Financial Awareness News - March 2025

1. Moody's Report on Indian Banking System (2025)

Moody's Prediction on Non-Performing Assets (NPAs):

- **Moody's** forecasts a moderate increase in **Non-Performing Assets (NPAs)**, predicting it could rise to **3%** over the next **12-18 months**, leading to a deterioration in **asset quality**.
- Despite this, the **outlook for the Indian banking sector** remains **Stable**.

Reason for NPA Increase:

- Stress in **unsecured retail loans**, **microfinance loans**, and **small business loans** is driving the rise in NPAs.
- This stress is being influenced by:
  - **Slower economic growth**
  - **Previous interest rate hikes**
  - **Outstanding loans**

Moody's Report on Indian Banking System (2025):

- **NPA Data**: The overall **NPA ratio** in the Indian banking system fell to **2.6%** by **September 2024**, compared to **7.3%** in **March 2024**.
- **GDP Growth Estimates**: India's real GDP is expected to grow above **6.5%** in **FY 2025-26**, indicating a robust economy that supports **bank stability**.

Stable Outlook for Banks:

1. Limited **exposure to unsecured loans**
2. **Sufficient loan-loss reserves**
3. Strong **corporate loan quality**

Other Favorable Conditions:

1. **Increased capital expenditure (Capex)**
2. **Tax cuts for the middle class**

2. Net Direct Tax Collection Growth in FY 2024-25

India's Direct Tax Collections:

- **Increase in Tax Collections**: India's direct tax collections saw a **16.15% year-on-year increase**, totaling **₹25.86 lakh crore** as of **March 16**, according to the latest data from the **Central Board of Direct Taxes (CBDT)**.

Factors Driving the Rise:

- The growth is primarily attributed to higher revenues from:
  - **Corporate taxes**
  - **Non-corporate taxes**
  - A **significant rise in securities transaction tax (STT)** receipts.

Corporate Tax Collections:

- Corporate tax collections increased to **₹12.40 lakh crore**, up from **₹10.1 lakh crore** in the previous fiscal year.

Direct Tax Collections for F.Y. 2024-25 as on 16.03.2025

(Rs. In Crore)

	FY 2023-24 (as on 16.03.2024)					FY 2024-25 (as on 16.03.2025)					Percentage growth
	Corporate Tax (CT)	Non*-Corporate Tax (NCT)	Securities Transaction Tax (STT)	Other taxes (OT)	Total	Corporate Tax (CT)	Non*-Corporate Tax (NCT)	Securities Transaction Tax (STT)	Other taxes (OT)	Total	Total Growth
Gross Collection	10,98,299	10,91,129	34,131	3,656	**22,27,214**	12,40,308	12,90,144	53,095	3,399	**25,86,947**	**16.15%**
Refunds	1,93,510	1,53,559	-	90	**3,47,159**	2,71,224	1,88,740	-	60	**4,60,024**	**32.51%**
Net Collection	9,04,789	9,37,571	34,131	3,566	**18,80,055**	9,69,085	11,01,404	53,095	3,340	**21,26,923**	**13.13%**

Source: TINMIS

* NCT includes taxes paid by individuals, HUFs, Firms, AoPs, BoIs, Local Authorities, Artificial Juridical Person

Advance Tax Collections for F.Y. 2024-25 as on 16.03.2025

(Rs. In Crore)

	FY 2023-24 (as on 16.03.2024)			FY 2024-25 (as on 16.03.2025)			Percentage Growth		
	Corporate Tax	Non*-Corporate Tax (NCT)	Total	Corporate Tax	Non*-Corporate Tax (NCT)	Total	Corporate Tax	Non*-Corporate Tax (NCT)	Total Growth
Advance Tax	6,72,903	2,38,578	**9,11,482**	7,57,282	2,87,417	**10,44,700**	**12.54%**	**20.47%**	**14.62%**

Source: TINMIS

* NCT includes taxes paid by individuals, HUFs, Firms, AoPs, BoIs, Local Authorities, Artificial Juridical Person

The non-corporate tax collections jumped to ₹12.90 lakh crore, up from ₹10.91 lakh crore in the previous fiscal year.

