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Volume 9 Issue 7

THE GLOBAL ANALYST

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India's Forex Firepower $500 bn and Counting!

India is only the third country in the world – after China and Japan – to have forex reserves of $500 bn and more

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Post-Pandemic Education, No Longer the Same

Alongside the Covid pandemic, India has to now fight another threat: the menace of the locust swarms that invaded vast swathes of land in India since April 11 this year. Favored by rain-bearing winds, the desert locust swarms entered Rajasthan from across the border and moved to parts of MP, Maharashtra and Uttar Pradesh within a few days causing extensive damage to the vegetation en route.

Locusts have, of course, been a bane of agriculture throughout the recorded history of man. The last such locust swarm we had in India was in the early 2000s and we have been, of course, handling their periodic outbreaks with the advanced information provided by the Locust Warning Organizations (LWO) established by the erstwhile British colonial government at Jodhpur and Karachi in the Indian subcontinent in the early 1900s. After independence, LWO at Jodhpur along with other Locust watch centers in the border districts of Rajasthan are keeping an eye on their movement and warn farmers in advance to take appropriate measures to minimize crop damage, besides spraying infected areas with pesticides using Ultra Low Volume (ULV) sprayers. Recently, they have even used ULV sprayers mounted on aircrafts and drones. However, what matters most in minimizing their effect on agriculture is: detecting the swarms early and killing them as they move. But our monitoring centers are reported to be facing resource crunch for years.

The most disturbing news about the current swarm is: experts from LWO are describing it as potentially the "worst in decades." And the reasons are not far to seek. The locusts that have entered India this time round are said to be of 10-12 days old and thus still have longer lifespan. Which means, they are likely to start laying eggs after the onset of monsoon and continue to breed for two more months. And each female that has a lifespan of 90-days can lay as many as 95-158 eggs in each pod. Further, they can breed in India three times. Which means, as India is getting ready for Kharif sowings, these swarms are likely to continue for the next four months. This is likely to amplify into an agrarian disaster, for they are voracious feeders and their destructive power is enormous.

It means, we need to move forward with better and more innovative methods to fight this menace successfully. The starting point of this fight would be to understand how this known recluse and a singleton insect that won't mix-up with others in its group, suddenly as the crop-harvest season arrives, teams up with others and form into swarms to attack plants for food. Studying the biological mechanism that triggers this sociological transformation, Stephen Rogers of Cambridge University found that the tactile stimulation resulting out of solitary locusts touching each other while searching for food is the cause for their behavioural change. This mechanical stimulation resulting out of a touch even just in a little area of the back limbs of the insect found to affect a couple of nerves in their body leading to their coming together. Their subsequent studies show that substantial changes in some molecules that are known to modulate their central nervous system, the most important among them being serotonin, regulate their mood and social behavior. In a laboratory experiment they have also found out that application of serotonin inhibitors such as 5HT or AMTP to the group of locusts reduced their coming together significantly.

This finding raises a new hope: Can we arrest the swarms by spraying serotonin inhibitor molecules as the swarm begins to form? This is what perhaps our experts at LWO in Jodhpur have to examine. There is also a need to study the impact of climate change on the swarm formation, for that enables us to know about the likely occurrence of swarms well in advance so that we can prepare the farming community to tackle the swarms effectively. Meteorologists have commented that warming Indian Ocean is an indirect cause for breeding and formation of recent locust swarms. For, record-breaking rainfall in India and eastern Africa precipitated locust breeding in the moist African deserts and favorable rain-bearing winds aided their move into India. Over it, the corona-related quarantine measures in Iran, Afghanistan and Pakistan that disturbed the usual coordinated efforts of these countries in controlling the swarms with insecticides had further aggravated the threat. Paradoxically, the current forecast for good rainfall in Rajasthan is sending jitters, for it would be pretty conducive for locust breeding during sowing season. And locust swarms do not respect national boundaries. So, we have to get ready with necessary wherewithal to minimize their impact on agriculture by adopting timely coordinated action along with the countries on these swarm-routes.

GRK Murty

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Who Said What

What COVID-19 has left in its wake is no ordinary economic crisis. This is not merely a recession or downturn. According to the World Bank, what we're seeing is the most extensive global economic meltdown in at least 150 years.

Joseph Stiglitz
Professor, Columbia University and the former Chief Economist of the World Bank

The deepening cold war between the US and China will be a bigger worry for the world than coronavirus. The world is headed for a period of "massive disruption without any leadership" in the aftermath of the pandemic.

Jeffrey Sachs, *Influential American Economist*

We will need to find new partners quickly to replace the Chinese, and Western countries don't have the resources we need," he said over the phone, pointing out that the capital coming from China cannot be replaced by any other country at least in the short run.

Biswajit Dhar,
A professor of Economics, Jawaharlal Nehru University, New Delhi

I want to explore every avenue available in order to combat climate change. This is something that I hold very strongly. The bank has to look at all the business lines and the operations in which we are engaged in order to tackle climate change, because at the end of the day, money talks.

Christine Lagarde
President, the European Central Bank

I think it's very important for us to emphasize that trade is important for every country's growth and everyone's welfare. Asia is heavily dependent on global supply chains and cannot grow while the whole world is suffering.

Chang Yong Rhee
Director, the IMF's Asia and Pacific Department

We either stop this epidemic or we have economic collapse.

Laurie Garrett, *Pandemic Expert*

(Compiled by N Janardhan Rao)

BUSINESS BRIEFS

Takes Away the Global Auto Crown from Toyota

The EV Pioneer Becomes the Most Valuable Auto Company in the World

Even as rival auto makers continue to reel under the pandemic heat, the Electric Vehicle (EV) pioneer emerges as the world's most valuable company in terms of market capitalization.

Shares of Tesla, already up more than 100% since the beginning of the year, rose by another 3.5% in intraday trading on July 1, which was more than enough to help it grab the crown as the world's most valuable automobile maker with a market capitalization of $207.2 bn—riding high on renewed interest from investors 'who have begun to feel more confident about the future of electric vehicles'—vs. Toyota's, so far the world's number one in terms of m-cap—$201.9 bn, even though it still dwarfs the EV maker in terms of production figures; Tesla's shares closed the day at $209.47 bn, still some $4 bn more than Toyota's current m-cap. The Palo Alto, California-based EV giant produced 103,000 vehicles in the first quarter, which was just about 4% of the 2.4 million vehicles produced by Toyota, during this period. Tesla's victory, says *Bloomberg,* underscores 'investor enthusiasm for a company trying to transform an industry that's relied on internal combustion engines for more than 130 years'.

Big car makers like Toyota and America's General Motors have been unable to underline their presence in the EV market, which Tesla has dominated since debuting seventeen years ago. The company co-founded and helmed by Elon Musk, is a pioneer and leader in plug-in and battery electric passenger car manufacturer, with market shares of 17% and 23%, respectively. In March, it also became the first electric car maker to have produced one million cars. Some of its popular models include Model S, Model 3, Model X, and Model Y, which has been ranked as the world's all-time best-selling plug-in electric car, with more than 500,000 units sold.

India's Gold Import Drops 86% in June

Image: Malabar Gold & Diamonds

Thanks to coronavirus-induced several weeks long lockdown, India's gold import took a plunge of a massive 86% on year-on-year basis in June. Record high prices due to heavy inflows into Gold ETFs, besides the ban on international travel helped the country cut its gold import bill sharply. India, the world's second-biggest consumer of the precious metal, imported a little over 11 tons of gold in June, substantially lower from 77.73 tons a year ago. In value terms, gold imports during the said month dropped to $608.76 mn from $2.7 bn a year ago.

India's Fight Against Pandemic Gets a Boost with the Nod for Covaxin

The country's wait for a Covid-19 vaccine may end soon as it gives green signal to the 'first' indigenous Covid-19 vaccine COVAXIN for human clinical trials. According to news reports, the Drug Controller General of India has given its go-ahead for phase I and II of human clinical trials of the drug. Human clinical trials are to start across India in July 2020. The vaccine has been developed by Hyderabad-based Bharat Biotech in collaboration with the Indian Council of Medical Research and the National Institute of Virology. The company expects the vaccine to hit the markets anytime by the end of December. For over two decades, Bharat Biotech has been in the vanguard of creating breakthrough vaccines and therapeutics for challenging diseases. The Indian biotech is credited with developing the country's first indigenously developed and manufactured Haemophilus Influenza Type B (Hib) vaccine, and the world's 1st clinically-proven conjugate Typhoid vaccine, besides launching rotavirus vaccine, launched by none other than PM Narendra Modi himself. It was the first vaccine to be launched under the 'Make-in-India' initiative. In 2016, the Indian biotech became the first company in the world to file a global patent for Zika vaccine.

Digital Payments: Txn Values Return to Pre-Covid Levels

Unified Payments Interface (UPI), the flagship digital payment platform of the National Payments Corporation of India (NPCI), reached a new milestone of volume as well as value of transactions actions touched since its inception in 2016, after declining briefly a couple of months ago. According to a *BS* report, the transaction volume of UPI increased 8.9% to 1.34 billion in June, from 1.23 billion in May, while the transaction value increased almost 20% to ₹2.61 tn, from ₹2.18 tn, during the same period. In April, the transaction volume of UPI plummeted to 990 million, from 1.2 billion in March, a drop of more than 20%, and the transaction value dipped 27% to ₹1.51 tn, from ₹2.06 tn in March. The transactions reported in June through UPI surpass that of February's (pre-Covid), both in terms of volume and value.

Digital payment platforms have recovered from the lows in April when a nationwide lockdown was imposed that had brought economic activity in the country to a near standstill. Dilip Asbe, MD&CEO, NPCI said, Volumes are close to February 2020 level (pre-covid 9 lockdown scenario). After sharp fall in April, there has been gradual recovery in volume and value of transactions, reflecting increase in economic activity in some segments. The retail trade—grocery and shopping have seen pick up over period. If the economic activity remains stable, the payment indicators will show improvement, he added. "Because of the coronavirus, a lot of cash users are wary of using currency notes. At checkout points, UPI is becoming the default payment option. It is not only attracting cash users, but card users as well. This trend should sustain because of its convenience. The UPI numbers will keep rising because there is a fundamental shift in consumer behavior," the business daily quoted Ashneer Grover, founder and Chief Executive Officer (CEO), BharatPe, as saying. As far as Immediate Payment Service (IMPS) is concerned, transaction volumes were up 19%to 198.91 million in June, from 166.68 million in May, and the transaction value went up 22% to ₹2.06 tn, from ₹1.69 tn in the same period. In April, IMPS logged a transaction volume of 122.47 million, and a transaction value of ₹1.21 tn.

TRANSACTION COUNT (million)

	May	June	Growth (%)
UPI (billion)	1.23	1.34	8.90
IMPS	166.68	198.91	19.33
BBPS	16.54	17.64	26.60
Fastag	55.17	81.92	48.48

TRANSACTION VALUE (₹crore)

	May	June	Growth (%)
UPI (trillion)	2.18	2.61	20.00
IMPS (trillion)	1.69	2.06	22.00
BBPS	2,178.72	2,969.68	36.30
Fastag	1,142.34	1,511.93	32.35

Sourc: NPCI

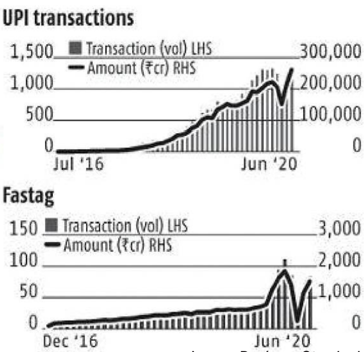

Image: *Business Standard*

amazon Says No to Single-Use Plastic in India

Amazon, the world's largest online retailer, has said that its Indian unit is stopping the use of all single-use plastic in its packaging across its fulfillment centers in the country. The move is in line with its ambitious goal to phase out the packaging material by June. The e-commerce major also said that besides replacing packaging materials such as bubble wraps and air pillows with "paper cushions", it is also swapping out packaging tapes with other bio-degradable options. "We have successfully eliminated single-use plastic in all our fulfilment centers a 100%," Akhil Saxena, vice-president of customer fulfillment for the APAC, LATAM and Middle East and North Africa regions, said in an interview to *Reuters*. Amazon, often criticised for using too much plastic and thermocol to wrap its billions of packages of shipments, had said last September that its India unit would replace single-use plastic in its packaging by June 2020. He added that this was achieved as the company had begun the work much before the nationwide lockdown was announced.

Image: *ET*

India aims to end the usage of single-use plastic—seen as a major source of pollution—by 2022. Asia's third largest economy lacks an organized system for management of plastic waste, leading to extensive littering. Many Indian cities rank among the world's most polluted, and waste generated from single-use plastic has been a growing problem, *Reuters* said. The rival Flipkart, now owned by Walmart Inc., too has said it has cut down the usage of plastic packaging in its own supply chain to about 50%. India generates close to 26,000 tons of plastic a day, which makes it the 15th biggest plastic polluter globally. Worse, a little over 10,000 tons a day of plastic waste remains uncollected, which eventually ends up in the natural environment—in our seas and oceans or piling up on our lands. Most states in India have imposed full or partial bans on single-use plastic.

From Rock-Bottom Prices to the Best Quarter in 30 Years, Crude Goes Through a Roller Coaster

Oil prices just registered their best quarterly performance in 30 years in the recently concluded June quarter. This was a dramatic comeback by the international crude prices, which had failed to record lows only a couple of months ago, in April to be precise. Brent crude futures jumped more than 80% in the March-June quarter, which happened to be the best quarterly performance since the third quarter of 1990, when crude prices had registered gains of 142% during the first Gulf War, *CNBC* said. The US West Texas Intermediate futures too clocked a growth of 91% in the three months through to end of June, its best quarterly performance since the third quarter of 1990 when it soared 131%. Notwithstanding these recent gains, crude prices are still down over 34% since the start of the year. The International Energy Association's Executive Director Fatih Birol has reportedly said he believes 2020 may well come to be regarded as the worst year in the history of global oil markets, with April likely to be the worst month the industry has ever seen. "I think obviously what we saw with the Covid crisis was unprecedented and, in oil markets, it was coupled with the dislocation of the supply agreement between Russia and the OPEC countries at the same time," Martin Fraenkel, president of S&P Global Platts, told CNBC's "Squawk Box Europe" on Tuesday. Those two "massive" events impacting oil prices was "a once-in-a-generation coincidence, so I don't really expect that again," Fraenkel said. Nonetheless, he warned oil price volatility was likely to continue over the coming months, citing "really high" dislocations throughout the global energy sector. It is to be recalled that on April 20, this year, international crude had crashed into negative territory for the first time on record, falling as low as negative $40 a barrel at the height of coronavirus lockdown measures. "It meant producers were effectively having to pay traders to take oil off their hands," the broadcaster commented. Brent futures too slumped to its lowest level since 1999, prompting some Wall Street veterans to describe it as scary.

Get Ready for A Ride on a Train from Tatas, Ambanis, Adanis!

If railways has its ways, you may soon be able to enjoy a ride on a train run by the country's private sector players. According to media reports, Indian Railways, which is also Asia's oldest railway, is working on an ambitious plan to invite private sector to operate some of its trains. Indian Railways, the world's fourth-largest network, is seeking investments from private firms to operate passenger trains for the first time, an initiative that could potentially revamp a notoriously inefficient system, a report in *ET* said. As per the report, the Ministry of Railways has asked interested companies to submit their bid to run passenger trains over 109 origin-destination routes via 151 trains. The project will entail an investment of about ₹300 bn ($4 bn). Indian Railways, which started operations in 1853, began the process of outsourcing passenger services by allowing Indian Railway Catering & Tourism Corp., a publicly listed state-run firm, to run some trains last year. Currently, IRCTC runs "Tejas Express", India's first semi-high speed, fully AC train, on the Lucknow-New Delhi route. As per the Railway's latest plan, selected private firms will have to manufacture a majority of the trains locally, and will be responsible for financing, procuring, operation and maintenance of the services, although drivers and guards will be provided by the state-run enterprise. ■

Contributed by Amit Singh Sisodiya

Reference # 20M-2020-07-01-10

Will Boycott China Work?

It doesn't seem so, at least in the near-term, given that Chinese firms are well entrenched in many domestic sectors with a number of industries depending significantly on imports from China, while Beijing has also made massive investments in a lot of Indian startups including some of the Unicorns and digital champions like Paytm, Ola, Swiggy, Byju's and BigBasket.

So, while there is absolutely no denying the fact that India needs to reduce dependence on Chinese imports, it would still be some time before we achieved that goal. Nevertheless, there is a need to make a beginning.

Let's have a look at bilateral trade data of the two nations, besides Chinese investments in Indian startups.

Image: *ET*

INDIA'S EXPORT TO CHINA

2018-19 (in $ mn)	2019-20 (till Feb)
16,752.2	15,540.1

INDIA'S IMPORT FROM CHINA

2018-19 (in $ mn)	2019-20 (till Feb)
70,319.64	62,379.39

TOP FIVE EXPORTS FROM INDIA TO CHINA ($ MILLION)

	2018-19	2019-2020 (provisional figure till Feb)
ORGANIC CHEMICALS	3,249.21	2,572.89
MINERAL FUELS, OILS, MINERAL WAX AND BITUMINOUS SUBSTANCE	2,855.69	2,051.66
COTTON	1,786.77	722.31
ORES, SLAG AND ASH	1,220.22	2,136.77
PLASTIC AND ARTICLES THEREOF	1,104.52	810.85

TOP FIVE IMPORTS FROM CHINA ($ MILLION)

ELECTRIC MACHINERY AND EQUIPMENT AND PARTS THEREOF	20,627.56	18,117.81
NUCLEAR REACTORS, BOILERS, MACHINERY AND RELATED PARTS	13,383.76	12,780.72
ORGANIC CHEMICAL	8,596.25	7,530.78
PLASTIC AND RELATED ARTICLES	2,722.60	2,580.62
FERTILIZERS	2,053.22	1,802.00

(Source: Ministry of Commerce and FIEO 2019-20 data is provisional till Feb)

5% China accounted for over 5% of India's total exports in financial year 2019-20 and more than 14% of imports

Image: *New Indian Express*

Some of the key sectors that depend heavily on raw material imports from China include Auto Components and Pharmaceuticals.

Auto Components

China accounted for 27% of India's total annual auto parts imports of $17.6 bn in FY'19, according to data from the Auto Component Manufacturers' Association of India (ACMA). In comparison, India's export of auto parts to China is a mere $300 mn per annum.

India imported auto part worth $4.6 bn from China in 2018-19. China was India's top import destination for auto components during last fiscal. Germany, with a share of 14%, emerged as the second highest exporter of auto parts to India during the said fiscal year.

Pharmaceuticals

Indian pharmaceutical sector too depends heavily on China for sourcing a key raw material Active Pharmaceutical Ingredients (API). The domestic drug makers meet two-thirds of their API requirements through imports from China. ■

Compiled by Amit Singh Sisodiya

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Banking

RBI Instills Confidence

RBI was one of the first statutory organizations in India which perceived the threat to normal functioning of institutions and systems from the Covid-19 pandemic and responded quickly providing various forms of financial support including increased flow of credit to some of the most-needy segments of the economy, particularly MSMEs, which suffered the most during the multiple-week long lockdown.

Remember demonetization? Those were the days when India's central bank shouldered all the blame, for all the wrong reasons though. While RBI as an institution had not failed in its responsibilities, inept delegations, by a Governor who had inadequate awareness about the games, the Indian bureaucracy and political leadership played to protect various interests, during the preparatory days (February to August, 2016) for the Note-Ban ended up in an apparent messing up in handling of post-November 8, 2016 (the date on which Prime Minister Narendra Modi announced the loss of legal tender status of the currency notes of value ₹1000 and ₹500) situation. Urjit Patel, the governor who succeeded Raghuram Rajan in September 2016 was also an outsider (not from the IAS or Indian Banking Sector) like his predecessor and had communication problems with bureaucracy and political leadership which eventually ended up in his untimely exit from RBI also.

RBI's timely actions, in terms of announcing stimulus packages to provide relief to the common man and industries alike, besides to also kick-start the domestic economy against the backdrop of the coronavirus-induced nationwide lockdown that hit normal life and affected businesses and jobs, are simply laudable and instil enough confidence in one and all that the nation is well on track to recover from the worst pandemic in more than a century

The above introductory is to focus on the background of the present leadership at RBI. By the time RBI Governor Urjit Patel abruptly expressed his intention to leave RBI on December 11, 2018, Prime Minister Narendra Modi had a clear grasp of the situation at Mint Road and could ensure continuity in functioning of the central bank by sending a new governor there within 24 hours. The choice narrowed down on Shaktikanta Das as he had already proved his ability to handle tricky situations and his tactfulness to get along people and identify talent was no secret. We saw it in the limelight during the weeks that followed demonetization.

After taking over as governor, till date, insiders in RBI have several instances to quote when Das led the central bank team from the front, without himself claiming any credit for himself. He gave the whole credit to the team he led. His handling of two issues need special mention. One, the reserves controversy. By openly expressing opinions about transfer of RBI's reserves to GoI, top policymakers had embarrassed RBI which at one stage expedited the exit of Urjit Patel and later saw his Deputy's (Viral Acharya) resignation. With unreserved support from Shaktikanta Das, RBI

Excerpts from the Minutes of the Monetary Policy Committee Meeting Held at RBI on May 20-22, 2020

(Statement by Shaktikanta Das, Governor, RBI)

The impact of Covid-19 on the domestic economy has turned out to be far more severe than initially anticipated. Lockdowns across major economies have also severely impacted economic activity across the globe. In the April WEO, the IMF projected the global economy to contract sharply by 3.0% in 2020. GDP data for Q1:2020 and more recent high frequency indicators emanating from major advanced and emerging market economies, however, suggest that the contraction in global growth could be even deeper.

Domestic economic activity has been impacted severely by two months of lockdown which was imposed to contain the spread of the Covid-19 pandemic and save human lives. High frequency indicators for March-April 2020 suggest a collapse of demand. Industrial output, measured by the Index of Industrial Production (IIP) for March, which included only seven days of the nation-wide lockdown, contracted by 16.7%. The contraction was spread across sectors, with manufacturing shrinking by 20.6% and capital goods production by 35.6%. Private consumption, which has been the bedrock of domestic demand, also plummeted with the production of consumer durables falling by 33.1% in March 2020 and that of non-durables by 16.2%.

Limited data that are available for April suggest a further shrinkage in demand. India's merchandise trade slumped in April 2020, with exports contracting by 60.3% and imports by 58.6%. While railway freight traffic shrank by 35.3% in April, steel consumption declined by 90.9%. PMI manufacturing and PMI services in April slipped to unprecedented levels of 27.4 and 5.4 respectively.

Bank credit growth continues to be tepid, suggesting weak demand. Non-food credit of Scheduled Commercial Banks (SCBs) grew by 6.5% (y-o-y) as on May 8, 2020 as compared with 13.0% a year ago. During 2020-21 so far (up to May 8, 2020), however, banks' investment in commercial paper, shares, bonds and debentures increased by ₹66,757 cr as against a decline of ₹8,822 cr during the same period last year, reflecting the impact of Targeted Long Term Repo Operations (TLTROs) of the Reserve Bank.

The Reserve Bank has been proactively managing liquidity. Since the MPC statement of February 6, 2020 the Reserve Bank has announced liquidity augmenting measures of ₹9.42 lakh cr (4.6% of GDP). Monetary transmission has continued to improve with the Weighted Average Lending Rate (WALR) on fresh rupee loans declining by 43 bps in March; the decrease since February 2019, when the current cycle of rate cut began, being 114 bps.

Looking ahead, the growth outlook has deteriorated sharply. There is still uncertainty as to when the Covid curve will flatten. Even as the supply side is expected to ease gradually as the lockdown-related restrictions are phased out, it is the demand side, which will continue to weigh heavily on economic activity for some time to come. The impact of the fiscal and contingent liability measures announced by the government on demand creation needs to be carefully watched. Quick implementation of various reform measures can also inject growth impulses into the Indian economy in the medium to long term. Economic activity, however, is expected to contract in the first half of the year before recovering gradually in the second half of 2020-21 on the back of various fiscal, monetary and liquidity measures undertaken in the recent period. Overall, the GDP growth in 2020-21 is estimated to remain in negative territory. The pace of recovery will be contingent upon the containment of the pandemic and how quickly social distancing/lockdown measures are phased out.

It has become challenging to assess the inflation outlook in the absence of complete information on CPI. Food inflation is expected to moderate in the coming months as transport impediments and supply lines get eased. This is also corroborated by data on 22 essential commodities released by the Department of Consumer Affairs, which show that prices of several food items have declined in this month so far from the April levels. The meltdown in demand is also likely to result in a significant easing of price pressures in core goods and services. Weak demand conditions in the presence of strong favorable base effects could result in headline inflation falling below the target rate during Q3 and Q4 of 2020-21.

