GLOBAL REPORT

2021 FIRST Semester Edition

Connected

Liga de Investimentos
Escola Politécnica · UFRJ

IFSA
Network India

FEP Finance Club

Capital Market Club
Coller School of Management
Tel Aviv University

SUFFESA

Club de Finanzas UCEMA

Erasmus University Rotterdam

Summary

Introduction

The Global Report is an international macroeconomics project that aims to share an economic vision written exclusively by students from various finance and business student associations from the world's leading universities. It is a unique opportunity to connect students and readers from a multitude of backgrounds, but who share the same passion in economics and finance.

After nine successful editions, the project's greatest ambition is still the same: to establish a periodic exchange of information between as many financial companies as possible, connecting five continents in a single document and providing a broad view of the economies of many countries, from their perspective, with reliable information and easy language to all readers.

The Global Report was idealized by the Brazilian Liga de Investimentos UFRJ in 2016 and since then, several participants around the world have participated in the project, such as finance associations from Sweden, United Kingdom, Switzerland, France, Russia, Colombia, South Africa, Portugal, Kenya, and others.

This Global Report was written by the Liga de Investimentos of the Federal University of Rio de Janeiro in Brazil; International Finance Student Association (IFSA) of Erasmus University Rotterdam in the Netherlands; International Finance Student Association (IFSA) India and Hansraj chapter of the University of Delhi; Coller Capital Market Club of the Tel Aviv University in Israel; UCEMA Finance Club of the Universidad del CEMA in Argentina, FEP Finance Club of the School of Economics and Management of the University of Porto in Portugal and Strathmore University Finance and Financial Economics Student's Association (SUFFESA) in Kenya.

Enjoy the reading!

Club de Finanzas
UCEMA

UCEMA Finance Club

The Finance Club is a Registered Student Organization at the Universidad del CEMA in Buenos Aires, Argentina, that is dedicated to motivating high performing students to reach their potential by providing networking opportunities, guest speakers, accessibility, training, and resources in the financial and trading sector to increase member's business knowledge and establish a competitive edge in the job market to ensure future success.

Argentina: a historical outlier

INTRODUCTION

Argentina has a long history of political and economic instability, with significant growth fluctuations every year. Inflation and recession (combined stagflation), volatile devaluations and not less important, sovereign debt defaults, are some of the issues that make Argentina known.

Early in the twentieth century, Argentina had one of the ten highest per capita GDP levels globally, on par with Canada and Australia. However, Argentina's economic performance has historically been very uneven, especially since the late twentieth century, when income maldistribution and poverty have increased inordinately.

Economic & Political Overview

With an approximate of 45 million people, Argentina is a developing country in the southern part of South America, that benefits from its natural resources, an export-oriented agricultural sector, and a pretty diversified industrial structure. It is the eighth largest country in the world, the second largest country in South America after Brazil, and it's about one-third the size of the United States. Even the country was one of the most affected by the pandemic, Argentina is the third largest economy in Latin America, after Brazil and Mexico.

The Argentine production decrease on the international scene was notable since it stopped representing 1.33% of world GDP in 1980, to shrink to 0.61% nowadays.

The country faced serious difficulties between 1980 and the present, among which the most important are: a large fiscal deficit, stagnant exports, the absence of productive investment, the prevalence of low-quality jobs with poor pay, insufficient modernized capital stock, and one of the largest inflations in the modern world.
For these reasons, in 2018 the country is under a stand-by program from the International Monetary Fund. The Stand-by credit line allows the IMF to support policies that "help to overcome the crisis" to countries that request it and its duration generally covers a period of between 12 and 36 months.

Argentina is a very political polarized country with a volatile political party system also, particularly since the mid-20th century, with numerous parties forming, taking part in elections, and disbanding as new factions evolve. Among the major parties, the Justicialist Party (traditionally left-wing nationalist and pro-labour policies) has controlled the government most of the time since civilian rule was restored in the early 1980s.

Between 2016 and 2019 the country was governed, for the first time in more than a decade, by the main opposition coalition.

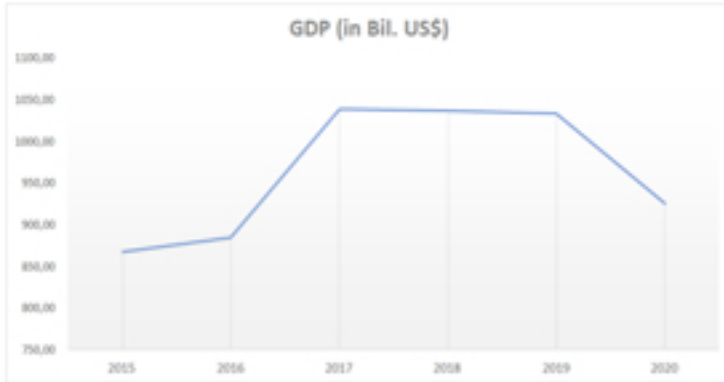
Economic Growth and Pandemic Response

In 2020, the Argentine economy shrank for the third consecutive year, this time owing to the impact of the crisis caused by the coronavirus disease (COVID-19) pandemic, which hit private consumption, investment and exports hard. By the end of the year, GDP has fallen 11.78%, one of the largest plunges in Latin America and worldwide. The argentine policy against COVID focused on the total paralysis of economic activity with strict quarantine, hence the consequences.

The IMF estimates for 2021 that Argentine GDP will increase by 4.5%, thanks to the gradual reopening of the sectors affected by the pandemic and 2.7% for next year. This is expected to generate an improvement in labour incomes and boost private consumption, while also increasing international export demand. However, the recovery levels are not enough to mitigate the effects of the coronavirus pandemic and return to the already bad numbers of 2019.

Real primary expenditure increased by 17% year-on-year in the first 10 months, driven by a broad package of economic course of actions aimed at protecting jobs, businesses and the most vulnerable sectors in the context of the COVID-19 crisis.

The measures taken by the government to face up to the health and economic crisis include the emergency assistance programme for work and production (ATP), the legal prohibition of dismissals in companies, the payment by the State of 50% of the wages of registered private sector workers the updating of unemployment insurance by between 6,000 and 10,000 Argentine pesos (US$ 80–US$ 130), and a subsidy to cover the financial cost of loans to self-employed workers; and the emergency family income (IFE), a programme that consists of a cash transfer of 10,000 pesos (US$130) to informal workers and selfemployed workers in the lowest single-tax brackets.



Source: Data collected from World Bank and own estimations

Inflation, Devaluations and Monetary Policy

Argentina is well known for being a country with high inflation over decades. Inflation closed 2020 at around 35.5%, therefore it fell more than 18 points compared to the previous year because of the longest (in Latin America) quarantine imposed due to the COVID-19 pandemic and therefore, fall on money velocity, economic activity and transactions volume.

The inflation rate in Argentina was 47.6% in 2018 and 53.8% in 2019, the two highest since the beginning of the 1990s in the exit of hyperinflation. By 2019, the country was in the fourth place in the world inflation ranking, after Venezuela, Zimbabue and Sudan.

On the other hand, Argentina's currency declined by about 50% in 2018 to more than 38 Argentine pesos per U.S. Dollar and, as of that year, is under a stand--by program from the International Monetary Fund.

In 2019, it fell further by 25% and after the PASO primary polls in August of that year, even more strict controls on exchange currency trade were imposed. That made Argentina's black market peso break away from the official spot rate by the largest margin since 2015.

The black market is an informal, and illegal, network of currency traders operating on the streets and in shadowy offices that has existed in Argentina for decades, waxing and waning, depending on demand for dollars outside regular channels.

That in 2020 the currency devaluation has been less than those registered in 2018 and 2019, does not mean that the situation is less serious. On the contrary: for the sixth consecutive year, the Argentine peso will have the worst performance among the currencies of emerging countries. Until, mid-December of 2020, the national currency accumulated a devaluation of 27.1% against the dollar, surpassing the depreciations of the Turkish lira (24.3%); of the Brazilian real (20.7%); from the Russian ruble (15%); or the South African rand (7.5%).

In 2020, the Central Bank began to assist the Treasury, and exchange rate pressures mounted. As of April of 2020, the issue soared, giving rise to an excess of liquidity (not absorbed at first) , which put pressure on both the official dollar and black market prices. In response, the gap between official dollar and the parallel one escalated week after week.

At the same time, monetary policy began to implement a "crawling peg" (controlled daily devaluation) that began to show inconsistencies with the peso rate. The Central Bank began to lower the interest rate and was managing the devaluation rate in line with the evolution of inflation. There came a time when the reference interest rate began to run behind the devaluation rate.

With the announcement, at the beginning of August, that an agreement was reached for the restructuring of the debt with the private creditors, the alternative dollars fell with initially strong (parallel dollar fell from $ 136 to $ 128 Argentine pesos), but demand from small savers was on the rise, reaching new records: in August of 2020, 4 million Argentines bought foreign currency to hoard, something unprecedented so far.

Thus, the news of the debt swap was not enough to discourage dollarization or reopen external financing. Thus, net reserves fell on a daily basis, with the market following its evolution in net and liquid terms, while exchange rate pressures continued to rise.

Consequently, the monetary authority tightened the foreign currency stocks again on September, both for companies and individuals (the number of savers authorized to buy dollars fell by 70% because of new controls imposed, from 4 million in August, to 1.1 million in October), but the measure only made the panorama more complex: the gap shot up to a maximum of 149.6%, when the parallel (black market) dollar touched $ 200 on October 23, and the private sector's dollar deposits accelerated their drainage to a minimum of US $ 14,610 million on November 11 (in less than two months almost US $ 2,800 million left the banking system).

Stock Market

2019 will be remembered forever in the history of the local market, and not for exactly good reasons. Product of the stock market shock that caused the resounding electoral defeat of the then president Mauricio Macri in the PASO primary polls of August, the year 2019 leaves as a result a loss of value of enormous magnitude for Argentine stocks and bonds, that are listed both in Buenos Aires and on Wall Street: they suffered falls of up to 76.5% in dollars. In turn, the S&P Merval lost 30% in dollars, with its worst daily decline in history on August 12: it fell 48% in US currency. For its part, the country risk doubled, the securities were trading at 50% parities and the carry trade lost 16%.

As a fact, the country's stock market tumble of 48% in dollar terms on Monday (after the primary polls), marked the second--biggest one-day slump anywhere since 1950 (Reuters reported). That leaves Argentina on the 2nd and 3rd position in a top stock market plunges, after Sri Lanka with -61.7% .

However, when it comes to 2020, the S&P Merval index rose about 23% in argentine pesos during 2020, although in real terms they ended lower if it is considered that the inflation closed around 35.5%.

Liga de Investimentos

Liga de Investimentos of Polytechnic School/UFRJ is the first organization at the Federal University of Rio de Janeiro with the objective of making the connection between the students and the financial market. Our mission is to build strong relationships with the industry and fight to bridge the gap between students, big investments companies and management consulting firms serving as a primary contact point on campus by recruiting programs, case studies, informative events and workshops.

Brazilian Industrialization: an eternal challenge

Historical Overview

Until its discovery and domination by the Portuguese Empire, Brazil stood out as an agro-exporter country. In 1808, with the arrival of the Royal Portuguese Court to Brazil, this perspective started to change. The manufacturing restrictions were abolished and a slow process of the emergence of small industries, which were localized mostly in São Paulo, began. However, the high customs tariffs collected in the country, the strong competition with English products and an economy based on coffee production – the most important Brazil's product at the time – slowed down the national industrial development and made it insufficient to the standards of the time.

The 1929 economic crisis demonstrated an enormous fragility of Brazilian economy focused on exporting coffee. In this period, the rise of Getúlio Vargas, 1930 revolution leader and representative of the urban merchant parcel, allowed a change in the country's agro-export guidelines. With an intensive governmental investment, Vargas strongly invested in infrastructure and industrialization. We can highlight the creation of many state-owned companies, such as: CSN, Vale do Rio Doce, BNDE (nowadays BNDES) and Petrobras. That scenario was intensified by World War II, allowing an embryonic development of a capital goods industry with an import substitution policy that benefited, mainly, Rio de Janeiro e São Paulo.

