



# **BANKING** **MONTHLY**

AUGUST 2022

## Prevailing Rates

### I. Policy Rates

Repo Rate	5.40%
Reverse Repo Rate	3.35%
Standing Deposit Facility Rate	5.15%
Marginal Standing Facility Rate	5.65%
Bank Rate	5.65%

### II. Lending/Deposit Rates

Base Rate	7.75% -8.80%
MCLR Rate (Overnight)	6.80% -7.65%
Savings Deposit Rate	2.70% -3.00%
Term Deposit Rate > 1 Year	5.30% -6.10%

### III. Reserve Ratio

CRR	4.50%
SLR	18.00%

### Global Banking:

#### **Biggest ever fall in economic confidence, says ACCA and IMA's Global Economy Survey**

Weak worldwide economic growth looks likely for the rest of 2022, according to the latest edition of the Global Economic Conditions Survey (GECS) from ACCA (the Association of Chartered Certified Accountants) and Institute of Management Accountants (IMA). The new report indicates that economic confidence among finance professionals and accountants in North America has fallen back to levels seen during the height of the Covid-19 pandemic in 2020. Confidence dropped in Asia Pacific (-20) and South Asia (-30), after rise in the previous survey. Capturing the effects of geopolitical issues and the surge in inflation across much of the world, all the main global indicators fell in the Q2 survey. The drop in global confidence is especially sharp, although the level remains above the low-point reached at the height of the Covid-19 pandemic.

#### **Our Comments:**

The Q2 Global Economic Conditions Survey (GECS) conducted in mid-June pointed to a decisive deterioration in the global economic outlook.

#### **Japan's economy rebounds from Covid, growing 2.2% in Q2**

Japan's economy grew an annualised 2.2% in the second quarter as robust private consumption provided a boost to the country's long-delayed recovery from the Covid-19 pandemic. The relatively strong economic data comes after gross domestic product grew just 0.1% during the January-March period. The growth was driven largely by a 1.1% rise in private consumption, which accounts for more than half of Japan's GDP, as dining out, leisure and travel rebounded following the lifting of pandemic curbs in March.

#### **Our Comments:**

Japan's economic recovery from the pandemic has lagged other countries due to weak consumption, which has been exacerbated by ongoing border controls and domestic pandemic restrictions that continued until March.

#### **China urges push to boost sluggish economy**

China's premier has called on the country's richest provinces to offer economic support to boost pro-growth measures. The country saw consumption and output unexpectedly slowdown in July. An uncompromising zero-Covid approach sharply slowed China's economic growth in the second quarter of this year. Gross domestic product fell by 2.6% in the three months to the end of June from the previous quarter. Key economic indicators show China is having a hard time shaking off the impact the lockdowns are having on its manufacturing and retail business. In July, retail sales rose 2.7% compared to a year ago. However, the number missed forecasts for 5% growth and fell short of June's figure of 3.1%. The latest figures also showed youth unemployment is at a record high.

#### **Our Comments:**

In a rare move, China's central bank cut lending rates to revive the demand. The government will take more steps to boost consumption and expand the effective investment.

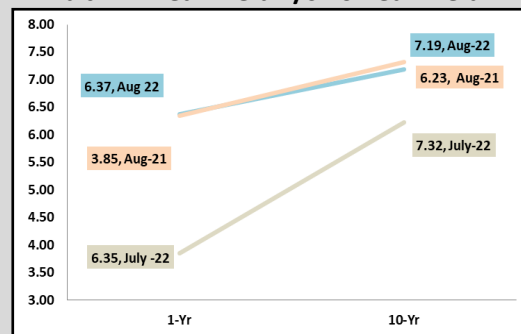
#### **Inflation drives global economy to first contraction since Covid**

The global economy in April-June logged its first quarter of negative growth since the pandemic began two years ago, as mounting headwinds ranging from surging inflation in the West to zero-Covid restrictions in China weigh on economic activity. Inflation in particular is a fault line in the world economy, which only stand to widen should a crisis break out in the Taiwan Strait or elsewhere.

#### **Our Comments:**

The path to a so-called soft landing has clearly narrowed and may narrow further.