1. Parliamentary panel flags concern, suggests ways to improve IBC outcomes
    - The Parliamentary Standing Committee on Finance recently highlighted issues in the Insolvency and Bankruptcy Code (IBC), raising concerns about:
        - Staff shortages and inefficiencies in the National Financial Reporting Authority (NFRA).
        - Conflicts of interest, lack of transparency, and delays in the resolution process.
        - Poor budget utilization by the Ministry of Corporate Affairs (MCA).
        - For FY 2024-25, MCA's budget allocation was ₹2667.06 crore (revised to ₹1078.43 crore), with only ₹517 crore spent so far.

Recommendations:

1. Review the structure of the Committee of Creditors (CoC) to ensure adequate representation of operational creditors, whose interests are often overlooked.
2. Establish a mechanism to ensure that resolution plans are submitted confidentially and fairly.
3. Develop a robust framework for monitoring and addressing complaints against resolution professionals (RPs).
4. To support NFRA's expanding role, accelerate recruitment and establish a permanent, skilled professional cadre.

Additional Recommendations:

1. As of FY 2024-25, only 32 out of 69 sanctioned positions were filled at NFRA.
2. Clearer evidence is needed to show how NFRA's actions (disciplinary orders, inspections, and auditing standard revisions) have led to tangible improvements in audit practices.

3. Payments banks seek higher deposit limit, urge FinMin to raise to Rs 5 lakh

- Payments banks in India have requested the Union Finance Ministry to:
    - Increase their deposit limit from ₹2 lakh to ₹5 lakh per account.
    - Allow them to lend to the microfinance sector.
- The last deposit limit increase occurred in April 2021 when it was raised from ₹1 lakh to ₹2 lakh.
- Banks also seek permission to lend to the microfinance sector, with a cap on loans, to diversify their income sources.
    - This request represents a shift from the current licensing framework, which restricts payments banks to investing only in government securities.

Key Features of Payments Banks:

- **Origin:** Introduced based on the recommendations of the Nachiket Mor Committee to promote financial inclusion, especially for unbanked and underbanked populations.
- **Legal Framework:** Registered under the Companies Act, 2013.
- **Target Audience:** Small businesses, low-income groups, and rural customers.

Regulations and Requirements:

- **Minimum Paid-up Capital:** ₹100 crore.
- **Promoter Holding:** For the first 5 years, promoters must hold at least 40% of paid-up voting equity capital.
- **Deposit Limits:** Payments banks can accept deposits up to ₹2 lakh per account but cannot issue credit cards.
- **Investment Restrictions:**
    - 75% of deposits must be invested in Statutory Liquidity Ratio (SLR) securities.
    - 25% must be invested as time deposits with scheduled commercial banks.

Introduction of Payments Banks:

- The concept of payments banks was introduced by the Reserve Bank of India (RBI) in 2014, with the first payments bank, Airtel Payments Bank, launching in January 2017.

Conversion to Small Finance Banks (SFBs):

- Payments banks can apply for a Small Finance Bank (SFB) license after 5 years of operations and meeting RBI conditions.
- A key requirement for conversion is maintaining a minimum net worth of ₹200 crore.

4. DLAI to rebrand itself to Unified Fintech Forum as it pursues its SRO bid

- The Digital Lenders Association of India (DLAI) has rebranded as the **Unified Fintech Forum (UFF)** to better represent the broader fintech ecosystem and strengthen its bid for **Self-Regulatory Organization (SRO)** status from the RBI.
- UFF now has over **120 members**, expanding its scope beyond digital lending firms to include a wider range of fintech players.

Current SRO:

- **Fintech Association for Consumer Empowerment (FACE)**.

What is an SRO?

- An **SRO (Self-Regulatory Organization)** is a non-government organization that serves as an intermediary between industry players and the regulator, setting standards for entities operating within the country.