The risks to growth have become far more severe than in our assessment at the end of March 2020. It is expected that this diagnosis will be validated by hard data over the next few months, even as the overall outlook continues to be highly uncertain. The key challenge for monetary policy at this stage is to resuscitate domestic demand to avoid any harmful effect on income and employment in the short run and potential growth over the medium term. For strengthening domestic demand, it is important to revive consumer and business confidence. The government has already announced a variety of measures to provide economic support to various sectors of the economy and protect the interests of vulnerable sections of society. The Reserve Bank has also been proactively managing liquidity to ensure that funds flow to all productive sectors of the economy. RBI has also been easing monetary policy to reduce the cost of funds/capital to revive domestic demand. While all these measures should help support demand as and when the nation-wide lockdown is lifted, but given the enormity of a collapse in demand, the need is to move ahead full throttle to ease financing conditions further so as to revive consumption and revitalize investment. Since banks are the key players in financing consumption and investment, it is also imperative that they remain adequately capitalised. The benign inflation outlook that is expected for the second half of 2020-21, coupled with the rising probability of a sharper loss of growth momentum in the near-term, has provided us with more policy space to ease financial conditions further and stimulate growth. Since the outbreak of Covid-19, the MPC has voted for front-loading its actions. In view of the deteriorating outlook, it is critical to reinforce these actions in sync with the space provided by the underlying conditions.

could appoint a panel with former governor Bimal Jalan as chairman and among others former Deputy Governor Rakesh Mohan as member (both had nation's interest as uppermost priority in their minds) to study the adequacy of reserves and the manner in which future RBI surplus income was to be appropriated. Bimal Jalan, though after surviving a tough struggle within the panel with unreserved support from Rakesh Mohan, managed to come up with an excellent report on RBI's internal reserves management which was accepted by RBI for implementation. This put a lid on a controversy which had literally affected the smooth functioning of RBI for a few years.

> RBI's own perception is that the easing of financing conditions considerably has resulted in alleviating financial stress and reducing volatility in certain segments. Though signs of cautious and slow opening of economic activity in some regions and areas are visible in recent weeks.

M G Warrier
Ex-GM, RBI

Another internal issue which was solved by Das was a long pending pension revision issue of veteran retirees which was being dodged by finance ministry for almost two decades, despite the institution having adequate resources in its own pension fund. Governor found out a via media of giving some temporary relief to the pensioners which incidentally boosted staff morale and needless to flag the role of employees' trust in the top management in the smooth running of day-to-day affairs of any organization. RBI was one of the first statutory organizations in India which perceived the threat to normal functioning of institutions and systems paused by the Covid-19 pandemic. As mentioned in my previous article (TGA April-May, 2020), to ensure uninterrupted functioning of the core functions of RBI. I wrote and I quote:

"After the medical fraternity, RBI was one of the major institutional participants which gauged the possible hurdles the invasion of the pandemic will bring with it affecting the smooth functioning of the nation's lifelines including the financial system. Quickly, the central bank constituted a fairly large 'Core Team' under the leadership of Governor Shaktikanta Das which started functioning with war-like cautions to ensure uninterrupted functioning of core central banking functions including currency management and timely policy interventions".

In a recent interaction RBI Governor acknowledged that "the measures taken by RBI during the recent times were unprecedented and unconventional". He was referring to the direct and indirect liquidity, monetary policy and regulatory interventions to facilitate smooth functioning of financial institutions which are undeniably the bedrock of our economy. RBI provided various forms of financial support including flow of credit to the most needy segments of the economy which suffered most as the lockdown entered third month. RBI's own perception is that the easing of financing conditions considerably has resulted in alleviating financial stress and reducing volatility in certain segments. Though signs of cautious and slow opening of economic activity in some regions and areas are visible in recent weeks, Further, the apex bank feels that return to normalcy or near normalcy will depend on how quickly the Covid curve flattens out.

During the Monetary Policy Committee (MPC) meeting held in May 2020, RBI Governor observed:

"The Reserve Bank has been proactively managing liquidity. Since the MPC statement of February 6, 2020 the Reserve Bank has announced liquidity augmenting measures of ₹9.42 lakh cr (4.6% of GDP). Monetary transmission has continued to improve with the WALR on fresh rupee loans declining by 43 bps in March; the decrease since February 2019, when the current cycle of rate cut began, being 114 bps" (see Box for the text of Governor's statement of perceptions, at MPC Meeting held during May 2020)

RBI's efforts have limitations emanating from the dependence on the ability of the financial system to manage flow of credit to various sectors and demand from government for funds. Viewed from this angle GoI's package of measures gets significance. The ₹20 lakh crore Atma-nirbhar package announced by GoI on May 12, 2020 comprises several components announced in phases by Finance Minister Nirmala Sitharaman during third week of May 2020. The package works out to 10% of India's GDP, which is among the most substantial in the world after US (13% of GDP) and Japan (20% of GDP). They included:

- The package allowed states to increase their borrowing limit unconditionally by 0.5% of individual state's Gross State Domestic Product (GSDP)
- Around ₹40,000 cr increase in MGNREGA allocation,over and above the budgeted ₹61,500 cr
- Free foodgrains to poor and cash to poor women and elderly ₹1.7 lakh cr
- Liquidity-driven measures (including cut in interest rates, etc.) aggregating ₹6.5 lakh cr.

The comparison in monetary terms with measures initiated by other countries may not be rational as India has a federal and multi-layer governance and budgeting system.

More challenges will emerge as the Covid curve flattens and the economy gets back to the growth path again in the coming months. ■

Reference # 20M-2020-07-03-01

India's Financial Sector
Needs a Faster Recovery

A strong financial system is a must for realizing India's goal of becoming a $5 tn economy. But to achieve that, it is imperative that the authorities view the sector constructively as a broad, eclectic mix of various types of institutions with differing business models and risk profiles.

India's $1.7 tn financial system comprehends banks, financial organization, markets and services. It is mostly dominated by a banking sector with commercial banks accounting for more than 64% of the total assets held by the financial system. Over the years, subsequent governments introduced several reforms to liberalize, regulate and enhance this industry.

A quick recap of the state of India's financial sector before Covid is a good place to begin. The banks were under severe pressure. Non-Performing Assets (NPAs) were still mounting and there was no way to tell if they had bottomed out or not. There was concern over NPAs from the MUDRA loans that may worsen the situation. Credit dispensation had almost come to a standstill, not entirely because of weak balance sheets of the bank, but mostly because banks were apprehensive. A slowdown in credit obviously led to a slowdown in growth.

When the banking sector requires a breather, the Non-Banking Financial Companies (NBFCs) often take over the responsibility of keeping credit lines open, especially for the smaller businesses. Unfortunately, a deep crisis had occurred amongst the NBFC sector. This did not bode well for the economy. The crisis in the NBFC sector had ramifications for the mutual fund industry. The Reserve Bank of India (RBI), in an effort to deal with the crisis at hand, ended up sucking all liquidity out of the NBFC sector. With credit lines from banks becoming almost impossible to access, the NBFC crisis became a full-fledged liquidity problem, which was what caused problems for the mutual fund sector.

With credit lines from banks becoming almost impossible to access, the NBFC crisis became a full-fledged liquidity problem and also caused problems for the mutual fund sector

The status quo continues

The pre-Covid state of India's financial sector was not pretty. Fracture lines were deepening across the board. Although there were some laudable efforts. The introduction of the bankruptcy code was by far the most significant development. This helped banks, albeit with significant haircuts, to recover some of their bad debts. Notwithstanding, the common criticism was that almost all measures would do little to deal with the structural inconsistencies of the financial system. If anything, in the new post-Covid world, the situation is only expected to become worse.

Livelihoods and businesses, small and large, are feeling the pressure of Covid. Labor is scant, incomes have dropped, and it is natural that many businesses may close. With a target of a $5 tn economy, this we know that Micro, Small and Medium Enterprises (MSMEs) are the drivers for future growth. They already contribute around 8% to India's GDP, 40% of exports, almost 45% to India's manufacturing output, and employ around 120 million people. The sector has innate capacity to generate employment, nurture entrepreneurship and provide MSMEs the opportunity for significant gains by plugging themselves into global value chains.

> India's growth has predominantly been financed by the banking and NBFC sector. Each have played their role in financing growth. In comparison, the capital market has become a speculative market rather than one that assists capital formation.

Nirupama Soundararajan
Senior Fellow & Head of Research
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The MSME sector in India has shown remarkable resilience even unchallenging domestic and global economic circumstances. The sector has maintained an annual growth rate of 10% over the last few years. With a penchant for innovativeness, the sector has exhibited the adaptability to survive economic shocks. The sector has however constantly suffered from constraints such as limited access to markets, lack of capital, and stiff competition from well established players. The financial sector will have to play its part in helping this sector to recover and grow. For this, India's financial sector will have to make some significant changes and become robust in order to fund economic growth in a post-Covid world.

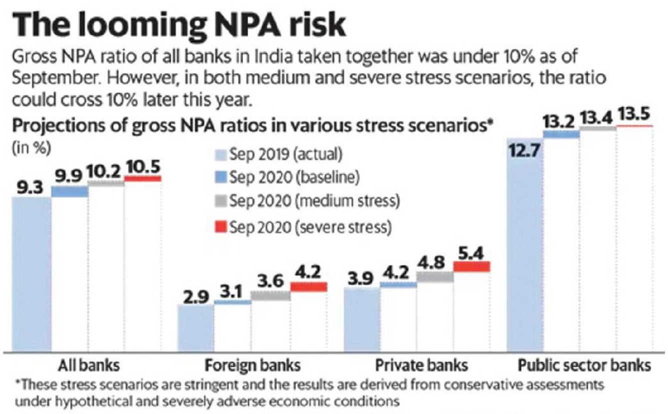


Image: *BS*

A large quantity of theoretical and empirical literature focusses on the impact of financial deepening on economic growth in the world. The financial system performs four basic functions which are essential to economic development and growth: Mobilization of savings, allocation of resources to productive uses, facilitating transactions, and exerting corporate control. Through these functions, literature suggests that higher growth rates can be achieved, with much of the effect coming through greater productivity rather than a higher overall rate of investment.

Banks and markets channel investments in different ways. Banks perform intermediation mostly on their balance sheets. They take in and provide funding primarily in the form of loans, often through close relationships with borrowers. Markets, by contrast, keep savers and investors at arm's length, by serving as a forum where debt and equity securities are issued and traded. Banks can overcome problems arising from asymmetric information and contract enforcement using the knowledge they accumulate through relationships; markets do so by means of contract covenants and the courts. Capital markets around the world, both in developed and in emerging economies, are tasked with similar responsibilities of capital formation and building market efficiencies.

All financial systems combine bank-based and market-based intermediation. But financial structure varies across countries. Some studies find that both banks and other intermediaries are important while others find that it is the provision of services that is more important to economic growth. The answer though may be more nuanced in that the relationship may depend on the level of a countries financial and economic development. India's growth has predominantly been financed by the banking and NBFC sector. Each have played their role in financing growth. In comparison, the capital markets has become a speculative market rather than one that assists capital formation.

Take for example, the bond market in India. A liquid bond market along with an efficient banking sector can effectively meet the growing demands for long-term capital. Empirical evidences show that systemic problems in the banking sector leads to intervention in the flow of funds from the savers to the investors for a very long time. Bond financing not only reduces macroeconomics vulnerability to shocks but also mitigates systemic risk through diversification of investment and credit risks.

Structural reforms—Need of the hour

Every crisis presents an opportunity, maybe not in the best way, but an opportunity all the same. One can be sure that all parts of the financial sector will face intense pressure. It is not just about time for India to re-evaluate her financial architecture but also take steps towards implementing some bold structural reforms.

There are many things that the government can do. First, it must take stock of all the financial sector reform announcements that have been made and ensure that they come to some fruition. The pending ADR/GDR for India and the FRDI Bill are excellent cases in point. Second, there have been scores of reports by experts that have made many recommendations on ushering much-needed structural reforms in the financial sector. These reports cannot be left to gather dust; they must be re-examined and implemented. The PJ Nayak Committee Report on bank governance, the Justice Srikrishna Report or the Financial Sector Legislative Reforms Commission are examples of these. Third, India's regulators will have to work as hard as market development as they do on creating legislations and regulations. Alongside this, Indian regulators will also have to undertake regulatory impact assessments to understand if the purpose of regulations have been met. This requires careful consideration and clarity of thought and vision at the time of drafting regulations. The new draft house finance regulations is an excellent example of how regulations can lack vision for the sector or how market development has not been embraced.

The inherent problems with the financial sector cannot be attributed to a single person or agency. Each stakeholder has had a role to play which has led to the current mess and it will require every stakeholder to pull their weight to create the change that is required. If India lets this opportunity to pass, the vicious cycle of a weak financial sector further weakening a weak economy will be difficult to break. ■

Reference # 20M-2020-07-04-01

A Strong Financial Sector for the New India

The financial sector is wrestling with these issues at a challenging moment for the global economy. Global growth is slowing amid sluggish investment and weakening trade. Like many countries, India's economy is facing challenges, with consumption softening and investment slowing. Globally, bond yields have fallen into low or negative territory for several top bond issuers, benefiting an increasingly narrow group but leaving the productive investments needed for broad-based growth under-funded, including in India. This creates a difficult backdrop for reform. At the same time, it underscores the need for decisive action to allow faster growth.

The opportunity is tremendous. If the current challenges are addressed, India has the potential to build one of the world's biggest domestic banking sectors. Faster private-sector credit growth would add directly to GDP, jobs and median income.

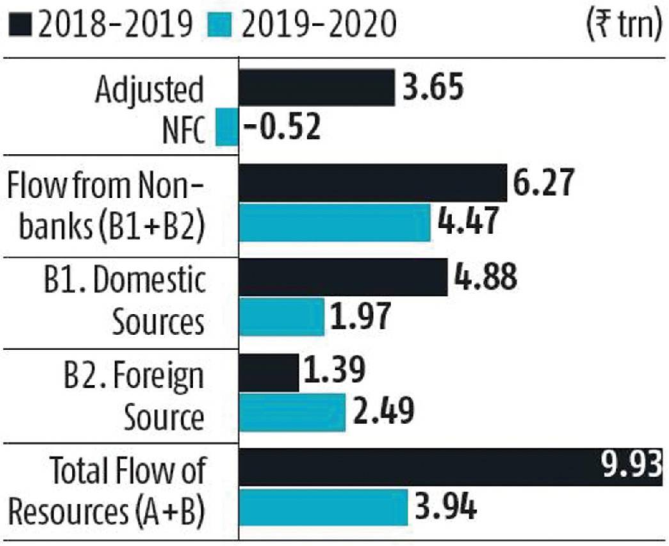
I want to reiterate the importance of a strong financial system to realizing India's goal of becoming a $5 tn economy. Allowing more private sector participation in the financial system, making it easier for funds to flow into capital markets, and properly regulating systemically important NBFCs are all ways for the financial sector to evolve in a direction that can position India for fast, broad-based growth. A modernized financial system is essential to delivering it.

The RBI has done a commendable job overseeing the growth of NBFCs. Going forward, we would recommend that the authorities view the sector constructively as broad, eclectic coalition of various types of institutions with different business models and risk profiles. You should consider applying the same risk-based approach to supervising NBFCs as you apply to banks, applying more stringent regulations and greater scrutiny to institutions, depending on the risks they present to the financial system.

In recent decades, India has made impressive progress in building a financial sector that fits its unique development needs. Yet in a world where payments can be sent with a click of a button even from the most basic cell phone, it's crucial that countries have financial sectors that ensure stability while offering deep, well-regulated markets and being agile enough to respond to rapid innovation in the industry.

David Malpass, President, World Bank Group (Courtesy: worldbank.org)

Flow of Financial Resources to Commercial Sector



*: Data as of April-September 27 period. Figures in the parentheses represent share in total flows.
Source: RBI, Sebi, BSE, NSE, merchant banks, LIC, and NHB
NFC: Non-food bank credit

Image: Indialnfoline

India's Forex Firepower $500 bn and Counting!

From overcoming the worst BoP crisis thirty years ago to skirting the twin-deficit crisis of 2013 which gave it a major scare to building the world's third largest forex reserves—more than enough to foot import bill for a year—India comes a long way.

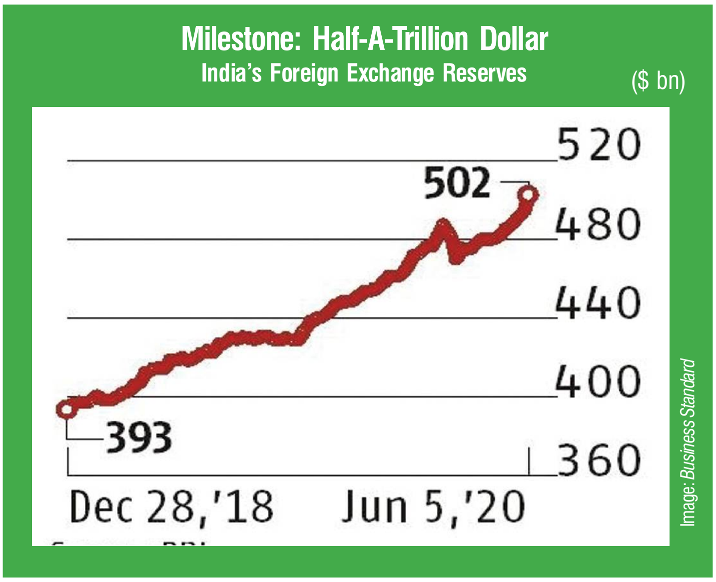
I think if you focus only on reserves there is really no point at which you feel safe, because provided there is enough uncertainty about the economy, uncertainty about conditions, uncertainty about the treatment of international investors, 400, 500, 600 any level of reserves, until you get to Chinese levels, is probably not enough.

Dr. Raghuram Rajan, the then RBI Governor, in a conference call with researchers and analysts in early April 2014.

On June 5, as its forex reserves zoomed past the $500bn-mark, the first time ever, India became only the third country in the world – after China and Japan - to reach that milestone.

However, before we burst into jubilation, let us revisit an incident which took place a few decades ago and proved to be a turning point, and acted as a catalyst for India to kick-start its journey towards acquiring a forex reserves war chest that would be second to none!

It was 1991, still some time before summers arrived. But the economy was already reeling under the heat as the threat of a sovereign debt default looked more real than ever. India's total external debt was hovering around $84bn at end-March. Its import bills too had flared up courtesy surging international crude prices – a major import item - but there were not enough forex reserves left to meet the payment obligations; the country's forex kitty which had stood at $5.8bn then was depleting fast. At end-June, it had only about half a billion dollar worth of foreign exchange (forex) reserves, which couldn't have met more than three weeks of essential imports. India was barely a few weeks away from defaulting on its external balance of payment obligations for the first time ever.



Frenetic efforts to raise the emergency funds from international agencies like IMF and World Bank which could have allowed the country to avoid the embarrassment had not yielded much result; IMF allowed India to access Special Drawing Rights (SDR) worth $1.27bn but that was not enough. Time was running out. Negotiations were on to raise fresh capital from some of the central banks in the west, but that did not fructify for want of collateral. Meanwhile, sovereign rating downgrades by Moody's and a few others – after the 5-month old coalition government led by PM Chandrasekhar failed to pass the budget - had only made the task all the more difficult; Moody's had downgraded India's credit rating to below investment grade then. Left with no choice, his government decided to do the unthinkable before lenders knocked at the door – to raise the fund by tapping into the family's silver, that is, the country's gold reserves.

That year, between May 21 and 31, the Reserve Bank of India sold 20 tons of confiscated gold (seized from smugglers) to the Union Bank of Switzerland (UBS) to raise $240mn. Obviously, it was embarrassing for the nation to raise funds this way. In fact, the whole episode could have gone unnoticed but for a freak incident that spilled the beans. It so happened that a van which was carrying the gold consignment had a tyre burst on the way to the airport and an alerted security personnel immediately encircled it. It got attention of the curious onlookers and someone from them even took the photograph. Media got the whiff and rest is history. The then Chandrasekhar government came in for heavy criticism.However, the crisis was not yet resolved fully and threat of a default was still lurking.

A few months later, in July, the country was staring at yet another balance of payment crisis. The-then PV Narasimha Rao-led government, which had just taken the reins of power at the centre towards the end of June that year, negotiated with the central banks of UK and Japan for a fresh loan of $600mn. During July 4-18, India airlifted a further 47 tons of gold to be pledged with the Bank of England and Bank of Japan to raise the new capital.

Those memories are still fresh and perhaps would remain so for a very long time. Although not many would be knowing that during the same year India also purchased 200 tonnes of the yellow metal to diversify its assets, probably signalling the wheel had turned full circle!

That was an eye-opener of sort, nevertheless.

Summers are back again, but not the heat of the 1991-kind!

Early this summer, some three decades after the BoP crisis and amidst the raging border tensions and over three months' long pandemic-induced lockdown that has hit the economy hard, the RBI announced that India's forex reserves kitty had just hit a major landmark—half a trillion dollars or $501.7 bn, for the week ended June 5.

It is a near 100-fold jump in the reserves, from a mere $5.8 bn at the end-March 1991. It would be interesting to note that also happened to be the second highest forex reserves level (after the all-time high of $5.97 bn reached in 1985), before it depleted to reach less than a billion dollar mark within a span of just a little over a month, that is, by the early May! What brought it down? A series of adverse developments that included skyrocketing fuel prices, which had more than doubled post-the Gulf War, as well as dramatic fall in revenues from both tourism as well as remittances—the major sources of dollar inflows for India then—caused a massive erosion in the apex bank's forex stockpile. Though the policymakers, and the apex bank, responded with measures like raising cash margins on imports (especially petroleum products) and imposing a higher surcharge on interest on bank advances for imports, these proved insufficient. Besides, a substantial jump in withdrawals of bank deposits by NRI customers, as well as sovereign rating downgrades by international rating agencies, which led to a jump in borrowing costs for banks and corporates, only worsened the situation. Worse, the collapse of less than a year-old National Front government at the center had just turned the BoP crisis into a full-blown crisis of confidence. But all that changed soon as the newly installed PV Narasimha Rao-led government at the centre unleashed a series of reforms which helped India usher into a totally new era: the era of liberalization and globalization, which also paved way for the emergence of new thinking on the reserves front.

What Do High Forex Reserves Mean for a Country, its Central Bank and the Common Man?

- Forex reserves are a country's external assets which are kept in the form of gold, SDRs (special drawing rights of the IMF) and foreign currency assets (FCAs).
- All international transactions are settled in US dollars. Hence the RBI keeps a large part of its forex reserves in US dollars.
- It also keeps a certain part of its forex assets in other currencies such as Euro, British Pounds, yen and yuan, which form part of IMF's SDR basket.
- Forex reserves are expressed mainly in the US dollars.
- Sources of forex reserves may include capital inflows to the capital markets (stocks, bonds, etc.), FDI and ECBs (External Commercial Borrowings) of corporates.
- A strong kitty allows the Reserve Bank to timely intervene in forward and spot currency markets to prevent any slide in rupee on account of a sudden disruption in foreign capital flows, which could happen during a crisis. Holding liquid forex thus provides a cushion against such effects and gives the confidence that there would still be enough forex to support the country's crucial imports in case of external shocks.
- India's forex reserves surged past the $500bn-mark, as of June 5, 2020, more than enough to meet imports for a year; in 1991, India's forex reserves depleted to the level sufficient only to pay for only a few week's imports. The reserves rose to $506.84bn, as of June 26, 2020.
- As of June 5, 2020, other components of India's forex reserves included gold ($32.35bn), SDR ($1.4bn) and reserve position ($4.2bn).
- Foreign currency assets may also be impacted by any appreciation or depreciation of non-US currencies such as the euro, pound and yen held in the reserves.
- In India, forex reserves are managed by the country's central bank.
- Foreign exchange reserves act as a nation's backup funds in case of an emergency, such as a rapid devaluation of its currency.
- Countries use foreign currency reserves to keep a fixed rate value, maintain competitively priced exports, remain liquid in case of crisis, and provide confidence for investors. They also need reserves to pay external debts, afford capital to fund sectors of the economy, and profit from diversified portfolios.
- The increase in reserves does give India adequate cushion to combat external shocks. India is one of the few nations whose forex reserves are more than forex debt.

Source: *The Economic Times, Mint*

When forex reserves hit $100 bn mark for the first time

India's forex reserves reached the milestone $100 bn for the first time in the year 2003 (December 21), some twelve years after the country latched onto the reforms bandwagon. "Self-reliance, for which we worked for decades since Independence has been reached," remarked Jaswant Singh, the-then union finance minister in the Atal Bihari Vajpayee-led National Democratic Alliance-led government at the center; in 1950, when the RBI had first published data about its foreign currency holdings, India had forex reserves of $1.9 bn. From there, it was just a matter of a few years—less than four years, in fact—before reserves swelled by another $100 bn. For a record, India's forex reserves touched $200 bn-mark, as on April 2007. It also meant that the country for the very first time had enough reserves to meet imports of more than a year, a far cry from the early days in 1991.

