I-CAN COMMUNIQUÉ

AUGUST 2023

MONTHLY NEWSLETTER – AUGUST 2023

Sensex : Up 0.37 % Nifty : Up 0.66 %	
Best performing sector: Media (15.86 %)	Worst performing sector: Financial Services (-2.08 %)
Best performing Global index: Nasdaq Bank (13.59 %)	Worst performing Global index: Nikkei 225 (-3.78 %)
Indian Rupee: -0.34%	Gold (International): +0.54 %

MACRO ECONOMIC HIGHLIGHTS

India's consumer price index (CPI) inflation rises for the first time in five months to 4.81% in June 2023. Also, the rise in inflation is higher than the street's expectations of 4.58%, nevertheless, the CPI print is still below RBI's upper tolerance limit of 6%. CPI was pushed higher than expected due to a less supportive base and the onset of a surge in vegetable prices. Food inflation spiked to 4.49% in June. As per the Ministry of Statistics & Programme Implementation, CPI inflation stood at 180.9 in June 2023, versus 178.2 in May month and 172.6 in the same month a year ago. In percentage terms, the inflation came in at 4.81% versus 4.31% in May 2023 and 7.01% in June last year. The consumer food price index (CFPI) jumped to 4.49% in June 2023, compared to 2.43% in May month and 7.75% in June of the previous year. Explaining the reason behind the spike in CPI, Aditi Nayar, Chief Economist, Head - Research & Outreach, ICRA said, "A less supportive base and the onset of the spike in vegetable prices pushed up the CPI inflation to a higher than anticipated 4.8% in June 2023, arresting the welcome cooling seen in the previous four months. ICRA had forecast the June 2023 CPI inflation at 4.7%."In the case of the inflation impact on the real estate market, Vivek Rathi, Director of Research, Knight Frank India said, "The overall low inflation level supports the argument for maintaining key policy rates in the upcoming RBI policy meeting."

The RBI Governor Shaktikanta Das-led monetary policy committee (MPC) will meet on 8-10 August and the decision will be announced on 10 August by the Governor. The central bank has kept the repo rate unchanged at 6.5% since February. "We do expect the RBI to hold on to a status quo position on both rates and stance. The reason is that while inflation is presently running at less than 5 percent there would be some upside risk to this number in the coming months with prices of vegetables and pulses going up sharply. Therefore, an extended pause is expected," said Madan Sabnavis, Chief Economist, Bank of Baroda. “On the policy stance, since the liquidity conditions have turned favorable post the announcement of the withdrawal of the ₹2,000 note, we expect the RBI to continue to hold on to the current stance of 'withdrawal of accommodation," Upasna Bhardwaj, Chief Economist, Kotak Mahindra Bank said. The CPI inflation is expected to surge to above 6% in July 2023 on the backs of rising vegetable prices, Aditi Nayar, Chief Economist, Head Research and Outreach, ICRA said. "As a result, we expect the MPC's commentary to be fairly hawkish, amid a continued pause on the repo rate and stance in the upcoming policy review," she said.

The US Labor Department said the annual consumer inflation cooled in June to its lowest rate since 2021, adding that it was an encouraging sign for policymakers battling to rein in cost pressures. The key inflation gauge, the consumer price index (CPI), rose 3.0% from a year ago last month, down from 4.0% in May and slightly lower than analysts expected.

The US Federal Reserve raised its benchmark lending rate to the highest level since 2001 to tackle above-target inflation, and signaled the possibility of further increases ahead. The quarter percentage-point rise lifts the overnight interest rate to a range between 5.25 per cent and 5.5 per cent, the US central bank said, adding that it will "continue to assess additional information and its implications for monetary policy."

The US economy accelerated to a 2.4% annual growth rate between April and June this year, helped partly by consumer spending and some forms of investment. Estimates shared by the Commerce Department showed unexpected resilience in the face of steadily rising interest rates as the Federal Reserve continues its fight against inflation. GDP growth in the world's biggest economy rose from the 2% rate in the first three months of 2023, going well above analyst expectations.

The Indian government has continued to record a rise in direct tax collection between April and July with numbers now 14.65% higher than the corresponding period from last year. The provisional figures shared by the Finance Ministry indicate that gross collections are at ₹5.17 lakh crore as of July 9 this year. Meanwhile net direct tax collection has grown nearly 16% to ₹4.75 lakh crore so far this fiscal.