After Vargas' period, Brazil had a positive international foreign exchange balance due to the exportations during WWII and, in Juscelino Kubitscheck's government, the industrial development gained a new perspective. Juscelino established the "Goals Plan" with an objective of promoting the industrial production and focusing, mainly, on the transport and energy sectors. With the propaganda "50 years in one", Brazil focused its development on the carmaker industry. In the presence of huge tax incentives, Brazilian government bet on the creation of factories capable of producing vehicles, such as Vemag, Mercedes Benz, General Motors and Willis Overland. After that period, the military entrance in the government caused a state investment growth in infrastructure and agricultural technology.

After the redemocratization, with the international trading opening during president Fernando Collor government, allowing more foreigner cars importations, and the subsequent hyperinflation, the Brazilian industry suffered a period of many bankruptcies that were only reversed with the mone tary stabilization brought by the "Real Plan" in 1994. From that, we can note a migration of companies to peripheral areas, while the service sector was dominating states, such as Rio de Janeiro and São Paulo. Therefore, we can say that, in Brazil, the industrialization process is connected to investments and the state interference, generating lots of taxes and productivity peculiarities to the country. Nowadays, the Brazilian industry is gradually becoming less important in the GDP and in international trade. In this sense, we can highlight the departure of many companies from the country. Since 2015, 36,6 thousand factories have left Brazil. In order to understand that situation, we must analyze the Brazilian state's influence on taxing, subsidies, productivity and, at least, try to sense this nation's future perspective.

Brazilian Productivity

The technical conception of productivity is defined by the efficiency measure with which the economy is capable of transforming the inputs and production factors into products and general services. In a simple way, a country's economy will be able to generate, in an efficient way, production to certain inputs according to its productivity capacity. For Economical Thinking, productivity is the GDP per worker of a country.

The long-term economic growth depends on one factor: rising productivity. In Paul Krugman's vision, Nobel Prize economist winner, the capacity of a country to increase its life standard depends, basically, on the capacity of increasing its production per worker, in other words, its productivity.

After the economic miracle period, in the 70's, in which Brazil showed great rates in its GDP growth, the country started to present, from the 80's, a more modest growth standard. In the last twenty years, the Brazilian economy grew, on average, 2,3% per year, what can be considered a small rate for an emerging country.

Besides that, it is important to highlight that, in the 00's, Brazil presented an artificial movement growth of per capita income and a reduction of poverty levels. Based on an employment growth rate, the income increase in the national territory was driven by the enormous number of young people entering the job market. However, with the fast population ageing, this fountain is getting worn out. In addition to that, the commodities' high prices and irresponsible tax policies contributed to generating an economic situation, apparently, stable. But, in the last few years, Brazil entered in one of the worst economic recessions in its history, draining all the artificial growth based on state investments and consumption.

Nowadays, in terms of productivity, a Brazilian worker, on average, is only 17% more productive than it was twenty years ago, while the increase between average workers in well development countries was about 34%. The Brazilian performance has been disappointing due to the fact that the work productivity presents a low growth rate of 0,7% since the 90's, besides that, the Total Productivity has been showing a constant decline.

The below average Brazilian Total Productivity is related to the financial and capital market malfunctioning on the allocation of resources in the economy, the

state inefficiency, the lack of a sound competitive and regulatory environment that allows incentives generation for companies to be able to search for better productive efficiency.

In order to analyze the Brazilian productivity historical evolution and, consequently, elaborate future thoughts about the country, it is necessary to identify the main influential factor of productivity behavior. In fact, it is possible to highlight deindustrialization, competitiveness, innovation, labor quality, investments in infrastructure and tax system as mainly causes of a huge productive stagnation.

Deindustrialization

The phenomenon called "Dutch disease" consists of Holland's scenery in the 20th century, in which was discovered a huge commodity reserve, in that case, natural gas. Many economists have theorized about the repetition of this situation in Brazil when lots of huge oil reserves were found. If that had happened, the foreign capital entering to extract those resources would strengthen the real and, as a consequence, the national industry would have more difficulty exporting due to the monetary competitiveness in relation to the dollar. In that case, the country would enter in a bad deindustrializa tion process.

Even though this phenomenon did not happen in Brazil, its consequences were the same. In the actual situation, the exchange rate is devalued and the interest rate is the lowest level in history, what, for the theory, is the ideal moment for an industrialization process, however we can observe the opposite. According to Brazilian Institute of Geography and Statistics data, the manufact ring industry represented, in the third semester of 2019, 11,2% of Brazil's GDP, the lowest level since 1947. Automobile companies, such as Ford and Mercedes-Benz, and other industries, such as Sony, are examples of thousands of companies which have left Brazil in the last years.

Source: World Bank

The industrial sector, in spite of having a favorable macroeconomic scenery, shows many factors that impede its increase. In agreement with Rafael Cagnin, one of the most important Brazilian economists, the actual national context is a consequence of a hostile business environment and underlying factors which affect the international sector competitiveness.

A Brazilian businessman, or even a foreigner, finds many difficulties to start a business in the country or invest in a new industrial park. According to the ease of doing business ranking, elaborated by the World Bank, Brazil is the 124th of 190 countries, demonstrating the strong lack of competition in the country. Another important factor is the level of entrepreneur confidence, which is the lowest in the past twelve years, showing the risks and adversities of investing in Brazil.

Source: Brazilian National Industry Confederation (CNI)

Until 2014, the country was in the top-10 greatest nations in industrial production. However, after six years, Brazil is in the 16th position. In order to become more competitive and change this complex scenery, many actions must be taken.

Education

In order to achieve growth and solid economic development, it is essential to, in the country, exist qualified human capital which can access satisfactory education and information. In Brazil, the low qualifications of the working force, related to the terrible quality of education, turn up as a huge bottleneck in the development and the competitiveness of the nation.

Surprisingly, Brazil, when compared with your neighbourhoods in South America, presents a significant amount of money, which is growing in the last few years, invested per student. However, although the high sum invested, the capital is badly managed, in other words, it is a bad quality investment. So understands that the excessive focus on subjects that add in an academic point of view, reduction in scholar hours and the clear perception that the high school curriculum lost his importance, are the thoughts that reinforce the idea of a failure basic education system.

Aside from industries, in general, the productivity in the service sector is the most impacted with the low-quality education, since it is a sector intensive in the working force and its productivity relates with the labour force. Considering the importance of this sector for the speed-up of the national economic growth, increasing the qualification of the working force is a challenge even more fundamental and urgent.

Infrastructure

Investments in infrastructure are essential for economic growth, because, besides expanding productive capacity, they convert, in an indirect way, in a more efficient economy. To illustrate, Brazil, nowadays, occupies 81o place in 140 countries in the ranking of investments in the industry.

When it comes to infrastructure logistics, the segment of the greatest gains in productivity, the quality of Brazil is much lower than comparable nations. Investment policies, which, in the past, encouraged the improvement of highway transport systems, made the country hostage of a modal system that is too expensive for long-distance transportation. This scenery, in a continental-size country, is extremely prejudicial to productive development.

In addition to Infrastructure inefficiency, Brazil comes across several difficulties in getting investments in this segment. The bad outlook is the result of an absence of an appropriate regulatory mark, creation of award and public-private partnerships which are attractive for the private sector. Besides, there is a necessity of structuring projects and establishment assurance of the provision of service for society with a fair price, that is enough to repay the investment.

Innovation

Productivity and innovation are concepts that are strongly related to others. Although this idea can be intuitive, the way that influences others does not provide a clear understanding. For innovation, can recognize the creation of new products and processes and/or the improvement of the existing ones. In a world in transition to the 4o industrial revolution, a country that does not encourage and investment in research and development is destined to be dependent on the ones who do. In relation to the investment in the sector, despite a little improvement in the last decade, it is under the goal of 2% of 2020 GDP. Efforts such as the creation of startup incubators and the fostering of entrepreneurship, with setting up of venture capital funds, were made to seek change this outlook.

Among the incentives crucial to innovation, can highlight the investments on Research and Development (R&D), which might have the potential to develop a wide complex of scientific research and technology that can achieve knowledge output. Furthermore, the lack of inclusion between the private sector, which invests just 0,55% of GDP (China and South Korea

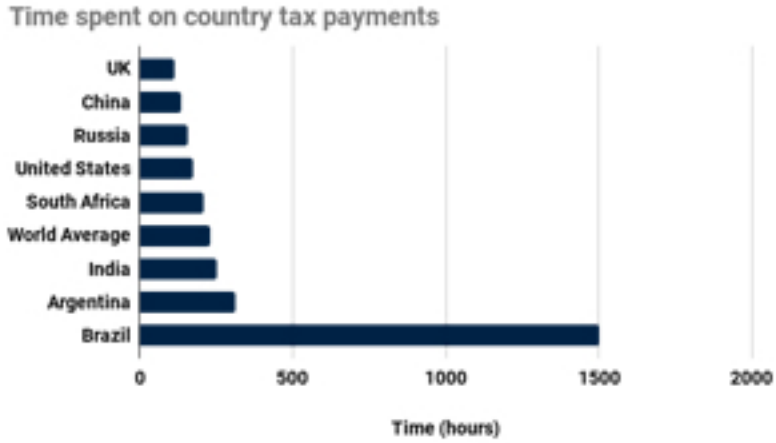
invest, respectively, 1,22% and 2,68% of their GDP) with public universities, play a role in this scenario. That happens because of the lack of incentives and regulation to foster this interaction, moreover investment in this area is uncertain and lingering to generate profit. Therefore, these expenses are redirected to other areas of the companies.

Even though Brazil managed to increase scientific indicators, these rates of innovation and share in patents are too low when compared with other countries. Market conditions, elevated costs in innovation, economic risks as well the shortage in qualified workforce are the prime barriers to change in innovation in brazilian industry.

Source: COIND

Taxation

The importance of tax obligations is notorious, since they are the ones that guarantee the provision of public services of social interest. In general, taxation does not depend on the public services provided generating more well-being than subtracted from the private sector. Thus, it is inferred that taxation does not require a social cost, but only a transfer of resources to the government. However, despite the simple logic, tax designs, when ineffective, directly influence inefficient decisions by market agents. In the case of Brazil, where the tax system is admittedly complex, there is a great tax difficulty for economic development. In addition to marked regressiveness, the Brazilian system, due to its poor design, raises compliance costs, creates legal uncertainty and causes undesirable distortions in production. According to the World Bank's Doing Business 2020 ranking, on average, the time it takes to pay taxes in Brazil is 1501 hours, about six and a half times the world average.



The slowness of the tax system is mainly due to the high complexity of taxes on goods and services. These taxes, in addition to numerous ones (ICMS, COFINS, IPI, PIS and ISS), each have different rules, exemptions, tax benefits, special regimes, and reductions in the calculation bases. These taxes are levied at each stage of the production chain, thus placing an excessive burden on manufacturing industries. Therefore, this sector has a higher tax burden when compared to the other sectors, since the industry, according to the National Confederation of Industry (CNI), is responsible for 33% of the collection of federal taxes, having only 21% of participation in the Brazilian economy.

The production chain of national products is more extensive when compared to that of imported products and, therefore, the sum of taxes on goods and services, which are charged in each part of the chain, has a greater weight in national manufacture. As a consequence, the collection of taxes becomes a cost for companies, so the same country that seeks to protect the industry ends up favoring the imported product. In addition, the tax rules open space for different interpretations, so that it creates many judicial and administrative disputes, these are estimated at the value that is equivalent to 73% of GDP. So when we analyze the Brazilian tax system, we realize that high litigation, legal uncertainty, high compliance costs and the presence of allocative dis-

distortions are extremely damaging consequences for national productivity.