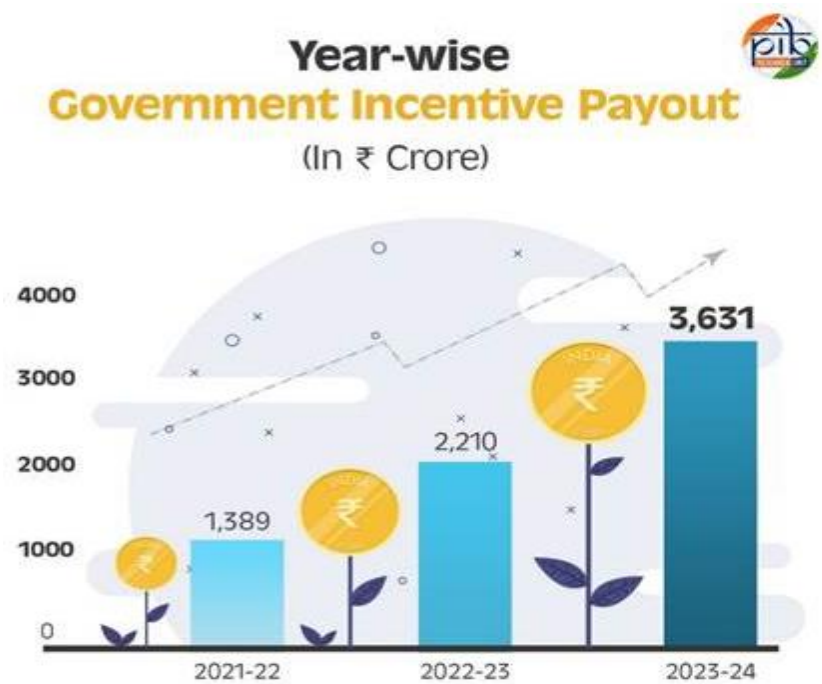
Eligibility Rules for Fintech SRO:

- The applicant must be a **not-for-profit** company registered under Section 8 of the **Companies Act, 2013**.
- No single entity or group can own **10% or more** of the shares.
- The applicant must have a **minimum net worth of ₹2 crore** within one year of recognition or before starting operations.
- The SRO-FT cannot open foreign offices or branches without **RBI's approval**.

5. Advancing Cashless India

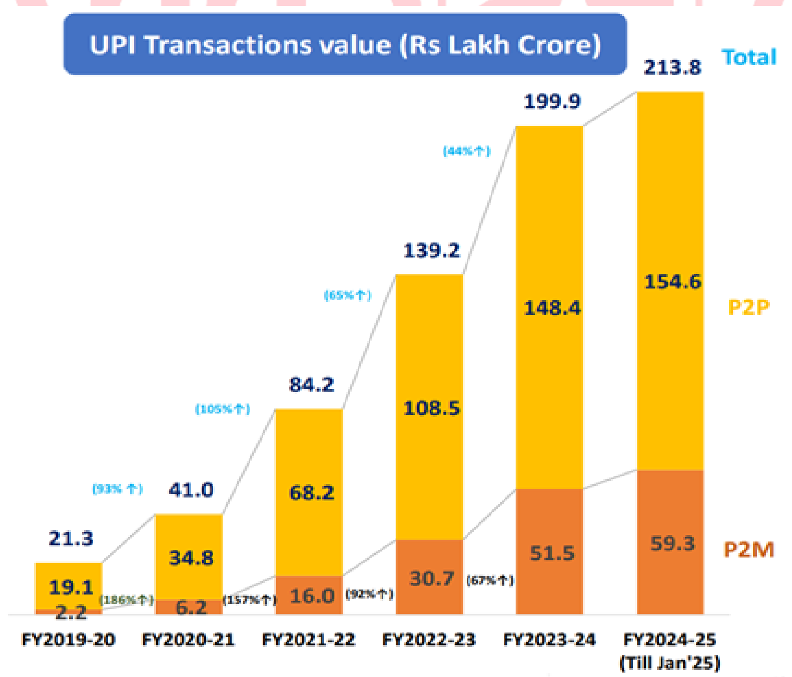
Union Cabinet Approval for 'Incentive Scheme for Promotion of Low-Value BHIM-UPI Transactions (P2M)' for FY 2024-25:

