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INDUSTRY OUTLOOK

ECONOMIC DIGEST (November 2020)

6 November 2020

1. India to bounce back from Covid crisis with impressive growth to become fastest-growing emerging economy – IMF — NY Pilot Business News

The Indian economy, which has been severely hit by the coronavirus pandemic, will start recovering from the "horrible crisis" if the government ramps up efforts on both the fiscal and the monetary sides. In its annual World Economic Outlook, the IMF downgraded India's growth for the year 2020 to - 10.3 percent, but is likely to bounce back with an impressive 8.8 percent growth rate in 2021. If the Indian economy achieves the projected growth rate, it will regain the position of the fastest-growing emerging economy, surpassing China's projected growth rate of 8.2 percent.

Malhar Shyam Nabar, Division Chief stressed that much is needed to provide support to households and firms affected by the pandemic, including tax relief measures and credit guarantees. *"We think that there is room to recalibrate and to provide more direct relief and spending support, which could have a first-order impact on preventing even worse outcomes," Nabar said. The RBI "has paused recently with its interest-rate cuts, looking through this inflation, the spike in inflation that they have had recently, but we believe there is more that the RBI can do, too, in terms of there is room to cut if needed, and we think that should be done once this inflation spike is more under control…Together with these efforts, both on the fiscal side and the monetary side, we think that would put India on a path to recovery going forward… The Indian economy would be well placed to start recovering from this horrible crisis that it is experiencing right now."*

2. India's economy worst-hit among emerging markets-DC

Among the emerging nations, India seems to be the worst affected by the Covid-19 pandemic as the strength of the economy has deteriorated the most in India in the first half of 2020. Investors' Macro Ratings Index, which looks at investors' perception of the economy based on parameters like real GDP growth, inflation, fiscal deficit and bank credit, has deteriorated in all the emerging economies. However, India was the most affected in the first half and Taiwan was the least affected. The study examined macro-economic parameters in emerging economies like India, Brazil, China, Indonesia, South Korea, Malaysia, Russia, South Africa, Taiwan and Thailand. As per IMF's projection, India's real GDP growth is expected to contract 10.3 per cent in 2020, which is the highest contraction among the 10 emerging markets. India is also the only economy with a double-digit contraction. But China is expected to see 1.9 per cent growth, the highest among all of them.

At 4.9 per cent, retail inflation in 2020 will be the highest in India. Inflation has eased in most of the emerging economies, except India. Average inflation during the nine-month period of 2020 has more-than-doubled in India, while in most of the emerging nations, it was lower than the same period in 2019. At 7.2 per cent, the fiscal deficit too is high, but not the highest. China, Brazil and Russia have higher fiscal deficits than India. Macro-Vulnerability Index, which calculates macro risk based on inflation, fiscal deficit and current account deficit, also is not favourable for India.

While India along with Brazil has the highest government debt, private non-financial sectors' leverage is among the lowest. India's government debt stands at 72.2 per cent of the GDP and private non-financial debt is at 57.8, indicating lower levels of leverage. India has also seen one of the lowest credit growth. While RBI has seen the highest expansion of its balance sheet, a similar growth is not visible in money supply. India is one among the emerging countries with a higher decline in merchandise exports. Till August, India's merchandise exports had declined 18.3 per cent, only lesser than Russia with a contraction of 24.4 per cent. While Taiwan saw a growth of 2.4 per cent, China had a marginal decline of 0.8 per cent.

3. India most hit by pandemic as investors' index deteriorates most among emerging markets-FPJ

All is bad for the EMs, particularly India, as after an abysmal H1, the global economy has seen a turnaround in 3Q CY20 with improvement being visible almost everywhere. While the RBI has expanded its balance sheet the most v/s counterparts in other EMs, broad money supply growth does not show any extraordinary increase. Still, inflation is, by far, the highest in India, while the economy has seen most improvement on external indicators. In the past quarter, while India's equity markets did well, the bond and currency markets were surprisingly stable.