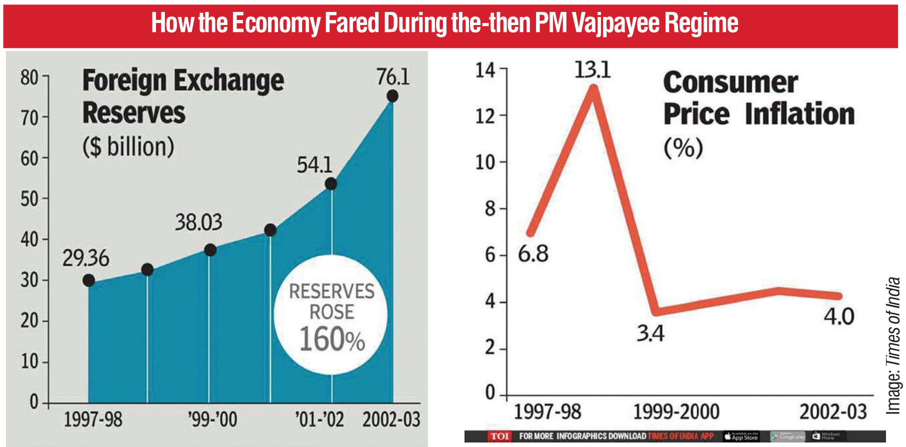
In less than seven years, the forex reserves rose by another $100 bn to breach past the $300 bn- level, as of end-March 2014. On September 15, 2017, India's forex reserved had vaulted by another $100 bn to go to the next milepost: $400 bn.

From there, as we know by now, it took less than three years forex kitty to reach the landmark of $500 bn. And it continues to swell. On June 12, India's forex reserves had risen to yet another high: $507.644 bn, which comprised of foreign exchange assets (FCA) of $468.74bn, gold reserves of $33.17 bn, SDRs (Special Drawing Rights with the IMF) of $1.454 bn, and about $4.3 bn worth of reserve position, according to RBI data.

Interestingly, the Economic survey 2014-15 had hoped that India could target foreign exchange reserves of $750 bn-$1 tn.

How India went about the job of building its forex war chest

Amid a precarious fiscal situation and rising public angst against the move to pledge the country's gold, the-then Narasimha Rao government had little choice but to initiate reforms that could unshackle the economy from decades of licence raj and help it unleash its true potential. To avoid another BoP-like crisis, it became clear the government needed to boost exports, contain non-essential imports like gold, oil, etc., allow participation from private and foreign companies into non-strategic sectors, liberalize FDI norms, make it easier to raise foreign capital, open up domestic capital market, etc., which could bring the much-needed foreign currencies, especially dollar, and lend stability to the financial and currency markets, besides helping check inflation, in a rapidly connecting world. In essence, to achieve some of these goal or more, the government needed to build a strong forex reserves war chest.

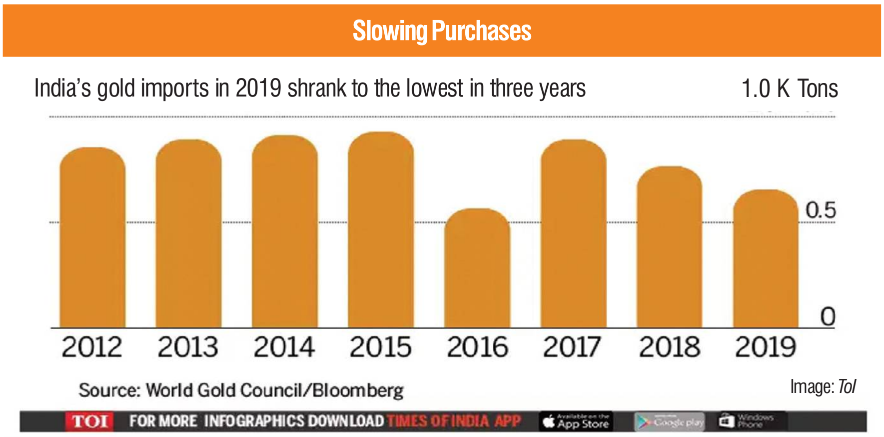


Thirty years down the line, as we revisit history, there is no doubt those moves paid off well. The Narasimha Rao-led government, for instance, adopted a multi-pronged strategy to bring the economy back on track. One of it was to prune current account deficit in order to rein in the rising trade imbalance (gap). That apart, the rupee too was devalued—by nearly a fifth—so as to make Indian goods competitive in the international markets. Further, the government removed a number of regulatory hurdles, besides announcing a series of export-friendly measures. Inspector raj was given the much-needed burial that led to the end of industrial licensing in all but 18 sensitive sectors. Public sector also saw a slew of reforms and got the operational freedom that was needed to make state-owned enterprises efficient and competitive vis-à-vis their private sector counterparts.

The next inflection point came in when the Atal Bihari Vajpayee government returned to power in 1999. His government not only carried on the spirit of the economic reforms unleashed by his predecessor, but in fact took also it a notch above. Indeed, it was during the Vajpayee regime that the now-much acclaimed Fiscal Responsibility Act (FRA) was introduced, which for the first time signaled a serious intent on part of the government to tackle the problem of fiscal profligacy. A series of reforms that his government introduced boosted domestic enterprises' morale and gave a signal to foreign investors that India means business, and that reforms are irreversible irrespective of whichever party controls the reins of power at New Delhi.

During Vajpayee 2.0, India's foreign currency reserves shot up to more than $76 by the end of FY 2002-03, from below $29 bn in 1997-98; though rupee too fell by 30%, during this period. To recollect, it was during his regime that India had launched the Resurgent India Bonds through which the public sector lender, SBI had successfully raised $4.2 bn from NRIs and overseas corporate bodies, which had boosted forex reserves to $30 bn. Its timing too was significant as India was facing west's sanctions post-Pokharan II, which was conducted on May 11 and 13 in 1998 and several international lenders had shied away from investing in the country then. Yet, his government could achieve this feat. Two years later, as pressure mounted on forex reserves, which had fallen from $38 bn in April 2000 to $35 bn that November, driven by rising international crude oil prices, his government decided to raise funds abroad through yet another bond issuance (initially the idea was to launch a sovereign bond offering, but it was dropped later on the insistence of the then RBI Governor Vimal Jalan, and it was decided to let SBI raise another round of debt issuance instead). The issuance was christened India Millennium Deposit (IMD), which proved to be yet another successful international bond offering from the country. Through IMD, SBI raised funds worth $5.5 bn. Vajpayee also presided over India's GDP's landmark achievement of turning it into a trillion dollar economy.

Fast forward to 2013. India seemed to be revisiting the BoP crisis again as the twin deficits—with the current account deficit (the excess of imports over exports) standing at 4.82% of GDP in 2012-13) while fiscal deficit (the difference between the total expenditure of the government and the total revenue) stood at 4.9% of GDP in FY'13—problem arose, triggered by a sharp fall in the the rupee that had already lost close to 25% of its value towards August-end on account of massive sell-offs in equity markets (inflows in equities then were a major source of forex earnings which the government used to finance its deficit) that had continued into September as well. The panic in the markets was caused by concerns over the rising geo-political tensions in the Middle East as well as fears of a possible US-led military strike against Syria. Besides, growing speculations of an early withdrawal of



economic stimulus package by the US Fed (that could trigger outflows from emerging markets) too weighed on the markets. Panic selling saw rupee wipe out more than 13% of its value in August (by 28) alone. According to data from *ET*, FIIs had withdrawn a massive $3.5 bn since July, while outflows from bond markets had totaled $4.5 bn so far that year. A section of analysts blamed the government's strategy of using foreign inflows to fund its deficits. "The problem in India is that of external funding for the current account deficit (exports-imports) which becomes difficult at a time when foreign investors are able to get better yields without having necessarily to go into the emerging markets," Michael Kurtz, Chief Asia Equity Strategist, Nomura, then told broadcaster *ET Now* in an interview. Falling domestic savings did not help the cause of the rupee either.

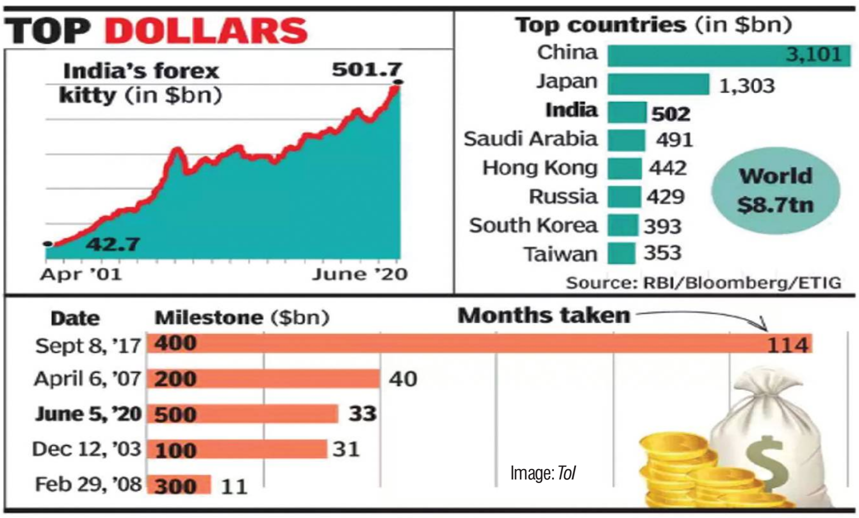
To stem the fall in domestic currency vis-à-vis the dollar, the RBI, under its new Governor Raghuram Rajan, decided to shun bonds in favor of the 'deposits' route. In September 2013, the central bank opened a special window for banks that let the latter swap the dollars raised under the newly launched Foreign Currency Non Resident (FCNR) deposits—aimed at Indian diaspora—with it. Through this facility, banks raised $24 bn. The move also helped avoid what could have been a major headache for the policymakers.

And the RBI's dollar buying spree has probably continued from there onwards, aided by Indian diaspora's continued faith in the Indian economy, leading to an unhindered growth in remittances (which swelled to close to $2 bn in April 2020, the highest single month flow in more than 2 years), driven by higher returns at a time when interest rates in developed countries have plunged to near zero levels. Besides, sustained inflows in domestic capital market (equities as well as bonds), rising exports along with the government's continued efforts to bring down imports, particularly of gold (in line with the country's policy of curbing imports of non-essential items to check outflow of foreign currencies) and oil, and by boosting FDI. Gold Imports by India (the world's second largest consumer of the yellow metal) fell by half in January this year, driven by a combination of record domestic prices and a slowdown in economic growth, while full-year purchase too slumped 14% in 2019, said a report from the World Gold Council, while the growing focus on renewal energy aims to reduce India's excessive dependence on imported oil.

India's soaring forex reserves: What does it mean?

India's forex reserves jumped by $8.2 bn to touch half-a-trillion dollar mark for the first time, during the week-ended June 5, 2020. The country's forex reserves grew to $501.7 bn from $493.5 bn a week earlier. The growth in forex reserves was fueled by a jump of $8.4 bn in foreign currency assets to $463 bn, while reserves with the IMF too grew by $832 mn to $4.2 bn, though the value of gold declined by $329 mn to $3.2 bn. The forex reserves comprise of three components, Foreign Currency Assets (FCAs)—comprising of mainly the US dollar (euro, pound sterling and yen are other three major currencies), SDRs and gold reserves.

Moving on, the recent rise in reserves is attributed mainly to the deleveraging (through equity dilution) efforts by large corporates aimed at bringing down debt on their balance sheets. Reliance Industries, for example, has attracted investments worth more than rupees one lakh crore by diluting its equity holdings in Jio Platforms to a handful of leading global investors, including Facebook, while its competitor Bharti Telecom, the holding company of Bharti Airtel, too has raised over $1 bn by selling a stake of 2.75% in its mobile telephony arm to institutional investors. Among others, the pharmaceutical major GlaxoSmithKline



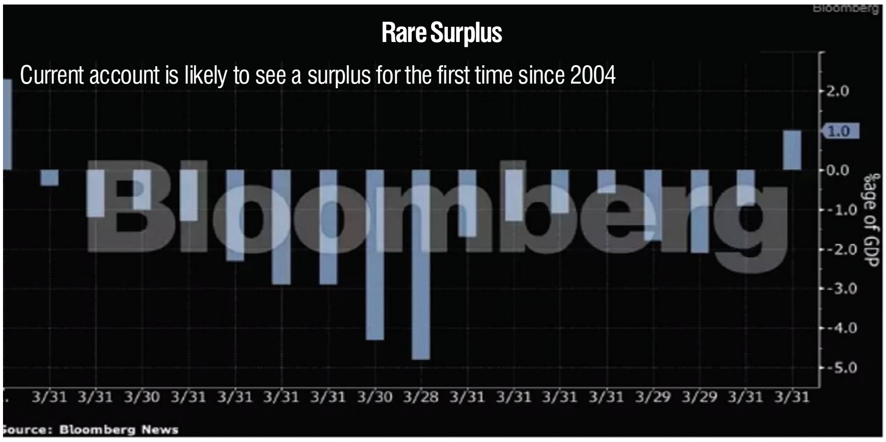
sold its equity stake in Unilever's Indian business for a sum of $3.35 bn in what was also the largest block trade deal ever in India. Talking to the *Times of India*, Bank of America Securities India economist Indranil Sen Gupta, quipped, "The RBI has been buying dollars since governor Shaktikanta Das took charge in 2018. With forex reserves, the more you have, the less the need to sell (dollar). The forex market knows that the RBI can easily sell $50 bn worth of dollar to ward off speculative attacks." As a result, he explains, forex markets have avoided testing the rupee even as other currencies like Brazil, South Africa, Turkey, and Indonesia have come under pressure.

But at the same time, it is also true that high reserves do not necessarily mean that all is well on the external front, or so suggest a section of experts. "The dollar bond yield on Indian credit is still higher than pre-Covid level. Yields (the yield on a bond is based on the purchase price of the bond as well as the interest/coupon promised) have come down of late because of easing dollar liquidity, but they are still away from pre-Covid levels. The reason for the underperformance is how the macros are stacking up, plus uncertainty in respect of the infection and associated costs," the Times of India quoted Ashhish Vaidya, head of treasury at the MNC banking major, DBS, as saying. However, a major positive, he said, is that there is a larger coverage of imports, which makes India less vulnerable. "The corporate deleveraging also reduces the overall risk in the corporate sector," he noted. Another expert, Indranil Sen Gupta of BoA Securities felt that the collapse in oil prices has helped offset the outflows in foreign portfolios. There is also no potential stress build-up on the rupee as the RBI has been following a prudent strategy of letting the Indian currency slide gradually, he felt. "The RBI has been following an asymmetric forex intervention policy of buying dollars when there are inflows and letting the rupee go a bit when there are outflows," he observed. India is the only country among the top five—in terms of forex reserves—to have a current account deficit. What this means is that unlike other countries where the reserves are an outcome of intervention aimed at preventing currency appreciation, India builds its reserves since a large part of the foreign inflows are liabilities that have to be repaid at some point, according to the Times of India. Several media reports suggested that Indian firms, after raising $16.5 bn last year, are ramping up issuance of dollar-denominated bonds this year to exploit a rising global appetite for high-yielding debt as well as benefit from the relaxations announced in domestic rules on the use of funds raised, according to Refinitiv. Indeed, in the first two months of this year alone Indian firms raised a record $3.6 bn. "Indian borrowers are benefiting from investors seeking yield in the current low interest rate environment globally. The ability to raise long-dated bonds, in addition, makes the offshore markets attractive for some Indian companies," said Muralidharan Ramakrishnan, senior director at Fitch Ratings. "Indian companies also benefit from investors looking to diversify their portfolios beyond the Chinese issuers (mainly from realty and related sectors)." Just to recollect, last year, India's central bank had relaxed norms on the end-use of funds raised through the External Commercial Borrowings (ECB) for working capital requirements, general corporate

Reserves Swell, But No Respite for Rupee Yet!

A surging forex reserves kitty has not come to the rescue of rupee that has lost close to 6% (5.6%, to be precise) so far this year. In fact, the Indian unit has been the only currency from Asia to have lost against the dollar in the June quarter thus far (as on June 25) even as its peers have regained after being at the receiving end amid the virus-induced bearish onslaught seen earlier in the year. Rupee's woes stem from a lacklustre economy that grew to its slowest pace in 11 years in FY20. India's GDP growth stood at 4.2% in 2019-20 and at a meagre 3.1% in the March quarter. With the economic growth not expected to revive soon given that the pandemic threat has not yet receded, the rupee may be in for more troubles. According to Venkat Thiagarajan, a currency market veteran of 26 years and the former forex head at Reliance Industries, which runs India's largest corporate treasury and during whose tenure it emerged as one of the most prolific issuers and borrowers in the global debt markets, "The growth shock to India's economy from the coronavirus pandemic will trigger more weakness in the rupee, dragging it toward an unprecedented 80-per dollar level," he said in an interview to *Bloomberg*. Explaining the reason behind such a pessimistic view, he said the rupee has a stronger link with economic growth, while in comparison metrics like the current account, balance of payments and global dollar dynamics have a marginal impact in the medium term. In essence, rupee has a stronger historical correlation with growth. He said that with the virus outbreak adding pressure on the financial sector already strained by a shadow-banking crisis, authorities may prefer a weaker currency. "Growth contraction of such severe proportion has made policy making extremely difficult and in the absence of incremental room in fiscal and monetary policies, exchange-rate depreciation is the way of stimulating the economy," he opined. Debt levels in the economy are high and as private sector struggles to service the debt amid the sharp slowdown, the banking sector remains under stress, he added. A Bloomberg survey projects rupee to end the current calendar year at 75 per dollar. The currency, which hit a record low of 76.9088 in April, ended at 75.6687 on June 25. Fitch Solutions in March this year revised down its forecast for the Indian rupee, saying the currency will average 77 per US dollar in 2020 and 80 in 2021 amid ongoing global risk-off sentiment and likely steep monetary easing.

Though some experts feel otherwise. For example, according to Barclays Plc and Scotiabank, the prospect of a rare current-account surplus following robust foreign inflows and the global oil-price collapse will help nudge the rupee higher. It also believed that the gradual easing of the world's strictest lockdown also bodes well for future flows into local assets. Echoing similar views, Sajal Gupta, head of foreign exchange at Edelweiss Securities Pvt., observed, "The inflows picture has turned hugely positive for the rupee, with many companies attracting foreign interest." He expects rupee to climb to as high as 72 by the end of the year, implying a gain of about 5%. According to Anindya Banerjee, currency strategist at Kotak Securities Ltd., "The rupee is set to recover in the coming months." Although he added, "Had it not been for the central bank's dollar purchases, the rupee would have gained in this quarter also." While the debate may continue, with a gargantuan forex kitty at its disposal, the central bank knows it only too well when and how to lend the domestic currency a helping hand…and when to let it be on its own!



purposes and repayment of rupee loans. As per the changed rules, eligible borrowers can tap the ECB route to raise funds with a minimum average maturity period of 10 years for working capital purposes and general corporate purposes. Borrowing for on-lending by NBFCs for the above maturity and end-uses too is permitted. Further, ECBs with a minimum average maturity period of 7 years for repayment of Rupee loans availed domestically for capital expenditure is also allowed. The borrowings for on-lending by NBFCs for the repayment of rupee loans also permitted. This has given a boost to the overseas fund raising plans of Indian firms, which are finding it hard to raise funds from domestic markets currently, especially against the backdrop of a deepening shadow bank crisis. While a few experts have expressed concern over a jump in repayment obligations becoming due later this fiscal year, though swelling dollar kitty of RBI is expected to allay those fears. "Indian companies with outstanding dollar loans may have to pay more for refinancing in FY21, with more than $27 bn of repayments coming up this fiscal, nearly half of it next four months until July—a period in which dollars are likely to remain in short supply due to the global business disruptions," warns an *ET* report. Though big corporates like RIL, the Adani Group and Tata Motors, have a natural hedge in the form of export earnings, investor reluctance to lend amid the rising demand for safe-haven assets like the dollar will likely make refinancing rather more expensive for several companies facing repayment obligations in June quarter, the business daily said. Corporate FX debt maturities (including bonds and loans) work out to $27.3 bn, which is 0.8% of India's GDP and 5.8% of forex reserves in FY21, data from BofA Securities showed. "Well-rated Indian companies that are well diversified and manage shocks will still be able to refinance their bonds and loans, but may be at incremental costs due to the current tight global liquidity," said Joiel Akilan, Executive Director & Chief Representative, BBVA, a Spanish bank. "There continues to be a dollar liquidity shortage globally, triggered by the Covid-19 outbreak," Hemant Mishr, founder at Scube Fixed Income, a Singapore-based fund, told *ET*. "Indian companies looking at refinancing will have to pay much higher risk premiums as investors prefer to stay long cash in the absence of clarity on the full impact of the crisis on the macro and borrower's ability to meet their debt obligations." According to the pink daily, the credit spread, or differential in proportion to US Treasuries, has more than doubled. For example, the gauge, considered a barometer for investor risk perception, has doubled to 450 basis points for investment grade bonds issued by Indian companies. The spread for high yield bonds has surged to 10% compared with 4.25% before Covid-19 hit financial markets. "It would be prudent for the RBI to open up a short-term dollar liquidity window to help them tide over foreign currency funding mismatches," he added. Well, that won't be a problem for the central bank as dollar inflows into its kitty continues unabated.

Advantages outweigh cost

The financial return or trade-off between financial costs and benefits of holding and maintaining reserves is not the only or the predominant objective in management of reserves. – YV Reddy, the-then Dy. Gov., at the National Council of Applied Economic Research, New Delhi, May 10, 2002.

It has for long been debated whether a high forex stockpile makes sense. It does seem so, especially against the backdrop of the developments that unfolded post-1990. In fact, even if you leave that aside for a moment, then also there is absolutely no denying the fact that a strong forex pool acts as a cushion that allows the central bank of a nation to absorb any sudden, external shock and ensure stability to the economy. The reserves are like backup funds which the government can tap into in emergencies such as a sudden run on the currency (as witnessed during the East Asian Financial Crisis in 1997, or later in 2015 when EM currencies came under heavy selling pressure that saw the Brazilian real losing nearly 60% of its value by the end-September, led by weak Chinese data as well as fears of an early withdrawal of stimulus by the US Fed)), or due to rapid flight of the so-called 'hot money' (as experienced during the 2009 global credit crunch) in a war-like situation, during economic recession or political instability, rising geo-political tensions, trade war, devaluation of the domestic monetary unit, etc. Besides, a central bank ton-up on forex also ensures that a country faces no risk to its sovereign credit rating. Access to high forex reserves also ensures that the country not only meets its short-term debt payment obligations, but it is also able to manage itsBoP situation without any difficulty. It is to be mentioned that all international transactions of India are settled in dollars, hence the central bank's foreign exchange reserves are denominated and expressed in US dollars (even though a part of the

No End to Rupee's Woes

US dollar has tended to weaken in periods of low growth

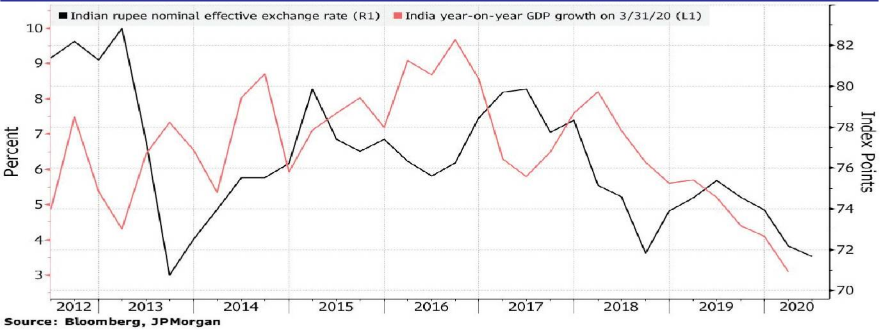


Image: Bloomberg

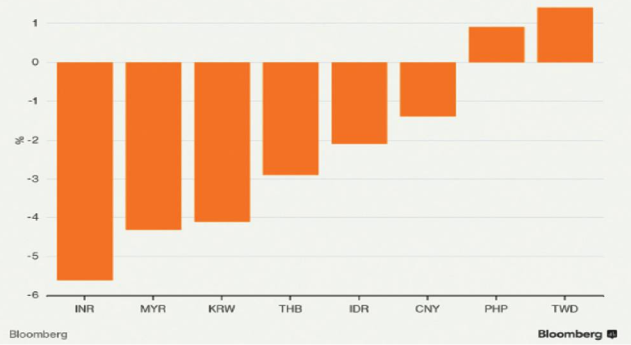
Foreign Currency Assets are maintained in other currencies like British Pound and euro too). According to a Reserve Bank of India's Report on Management of Foreign Exchange Reserves (dated May 8, 2020), India's foreign exchange reserves cover of imports increased to 11.4 months by the end of December 2019, up from 10.4 months three months ago. In a further relief for the authorities, the report also highlighted that the ratio of short-term debt (original maturity) to reserves fell to 23.2% from 25.2, during that period. Besides, the ratio of volatile capital flows (which include cumulative portfolio inflows and outstanding short-term debt) to reserves too witnessed a decline of four percentage points to 82.6 from a high of 86.3%, during the period under review. Moving on, as experts say, higher reserves also give the needed elbow room to a central bank to carry out forex market interventions so as to reduce domestic unit's vulnerability in the wake of rising speculative activities that may lead to heavy sell-offs, and send a stern warning to the vested interests. Such instances are in fact routine now. For example, according to a Bank of America report, emerging market economies had to burn a massive $240 bn in their reserves to support domestic currencies during the pandemic-induced lockdown early this year.