1. **Objective:**
   - The scheme aims to promote low-value Person to Merchant (P2M) BHIM-UPI transactions for the financial year 2024-25.
   - Supports the Government's goal of boosting digital payments and encouraging small merchants to adopt UPI.
   - Promotes financial inclusion and strengthens India's digital payment ecosystem.
2. **Government Strategy:**
   - Digital payments are integral to the Government's financial inclusion strategy and providing wide-ranging payment options to the common man.
3. **Merchant Discount Rate (MDR):**
   - The MDR is a fee paid by merchants for processing transactions, usually as a percentage of the transaction value.
   - As per RBI, the MDR is capped at 0.90% for debit card transactions across all card networks.
   - For UPI P2M transactions, NPCI sets the MDR at a maximum of 0.30%.
4. **Zero MDR for RuPay Debit Cards and BHIM-UPI:**
   - Since January 2020, the MDR for RuPay Debit Cards and BHIM-UPI transactions has been set to zero to encourage digital transactions.
   - This was made possible through amendments to the Payments and Settlement Systems Act, 2007 and the Income-tax Act, 1961.
5. **Incentive Scheme for Stakeholders:**
   - The Government implements an incentive scheme to support the payment ecosystem, covering RuPay Debit Cards and low-value BHIM-UPI P2M transactions.
   - The incentive is paid by the Government to the Acquiring Bank (merchant's bank), which is then distributed among the Issuer Bank (customer's bank), Payment Service Provider Bank (facilitates UPI onboarding/API integration), and App Providers (TPAPs).
6. **Cabinet Approval:**
   - The Union Cabinet, led by Prime Minister Narendra Modi, has approved this incentive scheme for FY 2024-25.



Incentive Scheme Overview for Low-Value BHIM-UPI Transactions (P2M):

1. **Scheme Duration and Budget:**
   - The scheme will be implemented from April 1, 2024, to March 31, 2025, with an estimated outlay of ₹1,500 crore.
   - It targets low-value UPI (Person to Merchant - P2M) transactions of up to ₹2,000.
2. **Focus on Small Merchants:**
   - The scheme is specifically designed to encourage small merchants to adopt digital payments at the grassroots level.
3. **Growth in UPI Transactions:**
   - UPI transactions have witnessed significant growth, with the total transaction value rising from ₹21.3 lakh crore in FY 2019-20 to ₹213.8 lakh crore by January 2025.
   - Person to Merchant (P2M) transactions have grown steadily, reaching ₹59.3 lakh crore, demonstrating increased digital payment adoption among merchants.



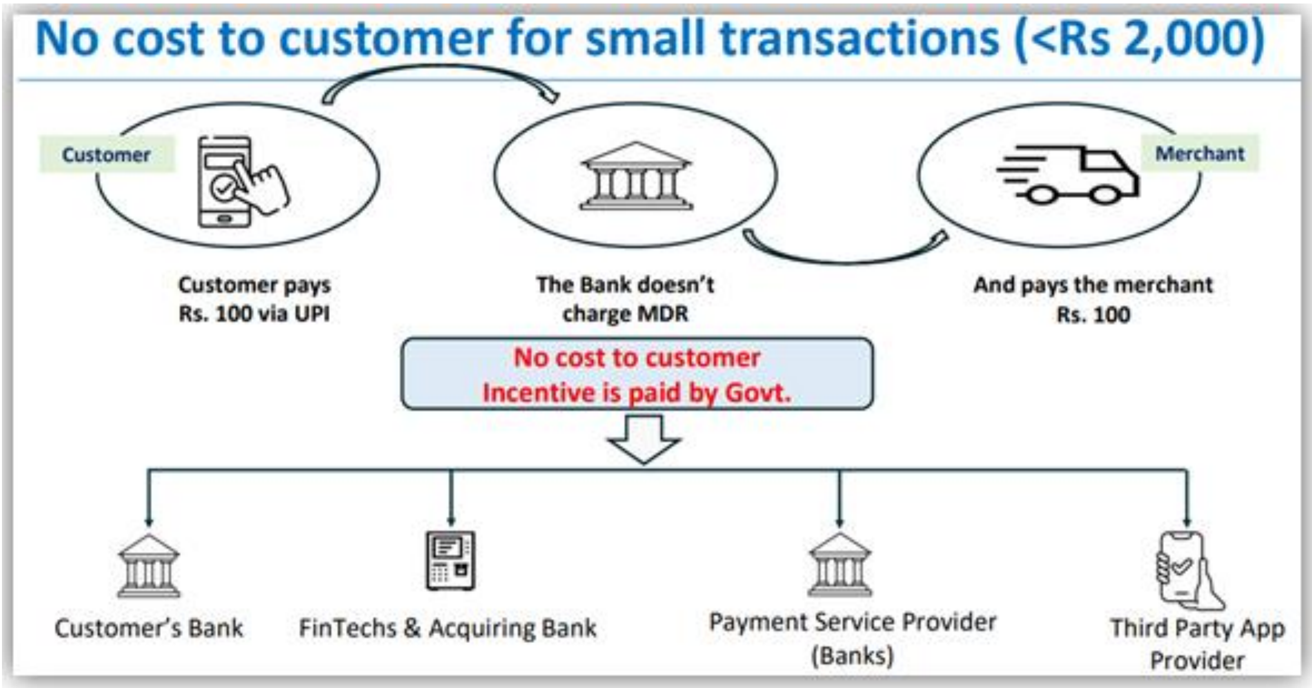
Scheme Objectives:

