



Daily Digest

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FM Nirmala Sitharaman says reassuring measures being taken to lower debt-to-GDP ratio.

Finance Minister Nirmala Sitharaman announced measures to reduce India's debt-to-GDP ratio, which remains lower than many developed countries. Concerns of unsustainable debt burdens were dismissed. The minister highlights progress toward containing fiscal deficit to 5.1% next year, with a long-term goal of 4.5%, achieved through prudent spending. India's debt levels are declining, currently at 81% of GDP, and external debt remains low. This contrasts with some nations having over 100% debt-to-GDP ratios. Sitharaman emphasized growth-supporting capital expenditure and noted improvements in inflation and employment.

MPC leaves repo rate unchanged at 6.50% in its last meeting of FY24.

The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) has decided to keep the repo rate unchanged at 6.50% for the sixth consecutive meeting. This decision aims to keep inflation in check, as it remains above the targeted 4%. The MPC also voted to continue its policy of withdrawing accommodation to align inflation with the target while supporting economic growth.

Key Points

- **Repo rate unchanged:** This means borrowing costs for banks remain the same.
- **Inflation concerns:** Retail inflation rose to 5.69% in December 2023, driven by food prices.
- **Focus on control:** The MPC's continued stance indicates a focus on curbing inflation and ensuring it aligns with targets.

RBI projects GDP to grow 7% in FY25; CPI inflation at 4.5%.

RBI Projections for FY25

GDP Growth: The Reserve Bank of India (RBI) projects India's GDP growth at 7.0% for FY25 (fiscal year 2024-2025).

Inflation: CPI inflation is projected at 4.5% for FY25, assuming a normal monsoon.

Factors Driving Growth

Rabi Sowing: Positive trends in rabi crop sowing support growth.

Manufacturing and Services: Profitability in manufacturing and resilience in the services sector will aid economic activity.

Capital Expenditure: An uptick in private investment and the government's focus on capital expenditure will fuel growth.

External Factors

Global Outlook: Improved global trade and supply chain integration create positive external demand.

Geopolitical Risks: Geopolitical tensions, financial market volatility, and economic fragmentation continue to pose risks.

Inflation Outlook

Food Prices: Food inflation will shape the overall inflation trajectory. Favorable supply-side responses could help manage food price pressures.

Core Inflation: Monetary policy actions are helping keep core inflation in check.

Crude Oil: Volatility in crude oil prices remains a factor.

Overall Economic Assessment

The RBI Governor notes that domestic economic activity remains strong, and the momentum is expected to continue in FY25.

ONDC collaborates with NCCF, Shiprocket to deliver Bharat branded staples in Delhi-NCR

Key Points

- **ONDC Collaboration:** The Open Network for Digital Commerce (ONDC) partners with NCCF and Shiprocket to launch the "Sarkar se Rasoi Tak" initiative.
- **Product Availability:** Consumers in Delhi-NCR (Gurgaon and Faridabad) can now order government-approved Bharat brand rice, flour, and lentils online.
- **Benefits:** Guaranteed prices, free delivery within 24 hours, and accessible ordering through apps like Paytm, Magicpin, Mystore, and Pincode.
- **Expansion Plans:** The initiative aims to expand into other Indian cities.

Quotes

- T Koshy (ONDC CEO): Emphasizes the initiative's role in democratizing access to essential goods and connecting consumers with local cooperatives.
- Saahil Goel (Shiprocket CEO): Notes expansion plans and Shiprocket's support of small-scale merchants.
- Anice Joseph Chandra (NCCF MD): Highlights expanded reach and improved access to essential goods through ONDC's technology.

RBI MPC Meeting February 2024 Highlights:

RBI MPC Meeting - Key Highlights

- **Repo Rate Unchanged:** The Reserve Bank of India (RBI) maintains the repo rate at 6.5%. This means borrowing costs for banks will stay the same.
- **GDP Growth Projection:** RBI projects India's GDP growth at 7% for FY25, slightly lower than the current fiscal year.

- **Inflation Outlook:** Retail inflation (CPI) is expected to average 5.4% this fiscal year and ease to 4.5% in FY25.
- **Economic Indicators:** The economy shows positive signs:
 - Recovery in agricultural sowing
 - Strong manufacturing sector
 - Resilient services sector
- **Investment Activity:** Investment cycle reviving, showing signs of private sector capital expenditure (capex) growth.
- **Rural and Urban Demand:** Rural demand remains strong, and urban consumption is steady.
- **Fiscal Responsibility:** Government remains committed to fiscal consolidation.

Additional Notes

- RBI to introduce offline functionality for digital currency (CBDC-Retail) to support transactions in areas with limited internet.
- Tight supervision: RBI taking action against Paytm due to regulatory concerns, emphasizes focus on consumer protection.