Subsidies

In terms of subsidies, cities and states compete with each other to offer the best benefits for companies. Instead of these benefits being a good infrastructure or a thriving environment for innovation and research, public entities offer tax subsidies in the form of lower tax rates or even their exemption. In the process of national industrialization, many automobile manufacturers received subsidies to set up their factories in the country. As a consequence, decades after the beginning of this policy, several automakers have closed their factories in recent years due to not having sought efficiency and process improvement. Consequently, the national industry was guided by government incentives for certain sectors, which prevented the improvement of productivity and competition.

According to the “Receita Federal”, which is responsible for administering federa taxes, the automotive industry received, between 2000 and 2021, 69.1 billion in tax incentives. These benefits are historic, they represent 2% of spending on federal incentives and are concentrated in a few automakers, yet companies in the sector have closed factories in the country. In comparison, agricultural subsidies represent 11% of total federal incentives, but the sector is highly fragmented and incentives have decreased in recent years. When compared to other countries, Brazil is one of those that least subsidizes agriculture, this has been happening for decades, so companies in this sector needed to invest in technology and efficiency. As a consequence, according to data from the World Bank, the country was, between 1961 and 2014, with China, the one that most grew its agricultu ral productivity. An alternative proposed by relevant economists is the reduction of tax incentives and incentives to invest in infrastructure to gain competitiveness in the Brazilian economy.

Future Outlook

In its future, Brazil has enormous challenges for economic reorganization. Economic and demographic analysis confirm that Brazil is a country that is getting "old", before it gets "rich". Developed countries, as a rule, took advantage of their demographic bonuses to expand social policies, such as investments in education, infrastructure, innovation, among others. These stimuli, in turn, enabled constant increases in productivity and income per worker, which allowed the real development of the economies of these countries. In addition, they have gradually managed to adjust general retirement rules, ensuring the sustainability of the regime.

In the Brazilian case, a different path was chosen. The country wasted its demographic bonus on inefficient public policies and flawed economic systems. While the powder of the social security bomb, which today corresponds to 50% of primary government expenditure, increases and its wick decreases, the Brazilian has been watching, since 1991, public spending has grown annually, about 6% above inflation.

Economic logic tells us that Brazil has lost its chance of being a developed country. However, the nation is going through a critical moment: it either becomes a country with a structured economy, or it joins the group of eternally poor countries. In order to mitigate the effects of decades of irresponsible management, Brazil urgently needs a reform agenda in the tax, social security and labor fields. In addition, it is necessary, to guarantee competitiveness, opening plans for foreign and domestic trade, public investments, especially in infrastructure and education and the partial restructuring of the Brazilian credit market. On the other hand, reaching the most critical and negative situation in this scenario is very simple. Just follow the famous and secular Brazilian economic and developmental booklet.

The increase of retail investors and IPO's in Brazil

Overview of Brazilian financial market

This report exposes the growth of Brazilian financial market, presenting how the changes in macroeconomic scenario impacted on the Initial Public Offerings and new retail investors in the stock market.

The Brazilian macroeconomic scenario is changing, since 2016 the country has been experiencing a sharp drop in interest rates, currently at 2.00%, the historic low. Besides that, we have several economic impacts, such as companies' investments and the population consump tion, but the main change was in the capital flow to the stock market.

Brazilian investment culture

Historically, the investment culture in Brazil is conservative, Brazilians have the tradition of investing in real assets or in short-term investments, low risk and high liquidity, mainly due to the historical fact that for a long time the country had high levels of interest rates and inflation.

There was a gap in the capital markets development process, due to legislative and regulatory limitations, with lack of protection for the minority shareholder, uncertainties regarding financial investments and lack of transparency that caused a delay in foreign capital investment to the Brazilian stock exchange that went through a long period of stagnation, which in general caused a long period of companies' high capital cost.

However, this scenario is changing, fueled mainly by the expansion of available information, new distribution channels, best practice initiatives and the investors searching for alternatives with better returns. In this sense, the Brazilian financial market is growing, but several changes will still be necessary in the country to reduce the disparity of having 88% of the population investing in saving accounts and only 3% in the stock market.

On the institutional side, there were a large number of debenture issues and other debt securities to raise capital, due to the interest rates reduction in recent years, that enhanced the corporate culture on dealing with the capital market. Consequently, in 2020 many companies accessed the stock market as an alternative to finance their operational activities, with a total of 28 IPOs (initial public offerings of shares), raising R$ 44 billion, the second largest fundraising in Brazilian stock market history.

Growth of Brazilian Investors

Over the last few years, we have seen a trend of new retail investors on the Brazilian stock market, an increase of 92.1% from 2019 to 2020, with a total of 3,229,318 accounts. This movement came about even with the fall of economic activity in the country and is similar to 2007, when we also had an interest rate reduction and subprime crisis.

Despite the increase in the number of investors, Brazil still has low insertion in the market, with a lower index than several countries. This movement follows the global trend of financial deepening and in Brazil it is only at the beginning, this movement is also impacted by the growth of investment consultants, independent investment platforms and financial market organizations.

This strong increase, which had been observed since last year, coincides with the gradual fall in interest rates in the country, making the returns on investments in fixed income less attractive, pushing more people into variable income applications. In addition, with the trend of urban development and the digital transformation, supported by the technology advancement

and information access, were fundamental for the development of the capital market in the country.

The development influence is seen by investors' demographic profile, with 51% in the southeast region, the most developed in the country and, in relation to technology, 73% of investors search investments information through the internet.

Portfolio Investment

The increase in retail investors impacted on a greater portfolio diversification, for those who reallocated investments to the stock exchange, 49% withdrew their savings accounts and allocated it to several products, mainly in stocks and REITs (Real Estate Investment Trust). One positive aspect of this diversification is that 48% of the investors have 5 or more assets in their portfolio.

Companies raising capital

Investors are looking for more diversification and the companies are demanding more cash to keep up with their investment and working capital, therefore the Stock Market is a good opportunity to raise capital.

What is an IPO?

IPO stands for Initial Public Offer and is when a private company decides to go public by issuing new shares on the stock market. The whole process is long and complex, but in simple terms, these are the steps a company has to go through while going public in Brazil: (I) choose an IPO team to manage the process, consisting of an investment banker (or multiples, depending on the size of the company), lawyers, accountants, and a CVM specialist; (II) in the longest and hardest part of the whole process, the company has to audit its balance sheets, since the law requires at least three years' worth of them to go public, and define all the nuances of the IPO, like the volume of resources they are going to capture; (III) roadshows: the company does presentations to analysts, brokers and potential investors, to get the attention of the big investors; (IV) while the company files a request to go public with CVM, they also request a permit to sell their stocks publicly, in the part of the process that is called registration. Then, the company files a request to get listed on B3, Brazil's only stock market; (V) the company releases its prospect, a huge document containing all the information investors need to know about the company that is being listed; (VI) in the last phase of the process, the company sets a reservation period, when non-institutional investors can send requests stating how many stocks they want to buy. Shortly after, the book-building phase begins, when the number of stocks institutional investors want to buy is taken into consideration so a price range can be set for the new stock; (VII) D day: after all these steps, the IPO process is complete and in a set date the stocks effectively begin to be traded at the stock market.

Why would a company want to go public?

Although it has some downsides, such as the company becoming completely transparent, being forced to release quarterly audited statements and balance sheets, starting to be more regulated, and the IPO process being costly and time-consuming, the upsides can be more meaningful. Besides being able to grow its business from a non-debt source of cash, in a future time, if the stock has been performing well, it will be easier for the firm to raise even more money, either by issuing new stocks or by getting a lower rate to borrow money, partially due to the confidence that transparency brings to lenders and investors. Other benefits can come from the leverage in dealing with vendors and customers that going public brings, due to them also having a better perception of companies with a presence on a major stock exchange, which goes along improving the company's profit margins.

2020 x 2007

Moving on to the actual scene in the IPO market in Brazil, things are really hot right now. Even though the Corona Crash made Brazilian's Ibovespa Index tumble almost 50% in March, 2020 had the highest number of IPOs since 2007, as well as the highest volume since then, and more IPOs than the last six years combined. This

happened due to a series of reasons, some akin to those in 2007 and some unique to last year. The first two reasons were unique to 2020: Selic rate (brazil's interest rate) combined with the huge liquidity that came from governments' aggressive monetary and fiscal policies. While in 2007 the Selic rate stayed between 11% and 13% per year, in 2020 it hit its bottom low at 2% per year during the pandemic. What this meant was that in 2020 investors were forced to start looking for riskier alternatives to achieve the same past returns, which meant more demand for stocks, and when combined with a large amount of cash thrown into the economy by federal governments, special conditions for IPOs to be successful were created. Thirdly, in 2007, Brazil's GDP had increased 6,1%, unlike the near 5% contraction we saw in 2020, and foreigners were starting to invest here due to the credit crisis in Europe and the United States, which was going to explode in the next year, also the opposite of what happened last year, when a net outflow of R$33 billion was seen. As a result, in 2007 foreign investors represented 70% of the IPOs investments, while in 2020 this number has drastically reduced to around 25%.

The Creation of an IPO Window

The conditions mentioned above helped create an IPO window in both last year and 2007, a time where almost any kind of company (good, average, or bad and from any sector) can go public and still have demand for their stocks. As can be seen in the graphs below, the last time this window was open was in 2007, when all sorts of companies made IPOs. Comparing our IPO market to the US', the tendency was similar, with the number of IPOs there being at its peak in this century, getting close to the dot-com bubble levels, in the final years of the 90's decade. To understand how meaningful the number of IPOs in 2020 in the USA really is, we have to illustrate how the IPO market was then (in the years preceding the dot-com bubble) and how it has been since then. While between 1991 and 2000 the average of IPOs per year was 450, in the next two decades this number fell to 180 per year, proving how difficult it is to get even close to the quantity of IPOs we saw in the dot-com bubble, and how scary it can be that we are in a market that hot.

Macroeconomics:

To understand the comparison between Brazil and other countries, we have to analyze the context of each phase of Brazil's economy since 2004. From 2004 to 2011, the country was expanding, GDP was increasing considerably, as we can see in the line graph below. Brazil was playing a more fundamental role in the world, especially in the Mercosul area. But in 2011,

Brazil started having problems. At that moment, the country had not achieved the worst scenario. The complete chaos began in 2014, and there are mainly three causes. First, Brazil had struggled in politics between 2014 and 2016. The operation car wash had impacts on both politics and GDP contraction. The impeachment of former president Dilma started in December 2015, and that influenced Brazil's economy. The second one is related to macroeconomic errors. Even Gustavo Franco, former president of the Brazil Central Bank, said local macroeconomic measures went wrong. So that has an influential impact on Brazil's GDP. The final influence came from the slowdown of the Chinese economy and the fall of commodity prices. According to researcher Silvia Matos, in her book "A crise de crescimento do Brasil" ("Brazil growth crisis"), Brazil's economy has struggled, and 30% of that is because of external factors as the Chinese economic slowdown and commodities prices decline. After the 2015 fall in GDP, we can see that there is still instability in the country. We can see Ibovespa, brazil's index in the financial market, fell 42% between January 2011 and January 2016. In that period, there was an enormous impact on foreign investments, which have dropped considerably. In 2019, there was a resurging of hope for growth, which affected the IPO sector.

We can apply what we just saw about the macroeconomics of Brazil on the number of IPOs. We can see that from 2004 and 2011, the number of IPOs was increasing with a peak in 2007. That's due to the performance of Brazil's economy. Specifically, in 2007, we had another factor, the beginning of the credit crisis in Europe and the United States, so foreign investors came to Brazil. After 2013, the number of IPOs has reduced. Due to the economic and political policies in Brazil that were chaotic. In 2017, the IPO market started warming, with ten companies opening capital.