**Exhibit 1: 1 Year Yield v/s 10 Year Yield**



Source: Investing.com, Progressive Research

**Indian Banking:**

**RBI's latest Financial Stability Report (FSR)**

RBI's latest Financial Stability Report (FSR) has given the banking system a reasonably clean bill of health. It's a significant achievement, considering the stress of the previous decade, the shock of the pandemic and the associated slowdown of the economy. However, the improvement in banks' financials is a glass half-full picture. It is still unclear whether the banking system is healthy enough to provide the sustained credit growth needed for a strong economic recovery. A healthy balance sheet of the banking sector is a necessary but not a sufficient condition for economic growth. The important question is whether banks and firms will once again be willing to take on the risk of investment in industry and infrastructure. And this seems unlikely unless there are deep structural reforms to the infrastructure framework, the resolution process and indeed in the risk management processes at the banks themselves. In the event that these reforms do not materialise, there may continue to be shortfalls in credit, investment and ultimately in economic recovery and growth.

**CPI Inflation eases to 6.71% in July, IIP falls to 12.3%**

India's headline retail inflation rate, as measured by the Consumer Price Index (CPI), eased to 6.71% in July, as compared to 7.01% in June. Easing inflation can be attributed to price cuts on edible oil and easing commodity prices globally. Even though the CPI inflation has eased, it still remained above the Reserve Bank of India's upper tolerance band. Meanwhile, India's industrial growth, as per the Index of Industrial Production (IIP), fell to 12.3% in June against 19.6% in May.

**Our Comments:**

With inflation expected to remain above the upper threshold in Q2/Q3, the MPC stressed that sustained high inflation could de-stabilise inflation expectations and harm growth in the medium term. The MPC, therefore, judged that further calibrated withdrawal of monetary accommodation is warranted to keep inflation expectations anchored and contain the second-round effects.

**First-quarter GDP up 13.5%, lower than RBI estimate**

India's economy grew 13.5% from a year ago in the April-June quarter this fiscal, its fastest y-o-y growth rate in four quarters. It was led by higher household consumption, especially of contact-intensive services and buoyant investment activity, as compared to the same quarter of the last fiscal that bore the brunt of the second Covid-19 wave. But this was lower than the RBI estimate that the GDP growth rate was likely to be around 16.2% in the first quarter.

**Our Comments:**

Q1 GDP growth tends to be lower than the Q4 GDP of the previous fiscal year due to higher government spending in the last quarter. Q1 GDP is good enough to achieve the rate of growth as the IMF and RBI have expected as real GDP growth for four quarters of this year. It is on course to achieve more than 7% GDP growth in the year, in the range 7.0-7.5%. The IMF has predicted 7.4%.

**India's GDP to contribute 22% to global growth, says Morgan Stanley**

India is likely to be the fastest-growing Asian economy in 2022-23, according to Morgan Stanley. They expect India's gross domestic product growth to average 7% during this period, the strongest among the largest economies and contributing 28% and 22% to Asian and global growth, respectively. The Indian economy, they said, is set for its best run in over a decade as pent-up demand is unleashed.

**Our Comments:**

The recent strong run of data increases the confidence that India is well positioned to deliver domestic demand alpha, which will be particularly important as developed market growth weakness percolates into Asia's external demand.



**Non Coverage News:**

**SBI introduced its first dedicated branch to support start-ups**

State Bank of India has launched its first branch dedicated to start-ups in Koramangala, Bengaluru. The branch will provide services ranging from the stage of formation of start-ups to Initial Public Offerings and Follow-on Public Offerings. Apart from providing funding and regular banking service to start-ups, SBI will also support such players through associated services such as investment banking, treasury operations, advisory and other ancillary financial services through its subsidiaries.

**Our Comments:**

After Bengaluru, the next branch will be opened in Gurgaon and the third one will be in Hyderabad. These branches would support the needs of the entire start-up ecosystem.

**RBI clears way for IDBI Bank EoI in September**

With the regulators willing to provide the required flexibility in norms; the government is set to float an expression of interest (EoI) for the strategic disinvestment of IDBI Bank next month. RBI and the Securities and Exchange Board of India are understood to have agreed to provide a flexible glide path to reduce the promoter's (acquirer's) stake in the bank once the transaction is over. To make the deal attractive, the government had urged the RBI to give the potential buyer some leeway in complying with the regulatory norms meant for private banks, including a time-bound reduction in promoter holding. The buyer may get 10-15 years to reduce stake in the bank to the desired level of 26%.

**Our Comments:**

Even though the exact size of the stake dilution is not yet clear, the government and promoter Life Insurance Corporation may together offer to offload up to 60% stake in the lender.

**RBL Bank offloads over 12% stake in Kilburn Engg since May for Rs17cr**

RBL Bank has offloaded over 12% stake in Kilburn Engineering since May for a total consideration of over Rs17cr. The private sector lender had acquired 67,50,000 equity shares of Kilburn Engineering (Kilburn) under a debt recast plan.

