Monetary Management and Financial Intermediation

04
CHAPTER

Given the unprecedented shock of COVID-19 pandemic, monetary policy was significantly eased from March 2020 onwards. The repo rate has been cut by 115 bps since March 2020, with 75 bps cut in first Monetary Policy Committee (MPC) meeting in March 2020 and 40 bps cut in second meeting in May 2020. The policy rates were kept unchanged in further meetings, but the liquidity support was significantly enhanced. Systemic liquidity in 2020-21 remained in surplus so far. RBI undertook various conventional and unconventional measures like Open Market Operations, Long Term Repo Operations, Targeted Long Term Repo Operations etc. to manage liquidity situation in the economy. The financial flows to the real economy however remained constrained on account of subdued credit growth by both banks and Non-Banking Financial Corporations. The higher reserve money growth did not fully translate into commensurate money supply growth due to the lower (adjusted) money multiplier reflecting large deposits by banks with RBI under reverse repo. Credit growth of banks slowed down to 6.7 per cent as on January 1,2021. The credit offtake from banking sector witnessed a broad based slowdown in 2020-21. Gross Non Performing Assets ratio of Scheduled Commercial Banks decreased from 8.21 per cent at the end of March 2020 to 7.49 per cent at the end of September 2020. However, this has to be seen in conjunction with the asset classification relief provided to borrowers on account of the pandemic. Capital to risk-weighted asset ratio of Scheduled Commercial Banks increased from 14.7 per cent to 15.8 per cent between March 2020 and September 2020 with improvement in both Public and Private sector banks. This year saw improvement in transmission of policy repo rates to deposit and lending rates, as reflected in the decline of 94 bps and 67 bps in Weighted Average Lending Rate on fresh rupee loans and outstanding rupee loans respectively from March 2020 to November 2020. Similarly, the Weighted Average Domestic Term Deposit Rate declined by 81 bps during the same period. Nifty50 and S&P BSE Sensex reached record high closing of 14,644.7 and 49,792.12 on January 20,2021 respectively during 2020-21. The recovery rate for the Scheduled Commercial Banks through IBC (since its inception) has been over 45 per cent. In view of COVID-19 pandemic, initiation of Corporate Insolvency Resolution Process (CIRP) was suspended for any default arising on or after March 25, 2020 for a period of 6 months. This was further extended twice for 3 months on September 24, 2020 and December 22, 2020. The suspension along with continued clearance has allowed a small decline in accumulated cases.

MONETARY DEVELOPMENTS DURING 2020-21

4.1 The Monetary Policy Committee (MPC) of the Reserve Bank met five times since March 2020. In view of the COVID-19 pandemic, the MPC advanced its first two meetings of 2020-21 from first week of April to end March and from first week of June to May, 20-22. The August and the December 2020 meetings were held as per schedule, while the October meeting was postponed by a week as new external members were onboarded to the MPC. Since March 27, 2020, the policy repo rate has been reduced by 115 basis points (bps) from 5.15 per cent to 4.0 per cent so far (Table 1). The monetary policy responses during the year 2020-21 were necessitated by the extraordinary situation prevailing due to COVID-19.

Table 1: Revision in Policy Rates

Effective Date	Repo Rate (per cent)	Reverse Repo Rate (per cent)	Cash Reserve Ratio (per cent of NDTL)	Statutory Liquidity Ratio (per cent of NDTL)	Bank Rate/ MSF Rate (per cent)
06-02-2020	5.15	4.9	4.0	18.25	5.4
27-03-2020	4.4	4.0	4.0	18.25	4.65
28-03-2020	4.4	4.0	3.0	18.25	4.65
17-04-2020	4.4	3.75	3.0	18.0	4.65
22-05-2020	4.0	3.35	3.0	18.0	4.25

Source: RBI
Note: NDTL: Net demand and time liabilities

4.2 In its first bi-monthly monetary policy statement of March 27, 2020, the MPC decided to reduce the policy repo rate by 75 bps from 5.15 per cent to 4.40 per cent. Alongside, the reverse repo rate was reduced by 90 bps to 4.0 per cent, thus creating an asymmetrical corridor to make it unattractive for banks to passively deposit funds with the Reserve Bank and nudge them to use these funds for on-lending to productive sectors of the economy. The MPC decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy. In the second meeting in May 2020, MPC reduced the policy repo rate by 40 bps to 4.0 per cent based on the assessment that the macroeconomic impact of the pandemic was turning out to be more severe than initially anticipated.

4.3 MPC decided to keep the policy rate unchanged in its August, October and December 2020 meetings. While the inflation hovered above the tolerance zone for a few months, the committee was of the view that the underlying factors keeping inflation elevated were essentially supply shocks that should dissipate over time as the economy unlocks, supply chains restore and activity normalises. RBI in its latest MPC meeting revised upwards the projected the GDP growth from (-) 9.5 per cent to (-) 7.5 per cent in 2020-21.

4.4 During 2020-21, the growth of monetary aggregates witnessed higher growth as compared to previous few years on account of higher liquidity in the economy. In 2020-21 so far, Reserve money (M0) recorded a Year on Year (YoY) growth of 15.2 per cent as on January 15, 2021 as compared to 11.4 per cent a year ago. However, M0 adjusted for the first-round impact of changes in the CRR recorded an even higher growth (YoY) of 19.2 per cent as compared to 11.0 per cent a year ago (Figure 1). Expansion in M0 during 2020-21 was driven by currency in circulation (CIC) from the component side, which witnessed a surge in the post-COVID-19 pandemic period. The growth (YoY) in CIC was 21.9 per cent as on January 15, 2021, as compared to 11.6 per cent in the corresponding period of previous year (Table 2). .

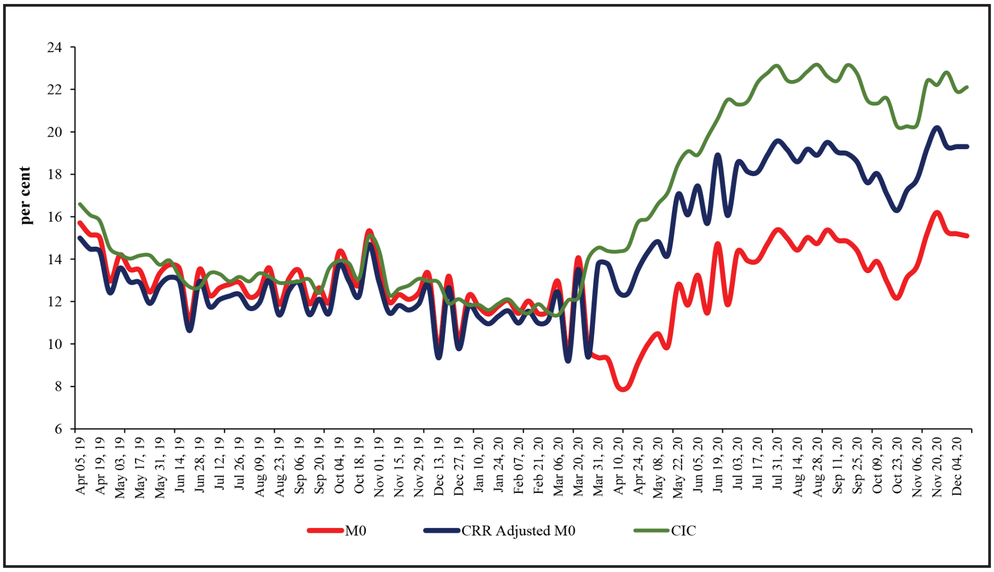
Table 2: Growth (YoY) in Monetary Aggregates (per cent)

Item	2015-16	2016-17^	2017-18	2018-19	2019-20	2020-21*
Currency in Circulation	14.9	–19.7	37.0	16.8	14.5	21.9#
Cash with Banks	6.6	4.2	–2.1	21.4	15.4	6.6
Currency with the Public	15.2	–20.8	39.2	16.6	14.5	22.7
Bankers' Deposits with the RBI	7.8	8.4	3.9	6.4	–9.6	–11.9#
Demand Deposits	11.0	18.4	6.2	9.6	6.8	17.1
Time Deposits	9.2	10.2	5.8	9.6	8.1	10.1
Reserve Money (M0)	13.1	–12.9	27.3	14.5	9.4	15.2#
Narrow Money (M1)	13.5	–3.9	21.8	13.6	11.2	20.5
Broad Money (M3)	10.1	6.9	9.2	10.5	8.9	12.5

Source: RBI

Note: *: as on January 01,2021. ^: March 31, 2017 over April 1, 2016 barring Reserve Money (M0), Currency in Circulation and Bankers' Deposits with the RBI. #as on January 15, 2021

Figure 1: M0, CRR Adjusted M0 and CIC Growth (YoY)

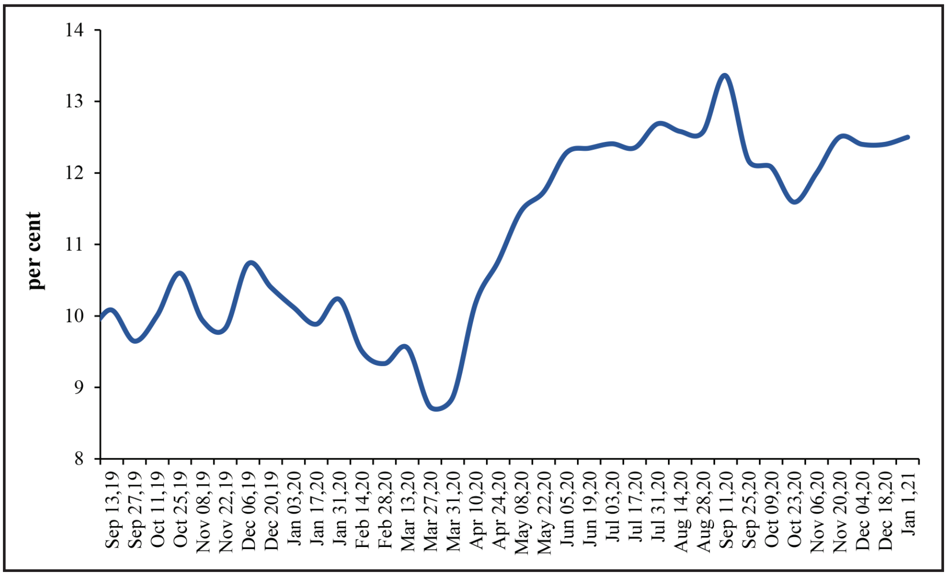


Source: RBI

4.5 Among the sources of M0 – comprising of net domestic assets (NDA) [net Reserve Bank credit to the government, banks and commercial sector] and net foreign assets (NFA) - the main driver for increase in M0 during 2020-21 was NFA, attributable to the Reserve Bank's net purchases from Authorised Dealers (ADs). Net Reserve Bank credit to the government has been lower during 2020-21 so far vis-à-vis the corresponding period of the previous year due to higher cash balances of the central government with the RBI. Among other constituents of NDA, net Reserve Bank claims on banks and the commercial sector (mainly Primary Dealers (PDs)) largely remained in the negative territory, reflecting surplus liquidity in the system (more details on this is provided in following section).

4.6 In 2020-21 so far (as on January 1, 2021), the YoY growth of Broad Money (M3) stood at 12.5 per cent, as compared to 10.1 per cent in the corresponding period a year ago (Figure 2). The significant rise in reserve money has not translated into a commensurate increase in money supply as the money multiplier has remained depressed due to a sharp rise in currency-deposit ratio, and also large amount of funds parked under reverse repos with RBI.

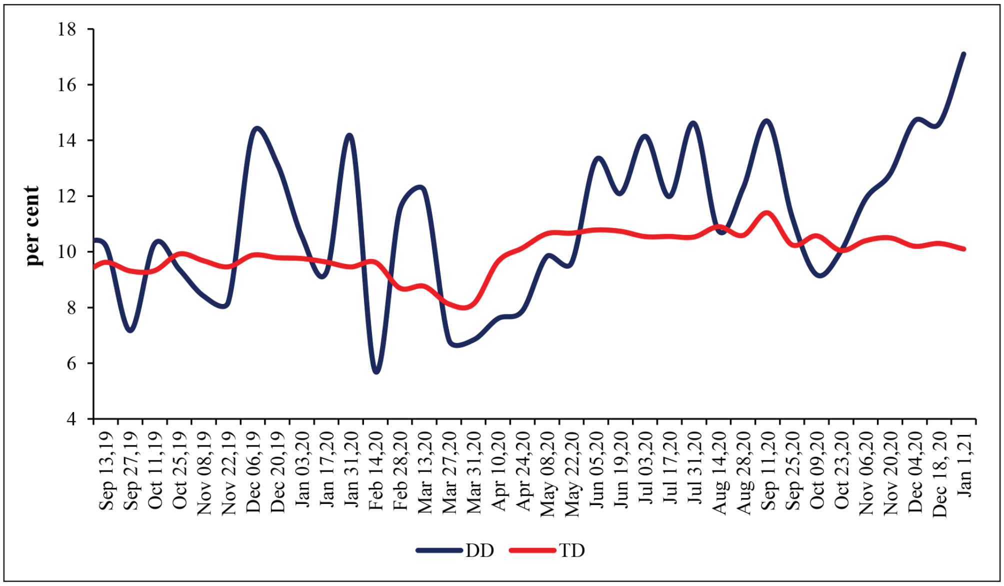
Figure 2: Broad money growth (YoY)



Source: RBI

4.7 From the component side, aggregate deposits which is the largest component has contributed most in the expansion of M3 during the year so far (Figure 3). Amongst sources, bank credit to the government was a major contributor to the increase in M3. Banks' higher investments in liquid and risk-free assets such as SLR securities and G-secs, resulted in higher net bank credit to the government. Bank credit to the commercial sector also supplemented M3 expansion from the sources side. The credit growth of SCBs (YoY) was 6.7 per cent as on January 1, 2021 as compared to 7.5 per cent at the corresponding time a year ago.