4. Needed: A new avatar of protectionism-FPJ

PM Modi expressed hope that the GDP growth rate will pick up in the next fiscal year. Agricultural production is at record levels; a 15 per cent increase in freight hauled by the railways is seen; India has emerged as a global supplier of personal protective equipment, pharmaceuticals and ventilators; India has seen a 13 per cent increase in inward foreign direct investment in April-August which is highest ever. But other disturbing indicators are emerging. Only three months ago, several global agencies had forecast a 5 per cent decline in India's GDP in the current year. Today they have forecast a 10 per cent contraction…The IMF has assessed that India's GDP is likely to be US $1,877 per capita against Bangladesh's US $1,888 per capita.

Our manufactured exports are slipping. Our exports of iron ore and rice increased by 63 and 33 per cent respectively, between June 2019 and June 2020. However, our key manufactured exports of jewellery, leather products and textiles declined by 50, 40 and 35 per cent respectively.

India is ranked 94th in the World Hunger Index which is lower than Bangladesh at 75th, Myanmar at 78th, Pakistan at 88th rank. Our performance in containing Covid has also been dismal. As of October 29, we have had 87 deaths per million population against one for Sri Lanka, 22 for Myanmar, 26 for Bangladesh, 30 for Pakistan and 31 for Nepal.

Former RBI Governor Raghuram Rajan has warned that India should not protect domestic industries by raising import duties, as has been done recently for some products. We had followed the same protectionist policy before the economic reforms of 1991 with disastrous results. A licence permit raj prevailed before, enabling select big domestic companies to extract monopolistic profits and the politician-bureaucratic alliance, to extract huge corruption money. At that time the Government not only had prohibitive import taxes of up to 150 per cent but also quantitative restrictions… However, successive Governments have utterly failed to put an end to the extortion by the politician-bureaucratic alliance. Thus, we need a Plan B. However, the present situation is different than the pre-reform period on three counts. 1. We had quantitative restrictions or prohibitive duties on imports previously. But there is presently an upper limit to the extortion. 2. domestic monopolies held sway in the eighties. Therefore, the chances of extortion of monopolistic profits are much less today.

Our business persons have very limited exposure to global manufacturing and marketing practices. The result of increasing import duties will mean that the price of the goods will increase in the domestic market. ..we should not be held back by our experience and increase import duties as the second-best path within the present dismal political situation.

5. Indian economy: Prolonged pandemic dims recovery prospects - Gulf News

As the Indian economy is expected to stay pressured in the months to come, economists foresee the RBI in for some more heavy lifting to get growth back on track at the earliest. India's GDP had contracted much more severely than expected in Q2 as private consumption and investment demand collapsed with most non-essential activities barred during the national lockdown – which led to job and income losses, and uncertainty that curtailed spending. Meanwhile, the pandemic continued to rage on, and India is now the second worst-affected country in the world, having reported more than 8 million cases of COVID-19 and 121,000 fatalities – and there are worries that there could be a spike.

Unrealistically optimistic?

With the country's GDP contracting by 23.9 percent in Q1, RBI predicted that the economy is expected to decline by 9.5 per cent, with risks to fall further…*"In the absence of sufficient government support, it will continue to fall on the Reserve Bank to do as much as it can to support the economy."* Shilan Shah added that the policy meeting this month shows that the committee has turned more dovish on the inflation outlook and that it has reservations about the strength of the economic recovery. *"This reinforces our non-consensus view that the easing cycle will resume before long."*

In need of more heavy lifting

For the time being, the RBI has to do the heavy lifting to get growth back on track, but with inflationary pressures showing up in the economy, the RBI is unlikely to cut rates further until next year. The RBI kept its main repo rate unchanged at 4 per cent, earlier this month. The unemployment rate in India was about 6.7 per cent in September, down from the April high of 23.5 per cent, according to CMIE. The modest recovery in various indicators seen last month was seen strengthening in the last six months of the fiscal year ending March 2021. India still needs policy accommodation to nurture the early signs of recovery. But the government has very little spending room to spur growth as India's fiscal position continues to deteriorate with weak revenue growth.

