and criticism faced by Chief Minister Pinarayi Vijayan. Key announcements include:

- Implementation of a scrapping policy for old cars and furniture in government offices, expected to generate ₹200 crore.
- Increase in liquor prices with a ₹10 per litre gallonage fee hike on Indian Made Foreign Liquor, projecting an additional ₹200 crore revenue.
- ₹25 crore allocation for the NoRKA Department Project to assist returned emigrants and ₹44 crore for their rehabilitation.
- A tourism boost with a ₹50 crore investment to develop 20 spots.
- Formation of a Pravasi academic experts task force to elevate higher education and plans to host a global conclave for educational transformation.
- Consideration for establishing foreign universities in Kerala.
- A new fishing harbor at Pozhiyoor with a preliminary allocation of ₹5 crore.
- Establishment of the Kerala Forest Ecotourism Development Authority.
- A commitment to construct 5 lakh houses by next year, with ₹1132 crore allocated for the LIFE housing project.
- Safari parks in North Kerala to enhance tourism.
- Development of the Malabar International Port with a ₹9.65 crore allocation.
- Introduction of new BS6 standard buses for KSRTC with ₹128.54 crore allocated.
- The education sector receives ₹1,000 crore for model schools, teacher training, and AI education initiatives.
- ₹27 crore dedicated to the Sabarimala master plan.
- The tourism sector receives ₹351.41 crore, MSME sector ₹215 crore, and the cashew sector ₹53 crore.
- ₹10 crore for Operation Breakthrough to tackle flash floods in Kochi.

- The Thrissur Zoological Park will receive ₹6 crore for development.
- An investment of ₹300 crore for the Naadukani Safari park project.
- Promotion of sandalwood cultivation.
- ₹83 crore for soil protection and ₹78 crore for safe vegetable cultivation.
- ₹40 crore for the Punergeham project to aid coastal erosion victims.
- Claims of creating 2.36 lakh jobs in agriculture.
- A vision to transform Kerala into a medical hub and digital leader with a ₹200 crore investment for the Digital University.
- Stamp duty will increase for land and building lease agreements.
- Reduced tax and registration fees for All India tourist buses registering in the state.
- Balagopal countered the Centre's alleged efforts to weaken Kerala's economy, stressing the state's resilience and growth potential in science, technology, and sustainable development.

## Uttar Pradesh FM Suresh Kumar Khanna presents record budget of Rs 7.46 lakh crore for FY 2024-25

Uttar Pradesh's Finance Minister, Suresh Kumar Khanna, has announced a record budget of ₹7.36 lakh crore for the financial year 2024-25, surpassing the previous year's budget of ₹6.90 lakh crore. This budget includes new schemes worth ₹24,863.57 crore. Projected total receipts for the fiscal year are ₹7,21,233.82 crore, comprising ₹6,06,802.40 crore in revenue receipts and ₹1,14,531.42 crore in capital receipts. Tax collections are expected to contribute ₹4,88,902.84 crore to the revenue, with ₹2,70,086 crore from the state's own tax revenue and ₹2,18,816.84 crore from the central tax pool. The budget allocates ₹5,32,655.33 crore for revenue expenditure and ₹2,03,782.38 crore for capital expenditure, anticipating a deficit of ₹15,103.89 crore. The Destitute Women Pension Scheme will see an increase in payouts from ₹500 to ₹1,000 per month, benefiting over 31 lakh women. Additionally, the Women Farmer Empowerment Project will form 200 producer groups to provide technical support in FY 2024-25.

## Six solar firms face DRI probe for 'evasion of duty'

The Directorate of Revenue Intelligence (DRI) is investigating several solar companies for potential customs duty evasion linked to the import of solar panel components from China, suspected between April 2022 and October 2023. The preliminary assessment suggests a duty evasion amounting to around ₹1,900 crore, which might increase as the investigation continues. The companies are accused of underpaying customs and providing incorrect declarations. The probe, which started last November, looks into misuse of the project import route and customs warehouse scheme. Despite a 25% basic customs duty on solar cells and 40% on solar modules imposed by the government to boost domestic manufacturing, companies allegedly exploited a concessional 5% rate under the 'project import scheme' and exceeded their import requirements for projects. Additionally, the customs warehouse scheme, allowing duty deferral without interest until clearance, was also reportedly misused, leading to its scrutiny and subsequent action by the Central Board of Indirect Taxes and Customs (CBIC). The Ministry of New and Renewable Energy (MNRE) had also raised concerns about these practices.