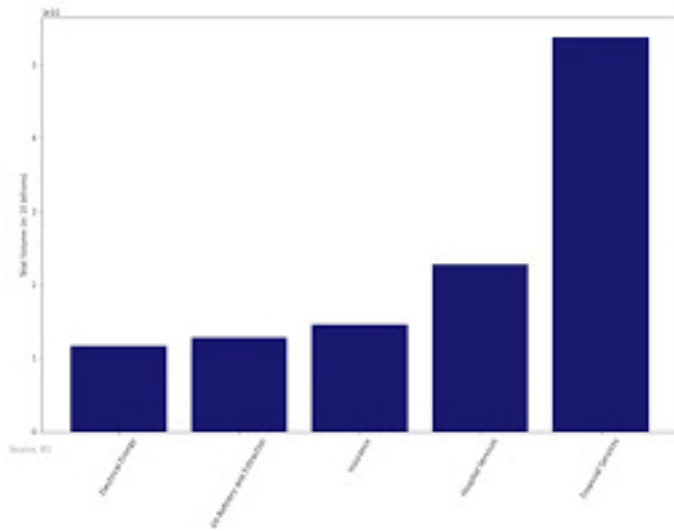
International Comparison:

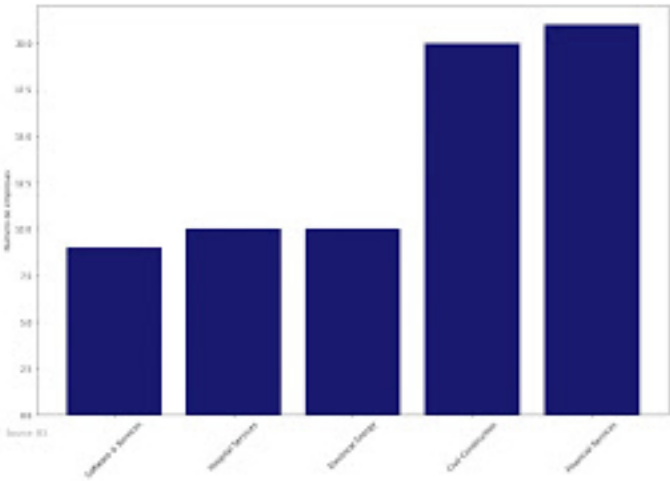
Unlike Brazil, other countries didn't stop the number of IPOs from 2011 to 2017. Looking at China's data, the best results on the number of IPOs and volume were during that time, with an average of 340 companies opening capital each year. In general, Brazil has fewer IPOs than the rest of the world, mainly due to the population mentality. As most investors entered the financial market during a bull market, they are not used to wait for a company to grow. Instead, they expect a short return. As a matter of fact, companies tend to postpone their initial public offering till they get more mature.

Another fundamental factor is the percentage of investors in the financial market. As we saw earlier, in Brazil, only 3% of the population is on the financial market. Comparing to the 55% of the United States, there is less room for IPOs in Brazil. That mentality makes it fundamental to look at the scale of each country. Brazil usually represents a small percentage of IPOs in the world, and as we saw, 2020 was an atypical year.

A suitable comparison with Brazil is Germany. Both countries had a noticeable number of IPOs in 2006 and 2007. But after that, they decreased a lot. But there are some differences between the two countries. In the last two years, Brazil has gained force in the IPO market, distinguishing from Germany, which now has a smaller number of IPOs. Another factor that we can notice between the two countries is the number of investors in the financial market. Germany has approximately 10 million investors, representing 15% of the country, far more than Brazil.

X-Ray:





Taking a step back and analyzing who are the companies that opened their capital since 2004. As we can see, the majority comes from financial services and civil construction, with 21 and 20 new companies respectively. Those are followed by Electrical Energy, with 10. Analyzing the companies in civil construction with more details, we see that the last opening was in 2009, showing that the sector hasn't grown in the latest eleven years and is decaying.

In the financial area, we see the opposite, the banks and financial services companies never stopped, with new openings every year. After a peak in 2007 with 13 IPOs, we saw just four from 2009 to 2017. But the sector is regaining its force since 2018.

For the third most opened sector, electrical energy, it's fundamental to notice that it has been expanding at a slow pace for the latest 16 years, with an average of one company each year. That shows it's a sector that has a lot to improve but is growing every year.

Looking at a different perspective, we can analyze the volume of the trades by area to see if that matches the number of companies.

Financial Services led the area with two times more than the second place. This sector has generated approximately 50 billion Reais and as its the sector with the highest number of IPOs, it's plausible to be the highest in volume as well.

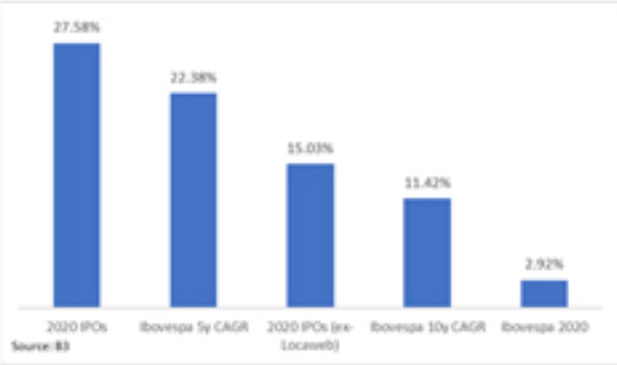
The second one is Hospital Services, which appeared in fourth in the number of IPOs, but one company has an enormous impact on these numbers. Rede D'or generated more than 11 billion reais, and the sector has generated almost 23 billion, so one company has a tremendous influence.

For the third place, we have Insurance companies, which is very impressive as there were only four IPOs since 2004. We can see that this sector is very profitable and even with four companies it is competing with areas with much more companies.

Analyzing IPOs alongside Follow--ons, we see that Oil refinery and extraction lead the market by far. That's due to Petrobras follow-on in 2010 making close to 120 billion reais.

What about the returns?

When analyzing the returns from all 26 IPOs made in 2020, some interesting things can be found. If someone decided to invest the same amount of money in all 26 IPOs buying them at their offering price, they would have had a return of 27,58% until the end of 2020. However, a big part of that return is caused by the massive explosion in Locaweb's price, which soared more than 300% since its IPO. If we remove Locaweb from this imaginary portfolio, the investor would have had a return of approximately 15%. When we compare this number to Ibovespa's previous returns, we notice that 2020 IPOs were pretty much average. Looking at 2020 numbers, the IPO's portfolio beat Ibovespa by a significant margin (27,58% or 15% vs 2,92%). Yet, when we look at Ibovespa's 5y CAGR (22,38%), we can notice that without Locaweb, 2020 IPOs underperformed in comparison to the short-term Ibovespa returns, which could be an indication that in a regular year (without Corona Crisis) these new stocks portfolio could have been beaten by someone who just bought shares of an ETF that replicates Ibovespa. In addition to this data, 40% of the stocks that were issued last year ended 2020 trading below their initial IPO price, another indication of the average at best quality of some IPOs.



And What Does the Future Hold?

Diving into the IPO's scenario for 2021, things do not look like they are going to change any time soon. Even though markets are starting to look a little overheated, there are already 29 IPOs requests in process for this year, seven of which have already been confirmed, with some big names in it, such as Tok&Stok and CSN Mineração. Besides that, February's first two weeks are going to be the busiest in terms of IPOs in more than two decades, according to Bloomberg, another sign that last year's trend is going to last for a while.

However, when we look at the numbers of new retail investors in the past few months a slowdown can be seen, a sign that the recent boom may have ended. The main reason is that macroeconomics conditions will slowly start to stabilize, with the probable gradual increase in Brazil's Selic rate until it reaches more comfortable levels, due to a series of facts, such as inflationary pressures and the depreciation of the Real. So, as expected returns at the stock market start to get lower and fixed income starts generating at least a positive real rate of return once again, the last couple of years' trends of new investors should continue, albeit at a steadier pace instead of conse

Network India

IFSA Network India

IFSA Network India is the Indian leg of IFSA Network based out of Shaheed Sukhdev College of Business Studies, University of Delhi currently operating in 5 branches across India. We aim to empower, educate and connect future finance and business leaders while fostering a culture of personal development through international case competitions, corporate live projects and networking events. IFSA India over the years has redefined learning through beyond conventional initiatives such as a

Analysing the Bullish Trends in the Stock Mark

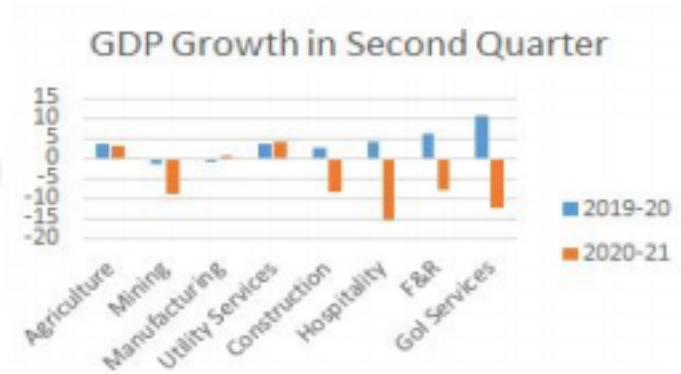
Introduction

Since the previous year, the world witnessed a pandemic of the largest scale, and India witnessed the world's biggest lockdown. We faced GDP crashes for two successive quarters of 2020, but the stock markets went through rather surprising and unexpected changes in the same period of time. We've seen the markets from crashing several times to not only reviving back but also reaching all-time highs. In this report, we try to find out the reasons behind this phenomenon, as well as try to look at what the markets should look like in the post--pandemic future.

Poor Macroeconomic Trends

India's GDP in 4the first quarter (April - June) saw a massive drop of 23.9 per cent, according to the data given by the Ministry of Statistics and Programme Implementation (MoSPI), Government of India. Owing to a strict nationwide lock-down, the contraction witnessed in the GDP was the worst ever in the history of the Indian economy. According to the data, all sectors of the economy faced contractions, except agriculture, forestry and fishing, which grew at 3.4 percent. Construction witnessed a colossal drop of 50.3 per cent, while the hospitality sector saw a contraction of 47 per cent. The manufacturing industry noticed an enormous dip of 39.3 per cent. Demand for utilities saw a dip of 7 per cent.

Indian GDP in the second quarter (July - September) witnessed a downfall once again by 7.5 per cent, which is significantly better than the unprecedented fall of 23.9 per cent, primarily because India slowly moved out of the lockdown as most of the restrictions were lifted. With the GDP falling for the second quarter in a row, India entered into a 'technical recession'. Construction sector dropped further by 8.6 per cent, but better than the Q1 drop of 50.3 per cent. Hospitality sector saw a dip of 15.6 per cent, an improvement from the 47 per cent dip in Q1. Utilities grew by 4.4 per cent, better than the 7 per cent decline in Q1. However, manufacturing witnessed a minute but surprising growth of 0.6 per cent, a miraculous increase from the 39.3 percent fall in Q1. Agriculture, forestry and fishing showed a constant growth of 3.4 per cent, same as in Q1. However, even in the light of two conse quent economic contractions, the RBI is of the view that the Indian economy will break out the contraction caused in these six months (Q1 and Q2) and will start to show positive growth from the October - December (Q3) quarter onwards.

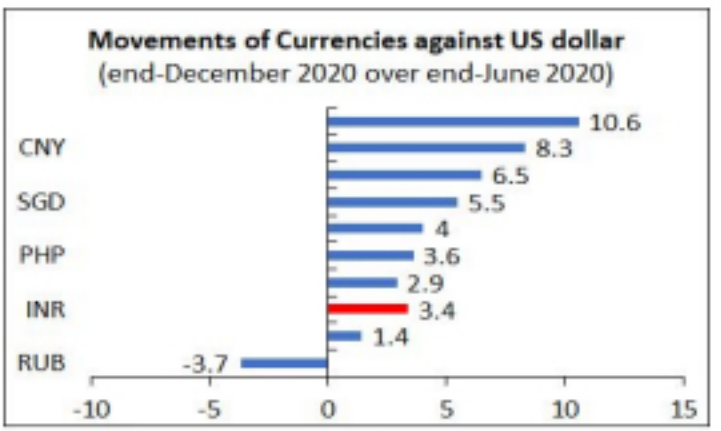


Stock Market Trends

With the announcement of the nation-wide lockdown in India, the stock markets reacted horrendously. The Sensex crashed to 25,981 points on 25th March 2020, the first day of the lockdown. However since then, the stock markets haven't looked back. The Sensex and Nifty touched record highs several times, with the former breaching the 50,000 mark for the first time. How did this happen?