**Our Comments:**

The lender said its shareholding in Kilburn has come down to 7.58% post the sale of these equity shares.

**Yes Bank invests in startups incubator Venture Catalysts**

Yes Bank invests in Venture Catalysts Group Funds which is an integrated incubator that offers funding, mentorship and network to startup founders from the idea inception stage to the growth stages of the startup journey. With this investment, the bank aims to further its mission of catering to the 'Future Tech Businesses of India', bolster innovation in the technology space including the financial sector, and potentially partner with leading tech startups that Venture Catalysts has invested in.

**Our Comments:**

The partnership is a step in the direction to becoming the go-to bank for technology startups.

**HDFC Bank to buy stake in Go Digit Life Insurance**

HDFC Bank has announced plans to invest up to Rs69.9cr in Go Digit Life Insurance. The proposed investment will be carried out in two tranches and upon completion HDFC Bank will have 9.9% equity stake in the company.

**Our Comments:**

It would be subject to execution of definitive agreements to be mutually agreed upon, and fulfillment of other terms and conditions.

**Non Coverage News:**

**After PMC Bank, Wadhawans duped Indian Bank of Rs279cr**

Indian Bank has admitted to a major loan default of Rs279cr by the realty group, HDIL Mumbai. HDIL and the Wadhawans are already accused in the sensational Punjab & Maharashtra Cooperative Bank (PMC Bank) scam that blew up in the Indian banking sector three years ago in September 2019.

**Our Comments:**

Industry and banking circles claim that post-demonetisation, the realty sector alone could account for loan defaults of over Rs12-lakhcr, but most of it has yet come to light, as millions suffer.

**Axis Bank to wind up UK subsidiary after deal with OpenPayd fails**

Axis Bank is winding up its subsidiary in Britain after a deal with financial firm OpenPayd failed. Axis Bank first said in 2020 that it will be winding down its UK operations. Currently, the bank's international strategy is to focus on Indian corporates that have global operations. At the end of June, the bank had an overseas loan book of Rs38,928cr, a contraction from Rs45,750cr in March quarter.

**Our Comments:**

Axis in March acquired Citigroup Inc's local consumer banking firm for USD1.6bn to bulk up its credit card and retail business in the country.

**Axis sees 20% stake in Max Life**

Axis Bank is likely to raise its stake in Max Life Insurance to about 20% over the next 6-9 months. Currently, Axis Bank and its two subsidiaries Axis Capital Ltd and Axis Securities Ltd collectively own 12.99% of Max Life Insurance post approval of the deal in April last year. The bank currently holds about 13% and is hopeful that over the next 2-3 quarters they would be able to take it to 20%.

**Our Comments:**

Under the deal, the Axis entities also have the right to acquire an additional stake of up to 7% in Max Life, in one or more tranches, subject to regulatory approvals.

**Central Bank of India likely, to exit RBI PCA framework soon**

Central Bank of India, the only public sector lender under the RBI's PCA framework, may see an exit from restrictions soon following an improvement in its financial health. The bank has already made a representation to the RBI based on the improvement in financial parameters on a sustained basis for the past five quarters. According to sources, the RBI is looking at the bank's request and may take a view on this soon based on quantitative and qualitative parameters.

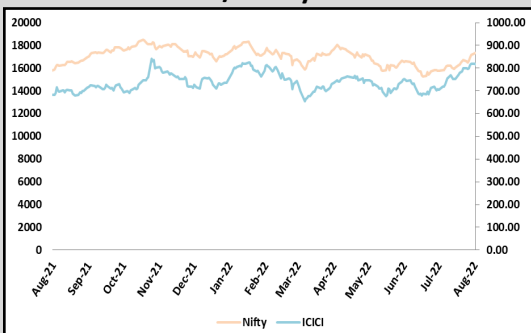
**Our Comments:**

The Central Bank of India was put under the PCA framework in June 2017 due to its high NPAs and low Return on Assets.