Overall Assessment: The Indian economy remains on a growth path, though the RBI remains vigilant concerning inflation and geopolitical risks.

RBI to introduce programmability and offline functionality in CBDC pilot.

RBI to Upgrade CBDC with Programmability and Offline Functionality

- **Programmability:** The RBI will enable the Central Bank Digital Currency (CBDC) to be programmed for specific uses. This will benefit:
 - **Government:** Ability to target cash support programs for individuals.
 - **Corporations:** Ability to control employee spending (e.g., business travel).
 - **Additional Features:** Features like validity periods or geographical restrictions can be embedded into CBDC transactions.
- **Offline Mode:** The RBI is working to make CBDC transactions possible in areas with limited connectivity through both proximity and non-proximity based solutions.

Benefits and Impact

- **Enhanced Use Cases:** The offline capability and programmable features differentiate CBDC from existing solutions like UPI, opening up additional areas for its use.
- **Subsidy Distribution:** Enables more efficient government aid delivery, especially in underserved locations.
- **Fungibility:** While programmability may briefly impact fungibility (i.e., interchangeability), it allows better expenditure control and is often mutually agreed upon by participants.

Expert Commentary

- Experts view these CBDC enhancements as an innovative step to improve payment capabilities, especially in regions facing connectivity challenges.
- The RBI's move strengthens India's fintech sector and promotes efficiency across payment systems.

RBI Expands Digital Currency Capabilities

Overview:

The Reserve Bank of India (RBI) is adding new features to its Central Bank Digital Currency (CBDC) pilot project.

Programmability:

- Users (e.g., government agencies, corporations) can program CBDC for specific purposes.
- Example: Government ensuring payments are used for intended benefits, companies restricting employee travel expenses.
- Additional controls possible, such as transaction validity periods or geographical limits.

Offline Functionality:

- RBI will enable CBDC transactions in areas with limited internet connectivity.
- Solutions being tested in diverse locations (hilly regions, rural, and urban areas).
- **Phased Rollout:** The new features will be introduced gradually through the pilot program.

RBI Mandates Key Fact Statement (KFS) for Retail and MSME Loans

- **The Mandate:** The Reserve Bank of India now requires lenders to provide a Key Fact Statement (KFS) to all retail and MSME borrowers.
- **KFS Content:** The KFS clearly outlines loan terms, including:
 - All-inclusive interest costs (Annual Percentage Rate)
 - Fees and charges
 - Recovery and grievance redressal processes
- **Benefits (according to RBI):**
 - Promotes transparency and informed decision-making for borrowers
 - Aligns lender interests with long-term customer trust
- **Industry Sentiment:**
 - Viewed as a positive step towards increased customer knowledge and better loan experiences.
 - Particularly relevant for shorter-tenure loans where upfront fees play a significant role.

- **Prior Usage:** The KFS was already mandated for digital loans and microfinance loans. This extends the requirement to a broader range of loan products.

RBI to Address Paytm Concerns with FAQs

- **Public Queries:** The Reserve Bank of India (RBI) has received numerous inquiries regarding the recent restrictions imposed on Paytm Payments Bank.
- **FAQ Release:** The RBI will issue a Frequently Asked Questions (FAQ) circular next week to provide clarity for customers and merchants.
- **RBI's Stance:**
 - Governor Shaktikanta Das emphasizes that the issue stems from Paytm's compliance failures, not broader regulatory flaws.
 - RBI remains committed to supporting innovation and fintech developments.

RBI's Supervisory Approach

- **Focus on Compliance:** The RBI prioritizes regulatory compliance through initial bilateral engagement and providing entities time to take corrective action.
- **Proportionate Response:** If non-compliance persists, the RBI may impose restrictions commensurate with the severity of the situation.
- **Customer Protection:** Central to RBI's actions are safeguarding systemic stability and the interests of depositors and customers.

RBI to bring framework for authentication of digital payment transactions.

- **Beyond SMS OTP:** While SMS-based One Time Passwords (OTPs) are widely used, the Reserve Bank of India (RBI) recognizes the need to evolve with technological advancements.
- **Focus on Security:** The RBI prioritizes secure digital payments and requires Additional Factor of Authentication (AFA) to enhance protection.
- **Principle-Based Framework:** The RBI will introduce a framework for alternative authentication methods, providing flexibility and fostering innovation.
- **Upcoming Instructions:** The RBI will release specific guidelines on this principle-based framework for secure digital payment authentication.

RBI Strengthens Security Measures for AePS Transactions

- **Streamlined Onboarding:** The RBI plans to introduce mandatory due diligence for Aadhaar-enabled Payment System (AePS) service providers, starting with touchpoint operators and later extending to banks.
- **Enhanced Fraud Prevention:** To protect sensitive transactions, particularly in rural and Tier II+ areas, the RBI aims to introduce additional fraud risk management measures.