1. **Promote BHIM-UPI Platform:**
   - Target to achieve ₹20,000 crore in transaction volume during FY 2024-25.
2. **Strengthen Payment Infrastructure:**
   - Support stakeholders in developing secure and efficient digital payment systems.
3. **Ensure Reliability:**
   - Maintain high uptime and reduce instances of technical declines.
4. **Rural Penetration:**
   - Expand UPI services in tier 3 to 6 cities and remote areas by leveraging:
     - **UPI 123PAY** (for feature phones)
     - **UPI Lite and UPI LiteX** (for offline payments)

Incentive Structure

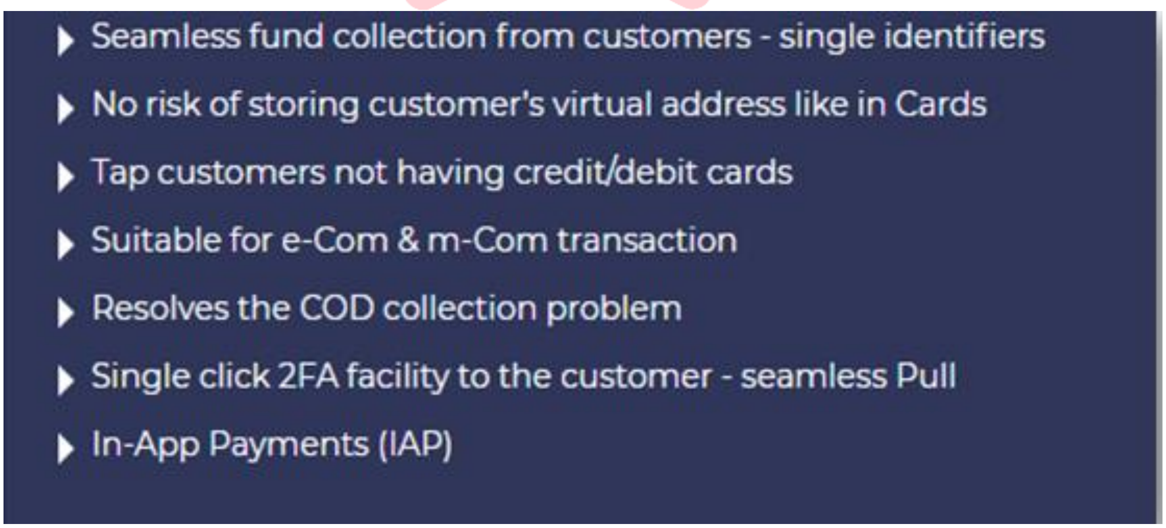
Incentive Structure under the Approved Scheme:

1. **Small Merchants:**
   - For UPI transactions up to ₹2,000:
     - Zero Merchant Discount Rate (MDR).
     - Eligible for an incentive of 0.15% of the transaction value.
   - For transactions above ₹2,000:
     - Zero MDR, but no incentive.
2. **Large Merchants:**
   - All transactions, regardless of amount:
     - Zero MDR.
     - No incentive provided.



Reimbursement Mechanism:

1. **80% of the Admitted Claim:**
   - Disbursed unconditionally to acquiring banks each quarter.
2. **Remaining 20%:**
   - **10% of the claim:** Disbursed if the acquiring bank's technical decline rate (failed transactions due to technical issues) is less than 0.75%.
   - **10% of the claim:** Disbursed if the acquiring bank's system uptime (availability of systems) is more than 99.5%.