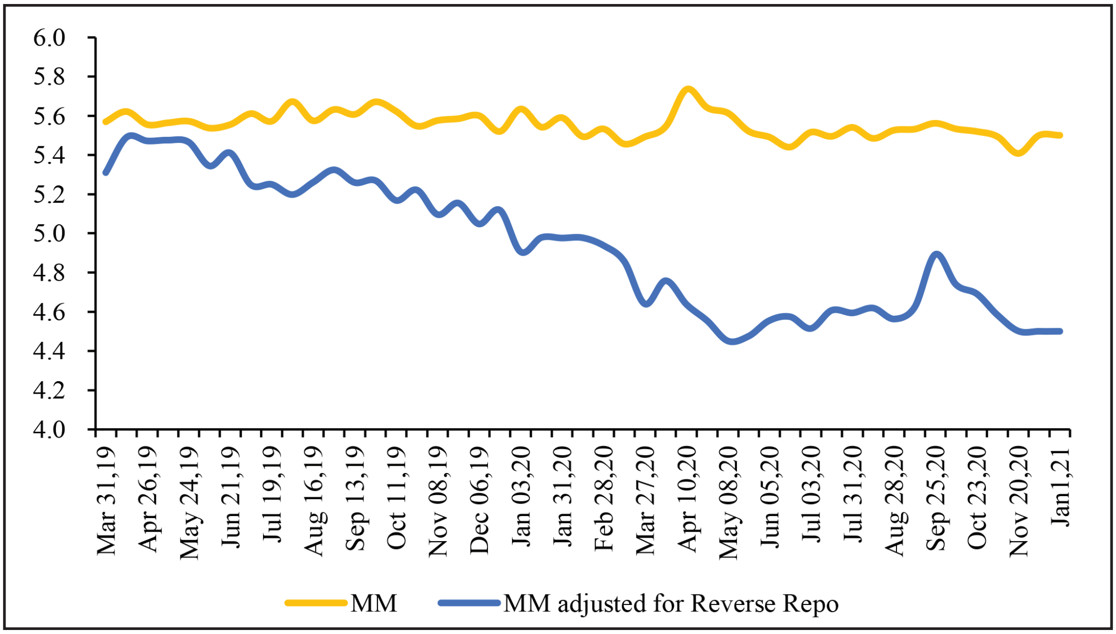
Figure 3: Deposits growth (YoY)



Source: RBI

4.8 Money multiplier, measured as a ratio of M3/M0 which was mostly increasing from 1980s onwards up to 2016-17, has however been declining since then. As on March 31, 2020, the money multiplier was 5.5, slightly lower than 5.6 a year earlier. However, adjusted for reverse repo - analytically akin to banks' deposits with the central bank – Money Multiplier turned out to be even lower at 4.8 by end-March 2020. Money multiplier has declined from the recent peak of 5.8 in October 2018 to 5.5 as on January 1, 2021 (Figure 4). In comparison, during the same period, money multiplier adjusted for reverse repo has declined sharply from 5.7 to 4.5. This shows that the money supply has responded only partially to reserve money growth, reflecting that the liquidity transmission in the economy remains impaired. The gap between money multiplier and adjusted money reflected the large amount of funds parked by banks under reverse repo window by RBI.

Figure 4: Money Multiplier



Source: RBI

Note: Money multiplier adjusted for repo means that the reserve money includes commercial banks' reverse repo deposits with RBI

LIQUIDITY CONDITIONS AND ITS MANAGEMENT

4.9 The systemic liquidity in 2020-21 so far has consistently remained in surplus reflecting several liquidity enhancing measures undertaken by the Reserve Bank in the wake of COVID-19 induced disruptions. The main drivers of liquidity during 2020-21 have been Currency in Circulation (CIC), Government cash balances and the Reserve Bank's forex operations. While CIC withdrawals and build-up of Government cash balances resulted in liquidity drainage from the banking system, the Reserve Bank's forex operations augmented systemic liquidity.

4.10 Reserve Bank undertook several conventional and unconventional measures to manage the liquidity in the economy starting from February 2020. These measures, *inter alia,* included:

i. Injection of durable liquidity of more than ₹ 2.7 lakh crore through Open Market Operation (OMO) purchases between February 6-December 4, 2020.

ii. OMOs in State Development Loans (SDLs) as a special case were also introduced during the current financial year. The OMOs were conducted for a basket of SDLs comprising securities issued by states. Aggregate liquidity to the tune of ₹30,000 crore was injected through three OMO purchase auctions (October 22, 2020, November 5, 2020 and December 23, 2020) under this facility.

iii. Targeted Long Term Repo Operations (TLTROs) of up to three years' tenor for a total amount of ₹1.13 lakh crore for investment in corporate bonds, commercial papers, and non-convertible debentures, in addition to injection of ₹1.25 lakh crore through Long Term Repo Operations (LTROs) conducted in February-March 2020.

iv. Reduction in the CRR requirement of banks from 4 per cent of net demand and time liabilities (NDTL) to 3 per cent with effect from March 28, 2020 augmenting primary liquidity in the banking system by about ₹1.37 lakh crore.

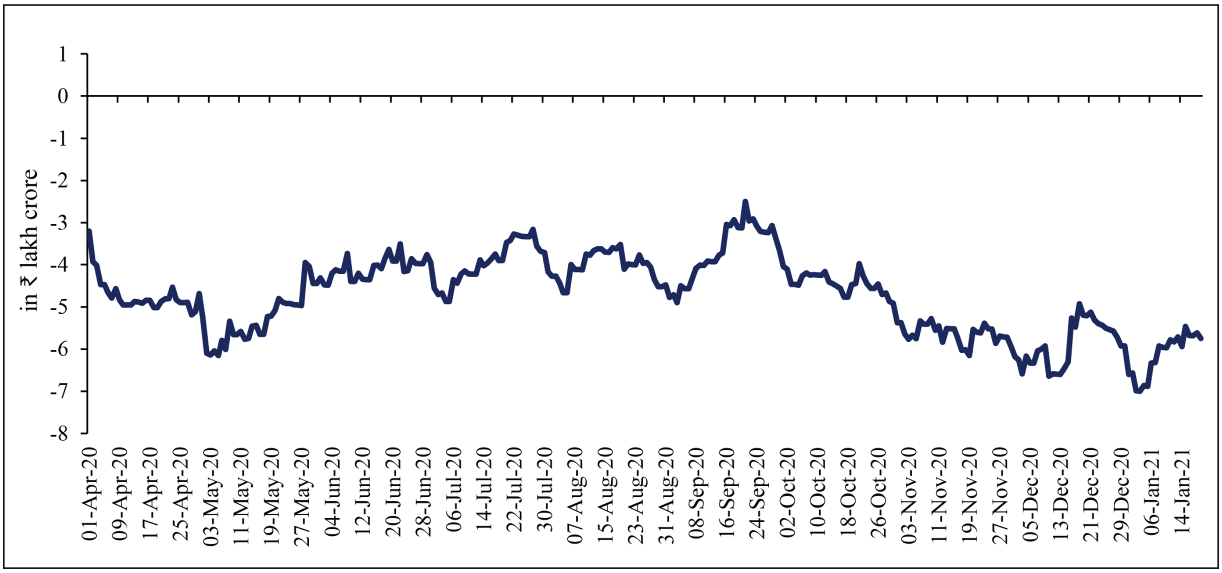
v. Raising banks' limit for borrowing overnight under the MSF by dipping into their Statutory Liquidity Ratio (SLR) to 3 per cent of NDTL from 2 per cent, allowing the banking system to avail an additional ₹1.37 crore of liquidity.

vi. Special Liquidity Facility for mutual funds for ₹50,000 crore; and

vii. Refinance facility worth ₹75,000 crore for all India financial institutions *i.e.*, NABARD, NHB, SIDBI and EXIM Bank.

4.11 In the wake of sell off triggered by risk aversion and flight to safety in the beginning of year 2020, RBI conducted two 6-month USD/INR sell/buy swap auctions on March 16 and March 23, 2020 and injected dollar liquidity of US$ 2.7 billion to meet the increased demand for US dollars in the foreign exchange market. The measures listed above coupled with forex purchases resulted in expansion of surplus liquidity, as reflected in average daily net liquidity absorptions under the liquidity adjustment facility (LAF), from ₹3.43 lakh crore at end of January 2020 to ₹5.47 lakh crore on January 15, 2021 (Figure 5).

Figure 5: Liquidity Management



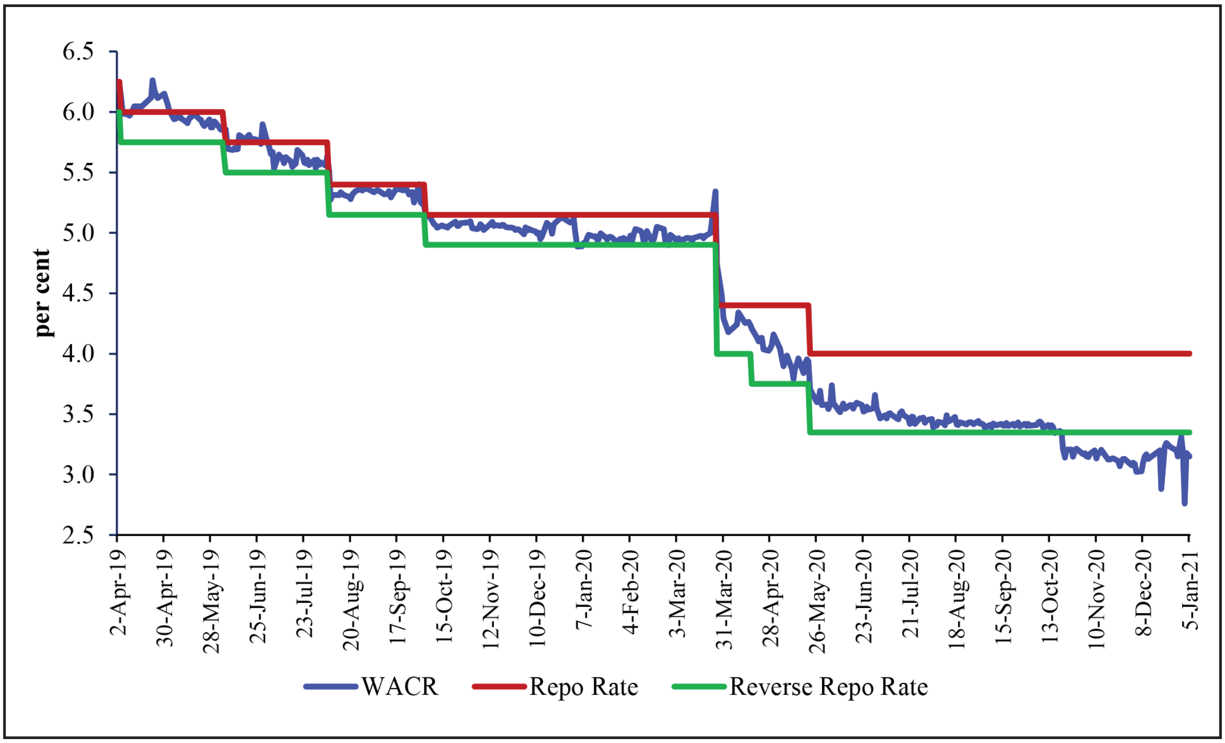
Source: RBI.
Note: Negative indicates liquidity in surplus.

4.12 The increased government spending during April-May 2020 also added to the liquidity surplus. However, the Government's cash balances turned into surplus in June 2020 and July 2020. In Q2 of 2020, although surplus liquidity conditions still existed, there was moderation as compared to Q1. As a result, average daily net absorption under the LAF decreased to ₹3.95 lakh crore in July 2020 as average Government cash surplus increased to ₹95,942 crore. Thereafter, daily net absorption increased to ₹4.03 lakh crore in August 2020, which again moderated to ₹3.68 lakh crore in September 2020. This moderation could be attributed to the absorption of banking sector liquidity to the tune of ₹1.24 lakh crore under the option given to banks to return the funds availed under LTRO facility before maturity. The moderation in liquidity absorption, however, was reversed in following months as average daily net absorption under the LAF again increased to ₹4.47 lakh crore and ₹5.64 lakh crore in the month of October and November 2020. This is partly a reflection of pick up in government spending.

4.13 In order to ensure better monetary transmission through a more even distribution of liquidity across tenors, 14 simultaneous sale-purchase OMO auctions for ₹10,000 crore each were conducted in the financial year 2020-21

4.14 Further, comfortable liquidity conditions were reflected in the movement of weighted average call rate (WACR) during the period. The WACR generally remained within the policy corridor although it traded with a distinct downward bias, reflecting the comfortable liquidity and financing conditions (Figure 6). However, the liquidity availability in the system pushed down the WACR outside the corridor from late October and remained so until early January. The gap between short and long liquidity is reflected on the yield curve (discussed in the next section).

Figure 6: Policy Corridor and WACR



Source: RBI

DEVELOPMENTS IN THE G-SEC MARKETS

4.15. During the first half of 2020-21, the 10-year benchmark G-sec yield traded with a softening bias (Figure 7) tracking lower policy rates, subdued crude oil prices and surplus liquidity. The 10-year benchmark G-sec yield which was around 6.4-6.5 percent in April 2020 touched a low of 5.73 per cent in mid May 2020.

Figure 7: India 10-Year Benchmark G-sec Yield

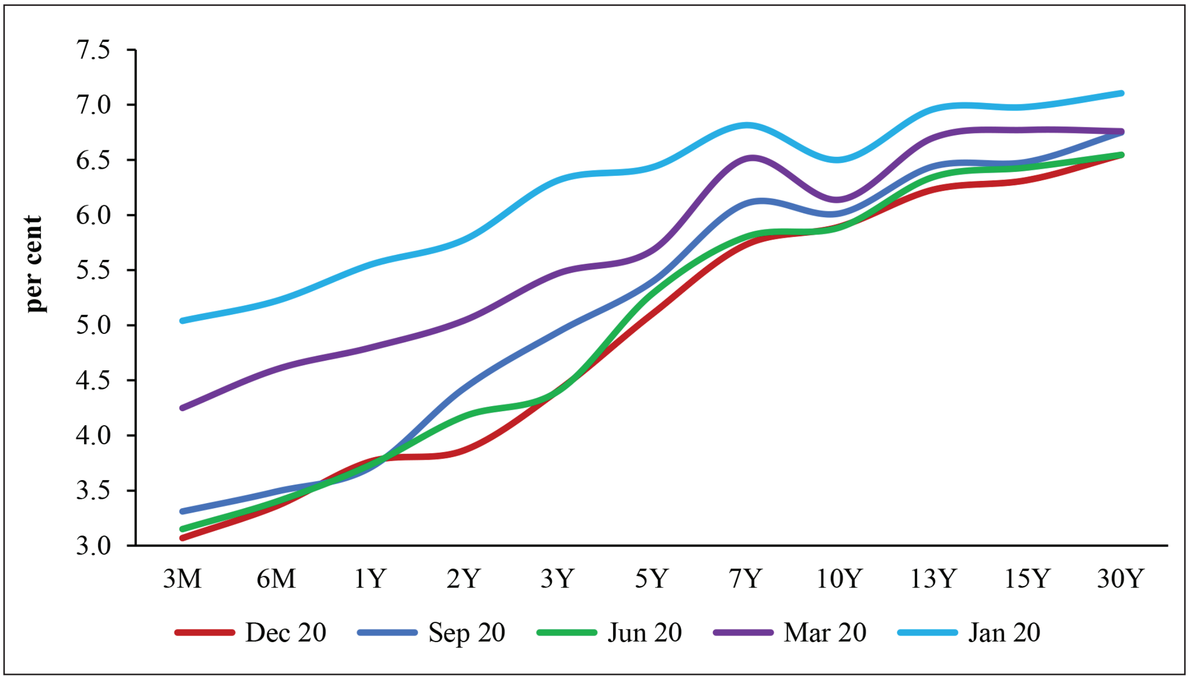
Source: Bloomberg.

4.16 In the first quarter of 2020-21, the yields on 10 year benchmark G-sec showed a declining trend. The yields hardened during the first fortnight of April 2020 due to low trading volumes amid the countrywide lockdown and reduced market hours, selling pressure by Foreign Portfolio Investors (FPIs) along with the upward movement of US treasury yields. However, yields softened in the second half of the month, reflecting the impact of a sharp decline in crude oil prices, the announcement by the Federal Open Market Committee (FOMC) to keep the target range of the Fed Funds rate unchanged at 0-0.25 per cent and a lower CPI reading for March 2020 relative to that for February 2020. The yield on 10-year benchmark security opened at 6.20 per cent on April 3, 2020 and closed at 5.89 per cent on June 30, 2020.

