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+ 91-33-2252-1602/1492/1619
+ 91-33- 2252-7143/7373/2204
Fax :+91-33-2252-7993
+91-33-2252-1026
+91-33-2252-1723

DAILY NEWS DIGEST BY BFSI BOARD

07 December 2024

ECONOMY

HIGHLIGHTS OF MONETARY & CREDIT POLICY STATEMENT

RESOLUTION OF THE MONETARY POLICY COMMITTEE DECEMBER 4 TO 6, 2024:

The Monetary Policy Committee (MPC) at its meeting dated December 6, 2024 decided the following;

- **Repo Rate** under Liquidity Adjustment Facility kept unchanged at **6.50%.**
- Consequently, the standing deposit facility (SDF) rate remains unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent.
- These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

OUTLOOK

- **Real GDP** registered a lower than expected growth of **5.4 per cent in Q2:2024-25** as private consumption and investment decelerated.
- **Real GDP growth for 2024-25** is projected at **6.6 per cent** with Q3 at 6.8 per cent; and Q4 at 7.2 per cent.
- Real GDP growth for Q1:2025-26 is projected at 6.9 per cent; and Q2 at 7.3 per cent.
- Headline **CPI inflation** surged above the upper tolerance level to **6.2 per cent in October** from 5.5 per cent in September.
- **CPI inflation for 2024-25** is projected at **4.8 per cent** with Q3 at 5.7 per cent; and Q4 at 4.5 per cent.
- CPI inflation for Q1:2025-26 is projected at 4.6 per cent; and Q2 at 4.0 per cent.

The next meeting of the MPC is scheduled during February 5 to 7, 2025.

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STATEMENT ON DEVELOPMENTAL AND REGULATORY POLICIES:

- **Reduction in CRR:** It has been decided to reduce the cash reserve ratio (CRR) of all banks by 50 bps in two equal tranches of 25 bps each to 4.0 per cent of net demand and time liabilities (NDTL) with effect from the fortnight beginning December 14, 2024 and December 28, 2024, respectively. This will restore the CRR **to 4 per cent of NDTL**, which was prevailing before the commencement of the policy tightening cycle in April 2022. This would release primary liquidity of about ₹1.16 lakh crore to the banking system.
- **Interest Rate cap on FCNR(B) Deposits:** At present, interest rates on FCNR(B) deposits are capped at Overnight Alternative Reference Rate (ARR) for the respective currency/swap, plus 250 basis points for deposits of 1 year to less than 3 years maturity and overnight ARR plus 350 basis points for deposits of 3 years and above and up to 5 years maturity. In order to attract more capital inflows, it has been decided to increase the ceiling for fresh FCNR(B) deposit w.e.f December 6, 2024, for 1 year to less than 3 years maturity at rates not exceeding ARR plus 400 bps and deposits with maturity between 3 to 5 years at rates not exceeding ARR plus 500 bps. This relaxation will be available till March 31, 2025.
- **Expanding reach of FX-Retail Platform through linkages with Bharat Connect:** To expand the reach of FX-Retail platform and enhance user experience, it is proposed to facilitate the linking of the FX-Retail platform with Bharat Connect (earlier known as Bharat Bill Payment System) operated by the NPCI Bharat Connect. The linkage will enable users to register and transact on the FX-Retail platform through the apps of banks (mobile applications, internet banking etc.) and non-bank payment system providers, which are integrated with Bharat Connect. In the first phase, it is proposed to implement a pilot facilitating purchase of US Dollar against the Rupee by individuals and sole proprietors.
- **Introduction of the Secured Overnight Rupee Rate (SORR):** In line with the recommendations of the Committee on the MIBOR Benchmark (Chairperson: Shri Ramanathan Subramanian) and reflective of the current market dynamics, it is proposed to develop a benchmark based on the secured money markets (both basket repo and TREP) – the Secured Overnight Rupee Rate (SORR).
- **'Connect 2 Regulate' – An Initiative for Open Regulation:** Reserve Bank proposes to launch a programme named 'Connect 2 Regulate' under the ongoing RBI@90 commemorative events. A dedicated section in the Reserve Bank's website will be made available for the programme. This shall provide an opportunity to the stakeholders to share their ideas and inputs in the form of case studies/ concept notes, etc. on the topics announced by the Reserve Bank from time to time.
- **Introduction of Podcast facility as an additional medium of communication:** Reserve Bank proposes to launch podcasts for wider dissemination of information that is of interest to the general public.