Banking sector, a concern

"Out of all the banking sectors in major economies, India's warrants the most concern," Shah wrote. "It came into the crisis in the worst shape, and the scale of damage to private balance sheets means it will be one of the hardest hit from rising Policymakers are unlikely to allow any systemically important bank to fail." "But the sector is entering a slow-burning crisis, where bad debts will eat into profits and restrict lending, holding back the recovery throughout the decade. Fortunately, any global spill overs should be small."

6. World Bank : Remarks by Axel van Trotsenburg, World Bank MD, Operations- LBS National Academy of Administration

The COVID 19 pandemic has brought on the biggest global crisis in 80 years. Unlike the financial crisis of 2008, this one is truly a global shock, e.g., the 2008 crisis impacted the G7 mainly - while countries such as India and China continued with strong growth. The COVID crisis, in contrast, has forced governments world-wide to purposely slow down their economies to manage the pandemic. As a result of the unprecedented sudden stop in global economic activity, the global economy is on track to contract by 5.2% this year - the deepest global recession since World War II, and the fourth deepest since 1870.

Per capita income would contract in over 90% of the world's economies in 2020, the highest rate since 1870. Extreme poverty is expected to increase this year by an additional 115 million people. In the longer term, the pandemic could have scarring effects on households, firms, and governments, leading to persistent behavioral changes that lower potential growth. The crisis threatens to set back decades of economic progress and poverty reduction. We have been working so hard to support countries mitigate the economic, social, and health impacts of this crisis. Here in India, on top of existing development challenges, the COVID-19 pandemic has had significant consequences for lives, livelihoods and the broader economy.

Although India has made remarkable progress in reducing absolute poverty, COVID-19 outbreak has reversed the course of poverty reduction. Between 2011-12 and 2017, India's poverty rate is estimated to have declined from 20.3% to values ranging from a little over 8 percent to a little over 11 percent. Recent projections of GDP per capita growth rate indicate that the poverty rates in 2016 and 2020 will be in that upper range - 11.4 percent in 2016 and 11.1 percent in 2020.

The pandemic has exacerbated the vulnerabilities for traditionally excluded groups, such as youth and women. It has hugely impacted jobs. MSMEs have been impacted the most from lockdown. MSMEs account for the largest non-farm employment (30%) with about 20% female participation. The economic impacts also put at high risk

the continued delivery and uptake of essential services such as education, health, nutrition, water and sanitation which are key in ensuring that India's human capital gains are not compromised.
The government of India has responded rapidly and comprehensively to the crisis with a package corresponding to about 10% of GDP, including a social protection scheme - the Pradhan Mantri Garib Kalyan Yojana (PMGKY), to protect the poor and vulnerable; support to MSMEs to include Emergency Credit Line Guarantee Scheme; Agriculture infrastructure fund - proposed financing facility to promote post-harvest management infrastructure and Micro-food enterprise; increased outlays to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) - a universal employment guarantee program.
In the first phase, the GoI tackled the health aspects, and partnered with the Bank for a $1 billion health project. In the second phase, GoI invested $23 billion in social protection program to support the poor and vulnerable communities during the lockdown, and the Bank provided financing of $ 750 million. In the third phase, GoI focused on economic stabilization and reducing the costs of the lockdown by supporting MSMEs and their workers during lockdown by committing about 1.5% of GDP to MSME finance. The Bank financing of $750 million is supporting this program. Taken together this three-pronged strategy aims at ensuring that tackling COVID-19 does not lead to a stark policy choice between lives and livelihoods, thereby forging an approach that seeks to protect both.

Broader Implication

COVID has brought about a different global paradigm where change is constant, faster and uncertain. Financial shocks, climate change, pandemics - such shocks were there before but the frequency and globality of impact is higher. The world needs to become resilient, adaptive and future ready - this is key for survival. It is both a world of 'black swans' (the unanticipated) and a 'gray rhino' (obvious but ignored). You can only see black swans in the rearview mirror, but gray rhinos lie ahead in plain view through the windshield. India can play its part in becoming more resilient and adaptive, and future ready by anticipating the black swans and paying attention to the gray rhinos.