This isn't a magical reversal of fortunes, there are several factors behind the surging stock markets. First and foremost, the raging pandemic led the US and various other governments to resort to Quantitative Easing (QE) to support their reeling economies and help provide a fiscal as well as a monetary stimulus.

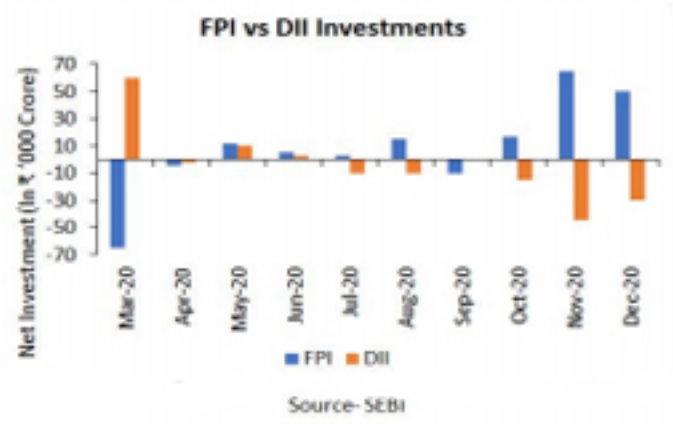
Data from the Federal Reserve reflects the stock of dollars, known as M2, increased from $15.34 trillion at the start of the year to $18.72 trillion in September 2020. This means more than $3 trillion was pumped in the US economy, almost one-fifth of the total currency supply. This also led to depreciation of USD against various other foreign currencies and even INR as shown below



Source- RBI

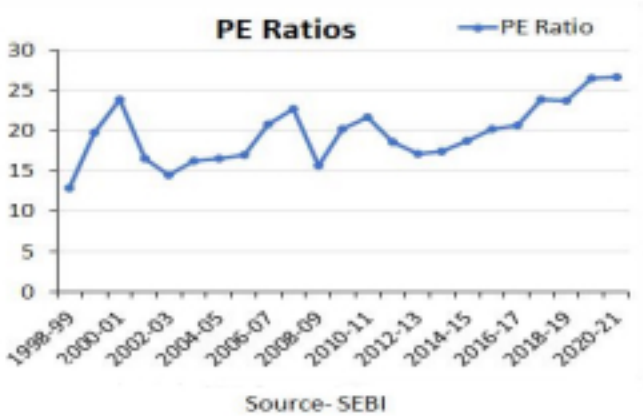
This was done to keep interest rates low for borrowers to revive demand. The interest rates in the USA were reduced to 0.25% from the previous 1.25% and similarly from 5.15% to 4% in India in March 2020. It is imperative to understand that this resulted in huge liquidity in the markets and various investors invested this money in foreign markets, one of those being India.

The following graph shows the level of FIIs in the Indian Stock Market



Note that the amount of money invested in the Indian markets since March 2020 is unprecedented. This pushed up demand, led to rocketing stock market indices. Currently, the excess investments are majorly due to foreign investments, whereas the Domestic Investors have been a bit more cautious.

This is also reflected by high Price to Earning ratio in the year 2020-21 as shown below:



The Warren Buffet Indicator (Market Cap-GDP ratio) recovered from 56% to 89% in the span of only a few months. In the past 8 years, this ratio has never been more. One cannot ignore to draw a comparison wherein this ratio increased similarly from 55% in 2008-09 to 95% in 2009-10 (USA resorted to Quantitative Easing for the first time after the Housing Bubble Crash of 2008, printing trillions of dollars). The average ratio rests around 75%, reflecting that the markets might be fairly overvalued right now.

Future of Stock Markets in India

Recently, Sensex breached the milestone 50,000 barrier for the first time in the history of Indian financial markets. At the same time, Nifty has also been outperforming the predictions of many financial pundits. While these achievements of the NSE and BSE are in themselves a huge feat, what makes them even more huge is the fact that these achievements happened in the midst of the worst economic recession after the Second World War. So, does this mean that there is no link between macroeconomic elements and the financial markets? The answer is both 'yes' and 'no'. 'No' because unlike the economy a stock market sometimes operates solely on investor sentiment and many a times this investor sentiment is disconnected from the macroeconomic situation surrounding the stock market. However, in most of the cases the stock market and the macroeconomic do have strong correlation, it is just that markets often discount future events and focus more on future events. Therefore, a good reason for stock markets outperforming expectations is that investors expect them to do well once the COVID-19 pandemic ends. This however, is not the only link between the macroeconomic elements and the stock market. A strong correlation between the two is seen in the way emerging stock markets, like India and China, reacted to the excess liquidity induced worldwide. The same has been re-iterated many times, in this report.

The question which begs to be answered is whether such a strong growth during an economic recession, fueled by excess liquidity, will be maintained in the

long run? The answer according to us is 'No'. How did we arrive at this conclusion? We drew parallels between the Global Financial Crisis of 2008 (GFC) and the COVID-19 pandemic. While, there seems to be no link between the GFC and COVID-19 pandemic, apart from the obvious fact that they nearly crumbled the global financial system, there does in fact exist a link and this is seen in the many common measures taken to revive the economies and the financial system. What we are interested in is the aftermath of implementing these common measures.

We feel that the current rally can be decoded by what is known as the taper tantrum of 2013. Let us go chronologically and start at 2006, which marked the beginning of the housing bubble burst and consequently the subprime mortgage crisis which later translated into the GFC. To get the US economy back on track, the Fed took drastic steps like slashing Treasury rates to a bare minimum. When these rates approached zero, the Fed had to do something unorthodox to continue the recovery. It started with QE; they bought a ton of distressed assets from the commercial banks to increase liquidity in the financial ecosystem, encouraging lending and thereby promoting economic growth. It must be noted that excess money within the US economy was used by American investors to invest in the developing Asian and African markets since interest rates (and consequently bond yields) in the US were almost nil, and this propelled the stock markets of emerging countries like India to new heights.Fast forward to 2013, the US economy began healing from the wounds of the GFC and the Fed decided to scale back its QE agenda, thereby 'tapering' their previous inflows. Investors felt that this would imply an increase in the US Treasury Rates, compelling the FIIs to suck their investments out of the Indian markets which further implied the depreciation of the Indian Rupee. This 'tantrum' by the investors led to a chaos in the Indian markets and hence the infamous episode, 'taper tantrum'.

After due deliberation, we believe that another taper tantrum is on its way. Just like 2009, the US economy is inundated with dollars. Just like 2009, the FII inflows in the Indian markets are rocketing. Just like 2009, the Fed has pushed down yields by purchasing much of the available supply of Treasuries and agency mortgage-backed securities. Thus, the Taper Tantrum is inevitable, but the question that remains unanswered is 'when will taper tantrum occur'?

India's NPA Crisis: an Overview

Overview

Non Performing Assets (NPAs) are the loans and advances which the financial institutions consider as doubtful for repayment. When a borrower does not pay for 90 days or more (now 180 days), the concerned loan is branded as an NPA.

These assets are a burden because of the following reasons:

-The threat of non repayment looms large
-Banks are expected to keep higher provision for these assets
-The interest income of the bank dwindles

All this impairs the bank's profitability. Unfortunately, India is currently facing an NPA crisis, with bad loans plaguing the financial sector, and the question still lingering: How do we get out of here and what is the road ahead?

India's Route to Crisis

In the past, it has been discovered that when banks expand their credit, they tend to lower their credit quality. Hence, as a consequence of the high growth in gross advances during the early 2000s, India has witnessed an incremental accretion to NPAs ever since 2008 (as shown in Graph 1) in the aftermath of the financial crisis.

Graph 1
Source: RBI Database of Indian Economy

Along with this, issues like high inflation and slower GDP growth of the world after 2008 (data: Table 1) are also seen as contributing factors. Apart from the macroeconomic factors, India's banking sector also suffers from systemic problems like poor management, especially in the state-run banks.

Particulars	2008	2009	2010	2011
Inflation	8.35%	10.88%	11.99%	8.86%
World GDP	1.85%	-1.67%	4.30%	3.14%

Table 1
Source: World Bank Open Data

Another major reason that surfaces is the problem of Evergreening or Zombie Lending. A stressed company is similar to a leaking tank. There are two ways to solve the issue: either to keep on taping the hole to prevent the leaking or to stop water supply, repair the tank and restart its operations. It is the same for companies in distress. Either they can keep on refinancing their existing debt and then sit on a pile of debt or they can make some strategic changes to their existing policies, try to change the capital structure, etc. and restart the operations. Thus, banks have to choose from either having clean assets in the long run or clean assets just for a short period of time. Evergreening does work a lot of times because companies may just be suffering due to being at the bottom of the market cycle or may need cash for a short term to overcome their challenges. However, when the problems are inter nal and bigger it leads to huge amounts of unpayable debt with promoters being uninterested to continue. Since, Indian banks failed to classify bad loans and accept them, they went on to apply band aids to ailing firms which is one of the major reasons of bad loans and the present NPA status.

Current situation in light of the Covid-19 Pandemic

The NPA ratio has been worsening in India even in the pre Covid times, reaching up to 11% in 2018 with little signs of recovery. With the onset of the pandemic, there have been fluctuations due to the financial institutions being largely cushioned by abundant liquidity in the banking system, lowering cost of funds, and regulatory forbearance in asset classification of specified loans as a Covid-19 relief measure. Despite, the credit delivery as well as repayment method has drastically been impacted in India which has resulted in over US$30.5 billion of loans expected to turn bad over the next year.

Initially, GNPA's spiked to 8.2% in June 2020 from 7.9% in March 2020 majorly due to the financial strain and the economic disruption, making it extremely difficult to repay the interest as well as the instalments. Loan moratorium along with a series of loan schemes were launched as a part of the economic package to tackle the impact which was opted for by customers accounting for around half of the outstanding bank loans leading to a resultant decline in GNPAs in September 2020 to 7.5%, with the same for Public Sector Banks, Private Banks and Foreign Banks being 9.7%, 4.6% and 2.5% respectively as per the latest reports by RBI. Large borrowers, who account for just 50.5% of aggregate loan portfolios of these banks have a 73.5% share in GNPAs.

However, the data on fresh loan impairments reported by banks may not be reflective of the true condition of banks' portfolios and the extent to which the deterioration in the macroeconomic environment may impact banks' asset quality, capital adequacy and profitability. The pre-pan demic vulnerabilities of some relatively weaker institutions may also get accentuated. The stress tests conducted by the central bank have shown that the GNPA ratio of all SCBs may increase to 13.5% un-

der the baseline scenario and may even rise to 14.8% under severe-stress scenario by September 2021. The GNPA ratio of PSBs, PVBs and FBs may increase to 16.2%, 7.9% and 5.4% respectively under the baseline scenario; and to 17.6%, 8.8% and 6.5% respectively under severe economic contraction, during the same period.

Capital to Risk-Weighted Assets Ratio (CRAR) of the banks also improved considerably to 15.6% in September 2020 over 14.7% in March 2020. The system level CRAR is projected to drop to 14.0% in September 2021 under the baseline scenario and to 12.5% under the severe stress scenario. Stress test results also indicate that four banks may fail to meet the minimum capital level by September 2021 under the baseline scenario, without factoring in any capital infusion by stakeholders, rising up to nine under severe stress scenario.

Proposed Solutions

The question remains, given the crisis we are facing, how should we proceed? The answer lies in a two-pronged approach: firstly, to repair the existing damage, and secondly, to deal with the systemic problems to prevent future occurrences.