The 50th meeting of the GST Council with the goods and services tax rate trimmed down to 5% in four items. Also, the council exempted GST on several imported pharma products. However, one of the biggest highlights was the 28% tax rate imposed on the full value of online gaming which is likely a setback for Indian players. The Revenue Secretary also clarified concerns related to ED interference in GSTN.

Following are the key changes-

1. GST council exempted cancer-related drugs, medicines for rare diseases, and food products for special medical purposes from GST tax.
2. The council approved a GST rate reduction on four items. These are:

- Uncooked, unfried, and extruded snack palettes to a GST rate of 5% from 18%.
- Fish soluble paste to see 5% GST rate from earlier 18%.
- LD slag to be at par with blast furnace slag. It has been changed from 18 to 5%.
- Imitation zari thread brought down from 12% to 5%.

3. The council reduced the GST rate to 5% on foods served in cinema halls from the earlier rate of 18%.
4. It levied a 28% GST rate on the full value of online gaming, casinos, and horse racing.

REFORMS

Securities and Exchange Board of India (Sebi) has enacted a new framework for dispute resolution and grievance redressal between investors and intermediaries such as mutual funds, portfolio managers, investment advisors and brokerages. With the latest amendments, investors will now be able to avail a review by a designated body if they are dissatisfied with the resolution provided. If the investor is still dissatisfied after the first review, the second review will be done by Sebi. Sebi regulations have been amended to include a dispute resolution clause for resolution of disputes between the intermediary and investors through mediation /conciliation /arbitration," noted Reg street Law Advisors. Further, in its efforts to revamp the Sebi Complaint Redress System (SCORES), the markets regulator had also approved reducing timelines, introduction of auto-routing of complaints, and auto-escalation of complaints in case the prescribed timelines have not been adhered to.

The Union Cabinet approved the Digital Personal Data Protection (DPDP) Bill, 2023, to be tabled in Parliament in the upcoming Monsoon session, starting July 20. Sources in the government said the Ministry of Electronics and Information Technology (MeitY) received and considered 21,666 suggestions to the draft Bill that had been circulated for comments in November 2022.

GST Network said it has geocoded 1.8 crore addresses of registered businesses and the functionality is now live for all states and UTs. Geocoding will help in finding out the exact location of the registered entity and check bogus registrations. Businesses can access the geo-coding functionality in the portal and the system-generated geocoded address will be displayed. Businesses can either accept it or update it as per their requirements. In cases where the system-generated geocoded address is unavailable, a blank will be displayed, and you can directly update the geocoded address, GSTN said.

The compliance burden for listed companies could grow multi-fold as the new framework around disclosure of material events and information will come into force from July 15. The new disclosures cover a gamut of activities including disclosure of family arrangements, frauds, treaties with media companies, agreements within promoter groups, ratings revision, disposal of units and issuance of securities. For instance, if a listed company or its subsidiary has entered into any family arrangements or treaties with media companies, the company will have to share details such as names of parties with whom the agreement is entered, purpose of entering into the agreement and change in shareholding, if any, if the agreement is executed. Sebi has said companies will have to make such disclosures within 12 hours. The timelines granted by Sebi for most disclosures range between 12 hours and 24 hours.

SEBI has extended the practice of freezing trading accounts of top company executives during "trading window closures" to all listed companies in a phased manner. The trading window closure is a restriction period typically applicable from the end of every quarter until 48 hours after the declaration of financial results. During this period, key executives are not allowed to deal in shares of their companies to prevent the potential misuse of sensitive information. The permanent account numbers (PANs) of key executives, identified as 'designated persons' (those who can have access to unpublished price-sensitive information), are also frozen during this period. The framework, however, is currently applicable to the companies that are part of the Sensex and the Nifty50 index. SEBI has introduced a glide path extending this framework to all listed companies under the Prohibition of Insider Trading (PIT) Regulations. The new rules will be applicable to the top 1,000 companies in terms of market capitalisation from October 1. The next 1,000 firms will be included from January 1, 2024, and the remaining from April 1, 2024.