UPI - Benefits to Merchants:

1. **Convenience & Speed:** Enables seamless, secure, and fast payments, improving cash flow and providing digital credit access.
2. **No Extra Charges:** Citizens can make digital payments without incurring additional fees.
3. **Support for Small Merchants:** Encourages cost-sensitive merchants to adopt UPI payments.
4. **Less-Cash Economy:** Promotes formal, accountable digital transactions.
5. **System Efficiency:** High uptime and low failure rates ensure reliable 24/7 payment services.
6. **Balanced Approach:** Fosters digital growth while managing Government expenditure responsibly.

Unique Features of BHIM-UPI:

1. **Instant Transfers:** Enables round-the-clock money transfers via mobile devices, 365 days a year.
2. **Unified Access:** Access multiple bank accounts with a single mobile app.
3. **Single Click 2FA:** Provides strong and seamless two-factor authentication.
4. **Virtual Addresses:** Enhances security by eliminating the need to input card or bank details.
5. **QR Code Payments:** Simple scan-and-pay experience for users.
6. **Versatile Use:** Can be used for in-app purchases, utility bill payments, donations, collections, and more.
7. **Direct Complaint Handling:** Users can raise issues directly via the mobile app.

UPI's Global Expansion:

1. **Global Reach:** UPI is operational in seven countries—UAE, Singapore, Bhutan, Nepal, Sri Lanka, France, and Mauritius.
2. **Europe Debut:** France marks UPI's entry into Europe, facilitating easy payments for Indians abroad.
3. **BRICS Promotion:** UPI is being promoted within the BRICS group to enhance remittances, financial inclusion, and global recognition.
4. **Global Leadership:** As per the ACI Worldwide Report 2024, India accounted for 49% of all global real-time transactions in 2023, underscoring India's leadership in digital payment innovation.

Towards an Inclusive Digital Economy:

1. **Major Step in Digital Journey:** The approved incentive scheme for FY 2024-25 significantly advances India's digital economy.
2. **Support for Small Merchants:** Encourages the adoption of BHIM-UPI among small merchants, promoting widespread use of digital payments.
3. **Strengthening Financial Infrastructure:** The scheme contributes to building a robust financial ecosystem in the country.
4. **Global Leadership in UPI:** UPI continues to lead globally, with India setting new standards in innovation and secure digital payments.
5. **Inclusive Growth:** The initiative ensures businesses of all sizes, especially grassroots-level ones, can benefit from seamless, secure, and cost-effective cashless transactions.

6. USAID Funding in India

USAID Funding in India - FY 2023-24:

1. **Projects Funded:** USAID funded 7 projects worth $750 million in India during 2023-24, with an obligation of $97 million.
2. **USAID Overview:**
   - USAID is an independent U.S. government agency providing foreign aid and development assistance to various countries.
   - Active in India since 1951.
   - Focus areas include economic growth, health, education, disaster relief, and democracy-building.

3. **Historical Contribution:**
   - USAID has funded 555 projects in India, contributing over $17 billion in sectors like agriculture, health, renewable energy, disaster management, and climate adaptation.
4. **Key Focus Areas for FY 2023-24:**
   - Agriculture & Food Security Programs
   - Water, Sanitation, and Hygiene (WASH) Initiatives
   - Renewable Energy Development
   - Disaster Management & Health Programs
   - Sustainable Forests & Climate Adaptation Projects
   - Energy Efficiency & Technology Commercialization

7. EPFO Keeps Interest Rate at 8.25% for FY25

1. **Interest Rate Trends Over the Years:**
   - **FY22:** Interest rate fell to 8.1%, the lowest in four decades (since 1977-78).
   - **FY23:** Slight increase to 8.15%.
   - **FY24:** Raised to 8.25%.
   - **FY25:** Retained at 8.25%.
2. **Modifications to Insurance and Pension Schemes:**
   - **A. Insurance Benefits under EDLI Scheme:**
     - Minimum insurance benefit introduced for employees who die within 1 year of joining service.
     - If an employee dies within 6 months of the last contribution, the family can still claim the benefit if their name is not removed from company records.
     - These changes benefit over 19,000 families annually.
   - **B. Centralized Pension Payment System (CPPS):**
     - A new digital system for pension payments launched across all EPFO regional offices from January 2025.
     - In January 2025, pensions worth ₹1,710 crore were disbursed to 6.93 million pensioners.
   - **C. Higher Pension Under Supreme Court Order:**
     - EPFO discussed pension on higher wages as per the Supreme Court's directive.
     - 72% of the 1.7 million applications for higher pension have already been processed.