To repair the problems already present in the economy, a number of solutions have been floated. The first and foremost idea is that of the government setting up a "bad bank". A "bad bank" is an organization established for the purpose of buying bad loans from financial institutions and working on their recovery. This is done so that the commercial banks can focus on their business of lending, while the bad banks work to recover the amount. As a result, banks will have cleaner balance sheets and consequently be more open to fresh lending. Moreover, stronger financial statements will allow them to raise funds from investors more easily. However, concerns have been raised against this proposal, given that the bad loans still remain in the economy, just the burden of recovery shifts. Further, this burden shifts from just one state entity (PSU banks) to another state entity (bad bank). If the state couldn't recover them earlier, there is little reason to expect differently now. An alternate solution proposed is to let the existing ARCs (Asset Reconstruction Companies) take care of the problem. However, they suffer from a severe shortage of the requisite capital to undertake this behemoth task. We can resolve this by widening the available capital pool to the ARCs by permitting Foreign Portfolio Investors and Alternate Investment Funds to purchase NPAs and work with ARCs.

In order to prevent NPAs from ballooning again in the future, systemic changes need to be made. The current regulations are largely aimed at resolving NPAs, but they must also focus on preventing their occurrence in the first place. For example, the RBI can mandate that loan application appraisals must be outsourced to accredited credit rating agencies for loans above a stipulated amount. And if they do this job poorly, and the loan turns bad, a significant portion of the fee paid to them must be made refundable. One also needs to be wary of the recurring re-capitalization of the PSU banks by the government, which draws significant funds. In the last 2 years, the government has paid over ₹22,000 crores in interest payments for recapitalization debt, which was raised due to negligence on the part of PSUs. Such problems can be avoided by focusing on improving the quality of the management present within these banks to improve efficiency. Additionally, banks with a sky-high GNPA rate can practice narrow banking, which involves banks taking deposits and majorly giving out retail loans. Expanding retail lending, as opposed to corporate lending, may prove to be beneficial because of the low bad loans rate in the sector. Banks can also consider using cash flow-based lending models (based on the borrower's past and future cash flows) over the traditional asset-based or ratings-based ones.

Conclusion

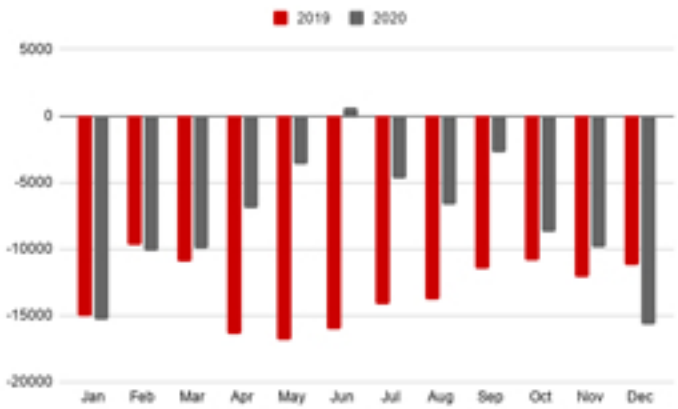
India's current NPA crisis has its roots in the unabashed lending witnessed in the years preceding the financial crisis of 2008. The macroeconomic environment in the years following, combined with structural issues in the Indian banking sector, has led to a rapid increase in NPAs in the last decade. Moreover, the COVID--19 pandemic only serves to add to the existing problems. Although we have seen a decline in the GNPA ratios in the last couple of years, the underlying issues continue to persist and will only exacerbate in the next financial year as highlighted by RBI's projections. To solve the aforementioned crisis, policymakers will have to look beyond traditional and superficial solutions and take a comprehensive approach aimed at alleviating the current stress in the economy and also stemming the growth of future NPA.

Impact of Covid-19 on India's Foreign Trade

Overview

Asia's third largest economy, India was greatly affected by the coronavirus (COVID-19) pandemic; experiencing a shocking slowdown in major sectors. In a bid to tackle the unprecedented situation, India announced its first nation-wide lock-down in March, which led to the economic slowdown. Consequently, the already strug-gling economy and Indo china tensions brought up a huge toll on international trade as well.

In April-December 2020-21, the country's merchandise exports contracted by 15.8% to USD200.55 billion and imports by 29.08% to USD258.29 billion. Being one of the most important players in the global economic landscape, India has improved its trade deficit levels with the support of its government's various relief packages and policy decisions and the true potential of the Indian exports would be worth speculating in the near future.



India´s trade balance)in millions USD)

Trade Surplus

Trade surplus refers to a situation when the total exports of a country exceed the total imports indicating the positive trade balance. After 18 years, India recorded a trade surplus of $0.8 billion in June 2020. India's foreign trade had taken a major hit due to the lockdown imposed in April. While exports had relatively increased by June, the imports still remained to be low, causing this situation.

Even though the balance of trade turned negative post June, it has been considerably less as compared to 2019-20. With the contraction of trade deficit, India's current account recorded a surplus of $ 19.8 billion in April-June 2020 in contrast to $15 billion during the same period in 2019.

Trade surplus can have negative implications too, in case a country prefers to opt for protectionism policies to achieve the surplus. While trade surplus can boost economic growth and employment, it can also lead to higher prices or interest rates in a country.

COMMODITY/GOOD WISE ANALYSIS OF FOREIGN TRADE

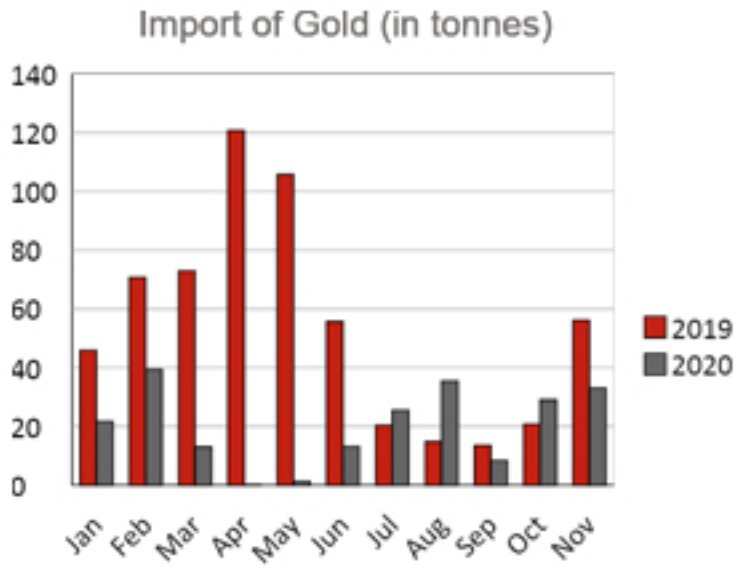
GOLD

Given the declining GDP growth, gold imports were already adversely affected since the first quarter of 2019 as consumers cut down on non-essential spending, and the pandemic made things far worse.

Due to the advent of COVID-19, consumer spending reduced drastically, stores were closed and transportation was halted in the initial months of the lockdown. These circumstances accompanied by bleak consumer demand, high prices and volatility resulted in luxury commodities like gold being hit very hard. The imports of gold fell by 40% to $12.3 billion during the April-November period as compared to last year. The decline in imports helped in narrowing the country's trade deficit to $42 billion during April-November 2020-21 as against $113.42 billion in the year-ago period.

This fall in imports was also accompanied by a fall in exports of gold jewellery. In April-September 2020, its exports were worth INR 9,926.57 crore, which was significantly less than INR 43,425.22 crore in the same period, last year.

Initial signs of recovery could be seen in the months following July, given the relaxing of lockdown and gradual re-opening of businesses. The festive season during October was accompanied by a strong rise in imports.

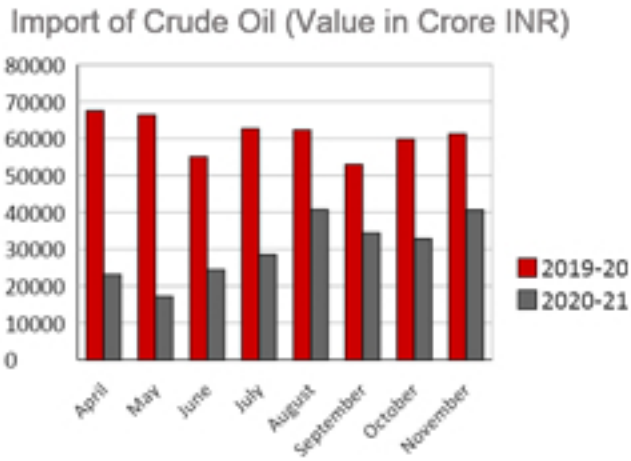


CRUDE OIL

According to official data, India's crude oil import bill for 2019-20 fell by about 9% to 102 Billion USD due to the pandemic. The volume of imports of Crude Oil in India remained the same, but due to decreasing prices of crude, the total import bill fell down.

The main reason for the fall in prices is that the production remained constant because Russia refused a proposal to agree to a production cut. This initiated a price war between Russia and Saudi Arabia, but the oil demand decreased significantly due to lesser demand by key industries such as automobiles and petrochemicals.

Talking about the oil prices, both the Brent crude and US WTI fell below $20 in 2020. While nearing the end of December 2020, the prices did rise, but the recovery was far away from pre-pandemic times. WTI fell by nearly 20% in 2020 and Brent fell by 21.5% in 2020, and it is considered to be the largest drop since 2015.



ELECTRONIC ITEMS

Owing to the spread of COVID-19, companies around the globe are aiming to reduce imports from China, and a major portion of those imports comprises electronic items. Simultaneously, the electronics industry in India saw an all-time high growth, with exports reaching 90.4 Billion INR in November, 2020. Not just that, the imports also fell drastically.

The future outlook of this industry is positive as well, owing to the 3 schemes launched by the government – Production Linked Incentives (PLI), Scheme for Promotion of manufacturing of Electric Components and Semiconductors (SPECS) and Electronics Manufacturing Clusters (EMC 2.0), which will lead to increased domestic manufacturing and exports, with companies planning to shift their production and R&D units to India.

INDO-CHINA TRADE RELATIONS

Introduction

The Indo China bilateral trade is a key component of India's foreign trade. Over the years, India has been importing a plethora of commodities like electronic parts and equipment, fertilizers, organic chemicals, automobile parts, mobiles among others from China. While as far as exports to China are considered, items like cotton, ores, ash, plastic etc. are traded.

Covid Impact

The pandemic brought about various significant impacts on the trade conducted between the two nations. While India's exports to China saw an increase of 16 percent, imports from China witnessed a 13 percent decline. The trade deficit saw a massive decline from about $60 billion in the previous financial year to $40 billion post COVID. It touched its lowest in the decade in the period of April to August.

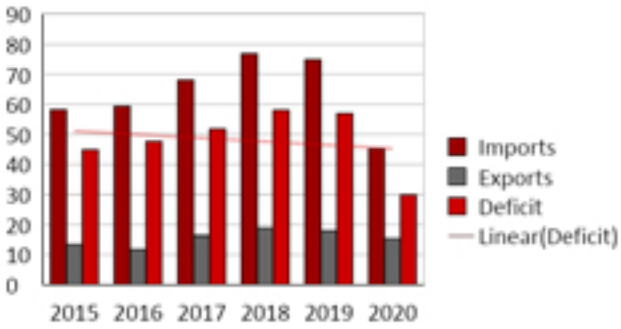
Certain industries were vastly impacted during the year as far as Indo-China bilateral trade is concerned. Two of these are:

Steel

With China's ever-increasing demand for steel in order to boost infrastructural growth and the constantly rising prices of iron ore owing to disturbances in supply, India came in as a net exporter of steel to China. India accounted for 69 percent of semi-finished steel and 28 percent of finished steel exports to China in 2020.

Pharmaceutical

India has been highly dependent on China for sourcing its Active Pharmaceutical Ingredients. This dependence proved to be an obstacle during the pandemic due to a decline in supply of APIs. Consequently, the Indian government has announced Production Linked Incentives and bulk drug producing parks in order to facilitate self-sufficiency in this industry.