However, at the same time, it is also true that maintaining excessive stockpile does entail a cost. "There is of course a cost to having very high FX reserves (it earns low returns)," according to Arvind Chari, Head – fixed income and alternatives, Quantum Advisors, who while speaking to *Quartz*, added that, this (cost) though "needs to be weighed against the aspect of financial stability that it provides". Recalling rupee's rout of 2013 when it had depreciated by more than 20% in a span of just four to six weeks, he reckoned, "the size of the forex reserves with respect to the current account deficit and portfolio flows becomes a key determinant of whether the currency can come under a speculative attack (or not)". The rupee lost 8.6% in the June quarter of 2013-14 in major sell-off in the global currency market after speculations grew that the Fed might resort to early withdrawal of the economic stimulus, launched in the wake of the 2008 subprime originated credit crisis, and caused mayhem in emerging market currencies, which Bloomberg said was Asia's worst exchange-rate performance. Towards end-August the Indian currency plunged by as much as 23%, which spurred criticism that the central bank was ill-prepared for a sell-off like that. A sharp plunge in domestic unit had also businesses, with loans in foreign currencies, worried; a depreciation in domestic currency vis-à-vis, say dollar, for example, adds to interest cost, while an appreciation causes forex earnings to drop. "It is difficult for companies to plan for such sharp fluctuations in currency as we are seeing now," said Akhil Jindal, director for group corporate affairs at Welspun Corp., a supplier of oil pipelines for Exxon Mobil Corp. and Saudi Aramco. "The impact of this on the profitability of most corporates will be negative and it will have an impact on their debt servicing capability."

Further, often there has been criticism that the central bank rushes to accumulate dollars only when the need arises, and that it treats them more as a defence mechanism (against external shocks) rather than building them with a long-term focus. In this context, it can be said that while that might be a case earlier, the 1991 BoP crisis changed that perspective forever. To quote Y V Reddy, the-then RBI Deputy Governor, who was later appointed Governor, "India's approach to reserve management, until the BoP crisis of 1991 was essentially based on the traditional approach, i.e., to maintain an appropriate level of import cover defined in terms of number of months of imports equivalent to reserves." However, this approach to reserve management, as part of exchange rate management, and indeed external sector policy, underwent a paradigm shift with the adoption of the recommendations of a High Level Committee on BoP headed by C Rangarajan and of which Reddy was also a part as a Member-Secretary. The report, "articulated an integrated view of the issues and made specific recommendations on foreign currency reserves, said Reddy while delivering a special lecture at the National Council of Applied Economic Research, New Delhi, on May 10, 2002. The committee observed that the traditional approach of viewing the level of desirable reserves as a percentage of the annual imports (for example, reserves to meet three months imports or four months imports) would be inadequate when a large number of transactions and payment liabilities arise in areas other than import of commodities. "Thus, liabilities may arise either for discharging short-term debt obligations or servicing of medium-term debt, both interest and principal," according to the report. The Committee suggested that while determining the target level of reserve, due attention should also be paid to the payment obligations in addition to the level of imports. While recommending that the foreign exchange reserves targets be fixed in such a way that they are generally in a position to accommodate imports of three months, the Committee suggested that the following factors must also be taken into consideration in determining the desirable level of reserves: the need to ensure a reasonable level of confidence in the international financial and trading

Poor Show

The Indian rupee is Asia's worst performer so far in 2020



communities about the capacity of the country to honor its obligations and maintain trade and financial flows; the need to take care of the seasonal factors in any BoPs transaction with reference to the possible uncertainties in the monsoon conditions of India; the amount of foreign currency reserves required to counter speculative tendencies or anticipatory actions amongst players in the foreign exchange market; and the capacity to maintain the reserves so that the cost of carrying liquidity is minimal."

On the question of how much reserves must be maintained, Dr. Reddy mentioned four sets of indicators, in his speech. These are, namely (1) money-based indicators (like reserves to broad money or reserves to base money); (2) trade-based indicators (usually the import-based indicators defined in terms of reserves in months of imports)—however, this indicator is relevant more for small economies, which have limited access and vulnerabilities to capital markets; (3) debt-based indicators (such as reserves to short-term debt by remaining maturity is a better indicator of identifying financial crises), these constitute a useful measure of how quickly a country would be forced to adjust in the face of capital market distortion; and, (4) a combination of current capital accounts as the meaningful measure of liquidity risks (such as the Guidotti–Greenspan rule which postulated that a country's reserves should equal short-term external debt (one-year or less maturity), implying a ratio of reserves-to-short term debt of one. The rationale is that countries should have enough reserves to resist a massive withdrawal of short-term foreign capital.

Still, a key question that might be baffling a few on the currency street, or elsewhere, is, how much is too much when it comes to creating forex reserves buffer? "While buying up dollars gives comfort against the prospect of a future selldown, it can add to inflationary pressure by boosting rupee liquidity, and the RBI's push to build reserves is tempered by its deep-seated wariness of inflation," a 2014 report in *Reuters* quoted some unnamed central bank officials as saying. Clearing the air on that, Rajan, speaking at a conference call with researchers and analysts after the monetary policy review in April 2014, remarked, "We have a lot of reserves. Right now, $300 bn plus. So the key question is at what point do you feel safe? And I think if you focus only on reserves there is really no point at which you feel safe, because provided there is enough uncertainty about the economy, uncertainty about conditions, uncertainty about the treatment of international investors, 400, 500, 600 any level of reserves, until you get to Chinese levels, is probably not enough." China's forex reserves had touched $3.4 tn (down now to $3.4 tn) mark, 12 times more than India's current forex reserves of $300 bn then. But then having high buffer has its own headache: when RBI buys dollars, it also releases a massive quantity of rupee in the system which then needs to be sterilized. "A potential flood of rupees into banks as a result of RBI dollar-buying may thus force it to "sterilize" excess rupees, removing them from circulation by selling bonds," the officials told. However, as they quipped, the key plank of RBI's foreign exchange management plan is to buy dollars whenever possible to build reserves, with no specific target on how much it wants. The Reserve Bank went on a dollar buying binge last year that saw its reserves jump the highest in Asia in 2019-20. India's foreign-exchange reserves rose by $64 bn in 2019, and the apex bank added another $18 bn in 2020, taking holdings to a record $476 bn as of February 21, according to data compiled by *Bloomberg*. In comparison, China added $35 bn last year, while reserves rose by $8.5 bn in Indonesia and $2.2 bn in Malaysia. Such a strategy would come handy now as pandemic-induced slowdown weighs on rupee, which has been the worst performer among Asian peers so far, and amid rising border tensions with the rival China. Meanwhile, the Reserve Bank has also won an argument that was for long debated. Often governments face the pressure to use reserves to build infrastructure rather than letting it remain idle, the argument which continued to be hotly debated during the second half of 2010. However, with the apex bank firmly maintaining its stand, the debate was finally buried for once and all; although idle reserves do affect performance (in terms of opportunity cost).

To conclude, as the new India aims to transform itself into what Prime Minister Modi calls an Atmanirbhar Bharat, one area where it seems to have already achieved that goal - any doubt? - is Forex Reserves. Indeed, it is to the credit of the Reserve Bank of India that it has silently, but stoically endured many a challenge to build reserves so that India would never have to go around the world with a begging bowl. Indeed, it's RBI's adeptness and dexterity that has ensured that India remains among only a handful of countries that still hasn't borrowed in the global markets through a bond offering; even arch rival China does not have that privilege (Beijing last year raised $6 bn in its biggest ever sovereign bond issuance, though it was not the first time it had followed this route).

Now, having scaled mount $500 bn, the billion dollar question, rather the trillion dollar question is: what is next for RBI as far as its forex kitty is concerned. With border tensions on rise and global economic recovery scenario remaining cloudy amid thinning hopes that the pandemic may end anytime soon, slowing its dollar buying binge would probably be the last thing on the minds of the bosses at the Mint Street. Any doubts? ■

Amit Singh Sisodiya

Reference # 20M-2020-07-05-01

China-India Face-off

Deeper Consequences

China's double standards of talking peace on one hand and stoking border tension on the other, which led to violent clashes between the two nuclear-armed Asian rivals recently, pose serious threat to the border peace talks and stability in the region.

Coronavirus and China are two serious concerns that India is facing at this juncture. Despite imposing the toughest lockdown, the country has not been able to bring the paramedic under control, while a long-standing border dispute with China turned fatal along the Line of Actual Control (LAC) as the two armies got into a scuffle. While the Ministry of External Affairs (MEA) has accused China of unilaterally changing the status quo in the area, the People's Liberation Army (PLA) on its past has blamed it on India, claiming Galwan Valley (part of the disputed Ladakh region along the Himalayan frontier) as Chinese territory. The valley torrents within a remote stretch of the 3380-kilometre LAC, the border recognized following a war between India and China in 1962 that resulted in an anxious cease-fire and India lost Aksai Chin to China. International media has said that the clash was 'historic', some suspect that India's road building exercise (which make it easier to move troops and redress China's advantage in logistics) in the valley led to the face-off.

> *I suspect China has lost another generation, in India, many of whom had seen China as an opportunity. Basically, now they will say we can't trust them.*
>
> ***Tanvi Madan***
> *Director, India Project, Brookings Institution, Washington*

Nevertheless, India's construction has been well inside the territory it controls. In June 2017, both armies stared each other down in a similar confrontation at Doklam, the eastern section of their long and disputed border amid road building by one side or another. Of late, India is concerned about China's growing economic and political whack on India's border including Bangladesh, Bhutan, Nepal Pakistan and Sri Lanka and also China's growing military adventurism in the Indian Ocean.

The Galwan Valley clash ascribed both countries into a tense diplomatic and military standoff and impelled Indian government to take a closer look at its China policy over the past 60 years. Subsequent initiatives by the government has sent a clear signal to China that 'creeping annexation' of Indian territory will no longer be tolerated. The martyrdom of Indian soldiers in the Galwan Valley has translated into calls for cutting all ties with China. Thus, the economic stakes are high as India imports more goods from China than any other country (India's second largest trading partner). But India at the same time also is also abig market for Chinese producers as imports range from nuclear has equipment to raw materials for making fertilisers. India's top exports to China include raw materials like cotton, gemstones, ores, slag and ash (HS 26) and organic chemicals.

Trade relations weigh

Since the early 2000s, trade relations between them have grown rapidly (from \$2 bn to \$38 bn in 2008). According to Invest India, India's imports from China jumped 45 times since 2000 to reach over \$70 bn in 2018-19. Foreign direct investments from China come to metallurgical industries, renewable energy (solar panels), electrical equipment, automotive and chemicals. Chinese have roughly 75 manufacturing facilities in India in sectors like smartphones, consumer appliances, construction equipment, power gear, automobiles, optical fiber, and chemicals. Chinese firms including Xiaomi, Huawei, Vivo and Oppo occupy nearly 60% of India's mobile phone market. With widening trade deficit with its Asian counterpart, India has narrowed down trade deficit to \$48.7 bn during the last year as compared with \$53.6 bn a year ago. The fall in India imports from China has made the US bilateral. India's largest trading partner with a trade touching \$88.8 bn recently.

Besides, the Asian giants have enabled each other's rise as technology powerhouses. Chinese tech giants have invested billions of dollars into India's biggest start-ups (an estimated \$4 bn, as of March 2020, 18 of India's 30 unicorns are Chinese-funded). According to a study released by Brookings India, the total amount of current and planned Chinese investment in India has crossed \$26 bn (around ₹198,000 cr), with the private sector in China and provincial governments emerging as important interest groups in shaping China's diplomacy with India. However, Indian start-ups are increasing, dumping Chinese investors and moving towards Japan as India-China ties worsens amidst a severe blow from the Covid-19.

Restore and rebuild

Despite multiple summits with India's PM, China's Xi Jinping don't seem to care and behave irresponsibly in matters of politics with India. In fact, across the Indo-Pacific, China has sought to bargain or forced other nations into submission from the Philippines to Australia with its rapidly growing well military power. However, India is the only regional power that Chinese leadership should worry about in the long run, given its size and increasing ties us. democratic partners like the US, Japan and Australia. India has also joined Washington's Indo-Pacific strategy, the Quad (short for Quadrilateral Security Dialogue), which includes the US, India, Japan and, now, Australia. Its aim is to support a 'free, open and inclusive Indo-Pacific Region.'

China is trying to signal its strength in a bid to restore its credibility and rebuild its image. Many experts are of the view that the economic setbacks suffered by China due to the pandemic, along with its already shaky economy, may have prompted Beijing to resort to military adventurism at the LAC with the twin goals of diverting the focus from domestic issues to an external enemy, and at the same time exhibiting its strength to the world. Yet, critics' observe that the current border standoff is being projected more in terms of global geopolitics. It is trying to portray the crisis as part of superpower gameplay in the so called 'new cold war'. On the other hand, Chinese media portrays as the result of the latest episode the US support to India that explains India's firmness and aggression in dealing with its border issues with China. Nonetheless, by requesting its neighbor not to play in the US, China is trying to give the impression that its real competition is with the US and not India.

During Doklam standoff in 2017 (and even the current crisis), India received considerable support from the US. Experts say that "the growing voices in the West is that the US should forge a deep strategic alliance, both economic and defence-oriented. Indian economy also gels well with the emerging view of it being a natural ally of the US and thus a barricade against China in Asia." However, they warn that while this may come as a big boost to India's position in the region, New Delhi must tread this path cautiously. The New Cold War, if it ever becomes a reality, would be completely different from the Cold War of the 20th century. As the US no longer enjoys the same hegemony status as it did decades ago. Accordingly, its position as forerunner of the liberal international order has long been eroded. Against this backdrop, its partners in the Europe no longer assume America as a dependable ally.

Can China afford a war?

With Beijing's aggressive stance in the Indian Ocean and Asia-Pacific region, India is increasingly concerned about China's posture along their disputed border even as Beijing is battling several crises like its economy has been confounded by coronavirus, relations with America are at one of their lowest

INDIA & CHINA- MILITARY COMPARISON

SUBJECTS	INDIA	CHINA
TOTAL MILITARY PERSONNEL	3,462,500	2,693,000
DEFENCE BUDGET (USD)	\$ 55.2 BN	\$ 224 BN
TOTAL AIRCRAFT	2,082	3,187
HELICOPTERS	692	1,004
FIGHTERS/INTERCEPTORS	520	1,222
ATTACK AIRCRAFT/HELICOPTERS	694/17	1,564/281
TANK STRENGHT	4,184	13,050
ARMORED FIGHTING VEHICLES	2,815	40,000
TOTAL NAVAL ASSETS	295	714
SUBMARINES	16	76

India Only Has Limited Ties With China

Based on contribution to GDP

Country	Export to China (% GDP)	Intermediate goods (% GDP)	Tourism from China (% of GDP)	Average
Vietnam	13.6	7.9	2.9	8.1
Taiwan	15.9	4.7	1.1	7.2
Thailand	5.7	2.5	5.9	4.7
Singapore	13.8	1.3	1.8	5.7
Philippines	2.6	1.7	4.4	2.9
Malaysia	9.6	2.5	1.5	4.5
South Korea	7.9	1.5	0.9	3.5
New Zealand	5.3	0.5	1.8	2.6
Australia	5.2	0.4	1.6	2.4
Japan	2.7	0.4	2.2	1.8
Sri Lanka	0.5	2.0	1.4	1.3
Indonesia	2.6	1.1	0.8	1.5
Pakistan	0.6	1.8	0.4	1.0
Iran	2.2	0.7	0.0	1.0
India	0.6	0.7	0.2	0.5

Note: ranking is based on z-scores of the numbers shown in the table.
Source: WTTC data, trademap.org, Worldbank, Rabobank

Bloomberg | Quint

points since diplomatic ties were re-established in the 1970s. Hong Kong is in rebellion and Beijing's imposition of a security law there has triggered worldwide uproar. Along with the US, Beijing has also launched a trade war with Australia over its demands for an investigation into the origins of Covid-19, and Chinese authorities are in a standoff with Canada over the banishment of a senior executive from the technology giant Huawei. Doomsayers believe that aggression on the Indian border is a response to these domestic pressures. They perceive a more opportunistic aggression from a government which over the past decade has replaced a focus on economic priorities and global stability in its foreign policy with aggressive nationalism. Yet Taylor Fravel, Director of the security studies program at the Massachusetts Institute of Technology opines that "Because of Covid-19 and the criticism China faced internationally, the economic crisis at home, and the concomitant deterioration of China-US relations, Beijing government has taken a tough stance on a number of sovereignty issues as a way of signaling that China will not be frightened."

Besides not economic woes, lack of allies (excluding the debt-ridden Pakistan, or confused Nepal), funds and resources, China cannot afford a war with India right now. Moreover, Beijing is engaged in on too many fronts and it is already fighting an internal dissent it cannot afford to wage a war right now as there is already too much global heat against it. Infact, in the South China Sea alone, China is currently engaged with six countries, Taiwan, Vietnam, the Philippines, Brunei, Indonesia and Malaysia. It also confronting with Japan as its ships recently entered the Japanese water, making Japan the seventh country to be at crossroads with China at the waters alone. On the other hand, India has the support of the world's leading powers, both diplomatically and militarily. Reports indicate that the trade war with US cost China $35 bn in the first half of 2019 alone. Among the hardest-hit sectors were computers and office machinery. Given that a confrontation with India would only mean further and losing out on Indian markets, and losing over $74.72 bn from exports alone.

The defence mightiness

China must also realize that India is no longer the same and has grown in terms of military strength quite rapidly. India has the third highest defence expenditure in the world, though China spends nearly four times more (second highest defence expenditure). Also while China might have more weapons, as the Belfer Centre for Science and International Affairs in Harvard Kennedy School says that India's Air Force is more powerful than China's. Further, some defence experts believe that unlike the 1962 war, the Indian military is now in a much stronger position. On the nuclear war

Recent India-China Border Conflict

Wake Up Sleeping Giant: It's Time for Policy Reforms

Madhusudhanan S
Independent Economic Policy Analyst, New Delhi

India needs to learn lesson from China especially when it comes to policy making. China over the past four decades (40 years), have forced foreign companies to set up plants in their land and to share their technologies. Today, China has become more competitive and able to produce volumes of goods only due to this policy.

The present tension of Galwan valley at the border raises serious questions about India-China trade. Indians were asked to boycott Chinese products. Already as a part of *Atmanirbhar Bharat* Mission governments e-commerce platform made it mandatory for sellers to indicate the country of origin, especially for new products on the e-commerce website. A long list of goods from China is kept ready in order to put strong trade barriers (esp. in form of increased import tariffs). But, the real question is—is it possible for India to boycott China? The answer to this question at this point of time, is No, it's not possible to boycott China. India has a nature of non-negotiable import dependency on China and this is the reason why it's not possible to boycott at this point of time. Despite of this, if India is going to boycott China then it will end only harming our producers and consumers significantly. To understand this further, let us see how India-China trade looks like:

Trade between India and China

The export to China from India has increased over the past five years but only marginally and not significantly. However, the import from China shows significant increase over the years (in 2018-19 this has come down). When it comes to share as a percentage of overall Trade, China for the past four years consistently maintained around 10%.

The trade deficit (export minus import) with China has increased from $48.5 bn ($48,478.92 mn) in 2014-15 to $53.6 bn ($53,567.44 mn) in 2018-19. This is really a serious worry for India. The deficit with China in 2018-19 is $87 bn ($87,071.84 mn).

Trade Between China (China PRP) for the past 5 years (till 2018-19) $ in mn (as on 27.06.2020)

S.No.	Year	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
1	**EXPORT**	11,934.25	9,011.36	10,171.89	13,333.53	16,752.20
	% Growth		-24.49	12.88	31.08	25.64
	% Share of overall Export	**3.85**	**3.44**	**3.69**	**4.39**	**5.08**
2	**IMPORT**	60,413.17	61,707.95	61,283.03	76,380.70	70,319.64
	% Growth		2.14	–0.69	24.64	–7.94
	% Share of Overall Import	**13.48**	**16.2**	**15.94**	**16.41**	**13.68**
3	**TOTAL TRADE**	72,347.42	70,719.31	71,454.93	89,714.23	87,071.84
	% Growth		–2.25	1.04	25.55	–2.95
	% Share of Overall Trade	**9.54**	**10.99**	**10.82**	**11.66**	**10.31**

Source: Department of Commerce

For the year 2019-20 (till February, 2020), shows that trade deficit has increased to $46.8 bn ($46,838.87 mn). This is really a serious concern as this shows India's import dependency on China. It is hard to replace China as its ability to keep low prices and competitiveness make its goods certainly most affordable and accessible to not only Indian consumers but across the globe.

What matters – Quality or Quantity?

No country in the world can match China for producing more goods at the cheapest price value. The volume of goods produced by China is so huge that hardly any countries in the world don't use their products. But, at the same time many of Chinese products are of low quality. If India needs to be even at par with China then India should also produce huge volume of many goods like China. This doesn't mean India should also involve in producing many low quality products/ goods like China. But, India should ensure producing good quality products/goods at same affordable price. If India can do so, then it will definitely give an edge over China. In order to achieve this, India should implement a strong policy reform—which India failed to do all these years despite bringing industrialization long ago.

Policy Reform - Atmanirbhar Bharat Mission

So now the question is, what can India do if it cannot boycott China? The answer is policy reforms. Yes, sounds so simple, but not really on the ground of implementation. India needs to learn lesson from China especially when it comes to policy making. China over the past four decades (40 years), have forced foreign companies to set up plants in their land and to share their technologies. Today, China has become more competitive and able to produce volumes of goods only due to this policy.

It's time for India, a sleeping Giant, to wake up and implement such a policy reforms. Atmanirbhar Bharat—is one of such policy framework which is in support for domestic producers/ suppliers with a slogan "vocal for local". India also needs a policy framework which ensures that foreign companies which come to India should put their manufacturing unit here and also must share their technologies with us. Only by doing so, India can be par with China in terms of economies of scale and can even compete with low cost of production over a period of time. Till then India can't imagine boycotting of Chinese goods as there are no other alternatives.

heads front, (according to SIPRI's 2020 Yearbook), the Chinese nuclear arsenal currently stands at 320, while India has 150 weapons. CNN (an American news-based pay television channel owned by CNN Worldwide) trusts that China has no 'military advantage' over 'battle-hardened' Indian Army.

Beijing's confrontation strategy suggests that it might extra erred in calculating the dangers of any Indian retaliation believing its economy is nearly five times the size of India's and that its military has more firepower. Moreover, it would have also mischievously felt that its good time to put India in its place as its economy is wracked by the coronavirus and the US is worried. China's nationalist newspaper wrote in an editorial that India learns from this incident and cannot rely on Washington for support and should experts' opine that this might well be right in the short-term, but China too should be worried in the long-term. They further describe that the four largest economies in the world (ranked by purchasing power, are China, the US, Japan and India) are intensely concerned by the balance of power in the Indo-Pacific region. It is foolishness for China to drive India into America's arms. On the other hand, to take on Chinese 'wolf warriors', India must fix military disproportionateness with China.

Cooperation or confrontation?