Climate is one such area

India has set an example for the world in its commitments under the Paris Agreement, and its ambitious goals to develop 175 GW of renewable energy by 2022. The Bank has supported this effort with over $1 billion in financing which will mobilize over $7 billion in private capital for solar PV markets across India. India is also embracing the future through e-mobility, and revolutionary new technologies for energy storage which will reduce its reliance on imported fossil fuels, and we're proud to also be supporting India in this.
Another important way to get ready for the future is by investing in the civil service - and ensuring the skills, commitment, and passion to lead the country forward. COVID-19 really heightened people's awareness of the role of public service in our daily lives. Citizens and businesses realized that there are certain things only government can do. They saw government acting to protect public health. Now they are equally focused on what government is doing to support economic recovery. This offers a window of opportunity to re-establish the public service brand.
India's public sector performance is critical to building back better from the impacts of COVID-19 and to achieve its growth and inclusion targets. Demand for better public services and public sector performance will only grow as the economy recovers from COVID-19 impacts and the middle class returns to its pre-COVID trajectory. It will be critical to bridge the gap between the aspirations of citizens and the ability of governments and the public sector to meet these aspirations.

A competent, motivated and modern civil service will be necessary to achieve the Government of India's priorities and aspirations. There is a well-established connection between institutional quality and economic growth. Strong and resilient public institutions underpin successful economic growth and development.

So, my challenge to all of you is how are you responding to this opportunity? What should you be thinking of, doing, to change the way you work and deliver? The notion that people are motivated to work in the public service as a result of altruism, a desire to serve, or a wish to have an impact on society is a long-standing one. A modern civil service approach today's changing world and thrive in tomorrow's disruptive environment by focusing on resilience, versatility, sustainability and foresight:

Resilience: Do things differently:

Some new ways of working are simply stopgap solutions. But others can improve mission delivery moving forward. Because in some cases, doing things differently means doing things better. What we have to ask of ourselves: Does the solution improve mission delivery? Examples from India: The National Disaster Management Agency (NDMA) - India's FEMA - and the State Disaster Management Agencies have funding and protocols for dealing with physical disasters. When Covid-19 struck, they had to adjust quickly to deem the pandemic as a 'disaster' to allow release for disaster funds, ensure emergency supplies (e.g. oxygen), deploy security personnel, and help establish emergency protocols, including the guidelines for lockdowns, at the National, State and District levels.)

Versatility: Do different things:

Push the boundaries of what government does to deliver the mission in new ways. What we have to ask of ourselves: Does the solution provide a new way to deliver on the mission? Examples from India (subsidizing electricity for farmers versus income support: cutting the Gordian Knot). In rural India where subsidized electricity for agricultural water pumping has resulted in inefficient energy and water use and disastrous impacts on groundwater, the Government is now piloting direct benefit transfer schemes for farmers which will result in energy savings, water savings and more productive agriculture.

Sustainability: Define the future:

Can some of the solutions provide a springboard to the future and be made standard practice with the resources available and the policy and institutional environment? If not, do we need to reimagine the solution or reimagine the policy and institutional envelope? Examples from India (the PM's solar revolution) India has already shown its ability to shape the future of the world - the creation of the International Solar Alliance, and the Prime Minister's vision of 'One Sun, One Grid, One World' - where India would buy and sell solar power to markets in the east and the west through an integrated regional power system are revolutionary steps.

Foresight: Anticipate the future:

The pandemic has highlighted the importance of foresight, which has been a hallmark of some agencies, particularly those tasked with fighting adversaries or responding to disasters. Does the government have the abilities to understand trends and uncertainties and analyze scenarios to build a bias toward action in the face of uncertainty? One practical and critical area of investment for India is data systems that will support better and more evidence-based planning, monitoring and evaluation.