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- **Enhancement of limit for collateral free agriculture loans:** At present, banks are required to extend collateral-free agriculture loans up to ₹1.6 lakh per borrower. This limit was enhanced from ₹1 lakh, set in the year 2010 to ₹1.6 lakh in the year 2019. Now, it has been decided to raise the limit **from ₹1.6 lakh to ₹2 lakh**.
- **Extending the scope of Pre-sanctioned Credit Lines through UPI to SFBs:** Presently, Credit line on UPI is made available by Scheduled Commercial Banks excluding Payments Banks, Small Finance Banks (SFBs) and Regional Rural Banks. It is, now proposed to permit SFBs to extend pre-sanctioned credit lines through the UPI.
- **Framework for Responsible and Ethical Enablement of Artificial Intelligence (FREE-AI) in the Financial Sector:** It is proposed to constitute a committee to develop a Framework for Responsible and Ethical Enablement of AI (FREE-AI) in the Financial Sector comprising of experts from diverse fields and shall recommend a robust, comprehensive, and adaptable AI framework for the financial sector.
- **AI solutions to identify mule bank accounts - MuleHunter.AI:** RBI is currently running a hackathon on the theme "Zero Financial Frauds" which includes a specific problem statement on mule accounts, to encourage development of innovative solutions to contain the use of mule accounts. Another initiative in this direction is the AI / ML based model called MuleHunter.AI, being piloted by Reserve Bank Innovation Hub (RBIH), a subsidiary of Reserve Bank. This model enables detection of mule bank accounts in an efficient manner. A pilot with two large public sector banks has yielded encouraging results. Banks are encouraged to collaborate with RBIH to further develop the MuleHunter.AITM initiative to deal with the issue of mule bank accounts being used for committing financial frauds.

(RBI Notification)

GDP growth in Q3 to make up for Q2 loss: Finance Minister: The growth slowdown in the second quarter of the current financial year was not systemic but the result of a lack of public investments during the first quarter, as the administration was busy with the general election, finance minister Nirmala Sitharaman said on Friday. The third-quarter gross domestic product (GDP) growth numbers would make up for the loss in Q2, she said. This is the finance minister's first statement on growth after the lower-than-expected GDP growth witnessed in Q2 and indicators showing a marked slowing of urban consumption.

(Financial Express)

Higher interest cap may have muted impact on NRI capital: The Reserve Bank of India's (RBI) move to keep higher interest rate caps on the foreign currency non-resident banks (FCNR-B) deposits till the end of the fiscal could have a sentimental impact on capital inflows from abroad via this route. However, it may not trigger much influx in the short term as the current dollar FCNR rates of banks are way below the current ceilings. The RBI move, in the wake of a recent dip in India's forex reserves, is aimed at boosting forex inflows via the NRI deposits route, and ease the downward pressure on the rupee. As per the Balance of Payments' data, NRI deposits recorded net inflows of $4 billion in Q1FY25, higher than $2.2 billion a year ago. This is a relatively small window of capital inflows; the larger components of the capital account include portfolio investments, ECBs and banking capital.

(Financial Express)

Economists warn against tighter fiscal consolidation: Economists have warned the government against a sharper fiscal consolidation than announced as they presented their views to the finance ministry on Friday as part of the pre-Budget consultations. Reducing personal income tax rates to boost consumption, and increasing capex, were the other key recommendations. According to sources, the economists told the ministry officials to introduce a policy to spur manufacturing, which has remained lacklustre in the current financial year so far. The meeting with economists was the first pre-Budget that the finance ministry held for seeking views on the Budget for FY26, which will be tabled in the Parliament on February 1, 2025.

(Financial Express)

BANKING & FINANCE

Parliament committee approves of reforms proposed in Insurance Bill: A parliamentary committee has endorsed insurance sector reforms, including composite licenses and reduced capital requirements. They also urged GST rate cuts for health and microinsurance, and a roadmap for public sector insurers. Additionally, the committee recommended creating a central Cyber Security Protection Authority, mirroring the DGCA's role in aviation. The Centre has prepared a draft bill seeking amendments to the Insurance Act, which also includes raising the foreign investment limit to 100% from the current 74%. The amendments have been proposed for the Insurance Act 1938, the Life Insurance Corporation Act 1956 and the Insurance Regulatory and Development Authority Act 1999. On the issue of Goods and Services Tax on health insurance and microinsurance products, the parliamentary committee said it is glad that the IRDAI agrees with the committee's recommendation for reducing GST rates.

