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DAILY NEWS DIGEST BY BFSI BOARD

26 July 2024

ECONOMY

US economic growth regains steam in second quarter; inflation slows: The U.S. economy grew faster than expected in the second quarter, but inflation subsided, leaving intact expectations of a September interest rate cut from the Federal Reserve. Gross domestic product increased at a 2.8% annualized rate last quarter, the Commerce Department's Bureau of Economic Analysis said in its advance estimate of second-quarter GDP on Thursday. Economists polled by Reuters had forecast GDP rising at a 2.0% rate. Estimates ranged from a 1.1% rate to a 3.4% pace. The economy grew at a 1.4% rate in the first quarter. U.S. central bank officials regard a 1.8% pace as the non-inflationary growth rate.
(Moneycontrol)

Centre extends sale of 'Bharat atta' and 'Bharat rice' at revised rates: The Centre has extended the sale of ‘Bharat atta’ and ‘Bharat rice’ brands beyond their June 2024 deadline, in a bid to tame food prices, sources said. However, the retail price for ‘Bharat atta’ and ‘Bharat rice’ has been revised for new stocks. According to the new order, the retail price of ‘Bharat Atta’ will be pegged at Rs 30 per kg, which is around 9.09 per cent more than the current rate, while ‘Bharat rice’ was earmarked at Rs 34 per kg, which is around 17.24 per cent more than the current rate, sources said. The government will offer a subsidy of Rs 2.35 per kg for ‘Bharat Atta’ which would mean that the effective issue price for such ‘atta’ for Food Corporation of India (FCI) is Rs 20.65 per kg. For ‘Bharat rice’ the government will hand a subsidy of Rs 2 per kg, which would make the effective issue price of around Rs 22 per kg for FCI. The subsidy would be adjusted from the Price Stabilisation Fund under the Ministry of Consumer Affairs, which earlier this week bolstered by a corpus of Rs 10,000 crore in the FY25 Budget.
(Business Standard)

BANKING & FINANCE

RBI releases draft liquidity norms proposing additional buffers due to electronic fund transfers: RBI on Thursday released draft guidelines proposing banks to assign additional liquidity buffers for accounts having internet and mobile banking (IMB) facilities to stave off any risks during times of stress. The draft guidelines follow an announcement by Governor Shaktikanta Das in the April policy review, given the high usage of technological tools in banking that can lead to moving of funds without physically queuing up at bank branches. "While increased usage of technology has facilitated the ability to make instantaneous bank transfers and withdrawals, it has also led to a concomitant increase in risks, requiring proactive management," the draft circular amending the 2014-issued guidelines on Basel-III Framework on Liquidity Standards' Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards," said. The draft suggests banks shall assign an additional 5 per cent run-off factor for retail deposits, which are enabled with IMB facilities, wherein stable retail deposits enabled with IMB shall have 10 per cent run-off factor and less stable deposits enabled with IMB shall have 15 per cent run-off factor.
(Moneycontrol)

Canara Bank's Q1 net rises 10.5% to Rs 3,905 cr; NII expands 5.7%: Canara Bank's net profit during the quarter ended June 30 (Q1FY25) grew by 10.5 per cent year-on-year (YoY) to Rs 3,905 crore backed by non-interest income like fees and recoveries. It had posted a net profit of Rs 3,535 Crore in the quarter ended June 2023 (Q1Fy24). The lender's provisions for non-performing assets (NPAs) declined from Rs 2,417.6 crore in Q1 of FY24 to Rs 2,170.8 crore in Q1 of FY25. Sequentially, they also fell marginally from Rs 2,279.8 crore in Q4FY24. The asset quality profile improved, with gross NPAs declining to 4.14 per cent in June 2024 from 5.15 per cent in June 2023. Net NPAs also declined to 1.24 per cent in June 2024 from 1.57 per cent a year ago.
(Business Standard)

Banks need to devise new strategies to attract depositors: Financial services secretary Vivek Joshi: Indian banks need new strategies to attract depositors despite the current level of low-cost deposits being comfortable. Financial services secretary Vivek Joshi highlighted that CASA deposits, which were at 41% of total deposits, have seen a decrease from 45% in previous years. Joshi confirmed the government's ongoing plan to privatize two state-run banks and one general insurer. Although state-owned insurers showed improvements, further capital support is deferred. The

government is also working on in-house credit assessment capabilities for MSMEs by PSBs and exploring a new credit model. Additionally, the budget includes a 3% interest subvention on education loans of up to ₹10 lakh, benefitting 100,000 students annually.
(Economic Times)

RBI issues draft liquidity coverage ratio norms: The Reserve Bank of India (RBI) issued draft guidelines on Liquidity Coverage Ratio (LCR) late Thursday, asking banks to set aside a higher stock of liquid securities as a buffer on deposits amidst risk involving increased use of technology to transfer funds. The draft guidelines, which will be effective from FY25, are aimed at preventing a scenario similar to Silicon Valley Bank's collapse. LCR refers to a stock of high-quality liquid assets (HQLA)-primarily government securities-that banks must maintain to tide over a hypothetical 30-day stress scenario in which outflows occur. "While increased usage of technology has facilitated the ability to make instantaneous bank transfers and withdrawals, it has also led to a concomitant increase in risks, requiring proactive management," the RBI said in a draft circular. The RBI has proposed that banks assign an additional 5% run-off factor for retail deposits enabled with internet and mobile banking facilities (IMB). Stable retail deposits enabled with IMB shall have a 10% run-off factor, and less stable deposits enabled with IMB shall have a 15% run-off factor. An earlier draft guideline proposed a 5% run-off factor for stable deposits and 10% for less stable deposits, while the regulator on Thursday introduced a new category of retail deposits with IMB.
(Economic Times)