8. FM launches digital footprint-based credit assessment model for MSMEs

1. **Launch of Digital Model:**
   - Finance Minister **Nirmala Sitharaman** and Minister of State for Finance **Pankaj Chaudhary** introduced a new digital credit assessment model for MSMEs (Micro, Small & Medium Enterprises).
2. **Shift from External Agencies:**
   - Previously, public sector banks (PSBs) relied on external agencies to assess MSMEs for loans.
   - Now, a **digital system** will be used to assess MSMEs' financial health and approve loans more quickly.
3. **How the Digital Model Works:**
   - **Mobile & Email Authentication**: Verified using OTP (One-Time Password) verification.
   - **GST Data**: Fetched via APIs from government sources.
   - **PAN & Name Verification**: Conducted using **NSDL** (National Securities Depository Limited).
   - **Bank Statements**: Checked through **Account Aggregators**.
   - **Income Tax Returns (ITR)**: Verified digitally.
   - **Credit Scores & Fraud Checks**: Based on data from credit bureaus (**CICs**).
   - **Automated Loan Processing**: Speeds up loan approval.
   - **Coverage**: Includes all MSMEs, even those without proper accounting records.
4. **Benefits for MSMEs:**
   - **Online Applications**: MSMEs can apply from anywhere, without visiting bank branches.
   - **Less Paperwork**: Data is digitally verified, reducing manual documentation.
   - **Faster Loan Approvals**: Instant preliminary loan approvals.
   - **No Physical Collateral**: Loans under **CGTMSE** (Credit Guarantee Fund Trust for Micro and Small Enterprises) do not require physical collateral.
   - **Reduced Processing Time**: Loans are processed smoothly, without delays.

9. India: Financial Sector Assessment Program, 2024

Resilience and Growth of Indian Financial System:

- The Indian financial system has become more resilient and diverse, driven by rapid economic growth and successfully withstood the pandemic, according to an IMF report.
- The report is part of the Financial Sector Assessment Program (FSAP), a joint initiative of the IMF and the World Bank, which conducts a comprehensive analysis of a country's financial sector.

Latest Reports:

- IMF released the India-FSSA report, based on the assessment carried out in 2024.
- The World Bank's Financial Sector Assessment (FSA) report is expected to be published soon.

Government Response:

- India welcomes the assessment of its financial system, stating that it conforms to the highest international standards.

Key Findings from the IMF Report:

- Since the last FSAP in 2017, India's financial system has become more resilient and diversified, driven by rapid economic growth.
- The system recovered from distress episodes in the 2010s and withstood the pandemic effectively.
- Non-Banking Financial Institutions (NBFIs) and market financing have grown, making the financial system more diverse and interconnected.
- State-owned financial institutions continue to hold a significant share in the system.

Stress Test Results:

- Stress tests show that major lending sectors are generally resilient to macro-financial shocks, despite some weaker institutions.
- Banks and NBFCs have enough capital to support moderate lending even in severe macro-financial scenarios.
- However, some banks, especially Public Sector Banks (PSBs), may need to strengthen their capital base to support lending in such situations.
- Weak institutions include some non-systemic NBFCs and urban cooperative banks (UCBs) with negative or minimal capital.
- Vulnerability to short-term liquidity stress is generally contained.

Regulation and Supervision of NBFCs:

- The IMF praised India's systematic approach to the prudential requirements of NBFCs, particularly its scale-based regulatory framework.
- India's introduction of a bank-like Liquidity Coverage Ratio (LCR) for large NBFCs was also acknowledged.

Improvements in Securities Market Regulation:

- The IMF recognized improvements in India's regulatory framework for securities markets, in line with international practices to manage emerging risks.
- The establishment of the Corporate Debt Market Development Fund (CDMDF) was highlighted as a notable improvement.

Insurance Sector:

- India's insurance sector is strong and growing, with significant presence in both life and general insurance.
- The sector has remained stable due to improved regulations and digital innovations.

Cybersecurity Framework:

- The IMF also analyzed the cybersecurity frameworks within the banking sector, financial market infrastructure (FMI), critical information systems, and other relevant players in the securities market.