RECENT DEVELOPMENTS

COVID induced lockdowns provided an opportune moment to effectively 'dump' unwanted Chinese products in the Indian market given the unfulfilled demand due to slump in production. The Indian government took active measures to protect domestic producers by imposing 'anti-dumping' duties on major Chinese imports. Severe downturns in the economy following the aftermath of COVID saw most Indian companies trading well below market price, making them cheap and tempting targets for Chinese investors. In order to avoid hostile takeovers, the government banned FDI from China, Hong Kong & Singapore.

INDIA TOWARDS SELF SUFFICIENCY: ATMANIRBHAR BHARAT

Atmanirbhar Bharat is a policy which was introduced by the Indian government in May 2020 with a vision of ensuring self-sufficiency. The policy focuses on strengthening 5 pillars – Economy, Infrastructure, System, Demography and Demand.

While the growth of domestic industries was expected, speculations were raised about how it might be perceived as an inward-looking decision by other trade partners of India. Yet, the government has been reaffirming its global commitment of development.

Decoding Economic Growth with respect to BOP, Startups and Fintech

Introduction

The past year witnessed a synchronous hit in macroeconomic conditions of countries including India. Yet, in the crucible of crisis, heterogeneity and divergence of impacts were observed, with some green shots as well. We delve into three remarkable developments for India: the government finances, the startup milieu and the fintech industry, in context of their temporal trends and recent performances.

The Indian Fisc and its fiscal deficit

The Indian government brought out a landmark budget which was in many ways a marked departure from previous ones. The most striking among the changes was the jump in estimated fiscal deficit to 9.5 % nearly thrice the government's target of 3.5%. The Fiscal Budget of the Government of India is the fundamental tool used by it to participate as an essential player in the economy.

Relationship between Fiscal Deficit, Government Spending and Inflation.

Fiscal Deficit is defined as "the excess of total disbursements from the Consolidated Fund of India, excluding debt repayment, over total receipts into the Fund (excluding the debt receipts) during a financial year", by the Government of India.

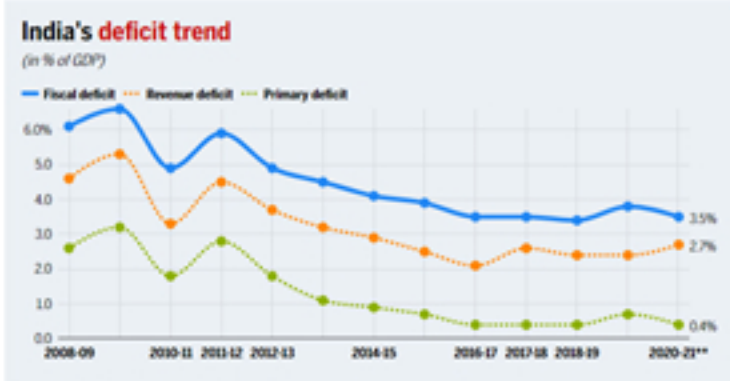
A fiscal deficit occurs when the government's expenditure exceeds its income. A recurring high fiscal deficit means that the government is spending beyond its means.

In general, there is a direct relation between government expenditure and the fiscal deficit and they are directly proportional, keeping other factors constant(revenues).

A deficit is usually financed through borrowing from either the central bank of the country or raising funds from the capital markets by way of instruments like treasury bills and bonds. Government's act of borrowing and printing currency notes exerts an upward pressure on the interest rates in the economy. Higher interest rates pushes the cost which is passed on to the consumers. This may lead to cost push inflation. However, the degree of impact on inflation depends upon the purpose of government spending. If the government spends the amount on productive investment then it may have less impact over inflation due to the rise in both demand and supply as compared to its spending on nonproductive purposes where there is only a rise in aggregate demand.

Past Trends of their relationship (Temporal analysis)

There has been a fiscal surplus only in the mid-1970s, otherwise India has had a fiscal deficit for 40 years. However, analyzing the FY 2020, government spending in India increased to 4866.36 INR Billion in the second quarter along with inflation rates rising to nearly 8 basis points. All this major movement was led by the economic slowdown caused by Covid-19.



Causes for a deficit and the Impact of COVID-19.

The major cause for a fiscal deficit over the years has been due to the risen government expenditure that has occurred not due to increased spending but due to poor revenue and disinvestment collections.

The shortfall in the tax and other revenue collections has created immense pressure on the fiscal resources. With increased spending on capital expenditure, and fall in government revenue, the gap between the two, i.e. the fiscal deficit has been rising since ever.

With the COVID-19 pandemic, the country saw a lockdown and a slowdown in economic activities. The outbreak of the COVID -19 pandemic is an unprecedented shock to almost every economy of the world including India. With the massive slowdown in the domestic Economic environments, the effects of COVID19 has only been worse. Due to the slump of the econo-

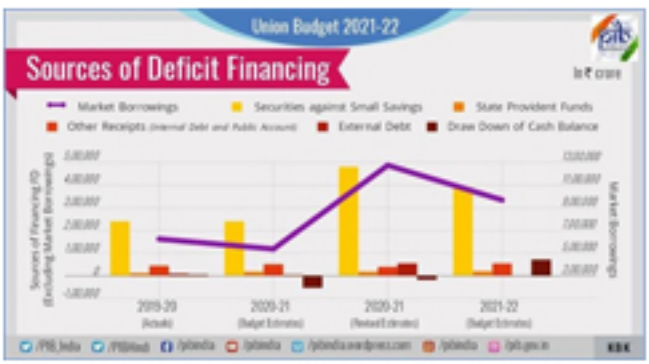
mic activities, the government's revenue was continuously decreasing along with a simultaneous increase in the expenditure, due to which the fiscal deficit surged. The fiscal deficit for the financial year 2020-2021 was estimated to be at 3.5% while it widened to 9.5% because of massive increase in budgetary expenditure from 30.42 lakh crore to 34.50 lakh crore and a simultaneous downtrend in revenue (both of capital and revenue receipts). Higher fiscal deficit, a massive shortfall in revenue and likely contraction in GDP would drive India far from the fiscal glide path that would take over years to repair.

Steps taken by the government to finance the deficit and the performance of such measures

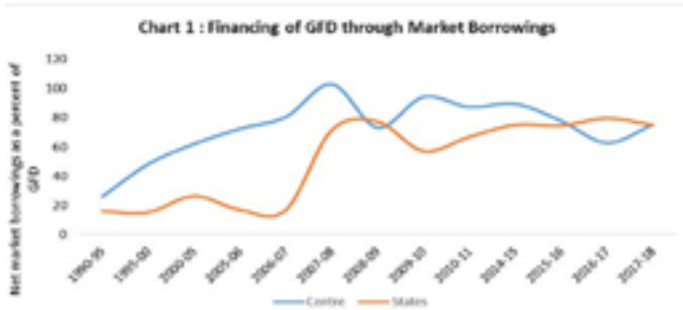
Deficit financing refers to the borrowing undertaken by the government to make up for the revenue shortfall.

The government monetises its fiscal deficit through various measures that include borrowing from the market, asset monetisation, using the securities against national small savings and direct and indirect monetisation of the deficit by printing more money and through Open Market Operations.

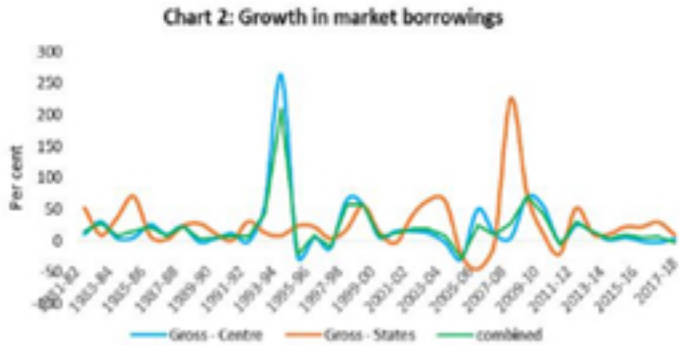
The Indian government has been financing the majority of its deficit from market borrowings and securities against small savings. Market borrowings as a way of financing the fiscal deficit have remained at a constant high of ~78%-80% of the total Gross Fiscal Deficit. Furthermore, this trend of financing the Fiscal Deficit through market borrowings has been increasing YOY.



The second method of financing the fiscal deficit that the government uses is through securities against National Small Saving Schemes. Under this method, the net amount collected under NSSF (collections net of disbursements) is invested in special securities that are issued by the central and state governments in a specific ratio decided by the government. These proceeds act as a source for financing the fiscal deficit of both the Centre and States. The center and states share these receipts in a ratio of 20% and 80% respectively. This method of funding the fiscal deficit has been rising over the years.



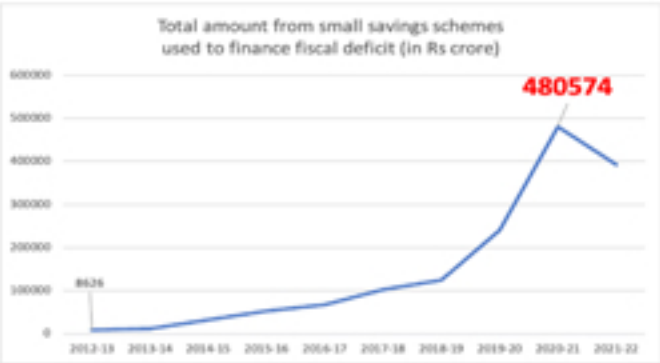
So far, the government has fared well in handling the fiscal deficit through a combination of various tools and methods and has managed to keep inflation and fiscal deficit below the regulatory band.

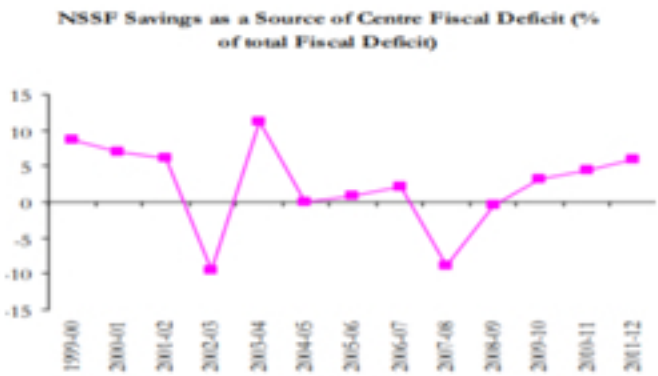


But the economic contraction due to the pandemic has pushed the fiscal deficit (9.5% of the GDP for FY21- revised estimates) and inflation to all-time highs. The Indian government has come out with a growth-oriented budget for FY22. In Budget estimate 2021-22, the fiscal deficit is expected to be 6.8 per cent of the GDP. A major factor in this decrease in the fiscal de-

ficit is expected to be carried out by a reduction in expenditure from 17.7 per cent of GDP in RE 2020-21 to 15.6 percent in BE 2021-22 (a major 2.1% decrease) and a marginal increase in gross tax revenues to 0.1 per cent of GDP.

To further ensure that fiscal deficit and inflation remains under control, the government has recommended amendments to the Fiscal Responsibility and Budget Management (FRBM) Act, 2003.





Emerging era of entrepreneurial innovation

India, a country with the largest consumer base lands at 3rd position in the startup ecosystem across the world. With a significant increase in the number of startups creating around 1.7 lakh jobs last year itself, it is imperative that India will soon have a Silicon Valley. All this can be clearly inferred from Fig 1.1 that shows how India is becoming the next big business and employment spot for the people across the world.

Reasons for a good startup ecosystem in India

As the statistics reveal a positive growth in the entrepreneurial industry, the factors that back its growth have been discussed below.

Technological Change – With technological advancements and adequate awareness, the need of brick-and-mortar shops have decreased and thereby, significant reduction in capital investments have been observed. Also, various government led digital initiatives have helped entrepreneurs to market their products to a wider audience as India has the second largest online market in the world. One can infer from the government records that 2-3 tech-startups are born every day.

Increasing Foreign Investment – With the easing of the FDI policy, unprecedented growth in FDI (Fig 1.2) has been observed. FDI in Indian start-ups have increased enormously with 18 out of 30 Indian Unicorns having a major proportion of FDI.