- **Customer Protection Focus:** The RBI prioritizes secure digital transactions to boost confidence and adoption, especially among less tech-savvy users.
- **Emphasis on Aadhaar:** Recent NPCI mandates requiring Aadhaar-based biometric authentication for Business Correspondents further highlight this security focus.
- **Industry Impact:**
 - Increased safety and integrity for AePS transactions
 - Essential for facilitating access to critical government subsidies and benefits.

RBI to Review Regulatory Framework for Electronic Trading Platforms (ETPs)

- **Reason for Review:** The RBI will update the regulatory framework for ETPs due to:
 - Growing integration between onshore and offshore forex markets
 - Technological advancements
 - Increased product diversity in the market
- **Focus on Market Makers:** The review aims to specifically address requests from market makers who want to access offshore ETPs offering permitted Indian Rupee (INR) products.
- **Process:**
 - The RBI will issue a revised regulatory framework for public feedback.
- **Background:**
 - In 2018, the RBI established a regulatory framework for ETPs to promote fair access, transparency, security, and market integrity.
 - Currently, 13 ETPs operated by five entities are authorized under this framework.

Defer EU carbon tax for MSMEs by 3 years, new PLI, launch ecommerce policy: Parliamentary panel to govt

Parliamentary Committee Recommendations to Protect MSMEs & Boost Exports

- **CBAM Concerns:** The committee urges the government to negotiate a minimum three-year deferment on the EU's Carbon Border Adjustment Mechanism (CBAM) for MSMEs. They emphasize the financial limitations MSMEs face in adapting to these green regulations.
- **Export Growth Barriers:** The committee highlights US and EU tariffs and non-tariff barriers as a threat to achieving India's engineering export goals. They recommend high-level negotiations to resolve these issues.

Policy Recommendations:

- **Expand PLI Schemes:** Include high-employment sectors like chemicals and labor-intensive sectors (leather, apparel, etc.) within the scope of Production Linked Incentive (PLI) schemes.
- **Chemical Industry Boost:** Create a specific PLI scheme for the chemical industry and establish an institutional mechanism to advise exporters on market challenges.

FTA Strategy:

- **Diversify Export Markets:** Utilize Free Trade Agreements (FTAs) and market intelligence to find new destinations beyond the US and EU for apparel exports.
- **Promote Man-Made Fibers:** Focus on investments in the MMF (Man-Made Fibre) value chain to boost exports and grant duty-free raw material access to encourage competitive pricing.
- **Safeguard Trade Balances:** Review existing FTAs to ensure benefits to India.
- **Russia Trade:** The committee urges a review of Russia's trade classification to mitigate risks for exporters.
- **E-commerce Delay:** The committee stresses the need for a timely National E-commerce Policy and the availability of export credit for e-commerce exporters.

Home loan EMIs may fall 3.5% this year despite RBI MPC holding repo rate.

Home loan borrowers in India have been awaiting a decrease in their Equated Monthly Installments (EMIs), but the Reserve Bank of India (RBI) has maintained the repo rate, causing further delay. Despite holding rates steady now, there's anticipation of a future reduction due to easing inflation and strong economic growth. The RBI had raised the repo rate by 2.5% from May 2022 to February 2023 to combat inflation, but with inflation now below 6%, experts suggest room for rate cuts. A lower fiscal deficit and reduced government borrowing, alongside expected inflows from global index listings, could prompt the RBI to lower rates in the second half of the year. Borrowers are advised to link their loans to the external benchmark lending rate (EBLR) for maximum benefit and consider refinancing for better rates. New borrowers may find favorable rates, with the market already showing lower rates than in 2023.

Google Partners with Maharashtra Government on AI Initiatives

- **MoU Signed:** Google and the Government of Maharashtra collaborate to bring AI solutions to diverse sectors within the state.
- **Sectors of Focus:** AI will be leveraged in agriculture, healthcare, sustainability, education, and startup support.
- **AI Centre of Excellence:** Google establishes a cutting-edge AI center at the Indian Institute of Information Technology (IIIT) in Nagpur.

Collaboration Benefits:

- **Maharashtra Development:** Deputy Chief Minister Fadnavis sees the partnership driving AI-powered progress and revolutionizing critical sectors.
- **Startup Ecosystem:** Google to mentor and network with Maharashtra's startups, providing expertise in technology, product development, and business strategy.
- **Government IT Upskilling:** Google Cloud training for 500 IT professionals in conversational AI.

Specific AI Applications:

- **Healthcare:** Google AI imaging models for enhanced tuberculosis and diabetic retinopathy screening.
- **Agriculture:** AI/ML technology via Agricultural Landscape Understanding (ALU) API for in-depth farmland insights.

Google's Vision: Country Head Sanjay Gupta emphasizes empowering citizens, creating opportunities, and utilizing AI for the benefit of the people of Maharashtra.