**Kotak Mahindra Bank reported 5,278 fraud cases in Q1FY23, SBI only 9**

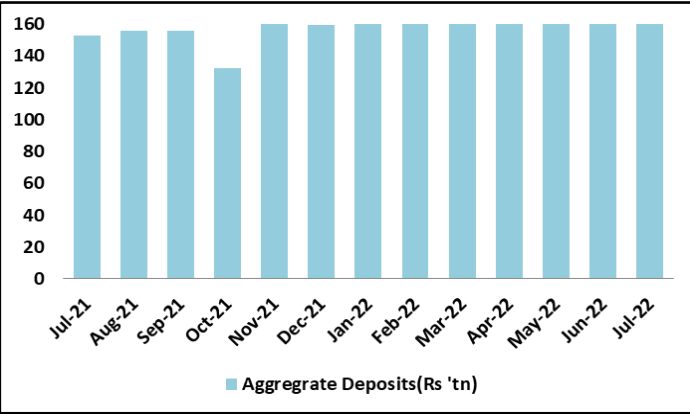
Kotak Mahindra Bank recorded as many as 5,278 cases of fraud in the first quarter (April to June) of the current financial year (2022-23), according to Reserve Bank of India (RBI) data. In stark contrast, the country's largest lender State Bank of India reported only nine fraud cases during the same period. Though the nature of fraud and the quantum of amount involved in the cases are not specified in the data, the huge number of frauds reported by Kotak Mahindra Bank does raise concern. **ICICI Bank** reported 436 cases of fraud during the period, followed by HDFC Bank (303), IndusInd Bank (200), and Axis Bank (195). RBL Bank reported 150 cases of fraud during the first quarter of FY2022-23, according to RBI. Except for IOB with 31 cases and Central Bank of India with 19 cases of fraud reported in the first quarter of the current fiscal, all the other major public sector banks reported less than 10 fraud cases during the period under review.

**Exhibit 2: ICICI v/s Nifty**



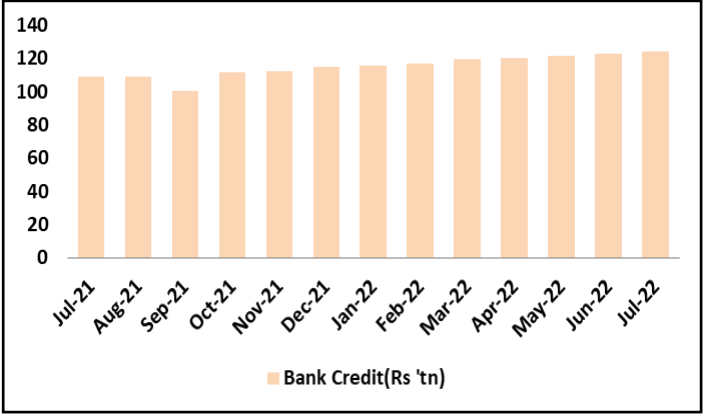
Source: Ace Equity, Progressive Research