(Economic Times)

Forex reserves up $1.51 bn to $658.091 bn; end consecutive weeks of decline: India's forex reserves increased by $1.51 billion to $658.091 billion for the week ended November 29, the RBI said on Friday. The overall reserves had dropped by $1.31 billion to $656.582 billion in the previous

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reporting week. The kitty has witnessed a declining trend in the recent past and had dropped by a record $17.761 billion in the week prior to the last. The forex reserves had increased to an all-time high of $704.885 billion in end-September. For the week ended November 29, foreign currency assets, a major component of the reserves, increased by $2.061 billion to $568.852 billion, the data released on Friday showed.

(Business Standard)

New demat account additions hit 7-month low in November, shows data: The number of new demateri-alised (demat) accounts added in November dropped to less than 3.2 million, the lowest since April 2024. This marks the second consecutive month of decline in new account additions amid market turbulence triggered by foreign portfolio investors (FPIs) selling and earnings disappoi-ntments. Despite this, a total of 42.83 million new demat accounts have been added in the first 11 months of 2024, taking the total count to 182 million. Market players expect the pace to pick up in December with stability returning to the market and upcoming IPO launches.

(Business Standard)

SBI Card surpasses milestone of 20 million credit cards in circulation: SBI Card on Friday announced that the number of its credit cards in circulation has surpassed 20 million. According to a press release by SBI Card, it achieved the milestone of 20 million credit cards in force, having started its credit card business in 1998. “SBI Card has witnessed strong growth of around 25 per cent CAGR in cards in force and 26 per cent CAGR in spends between FY19 and FY24,” the release added. SBI Card is the second-largest card issuer in the country, after private sector lender HDFC Bank. Earlier in January 2024, HDFC Bank had achieved the milestone of 20 million cards in force. According to the latest data released by the Reserve Bank of India (RBI) for October, HDFC Bank’s cards in circulation stood at nearly 19.8 million, compared to 19.58 million cards in September 2024. Meanwhile, SBI Cards had 22.64 million cards in circulation in October. The total number of outstanding credit cards in the system increased by 12.85 per cent year-on-year (Y-o-Y) to 106.88 million, led by HDFC Bank, which added 241,119 cards, followed by SBI Cards with 220,265 card additions.

(Business Standard)

Goldman Sachs quits climate coalition for banks, biggest one to exit group: Goldman Sachs said it has quit a sector coalition aimed at aligning bank lending and investment activities with global efforts to fight climate change, marking the latest high-profile departure of a U.S. financial firm from the group. The U.S. investment bank's decision comes against a backdrop of pressure from some Republican politicians who have suggested that membership of the Net-Zero Banking Alliance (NZBA) could breach anti-trust rules.

(Business Standard)

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INDUSTRY OUTLOOK

ITCMAARS aims to support 4,000 FPOs by 2030, benefitting 10 million farmers: ITC Ltd aims to support 4,000 Farmer Producer Organisations (FPOs) by 2030 through its agri-tech ecosystem ITCMAARS, enhancing efficiency, market access, and financial services for about 10 million farmers. As part of its agri-business expansion, the cigarettes-to-consumer goods conglomerate, through ITCMAARS (Meta Market for Advanced Agricultural Services), seeks to deliver e-market services for agricultural inputs and outputs, facilitate credit access, and offer a wide range of predictive and prescriptive advisory solutions. “Our ambition is to take 1,700 FPOs (currently registered on the app) to 4,000. We want to take it across more value chains, whether it is fruits and vegetables or spices,” said S Ganesh Kumar, CEO of ITC’s agri-business division.
(Moneycontrol)

JP Morgan overweight on some Adani group bonds: JP Morgan Securities has said it is overweight on four Adani group bonds, of which three have been issued by Adani Ports and Special Economic Zone and one by Adani Electricity Mumbai. It also said it was neutral on other five Adani group bonds and was underweight on a bond issuance by Adani Green Energy.
(Business Line)

At ₹1.25-lakh cr, Tata Power plans to double capex in green energy over the next 5 years; mulls nuclear foray: Tata Power Ltd will step up capex spending in the 5-year period between 2025-26 and 2029-30 to ₹1.25 lakh crore, which is more than twice its capex in the preceding five years, the company’s CEO, Praveer Sinha, said on Friday.
(Business Line)