INDUSTRY OUTLOOK

Govt sets 25% market share target for BSNL by 2025: As state-owned BSNL readies itself for the launch of 4G services, the government has set a subscriber market share target of 25%, which the company needs to meet by the end of 2025. The loss-making firm has so far been allocated a total of Rs 3.2 trillion as part of three revival packages. The company has been losing subscribers for the last 2.5 years in the absence of 4G services. BSNL's market share has fallen to 7.4% with a mobile subscriber base of 86.3 million, according to data by the Telecom Regulatory Authority of India (Trai) as of May end. Notably, private telecom operators – Jio has a market share of 40.6%, followed by Airtel at 33.2% and Vodafone Idea at 18.6%. Last week, Robert Jerard Ravi took charge as CMD of BSNL. Besides expediting the 4G/5G rollout, Ravi's task would be to arrest subscriber churn and improve quality of services.
(Financial Express)

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Tata Motors' market cap crosses Rs 4 lakh crore mark after Nomura's upgrade: Auto major Tata Motors achieved a significant milestone on Thursday as its market capitalisation breached the esteemed Rs 4-lakh crore mark for the first time. The company's shares experienced a notable rally of 6.2%, ending at Rs 1,091, after receiving an upgrade from Nomura. Prior to this surge, the Tata group firm held a valuation of Rs 3.63 lakh crore. International brokerage Nomura revised its rating for Tata Motors to 'Buy' from the earlier recommendation of 'Neutral'. It revised its price target by 26% upward to Rs 1,294 from Rs 1,141 earlier. Nomura said Jaguar Land Rover's (JLR) execution can lead to significant upsides for the Tata Motors stock.
(Business Today)

S&P Global upgrades Vedanta Resources to 'B-' from ‘CCC+’ on improved capital structure, liquidity: Billionaire Anil Agarwal-controlled Vedanta Resources Limited on Thursday said that S&P Global Ratings has upgraded its ratings from 'CCC+' to 'B-' citing the company’s improving capital structure and liquidity while assigning a stable outlook. The natural resources, energy to technology conglomerate has been significantly deleveraging its balance sheet leading to a robust capital structure that supports sustainable growth over the long term. S&P revised its estimates on VRL’s earnings, estimating the EBITDA for fiscals 2025 and 2026 to be in the range of US$5.5 billion - US$6.0 billion annually.
(Business Today)

REGULATION & DEVELOPMENT

Black Money Act amendment to remove penalty on non-disclosure of foreign assets worth Rs 20 lakh: An amendment in the Black Money Act will give taxpayers relief from penalty in case they fail to disclose overseas assets worth Rs 20 lakh, Central Board of Direct Taxes (CBDT) Chairman Ravi Agarwal said, adding that however the obligation to report the transanction is not done away with. The Black Money Act amendments in Section 42 and 43 will be a part of the Finance Bill. Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 aims to curb black money, or undisclosed foreign assets and income and imposes tax and penalty on such income. Currently under the Act, even if the taxpayers fail to disclose a foreign asset worth Rs 5 lakh, they have to pay a Rs 10 lakh penalty on it. At present if the taxpayer is holding any asset abroad, which is not declared in the income tax return then there is a penalty of Rs 10 lakh. An amendment in

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the Black Money Act is proposed that If the value of the overseas asset is up to Rs 20 lakh, and is not disclosed, there will be no penalty if it's a bonafide mistake on the part of the taxpayer
(Moneycontrol)

Government not taxing proceeds in case they are invested in another house, says revenue secretary: Modi government 3.0's maiden Budget on July 23 led to an unexpected furore among the investor community. One provision that has irked many is the removal of indexation benefits for the real estate sector. Real estate stocks declined on the Budget day after the announcement by finance minister Nirmala Sitharaman and continued to be in the red the following day as well. Explaining the rationale behind the move, Revenue Secretary Sanjay Kumar Malhotra said: "Money does not have any colour. Why don't they ask for indexation on shares, fixed deposits and so on ... if I am taxing gains from shares then why not from real estate ... if you are selling a house to buy another house then you are exempted."

(Moneycontrol)

Interest cost, stamp duty not to be included in the base price for calculation of LTCG on properties: Revenue Secretary: Revenue Secretary Sanjay Malhotra on Wednesday said that interest cost and stamp duty paid for purchasing immovable property will not be added to the base price for calculation of long-term capital gain. "Under the existing mechanism, the base price for calculation of LTCG is the price paid to the seller. This does not include interest paid by the buyer if he or she takes a loan to purchase the property. There is no change in this provision which means only the price paid to the seller will be taken for calculation of LTCG under the new mechanism," he told businessline. Further, he said payment of Stamp Duty will also not be included in the base price for calculation of capital gain. This is the same position as mentioned in the existing system.
(Business Line)

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FINANCIAL TERMINOLOGY

High-Low Method in Accounting

- In cost accounting, the high-low method is a way of attempting to separate out fixed and variable costs given a limited amount of data. The high-low method involves taking the highest level of activity and the lowest level of activity and comparing the total costs at each level.
- If the variable cost is a fixed charge per unit and fixed costs remain the same, it is possible to determine the fixed and variable costs by solving the system of equations. It is worth being cautious when using the high-low method, however, as it can yield more or less accurate results depending on the distribution of values between the highest and lowest dollar amounts or quantities.

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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 : 83.7075
INR / 1 GBP : 107.8420
INR / 1 EUR : 90.7038
INR /100 JPY: 54.8200

EQUITY MARKET

Sensex: 80039.80 (-109.08)
NIFTY: 24406.10 (-7.40)
Bnk NIFTY: 50888.75 (-428.25)

Courses conducted by BFSI Board

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