4.17. The yields continued to harden, tracking higher than expected CPI print for July 2020 and a pause in rate cut by MPC. Subsequently, the benchmark yield drew comfort from a series of special OMOs and outright OMO carried out by the Reserve Bank. Further, OMO on SDLs, increase of OMO amount to ₹20,000 crore and extension of held-to-maturity benefit for SLR securities by one more year to March 31, 2022 provided support to the bond market. Subsequently, new 10-year benchmark yield touched a three-month low of 5.79 per cent on October 26, 2020. However, the yield on benchmark bond drifted up again slightly and stood at 5.92 per cent on January 20, 2021.

4.18 In comparison, the yields on shorter term government securities fell down sharply in 2020-21 (Figure 8). This is seen clearly in the shape of yield curve, where the gap has widened sharply at the shorter end of the curve. The yields on 3 month, 6 month, 1 year, 3 year and 5 year government bonds has reduced by 201 bps, 181 bps and 147 bps, 125 bps and 77 bps respectively from end March 2020 to December 23, 2020. RBI has undertaken various measures to even out the yield curve including measures such as simultaneous sale-purchase OMO auctions various times in last year.

Figure 8: Yield curve of Indian Government Bonds



Source: Bloomberg
Note: Date is for the end of month

4.19 In 2020-21, certain specified categories of Central Government securities were opened up fully for non-resident securities without any restrictions, apart from being available to domestic investors as well from April 1, 2020. Accordingly, a separate route viz., Fully Accessible Route (FAR) for investment by non-residents in securities issued by the Government was notified. ‘Specified securities’, once so designated, shall remain eligible for investment under the FAR until maturity. A list of existing securities was put under FAR from April 1, 2020 and in addition, all new issuances of government securities of 5-year, 10-year and 30-year tenors from the financial year 2020-21 will be eligible under FAR as ‘specified securities’.This is a necessary step towards India’s inclusion in the global bond indices.

BANKING SECTOR

4.20 Gross Non-Performing Advances (GNPA) ratio (i.e. GNPAs as a percentage of Gross Advances) of Scheduled Commercial Banks decreased from 8.2 per cent at the end-March 2020 to 7.5 per cent at end-September 2020. Restructured Standard Advances (RSA) ratio of Scheduled Commercial Banks (SCBs) increased from 0.36 per cent to 0.41 per cent during the same period. Overall, the Stressed Advances ratio of SCBs decreased from 8.6 per cent at end-March 2020 to 7.9 per cent at end- September 2020.

4.21 GNPA ratio of Public Sector Banks (PSBs) decreased from 10.25 per cent at the end-March 2020 to 9.4 per cent at end-September 2020 and the Stressed Advances ratios decreased from 10.75 per cent to 9.96 per cent during the same period. Net NPA ratios also declined and stood at 2.1 per cent for SCBs and 2.85 per cent for PSBs as at end- September 2020.

4.22 Capital to risk-weighted asset ratio (CRAR) of SCBs increased from 14.7 per cent to 15.8 per cent between March 2020 and September 2020 on account of improvement of improvement of CRAR of both Public and Private sector banks. SCBs' annualised Return on Assets (RoA) recovered from 0.07 per cent to 0.64 per cent during first half (H1) of 2020-21, while their annualised Return on Equity (RoE) recovered from 0.78 per cent to 7.68 per cent during the same period. The RoA and RoE for PSBs became positive in June 2020 and continued to be positive in the quarter ended September 2020, after recording negative profitability ratios from March 2016 to March 2020 (Table 3). This is mainly on account of moratorium granted and asset classification stand still order by the Supreme Court.

Table 3: NPAs, CRAR, RoE, RoA of Public Sector Banks and Private Sector Banks
(Amount in ₹ crore; Rates and Ratios in Per cent)

Reporting Date	Public Sector Banks				Private Sector Banks			
	Gross NPAs	Capital Ratio (CRAR)	Return on Equity	Return on Total Assets	Gross NPAs	Capital Ratio (CRAR)	Return on Equity	Return on Total Assets
Mar-17	6,84,732	12.14	-1.92	-0.12	91,915	15.53	11.79	1.27
Mar-18	8,95,601	11.66	-14.01	-0.87	1,25,863	16.43	9.98	1.09
Mar-19	7,39,541	12.20	-10.97	-0.66	1,80,872	16.07	5.49	0.60
Mar-20	6,78,317	12.85	-3.92	-0.25	2,05,848	16.55	3.20	0.35
Sep-20	6,09,129	13.51	4.33	0.26	1,88,191	18.21	10.04	1.10

Source: Offsite Returns, Global Operations, RBI

4.23 The net profit (profit after tax) for PSBs increased from ₹(–) 25,941 crore at end-March 2020 to ₹14,688 crore at end-September 2020. Similarly, the net profit (profit after tax) for private sector banks increased from ₹19,113 crore at end-March 2020 to ₹32,762 crore at end-September 2020. Overall, for SCBs, the net profit (profit after tax) increased from ₹11,322 crore at end-March 2020 to ₹59,426 crore at end-September 2020.

4.24 The focus on resolution of stressed assets had to take a backseat during the year on account of the outbreak of the Covid-19 pandemic. Government had suspended the initiation of fresh insolvency proceedings under Section 7, 9 and 10 of Insolvency & Bankruptcy Code 2016 for defaults arising on or after March 25, 2020 till March 25, 2021. Reserve Bank announced loan moratorium from March 1, 2020 to August 31, 2020, asset classification dispensation and special resolution framework for Covid-19 related stressed assets. In respect of borrowers to whom moratorium was granted, the period during which such facilities were granted was permitted to be excluded from the calculation of days past due for the purpose of asset classification or out of order status, as the case may be. Further, RBI announced a Resolution Framework for COVID-19-related Stress to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to certain conditions. Under the resolution plans that could be invoked under the above window, lenders are permitted to grant additional moratorium of up to two years. RBI had appointed a committee under K.V. Kamath for making recommendations on the required financial parameters to be factored in resolution plans. Also, MSME accounts classified as Standard where the aggregate exposure of banks and NBFCs was ₹25 crore or below as on March 1, 2020, were permitted to be restructured without a downgrade in the asset classification, subject to certain conditions. Notably, the Supreme Court issued an interim order dated September 3, 2020 specifying that "the accounts which were not declared NPA till 31.08.2020 shall not be declared NPA till further orders".

4.25 The above measures, which provided asset classification reliefs to borrowers, would affect the true recognition of financial stress on the borrower accounts. However, the larger objective of financial stability in the wake of pandemic demanded prudential forbearance which was exercised through clear boundaries and disincentives embedded in the above reliefs. Moreover, the risk recognition has not been completely suspended as the lenders are required to make provisions of at least 10 per cent in respect of accounts which availed of asset classification benefits under the above reliefs.

MONETARY POLICY TRANSMISSION

4.26 RBI has reduced repo rate by 250 bps since February 2019 (the current easing cycle). The transmission of policy repo rate changes has been weak on quantity of credit. However, there has been improved transmission on rate structure and term structure.

a. Rate structure

4.27 The transmission of policy repo rate changes to deposit and lending rates of scheduled commercial banks (SCBs) has improved since March 2020 reflecting the combined impact of policy rate cuts, large liquidity surplus with accommodative policy stance, and the introduction of external benchmark-based pricing of loans. The weighted average lending rate (WALR) on fresh rupee loans declined by 94 bps between March 2020 and November 2020 in response to the reduction of 115 bps in the policy repo rate and comfortable liquidity conditions. In the current easing phase (February 2019 to November 2020), the change in the WALR on outstanding rupee loans has shown significant improvement since March 2020. Of the 83-bps decline in WALR on outstanding loans in February 2019 to November 2020 period, 67 bps decline was noted since March 2020. The weighted average domestic term deposit rate (WADTDR) on outstanding rupee deposits declined by 127 bps during the ongoing easing cycle. The median term deposit rate has registered a sizable decline of 146 bps in March to December 2020 (Table 4). The spread between WALR on outstanding loans and repo rate which was increasing since 2018 started to decline in 2020-21. However, WALR on outstanding loans is still 544 bps higher than repo rate (Figure 9).

Table 4: Transmission from Repo Rate to Banks' Deposit and Lending Rates (bps)

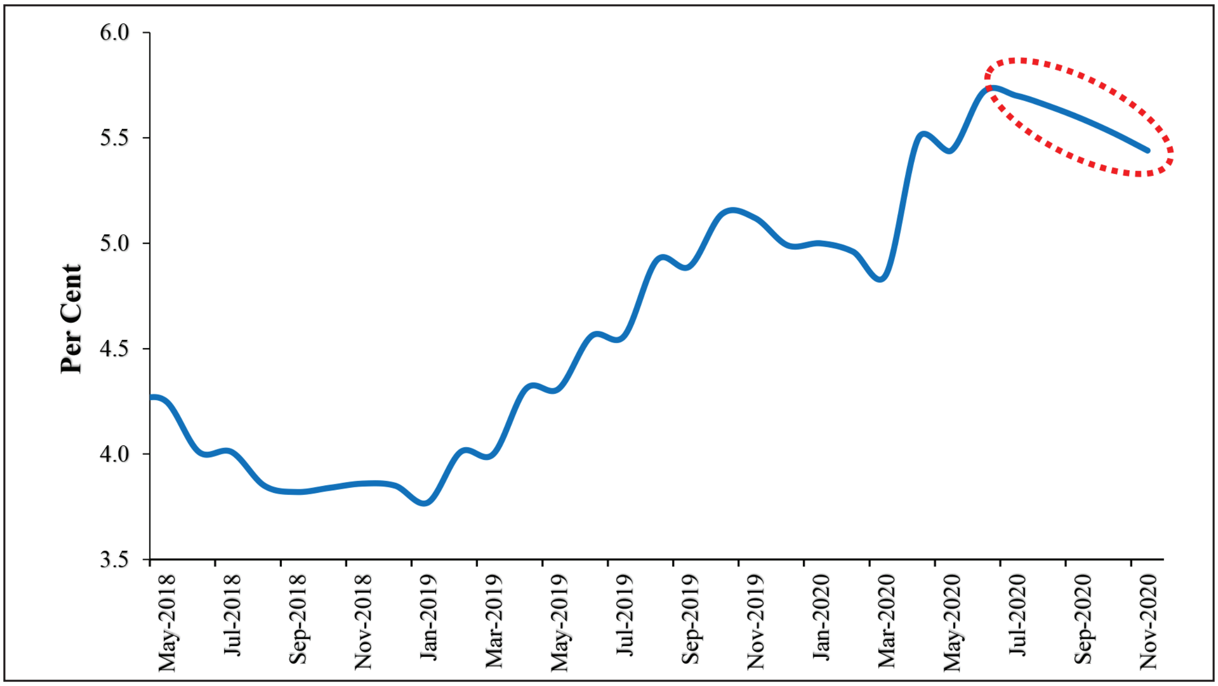
Period	Repo Rate	Term Deposit Rates		Lending Rates		
		Median Term Deposit Rate	WADTDR	1 Year Median MCLR	WALR - Outstanding Rupee Loans	WALR - Fresh Rupee Loans
Mar 20 - Dec 20*	–115	–146	–81	–95	–67	–94
Feb 19 - Dec 20*	–250	–210	–127	–145	–83	–165

Source: RBI

Note: WALR: Weighted Average Lending Rate. WADTDR: Weighted Average Domestic Term Deposit Rate; MCLR: Marginal Cost of Funds based Lending Rate.

* Latest data on WALR and WADTR pertain to November 2020.

Figure 9: Spread between WALR (on outstanding loans) and repo rate



Source: RBI

4.28 Across bank groups, Private Sector Banks exhibited greater transmission in terms on fresh loans, however Public Sector Banks exhibited greater transmission on outstanding loans for the entire easing cycle. Private Sector Banks also reduced deposit rates (measured by WADTDR) more than Public Sector Banks.

Table 5: Transmission across bank groups during easing cycles (bps)

	February 2019 to November 2020			March 2020 to November 2020		
	WALR-Outstanding loans	WALR-Fresh loans	WADTDR	WALR-Outstanding loans	WALR-Fresh loans	WADTDR
Public sector banks	–94	–151	–108	–69	–68	–71
Private sector banks	–59	–176	–149	–59	–134	–94
SCBs#	–83	–165	–127	–67	–94	–81

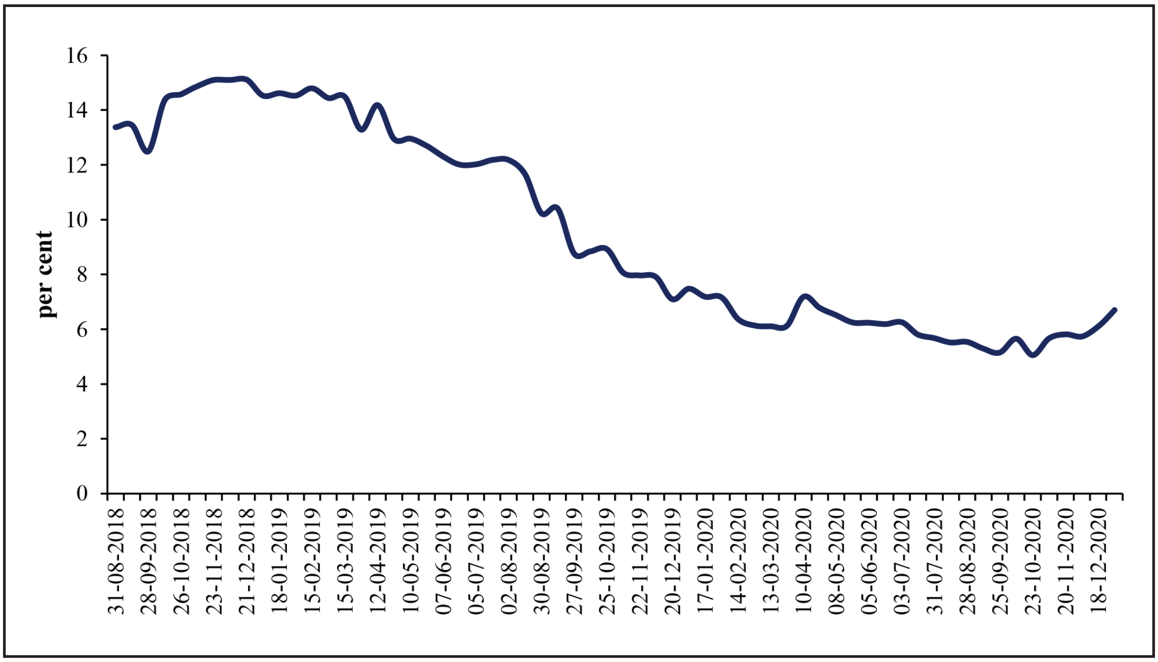
Source: RBI
Note: #: Include public sector, private sector and foreign banks.

4.29 Apart from the reduction in term deposit rates, many banks also lowered their saving deposit rates during the current easing cycle. The saving deposit rates of five major banks, which ranged 3.25-3.5 per cent prior to the introduction of the external benchmark (in end September 2019), were placed at 2.7-3.0 per cent as on January 15, 2021. The flexible adjustment of saving deposit rates bodes well for monetary transmission to lending rates.