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REGULATION & DEVELOPMENT

Cabinet approves setting up of 28 new Navodaya Vidyalayas and 85 new Kendriya Vidyalayas (KVs) under civil/defence sector: The Cabinet Committee on Economic Affairs, chaired by the Prime Minister Shri Narendra Modi has approved setting up of 28 Navodaya Vidyalayas (NVs) in the uncovered districts of the country under the Navodaya Vidyalaya Scheme (Central Sector Scheme). The total estimated requirement of funds for establishment of the 28 NVs is Rs. 2359.82 crore spread over a period of five years from 2024-25 to 2028-29. This includes capital expenditure component of Rs. 1944.19 crore and operational expenditure of Rs. 415.63 crore. Further, the Cabinet has approved opening of 85 new Kendriya Vidyalayas (KVs) under Civil/Defence sector across the country and expansion of one existing KV i.e. KV Shivamogga, District Shivamogga, Karnataka to facilitate increased number of Central Government employees by adding two additional Sections in all the classes under the Kendriya Vidyalaya Scheme (Central Sector Scheme). The list of these 86 KVs is annexed. The total estimated requirement of funds for establishment of the 85 new KVs and expansion of 01 existing nearby KV is Rs. 5872.08 crore (approx.) spread over a period of eight years from 2025-26. This includes capital expenditure component of Rs. 2862.71 crore (approx.) and operational expenditure of Rs. 3009.37 crore (approx.). As on date, there are 1256 functional KVs, including 03 abroad viz. Moscow, Kathmandu and Tehran and a total number of 13.56 lakh (approx.) students are studying in these KVs.
(PiB)

Govt taps MSMEs, startups for defence tech, sanctions Rs 1,264 cr projects: Several initiatives aimed at transforming India into a global hub for defence research and technology, involving projects worth an estimated Rs 1,264 crore and significant participation from MSMEs, start-ups, and academia, have been rolled out by the government, according to Minister of State for Defence Sanjay Seth, who provided key updates in a written reply in the Lok Sabha on Friday. Among the key initiatives is the Technology Development Fund (TDF) scheme, a flagship programme under the MoD, executed by the Defence Research and Development Organisation (DRDO). The government has also launched the Innovations for Defence Excellence (iDEX) framework, designed to foster innovation in the defence and aerospace sectors by engaging MSMEs, start-ups, individual innovators, R&D institutes, and academia.
(Business Standard)

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FINANCIAL TERMINOLOGY

RESERVE CURRENCY

- A reserve currency is a large quantity of currency maintained by central banks and other major financial institutions to prepare for investments, transactions, and international debt obligations, or to influence their domestic exchange rate. A large percentage of commodities, such as gold and oil, are priced in the reserve currency, causing other countries to hold this currency to pay for these goods.
- A reserve currency reduces exchange rate risk since there's no need for a country to exchange its currency for the reserve currency to do trade.
- Since 1944, the U.S. dollar has been the primary reserve currency used by other countries. As a result, foreign nations closely monitor the monetary policy of the United States to ensure that the value of their reserves is not adversely affected by inflation or rising prices.
- In 1944, following the Bretton Woods Agreement, delegates from 44 nations formally agreed to adopt the U.S. dollar as an official reserve currency. Since then, other countries pegged their exchange rates to the dollar, which was convertible to gold at the time. Because the gold-backed dollar was relatively stable, it enabled other countries to stabilize their currencies.

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RBI KEY RATES

Repo Rate: 6.50%
SDF: 6.25%
MSF & Bank Rate: 6.75%
CRR: 4.50%
SLR: 18.00%
Fixed Reverse Repo: 3.35%

FOREX (FBIL 1.30 PM)

INR / 1 USD : 84.6578
INR / 1 GBP : 107.9127
INR / 1 EUR : 89.5324
INR /100 JPY: 56.5000

EQUITY MARKET

Sensex: 81709.12 (-56.74)
NIFTY: 24677.80 (-30.60)
Bnk NIFTY: 53509.50 (-94.05)

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- Certificate Course on Treasury and International Banking
- Certificate Course on Investment Management
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- Aide Memoire on lending to MSME Sector (including restructuring of MSME Credit).
- Guidance Note on the Internal Audit of General Insurance Companies.
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