China has been intentionally disturbing India and thus the frequent tensions turned into a mortal fight this year. Amidst China's blow hot and blow cold and unfortunate confrontations with its neighbors, it should understand that only cooperation will lead to a better future in the region. In fact, China targets India to play the role of a cooperative junior partner and not that of a competitor, both regionally and globally. How far dragon will achieve this will depend on its diplomatic skills and how it uses its military to enforce its will. However, the situation will probably not change much as long as its land-grabbing mind-set rundowns. It's time to focus on economic development. Peaceful negotiations will do Bergin good in handling differences and complementary strengths of the two economies (China's manufacturing skills and India's information technology prowess) can be exploited for mutual benefit. More significantly, the world needs the two Asian giants to provide global leadership, instead of military conflicts. Yet, Jinpin & Co must note, India is no 'pushover' and that it knows how to teach a lesson to those who act as 'Brutus'. ■

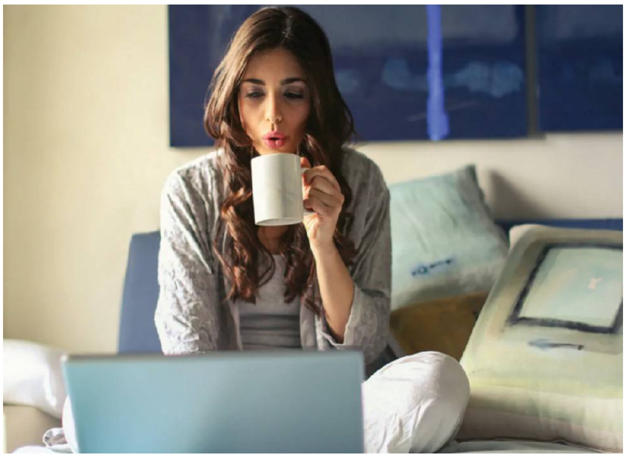
N Janardhan Rao

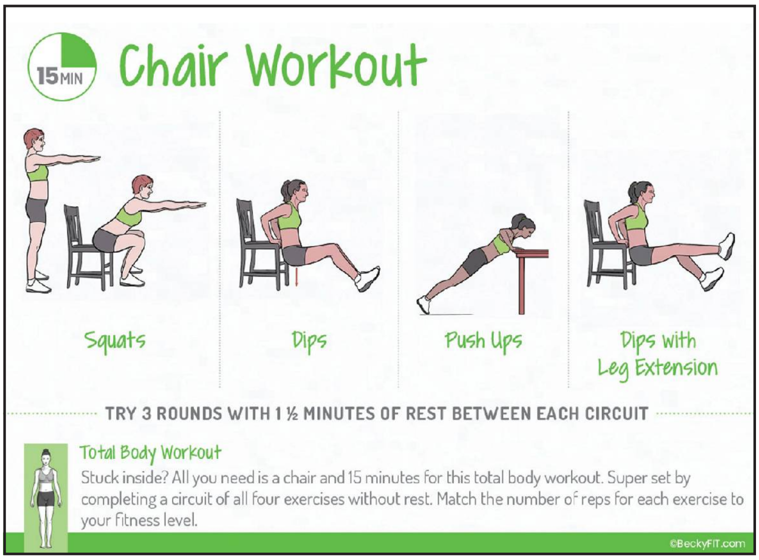
Reference # 20M-2020-07-06-01

India vs .China: Comparison of Military Power

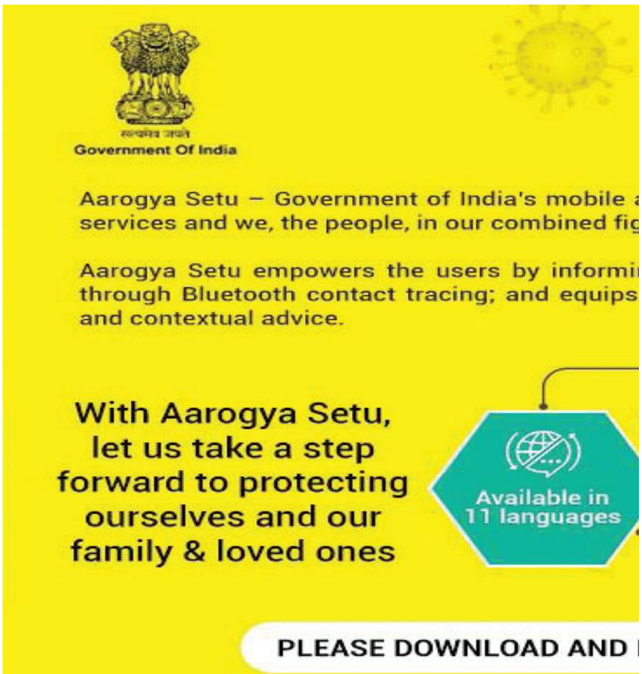
	India	China
Active Military Personnel	1,325,000	2,335,000
Military Reserves	2,143,000	2.300,000
Defence Budget	$51,000,000,000	$161,700,000,000
Total Aircraft	2,102	2,955
Helicopters	666	9126
Tank Strength	4,426	6,457
Armored Fighting Vehicles	6,704	4,788
Self-propelled guns	290	1,710
Rocket Projectors	292	1,770
Naval Assets	295	714
Submarines	15	68
Aircraft Carriers	3	1

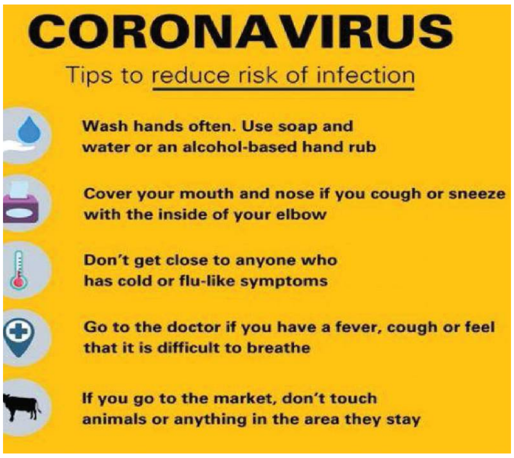
How to Work From Home Effectively

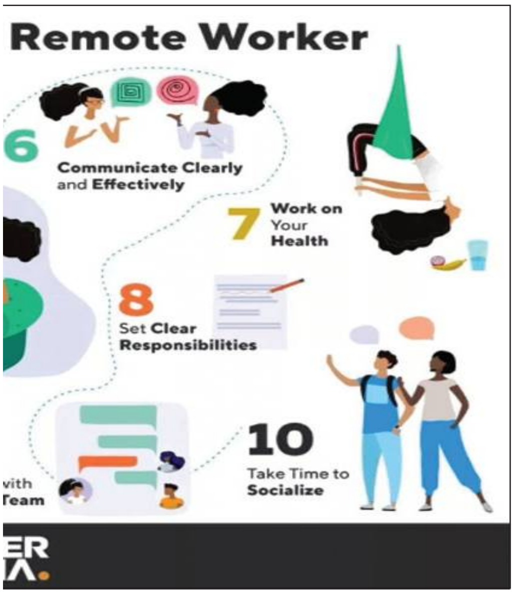


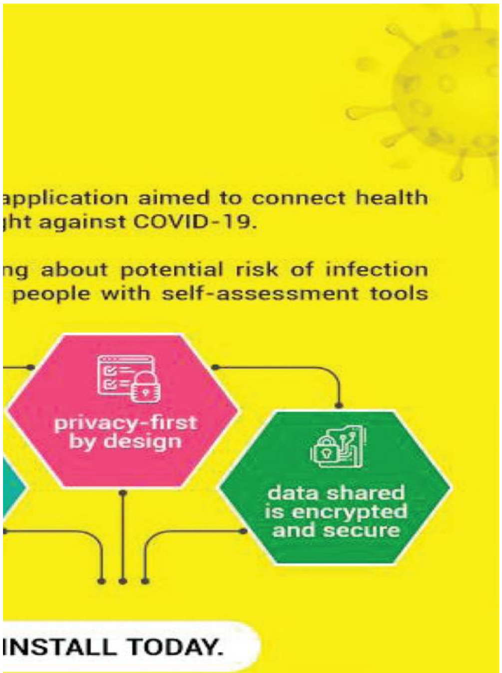


Foods that Boost Immunity









Compiled by Amit Singh Sisodiya

Reference # 20M-2020-07-07-10

Wireless Future

5G Is Here and So Is Wi-Fi 6

There is a place for both 5G and Wi-Fi 6 in this new world. Each has its own strengths and weaknesses. However, together they create a powerhouse that will be unbeatable. So, going forward, think of 5G as an open wireless connection for communicating when you are out of the home or office. Think of Wi-Fi 6 as a closed wireless connection for communicating when you are at home, in the office or any place that offers this service.

There is so much change and advancement happening in the wireless world. There is also some confusion about the next generation of service like 5G and Wi-Fi 6. Let's take a closer look at these two different technologies, the similarities and differences, and how they will work together and impact you whether you are a commercial user, individual user, investor or worker. There is a basic misunderstanding when people think about 5G and Wi-Fi 6. Some users and investors think these are competing technologies. They are not. Sure, they are different, but they will work together just like 4G and Wi-Fi work together. These are complementary technologies.

5G and Wi-Fi 6 are not competing technologies. Rather, they each have their own strengths and weaknesses. Neither offers the entire answer, but together, they can be. This is the next generation and they will continue to work together better and faster than ever before

5G and Wi-Fi 6 will transform our world over next decade

So, 5G and Wi-Fi 6 are not competing technologies. Rather, they each have their own strengths and weaknesses. Neither offers the entire answer, but together, they can be. This is the next generation and they will continue to work together better and faster than ever before.

We all know that 5G is the next generation of wireless service. Like in the past, as we have moved from 2G to 3G and to 4G, the move to 5G will mean faster speeds. In fact, it will mean ultra-fast speeds.

TeleHealth, autonomous vehicles and more need 5G speed and low latency

5G means something else as well. Not only will it be much faster, but it will also mean performance with no delay. This is called low latency. This instant communication means it will empower the next generation of many new technologies.

Think of the way we expand into new physical areas like the expansion of cities. First, we must build roads. 5G and Wi-Fi 6 are the new roads that will allow us to roll out new technologies.

Think about self-driving cars, TeleHealth, TeleSurgery and so much more. This requires not only ultra-fast speed, but also no delay. This technology, when it is installed over the next few years will allow and empower so much more than we could ever do before.

5G and Wi-Fi 6 provided by companies like Qualcomm, Ericsson, Intel and others

Wi-Fi 6 is also coming on strong. This is the next generation of Wi-Fi and it too is a revolution in the wireless world.

Companies like Qualcomm, Ericsson, Intel and others are in this space. There are important similarities and differences to understand between 5G and Wi-Fi 6.

Let's explore some of them. Both of these technologies are ultra-fast with low latency. They are built on the same technological framework.

5G and Wi-Fi 6 are ultra-fast, high-capacity and low latency

They both support IoT, cloud and other new technologies are still in their early stages of development. This high capacity will allow things like the next generation of pay TV. Think wireless pay TV. We have moved from cable TV to IPTV or Internet TV to wireless pay TV.

This will mean new technology and greater competition. That means more innovation and customer care will be increased since the customer can simply switch away if they are unhappy.

5G and Wi-Fi 6 will let us connect more users and more devices all getting high speed of service. This improved performance will benefit all users including home users and business users.

"5G will be available everywhere. Wi-Fi 6 will be available in areas or spots like buildings, homes, public spaces and more. These two technologies will work separately and together to usher in the next generation of wireless communications to our society.

Jeff Kagan
Wireless Industry Analyst Atlanta, GA USA

5G and Wi-Fi 6 will expand remote work capabilities

Remote work is also going to be a new hot topic moving forward. Covid-19 or the coronavirus has sent so many of us home to work. This has posed a tough challenge on many wireless companies and internet providers to keep up since most home connections are not as fast or robust as they are in the office.

That means we must find new ways to deliver the same speed and throughput at home and when we are out of the office, as we have in the office. So, even after Covid-19 fades away, and many workers stay at home to work, they will be able to do so more effectively.

As the marketplace demands change, networks have to recognize and adapt to this new challenge of tomorrow. Think of convention centers, sports stadiums, concert venues, amusement parks or anywhere there are large volumes of users gathering. Some of this can be handled by 5G, but quite often Wi-Fi 6 will be better in those areas. It can provide more access and capacity with less overload of the network at certain access points. Augmented reality and virtual reality also require a fast and instant connection. This can be delivered over 5G and Wi-Fi 6.

5G and Wi-Fi 6 are both needed going forward

There is a place for both 5G and Wi-Fi 6 in this new world. Each has its own strengths and weaknesses. Neither have the whole answer to themselves. However, together they create a powerhouse that will be unbeatable.

So, going forward, think of 5G as an open wireless connection for communicating when you are out of the home or office. Think of Wi-Fi 6 as a closed wireless connection for communicating when you are at home, in the office or any place that offers this service.

5G will be available everywhere. Wi-Fi 6 will be available in areas or spots like buildings, homes, public spaces and more. These two technologies will work separately and together to usher in the next generation of wireless communications to our society. ■

Reference # 20M-2020-07-08-01

Beating the Pandemic Blues

Managerial Essentials for Businesses

With global economy facing the risk of a recession, businesses need to quickly come to terms with a post-Covid world and equip themselves with the tools that would help them beat the pandemic blues.

For businesses globally including India, the next few quarters will have to wrestle with a key challenge, how to sustain amid the chaos caused by Covid-19 pandemic. For some, there may be an opportunity to focus on how to emerge from the crisis much stronger, better positioned and as a highly valued business. Whatever is the corporate goal-setting in this new-normal, organizations are now convinced that it is essential to take required steps to position their business model for the post Covid-19 world while also taking care of their employees and all stakeholders.

Covid-19: A transformative phase for all

Almost all market players, industry and people in general were caught unaware by the pandemic ignorant of its ramifications unknown and unpredictable. Industry experts are predicting colossal economic damage which would lead to lay-offs and declining incomes and even societal disruptions as we are already seeing. The governments of various countries have announced unprecedented financial and monetary measures to ease the pain caused by the virus and intransigent extended lock downs—still the virus scenario appears to be intractable and is spreading fast. The pace of unlocking and the new-normal is only adding to the uncertainties that have necessitated a much more proactive and innovative strategies for individuals and organizations so as to navigate through these uncertain times.

Within few months the viral contagion engulfed every nook and cranny of social life and brought the economic activity to a screeching halt

The virus crisis has almost paralyzed most of the industries like hospitality, aviation, construction, manufacturing, MSMEs sector besides Banking Financial Services and Insurance (BFSI) sector and others. The Federal Reserve recently warned that the largest market economy in the world, the US faces a 'long road' to recovery. The Fed Chair Jerome Powel has committed to keep interest rates near zero for the foreseeable future. The very policy stances of various governments including other G-20 and emerging markets only speak volumes about the ominous situation the markets the world over are sailing through.

An element "unknown" —A tricky thing, but not hard enough to crack

There are a lot of unknowns as to how the world will transform after the novel virus pandemic ends or is brought under some control. But it is extremely unlikely given that things will go back to normal anytime soon and revert to the way they were before. The work places are bound to change. As tech giants like Google and others show, more companies will encourage workforce to operate from homes for the long haul. So the changing landscape will only demand those unique skills that corporate professionals need and the strategic rejig companies would need to embrace various consumer behavior and investor psychology too alter. A recently published study of Gallup global consultants revealed that all members of the Chief Human Resource Officers (CHROs) Roundtable believed that the economic environment is likely to be changed for some time, and their leadership is preparing their companies for today's needs as well as the post-pandemic business world. The CHROs Roundtable as an organization represents over 700 of the world's largest enterprises and how do they diagnose the virus-triggered business impact matters a lot while seeing how businesses are proactively restructuring their business models with the kind of skills and people talents to manage the crisis and emerge victorious.

So, what are the strategic and tactical policy shifts and the skills that take individuals as well as organizations forward in a post-virus world? We discuss few intricate aspects as well as some simple attitudinal changes that reshape and reposition market entities and assure success in the post-pandemic world.

Leadership, work teams and value creation

Leadership will play a crucial role in every aspect of the organizational preparedness for enduring and managing a crisis well. During times like these, people with strong leadership qualities can actually lead work teams and organizations to success. As the trends suggest ,Work-From-Home (WFH) would to be the next big thing to manage, as major technology giants already planned for the WFH scenario until the end of 2020 and beyond. So professionals with strong leadership abilities who can manage teams distantly, keep teams motivated, inspire collaborations, ensure smooth functioning and bring out the best in team members would be the best bet for organizations to thrive.

> "As organizations are increasingly convinced about WFH as a viable long-term option, professionals with strong skills in leadership, capable of taking teams along and contribute to companies' value creation will be in greater demand.

Gajavelli V S
Professor and Chairperson,
Centre for Sustainability
Growth and Development
IMT Nagpur

The gig economy, a job market characterized by freelance or short-term contacts as opposed to permanent jobs, is only going to grow in the post-crisis world and people will be working in more fluent teams allowing them to lead at different levels. As organizations are increasingly convinced about WFH as a viable long-term option, professionals with strong skills in leadership, capable of taking teams along and contribute to companies' value creation will be in greater demand.

Studies reveal that C-suite leaders through a combination of organizational and human-centered initiatives, can actually help make the transition to—or expand reliance on—a virtual work place model that's effective and satisfying to employees and all other stakeholders. Studies further point out that virtual work practices for sure will strengthen the business resilience. So, it's time to hone the leadership qualities.

Emotional intelligence, managerial proficiency and organizational endurance

Closely linked to leadership is another quality of a successful professional that is even more important in crisis and challenging times. It is Emotional Intelligence (EI). The ability to be aware of, express, and control our emotions and be aware of others' emotions is what EI is all about. Great leaders who successfully lead organizations are great empaths and can easily gauge the mental and emotional health of an employee very well. During uncertain times when employees or any other stakeholder feel insecure about their jobs and the future of their organizations or their own businesses, it is very important to connect with people on an emotional-level, raise their self-confidence and provide an assurance. So professionals with strong Emotional Quotient (EQ) will be most sought-after for by organizations of all sizes and in all sectors of the economy, simply because they significantly raise the chances of survival for organizations in times of economic stress.

Tech-savviness and digital transformations

Experts and practitioners believe that hyper automation is where the market is heading towards. That's not a reason to fear. Rather the best way to prepare for post-crisis world would be to acquire

Emotional Intelligence Domains and Competencies

Self-awareness Management	Self-Management	Social Awareness	Relationship Management
	Emotional self-control		Influence
	Adaptability	Empathy	Coach and mentor
Emotional self-awareness	Achievement orientation		Conflict management
	Positive outlook	Organizational awareness	Teamwork
			Inspirational leadership

Source: What Makes a Leader-MORE THAN SOUND, LLC, 2017

those very technology skills to stay relevant. As WFH becomes indispensable, the digital transformations like artificial intelligence, internet controlled operations, big data, virtual and augmented reality and robotics will hold key to a great future and will help firms grow more resilient to such virus recurrences and pandemics in future. Hence, it becomes imperative for professionals to develop an aptitude to learn new technologies and develop skills to use those tools comfortably as well as be able to work with them effectively in their day-to-day operations. More importantly, those professionals who help support companies exploit these technologies and create value will be in great demand and rewards are high too.

Winning consumers: A scenario of temporary to transformative consumer behavior

The economic costs of virus pandemic will influence the way people spend that last penny earned. IMF is projecting a global recession as bad as global financial crisis or even worse and consumer confidence has already plummeted across major global markets. During the Great Recession of 2008, people were quick to cut back on a host of discretionary expenses such as eating out and travel continued to do so for several years. They also resorted to a variety of ways such as using coupons and waiting for discount sales. Similarly, recent lock-downs too are seeing a change in consumer behaviors—spending less on out-of-home eating and entertainment and the trend is bound to exacerbate further as virus pandemic lingers on. At the same time, experience also shows that people spend when they can and hence job protection is a critical element of crisis management from the point of view of public policy stance and market resilience.

Life after the pandemic will emerge as a new normal in many ways and it's critical to understand the consumer behavior. As shopping patterns in countries like China that have witnessed both pre and post-peak phases of Covid-19 show, the private consumption in industries dealing in luxury items such as the apparel and dining industries, has still not picked-up significantly in the US and elsewhere, people have stopped visiting public places, stacking-up non-perishable goods, shifting their purchases from physical stores to online, preparing meals often at home, delaying routine doctor visits, etc. other personal service appointments and there are also change in their preference for travel and entertainment arena, etc. Further, some health behaviors may be permanently altered and in some cases the technology solutions activated during the pandemic will get deep-rooted.

So, companies and marketing professionals need to focus on understanding changing consumption patterns, identify opportunities and provide innovative business solutions. Solutions that benefit consumers without destroying value or compromise will see endurance and assure good results even in these challenging and transformative times.

Product portfolio and asset optimization across businesses

Covid-19 has created an unprecedented disruption across markets and the economic impacts are bound to be long-lasting. Undoubtedly, the post-crisis world is going to be different.

Across markets, online retail and direct to consumer offerings have seen significant rise, with Nielsen estimating that 600,000 households tried online grocery shopping for the first time in UK during March 2020. At the same time gig economy shopping mod-

els like Glovo in Spain and Buyme in Ireland have seen a surge in demand and Takeaway.com witnessing dip in order volumes during the early months of virus spread. Another Nielsen study from China shows they are emerging with more of a "homebody" mindset, where health and technology are the factors that will influence consumer spending and shopping habits in the short- and long-term.

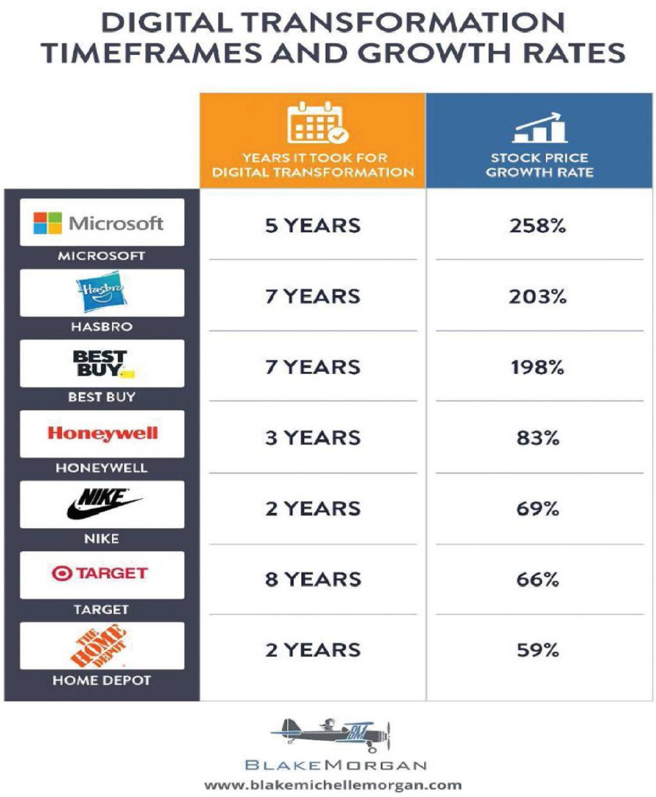
On the other, many physical non-food retailers have to suffer from prolonged closures. Many hotels, restaurants and bars are unable to operate even after restrictions have been lifted. Studies in mainland China show that 86% now expect to eat at home more often than before the pandemic. We see consumer preference changing rapidly and on an enduring basis. Experts and analysts in India foresee significant change in market leadership in the post-crisis business world. Businesses such as telecoms powered by WFH choices and surge in data usage, healthcare, specialty chemicals and rural consumers are expected to do well as compared to other sectors.

Understanding transitory changes from those of structural turnout to be critical to position products and businesses to succeed in the post Covid-19 world. For, across businesses and more so for big enterprises, the corporate ability to dynamically assess which assets bound to thrive in the post-Covid bound to give them the leverage to benefit from the much awaited recovery and a chance to prosper. For business buyers as well as private equity alike, the current subdued market scenario is the right time to plan for a target list of assets where a future investment or partnership may be a win-win situation.

The way forward

The Covid-19 crisis is an unfolding event bringing uncertainty to every aspect of professionals lives, organizations and the society. The 'think the unthinkable' aspect of 21st century professional life is to be perceived with a lot more positivity and the same to be embedded into our attitudes and approaches in winning in uncertain times.

The other prerequisites in these special times are adaptability and flexibility, creativity and critical thinking besides the fuel of the 4th industrial revolution, i.e. the data literacy go a long way in the battle for ending survival. The right data and professionals with expertise to understand the data will ensure that organizations respond in the right way should a future pandemic occur by allowing them to understand business trends and shifting customer needs in a measurable way. Similarly, digital skills such as digital and coding skills, web development and digital marketing will become even more important as the current crisis pushes the organizations to embrace digital transformation even more. According to BCG Henderson Institute, AI will dominate post-crisis world. Most companies have already had experiences with digital applications such as automation and basic data analytics. But AI, which enables machines to solve problems and take actions that in the past could only be done by humans, obviously goes beyond that. Most successful leaders are also voracious readers life-long learners and highly positive and energetic in their engagements. According to the World Economic Forum (WEF), in just five years, about 35% of the skills deemed essential today will change. Hence it is the only way to stay robust and relevant in the post-crisis business world will commit to the goal of a lifetime of learning.



