



# IBS VIGYAN

## VISIONING BANKERS



### Evangelistically Speaking

Dear Stakeholders,

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness." Dickens began A Tale of Two Cities with this anaphora. While some neighbouring nations are at war, some others are having the best of times.

What do Iceland, Liechtenstein, Costa Rica and Panama have in common? These nations do not have a military! Added to this, Liechtenstein is a near zero-debt nation. Sharing its borders with Switzerland and Austria, this European nation ranks twelfth in global HDI ranking. The border between Costa Rica and Panama is fully open without any emigration formalities. This may sound incredible at a time when the smouldering embers from missile fires have not died down along our border. I am tempted to look at the probable impacts the ongoing war could inflict on our economy.

Tourism in Kashmir has been severely impacted. The region welcomed three million visitors in 2024, but hotel cancellations and travel warnings have caused significant loss of revenue. Many people in Kashmir depend on tourism for their income, and the fear caused by the conflict is keeping visitors away.

The aviation industry is experiencing widespread disruptions due to the closure of airspaces and airports. Over 430 flights have been cancelled, and airlines are facing operational headaches and financial losses. Flights between India and Europe, North America, and the Middle East now take detours, increasing fuel costs and ticket prices.

The conflict also poses risks to India's macroeconomic stability, particularly due to its reliance on crude oil imports. If the conflict escalates, crude oil prices may rise significantly, leading to higher import bill, inflationary pressures, weaker Indian Rupee and larger fiscal deficit.

The conflict has raised concerns about India's ability to attract international investors and become a global economic powerhouse. A prolonged conflict could complicate efforts by foreign investors looking to expand in the country and diversify their supply chains. The potential for a devastating conflict between India and Pakistan remains a latent risk to India's rise on the global stage.

On the flip side, the early telltales of the conflict have opened opportunities of our defence exports.

Against this background, the forthcoming review of the monetary policy on 7<sup>th</sup> June would be interesting to watch, though bolstered by record GST collections this month.

Looking forward to a sustaining engagement with all.

Sincerely yours

**Sathesh Kumar. S**  
Managing Director

## Curated Cube

On 16<sup>th</sup> May 2025, Moody's Ratings downgraded the United States' long-standing Aaa credit rating to Aa1, marking the first time since 1919 that the agency has taken such action. This move aligns Moody's with the other two major credit rating agencies—Standard & Poor's, which downgraded the U.S. in 2011, and Fitch Ratings, which followed suit in August 2023. Deven Sharma became the public face of S&P in the wake of its first downgrade of USA on 5<sup>th</sup> August 2011. In September 2011, he stepped down as Chief of S&P.

Moody's cited several interrelated factors behind the downgrade. Foremost among them is the escalating federal debt, which has reached \$36 trillion and is projected to climb to 134% of GDP by 2035 from 124% at present. The agency also highlighted persistent fiscal deficits, with annual shortfalls expected to approach 9% of GDP by the same year from 6.4% as at 2024. Compounding these concerns are rising interest payments, which could consume up to 30% of federal revenue, and an absence of effective long-term fiscal reforms. Moody's emphasized that successive administrations and Congress have failed to implement meaningful measures to curb spending or increase revenues, instead opting for tax cuts and expanded entitlement programs.

Political dysfunction further influenced Moody's decision. The agency pointed to increasing polarization and legislative gridlock, which have hindered the government's ability to manage its

finances effectively. This environment raises doubts about the U.S. government's capacity to address its fiscal challenges proactively. The downgrade carries significant implications. It could lead to higher borrowing costs for the federal government, as investors may demand increased yields to compensate for perceived risks. These higher costs could, in turn, trickle down to consumers and businesses, affecting interest rates on mortgages, credit cards, and loans. Additionally, the downgrade may unsettle financial markets, potentially leading to increased volatility.

Despite the downgrade, Moody's maintained a stable outlook for the U.S., acknowledging the country's robust economic fundamentals, including its large and diversified economy, the global reserve status of the U.S. dollar, and the independence of the Federal Reserve. However, the agency warned that further downgrades could occur if the fiscal situation deteriorates or if political dysfunction continues to impede effective governance.

As expected, the White House criticized the downgrade, labelling it as politically motivated and arguing that it overlooks the U.S. economy's strengths. Nevertheless, the consensus among analysts is that the downgrade serves as a stark reminder of the need for comprehensive fiscal reforms to ensure the country's long-term economic stability.

*(Cube gives a third dimension in geometry. Curated Cube endeavors to conflate events in the market over the past month.)*

### JAIB/CAIB NEW BATCH NOV/DEC 2025 - COMMENCING SOON

**DATE OF COMMENCEMENT - JAIB - JUNE 05, CAIB - JUNE 12**

Zoom platform live classes, Recorded sessions, Online Mock Tests, Whatsapp interaction, Telegram support & Study materials

## FOURTH PILLAR

### MAJOR FACTORS DRIVING RUPEE DEPRECIATION:

Over the last decade, Indian ₹ has gone through significant depreciation against US \$ declining from ₹63.04/US\$ in 2014 to ₹87/US\$ in 2025. The key factors for such depreciations are (i) Global demand for US \$, (ii) Geopolitical tensions, (iii) Rising crude oil prices, (iv) Current Account deficit position and (v) Capital flow from Foreign Portfolio Investors.