Reimagining the Civil Service

A key goal of the Government of India is to model new ways of working and new ways of delivering its mandate. To do this, the focus will be on renewing capacities and building new capabilities amongst civil servants. To be future ready in this changing world requires both organizational shifts and individual shifts to commit to the future of India. There is a strong correlation between organizational culture and business performance. Organizational culture needs to be stable but also able to adapt to the need for change. A vision for the civil service cannot be achieved without significant change to how we work. To initiate this, we need to prioritize improvements in unified civil service; professional civil service; responsive civil service; and open and accountable civil service

These changes will require some reimagination. It will require collaboration internally. It will require collaboration externally - with the private sector, with civil society and with academic organizations to foster innovation, deliver services and validate policy decisions. It will require moving away from the hierarchical model of bureaucracy focused on compliance and regulation to focus on developing solutions with people, not just for them. And it will require positioning civil service organizations as agile, innovative, and learning organizations. And of course, governments and civil services need to innovate and embrace digital technologies: The greatest innovations are taking place using ICT's.

India is changing. India is aspirational. India is on the cusp. The PM last year noted India's ambition to become a 5 trillion economy. COVID has dented this trajectory in the short run but in the medium term the country will regain this path. You are critical to the global progress on climate change and poverty eradication. India needs to address its vulnerabilities become more resilient, strengthen its institutions and markets, while leveraging its amazing diversity. This will be key for India to move from low middle income to high middle-income country.

7. A story of 'too little too late': Economic measures by Nirmala Sitharaman have hardly moved the needle- Times Now

In her third attempt at resuscitating the economy, FM Mrs. Nirmala Sitharaman enumerated measures to ease supply constraints, push the Atmanirbhar Bharat campaign, and kindle consumer spending and capital expenditure. Reimbursement of air and rail fares, Special Festival Advance scheme, leave encashment and LTC Cash vouchers used towards products with 12% or more GST could infuse consumer demand by an estimated Rs 36,000 crore.

On the side of capital expenditure, funds would be used for ongoing projects; this would be over and above borrowing ceilings to be given to states. A hefty Rs 25,000 crore additional budget has been allocated for building roads, water projects, urban development and defence infrastructure. With central and state capex spends at Rs 37,000 crore, Sitharaman's injection would be 73,000 crore by March 2021. Another Rs 12,000 crore support has been provided to states in the form of interest-free loans for 50 years, albeit it must be utilized by March 2021. A further Rs 2000 crore dole will be given if states carry out power reforms and execute the 'one-nation one ration card' initiative.

Critics of the announcements were out with knives. This hyped package did nothing for the hospitality and tourism sectors, which are among the worst hit by the pandemic. Also, there was no fresh infusion of funds -- rather a transfer from one pocket to another.

Meanwhile, the IMF is estimating the Indian economy to shrink by a whopping 10.3% this fiscal. The double digit downwards bump is far worse than a squeeze of 4.5% that was predicted earlier in June. India is facing the biggest contraction among the major countries. Brazil's economy is likely to contract by 5.8%, while Russia will degrow by 4.1%, and South Africa by 8% per cent. Interestingly China, where COVID-19 originated, has managed better and is on its way to recovery and is even estimated to grow by 1.9%.

According to the World Bank, globally 150 million more people will be thrust into the “extremely poor” category, while the IMF has put the figure at 90 million people. Gita Gopinath, Chief Economist, has recommended a series of measures including international collaboration to bring in a vaccine faster. She also wants governments to do more via cash transfers, wage subsidies and loan moratoriums. Over and above, policies should enable workers to make the transition from industries that are flagging to an alternative line of income. And spending on health would need to be a priority.

India’s lockdown was among the severest in the world, bringing to a grinding halt all wheels of economic activity and forcing millions in the unorganised sectors on to the road. The damage done by the coronavirus pandemic, therefore, will have a far-reaching impact and not just in terms of health and fatalities. It will reverse gains made during the past two decades in alleviating poverty and push back more people into hunger and accentuate inequality.