In a bid to develop the corporate debt market and instill confidence among investors, SEBI has put in place a framework for rolling out the Corporate Debt Market Development Fund (CDMDF) under which mutual funds will have to contribute 25 basis points (bps) of the specified debt asset under management to the fund. The initial contribution of mutual funds to CDMDF will be based on AUM of the specified MF schemes as of last December-end. The specified schemes include debt-oriented funds excluding overnight and gilt funds. The move will lead to a contribution of ₹2,242 crore by mutual funds to CDMDF. The CDMDF will purchase investment grade corporate bonds from fund houses in distress to help them meet redemption requests. The backstop will also prevent disruption in fund raising in corporate bond markets during such crises. Since the initial contribution to the CDMDF will need to come from the AMCs, it is expected that they will be more judicious about their debt fund investments. With the aid given to fund houses dependent on their contribution, the corpus is expected to increase over the years.

The government has notified the Guarantee Scheme for Corporate Debt which includes the Framework for Corporate Debt Market Development Fund. AMFI will calculate and inform on the contribution to be made by each MF scheme. The initial contribution has to be made in 10 working days on request from CDMDF. The half-yearly contributions will start this December, said SEBI in a circular. CDMDF will be launched as a close ended scheme with an initial tenure of 15 years from the date of the initial closing after contribution from all AMCs. The specified debt schemes have to make incremental contribution as their AUM increases, every six months to ensure 25 bps of scheme asset is invested in units of CDMDF. However, if debt AUM decreases there shall be no return or redemption from CDMDF, SEBI said. In case of delay in contribution, AMCs have to pay interest of 15 per annum for delayed period. Such interest shall be credited to the fund of CDMDF.

In a boost to several micro-cap companies, stock exchanges, in consultation with SEBI decided to lift trading curbs on stocks that come under Enhanced Surveillance Measures (ESM). Earlier, the stocks under ESM Stage-II were allowed to trade only once a week. Now, this has been revised to all trading days, a circular from the exchanges said. BSE and NSE had introduced ESM framework for stocks that have a market cap of less than ₹500 crore from June 5 to curb excess volatility. The parameters for short-listing the securities under the ESM framework include high-low price variation and close-to-close price variation.

Goal Setting

We all have goals in life. They give us purpose and direction. However, achieving most of the goals needs money, thus making financial planning an indispensable part of goal setting. Those who aren't financially prudent might find this process overwhelming and hence they might choose to procrastinate it for an indefinite period. However, the more we procrastinate, the more difficult it gets. Hence, it is crucial for everybody to identify their goals and plan investments for achieving them as early in life as possible.

To get started, let us see how to identify goals. As it is popularly known, a goal must be SMART (Specific, Measurable, Attainable, Realistic and Time Bound). Even with utmost prudence one would not be able to make financial provision for every contingency. However, the focus must be to identify what is most likely to happen or what we wish for the most. If someone is unsure of their goals, they should identify the goals which are likely to arise in the future. For example, an unmarried person in his twenties who is open to marriage should identify all the possible goals which might come into picture upon getting married.

If at all your goal changes and you do not need the money you provided for it, you would always have the option to use it for other goals. For example, if you save and invest for a down payment of a house but later decide not to purchase one, you can consider the amount invested towards it as an investment towards fulfilling any other goal such as retirement. Every goal must be categorized based on the time period available for reaching it i.e. whether it is short term, medium term or long term. Depending on how far the goal is, asset class and investment instrument must be decided.

Let us understand how to plan investment for achieving a goal once it is identified. Let us consider retirement planning as a goal in our case study as it is the most common one. Let us assume that Mr X would incur an annual expenditure of Rs 10 lakh post his retirement as per current cost of living and has planned to retire after 20 years. Thus, assuming an annual inflation rate of 5%, he would need approximately Rs 26.50 lakh for his annual expenditure post-retirement.

Assuming that total investment post-retirement would yield approximately 8% pa (a hybrid portfolio of equity and fixed income) and inflation stays at around 5% pa, annual withdrawal can be made at 3% pa such that the retirement corpus is not eroded by inflation. Thus, retirement corpus required would be approximately Rs 8.83 Crore (Rs 26.50 lakh/3%). We do not need to assume his life expectancy since the corpus would be protected perpetually and it can also be passed on as legacy to his legal heir. In order to build a retirement corpus of Rs 8.83 crore in 20 years, monthly SIP of approximately Rs 88K in equity mutual fund is required assuming XIRR of 12% pa.

We may not be able to start investing for all the goals together once we identify them and might get biased towards the goals to be met in near future. However, we must not lose sight of our medium term and long term goals. We must invest towards them to the best of our capacity. As our income increases, we must increase our savings and invest more towards our long term goals.