(b) Credit Growth

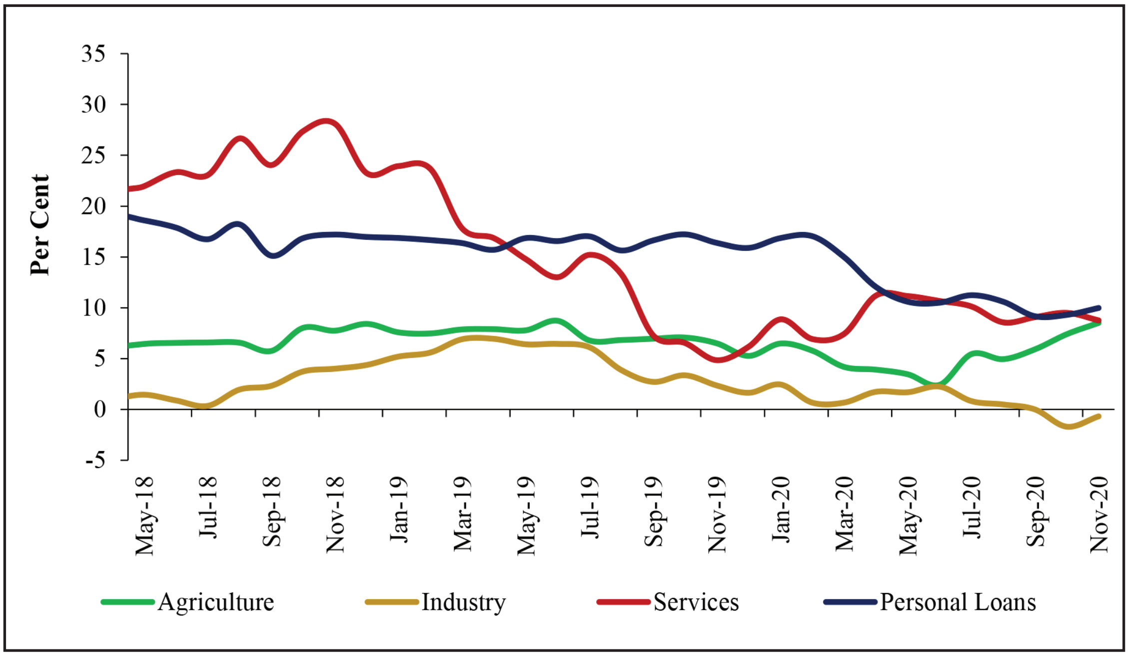
4.30. Cumulatively, since February 2019, the reduction in policy rate has been of 250 bps, yet the credit growth been declining since then. Credit growth (YoY) stood at 14.8 per cent in February 2019 and had declined to 5.1 per cent as on October 23, 2020 (Figure 10). Note that it subsequently accelerated and stands at 6.7 per cent as on January 1,2021.

Figure 10: Bank Credit growth (YoY) (per cent)



Source: RBI

Figure 11: Sectoral Bank Credit Growth (YoY)



Source: RBI

4.31. The non-food credit growth (YoY), based on sectoral deployment of bank credit data was 6.0 per cent in November 2020 (details available up to November only) as compared with a growth of 7.2 per cent in November 2019. The moderation in credit growth in 2020-21 was witnessed in mostly all the sectors, barring services (Figure 11). Credit growth to agriculture & allied activities decelerated in first quarter of 2019-20 but then accelerated to 8.5 per cent in November 2020 with significant pick up since September (Figure 11). Credit growth to industry has been decelerating consistently and infact contracted by 1.7 per cent in October 2020 and 0.7 per cent in November 2020. Services sector bucked the downtrend with credit growth to this sector accelerating to 9.5 per cent in October 2020 and 8.8 per cent in November 2020. Within this sector, credit to 'trade' recorded a double-digit growth of 14.7 per cent in November 2020 as compared to 4.6 per cent a year ago. However, credit growth to commercial real estate and NBFCs declined in 2020-21. Personal loans growth decelerated to 10 per cent in November 2020 from 16.4 per cent in November 2019. Within the personal loan segment, the two main components are vehicle loans and housing loans. While the growth of vehicle loans growth accelerated to 10 per cent in October 2020 from 4.7 per cent a year ago, that of housing loans growth decelerated to 8.5 per cent in November 2020 from 18.3 per cent a year ago (Table 6).

Table 6: Growth in Industry-wise Deployment of Bank Credit by Major Sectors (YoY, per cent)

Sector	Mar-17	Mar-18	Mar-19	Mar-20	Nov-20*
Industry	-1.9	0.7	6.9	0.7	-0.7
Micro & Small	-0.5	0.9	0.7	1.7	0.5
Medium	-8.7	-1.1	2.6	-0.7	20.9
Large	-1.7	0.8	8.2	0.6	-1.8
Services	16.9	13.8	17.8	7.4	8.8
Trade	12.3	9.1	13.1	4.6	14.7
Commercial Real Estate	4.5	0.1	8.9	13.6	5.6
NBFCs	10.9	26.9	29.2	25.9	7.8
Personal Loans	16.4	17.8	16.4	15.0	10
Housing	15.2	13.3	19.0	15.4	8.5
Vehicle Loans	11.5	11.3	6.5	9.1	10

Source: RBI

Note: *Data are provisional. Data relate to select banks which cover about 90 per cent of total non-food credit extended by all scheduled commercial banks;

(c) Term Structure

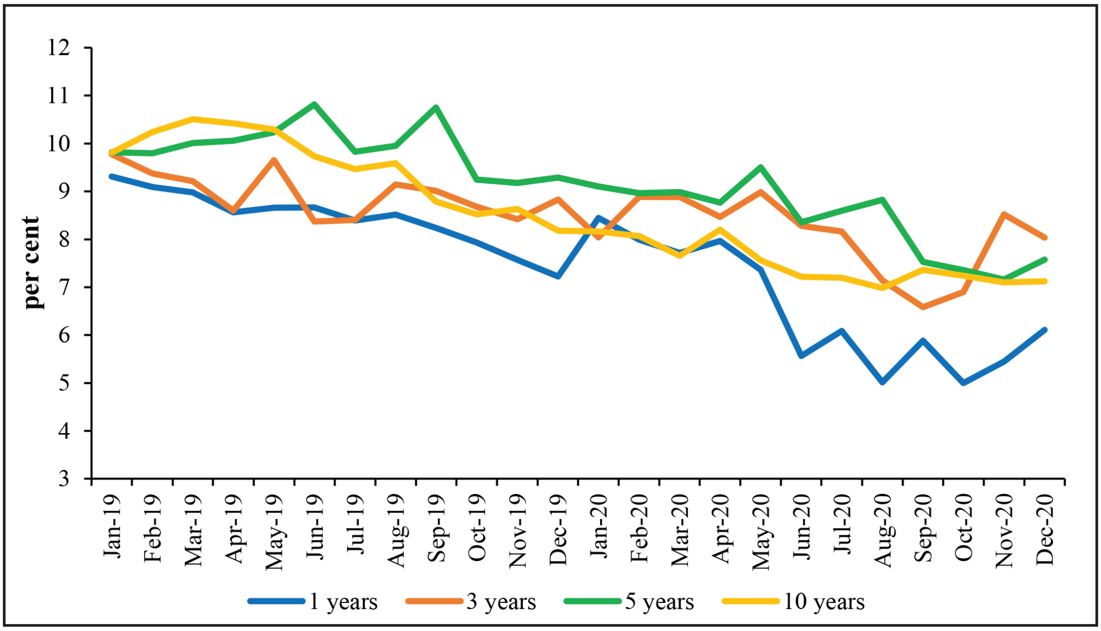
4.32. The reduction in policy rates and surplus liquidity helped in bringing down both the short term and long term interest rates. However, the impact has been much smaller on longer term interest rates. Since the beginning of this financial year, the interest on 1 year security has fallen much more than that on 10 year G-Secs. The yield on 1 year G-Sec has reduced by 157 bps from April 2020 to December 2020, whereas the yield on 10 year G-sec has declined by only 24 bps in the same time period (Figure 12). The gap between two yields have widened over this year.

Figure 12: Government Bond yields in India (per cent)

Source: Bloomberg

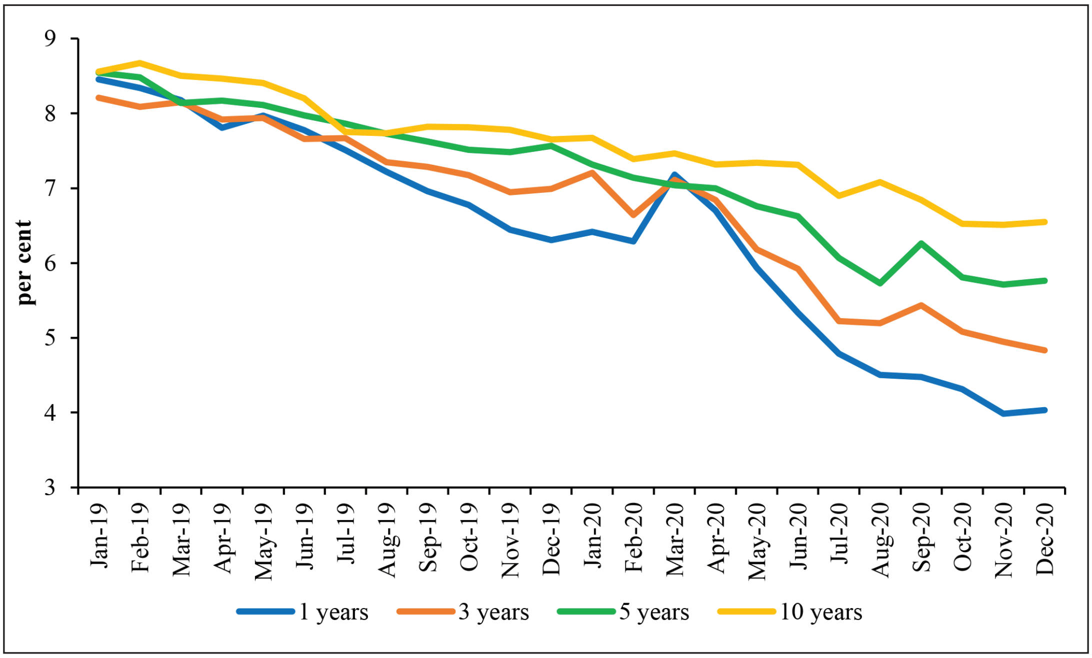
4.33 The lower policy rates have transmitted to corporate bonds and the yield has come down substantially from March 2020 (Fig 13 (a) and Fig 13 (b)). Rates have reduced for both AA and AAA rated bonds. The yields on 1 year, 3 year, 5 year, 10 year AAA corporate bonds have fallen by 238 bps, 237 bps, 155 bps, 112 bps respectively from January 2020 to December 2020. If the fall of entire easing cycle is considered (i.e. since early 2019), then the decline are 430 bps, 326 bps, 271 bps and 212 bps respectively.

Fig 13(a): Yield on AA rated corporate bonds



Source: CMIE

Fig 13(b): Yield on AAA rated corporate bonds



Source: CMIE

Box 1:Regulatory Measures in Banking Sector

Commercial Banks

a. ***Merger of PSBs***: Consolidation among another 10 PSBs, with Punjab National Bank, Canara Bank, Union Bank of India and Indian Bank as anchor banks came into effect from April 1, 2020.

b. ***Restructuring of MSME loans***: A one-time restructuring of loans to MSMEs that were in default but 'standard' as on January 1, 2019, was permitted, without an asset classification downgrade, subject to certain conditions like aggregate exposure (including non-fund-based facilities) of banks and NBFCs to the borrower not exceeding ₹25 crore as on January 1, 2019. The borrowing entity has to be GST-registered. However, this condition will not apply to MSMEs that are exempt from GST-registration. The cut-off date of January 1, 2019 was extended to March 1, 2020 to support viable MSME entities on account of the fallout of COVID-19. The banks are required to implement the restructuring by March 31, 2021.

c. ***Large exposure framework***: A bank's exposure under the Large Exposure Framework to a group of connected counterparties was increased from 25 per cent to 30 per cent of the eligible capital base of the bank. The increased limit will be applicable up to June 30, 2021.

d. ***Export Credit***: The maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks was increased from one year to 15 months for disbursements made up to July 31, 2020, in line with the relaxation granted in the period of realization and repatriation of the export proceeds to India.

e. ***Monetary policy transmission – external benchmarking of loans***: RBI deregulated the interest rates on advances by SCBs (excluding RRBs). With a view to strengthen the transmission of monetary policy, the banks were mandated to link all new floating rate personal or retail loans and floating rate loans extended to MSMEs to external benchmarks such as repo rate, Treasury Bill Rate and any external benchmark published by Financial Benchmarks India Pvt Ltd (FBIL). Banks can offer such external benchmark linked loans to other types of borrowers as well. In order to ensure transparency, standardisation, and ease of understanding of loan products by borrowers, banks were also advised to adopt a uniform external benchmark within a loan category. Under the external benchmark system, the interest reset period for loans was also reduced to three months with a view to pass on the benefit of reduction in policy repo rate to the borrowers more frequently. Further, to make the benefit of external benchmark linked interest rate regime available to the existing borrowers (Base Rate/MCLR), banks were advised to provide a switchover option to such borrowers on mutually agreed terms.