Certainly, a more enlightened and integrated approaches are needed on the part of governments to manage the Covid-19 crisis effectively and create a right environment by bringing awareness and putting just right policies in place. As earlier rightly stated much of the economic and social stability come from protecting jobs and the incomes, especially of those not part of the policy discussions and consensus but adversely affected by the pandemic and those account for major chunk of stakeholders.

It's always during times of crisis when it is required to put your best foot forward. The VUCA—Volatility, Uncertainty, Complexity and Ambiguity—times also warrant that neither you create nor contribute to such heightened uncertainty but try your finest to unleash an environment of stability, certainty, simplicity and clarity as you tread through these times as an individual or within your own organization and with its external stakeholders. ■

Reference # 20M-2020-07-09-01

Insurance

Redefining Risk Management

The year 2020 has been quite disappointing so far. We are dealing with the worst pandemic in decades, the economic activity is sluggish, our movements are severely curtailed and most of us are uncertain about what would happen next. It is this uncertainty that is called 'Risk' and the financial impact of risk is what can be mitigated by insurance.

The only good that has so far come out of Covid-19 is the realization insurance is a must. This pandemic shows it does not differentiate between the rich and the poor and money is not what could save one. Let us remember that insurance does not let one avoid the risk or transfer the risk, rather all it does is that it mitigates the financial impact of the uncertainty involved. All of us believe that we are fine and nothing would happen to us even when we see our friends and relatives who had thought the same suffer both financially and emotionally.

This article may seem a little harsh but insurance in itself is all about insuring oneself against an adverse event, hence we cannot discuss insurance without discussing negative events. Most of us take a very narrow view of the risks involved and consider it a onetime affair and something that would not happen to us. But the year 2020 has taught us lesson a hard way.

As per a report in the *Mint* in 2019, life insurance penetration in India stood at an abysmally low 3.69% on the other hand even with the availability of various central and state government schemes of health insurance a large population in India do not have health insurance. Though these figures are alarming, they also open up doors for business opportunities. Many companies have launched affordable micro insurance products for people with less income.

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Many a reason

One of the reasons for the low penetration of insurance in India is the treatment of the same as more of an investment vehicle and a tax saving instrument rather than a risk mitigating tool.

Being a common middle class individual with limited financial resources and high debt, we need to safeguard ourselves against any adverse events that could threaten our financial stability or significantly impact our or our dependents lives. The risks that one faces are many including:

- The risk to one's own health and that of his or her dependents;
- The risk of death of the earning member of the family. This risk exposes the dependents to servicing of the various debts taken by the individual and also to the risk of deterioration of lifestyle of the dependents in the absence of a running stream of income;
- Risk to property and contents by natural calamities like earthquake, fire, floods, burglary and theft;
- Vehicle insurance (Everyone has it due to statutory requirement and penalty stipulations;
- Risk of liability;
- Travel related risk and threats;
- Cyber and many more.

Look for solutions that suit you

The list of the types of insurance available is very exhaustive and all of the above mentioned insurance may not be required based on the risk assessment of an individual. Considering an average middle class salaried or self employed individual, the first four types of insurance are more of a necessity than an option. Other insurance may also be considered based on the risk assessment.

In context of life and health insurance it is often said that one should take insurance at an early age. There are primarily three reasons for the same:

1. At younger age the probability of an individual contracting a serious illness or undergoing treatment is less due to stronger immunity. Hence the life expectancy of an individual is more during younger years than latter which leads to reduction of premium required to be paid.
2. In case of life insurance policies the premium payment term is more which essentially reduces the premium required to be paid.

> Being a common middle class individual with limited financial resources and high debt we need to safeguard ourselves against any adverse events that could threaten our financial stability or significantly impact our or our dependents lifestyle.

Jatin Khanduja
Manager (Research)
State Bank of India
Institute of Credit and Risk Management, Gurgaon

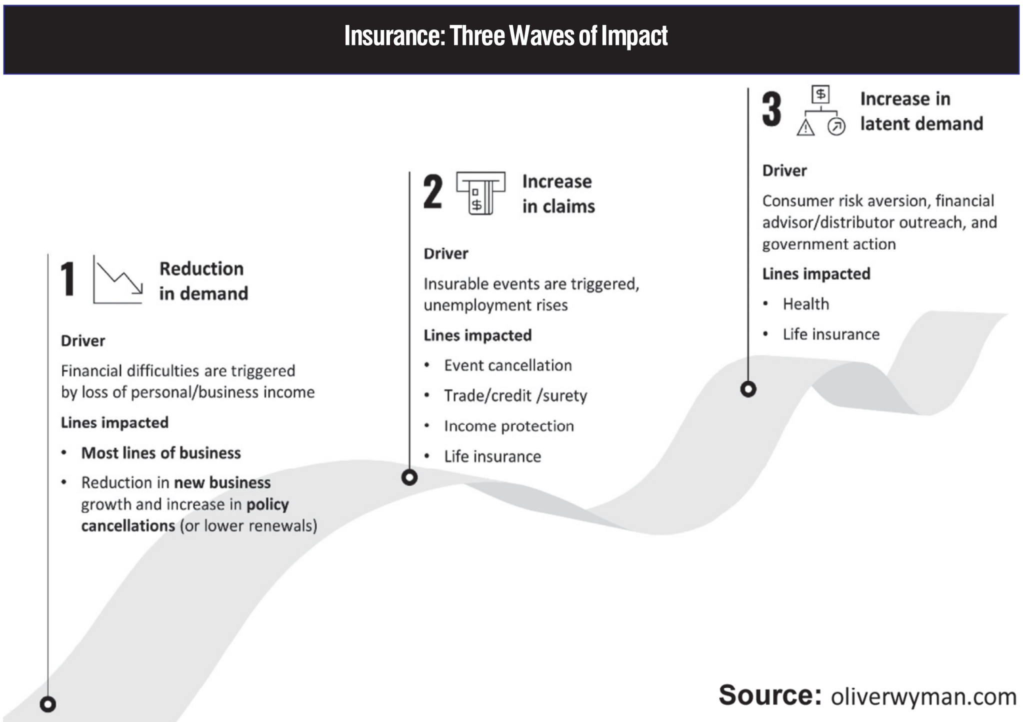
3. During the initial years when one starts his or her career the financial capital is nil and human capital is very high. Human capital is the present value of the earnings that would accrue to one over his or her working age. As one progresses into his career the human capital is replaced by financial capital as the earnings are realized. It is at this high human capital stage that one accumulates maximum debt for either acquisition of assets or for higher learning and the debt is retired as one accumulates more financial capital over the years.

Availing of insurance at an early stage is mostly recommended for the above mentioned reasons which are both financial and non-financial.

Let us discuss the salient features, usability, pitfalls of various mitigation methods for the risks mentioned above:

- Health insurance: Health insurance has evolved into various sub products and each one has its own utility.
  - Mediclaim policy: This is the vanilla health insurance product and it provides reimbursement for hospitalization expenses. There are many variants of health insurance as well like family floater, sum restore, Hospital cash and others, each with some distinguishing feature. These health insurance are competitively priced and most of the general insurers now provide for cashless facility which essentially is payment made by the insurer directly to hospital based on the terms of contract.
  - Critical illness cover: This a sub type of health insurance that provides a lump sum payment in case the insured is diagnosed with any of the critical illness mentioned in the policy. With fast paced lifestyle, the threat of critical illness has increased like never before. This coupled with the high cost of treatment often leads to one exhausting all his savings and ending in a debt trap.

    Critical illness cover has become a necessity especially for the working class with stressful lifestyle. Critical illness cover is offered by both the general insurers and life insurers. The cover offered by general insurers is renewed annually and the premium changes with age of the insured. The cover offered by Life Insurers on the other hand has a constant premium for the tenor chosen which in a way is more certain and the payment outgo is fixed.
- Life insurance: With the increasing uncertainty, a lifestyle fueled by debt and the increased risk of lifestyle-related health issues it has



Source: oliverwyman.com

become imperative for everyone that one should insulate one's dependents from the obligation of servicing any debt and also make arrangements to provide for the family expenses when the income generating member is not around.

- Insurance of property and contents: On and often we hear about the natural calamities like earthquakes and fire damaging one's house. People often give less importance to this insurance as it is considered a secondary aspect. What we fail to understand is that purchasing a house is the single biggest investment a middle class Indian makes in his lifetime and if that investment is wasted it is highly unlikely the individual will be able to gather those financial resources again. This is while not even factoring the emotional toll it takes on the individual.

These days the contents of the house with all the new gadgets and expensive furniture makes the insurance of contents necessary as in the event of a mishappening one could recovery early and the limit the financial damage. Insurance is not here to remove the risk, the insurance we are discussing is all about mitigating the financial impact of an unwanted event. The most common problem we encounter among the general public is the perception of insurance as an investment. The insured believes that if the event has not occurred the premium paid or at least a part of the premium paid needs to be returned to the insured. This is where the education of the insured needs to be done.

Remember, insurance is a risk mitigation tool first

In this article we are not considering the investment aspects of the insurance but only its risk mitigating features. The insurance in its basic form works on a pooled contribution basis. The probability of claim is estimated by the actuary working for the insurance company-based on the historical data. The claim payable is then added to the administrative and other expenses incurred by the company to arrive at the premium payable. The premium charged is not stagnant and is changed based on the claim experience of the company and the industry. This explains why the premium for insurance of the same event with the same features is different at different locations.

The claims made are paid from the premiums collected and if the claims are more than the premiums collected then the premium is increased. When insurance is marketed as an investment product the risk premium is added to the investment aspect to market insurance as an investment product.

Another reason with the dissatisfaction with insurance in India is because we do not read and understand the fine prints in the insurance contract. Let us first understand that the insurance is a business and the insurance company is going to always act in its own best interest. Also insurance is a contract of utmost trust. Even with the surge in online policies the dissatisfaction among the insured is increasing, in this case the onus lies on us to make correct declaration and read the fine prints in the insurance contract. If we act as per the contract the insurance company is legally bound to pay.

For example: Health insurance may differ between companies based on exclusions, scope of coverage, deductibles, co-payment stipulations and others. Hence insurance is not a vanilla product and there are many modifications based on the risk assessment of the insured. A life insurance cover may differ between companies-based on the riders included, option of increasing sum assured, joint life cover, tenor of coverage, payment in lump sum or in annuity and others. Hence insurance from different companies cannot be simply compared based on the premium and claim settlement ratios.

Householders policy for instance differs based on whether the policy offers reconstruction, old for new, or indemnity which is payment after factoring depreciation. Each of these policies will have a different payment outgo in case of claim. With the companies focusing more on online sales there is no broker involved hence the responsibility to fairly understand the terms and conditions of the contract vests with the insured as sales through online channel are primarily targeted towards the educated.

Car insurance is a more familiar term among the middle class due to statutory requirement of having a third party insurance. However instead of the mandatory third party most of the people go for the comprehensive insurance which is a welcome sign and indicates an increased level of awareness at least for this segment of risk.

Significance of health insurance

Most of the salaried class gets some kind of health insurance cover from their employers. Some even get a live cover for themselves from their employers. Most of the health covers are on a floater basis that means they cover the entire family under a single sum assured, moreover many of the employers now do not provide cover for parents which is the age group that is most prone to health ailments. These risk covers are mostly inadequate and expose the family to risk. Also with the rising cost of healthcare coupled with a possibility that two members of a family may require hospitalization at the same time, a family floater health insurance of ₹5.00 lakh is grossly inadequate. We have taken a sum assured of ₹5.00 lakh as most of the working class are offered cover in the same range. Another problem is that after superannuation the employer provided cover ceases to exist and the requirement for insurance is the most at that age also because of health complications it becomes very difficult to obtain insurance coverage at an older age and even if coverage is available the cost is prohibitive leading the individual and his family exposed to healthcare risks and also the financial loss accruing from it.

The best way is to obtain a health insurance policy for the family and if the family includes elderly a separate policy may be taken for them as a policy for the elderly may have a higher premium for a lower sum assured. To ensure increased coverage one may opt for a super top policy which is provided by all the leading general insurers. The salient feature of a super top policy is providing high sum assured at a very nominal premium also a health insurance done early comes with guaranteed renewability for upto 85 years of age.

Let us first understand how a super top up policy works. Based on claim history of health insurance it has been observed that most of claims made are in lower brackets and the frequency of claims decreases as we move up the amount involved. In layman terms the insurance companies encounter high number of low amount claims and low number of high amount claims. A super top up policy works on the concept of deductible, the higher the deductible the lower the premium. For a example a super top up policy of ₹5 lakh with a deductible of 5 lac may cost only a fraction of the premium of first health insurance policy of ₹5 lakh.

In this case within a policy year the first hospitalization bills or other admissible claim bills upto ₹5 lac need to be paid by the insured and the policy would then pay residual amount upto a ceiling of ₹5 lakh. Super top up is a convenient and affordable way to increase coverage. The deductibles vary from ₹1 lac to upto ₹10 lac and the coverage can be chosen accordingly.

Insurance be it health, life or any other is not a one time affair, rather it is a continuous process which needs to be revaluated at each different stage of life. Just as the risks we face change as we move ahead in life, the coverage of risks should also change and thus risks should be assessed periodically and mitigation measures should be taken accordingly.

Startups to help improve penetration

The industry has some established names like SBI General and SBI Life, New India Insurance, LIC, HDFC Ergo and HDFC Life and others with a proven track record of innovation and claim payment. The insurance industry has witnessed many innovations and disruptions from new age startups like godigit, acko, toffee insurance, getvital and others. Some startups like getvital and toffee insurance with a completely online presence have launched white label policies of other insurers with distinguishable features and affordable premiums. All this is being done to make insurance more affordable and to increase insurance penetration. These startups have significantly impacted the existing insurance landscape and going forward, we can expect a lot more disruption in the way insurance is perceived and done, but all of this will have meaning only when we start to appreciate the purpose and effectiveness of insurance as a risk mitigation tool and do not leave the unwanted events to chance. Insurance may not prevent an unfortunate event but it can certainly mitigate the pain for oneself and his or her dependents. ■

Reference # 20M-2020-07-10-01

Health Insurance

In the Post-Pandemic World

As the pandemic shows once again, human lives are fraught with increased incidence of health ailments. Though, there is considerable improvement in medical technology in addressing the health emergencies but the associated costs for treatment are on the rise. Today, hospitalization with health insurance really creates financial 'tsunami' in the family besides mental anguish and stress. Thus, protecting self and loved ones from any health eventuality is a must by choosing an appropriate health insurance plan.

The major players in the health insurance market in India are public sector insurance companies, private sector insurance companies and stand-alone players. The total premium collected by all the players put together stood at ₹44,873 cr as on March 31, 2019 of which the chief contribution (52%) is from public sector insurance companies with ₹23,536 cr followed by private and stand-alone players with ₹10,655 cr and ₹10,681 cr respectively with 24% market share each.

GoI has opened up the insurance market to private players as part of reforms to bring competitiveness among the existing players besides penetrating in to the untapped market with superior service and reasonable pricing. Though, the private players increased their presence in the market with improved business volumes and market share over the years, the desired results viz., Lower premium and enhanced service are not yet fully realized.

India is among nations with lowest budget allocations towards health care (1.46% of the GDP) and highest out-of-pocket spenders as around 9% population are only covered under health insurance

Currently, India is among nations with lowest budget allocations towards health care (1.46% of the GDP) and highest out-of-pocket spenders as just around 9% population are covered under health insurance. With increase in life expectancy, health awareness and burgeoning middle-class population, a perceptible change is being observed among individuals who are treating health insurance as a potent tool to protect them from health financial risk.

Health Insurance Premium Collections				(₹ in cr)
Players	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Public Sector	15,591	19,227	21,509	23,536
Market Share	64%	63%	58%	52%
Private Sector	4,911	5,632	7669	10,655
Market Share	20%	19%	21%	24%
Stand-alone*	3,946	5,532	7,831	10,681
Market Share (%)	16	18	21	24
Total	**24,448**	**30,392**	**37,029**	**44,873**

Note: *Stand-alone denotes Specialized Institutions / Healthcare Specialists. Source: IDRAI Annual Report 2018-19

Government initiatives

GoI has introduced Ayushman Bharat scheme with focus on disease prevention and health promotion through Health and Wellness Centers (HWC). As part of health care reforms, recently government has launched a novel scheme i.e., Pradhan Mantri Jan Arogya Yojana (PM-JAY) which aims at meeting the immediate hospitalization needs of the eligible beneficiary family in a cashless manner. PM-JAY covers around 11 crore poor families across the country by providing financial protection for selected secondary and tertiary care hospitalizations insulating the needy families from catastrophic financial shocks. Out of a total population of around 130 crore as on March 31, 2019, the number of individuals covered under health insurance policies were 47.20 crore representing 36.30% of the country's population only. Though, there is steady increase in coverage of people over the years, still 83 crore individuals (63.70% of country's population) are left uncovered which is really a cause of concern.

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NSN Reddy
Andhra Bank
(Retired Executive)

Gen-S (Silver Line) segment

Life is full of uncertainties but 'Aging' is certain. Each one of us invariably undergoes the cycle and finally joins the Gen-S club and move further to Gen-SS (Super Senior) club over a period of time. Consequently, the age-related ailments are the order of the day and these need to be addressed suitably either by self or supported by family members.

In the past, our traditional joint family system used to provide an excellent support structure with a philosophy "One for All and All for One" by pooling all their resources viz., physical, financial and emotional, together for the benefit of all family members at all times. Over the years, the migration trends in the country has changed the scenario from 'Joint family' system to 'Nuclear or Minuscule families' as there is increased pace of relocation of people from rural to urban; state to state and abroad in pursuit of employment, career opportunities and improved livelihood. Though, the children love their parents and wish to take care of their requirements, they find it difficult to manage their financial resources on account of increased living costs, health and education expenses. Truly, these factors shattered the long-established system and had adverse impact on Gen-S segment.

In the above backdrop, most of the senior citizens are living independently with little or no support from their children/family members. Further, the increased medical expenses is adding fuel to fire and is really a burden on Gen-S pocket as their source of income is limited i.e. Pension and interest income. Thus, this segment is looking for formal care service providers like nursing homes, care centers, etc., and also opting for health insurance schemes to meet their present and future medical needs to lead their lives independently, peacefully and gracefully.

Group health insurance policies

The health insurance business in India is broadly classified into three categories viz., Government sponsored health insurance, group health insurance and individual health insurance. Out of total 47.20 crore individuals covered, the major chunk is from government schemes with 35.71 crore (76%) followed by group with 7.29 crore (15%) and individuals with 4.21 crore (9%). In terms of amount of premium collected, the share of group policies premium amount stood at ₹21,676 cr with a market share of 48%, followed by individual policies premium of ₹17,525 cr with market share of 39% and government business premium of ₹5,672 cr with market share of 13%. There is increased awareness and penetration of health insurance schemes in the market especially under individual and group business segments and recorded improved premium collections during the last four years.

As per IRDAI guidelines, "Group Policy" is defined as a joining of persons

Health Insurance Policies and Premium Collected				(■)
Segment	**2015-16**	**2016-17**	**2017-18**	**2018-19**
i) Government				
a) Policies (lakh)	2,733	3,350	3,593	3,571
b) Premium (crore)	2,474	3,090	3,981	5,672
ii) Group				
a) Policies (lakh)	570	705	894	729
b) Premium (crore)	11,621	14,718	17,757	21,676
iii) Individual				
a) Policies (lakh)	287	320	333	421
b) Premium (crore)	10,353	12,584	15,291	17,525
Grand Total				
a) Policies (lakh)	3590	4375	4820	4720
b) Premium (crore)	24,448	30,392	37,029	44,873

Source: IDRAI Annual Report 2018-19

together with a commonality of purpose or engaged in a common economic activity. This includes employer-employee groups as well as members of a professional body, housing society, alumni, social or cultural association, holders of the same credit card product, savings bank account holders of a bank and so on. The group policies are playing an important role in health insurance segment both in terms of number of people covered as well as premium collections. The following are the chief reasons for individuals for opting group policies:

- Floater policy covering spouse, children and parents
- Waiver of medical check-ups and Pre-Existing Diseases (PED)
- Lower waiting periods
- Hassle-free claim settlement
- Lower premium

Understandably, the premium rate on group policies is low compared to individual retail policies on account of group size, mix and negotiation capabilities of the group aggregator. The other advantage of group policies, especially availed by government and reputed private companies, is that the employer is offering the health insurance policies to their employees either at low cost or no cost basis. The insurance premium is being borne by the government/companies as part of staff welfare measures. Though, the group policies appear to be attractive, the flip points are as under.

- Normally, under group policy, it is expected that uniform premium is to be levied to the members irrespective of the age and claim ratio also be arrived accordingly. Contrary, the insurance companies are levying premium based on the age of the policy holder which is against the ground rules.
- The naive policy holder doesn't have any decisive role in negotiation of premium rates as the aggregator is only the competent authority to have dialogue with the insurer. Of late, it is noticed that the aggregators are failing their responsibilities and simply accepting the premium rates and other terms without any purposeful discourse with the stakeholders.
- By and large, the retail policy holder is eligible for "No Claim Bonus" while renewing the policy but the same facility is not available for group policy holders on the excuse that the premium is low compared to individual policy. Thus, the insurance companies are conveniently misusing the guidelines leaving the policy holder in the lurch.
- Contrary to the common belief that the group policies are cheaper compared to retail policies, the insurance companies have been resorting to hike in premium rates year-on-year on the pretext of ever-increasing medical costs and thus making the group policy unaffordable.
- Mostly, the group policies are operational in organized sectors viz., Government and reputed private companies, where the employer acts as aggregator and mostly bears the premium either fully or partially till the superannuation of the employee as part of their staff welfare measures. Normally, the member joins in the group at the age of 25 to 40 years and continues the policy for life time. Predominantly, during the earning age, the claim ratio is negligible. The irony begins in the post retirement of service/profession as the entire premium is to be borne by the policy holder on one hand and medical spending (claims) starts increasing on the other. This has a direct bearing on renewal premium and is an additional burden on the senior citizens.
- The adverse Net Incurred Claim Ratio (NICR) i.e. the excess amount paid over the premium received in a year is the chief argument of the insurers for a hike in insurance premium. The NICR crucially depends on number and amount of claims. While the per cent of claims to total policies remain the same, contrary the claim amount has been on the rise due to reported increase in service costs of the hospitals. This aspect needs to be revisited as there is no uniformity and transparency among the networked hospitals with regard to treatment of ailments and charges thereof. The nexus between networked hospitals and Third Party Agents (TPAs) is also to be looked into while examining the reasons for escalation in hospital bills.
- Further, the insurers always argue that they are compelled to hike premium rates due to adverse NICR but the fact is otherwise which is

evident from the segment-wise figures viz., Government 113%, group 102% and individual 72%, published by IRDAI for the year 2018-19. At the aggregate level, it is noticed that increase in premium of group policies appears to be disproportionate to that of government and individual policies. The number of lives covered vis-a-vis premium collected under government business also substantiates the lopsided revision of premium rates. Thus, the regulator needs to pay special attention to this aspect to protect the interests of group and individual policy holders.

- Adding fuel to the fire, the implementation of GST structure has made the health insurance policies costlier as government has increased the tax on insurance premium from 15% to 18%. There is an urgent need to revisit the existing GST rates on health policy premium as it falls under basic necessary services, which are to be exempted from GST fully.

The increased premium rates especially in higher age groups, forces senior citizens to choose the exit route. Truly, it is an unethical practice and also unwarranted treatment being adopted by the insurers towards senior citizens whose contribution to the nation building is invaluable.

Demographic trends

In India, around 11 crore people (8.30% of population) are in the age group of above 59 years, who are in dire need of health insurance coverage. Even, if we assume 55% of this group are either covered under government sponsored health insurance schemes or purchased health policies on their own, approximately five crore people are left out and have become vulnerable since they can't afford to buy health insurance policies for their present and future medical needs. Further, this vulnerable segment is expected to increase further in the coming years as around 10 crore people (7.90% of population) in the age group of 50 to 59 years are likely to join in senior citizen group shortly.

Indian Population by Age Group

No	Age Group	Percent
1	Below 10 years	17.40
2	10 to 19 years	19.70
3	20 to 59 years	46.70
	Sub-total	**83.20**
4	50 to 59 years	7.90
5	Above 59 years	8.30
	Sub-total	**16.20**
	Grand Total	**100**

Source: wikiepedia.org

Optimum coverage and affordability

Barring PM-JAY (meant for poor households), presently there are no government sponsored health insurance schemes for middle-income group in general and senior citizens in particular. The alternative available to this group is either to rely on private sector on payment basis or depend on the mercy of voluntary organizations for free medical services. In the present scenario, the minimum health insurance coverage required for a family (self and spouse) should be ₹5 to ₹10 lakh. Let us look at premium rate quoted by public sector insurance company to a public sector bank under group policy for the year 2020-21.