As the country’s GDP in the first quarter contracted by a massive 23.9% YoY, India’s dream of becoming a 5 trillion-dollar economy has slipped further out of reach. Gross fixed capital formation is down by 47% and so is the trade, hotels and transport sector. Manufacturing is hit by 39.3%, while construction has taken a 50.3% beating.

The latest ‘Combined Index of Eight Core Industries’ of September 2020 shows a decline of 0.8% YOY. The cumulative growth during April to September 2020-21 has been -14.9 %: All together the economy is facing the sharpest degrowth since quarterly figures started getting published in 1996. With the inflation rate at slightly over 7%, the scenario could not be bleaker. The worst dent has come in the form of private final consumption, which owns the lion’s share of 60% in the GDP. In an uncertain environment, people are likely to hold savings than spend and invest. The poorer and the lower middle classes would have wiped out their savings anyway.

8. Centre nudges 2,800 large corporates to clear dues of MSMEs by Oct-end-BL

The Ministry wrote to the top management of over 2,800 corporates to clear the pending dues of MSMEs by this month end. Over Rs13,400 crore has been paid by Central Public Sector Enterprises (CPSEs) alone to MSMEs in the last five months, of which Rs3,700 crore was cleared in September alone. Timely clearance of receivables will help MSMEs better leverage the festival season. *"Timely payment of their receivables at this time will not only support MSMEs and their dependants in this festival season but will also sustain many of them for a full year. Therefore, the Ministry has requested the corporates to make payment as soon as possible, preferably in the present month,"* said the statement.

9. MSMEs- Struggling For Survival- HW News English

The covid virus is staging a fierce comeback in the West. All the EU nations that battled it first i.e. Italy, Spain, France UK and Germany, are witnessing the return of covid, with a vengeance. The US too continues to face an unrelenting onslaught of covid. A lockdown means that the economy gets disrupted, slows down and halts and the worst affected due to it is the MSME sector in any nation. A recent report says that 55% of small businesses will close down in Europe, by September 2021, if their revenue remains at the present levels. In Europe, already, one out of every ten small business is expected to go bankrupt in the next six months. An American report also says that half of the SMEs there may shut down permanently, battling the covid crisis.

On an average, about 30% to 40% of national GDP in any nation, is contributed by the MSME sector and their closures would mean a dip in jobs, national growth and per capita income too. The recent case of the per capita income of Bangladesh, surging past that of India, is due to India's MSME crisis, in large measure. MSME closures are happening in the EU and the US because they are not getting enough support from the government. What their governments have given primarily, is a fiscal stimulus, which only provides temporary relief, because once the stimulus is spent and over, the shaky economy is back to square one. Apart from providing a fiscal stimulus, even providing bank credit to the small units has not helped there, because most of them do not have access to bank credit and are not eligible to take bank loans.

So, what is needed from the government, are measures to support the insolvent but viable SMEs and that has not quite occurred in the west. Such measures include loan restructuring, provision of equity capital to deserving units, direct working capital money transfers to tide over cash flow shortfalls in the pandemic period and tax breaks, waivers and incentives. It is in the interest of every nation, that viable entities and the jobs that they create survive and so do the taxpayers. After all, a taxpayer who survives will continue to pay tax in the long run, which only benefits the government and the nation at large. The EU nations have focused, more on fiscal stimulus to revive their economy and have not quite initiated targeted measures, to directly support/revive their struggling MSME sector in particular and that now reflects on the rising rates of bankruptcy and business closures there. The policy mistakes that the EU nations have committed, is being reflected and repeated in the stimulus policy packages in India too. The government fiscal stimulus has contained little by way of direct support to the doddering MSME sector, leaving it to the RBI to do its bit through monetary policy measures.