### USA's FAIR & RECIPROCAL TARIFF PLAN – INDIA'S STRATEGY:

India's Finance Secretary indicated that the Tariff plan of USA could reduce India's GDP growth by 0.2 to 0.5 % points. In response to this tariff war, India is exploring several strategies, such as: (a) Diversifying Export market by reducing reliance on USA market, (b) Enhancing domestic competitiveness, (c) Engaging in more productive diplomatic negotiations with potential countries, (d) Providing financial relief measures to export-oriented businesses, (e) Shifting to High-value exports etc., which may stabilize India's position towards a long-term growth.

### LIMIT OF WAYS & MEANS ADVANCE REVISED:

Ways & Means Advance is a short-term loan provided by the RBI to Central Govt. or State Govt., whenever they face temporary mismatch in their cashflows. Recently after consultation with the GOI, the RBI has set the limit of Ways & Means Advance to ₹1,50,000 Crore for the first half of FY 2025-26. The ROI charged for such loans is at the prevailing Repo Rate and for Overdraft (exceeding the limit of loan), an extra 2% is charged over the Repo rate by the RBI.

### SPECIAL BENEFITS/CONCESSIONS ALLOWED BY CGTMSE TO UNITS PROMOTED BY TRANSGENDER INDIVIDUALS:

As announced recently CGTMSE is now extending special benefits to Transgender entrepreneurs to enhance financial inclusion and support transgender individuals in the business ecosystem. Transgenders are categorised now under Special Social Category, where 10% concession in terms of Annual Guarantee Fee will be allowed, with cumulative discount up to a maximum of 30% on AGF. Further such entrepreneurs will be provided with enhanced Guarantee cover up to 85%.

### REVISION OF PRIORITY SECTOR TARGET FOR URBAN COOPERTATIVE BANKS (UCB):

RBI has recently revised the target for UCBs effective from 1<sup>st</sup> April 2025. The overall target is set at 60% (earlier it was 75%) of their ANBC or CEOBE whichever is higher. This revision is done to streamline the Priority Sector Lending framework for UCBs, ensuring a balanced approach that will help promote credit flow to essential sectors while maintaining the financial health of UCBs.

### RBI DEFERS LCR & ECL REGULATION:

Recently RBI has announced that the implementation of the revised draft norm for maintenance of Liquidity Coverage Ratio (LCR) and Expected Credit Loss (ECL) is deferred by one year period. Therefore, the revised guidelines would be effective from 1<sup>st</sup> April 2026, which will give the Banks additional time to adjust to the new regulations.

### LIC TO START HEALTH INSURANCE SCHEMES:

The Life Insurance Corporation of India is acquiring a significant stake in a standalone Health Insurance Company, where they will expand their business into health insurance products. However, no formal agreement has been made on this aspect, and the deal's completion depends on the final approval from its Board.

### IRDAI ALLOWS INSURANCE COMPANIES TO USE DERIVATIVES FOR HEDGING:

The Insurance Regulatory and Development Authority of India has granted permission to Insurance companies to engage in derivative market to hedge against the volatility of their investments made in the equity markets. This will help the Insurance companies to preserve the market value of their equity investments and also mitigate their portfolio risk.

*(Fourth Pillar strives to position beyond the three pillars of Basel and is culled from the Four Estates)*

## INQUISITIVELY SPEAKING

1. The mortgage documents held by a bank obtained from a borrower needs to be returned by the bank after full and final repayment of the loan within ....days, and in case of delay a penalty of ₹ ... per day to be levied on the bank.

- a) 15, 2500                      b) 15, 5000  
c) 30, 2500                      d) 30, 5000

2. One time settlement (OTS) is not applicable for which of the following loan accounts?

- a) Restructured Loans  
b) Doubtful Loans  
c) Clean Loans  
d) Loan accounts where Fraud has been detected.

3. Under the Insolvency and Bankruptcy Code (IBC), \_\_\_\_\_ has the authority to initiate insolvency proceedings against companies and individuals, making it an essential body for resolving financial distress. It oversees the Corporate Insolvency Resolution Process (CIRP) and Liquidation Process:

- a) Supreme Court              b) High Court  
c) NCLT                          d) DRT

4. Which among the following bank was in news in respect of accounting discrepancies in its derivative portfolio, which has also led to a potential downgrade of the bank's rating by Moody's Investors Services?

- a) IndusInd Bank              b) Karus Vysya Bank  
c) Kotak Mahindra Bank  
d) HDFC Bank

5. The ..... Rate is an important metric that reflects the average interest rate at which banks lend money to borrowers. This rate provides insight into the cost of borrowing in the economy and helps the Monetary Authority to monitor the transmission of the Monetary Policy.

- a) Marginal Cost Lending Rate  
b) Bank Rate  
c) Weighted Average Lending Rate  
d) Prime Lending Rate

6. What is the minimum capital adequacy ratio to be maintained against their total risk weighted asset, by Securitisation Companies (SCs) and Reconstruction Companies (RCs) in India?

- a) 11.5%                      b) 12.5%                      c) 15%                      d) 18%

### ANSWER KEY

1.d    2.d    3.c    4.a    5.c    6. d

### Stretch n Speak

**CRGFTLIH:** Credit Risk Guarantee Fund Trust for Low Income Housing

**NARCL:** National Asset Reconstruction Company of India Limited.

**VRR:** Variable Repo Rate

**WADTDR:** Weighted Average Domestic Term Deposit Rate

**NCFE:** National Centre for Financial Education

**FLC:** Financial Literacy Centre

**GMU:** Global Market Unit