## Indian Banks credit growth could moderate in FY25 on tighter liquidity: S&P

S&P Global Ratings has indicated that Indian banks may see a slowdown in strong credit growth, potentially moderating to 12-14% in the next fiscal year if deposit growth does not pick up. Currently, deposit growth is trailing behind credit growth, resulting in tighter liquidity conditions. This may lead banks to seek more expensive wholesale funding, which could squeeze margins and affect profitability, especially if there are rate cuts in fiscal 2025.

S&P also forecasts an increase in the proportion of unsecured personal loans in bank loan portfolios, which could help offset some margin pressures caused by liquidity constraints. Despite the Reserve Bank of India's new regulations assigning higher risk weights to unsecured personal loans, growth in this sector remains unaffected.

Overall, the stability in asset quality and consistent capitalization are seen as positive for the banks' credit profiles. S&P suggests that favorable market conditions might encourage more banks to raise equity in 2024.

## Need more 'SBI-sized' banks: Sitharaman on India's economic push

After the presentation of the Budget 2024, Finance Minister Nirmala Sitharaman has emphasized India's need for larger banks, potentially three times the size of the State Bank of India (SBI). SBI is currently not listed among the top 10 banks globally and holds a market capitalization of about ₹5.8 trillion with an extensive international presence.

This discussion aligns with the government's aim to propel India into the world's third-largest economy. The 2019 consolidation of public sector banks, which saw ten banks merge into four entities, was a step towards creating larger, more robust banks.

India, being the fifth-largest economy, requires banks that match its scale to support continued growth. Sitharaman's statements reflect the necessity of a conducive environment for both the growth of existing banks and the entry of larger banks into the Indian market. She acknowledges the importance of having significant banking entities that can operate professionally and effectively in the global financial landscape.

Currently, SBI is ranked 48th globally, while China and the United States have several banks in the top ten. The minister's comments suggest a strategic push to elevate Indian banks to a similar stature on the global stage.

## Only 38% of Fame 2 subsidy used so far in FY24, shows govt data.

The Ministry of Heavy Industries (MHI) reported that as of January 31, FY24, only 38% (₹1,980.83 crore) of the FAME-II subsidy fund for electric vehicles (EVs) has been utilized out of the ₹5,171.97 crore allocated for the year. This marks a significant underuse compared to the total allocation.

In the current phase, subsidies totaling ₹5,790 crore have been provided to manufacturers for 1.3 million EV sales. Additionally, MHI has sanctioned 6,862 e-buses for city and state transport operations and approved 2,877 EV charging stations across various cities, though only 148 are operational.

The ministry also allocated ₹800 crore to Oil Marketing Companies for setting up 7,432 EV charging stations. There is a noticeable delay in subsidy disbursements to companies, affecting their working capital. With the FAME scheme set to expire on March 31, there's uncertainty over its extension. The interim Budget for FY25 has significantly reduced the allocation to ₹2,671 crore, indicating a possible shift in focus or scaling back of the subsidy program. The MHI is advocating for an extension, emphasizing public electric transportation and charging infrastructure expansion.

## Govt seeks Parliament nod for Rs 78,673 cr more as spendings this fiscal.

The Indian government requested parliamentary approval for additional spending of ₹78,673 crore for the current fiscal year. This includes ₹10,798 crore allocated for the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) program. The second batch of supplementary demands for grants for 2023-24, presented by Finance Minister Nirmala Sitharaman, also includes ₹9,231 crore for food subsidies and ₹3,000 crore for fertilizer subsidies.

The overall gross additional expenditure is over ₹2 trillion, which will be offset by savings of over ₹1.21 trillion, resulting in a net cash outgo of ₹78,672.92 crore. The interim budget for 2024-25 estimates the government's total expenditure for the current financial year at ₹44.90 trillion, a 7.1% increase from the previous year.

Other significant allocations include ₹9,162 crore for defense services, ₹3,890 crore for defense pensions, ₹5,000 crore to the Department of Economic Affairs for transfers to the Senior Citizen Welfare Fund, and ₹84.12 crore for the operational and expansion needs of the Enforcement Directorate.

## FinMin releases Rs 66,745 cr loan to 28 states for investment in Apr-Jan

The Ministry of Finance has distributed loans amounting to ₹66,745 crore to 28 states as part of the 'Special Assistance to States for Capital Investment' scheme. Minister of State for Finance Pankaj Chaudhary indicated that this initiative is designed to stimulate capital expenditure across states. The scheme provides a 50-year interest-free loan, with a cumulative sum of ₹1.3 lakh crore earmarked for the financial year 2023-24.