**Exhibit 03: Trend of Aggregate Deposits of SCBs**



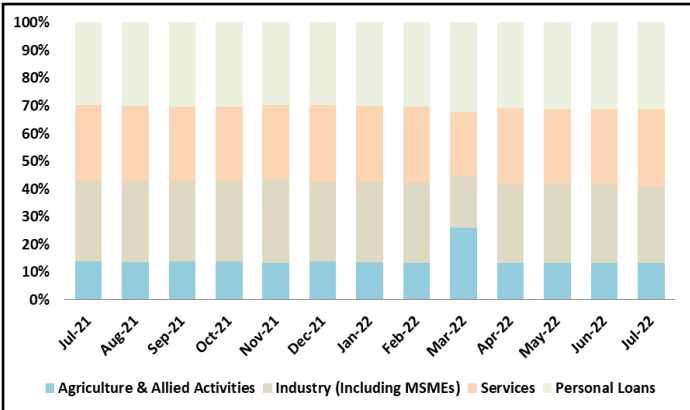
Source: RBI, Progressive Research

**Exhibit 04: Trend of Bank Credit of SCBs**



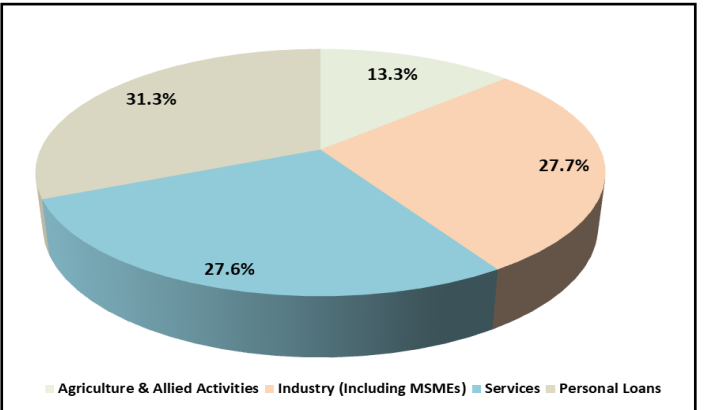
Source: RBI, Progressive Research

**Exhibit 05: Deployment of Gross Bank Credit by major sectors**



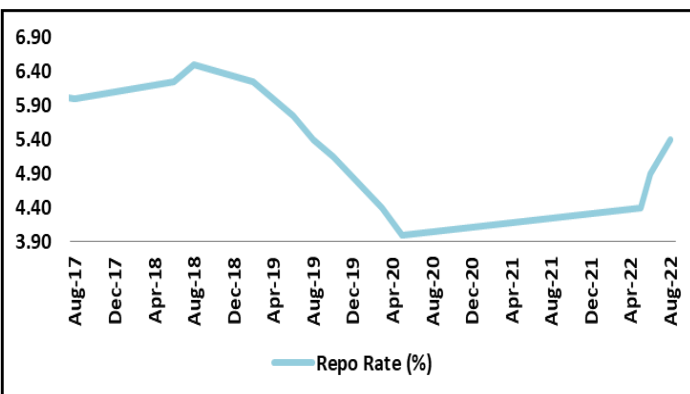
Source: RBI, Progressive Research

**Exhibit 06: Sectoral breakup of Gross Bank Credit of the major sectors in July**



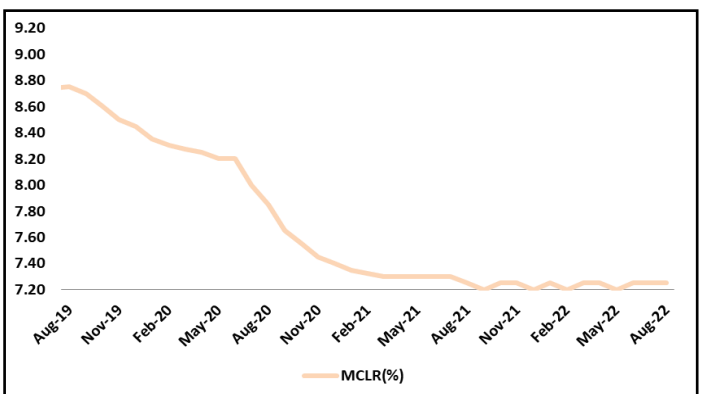
Source: RBI, Progressive Research

**Exhibit 07: Repo Rate Trend**



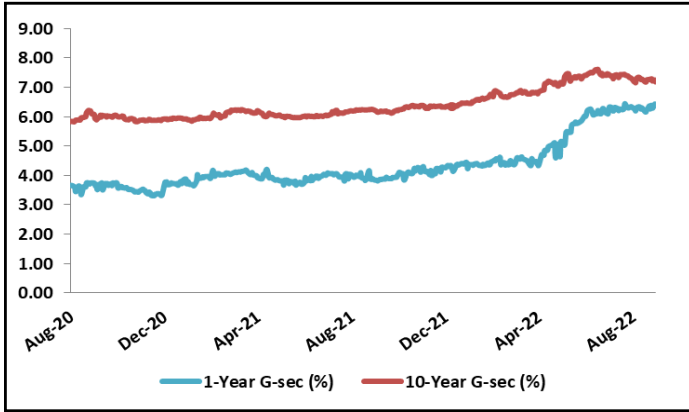
Source: RBI, Progressive Research

**Exhibit 08: MCLR trend in the last 3 years**



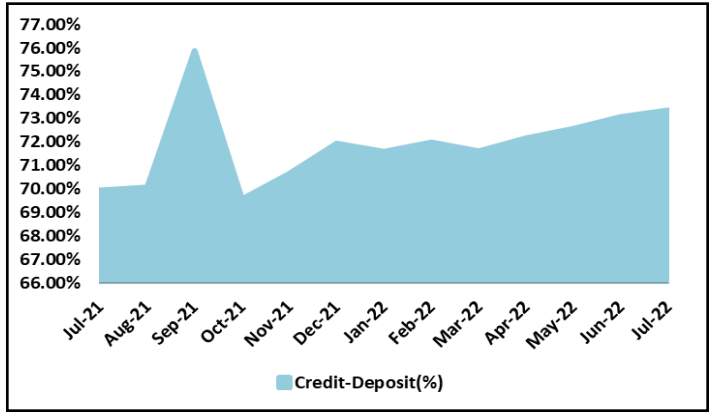
Source: RBI, Progressive Research