Group Policy - Premium Rates

Age group	Premium for Policy	
	₹5 lakh	₹10 lakh
61 to 65 years	23,753	38,940
66 to 70 years	34,785	56,039
Above 70 years	38,982	66,703

Similarly, the individual policies offered by the private insurance companies have become more costly. Under these circumstances, the pensioners whose annual income is below ₹5 lakh need to earmark minimum one or two months pension towards purchase of health insurance policy. This is truly a burden to senior citizens, lest they have to choose an exit route which is a highly risky and precarious one. Thus, there is an urgent need for innovative, cost effective health insurance products for senior citizens which cater effectively to their present and future medical needs.

Need of the hour

Broadening of PM-JAY: While appreciating the government moves in improving the health care in the country duly covering majority of poor families under PM-JAY scheme, still many senior citizens such as retired employees of PSBs/PSUs/corporate bodies/corporations/private companies, self employed and professionals, farmers and artisans etc., whose annual income is below ₹5 lakh and not members in any government health insurance plans, need to be covered on priority as they cannot afford to buy health insurance plans with their limited income. Further, there is an imminent need to support senior citizens whose income is between ₹5 to ₹10 lakh per annum with cross subsidization by the respective institutions in case of retired employees and with regard to others, it should be done by the centre/states.

Zero GST: The important components of cost of the health insurance policies are claims, operating expenses and taxes. On implementation of GST regime, the tax component has increased from 15% to 18% which is a big burden on the policy holders. Health care being priority on the government agenda, taxing the individuals on purchase of health insurance policies is not fair. Government need to revisit their stand on levying GST on health insurance premium and initiate steps to bring down GST to zero in a phased manner starting with senior citizens as they need it the most.

Timely Communication: The Insurance Regulatory and Development Authority of India (IRDAI), the regulator of the insurance industry in the country, has been playing an important role for effective implementation of regulations to protect the interests of all stakeholders. However, it is observed that the individual policy holders are getting a raw deal in areas such as abrupt hike in premium, claim settlements, portability etc. Since the health policies are subjected for renewal every year, it is the responsibility of the insurer to inform the changes in premium or any other terms and conditions of the policy to the insured well in advance, but in reality they are communicating at the fag-end causing inconvenience to the insured. Thus, the regulator has to ensure that the insurance companies should communicate the revision of premium to the policy holder atleast three months before the due date to enable him to take informed decision either to renew the policy or to switch to other insurance companies with portability.

Group Policies: Levying premium based on the age of the policy holder is to be scrapped forthwith especially in case of group policies. The revision of the premium, if any, should be uniform all group of ages and reasonable.

Portability: As per IRDAI guidelines, the right accorded to individual health insurance policyholders, to transfer the credit gained for pre-existing conditions and time bound exclusions, from one insurer to another insurer is called as Portability. It is applicable to both individual as well as group policies. But in reality, the group policy holder is deprived of portability as the group aggregator is not evincing any interest to take up the matter with the concerned for resolution. This is compelling the policy holder either to continue with the same insurance company, even though not interested, or join in another company and wait for 2 or 3 years for pre-existing disease claims. The IRDAI, the regulator has to ensure that the portability requests are to be attended by the insurance companies on priority. With regard to group policies, there is a need to reiterate the specific guidelines with role and responsibilities of the group aggregators/insurance companies to extend the benefit of portability to the policy holders without any riders or restrictive clauses.

Healthcare Sector Growth Trend ($ in bn)

Note: F – Forecast.

Source: Frost & Suman, LSI Financial Services, Deloitte

Roles and responsibility of group Aggregators (GA): It is observed that many of the GAs are not evincing the desired attention to protect the interests of the group members with regard to premium rates, claim settlement, portability etc. It is also a fact that the GAs are not exercising their prudent negotiation skills with the insurance companies while renewing the policies as they are more interested in service charges (commission) than protecting the interests of the policy holders, and leaving them like hot potato to the mercy of the insurance companies.

Cap on claims: The argument of insurance players is that they are forced to hike the premium on health insurance policies every year on account of increased claims coupled with medical inflation. Since the policy holder base is broadened over the years, naturally the numbers of claims are on the rise. The adverse claim ratio as reported by the insurance companies is not on account of increased number of cases but high value claims. The principle reason for this is not having uniform rates for each ailment/disease and the treatment cost varies from hospital to hospital within a city/town. Further, it is a well-known fact in the market that the health card holder will be charged more, compared to normal cash payment, by the networked hospitals. Thus, monetary cap on ailments and uniform billing with or without health card is the need of the hour.

Way forward

The Gen-S segment is known for their hard work, sacrifices, devotion and dedication to the family, and the organizations where they worked as well as to the society at large. It is not out of place to mention that the senior citizens are the most law abiding lot and genuinely paying taxes all through the years for the nation building. In the process they have exhausted all their energies and resources and are left with little income to lead their second innings independently. "Respect Elders", though has a resonance in various forums, but very little is done in letter and spirit. The Gen-S group look up to the government, regulator and former employers not for any freebies or charity but expect reasonable pricing of health insurance policies to enable them to buy with ease and continue their journey with peace and without burdening others. Hope, good days are ahead for Senior Citizens!!! ■

Reference # 20M-2020-07-11-01

Indian IT Industry

Post-Pandemic Challenges

IT industry probably faces tough times amidst a raging pandemic and US visa restrictions. Can it survive the pandemic-induced crisis?

With adaptation and flexibility being the primary norms to be followed in the Covid-19 period following the tail of Work from Home (WFH), serving approx. 80 countries globally, the Indian IT industry has demonstrated an outstanding success story to the world so far. Despite India being a developing country the domestic IT sector has powered majority of the Fortune 500 organizations with technology infrastructure and human resources of world-class. Enhancing value chains with low cost services and competitively complex infrastructure to MNCs, Indian talent with technology orientation and English speaking workforce has enabled economic profits for the world organizations fulfilling their requirements. Indian IT sector can boradly be divided into three segments: Software, IT services and IT-Enabled Services (ITES)- BPO .

Besides producing technically-skilled professionals, advanced telecom infrastructure, opportunities for low-cost offshore outsourcing, quality orientation towards high standards besides favorable government policies, Indian sub-continent has emerged as an Information Technology (IT) hub in almost every IT-enabled domain being operated in the world. However, Covid-19 has displayed a very crucial picture for Indian IT industries i.e. revenue/project/client dependence from developed economies acting as a backbone for majority of the organizations, which has greatly impacted their overall functioning in this pandemic period.

Amidst the Covid-19 situation, it is crucial for IT companies to understand that the continuity of the service in a seamless manner is followed for their customers maintaining least impacts

Amidst the Covid-19 situation, it is crucial for IT companies to understand that the continuity of the service in a seamless manner must be followed for their customers maintaining least impacts. Looking at the latest figure of confirmed cases worldwide i.e. 7,690,708 as per WHO COVID-19 dashboard it is evident that though the number of active cases are in decline phase in few countries but the overall active cases are still on rise globally. India has witnessed a sharp increase in the confirmed cases in last two months (April and May) as compared when the first patient was confirmed in India i.e. on January 30 '20. Several essential measure were taken and are still been taken by the Indian governments (center and state), including nation-wide lockdown permitting only essential services to operate, advisories to the organizations by GoI stating that employees to be urged to WFH enabling rollout of the salaries for their survival and also continuity of the services to the customers, this was ensured with mandatory effect for IT and ITES organizations.

Post the lockdown and implementation of the stringent measures by the GoI for organizations to function, Indian IT companies shifted several of their essential processes on to the virtual platform that includes recruitment, employee's off boarding, client meetings, and remote functioning of their operational teams, to name a few. In addition, capabilities to deliver various IT-services on-site were severely affected, as the present available option is to support remotely. This unprecedented crisis had severely tested business continuity plans and disaster recovery strategies of IT firms. According to the Kotak Institutional Equities, growth of the IT sector has fallen 3-8% for the next financial year. With US Embassy to India's step to stop issuing immigrant and non-immigrant visas, it will directly-indirectly affect the IT giants in India to send their employees to US for projects and sales pitches which is a major revenue loss for India. Major concern from the banking sector, after US Federal Reserve announced rate-cuts, has feared IT bigwigs such as Infosys, Tata Consultancy Services and Wipro who fetches over 30% of their revenues from BFSI sector.

According to NASSCOM, the IT services and outsourcing industry employs around 4.4 million workers and had created approx. 20,000 jobs in the last financial year. But of late, hundreds and thousands of jobs are at risk. Business Process Management (BPM) companies are looking at almost 70-80% of their workforce working from home which could be possibly the largest WFH scale project anywhere, according to the NASSCOM spokesperson, it was also stated that, the mission critical workforce who are executing functions that are required from offices are getting special passes to come to office amid the nation-wide lockdown. The impact is yet to be realized and is unclear at present on the economy but leading analyst believes that it could be worse than the Great Depression and consequences could cause deeper damages that may require special attention for rectification. There are many companies those have stated their commitment towards their employees and had announced to retain them and honor the outstanding job offers to the upcoming talent. But the real scenario is yet to be revealed.

Issues with work from home

Post lockdown a major struggle started for majority of the IT services and outsourcing companies in India as they began to shift their workforce to work remotely. Sudden requirement for hardware like computers and laptops to be provided or in some cases to be delivered to their respective employee's houses in hundreds to thousands in numbers, created a chaos for business continuity plans. Other than this, there were situations such as low internet bandwidth and most concerning like getting permissions from clients allowing working from home amid the security concerns.

Declining trend in spending

IT and outsourcing companies are bleeding in terms of decline in spending on IT projects for customers in US and other countries, majorly in sectors such as tourism and travel, hospitality and aviation with losses mounting up to 80% to 90% in their revenues. Also, delays are expected and being realized in the sectors like banking and financial for the new IT projects.

Price reduction

According to WNS, an outsourcing company based in Mumbai, clients are requesting to extend the payment terms with price reduction and discounts. Company stated that due to government lockdown and customer's pressure, their revenues are under immense pressure thereby impacting their service delivery.

Struggle in captive centers

Captive centers perform various functions for their parent companies that include data analytics, research and development, etc. Several big names like Walmart, Lowe's and Target are among the firms that have their captive centers in India that have struggled due to government lockdown measures. The smaller centers (fewer than 500 employees) which accounts for around 40% of the total that exists in India suffered huge losses, analysts say many were eventually sold off or have to shut their operations. Looking at this, outsourcing parent companies may rethink upon resettling the captive centers in the off-

> Post lockdown a major struggle started for majority of the IT services and outsourcing companies in India as they began to shift their workforce to work remotely.

Akash Gupta
Business Associate (Consultancy), Pune

Global Business and Government Purchases of Tech Goods and Services ($ in bn)

(Percentage change from prior year)	2016	2017	2018	2019*	2020*	2021*
Computer equipment	-0.5%	5.5%	7.6%	-0.5%	1.6%	2.0%
Communications equipment	-1.2%	3.8%	4.5%	0.4%	1.2%	3.3%
Software	3.7%	6.2%	8.9%	2.8%	4.8%	5.4%
Tech consulting and systems integration services	2.0%	5.5%	8.5%	3.9%	3.1%	3.2%
Tech outsourcing and hardware maintenance	3.4%	7.8%	3.0%	1.2%	2.3%	3.4%
Telecommunications	1.0%	4.7%	1.1%	0.5%	0.8%	1.9%
Total tech purchases	**1.7%**	**5.6%**	**5.7%**	**1.7%**	**2.6%**	**3.4%**

Note: *Forrester forecast.

shore geographies, which could be a potential loss for India that leads with around 1400 captive centers when compared to Philippines (700) and China (450), according to a report by Information Services Group Inc. (ISG).

The crisis has exposed various smaller vendors to the limitations of the WFH reality thereby leaving them with the difficulties to continue providing services to their customers having limited infrastructure to support their operational needs. This has caused several smaller firms to lay off their employees, and shift operations. With disruptions in every single supply chain affecting major industries, the reliance on IT services was observed to increase many-fold. It is observed that pressure is building-up to reduce supply chain costs, thereby enabling companies to look for outsourcing, lean manufacturing or other creative approaches to survive. On one hand causing various industries to close-up temporarily to other hand, where several sectors had started innovating and re-routing their supply chains with ITES to flourish in a new way. Recent announcements of relaxation from MHA could be seen as a rescue option for IT firms, government had allowed ITES to resume operation with limited work-force from the office premises with special attention for the safety measure to be enforced, and this could be useful for the firms to resume their pending projects. Also, as the value of rupee is depreciating, it is expected to provide a cushion effect to IT industry as the major dependence is on exports. More than 75% of the industry's revenue is linked to the market like North America and Europe where Indian software services are exported. In FY19 the exports stood at $77.7 bn, equivalent to $6.5 bn monthly, as per RBI data. With all the concerns and challenges one can think of, there are various opportunities for Indian IT firms that could be harnessed well, taking prompt decisions and acting on them well on time, such as:

Work from anywhere: It is evident that so far customers have always raised their concerns for this practice to be followed openly, but looking at the continuous and seamless services that Indian IT firms had provided to their respective customers in this crisis situation, there should be no resistance from customer's end post Covid-19 crisis in promoting WFH. Plus, a rise in demand for the WFH/Anywhere for offshore services is likely to happen, with an increase in the security controls preventing any cybercrimes and data breach incidents. Also, firms can now built up their human resource pillar even stronger with right talent at a global level with no location constraints.

Investments on collaborative tools: Looking at the increasing dependence on the remote working practices, IT firms are expected to increase their collaboration with firms offering tools to support and accelerate the virtual functioning of the day-to-day work.

Step forward towards Cloud, robotics and automation areas: A huge business opportunity has opened up for Indian IT firms to take a leap upon in terms of Cloud and automation projects, as amid the reduced workforce scenario in the office floors more and more customers may prefer to invest significantly on automating their back office work to reduce the dependency on manual procedures minimizing the human touch points.

New business strategy with local onsite delivery centers: To prevent and minimize the future disruptions customers may insist to setting-up of the local onsite delivery centers. This would be a new opportunity for Indian IT firms to look for, as it may pose an add-on burden on their respective margins with having the delivery centers in the local geography, but sooner the adoption is made better the business strategy could flourish creating newer avenues to grow and expand, preserving the current business providing an assurance of business continuity to the customers.

New potential partnerships: The Corona crisis has exposed businesses with several limitations and restrictions, which may force customers to look for the consolidation of vendors maintaining the business continuity. With this thought, Indian IT companies with their solid track record could be the major gainers in terms of consolidation plans. With an open mind for new alliances and partnerships with local firms IT companies can maximize their gain in the consolidation deals. With fundamentals and basics, IT industry has all the required qualities to emerge victorious of present pandemic crisis. Hence going forward, the current setbacks could be seen as temporary hurdles for the industry. The value that Indian IT industry provides to the world is enormous and with availability to adapt strategies, the industry will surely excel and emerge even much stronger. ■

Reference # 20M-2020-07-12-01

India Equity Strategy

Making It Covid-19 Resistant

A major step towards recovering not so hurt from the Covid-19 crisis as far as equity investing is concerned will be to identify the pandemic-resistant sectors and overweight them in your portfolio.

Many of us would have been falsely numbed to think that Global Financial Crisis in 2008/2009 was a lifetime experience that could not have been paralleled so easily. It took only a decade to jolt us from that slumbered thinking. When Coronavirus was originally detected in end-December 2019 in Wuhan, little did we realize that within three months, it will become an integral part of over 7.8 billion global population. Irony is it is still playing out with no solution in sight.

It took a while to catch up in India and when it did, the Indian equity market fell like a pack of cards. While the Nifty-50 index started the year at 12,000 levels, the Covid-19 impact made it reach 7,600 before rebounding to 10,400! That is volatility at its best. In percentage terms, Nifty Index fell by 37% (peak to trough in 2020) and rebounded 38% leaving with a YTD loss of 15%.

The spread of coronavirus has inflicted deep economic pain across the world, since it is the first recorded human triggered crisis that has impacted demand and supply simultaneously. After recording a real GDP growth of 4.2% in FY20, we are now expecting it to contract by 4.2% for FY21 though it is expected to jump to 10.9% in FY22 (due to low base effect). The fiscal deficit for FY21 is expected to deteriorate from the budgeted estimates of 3.5% to 6.6% of GDP. Therefore, in short, the economy has turned into a deep mess and companies will have to function within this gloomy economic environment.

While the Indian government doled out a much touted stimulus package equivalent to 10% of GDP, much of it is in the form of monetary stimulus with meagre fiscal support. With the current fiscal deficit, a large fiscal support is almost ruled out unless we decide to print money and throw it from the helicopter!

Covid-19 has destroyed earnings for companies. The Nifty EPS which was at ₹670 at the beginning of the year is now at ₹550. Overall earnings for the companies is expected fall by 10.6% during FY21 though they are expected to rebound by 30% in FY22. The fall in earnings and the strong market rebound has pushed the P/E and P/B ratios higher making Indian market unattractive to global investors.

With this challenging background, I will try to structure an equity strategy that can be COVID-19 resistant. Here are my five strategy recommendations:

1. **Identify Covid-19 resistant sectors:** We would identify Covid-19 resistant sectors and overweight them in the portfolio. Globally, there are sectors where social distancing has made their business model almost unviable. Examples will include airlines, retail, etc. Secondly, there are sectors that gets impacted both from the demand and supply side. E.g.: heavy industrials. Then there are energy companies that gets impacted due to oversupply. Finally, there are interest rate sensitive sectors like banks, life insurance and asset managers whose profits are tied up to the level of interest rates that plummeted. In the Indian equity context, we can notice that while all sectors fell during

P/E vs. P/B: Which Is Fairer of the Two!		
	Trailing	Forward
P/E	20.9 (17.9)	22 (16.0)
P/B	2.4 (3.0)	2.1 (2.7)

Note: Figures within brackets represent long-term average.

Source: Brokerage Estimates

the fall; some have recovered smartly while others are still licking their wounds.

Healthcare and energy represent two sectors that proved Covid-19 resistant during these times while all other sectors are still in loss, notably financials. Healthcare and consumer non-cyclicals are obvious candidates in these circumstances while the frenetic raise of equity for Reliance Jio propelled the energy index higher though most other energy companies tanked. Technology companies benefitted from digital dependence of people who are working from home.

2. **Take portfolio insurance:** We have already experienced severe volatility in the market and we should expect more given the global uncertainty how this epidemic will play out both socially and economically. While aggressive asset allocation in the form of moving to cash while markets rebound sharply and vice-versa when markets tank will imply severe market timing, it can also be expensive due to trading costs. The best position would be to buy longer-dated put options or even better buy gold!
3. **Stay liquid**: Cash is king in this environment. Until we see some clarity in the Covid-19 situation, it is better to have them at least 30% cash in your portfolio till the end of 2020. While high cash position will enable one to minimise losses when markets fall suddenly, it also provides the gunpowder to buy quality companies during such times.
4. **Aim for quality**: In times like these, it is imprudent to go after weak companies with high speculative interests. On the contrary, it may be a good idea to take shelter behind strong brands and franchise as they have a higher probability of withstanding business challenges than small companies. Market leaders and owners of brands should be preferred to others.
5. **Volatility can be an opportunity**: Investors should take advantage of high volatility, as there is an inverse correlation between volatility and market performance. Hence, when volatility peaks markets presents great opportunity.

In conclusion, every crisis is an opportunity. While there is demand destruction and supply chain disruptions, there is also some good news in the form of lower cost of capital for companies, which makes investments attractive. The long-term growth story of India is very much intact and crisis like this provides investors with attractive entry points.

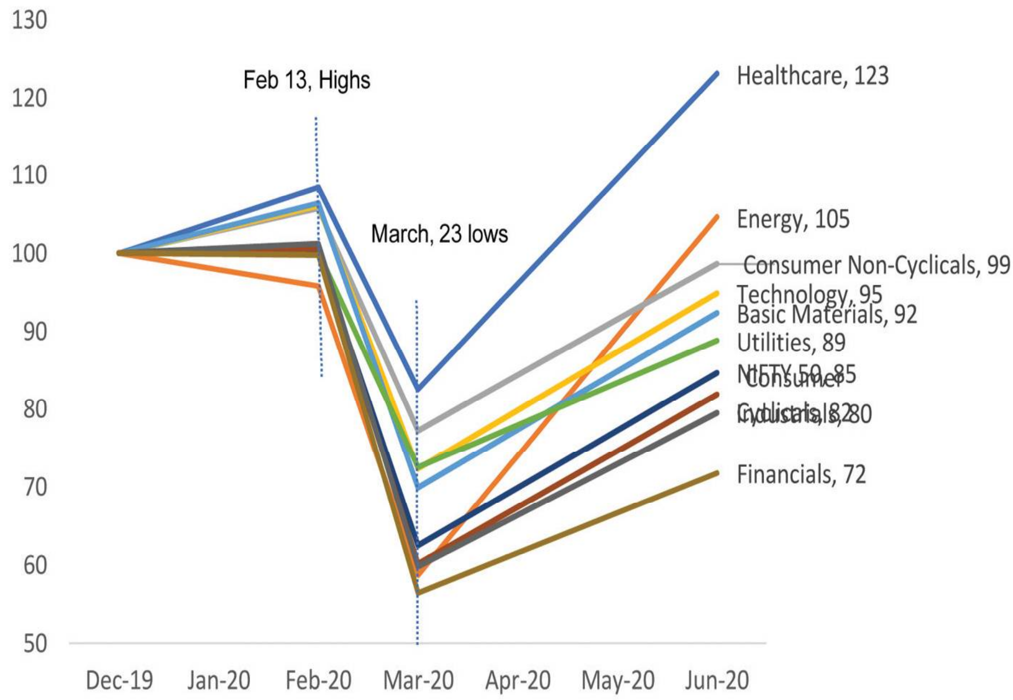
Happy Investing! ■

Reference # 20M-2020-07-13-01

> While there is demand destruction and supply chain disruptions, there is also some good news in the form of lower cost of capital for companies, which makes investments attractive.

M R Raghu
Head of Research
Kuwait Financial Center
(Markaz)

Which Is More (Covid-19) Resistant?



Source: Refinitiv; Data as of Jun 25 markets close

Gold ETFs

Return of the Safe Haven!

Soaring inflows confirm investors are back with a bang in Gold ETFs.

When chaos reigns supreme and equities and bonds face turmoil, while real estate languishes, head to gold (and other safe haven assets like dollar, US t-bills and the likes). Well, that seems to be the mantra successful investors have chanted perhaps long before wealth management came into vogue and became mainstream. Today, as the world faces deep uncertainties, and as the risk to lives and livelihoods grows amid the worst virus crisis that does not seem to be ending anytime soon, a growing number of savers, taking cue from that old-age wisdom, turn to gold to both protect as well as grow their wealth. But there is a slight difference: unlike in the past, most of these modern investors are no longer taking shelter in plain vanilla physical gold alone, which not only adds to the cost and is also not safe to carry (besides, the investor also faces certain other risks like the risk of adulteration or impurities). Rather, it is the 'Exchange Traded Funds' or gold ETFs that has emerged as a preferred vehicle of choice for them to park a part of their investible funds.

Investor reposed their faith, one more time again, in the safety of gold was evident from the recent exchange data that showed massive inflows finding their way into the gold ETFs listed on the domestic bourses over the past several weeks amid the growing virus threat

That investor reposed their faith, one more time again, in the safety of gold was evident from the recent exchange data that showed massive inflows finding their way into the gold ETFs listed on the domestic bourses over the past several weeks amid the growing virus threat. As per official statistics, gold ETFs attracted net inflows of ₹815 cr in the month of May alone amistd the multi-week extended lockdown and the chaos in the wake of the Covid-19 crisis. The fact that gold ETFs have been among only a handful of asset classes to have turned in positive returns is also undoubtedly a key reason why investors have rushed to park a part of their funds in them. In fact, investors have pumped in a record ₹3,299 cr in gold ETFs since August last year. The category delivered an average return of 24% in 2019, and looks well poised to surpass that feat this year, going by funds' (gold ETFs') performances so far this year. In fact, if performances of top-performing funds like Nippon India Gold Saving Fund, which has already given returns of 24.4%, as

of June 26, 2020, are anything to go by, the category may be touching a new milestone by this year-end itself.

A peek into gold ETFs

Gold-backed ETFs are passive investment instruments which track price movement of physical gold. As its name suggests, a Gold ETF is a type of exchange-traded fund and can be bought and sold on a stock exchange just like listed stocks and bonds. According to AMFI, Gold ETFs, which invest in gold bullion, are units representing physical gold which may be in paper or dematerialized form. One Gold ETF unit is equal to 1 gram of gold and is backed by physical gold of very high purity. Gold ETFs combine the flexibility of stock investment and the simplicity of gold investments. In India, Gold ETFs are listed and traded on both the leading bourses, the National Stock Exchange of India (NSE) and Bombay Stock Exchange Ltd. (BSE). Gold ETFs trade on the cash segment of BSE & NSE, like any other company stock, and can be bought and sold continuously at market prices. Also, there is no premium or making charge, so investors stand to save money if their investment is substantial. Besides, one can purchase as low as one unit (which is 1 gram).