Monthly Mantra

Becoming financially disciplined is the best financial decision one could ever make.

Cartoon of the Month

"When you're done saving for my education, don't forget to start saving for my retirement."

Good News!

- India has launched its third Moon mission, aiming to be the first to land near its little-explored south pole. The lander is due to reach the Moon on 23-24 August. If successful, India will be only the fourth country to achieve a soft landing on the Moon, after the US, the former Soviet Union and China.

- The Reserve Bank of India has showcased to delegates at G20's Financial Track how digitized land record data can be used to sanction and disburse loans in a completely paperless manner in minutes without the farmer having to visit the bank branch. At the RBI's Innovation Pavilion, the exhibits also provide information about the upcoming digital tech platform, which is being developed to enable frictionless credit to various types of loans including MSME and Personal Loans by making use of various digital data points. The pilot of digital KCC is presently being run in select districts of Madhya Pradesh, Tamil Nadu, Maharashtra, Karnataka, and Uttar Pradesh, while the pilot on Digital Dairy is being carried out in Gujarat. The pilots have been operationalized in association with the Reserve Bank Innovation Hub (RBIH), a wholly-owned subsidiary of RBI and banks. The platforms envisage a 'plug and play' model to which all the financial sector players could connect seamlessly obviating the need for multiple bespoke bilateral integrations and is expected to bring paradigm change by ushering in a completely digital credit delivery process.

- An estimated 135 million Indians exited multidimensional poverty between 2015-16 and 2019-21, with Bihar and Uttar Pradesh (UP) together accounting for 56.8 million of them, a Niti Aayog report said. Multidimensional poverty is a composite measure that counts factors beyond money, including education, health, and living standards.

- Manufacturing sentiments in India remained positive during June quarter FY24 notwithstanding global headwinds, according to a Ficci survey released. The latest quarterly survey on manufacturing outlook by the industry body observed that after a revival in the Indian economy in FY22, momentum of growth has continued in the subsequent quarters as well. Responses have been drawn from over 400 manufacturing units from both large and SME segments with a combined annual turnover of over Rs 7.70 lakh crore.

- The US will work closely with India on an investment platform to lower the cost of capital and increase private investment to speed up India's energy transition, Janet Yellen, US secretary of treasury, stated as the US and India held bilateral discussions on the sidelines of the third meeting of the G20 Finance Ministers and Central Bank Governors (FMCBG).

- An inter-departmental group (IDG) of the Reserve Bank of India (RBI), set up to examine internationalising the rupee, has recommended steps for transactions in the domestic currency popular in other countries, thereby reducing dependence on the dollar. The panel, headed by Radha Shyam Ratho, suggested a short-term, a medium-term, and a long-term recommendation for this. “The internationalisation of a currency is interlinked with the economic progress, especially its prominence in global trade. The measures would involve steps towards (in parallel) liberalising the capital account, promoting international usage of INR, and strengthening financial markets.”

- S&P Global Ratings said that Indian companies were in "good credit shape" due to strong growth in the country's economy and accommodative corporate balance sheets. "By our estimates, aggregate EBITDA in fiscal 2024 will be about 50% higher than five years back for rated corporate and infrastructure entities in India," S&P said in a note. "Yet aggregate debt is hardly changed, reflecting the improvement in credit quality." Rising domestic demand in India and recovery in sectors are more than offsetting negatives, including tough global economic conditions and higher policy and borrowing rates, S&P added.

- Amidst risk of a global slowdown in the early part of next year, India is expected to remain shielded from its effects due to robust domestic consumption, World Bank President Ajay Banga said. The outlook for the world economy is better than expectations, but there is more risk on the downside in terms of a slowdown in the early part of next year. Since India gets a lot of its gross domestic product from domestic consumption, even if the world were to slow down for a few months, India has a natural cushion against (it),” Banga, who is on his first visit to India, told the media.

Top Personal Finance News – July 2023

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2. Now, male central govt employees too can include parents or parents-in-law as CGHS beneficiaries Click here
3. Govt firm on July 31 income tax returns deadline Click here
4. Supreme Court examines if illegitimate child has right over ancestral property Click here
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7. North India floods July 2023: Irdai urges insurers to settle flood-related insurance claims on fast track basis Click here
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9. GST on food items in cinema halls reduced to 5% Click here
10. Want to pay lower GST? Don't buy popcorn with movie ticket Click here
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