Co-operative Bank

a. ***Revision in the target for priority sector lending***: To promote financial inclusion, the overall priority sector lending target for Urban Co-operative Banks has been increased from the present level of 40 per cent of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure (CEOBSE), whichever is higher, to 75 per cent of ANBC or CEOBSE, whichever is higher by March 31, 2024.

b. ***Inclusion of co-operative banks as eligible member lending institutions under interest subvention scheme for MSMEs - issuance of guidelines***: All co-operative banks have been advised of their inclusion as Eligible Lending Institutions under the "Interest Subvention Scheme (ISS) for MSMSEs 2018" of the Government. This scheme provides an interest relief of two per cent per annum to eligible MSMEs on their outstanding fresh/incremental term loan/working capital during the period of its validity.

c. ***Reporting of large exposures to Central Repository of Information on Large Credits (CRILC):*** Urban Cooperative Banks (UCBs) with assets of ₹500 crore and above were brought under the CRILC reporting framework. Accordingly, UCBs shall report credit information, including classification of an account as Special Mention Account (SMA), on all borrowers having aggregate exposures of ₹5 crore and above with them to CRILC.

d. ***Limits on exposure to single and group borrowers and large exposures***: The exposure norms for single borrower and a group of borrowers from 15 per cent and 40 per cent of UCB's capital funds, to 15 per cent and 25 per cent, respectively, of UCB's Tier-I capital. The revised exposure limits shall apply to all types of fresh exposures taken by UCBs, and they shall bring down their existing exposures which are in excess of the revised limits to within the aforesaid revised limits by March 31, 2023. Further, UCBs shall have at least 50 per cent of their aggregate loans and advances comprising loans of not more than ₹25 lakh or 0.2 per cent of their tier I capital, whichever is higher, subject to a maximum of ₹1 crore, per borrower.

e. ***Submission of returns under Section 31 (read with section 56) of the Banking Regulation Act, 1949 - Extension of time***: In view of the difficulties faced by UCBs in submission of the returns due to the ongoing COVID-19 pandemic, the timeline for the furnishing of the returns for the financial year ended on March 31, 2020, was first extended by three months, i.e., till September 30, 2020 and then further to December 31,2020.

f. ***Amendments to the Banking Regulation Act, 1949: Banking Regulation (Amendment) Act, 2020***: The Banking Regulation Act has been amended by the Banking Regulation (Amendment) Act, 2020. The key changes in the regulatory regime of UCBs pursuant to the Banking Regulation (Amendment) Act, 2020 are as under:

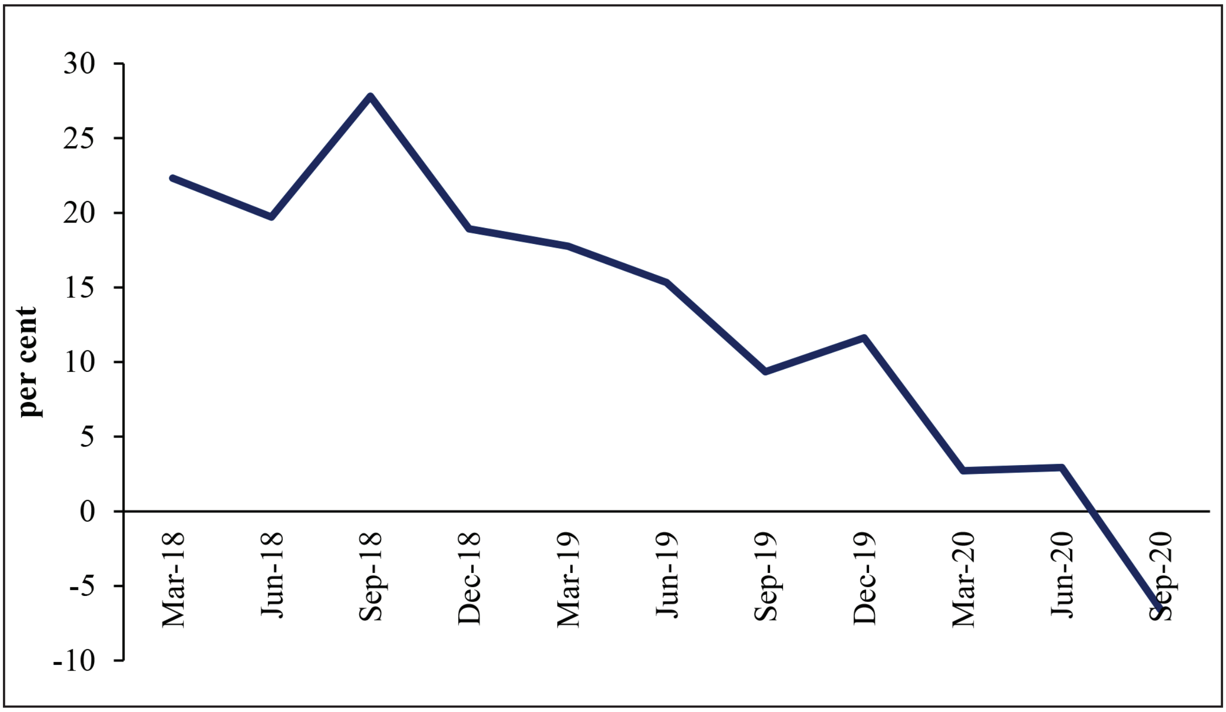
- The Reserve Bank has been given powers over the management of the UCBs, owing to which it can issue directions relating to the management of UCBs including approval for appointment of Chairman / MD / CEO, removal and remuneration of MD / CEO. Further, the Board of UCBs would be required to have not less than 51 per cent members having special knowledge / practical experience in specified areas.
- The statutory restriction on grant of director-related loans / advances has been widened and common directorship across banks shall be prohibited as per the provisions of the amended Act.
- The Reserve Bank has been vested with powers of approval of the appointment / removal of statutory auditors of UCBs.
- Provisions of the revised Act will enable UCBs to raise capital by issue of equity/ preference/special shares and debentures/bonds/like securities subject to such conditions as the Reserve Bank may specify in this behalf.
- The Reserve Bank has been empowered to supersede the Board of Directors of a UCB; though in case of a UCB having operations confined to a single State, in consultation with the concerned State Government.
- The Reserve Bank has been empowered to sanction voluntary/compulsory amalgamation and to prepare scheme for reconstruction of a UCB with the approval of the Central Government.

The amended Act provides for winding up of a UCB by High Court at the instance of the Reserve Bank.

NON-BANKING FINANCIAL COMPANIES (NBFC) SECTOR

4.35. Credit growth of NBFCs continued to slow down. Credit growth (YoY) of the NBFC sector was close to 3 per cent in June 2020. Further, the credit growth contracted in September 2020 with a YoY growth of -6.6 per cent. The sector had witnessed credit growth of 2.72 per cent from ₹23.16 lakh crore in March 2019 to ₹23.8 lakh crore in March 2020 as compared with 17.7 per cent growth during the previous year (Figure 14).

Figure 14: Growth (YoY) in Loans and Advances of NBFCs



Source: RBI

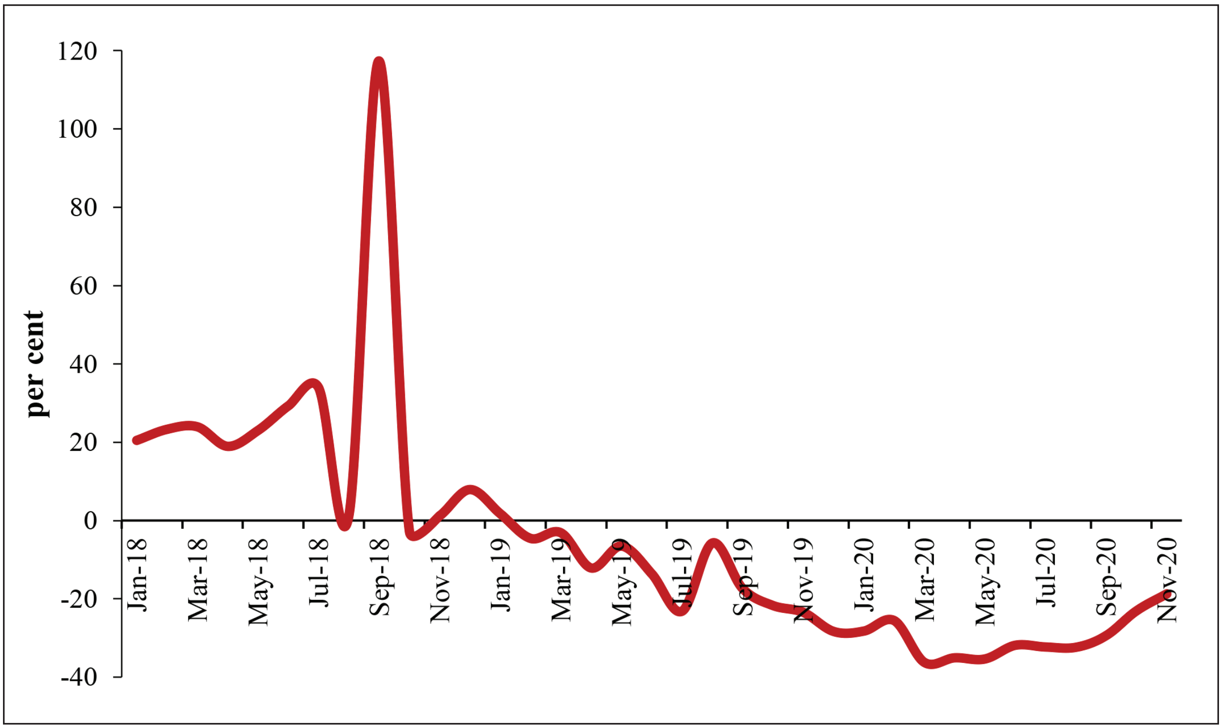
Note: Data for March 2020, June 2020 and September 2020 is provisional.

4.36 NBFCs[1] witnessed slowdown in their growth in 2019-20 largely due to isolated credit events in few large NBFCs and challenges in accessing funds. Total assets of NBFCs had increased from ₹23.41 lakh crore in March 2018 to ₹29.23 lakh crore in March 2019, and further to ₹33.91 lakh crore in March 2020, resulting in an annual growth of 16.01 per cent during 2019-20 as compared with 24.86 per cent in 2018-19. Banks continued to support NBFCs with their lending expanding 9.2 per cent (YoY) till October 2020, well above the overall bank credit growth. The sector also benefitted from the liquidity infusing measures announced by the Reserve Bank during the pandemic that also included Targeted Long-Term Repo (TLTRO) Operations covering the NBFC sector.

4.37 There was some shift in sources of funding for the NBFC sector in 2019-20. Banks' total exposure to NBFCs increased from ₹7.01 lakh crores in March 2019 to ₹8.04 lakh crores in March 2020, and further to ₹8.17 lakh crores in June 2020. Bank credit to the NBFC sector was ₹7.05 lakh crore in June 2020, which comprised around 6.6 per cent of total banking credit. However, mutual funds lending to NBFCs continued to contract in 2020-21 as well (Figure 15).

[1] The sector represents top 250 NBFCs, based on their asset size as of June 2020.

Figure 15: Growth (YoY) in mutual fund lending to NBFCs



Source: SEBI

4.38 The external liabilities of NBFCs in the form of secured and unsecured borrowings and public deposits increased by 13.7 per cent on YoY basis in June 2020. Borrowings from other financial institutions increased from ₹69,965 crore in March 2020 to ₹1,11,841 crore in June 2020, resulting in a YoY growth of around 226 per cent. Further, borrowings through Commercial Paper (CPs) also increased from ₹71,734 crore in March 2020 to ₹95,439 crore in June 2020.

4.39 Cost of funds for all types of borrowings by NBFCs marginally declined in June 2020, compared to March 2020 or June 2019, except for Non-Convertible Debentures (NCDs). Cost of NCDs, which contribute to major source of funds for NBFCs, increased marginally from 8.1 per cent in March 2020 to 8.2 per cent in June 2020. On the other hand, cost of CPs had declined from 7.0 per cent to 5.9 per cent during the same period.

4.40 As against the regulatory requirement of 15 per cent, CRAR for the NBFC sector stood at 22.05 per cent at the end of June 2020, showing improvement over March 2020 when it was 20.62 per cent. Asset quality of NBFCs deteriorated moderately with GNPA ratio at 6.44 per cent at the end of June 2020 as against 6.30 per cent as at end-March 2020 and 5.60 per cent as at end-March 2019. However, Net NPA ratio improved marginally to 2.99 per cent at the end of June 2020 as against 3.09 per cent in March 2020. RoA for the NBFC sector was 0.4 per cent in June 2020 as compared with 0.6 per cent in June 2019, while RoE was 1.7 per cent in June 2020 as compared to 2.6 per cent in June 2019.

Box 2: Digital payments

Financial transactions have been seeing high growth over the last few years. This financial year has witnessed jumps in both volume and value of digital payments across all categories. Overall transactions worth ₹ 19.35 lakh crore have been done via UPI and ₹ 1.02 lakh crore via RuPay cards in 2020-21 (upto October).

Figure A. UPI payments (in ₹ billion)

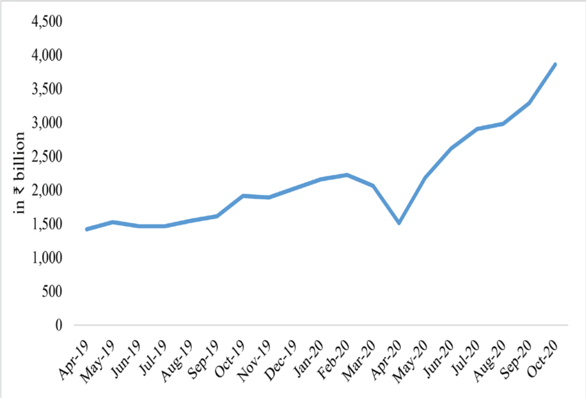
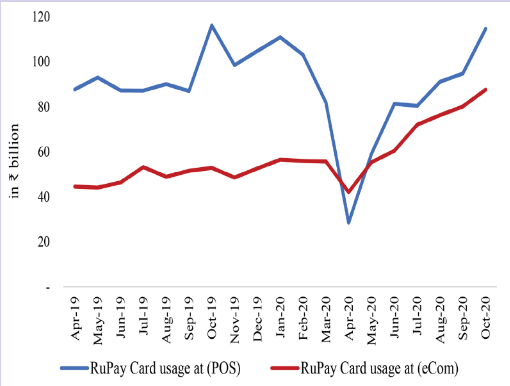


Figure B. RuPay Card usage (in ₹ billion)



Source: NPCI

Reserve Bank of India has constructed a composite Digital Payments Index (DPI) to capture the extent of digitisation of payments across the country. The RBI-DPI comprises of 5 broad parameters that enable measurement of deepening and penetration of digital payments in the country over different time periods. These parameters are: (i) Payment Enablers (weight 25%), (ii) Payment Infrastructure – Demand-side factors (10%), (iii) Payment Infrastructure – Supply-side factors (15%), (iv) Payment Performance (45%) and (v) Consumer Centricity (5%).

The RBI-DPI has been constructed with March 2018 as the base period, i.e. DPI score for March 2018 is set at 100. The DPI for March 2019 and March 2020 work out to 153.47 and 207.84 respectively, indicating high growth over the years. The index has grown more than 100 per cent in a span of 2 years.

DEVELOPMENTS IN CAPITAL MARKETS

1. Primary Markets (Equity)

A. *Public Issue*

4.41 The year 2020-21[2] (upto December) witnessed an increase in resource mobilization through public issue compared to the similar period for previous year. During April-December 2020, although the number of companies raising money through public issue reduced to 33 from 49 in the same period last year, ₹31,086.64 crore were mobilised during this period as compared to ₹10,950 crore in the similar period of previous year indicating an increase of 183.9 per cent in resource mobilization over the period. Similarly, resource mobilization through rights issues during 2020-21(upto December) increased to ₹60,906.90 crore from 16 rights issues as compared to ₹51,865.86 crore from 13 issues in April-December (Table 7).

[2] Date for 2020-21 is provisional

Table 7: Primary Market Resource Mobilization through Public and Rights Issues

Issue Type	2019-20 (upto December)		2020-21 (upto December)	
	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)
Public Issue (Equity)	49	10,949.99	33	31,086.64
Rights Issue (Equity)	13	51,865.86	16	60,906.90
Total Public Issue	62	62,815.85	49	91,993.54

Source: BSE, NSE and SEBI

B. *Private Placement*

4.42 The year 2020-21 (upto December) witnessed a decrease in resource mobilization through private placement route compared to that during the similar period for previous year. In April-December 2020, there were 183 issues mobilising ₹91,631.33 crore through private placement compared to 229 issues raising ₹1,79,443.86 crore during the same period last year (Table 9).