The RBI has made liquidity available to the banks, to provide credit to the cash strapped MSME sector. But then most of such units, which are in dire need of credit support, have no eligibility to access such credit support from banks. And even if they are eligible to do so, the risk-averse banks are in no mood to lend liberally to the MSME sector. Most of these borrowers are unable to provide the high margin money and collateral security that the cautious banks demand, thus making the credit availability a non-starter. Further, the option of restructuring of loans is flawed, in as much as that most of the needy and deserving MSME units fail to meet the standard stringent eligibility parameters set by the RBI, and thus, with the December end deadlines for loan restructuring approaching fast, it has provided little relief to the sector. Moreover, at an institutional level, India has a weak culture and structure of equity infusion into MSMEs and therefore, such a relief measure for the struggling MSMEs gets ruled out. And finally, with tax collections falling and an empty treasury, the government is unwilling or rather unable to give any kind of tax rebate, waiver or incentive to the stressed MSME sector.

Since no direct cash support has been provided by the government to business entities in India, so as to tide over the expenses and repayments during the pandemic period, their ability to stay afloat and remain solvent is diminishing and thus business closures, job losses and downsizing continues unstopped. If at all India's economy is recovering from the pandemic, then it is what is widely called, a K shaped recovery. The big ones, who have access to credit, liquidity and resources, are thus growing, with no loss in momentum and are cashflow surplus, but the small ones are struggling to survive. This is evident in the financial results of the fiscal half of this FY, of the large companies, as compared with those of the small firms. The EU/USA MSME crisis and closures are likely to be repeated here which will mean widespread economic calamity for the public at large. India's 63mn MSME units provide 45% of its manufacturing exports, 40% of its GDP and over 85% of jobs and cannot be allowed to collapse, for want of appropriate government policies.

10. Higher NPAs hinder transmission of monetary policy actions- FE

RBI paper High incidence of NPAs in banks acts as a major roadblock in transmission of monetary policy actions of the RBI. The RBI's working paper also made a strong case for capital injection in state-owned banks, arguing that such a move would increase the credit flow to the real sector in addition to ensuing smoother transmission of monetary policy. *"Presence of Non-Performing Assets in a bank also weakens monetary policy transmission and lowers the loan growth rate"*, said the working paper. The working paper titled 'Bank Capital and Monetary Policy Transmission in India' said banks often face many structural and frictional issues which dampen the transmission of monetary policy.

11. Centre may have no stake in Public Sector Banks after privatisation - BS

The government is veering towards the view that exiting a Public Sector Bank should be total when it is privatised. To make the sale attractive, however, the government wants the RBI to relax the rules on ownership in private-sector banks… there had been intense discussion among the PMO, the finance ministry, and the RBI on the level of retained stake. There have also been talks with specialists outside the government this financial year, particularly since July, when the PMO had asked the officers concerned for as thorough debate on the subject, spread over two days. Since then, government officials have come round to the view not to retain any shareholding in a bank which has to be divested.

12. Compound Interest Relief to be AutoCredited in Account - ET

Borrowers will not need to apply for the interest -on-interest waiver scheme for the six-month loan moratorium. The finance ministry has asked lenders to credit ex-gratia relief amount into the accounts of those eligible. The lending institutions will draw up a list of their borrowers eligible under the criteria laid down by the government and refund the difference between the compound interest and simple interest paid between March 1 and August 31. The benefit is available to all eligible borrowers including those who did not opt for moratorium. The lenders can seek a refund from the government. 75% of borrowers will be covered under the scheme, which is likely to cost the government Rs 7,500 crore.

13. Government unlikely to extend credit guarantee scheme for MSME sector beyond October- DH

The government is unlikely to extend the Rs 3 lakh crore-Emergency Credit Line Guarantee Scheme (ECLGS) for MSME sector beyond October even though the sanctioned amount so far is only nearly 65 percent of the target, sources said. The scheme is meant to provide financial support to businesses, primarily MSMEs, impacted by slowdown triggered by the coronavirus pandemic. The objective is to provide support to all those affected and if there are no takers for the scheme, there is no need to extend the scheme even though there is some room left. On August 1, the government widened the scope of the RS 3 lakh crore-scheme by doubling the upper ceiling of loans outstanding and including certain loans given to professionals like doctors, lawyers and chartered accountants for business purposes under its ambit.