As of February 1, 2024, a significant portion of this allocation has been released to facilitate various capital investment projects in sectors such as health, education, irrigation, water supply, energy, transportation infrastructure, and more. Additionally, the scheme supports states in their share of the Jal Jeevan Mission and Pradhan Mantri Gram Sadak Yojana to accelerate progress in these areas. In the previous fiscal year 2022-23, the scheme had released a total of ₹81,195.35 crore.

## RBI conducts 4-day VRRR auction as overnight rates fall below repo

The Reserve Bank of India conducted a four-day variable rate reverse repo (VRRR) auction to absorb excess liquidity from the banking system, as overnight money market rates dropped below the repo rate of 6.50%. In the auction, banks deposited ₹18,750 crore, well below the ₹50,000 crore offered by RBI, at a weighted average rate of 6.49%.

This move came after a period of high liquidity, with the weighted average call rate and the treasury bills repurchase rate falling to their lowest since mid-September 2023. Following government spending, the liquidity deficit narrowed significantly from ₹2.2 trillion to ₹1.1 trillion.

The RBI's strategy aims to stabilize the interbank rates by alternating between VRR and VRRR auctions based on the prevailing rates. An overnight VRRR auction was planned to withdraw ₹75,000 crore more from the system.

Market participants see these auctions as a way to manage the liquidity distribution within the banking system. The recent widening liquidity deficit, which hit a record ₹3.46 trillion due to tax outflows, is expected to remain under ₹1.5 trillion for the week, with attention turning to the Monetary Policy Committee's upcoming decisions and commentary on liquidity management.

## Next govt's fiscal moves key to sovereign rating: S&P Global Ratings

S&P Global Ratings suggests India's sovereign rating could be bolstered if the post-election government manages to finance large infrastructure projects without exacerbating the current account deficit or significantly shrinking the fiscal deficit. This statement reflects the importance of sustainable funding for development without compromising the country's financial stability.

A potential change in government following the general elections could introduce a period of policy uncertainty. However, most market commentators believe the BJP will likely continue in power.

Fitch Ratings points out that the government's interim budget anticipates a slightly quicker pace of fiscal consolidation than previously expected and upholds commitments to capital investment. The fiscal deficit target for FY24 has been set at 5.8% of GDP, with a goal to narrow it down to 4.5% by FY26. Fitch considers it challenging for the government to meet the FY26 target but recognizes that the focus on deficit reduction could lead to a gradual decrease in the government's high debt ratio over time, assuming a continued path of deficit reduction and strong nominal GDP growth.

## Buoyant demand pushes India's services PMI to 6-month high in January

India's services sector saw a surge in growth, reaching a six-month high in January, with the Purchasing Managers' Index (PMI) climbing to 61.8 from 59 in December. This growth was driven by an increase in new business from both domestic and international clients, with new export sales expanding at the fastest rate in three months.

The sector has been expanding for 30 consecutive months, reflecting robust demand. The survey, which included around 400 service companies, pointed out that despite rising costs for food, labor, and freight, service providers raised prices only modestly.

The report also highlighted positive business sentiments, with service companies feeling optimistic about investment and productivity gains fueling output growth in the coming year. Additionally, there was a marginal increase in employment, marking the most significant rise in jobs in the past three months and aligning with the growth in business volumes and backlogs.

## Employment in manufacturing sector grew by 7% in 2021-22: Govt data.

The manufacturing sector in India rebounded in 2021-22, showing a 7% year-on-year employment growth after a pandemic-induced marginal decline in 2020-21, surpassing pre-pandemic levels by over 935,000 jobs. The Ministry of Statistics and Programme Implementation’s Annual Survey of Industries revealed that average employee emoluments also saw a rise of 1.7% in 2020-21 and 8.3% in 2021-22. The manufacturing sector demonstrated resilience, with Gross Value Added (GVA) increasing by 26.6% in 2021-22 over the previous year, primarily due to a significant jump in industrial output. Key sectors driving growth included basic metals, refined petroleum products, pharmaceuticals, motor vehicles, food products, and chemicals. The major states contributing to manufacturing GVA were Gujarat, Maharashtra, Tamil Nadu, Karnataka, and Uttar Pradesh. These states, along with Tamil Nadu, Gujarat, Maharashtra, Uttar Pradesh, and Haryana, accounted for over half of the sector’s employment. The survey’s fieldwork spanned from April 2022 to November 2022 for 2020-21 and from March 2023 to September 2023 for 2021-22, noting the impact of COVID-19 on the industry.