Table 8: Primary Market Resource Mobilization through Private Placements

Issue Type	2019-20 (upto December)		2020-21 (upto December)	
	No of issues	Amount (₹ crore)	No of issues	Amount (₹ crore)
QIPs Allotment (Equity)	9	34,028.55	21	64,148.50
Preferential Allotment (Equity)	220	1,45,415.31	162	27,482.83
Total Private Placement	229	1,79,443.86	183	91,631.33

Source: BSE, NSE and SEBI

4.43 In the year 2019-20 (upto December), resource mobilization through preferential allotment route was substantially more than that through Qualified Institutional Placement (QIP) route. However, there was a reversal in this trend in April- December 2020. During this period, there were 21 QIPs and 162 preferential allotments raising ₹ 64,148.50 crore and ₹ 27,482.83 crore respectively, as compared to 9 QIPs and 220 Preferential allotment raising ₹ 34,028.55 crore and ₹ 1,45,415.3 crore respectively during the corresponding period of the previous financial year.

2. Primary Markets (Debt)

4.44 The total debt issuance in primary market increased by 29.7 per cent to ₹ 5.99 lakh crore during 2020-21 (upto December) as compared to ₹ 4.63 lakh crore in the corresponding period of the previous year. During April- December 2020, the amount raised through private placement of debt increased by 32.2 per cent to ₹ 5.95 lakh crore. During the same period, the amount raised through public debt issues declined by 67 per cent to ₹ 3,871.7 crore (Table 10).

Table 9: Primary Market Resource Mobilization through Debt Issues

Issue Type	2019-20 (upto December)		2020-21 (upto December)	
	No. of Issues	Amount (₹ crore)	No. of Issues	Amount (₹ crore)
Public Issue (Debt)	27	11,746.11	10	3,871.70
Private Placement (Debt)	1295	4,49,939.71	1540	5,95,044.66
Total Debt Issue	1322	4,61,685.82	1550	5,98,916.36

Source: BSE, NSE and SEBI

4.45 Bilateral Netting of Qualified Financial Contracts Bill was passed and has become operational since October 1, 2020. Prior to this legislation, India did not have a legal framework for bilateral netting. Netting enables two counter parties in a bilateral financial contract to offset claims against each other to determine a single net payment obligation due from one counter party to others. Besides aiding the stability of the financial markets, bilateral netting will help in development of corporate debt market in India and freeing the capital in the system.

3. Mutual Fund Activities

4.46 There was a net inflow of ₹ 2.76 lakh crore into the mutual funds industry during 2020-21 (upto December), as compared to a net inflow of ₹ 1.82 lakh crore in the corresponding period of last year. The net assets under management of all mutual funds increased by 16.9 per cent to ₹ 31.02 lakh crore at the end of December 31, 2020 from ₹ 26.54 lakh crore at the end of December 31, 2019 (Table 11).

Table 10: Mobilisation of Funds by Mutual Funds (Amount in ₹ lakh Crore)

Period	No. of Folios (crore)	Gross Mobilization	Redemption	Net Inflows	Net AUM at the end of the period
2019-20#	8.71	154.67	152.85	1.82	26.54
2020-21#	9.43	65.47	62.71	2.76	31.02

Source: SEBI
Note: #Upto December 31 of respective years

INVESTMENT BY FOREIGN PORTFOLIO INVESTORS

4.47 There were net inflows to the tune of ₹ 2.1 lakh crore on account of the foreign portfolio investors (FPIs) in the Indian capital market during 2020-21 (up to December), as compared to net inflows of ₹ 0.81 lakh crore during the same period in 2019-20. The total cumulative investment by FPIs (at the acquisition cost) increased by 5.4 per cent to US$ 273.6 billion as on December 31, 2020 from US$ 259.5 billion as on December 31, 2019.

Table 11: Investment by Foreign Portfolio Investors

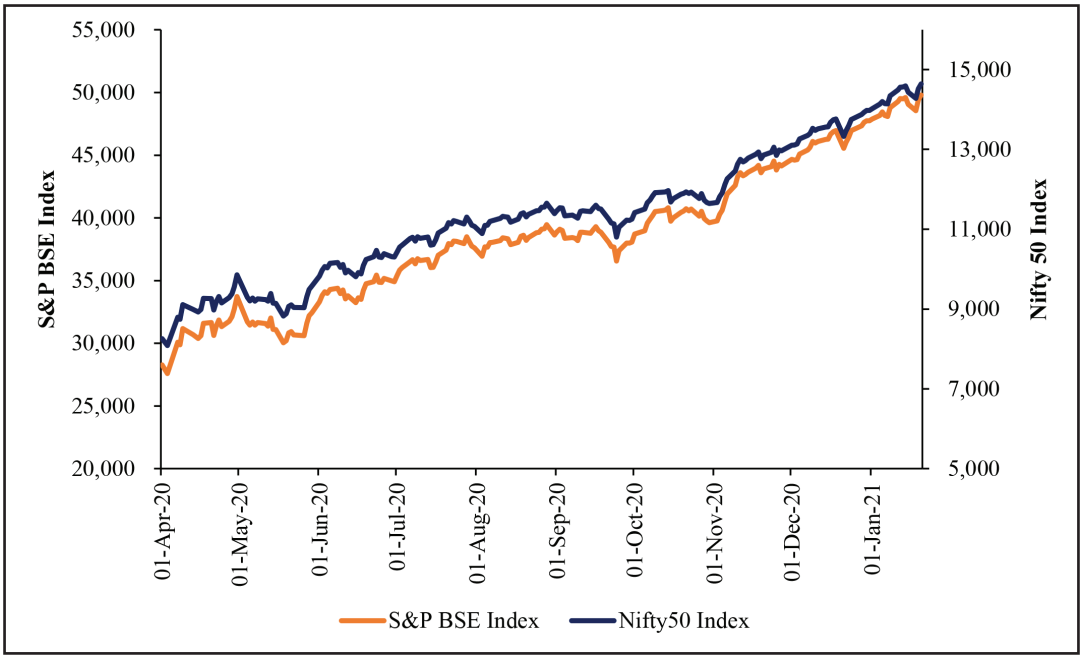
Period	Gross Purchase	Gross Sales	Net Investment	Net Investment	Cumulative Net Investment
	(₹ crore)			(US $ mn.)	
2019-20#	13,79,888	12,99,141	80,746	11,465	2,59,581
2020-21#	16,65,483	14,54,050	2,11,433	28,543	2,73,618

Source: NSDL
Note: #Upto December 31 of respective years

MOVEMENT OF INDIAN BENCHMARK INDICES

4.48 During 2020-21 (upto January 20, 2021), India's benchmark indices, namely, Nifty50 and S&P BSE Sensex index reached record highs of 14,644.7 and 49,792.1 respectively on January 20,2021. There were some significant corrections due to COVID-19 induced uncertainty in the beginning of this financial year, however both Nifty50 and S&P BSE Sensex index recovered strongly afterwards. The S&P BSE Sensex, the benchmark index of BSE, rose by 68.9 per cent to 49,792.1 on January 20,2021, compared to 29,468 on March 31, 2020. During the same period, Nifty 50 index of National Stock Exchange (NSE) gained by 70.3 percent from March 31, 2020 to January 20, 2021 (Figure 16 (a)). India VIX, an index circulated by NSE which indicates the degree of fluctuation that can be expected in Nifty 50 index by active traders over the next 30 days has fallen considerably since March 2020, indicating decline in volatility in stock market.

Figure 16 (a): Movement of Indian Benchmark Indices



Source: BSE and NSE

Figure 16 (b): India VIX

Source: NSE

4.49 In view of the COVID-19 pandemic, various measures were undertaken by SEBI. In the period of moratorium by the RBI, if CRA is of the view that the delay in payment of interest/ principle has arisen solely due to the lockdown, CRAs may not consider the same as a default event and/or recognize default. Further, extension in timelines for press release and disclosures on website was also provided. CRAs were provided flexibility to deviate from the curing period of 90 days for upgrading a rating from default to non-investment grade. SEBI granted temporary relaxation in processing of documents pertaining to FPIs by allowing designated depository participants/ custodians to process the request(s) for registration/ continuance/ KYC / KYC review & any other material change on the basis of scanned version of signed documents (instead of originals) and copies of documents which are not certified, received from specified email ids. Also, relaxations were provided in terms of pre-listing and post-listing compliance related to financials for the listed issuers of non-convertible debentures non-convertible redeemable preference shares and commercial papers.

INSURANCE SECTOR

4.50 The performance and potential of insurance sector is assessed using two indicators- Insurance penetration and Insurance Density. Insurance penetration is calculated as percentage of insurance premium to GDP and insurance density is calculated as ratio of insurance premium to population.

4.51 In India, Insurance penetration which was 2.71 per cent in 2001 has steadily increased to 3.76 per cent in 2019. In contrast, insurance penetration in Asia, i.e., Malaysia, Thailand and China was 4.72, 4.99 and 4.30 per cent respectively in 2019. As of 2019, the penetration for Life insurance in India is 2.82 per cent, the penetration for Non-Life insurance is much at 0.94 per cent (Table 12 and 13). Globally insurance penetration was 3.35 per cent for the life segment and 3.88 per cent for the non-life segment in 2019. Although the penetration is lower in India for both, it is particularly low for Non-life insurance as compared to other countries (Figure 17).

4.52 The insurance density in India which was US$ 11.5 in 2001 reached to approximately US$ 78 in 2019. The comparative figures for Malaysia, Thailand and China in 2019 were much higher at US$ 536, US$ 389 and US$ 430 respectively. Density for Life insurance is US$ 58 and Non-Life insurance is much lower at US$ 19 in 2019 in India (Table 12 and 13). Globally insurance density was US$ 379 for the life segment and US$ 439 for the non-life segment respectively in 2019. United States has particularly high insurance density in the Non-life category. India has extremely low insurance penetration as compared to global average and other comparable countries (Figure 18).

Table 12: Penetration and Density in Life Insurance

Particulars	2013	2014	2015	2016	2017	2018	2019
Insurance Penetration (in percent)	3.10	2.60	2.72	2.72	2.76	2.74	2.82
Insurance Density (in USD)	41.0	44.0	43.2	46.5	55.0	55.0	58.0

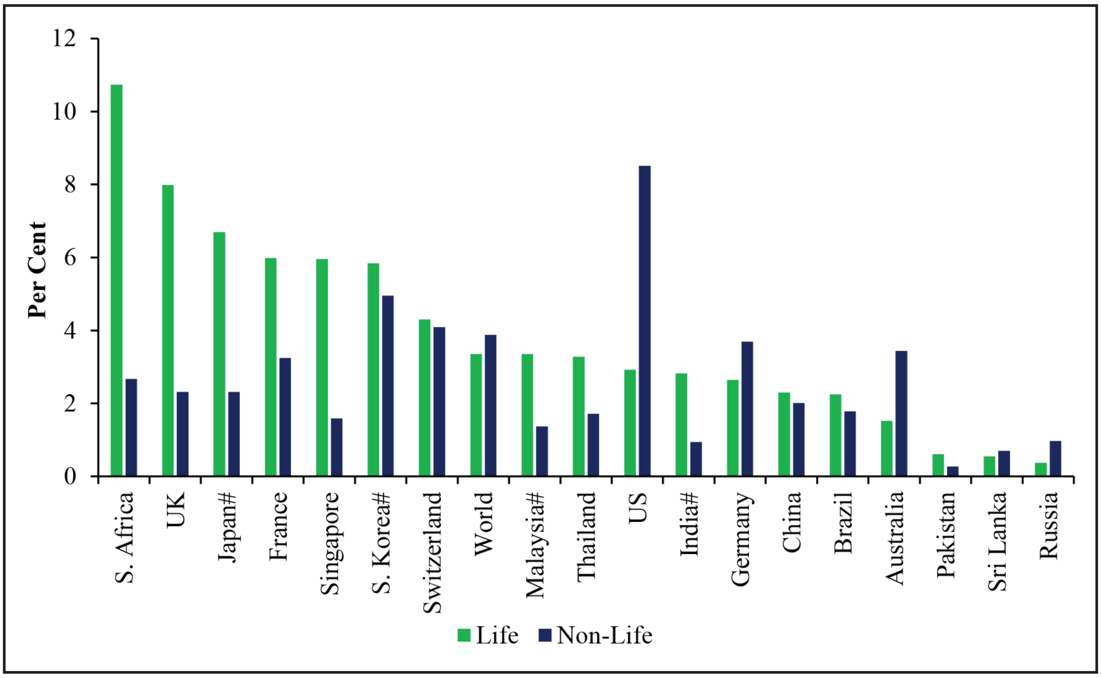
Source: SwissRe, Sigma various issues

Table 13: Penetration and Density in Non-Life Insurance

Particulars	2013	2014	2015	2016	2017	2018	2019
Insurance Penetration (in percent)	0.80	0.70	0.72	0.77	0.93	0.97	0.94
Insurance Density (in US$)	11.0	11.0	12.0	13.2	18.0	19.0	19.0

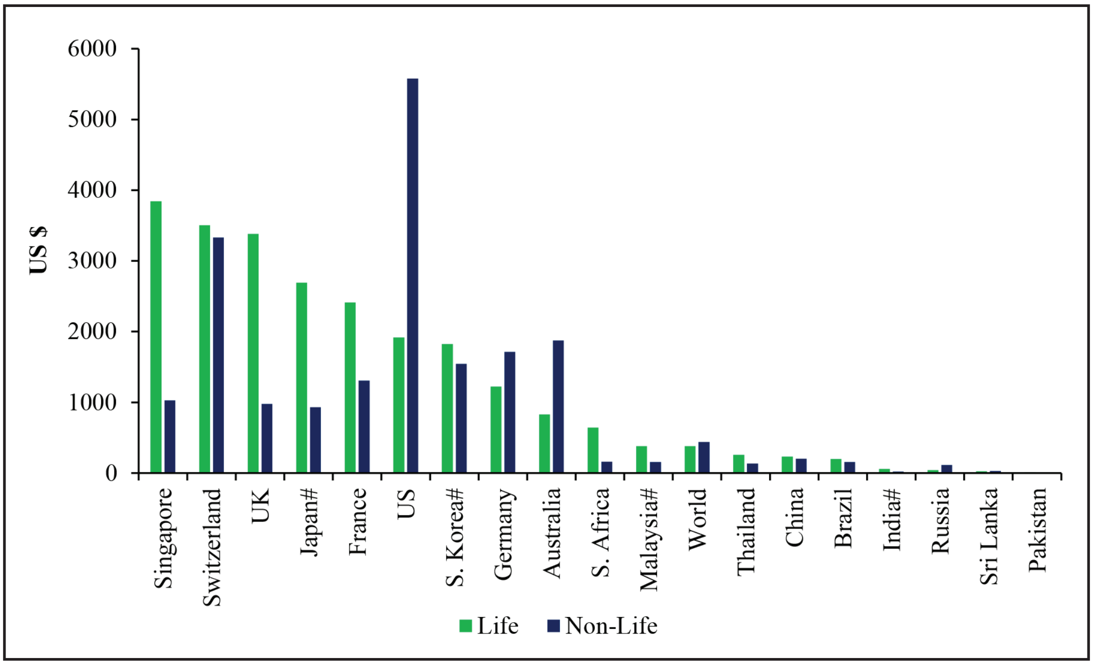
Source: SwissRe, Sigma various issues

Figure 17: Insurance Penetration in 2019 (in per cent)



Source: SwissRe, Sigma various issues
Note: # Data relates to financial year

Figure 18: Insurance density in 2019 (in US $)



Source: SwissRe, Sigma various issues
Note: # Data relates to financial year

4.53 During 2019-20, the gross direct premium of Non-Life insurers was ₹1.89 lakh crore, as against ₹1.69 lakh crore in 2018-19, registering a growth of 11.45 per cent. Within non-life category, motor and health segments primarily are the main contributors to industry to report this growth. Life insurance industry recorded a premium income of ₹5.73 lakh crore in 2019-20, as against ₹5.08 lakh crore in the previous financial year, registering a growth of 12.75 per cent. While renewal premium accounted for 54.75 per cent of the total premium received by the life insurers, new business contributed the remaining 45.25 per cent.