Meanwhile, investors' gold rush continues. According to a research report by the SBI, dated June 29, during the over two-month long lockdown, households spent less through cards, while saved more by investing in instruments like mutual funds with Gold ETFs emerging as their favorite savings tool. Card spending declined significantly during April, with the total value of credit and debit card transactions slipping sharply from ₹1.51 tn in January 2020 to around ₹50,000 cr in April 2020. "In April, short-term consumer leverage declined by a whopping ₹50,076 cr as compared to March 2020." It may be noted that in April there is always a decline, but in the current fiscal because of exceptional circumstances this decline is 16 times more than what happened in April 2019. Consumers are also vigorously using gold holdings on their household balance sheet by taking gold loans," the report said. Gold ETFs, according to the report, saw a cumulative investment of ₹1,546 cr in April and May 2020, which is equivalent to 3.7-3.8 ton of gold. Interestingly, investment into gold ETFs picked up in January itself, several weeks before the nationwide shutdown was announced, with investors putting in ₹202 cr—the highest in seven years, the report finds. It surged to an all-time high of ₹1,483 cr in February. Sovereign gold bonds purchased 6.7 tons of gold in the June quarter, with investment up to ₹3,107 cr.

The Gold (ETF) rush continues unabated

Meanwhile, investors' gold rush continues. According to a research report by the SBI, dated June 29, during the over two-month long lockdown, even as households spent less through cards, they saved more by investing in instruments like mutual funds with Gold ETFs emerging as their favorite savings tool. As per the study, card spending declined significantly during April, with the total value of credit and debit card transactions slipping sharply from ₹1.51 tn in January 2020 to around ₹50,000 cr in April 2020. "In April, short-term consumer leverage declined by a whopping ₹50,076 cr as compared to March 2020." The study said that generally, April witnesses a decline, but in the current fiscal because of excep-

Benefits of investing in Gold ETF

There are many ways gold ETFs are beneficial compared to buying physical gold. Here are some of the features of gold ETFs that make it a lucrative investment option:

- Hedge against inflation: Gold is considered a safe investment because it can be used as a protection against currency fluctuation and inflation.
- Simple trading: You need to buy a minimum of 1 unit of gold—equal to 1 gram of gold—to start trading in gold ETFs. Buying and selling the units works just like equities—you can trade through your stockbroker or ETF fund manager.
- Open trading: Gold prices on the stock exchange are publicly available. You can check the gold prices for the day or the hour without any confusion.
- Easy transactions: You can buy and sell gold ETFs at any time of the day—when the stock exchanges are open—from any part of the country. You will also not be affected by local price differences in gold due to VAT or other taxes.
- Inexpensive: Gold ETFs listed on the stock exchange have no entry or exit load for purchase or sale of units. You have to pay only around 0.5 to 1% as brokerage charges.
- Tax benefits: Gold ETFs older than a year attract long-term capital gains tax. However, there is no VAT, wealth tax or securities transaction tax on gold ETFs.
- Secure investment: Gold ETFs are an easier investment than physical gold as there are no concerns over theft, secure storage or payments such as locker charges or making charges.
- Safe asset: Gold prices do not usually fluctuate very heavily. Even if your returns on equities decrease, gold ETFs could prevent you from sustaining big losses.
- Portfolio diversification: Gold ETFs are a good way to add diversity to your portfolio. Amid unstable market conditions, a diversified portfolio can give your better returns and reduces your risks.
- Loan collateral: Your gold ETFs can function as collateral security if you want to borrow from financial institutions.

Just like stock market investments, you have to be cautious while investing in Gold ETFs. Rash buying and selling could result in heavy losses that will affect your investment portfolio. It would be advisable to use gold ETFs as safe assets and hedge investment rather than as a daily profit-trading tool.

Source: bankbazaar.com

tional circumstances this decline is 16 times more than what happened in April 2019. "Consumers are also vigorously using gold holdings on their household balance sheet by taking gold loans," the report said. Gold ETFs, according to the report, saw a cumulative investment of ₹1,546 cr in April and May 2020, which is equivalent to 3.7-3.8 ton of gold. Interestingly, investment into gold ETFs had started gaining momentum in the beginning of the year itself, several weeks before the nationwide shutdown was announced, the report's findings showed. Sovereign gold bonds had purchased 6.7 tons of gold in the June quarter, with investment of up to ₹3,107 cr.

The growing gold appetite also led to positive net flows for the first time in several years. As per AMFI data, net inflows (the difference between inflows and outflows) across 14 gold ETF schemes stood at a little over ₹1,613 cr during the just concluded FY 2019-20. The last time inflows outpaced outflows was in 2012-13 with net inflows totalling a healthy ₹1,414 cr. Fueled by rising inflows, Assets Under Management (AUM) of gold funds jumped by a hefty 79% to ₹7,949 cr at the end of March 30, 2020, from ₹4,447 cr in FY 2018-19. For a record, it was also the first time in six years that inflows had overtaken outflows, reflecting the positive bias investors had for the category. Net outflows totaled ₹412 cr in the preceding fiscal (i.e. FY'19). The financial year 2017-18 proved to be another disappointing one for the yellow metal-oriented ETFs, with the safe haven asset witnessing net outflows to the tune of ₹835 cr. Before that investors pulled out investments worth ₹775 cr in 2016-17, ₹903 cr in 2015-16, ₹1,475 cr in 2014-15 and ₹2,293 cr in 2013-14, before the trend reversed in August 2019, leading fiscal 2019-20 to end on a positive note (read: net inflows).

And with a vaccine still not in sight (at least not before the end of this year), a section of market analysts feel that safe haven assets like gold ETFs could remain in much demand as investors seek protection of their wealth; gold, and also dollar, is considered a safe bet vis-à-vis other asset classes like equities and debt especially during periods of distress like political or economic turmoil, war and natural disasters, would only see growing investor interest in the foreseeable future. Besides, gold also acts as a natural hedge against inflation.

Investment into gold ETFs picked up in January this year with investors pumping in ₹202 cr, the highest level in seven years, just as trade tensions between US and China heightened, while an epidemic was knocking at the door with the emergence of first coronavirus case in Wuhan. Investment spree in gold ETFs continued in February with savers pumping in a massive ₹1,483 cr, which is an all-time high so far. The category attracted inflows worth ₹731 cr worth in April amid a coronavirus-induced lockdown and after a lacklustre March which witnessed a net outflow of ₹195 cr on account of primarily, profit booking. "The high investment amount in April suggests that investors are still lining up to buy gold—something observed when equity markets look bearish." Harsh Jain Co-founder and COO Groww, told in an interview to *ET*. He attributed the return of investor interest in safe haven assets like gold to the ongoing lockdown and its resulting economic slowdown which has contributed to investors' cautious behavior. Echoing similar views, Himanshu Srivastava, Senior Analyst and Manager - Research, Morningstar India, said, "With coronavirus pandemic hanging as a spectre on the global economy and markets worldwide, gold, with its safe-haven status, has emerged as a preferred investment destination among investors." Talking to the business daily, he explained, "Gold functions as a strategic asset in an investor's portfolio given its ability to act as an effective diversifier and alleviate losses during tough market conditions and economic downturns." He added, "This is where it

Select Gold Funds' Performances

Category (cr)		AUM (Rs. Cr)	1W%	1M%	3M%	6M%	1Y%	3Y%	5Y%
Invesco India Gold ETF	54.67	0.73	1.84	11.08	23.11	41.42	17.85	11.8	9.8
Aditya Birla Sun Life Gold ETF	184.2	0.72	1.85	11.13	23.19	41.42	17.81	11.79	7.9
SBI ETF Gold	1299.61	0.72	1.84	11.03	23.03	41.21	17.66	11.67	10.31
Kotak Gold ETF	1026.06	0.72	1.83	10.41	22.95	41.07	17.75	11.69	12.92
Axis Gold ETF	211.74	0.71	1.81	10.72	22.49	41.04	17.8	11.12	7.92
Nippon India ETF Gold BeES	3996.36	0.72	1.83	11.02	22.85	40.88	17.32	11.72	11.95
Quantum Gold Fund	94.96	0.7	1.79	11	22.85	40.77	17.62	11.62	10.84
UTI Gold Exchange Traded Fund	542.72	0.72	1.81	10.97	22.83	40.75	17.79	11.84	12.1
ICICI Prudential Gold ETF	1335.2	0.71	1.79	10.09	22.38	40.38	17.34	11.49	8.81
HDFC Gold Exchange Traded Fund	1274.24	0.72	1.83	11.09	23.1	40.38	17.91	11.74	9.35
IDBI Gold Exchange Traded Fund	79.24	0.69	1.7	10.11	22.46	40.36	17.95	11.99	5.22

Source: Mutualfundindia.com

A Low-down on Gold ETFs

What is Gold ETF?

The gold ETF being an exchange-traded fund can be bought and sold only on stock exchanges thus saving you from the trouble of keeping physical gold. What's more, unlike with jewelry, coins and bars which come with high initial buying and selling charges, the gold ETF costs much lower. The transparency in pricing is another advantage. The price at which it is bought is probably the closest to the actual price of gold, and therefore, the benchmark is the physical gold.

How to invest in gold ETFs?

Gold ETFs trade on the cash market of the National Stock Exchange, like any other company stock, and can be bought and sold continuously at market prices. What you need is a trading account with a share broker and a demat account. One may either buy in lump sum or even at regular intervals through Systematic Investment Plans (SIP). What's more, you may even buy 1 gram of gold. Create a plan to invest systematically rather than trying to time the market.

Source: *ET*

draws its safe-haven appeal, which has been in full display since 2019, with the yellow metal witnessing one of its best rallies after 2011." While inflows into gold ETFs remain strong, equity markets globally have remained volatile, whereas the outlook on crude prices too is not encouraging either. Thus, for investors seeking liquidity, gold ETFs seems to be an ideal bet or at least that is what some analysts feel. Given that, it appears the gold rush is here to stay, at least, in the near-term, which could only boost the segment's AUM. Meanwhile, in case you've still not familiarized yourself with AUM, here is a lowdown: The term AUM represents the total market value of the assets that a mutual fund holds at a given point in time. The AUM of a MF scheme (for example, SBI Gold ETF) includes the returns generated by it on its investments as well as fresh inflows at the disposal of the fund manager that would be invested in new/existing securities. Thus, a fund's AUM represents both the growth in returns as well as new inflows. A high AUM reflects size and investor faith in the fund, though it may not necessarily mean strong performance. On the other hand, a falling AUM could be a sign that either the fund's performance has dipped or it faces rising redemptions, which in turn could be either due to negative market sentiment (as witnessed during the recent coronavirus-induced lockdown or earlier due to the shadow banking crisis that led to increased redemption pressure on particularly, credit risk funds) or on account of poor performance or both. These apart, a fall in AUM could also be triggered by factors such as change in market value, fund closure, etc. Moving on, a fund with high AUM may mean having higher liquidity (not necessarily though: remember the Franklin Templeton fiasco?) which would allow it to handle a sudden redemption pressure better than the fund having relatively lower AUM.

But one must note that a fund's AUM should not be the only factor that affects your investment decision. Further, before zeroing on a scheme, an investor must also look at other indicators like its comparative performance (versus its peers and benchmark in the long-term), its expense ratio, portfolio composition, risk ratios, the fund manager's track record, risk-management strategies, compliance, AMC's pedigree (whether supported by a parent like a large bank, financial institutional, global mf house), etc.

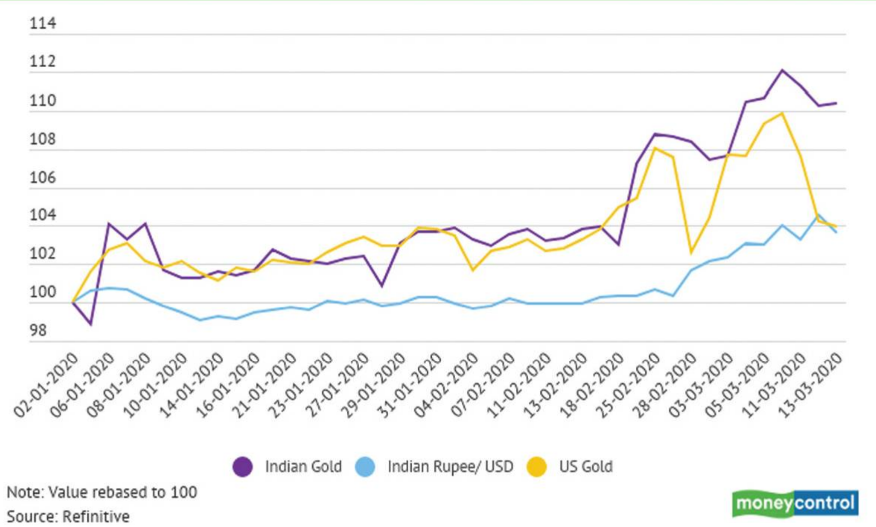
Domestic gold rush mirrors global trend

It seems domestic investors have taken cues from their global counterparts, or so the data suggests. For example, according to the World Gold Council, global gold ETFs bought a huge physical gold tranche of about 300 tons, during the January-March period this year. This was the biggest incremental purchase in a quarter since the second quarter of 2016, when gold ETFs had incrementally bought 238 tons of the precious metal. Further, it was also about 70% of the total incremental purchase of physical gold done in 2019, confirming the prevailing strong positive investor sentiment in gold globally and its status as a safe haven during uncertain times. In all, the total physical global purchase of global gold ETFs to date is at an all-time high of 3,185 tons, according to statistics from the World Gold Council. The yellow metal joins the bullish fervour seen in the US Treasury and euro zone government bonds, which have rallied after the Fed recently hinted of its plan of years of extraordinary support to counter the economic fallout from a pandemic that is still spreading while a vaccine seems to be months away, if not years.

Where gold prices are headed

Gold aficionados seem to have a few more reasons to cheer, going by what

Indian gold price shine and outperform US gold price



Note: Value rebased to 100
Source: Refinitive

seem more-than-enthusiastic forecasts by bullion experts. “If history repeats itself, gold prices are headed to $4,000 in three years,” predicts Frank Holmes, CEO of US Global Investors. In an interview to Kitco News, explaining the reason behind his bullishness, he told that historically gold prices have shown a positive correlation with the expansion of the Federal Reserve’s assets and as the Fed embarks on the largest stimulus program in its history, the yellow metal is set to rally in the same fashion as in the aftermath of the last recession. “In the next three years, if we look back, if (history) repeats itself, from 2008, 2009 to 2011, that three year run saw gold go from a $750-$800 range up to $1,900. If we forecast that because we have the same expansion of the balance sheet of the Fed then it would project, if cycles are exactly the same, gold could go to $4,000,” he reasoned. Holmes noted that although trillions of dollars have already been injected into the monetary system this year through the Fed’s quantitative easing program, more stimulus is still on its way. “This is going to cost the US government approximately $10 tn in fiscal and monetary policy to get the economy back, so I think that number you’re seeing after 2008, 2009 after Lehman Bros. went bankrupt, you saw the balance sheet expand from $1 tn to $3 tn. I think it’s got to hit the overall $10 tn,” he quipped. What’s different this time is the policies toward trade from global leaders. “Prior to 2008, 2009, we went on an incredible run from 2001 up to that date, and that date was when the G20 finance ministers and government agencies around the world were all pro-trade, pro-growth. Ever since the crisis of 2009, it’s all about synchronized taxation and regulation, and now it’s synchronized money printing, monetary, fiscal stimulus that we’ve never seen,” he said. When Alan Greenspan was Chair of the Federal Reserve, the balance sheet of the central bank was about 6% of Gross Domestic Product (GDP). Today, that number stands near 33% of GDP, he says. According to him, “this is how much money that (Fed Chair Jerome) Powell has to throw at this because of the coronavirus and the synchronized shutdown of the world. This is unprecedented. So, I think hard assets trade higher.”

All That Glitters Is Gold (ETFs)
Month-Wise Net Inflows into Gold ETFs, FY 2019-20

Gold ETFs	Net Inflows Month-Wise (₹ in cr)
Mar-20	–194.95
Feb-20	1,483.33
Jan-20	202.14
Dec-19	26.85
Nov-19	7.68
Oct-19	–31.45
Sep-19	44.11
Aug-19	145.29
Jul-19	–17.66
Jun-19	–15.91
May-19	–26.11
Apr-19	–9.7
Net Inflows	1613.62

Source: AMFI

(Fig in tonnes)

Year	Global Gold ETF AUM	Year	Global Gold ETF demand**
2010	2,247	2010	383.7
2011	2,508	2011	256.8
2012	2,759	2012	253.6
2013	1,877	2013	-874.5
2014	1,725	2014	-152.9
2015	1,595	2015	-129.4
2016	2,137	2016	541.2
2017	2,408	2017	271.2
2018	2,483	2018	76.2
2019	2,886	2019	401.1
2020	3,184*	Q1 2020	298.0

*Total gold purchase till date. **Incremental gold purchase
SOURCES: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

Image: *ET*

Back home, the bullishness also stems from the fact that despite being one of the largest consumers of gold in the world, the average Indian retail investor’s holding of gold is only around 10-15%. And, as gold bulls say, this presents a huge growth opportunity. According to some bullion analysts, the number is likely to double in the next two years. The yellow metal generated a return of 23.74% in 2019 and is likely to continue its upward trajectory, with prices expected to go up to $1,800/ounce, or around ₹50,000-55,000 per 10 gram in rupee term by the end of 2020. Ten gram of 24k gold (99.9%) in Hyderabad, Telangana, hovered at ₹50,495.00 in intra-day trading, as on July 1. Local gold futures rose to an all-time high of ₹48,871 ($646.66) per 10 grams in early trade on the same day, translating into a gain of 25% in 2020 so far. The contract, as *ET* reports, had gained nearly 25% in 2019. Well, that could be music to the ears of gold lovers, and also the gold ETF lovers. Nevertheless, amid the euphoria, it would be worth paying heed to an old adage - Do not throw caution to the wind! ■

Amit Singh Sisodiya

Reference # 20M-2020-07-14-01

Stock Market

Stock Splits Announced During the Year 2020

A stock split leads to increase in the number of a firm's existing shares and is aimed at boosting liquidity.

A stock split refers to splitting up of a firm's existing stocks of higher face value into the ones with lower face value. For example, a company may split its stocks of face value of ₹10 into stocks of face value of ₹2 each. This is done to improve liquidity in a scrip which might be seeing extreme volatility due to surge in demand, besides also to prevent price rigging, which is quite common in case of firms with low floating stocks. Such stocks may enjoy higher valuation, though it may not be backed by strong financials.

Post-split, a single equity share with face value of ₹10 (or higher) may be converted into more number of shares of smaller denomination/face value. For example, if a firm announces stock split in the ratio of 1:5 of its stock of face value of ₹10, it would mean that post-the split, an investor will be holding five shares of face value of ₹2 each for every share held by him/her.

A stock split leads to increase in the number of a firm's shares. Though its market cap will remain the same post-the split. Also, as the number of shares increases, price per share adjusts accordingly. This, however, does not include market's response, that is, investors may react positively or negatively to the announcement of firm's stock split, thus impacting its share prices. Sometimes, it may also be done to improve affordability so that more investors, especially retail investors, can buy the stock. For example, Eicher Motors recently announced its plan of a stock split (the date of which has not been announced yet). The market has reacted positively to the news, pushing the firm's share price stock from ₹12,680 in the early April 2020 to ₹18,351.40, as on July 2, 2020.

Stock Splits in 2020 So Far

Company	FV		Split Date
	Old	New	
Karda Construct	10	2	02-07-2020
Motor and Gen F	10	5	19-06-2020
Sinclairs Hotel	10	2	17-06-2020
Madhav Infra Pr	10	1	27-04-2020
Ircon Internati	10	2	03-04-2020
Sadhana Nitro	5	1	03-04-2020
Bajaj Steel	10	5	24-03-2020
Arnold Holdings	2	10	18-03-2020
Suncare Traders	10	2	06-03-2020
RSD Finance	10	5	11-02-2020
RSD Finance Lim	10	5	11-02-2020
THINKINK PICTUR	1	5	06-02-2020
Vinati Organics	2	1	05-02-2020
SIS	10	5	15-01-2020
Swadeshi Polyte	10	1	09-01-2020

Data Source: Moneycontrol.com

Select Top Performing Stocks of 2020			
Company Name	CMP	1-YR Ago Price	Change %
Ruchi Soya Inds	1176	5	23420
Alok Industries	53	3.5	1414
Adani Green Energy	375.8	52	623
GMM Pfaudler	4227	1367.55	209
Alkyl Amines	2171.25	839.45	159
Dixon Technologies (India) Ltd.	5890	2338.9	152
Navin Fluorine	1678	710.15	136
ICICI Securities Ltd	489.05	222.7	120
Granules India	209.4	99.4	111
JB Chem	720.7	365.1	97

Note: CMP. As of July 3, 2020, 11:55 AM IST.

Muthoot Finance too has said it is mulling a stock split; according to media reports, the company has said that its board will be meeting on July 18 to consider and approve the proposal for subdivision/stock split of equity shares of the company, subject to shareholders approval.

Like dividend?

There are investors who chase growth. Then there are others live stocks of firms that consistently pay dividends. This group of investors like the promise of a steady source of income (dividend) to future price appreciation. While it is expected that every company earning profits may share a part of its profit in the form of (cash) dividends with its shareholders, though not all may be doing so. This could be on account of a new project coming up or planned investments in new business segment(s), or it may be just that the company wants to preserve cash to be used in future, etc.

Mature companies are known to be good at paying dividend, even a young and a growing firm too can pay handsome dividend. Though some companies may announce dividend to please investors especially in case their financials are below market expectations and they fear it could adversely impact stock price. According to the *Economic Times*, dividend-paying stocks are always on the radar of long-term investors, as they provide a steady stream of cash flows on a regular basis, though dividend yield should not be the only criteria investors should look at before putting in their money. Nevertheless, most companies would agree that dividends are a good way to reward shareholders.

Here is a list of stocks which paid dividend of 1000% or more during the year 2020 thus far. ■

Amit Singh Sisodiya

Reference # 20M-2020-07-15-01

Highest Dividend Paying Companies in 2020					
Company Name	Dividend		Date		
	Type	%	Announcement	Record	Ex-Dividend
Oracle Fin Serv	Interim	3600	11-05-2020	20-05-2020	19-05-2020
Britannia	Interim	3500	20-04-2020	02-05-2020	29-04-2020
Hero Motocorp	Interim	3250	06-02-2020	18-02-2020	17-02-2020
Pfizer	Special	3200	27-04-2020	08-05-2020	06-05-2020
Tide Water Oil	Final	2800	24-06-2020	–	21-08-2020
Sanofi India	Special	2430	26-02-2020	–	29-06-2020
Colgate	Interim	1600	15-05-2020	02-06-2020	01-06-2020
L&T Infotech	Final	1550	19-05-2020	–	09-07-2020
Sonata	Interim	1450	26-02-2020	09-03-2020	06-03-2020
Abbott India	Special	1430	09-06-2020	–	28-08-2020
HUL	Final	1400	30-04-2020	–	19-06-2020
AIA Engineering	Interim	1350	28-02-2020	18-03-2020	17-03-2020
SKF India	Special	1300	07-05-2020	–	14-07-2020
CRISIL	Final	1300	11-02-2020	–	31-03-2020
Hero Motocorp	Final	1250	09-06-2020	–	30-07-2020
Eicher Motors	Interim	1250	11-03-2020	21-03-2020	19-03-2020
Maruti Suzuki	Final	1200	13-05-2020	–	13-08-2020
TCS	Interim	1200	11-03-2020	20-03-2020	19-03-2020
Godfrey Phillip	Interim	1200	05-03-2020	18-03-2020	17-03-2020
Bajaj Auto	Interim	1200	24-02-2020	04-03-2020	03-03-2020
Tide Water Oil	Interim	1200	20-01-2020	25-02-2020	24-02-2020
Shree Cements	Interim	1100	13-01-2020	25-02-2020	24-02-2020
Alkem Lab	Interim	1100	29-01-2020	15-02-2020	13-02-2020
Abbott India	Final	1070	08-06-2020	–	28-08-2020
Sanofi India	Final	1060	25-02-2020	–	29-06-2020
Bosch	Final	1050	22-05-2020	–	03-08-2020
HDFC	Final	1050	26-05-2020	–	09-07-2020
ITC	Final	1015	26-06-2020	–	06-07-2020
Banco Products	Interim	1000	03-03-2020	19-03-2020	18-03-2020

Data Source: Moneycontrol.com