**Exhibit 09: RBI trying to keep the gap between short and long term bond in check**



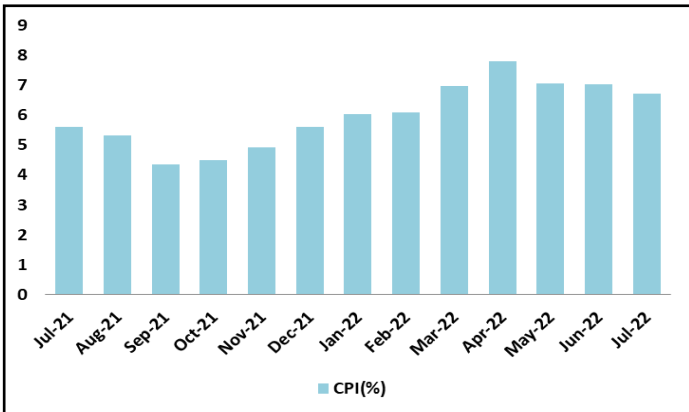
Source: Investing.com, Progressive Research

**Exhibit 10: Credit-Deposit ratio of the SCBs in July-22**



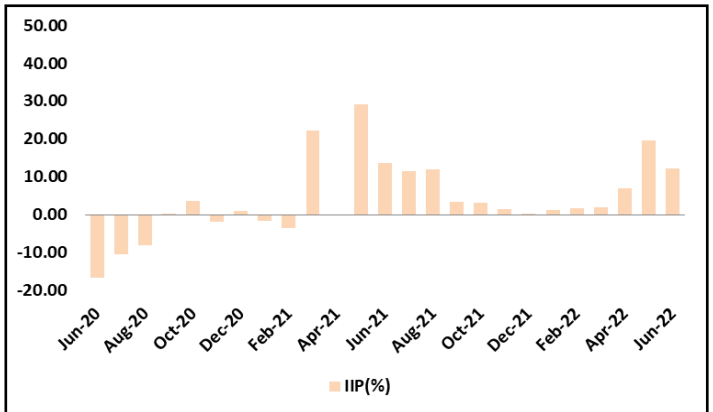
Source: RBI, Progressive Research

**Exhibit 11: Retail Inflation Range Bound**



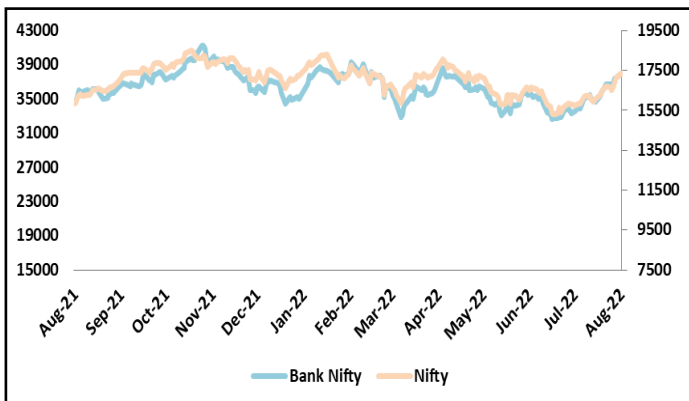
Source: RBI, Progressive Research

**Exhibit 12: Change in Y-o-Y IIP data**



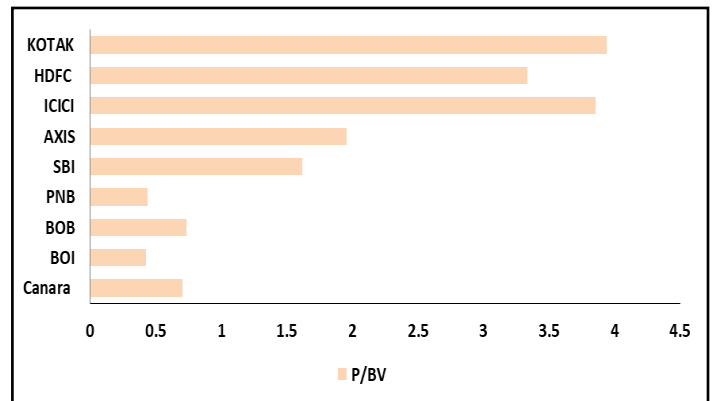
Source: RBI, Progressive Research

**Exhibit 13: Bank Index v/s Nifty Index**



Source: NSE, Progressive Research

**Exhibit 14: Major Banks' Valuation as on 30th August, 2022**



Source: Ace Equity, Progressive Research

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