4.54 Some important regulatory measures undertaken due to COVID-19 are as follows:

- KYC process has been simplified with the permission granted for 54 insurers to undertake Paperless KYC process through Aadhaar Authentication Services of UIDAI.
- Guidelines were issued on introduction of short term health insurance policies providing coverage for COVID-19 disease which are valid upto March 31,2021. As per the guidelines 1) All life, general and health insurers allowed to offer COVID – 19 specific short-term health insurance policies, 2) Policy term of minimum of 3 months and maximum of 11 months 3) life insurers are permitted to issue benefit-based policies only, General and Health insurers can issue both indemnity based and benefit based 4) Insurers shall comply with pricing norms specifies under 2016 HI regulations and guidelines issued thereunder 5) Waiting period shall not exceed 15 days, no separate add-ons are permitted. Lifelong renewability, migration and portability not applicable.
- Guidelines were issued for Corona Rakshak policy which is a standard benefit-based policy and Corona Kavach Policy, a standard health policy which will be offered on indemnity basis and insurers had been asked to launch the product from July 10, 2020.

PENSION SECTOR

4.55 The overall contribution under NPS grew by more than 30 per cent. Maximum growth was registered by All-Citzen model/ UoS (52.3 per cent) followed by APY (46.1 per cent), Corporate Sector (34.8 per cent) and State Govt. Sector (30.7 per cent). The Assets Under Management (AUM) of NPS stands at ₹4.94 lakh crore as on September 30, 2020, as compared to ₹3.71 lakh crore at the end of September, 2019, thereby recording an overall growth (YoY) of 33.3 per cent (Table 14). The maximum growth was recorded under APY i.e. 49.2 per cent over the year, followed by All-Citizen/UoS (45.8 per cent), Corporate Sector (39.6 per cent) and State Government Sector (33.9 per cent).

Table 14: Status of NPS (Status as on 30th September 2020)

	No. of Subscribers (in lakh)		YoY growth	Contribution (₹ in Crore)		YoY growth	AUM (₹ in Crore)		YoY growth
	Sep-19	Sep-20	%	Sep-19	Sep-20	%	Sep-19	Sep-20	%
CG	20.26	21.3	5.1	88,300	1,11,293	26	1,24,703	1,60,606	28.8
SG	45.51	48.97	7.6	1,43,816	1,88,000	30.7	1,86,849	2,50,260	33.9
Corporate	8.77	10.46	19.3	28,031	37,788	34.8	36,340	50,730	39.6
UOS#	10.24	13.58	32.6	11,344	17,282	52.3	11,127	16,224	45.8
NPS Lite	43.4	43.17	-0.5	2,624	2,776	5.8	3,631	4,068	12
APY	178.21	236.85	32.9	7,927	11,585	46.1	8,743	13,042	49.2
Total	306.39	374.32	22.2	2,82,042	3,68,725	30.7	3,71,393	4,94,930	33.3

Source: PFRDA
Note: CG-Central Government, SG- State Government, #UoS-All Citizen Model, APY-Atal Pension Yojana

4.56. In view of COVID-19, various regulatory measures were taken, including:

- Issuance of an advisory for extension of timelines for submission of various compliance by the Pension Funds and Custodian.
- Extension of time limit by one month (i.e. up to 30.06.2020) for submission of annual accounts and other annual MIS due to COVID-19 for all Pension Funds, Custodian, and NPS Trust.
- The partial withdrawal from NPS has been allowed for treatment of COVID-19.
- The online functionality on NPS on-boarding through Aadhaar-based offline paperless KYC verification.
- Online registration of APY subscribers through Bank's own web-portal, without using net-banking by their Savings Bank Customers.

INSOLVENCY AND BANKRUPTCY CODE

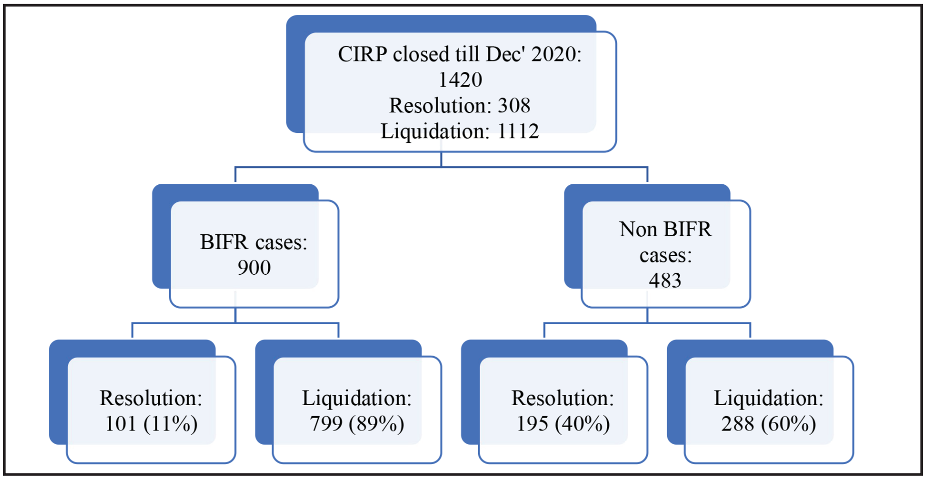
4.57. Since the inception of the Code in December 2016, 4,117 applications have been admitted as on December 31, 2020 (Figure 19). Nearly 23 per cent of the cases admitted were settled or withdrawn after the commencement of Corporate Insolvency Resolution Process (CIRP). Out of the 1420 cases for which the CIRP process has been completed, liquidation as an outcome has happened nearly 3.6 times the resolution. However, this does not represent an accurate picture of the performance of the Code. This is because 73 per cent (799 cases) of cases undergoing liquidation and 33 per cent of cases (101 cases) undergoing resolution had been brought in from earlier Board for Industrial and Financial Reconstruction (BIFR) regime. Most of these cases have been considered to be dead corpus with most of the net worth being eroded by the time they entered CIRP. Having been able to revive 101 of such cases is an achievement in itself. The CIRP for non-BIFR legacy has yielded 195 resolutions and 288 liquidations till date. This also means that the resolution rate for non-BIFR legacy cases is more than three times higher at 40 per cent when compared to BIFR cases (Figure 20).

Figure 19: Status of CIRPs since its inception (as on December 30, 2020)

Admitted	•CIRPS AT THE BEGINNING OF PERIOD -	4,117
Closure by	•APPEAL/REVIEW SETTLED - •WITHDRAWAL UNDER SECTION 12 A - •APPROVAL OF RESOLUTION PLAN - •COMMENCEMENT OF LIQUIDATION -	549 348 308 1,112
Ongoing	•CIRPS AT THE END OF PERIOD -	1,800

Source: IBBI

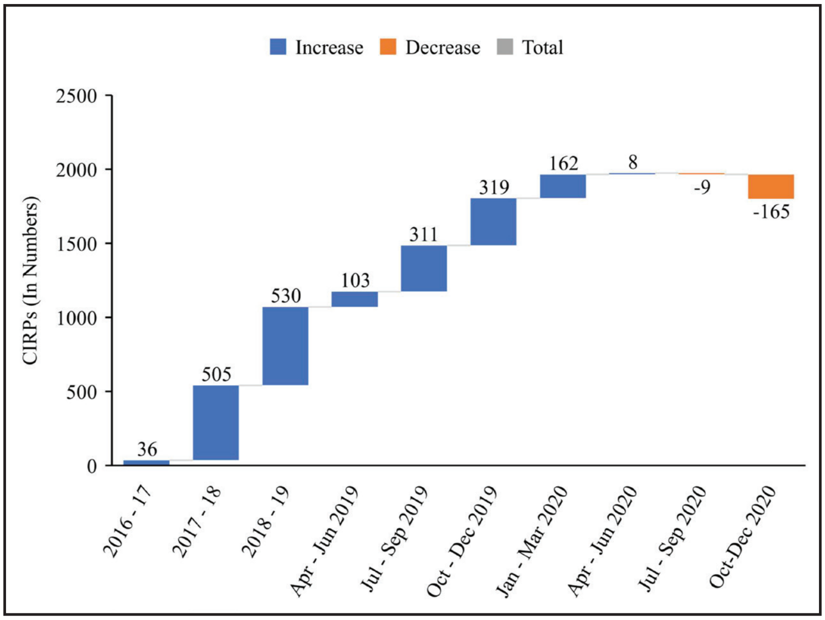
Figure 20: CIRP outcomes based on BIFR and non-BIFR classification



Source: IBBI

4.58 The ongoing CIRPs at the end of March 2020 were 1966 (Figure 21). In view of COVID-19 pandemic, the Insolvency and Bankruptcy (Amendment) Ordinance, 2020 was promulgated on June 5, 2020 which suspended initiation of the CIRP of a corporate debtor (CD) under section 7, 9 and 10 for any default arising on or after March 25, 2020. Further, the government extended the suspension of the Code twice for 3 months each on September 24, 2020 and December 22, 2020 to provide relief to the firms undergoing stress due to ongoing COVID-19 pandemic. The relaxation combined with continued resolutions has allowed the number of cases to decline since July 2020.

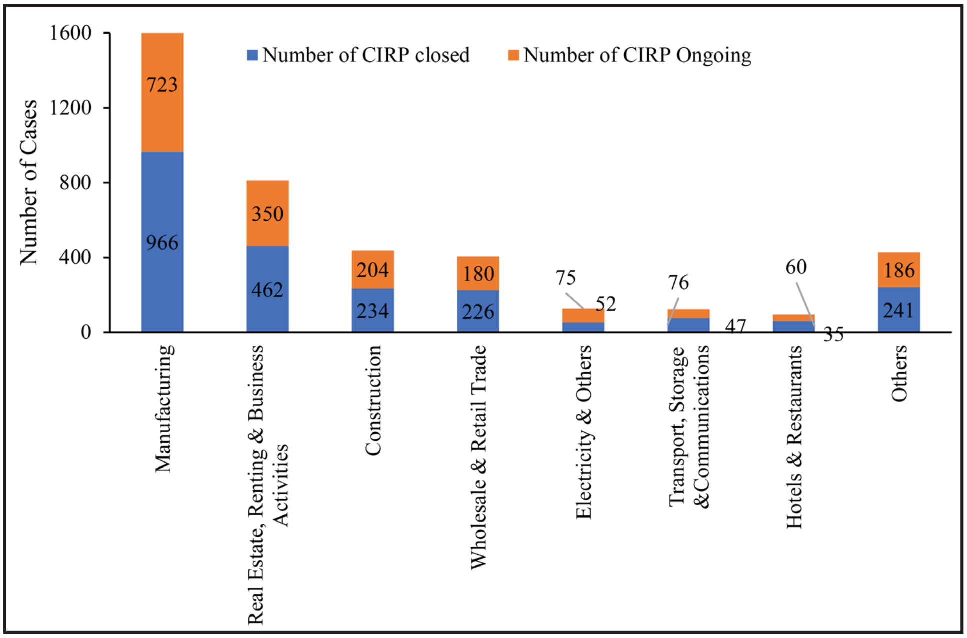
Figure 21: CIRP accumulation over time



Source: IBBI

4.59 Manufacturing Sector, Real Estate and Construction are among the top three sectors initiating CIRP (Figure 22) with 39 per cent, 20 per cent and 11 per cent of the ongoing CIRPs respectively.

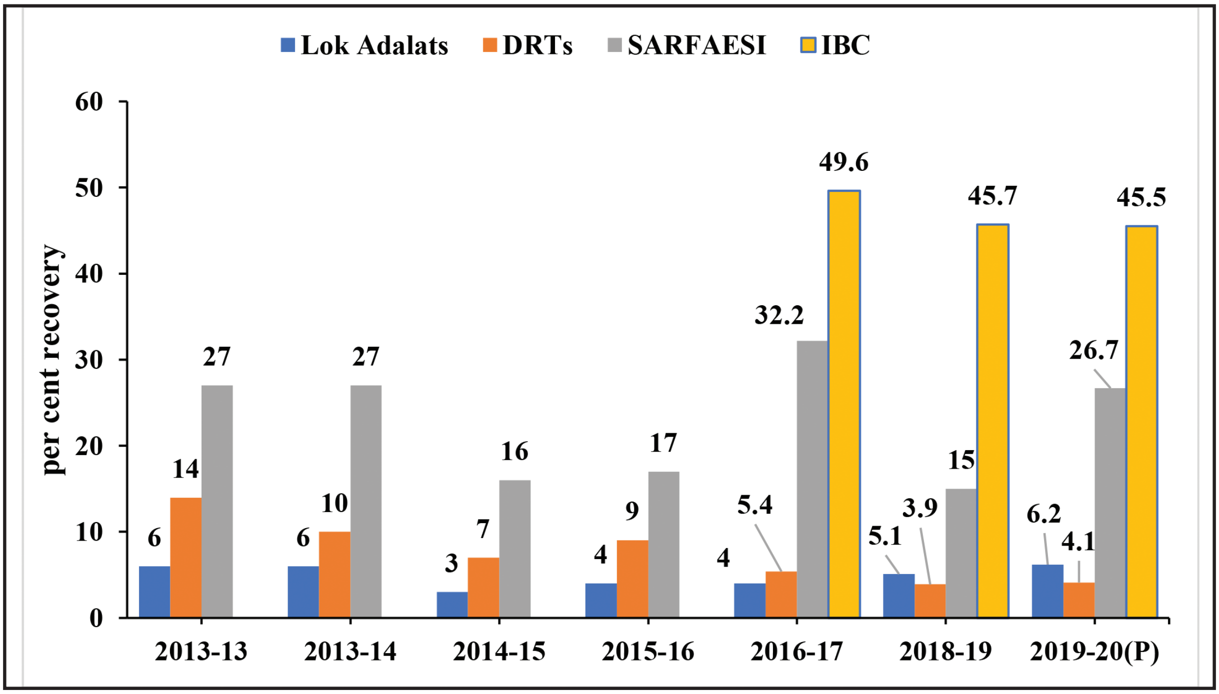
Figure 22: Sector-wise status of CIRPs (as on December 2020)



Source: IBBI

4.60 **Resolution**: The Code has rescued 308 CDs as on December 2020 through resolution plans. They owed ₹ 4.99 lakh crore to creditors. However, the realisable value of the assets available with them, when they entered the CIRP, was only ₹ 1.03 lakh crore. Under the Code, the creditors recovered ₹ 1.99 lakh crore, which is more than 193 per cent of the realisable value of these CDs. The recovery for financial creditors (FCs), as compared to their claims, was found to be more than 43 per cent for all the years since the inception of the Code. The Code has facilitated the recovery of NPAs by banks. RBI data indicates that as a percentage of claims, scheduled commercial banks (SCBs) have been able to recover 45.5 per cent of the amount involved through IBC for the financial year 2019-20, which is the highest as compared to recovery under other modes and legislations (Figure 23). Further, the amount recovered by SCBs under IBC was ₹ 1.73 lakh crores which is more than all the amount recovered by all other alternative mechanisms combined for 2019-20.