14. Banks step up lending in September as the economy opens up: RBI data-BS

Credit growth to industry was 'nil' in September, but banks stepped up lending to micro, small and medium enterprises, while depending largely upon services for their loan book growth. Growth in credit to industry had grown 2.7 per cent YoY in September 2019. Credit to ‘medium’ enterprises expanded by 14.5 per cent. On a month-on-month basis, September actually saw a huge amount of credit activity by banks.

Credit in September was Rs 71,500 crore from a negative Rs 36,000 crore in August. Hence, effectively credit jumped by Rs 1.07 trillion in September. Personal loans grew 9.2 per cent YoY in September, compared to 16.6 per cent in September 2019, while vehicle loans grew the most in the personal loan segment. Credit to agriculture and allied activities increased by 5.9 per cent compared with a growth of per cent in September 2019. Credit growth to the services sector accelerated to 9.1 per cent YoY at the end of September from 7.3 per cent a year ago. Within this sector, credit to computer software, trade and tourism, hotels & restaurants registered higher growth.

Sectoral deployment of bank credit for Sep

	Sep 28,'18 (₹cr)	Sep 27,'19 (₹cr)	Sep 25,'20 (₹cr)	Variation (YoY) % Sep 27,'19/ Sep 28,'18	Variation (YoY) % Sep 25,'20/ Sep 27,'19
Non-food credit	7,977,444	8,620,329	9,117,321	8.1	5.8
Agri & allied activities	1,054,439	1,127,794	1,194,488	7.0	5.9
Industry*	2,701,649	2,774,883	2,774,867	2.7	0.0
Micro & small firms	363,797	361,328	360,833	-0.7	-0.1
Medium firms	105,256	104,989	120,210	-0.3	14.5
Large firms	2,232,596	2,308,566	2,293,824	3.4	-0.6
Services sector	2,201,393	2,361,867	2,576,254	7.3	9.1
Personal loans	2,019,963	2,355,785	2,571,712	16.6	9.2
Consumer durables	3,225	5,445	6,661	68.8	22.3
Housing**	1,050,222	1,253,190	1,359,824	19.3	8.5
Credit card outstanding	78,921	99,372	105,640	25.9	6.3
Education	69,100	68,229	65,146	-1.3	-4.5
Vehicle loans	195,402	203,446	221,388	4.1	8.8
Other personal loans	543,140	656,806	743,561	20.9	13.2
Priority sector	2,586,911	2,759,852	2,884,154	6.7	4.5

*Micro & small, medium and large; **Including priority sector housing; Source: RBI

15. Atal Pension Yojana: Pension regulator enables online on-boarding through bank portal- BL

Savings bank customers may soon get another channel for online on-boarding to the Atal PensionYojana (APY) without having to use Net banking or a mobile App. PFRDA has now allowed APY-Points of Presence (PoPs) to introduce an alternate channel for online onboarding of their existing Savings account of customers through the bank's own web portal. Currently, some banks are providing online APY account opening through Net Banking or mobile app. However, several bank customers, who are eligible are not using either of the facilities. In such cases, these bank customers are not able to open an APY account through online/digital mode. To solve this issue, PFRDA has enabled the facility of 'Online Paperless On-boarding of Subscribers using the Web Portal' .

16. RBI Governor stresses need for strengthening preventive vigilance framework-BS

RBI Governor underlined the need for strengthening the preventive vigilance framework to increase efficiency stressing that it was also critical for ensuring good governance. The governor *"highlighted the critical role of vigilance in ensuring good governance standards in the financial sector and the need to strengthen preventive vigilance framework to increase efficiency"*.

Central Vigilance Commissioner Sanjay Kothari emphasised the improvement in systems for strengthening preventive vigilance and importance of training and capacity building at various stages of career of bank officials. He also underlined the need for cross exposure of bank officials and investigative agencies, particularly during the training period. The panel discussions focussed on macro issues in vigilance administration covering the financial sector, importance of better systems, procedures to enhance productivity levels, and the need to leverage advancements in technology.

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