Figure 23: NPAs of SCBs Recovered through Various Channels



Source: Off-site returns, RBI and IBBI
Note: P: Provisional

Box 2. Status of Twelve large accounts

Since a few cases accounted for a large proportion of money involved in the resolution process, the resolution process of 12 large accounts was initiated by banks, as directed by RBI in June 2017. Together they had an outstanding claim of ₹ 3.45 lakh crore as against liquidation value of ₹ 73,220 crores. Of these, resolution plan in respect of eight CDs have been approved and orders for liquidation have been passed in respect of two CDs. Thus, CIRPs for two firms and liquidation in respect of two firms are ongoing and are at different stages of the process. The status of the 12 large accounts is presented in Table A.

Table A: Status of Twelve Large Accounts (Amount in ₹ crore)

Name of CD	Claims of FCs Dealt Under Resolution			Realisation by all Claimants as a percentage of Liquidation Value	Successful Resolution Applicant
	Amount Admitted	Amount Realised	Realisation as % of Claims		
Completed					
Electrosteel Steels Limited	13,175	5,320	40.38	183.45	Vedanta Ltd.
Bhushan Steel Limited	56,022	35,571	63.50	252.88	Bamnipal Steel Ltd.
Monnet Ispat & Energy Limited	11,015	2,892	26.26	123.35	Consortium of JSW and AION Investments Pvt. Ltd.
Essar Steel India Limited	49,473	41,018	82.91	266.65	Arcelor Mittal India Pvt. Ltd.
Alok Industries Limited	29,523	5,052	17.11	115.39	Reliance Industries Limited, JM Financial Asset Reconstruction Company Ltd., JMFARC – March 2018 Trust
Jyoti Structures Limited	7,365	3,691	50.12	387.44	Group of HNIs led by Mr Sharad Sanghi.
Bhushan Power & Steel Limited	47,158	19,350	41.03	209.12	JSW Limited
Jaypee Infratech Limited	23,176	23,223	100.20	130.82	NBCC (India) Limited
Amtek Auto Limited	12,641	2,615	20.68	169.65	Deccan Value Investors L.P. and DVI PE (Mauritius) Ltd.
Under Process					
Era Infra Engineering Limited			Under CIRP		
Lanco Infratech Limited			Under Liquidation		
ABG Shipyard Limited			Under Liquidation		

Source: IBBI

4.61 **Liquidation** – Although the Code has rescued 308 CDs, 1112 CDs went into liquidation. The CDs rescued had assets valued at ₹ 1.03 lakh crore, while the CDs (for which data are available) referred for liquidation had assets valued at ₹ 0.43 lakh crore when they entered the CIRP. Thus, in value terms, around three fourth of distressed assets were rescued. Till

December 31, 2020, 181 CDs have been completely liquidated which had outstanding claims of ₹ 26,251 crores, but the assets valued at ₹598 crores. ₹ 607 crores were realised through the liquidation of these companies.

4.62 **Time** – The 308 CIRPs, which have yielded resolution plans by the end of December 2020, took on average 441 days for the conclusion of the process. Similarly, the 1112 CIRPs, which ended up in orders for liquidation, took on average 328 days for the conclusion. Further, 181 liquidation processes, which have closed by submission of final reports till December 31, 2020, took on average 380 days for closure. Similarly, 352 voluntary liquidation processes, which have closed by submission of final reports, took on average 370 days for closure.

4.63 **Cost** – Out of the total 308 CIRPs have yielded resolution plans until December 2020, the cost details are available in respect of 260 CIRPs. The cost works out on average 0.79 per cent of liquidation value and 0.42 per cent of resolution value.

Behavioural Change

4.64 The Code has brought about significant behavioural changes among the creditors and debtors thereby redefining debtor-creditor relationship. The inevitable consequence of a resolution process (the control and management of the firm move away from existing promoters and managers, most probably, forever) deters the management and promoter of the firm from operating below the optimum level of efficiency. Further, it encourages the debtors to settle default expeditiously with the creditor at the earliest, preferably outside the Code. There have been many instances where debtors have been settling their debts on their own or settling immediately on the filing of an application with the National Company Law Tribunal (NCLT) before it is admitted. It is pertinent to note that since the enactment of the Code in 2016, of the 18,892 applications that were dealt with, as many as 14,884 cases involving defaults of ₹ 5.15 lakh crore were withdrawn by September, 2020 from various benches of the NCLT, before these applications were admitted by the Adjudicating Authority and 897 processes were closed mid-way by December, 2020. These figures indicate that almost 83 per cent of the CDs are getting resolved on the way, before the official commencement of CIRP under the Code on account of behavioural change among the defaulting debtors. Only 7 per cent of the CDs have undergone the entire process yielding either resolution or liquidation. Remaining 10 per cent of CDs are still undergoing the process (Table 15 and 16).

Table 16: Outcomes under the Code: Status of applications filed (as of December 2020)

Particulars	No. of Corporates	Amount (₹ Crore)	
Applications filed	28,441	NA	
Applications Pending for consideration	9,549	NA	
Application Dealt	18,892	Liquidation Value	Realisation Value
Applications withdrawn before admission*	14,884*	NA*	5,15,170*
Process commenced	4,117	NA	NA

Particulars	No. of Corporates	Amount (₹ Crore)	
Process closed mid-way	897	NA	NA
Process closed by resolution plan	308	1,03,270	1,99,511
Process closed for liquidation	1,112	42,362	NA
Ongoing processes	1,800	NA	NA

Source: IBBI
Note: *Data on applications withdrawn before admission is maintained by MCA. This data is as of September, 2020.

Table 16: Rescue of distressed assets (as of Dec 2020)

Description	Companies Rescued	Companies Ordered for Liquidation
No. of Companies	308	1,112
Aggregate Claims	4,99,928	6,04,574
Aggregate Liquidation Value	1,03,270	43,048
Assets available % of Aggregate Claims	20.65	7.12
Resolution Value	1,99,511	NA
Resolution Value as % of Liquidation Value	193.19	NA
Resolution Value as % of Aggregate Claims	39.91	NA
Average time taken	441 days	328 days
Cost % of Resolution Value	0.42	NA

Source: IBBI and MCA

4.65 In view of COVID-19, the following measures were undertaken by the government:

- The Government increased the threshold amount of default required to initiate an insolvency proceeding from ₹ 1 lakh to ₹ 1 crore in end March 2020.
- The Insolvency and Bankruptcy (Amendment) Ordinance, 2020, inserted section 10A to suspend initiation of the CIRP of a corporate debtor (CD) under section 7, 9 and 10 for any default arising on or after March 25, 2020 which was further extended twice for 3 months each on September 25, 2020 and December 22, 2020.

4.66 Further, various measures were undertaken by judiciary and the regulator, including:

- For the matters already under a CIRP in accordance with the provisions of the IBC, the Supreme Court suo moto passed an order extending the limitation period for all matters with effect from March 15, 2020 till further orders.
- The NCLAT, vide order dated March 30, 2020, decided that the period of lockdown ordered by the Central Government and the State Governments shall be excluded for the purpose of counting of the period for resolution process under section 12 of the Code, in all cases where CIRP has been initiated and pending before any Bench of the NCLT or in appeal before NCLAT. It further ordered that any interim order/ stay order passed by the NCLAT in any one or the other appeal under the Code shall continue till next date of hearing.

- IBBI amended the CIRP regulations and Liquidation Process regulations to provide that the period of lockdown imposed by the Central Government in the wake of COVID-19 outbreak shall not be counted for the purposes of time-line for any activity that could not be completed due to the lockdown, in relation to a CIRP and Liquidation process, subject to the overall time-limit provided in the Code.

CHAPTER AT A GLANCE

➢ Monetary policy remained accommodative in 2020.
➢ The repo rate has been cut by 115 bps since March 2020.
➢ Systemic liquidity in 2020-21 remained in surplus so far. RBI undertook various conventional and unconventional measures like OMOs, Long Term Repo Operations, Targeted Long Term Repo Operations etc. to manage liquidity situation in the economy.
➢ The transmission of high reserve money growth to money supply growth was only partial, showing impaired liquidity transmission as the banks put money back with RBI under reverse repo.
➢ Credit growth of banks slowed down to 6.7 per cent as on January 1, 2021. The credit off take from banking sector witnessed a broad based slowdown.
➢ Gross Non Performing Assets ratio of Scheduled Commercial Banks decreased from 8.21 per cent at the end of March 2020 to 7.49 per cent at the end of September 2020. However, this has to be seen in conjunction with the asset classification relief provided to borrowers on account of the pandemic.
➢ The monetary transmission of lower policy rates to deposit and lending rates improved in this year.
➢ Nifty 50 and S&P BSE Sensex reached record high closing of 14,644.7 and 49,792.12 on January 20, 2021 respectively.
➢ The recovery rate for the Scheduled Commercial Banks through IBC (since its inception) has been over 45 per cent.
➢ In view of COVID-19 pandemic, initiation of Corporate Insolvency Resolution Process (CIRP) was suspended for any default arising on or after March 25, 2020 for a period of 6 months. This was further extended twice for 3 months on September 24, 2020 and December 22, 2020. The suspension along with continued clearance of CIRPs allowed a small decline in accumulated cases.

ANNEXURE 1

REGULATORY POLICY MEASURES IN RESPECT OF BANKS TO MITIGATE THE IMPACT OF COVID-19 PANDEMIC

Date of Announcement	Measures Announced
March 27, 2020	(i) Covid-19 Regulatory Package was announced; wherein lending institutions were permitted to grant moratorium and deferment of interest for three months i.e. March 01, 2020 to May 31, 2020 in respect of instalments of term loans and working capital sanctioned in the form of Cash Credit/Overdraft respectively on the outstanding as on March 1, 2020;
	(ii) The implementation of NSFR guidelines, which were to come into effect from April 1, 2020 onwards was deferred by six months to October 1, 2020 dated March 27, 2020; (iii) The implementation of the last tranche of 0.625 per cent of Capital Conservation Buffer (CCB) was deferred from March 31, 2020 to September 30, 2020.
April 01, 2020	Deferment of activation of Counter-cyclical Capital Buffer (CCyB) for a period of one year or earlier, as may be necessary, based on the review and empirical analysis of CCyB indicators.
April 17, 2020	(i) Temporary reliefs were provided regarding resolution of stressed assets in the form of extension of timeline for review period and resolution period for accounts in review period and under resolution without additional provisions as on March 01, 2020 respectively; (ii) Certain reliefs was provided regarding asset classification for accounts where the moratorium permitted in terms of the earlier circular dated March 27, 2020 has been granted, while concomitantly tightening the provisioning requirements to ensure the banks are well provisioned to meet any potential slippages; (iii) All banks shall not make any further dividend payouts from the profits pertaining to the financial year ended March 31, 2020 until further instructions; (iv) Measures regarding prudential liquidity requirements were announced: *a.* Entire SLR-eligible assets held by banks are now permitted to be reckoned as HQLAs for meeting LCR. *b.* In order to accommodate the burden on banks' cash flows, banks were permitted to maintain LCR as under: • From date of circular to September 30, 2020 - 80 per cent • Oct 1, 2020 to March 31, 2021 - 90 per cent; • April 1, 2021 onwards - 100 per cent.

Date of Announcement	Measures Announced
April 29, 2020	All regulatory returns required to be submitted by the Scheduled Commercial Banks, Payment Banks and Local Area Banks, AIFIs, and Cooperative Banks to the Department of Regulation were permitted to be submitted with a delay of upto 30 days from the due date. The extension was applicable to regulatory returns required to be submitted upto June 30, 2020.
May 23, 2020	(i) Some measures were extended.Lending institutions were permitted to grant moratorium and deferment by another three months i.e. i.e. from June 1, 2020 to August 31, 2020. Lending institutions were permitted, at their discretion, to convert the accumulated interest in case of CC/OD for the deferment period up to August 31, 2020, into a funded interest term loan (FITL) which shall be repayable not later than March 31, 2021. In respect of C/OD facilities facing stress on account of the pandemic, lending institutions were permitted to recalculate the drawing power by reducing the margins till August 31, 2020 as a one-time measure such that the margins are restored by March 31, 2021, and / or view the working capital sanctioned limits upto March 31, 2021, based on a reassessment of the working capital cycle. (ii) Increased a bank's exposure to a group of connected counterparties from 25 per cent to 30 per cent of the eligible capital base of the bank, as a one-time measure. The increased limit will be applicable up to June 30, 2021. (iii) Increased the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks from one year to 15 months, for disbursements made upto July 31, 2020; (iv) Extension of timeline by excluding the period from March 1, 2020 to August 31, 2020 from the calculation of review period and resolution for accounts in review period and under resolution without additional provisions as on March 01, 2020 respectively.
June 21, 2020	Credit facilities (Guaranteed Emergency Credit Line) extended under the Emergency Credit Line Guarantee Scheme by lending institutions were permitted to be assigned zero risk weight to the extent of guarantee coverage.
July 01, 2020	(i) Released Eligibility criteria for NBFCs/HFCs under the Scheme to improve the liquidity position of NBFCs/HFCs through a Special Purpose Vehicle (SPV). (ii) Banks were permitted to reckon the funds infused by the promoters in their MSME units through loans availed under the Credit Guarantee Scheme for Subordinate Debt for stressed MSMEs issued by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) as equity/quasi equity from the promoters for debt-equity computation.

Date of Announcement	Measures Announced
August 06, 2020	(i) A window is provided under the Prudential Framework to enable the lenders to implement a resolution plan in respect of eligible corporate exposures without change in ownership, and personal loans, while classifying such exposures as Standard, subject to specified conditions;
	(ii) Increased the permissible loan to value ratio (LTV) for loans against pledge of gold ornaments and jewellery for non-agricultural purposes from 75 per cent to 90 per cent; (iii) Extended the one-time restructuring of MSME advances for accounts classified as 'standard' as on March 01, 2020 and does not exceed Rs 25 crore.
September 07, 2020	Based on the recommendations of the Expert Committee, Lending institutions are required to consider five key ratios – Total Outside Liabilities/Adjusted Tangible Net Worth (TOL/ATNW), Total Debt / EBITDA, Current Ratio, Debt Service Coverage Ratio (DSCR), Average Debt Service Coverage Ratio (ADSCR) – and the sector-specific thresholds for each while preparing the financial assumptions in respect of resolution plans. The thresholds for 26 sectors, as recommended by the Expert Committee, were notified whereas the lending institutions were advised to make their own internal assessments in respect of other sectors.
September 29, 2020	The implementation of the last tranche of 0.625 per cent of Capital Conservation Buffer (CCB) was deferred from September 30, 2020 to April 1, 2021. The implementation of NSFR guidelines, which was to come into effect from October 1, 2020 onwards was deferred by a further period of six months. These guidelines shall now come into effect from April 1, 2021.
October 16, 2020	The celling for LTV ratios for housing loans sanctioned by banks on or after October 16, 2020 till March 31, 2022 was increased to 90 per cent.
October 26, 2020	Reserve Bank advised the lending institutions about the Scheme announced by Government of India for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (1.3.2020 to 31.8.2020) (the 'Scheme') on October 23, 2020.