Government Support – The government through its innovative schemes like Start-up India and Make in India have helped entrepreneurs in multiple ways. As a result, one can observe that the recognised start-ups have now spread across 590 districts and are creating more than 1.7 lakh jobs.

Corporate Connect – Corporates have started entering into strategic partnerships with start-ups leading to support in the form of inputs and funds for startups and enhancement in innovation for corporate entities.

Funding Options – Nowadays, Entrepreneurs have access to numerous funding options such as venture crowdfunding, angel investments, venture capital funding etc. which thereby, solve the major issue i.e. to procure funds.

Analysis

As per the pilot survey conducted by Reserve Bank of India on the startup sector, following analysis can be drawn from it.

Sectors: Startup trend could be seen in a number of sectors viz. healthcare, data and analytics, education, agriculture, manufacturing, etc. with Data and analytics (14.1%) being the most preferred choice followed by healthcare (8.7%) and Education (8.0%).

Location: Karnataka has the highest number of startups followed by Maharashtra, Tamil Nadu and Delhi.

Source of Funds: People usually take help of their family and friends to acquire funds and around 42.9% of the finance comes from it. Apart from it, Angel investors, incubator funding and private equity are also viable sources.

Startups in India

India has grown a lot in the sector of entrepreneurship and startups. Along with some failures, it has seen many small businesses grow into big companies. Tremendous growth has been observed in digital startups. Following are some of them:

Flipkart: Flipkart has grown tremendously since its launch. It is the largest online retailer in India, with a 31.9% market share in 2018, followed by Amazon at 31.2%, according to Forrester. After adding the market share of its fashion specialty sites Myntra and Jabong, Flipkart controls a 38.3% market share. But 2020 has brought setbacks for all. For the first quarter of 2020, Flipkart had a smartphone market share of 50%, which fell by over 19% for the quarter ending June. For Amazon India, in the first quarter, it had a share of 38% — it added almost 24% in Q2.

Paytm: This startup has brought a revolution in building a digital India. Every Indian uses paytm today. Being a part of One97, it has managed to attract big foreign investors like Alibaba. A Redseer Consulting report launched on Monday revealed that India's homegrown financial services platform Paytm tops merchant payments list by constituting 50 percent of the market share, followed by PhonePe at 30 percent, GPay at 10 percent, and others at 10 percent as well.

BookMyShow: It is one of the most successful startups in India, founded by Rajesh Balpande. Within a decade of its inception, BookMyShow has achieved 40% CAGR in revenues. The company holds around 90% market share in the online ticket booking industry. (19-Jan-2021)

Comparative Study

A good number of Unicorns have been born in India due to numerous reasons stated above but as we compare a developing country like India with a developed country like USA, we found that funding is still a prevalent problem for Indian Entrepreneurs. India stood at 48th position out of 131 countries meanwhile the USA ranked 3rd in the Global Innovation Index. This infers that India needs to work on innovative thinking also. Other than that, women entrepreneurs are quite low as observed in the global gender index.

Conclusion

After analyzing the Indian Market, it can be observed that there are a lot of growth opportunities for entrepreneurs which will in turn, help in employment and economic growth. However, Policy reforms are necessary for the fields of infrastructure, finance, technology, investment and education to utilize the full potential of people. Further, strategies need to be formulated in respect to growth of startups in Tier 2 and Tier 3 cities which shall help the government to reduce income inequality and promote uniform growth in the nation.

Finovate : the churn in fintech

FinTech industry is rapidly evolving segment of the financial services sector where new entrants are disrupting how the financial services industry traditionally operated. New FinTech companies and market activity are reconstituting the competitive landscape, blurring the definition of a player in the financial services sector. Fintech companies are at the forefront especially, due to the Covid-19 pandemic where digital transactions took place higher than ever.

India has emerged has one of the fastest growing Fintech hubs and 3rd largest Fintech ecosystem globally. India currently has around 2174 FinTech startups.

MEDICI Global said a four-point framework has led India to a FinTech revolution.

1.Solving for identity in the form of Aadhaar for formalisation.
2.Getting everyone a bank account or equivalents (PMJDY) to store money.
3.Building scalable platform(s) to move money (IMPS, UPI, BBPS, etc.).
4.Allowing banks and FinTechs and wealth/insurance/lending players also to access platforms like UPI, GSTN & DigiLocker to innovate.

Future of Fintech industry looks shining and growing rapidly on the back of rise of start-ups in Fintech industry, penetration of smartphone users, continuous build--up of the digital infrastructure and overall streaming of financial process in many industries. According to the reports of Research and Markets, as of March 2020, India, alongside China, accounted for the highest fintech adoption rate (87%) globally, which is significantly higher than the global average rate of 64%. The report also states that "The fintech market in India was valued at Rs 1,920.16 billion in 2019 and is expected to reach Rs 6,207.41 billion by 2025, expanding at a compound annual growth rate (CAGR) of approximately 22.7% during the 2020-2025 period."

Government of India through its multiple financial institutions has been aiming at creating a 'cashless' society. But this is a dream, which will take a while to get fulfilled. On the other hand, the technology officers of multiple companies will play a crucial role in adopting technology to drive efficiencies and growth, eventually leading to better profitability. The collaborations between tech innovators and financial institutions will go a long way in building the seamless ecosystem benefitting all parties involved.

With elements like payment gateways, emergence of Bitcoin, digital currencies, Internet banking etc. FinTech is set to revolutionize the industry and offer a personalized service to the customers, where customers will be truly hailed as a king. Though there was initial skepticism associated by larger banks to incorporate technology in their systems, the changing consumer behavior has somewhat brought the wave of technology sweeping in this sector, which can no longer be ignored by any financial institution. The role of government regulations will be equally crucial at this stage to support a robust FinTech system to promote healthy competition in the market.

Around 400 FinTech firms operated in India, boosted in large part by foreign investments in FinTech focused startup accelerators and incubators. To a large extent, the Indian tech entrepreneurs have reshaped the FinTech industry with their innovation.

Comparative Analysis

India has even overtaken China as Asia's top FinTech funding target market with investments of around $286 mn across 29 deals, as compared to China's $192.1 mn across 29 deals in Q1 2019. Fintech invest-

ments in India nearly doubled to USD 3.7 billion in 2019 from USD 1.9 billion the previous year, putting the country as the world's third largest fintech centre, behind only the US and UK. The vast majority of funds raised in 2019 in India went into payments startups (58 per cent); investments in payments companies more than tripled to $2.1 billion from about $660 million in 2018. Funding into insur-techs rose 74 per cent to $510 million; they raked in 13.7 per cent of the investments while fintechs in lending accounted for 10.8 per cent of the total. Investments in India's financial technology firms continued to grow in the first six months of 2020 even as the Covid-19 pandemic sent economic activity tumbling.

Fintech investments till June 2020 more than doubled over the same period last year to $1,700 million. While fintech investment was down on a quarterly basis, the 134% year-on-year rise suggests that India will remain a major opportunity for investors in the long term.

The financial budget has in a way cleared the path to a Fintech India. The increase in the tax audit limit from Rs 5 crore to Rs 10 crore may seem to benefit startups and small businesses, but it is also advantageous to fintech at large, since this limit is applicable to organizations which transact 95 percent through digital payments. The Budget also earmarked INR 1,500 crore to further promote digital modes of payment.

The rapid growth in technology and connectivity is the driving force behind the fast emerging financial services. The COVID-19 pandemic has been the cherry on the top for the rapid growth of this sector. The fintech market in India was valued at INR 1,920.16 billion in 2019 and is expected to reach INR 6,207.41 billion by 2025. With such a massive goal it's only logical that India sends its contender for the Global Financial Services field and compete with the likes of London, New York and Singapore.

Here comes India's GIFT city. Gujarat's International Financial Tec-city, the country's only designated IFSC so far, is coming up as a multi-specialty special economic zone (SEZ) on a 358 hectare space, out of which 105.62 hectare has been declared as SEZ area. The city located between Gandhinagar and Ahmedebad, will have its own metro stations and will be connected to Ahmedabad metro network by 2024 and is also connected to the fastest--growing Delhi Mumbai industrial corridor planned along the NH8. This will drastically improve the connectivity of the city. Besides offering bare, furnished, plug-and-play and press-and-play business units on an outright purchase or lease with guaranteed service agreements, the GIFT City offers a set of advantages that no other location in India provides. The financial budget 2021-22 has made it clear that this rapid growth is not slowing down anytime soon. Sitharaman proposed tax incentives to promote the International Financial Services Centre (IFSC) in GIFT City, which includes tax sops for relocating foreign funds in the IFSC and tax exemption to investment division of foreign banks located in IFSC.

The current status of the city is very promising. There are two international stock exchanges named 'Indian International' & 'NSE International' which are operational in the city with daily turnover of approximately 5 billion US$. Currently approximately 12000 people are working in the BFSI & IT & ITeS sector and will employ more 1900 IT and Finance professionals after Bank of America opens its fourth development center. Recently Citibank and HSBC are setting up their branches in the GIFT city. There is also an International Bullion Exchange planned in GIF City in near future.

Coller Capital Market Club

The Coller Capital Market club is the largest club in The Coller School of Management and in Tel Aviv University.
The club hosts guest lecturers, professional courses and interviews with leading executives in the Israeli financial sector.


Photo by Shai Pal on Unsplash

The Good, the bad and Covid-19: an overview of the Israeli capital market 2020

Introduction

The purpose of this article is to present an overview of the Israeli capital market, with an emphasis on the past year, which, as we all know, was greatly affected by the outbreak of the corona virus (Covid--19).

Concentrated Market

The Israeli market, in addition to being relatively small, is characterized as a centralized market in two ways: First, a small group of businesspersons controls a significant portion of public companies, and especially the largest among them. Second, most public companies in the Israeli capital market have a major shareholder who holds a proportionate stake in the company that gives him effective control of the company. A significant aspect of the centralization of the Israeli economy is the activity through a pyramid of control, and the Israeli legislature combats this problem with both corporate legislation (the Companies Law), regulatory activity (the Israel Securities Authority), and general legislation (such as the Law to Promote Competition and Reduce Centralization).

Macro-Economic Overview

Covid-19 has created a challenging macroeconomic environment with social distancing, quarantine, lockdowns, unemployment, and more. Therefore, the Bank of Israel's intervention was inevitable. Among other things, the regulator acted to execute SWAP transactions in the amount of $15 billion, purchase of government bonds up to NIS 50 B ($15 B). The program was even expanded by another NIS 35 B ($11 B), providing loans to banks, conditional on providing credit to small businesses, lowering capital requirements, and stopping dividends to increase credit.

However, the most important steps taken by the Bank of Israel were to reduce interest rates and postpone mortgage payments.

At the time of the outbreak, the interest rate in Israel was about 0.25% and upon its outbreak, the Governor of the Bank of Israel, Professor Amir Yaron, decided to lower the interest rate to 0.1% (a decrease of 0.15%). Prof. Yaron said, "Reducing the interest rate to 0.1% will immediately reduce, albeit small, the credit costs of households and businesses and will support the recovery of the economic activity in emerging from the crisis. This is a necessary step in light of the damage that the economy has suffered, and it will complete the other steps we have taken".

In addition, the Bank of Israel has decided, in coordination with the government, to allow all mortgage borrowers a "moratorium", i.e. a postponement of the mortgage repayment. Data from the Bank of Israel shows that a total of NIS 52 B ($16 B) in mortgages have been postponed, which is about 15% of the total mortgages taken out over the years.

Government Debt and Political Turmoil

Due to the epidemic and the ongoing political turmoil (four elections in one year), the fiscal situation of the State of Israel deteriorated and there was concern that credit rating agencies would lower Israel's rating, which could increase the interest rates the country pays on its bonds.

Fitch expects the government deficit to remain high in 2021 (at 9% of GDP, after 11.7% in 2020), a real increase in GDP of about 5.4% in 2021, and that the country will continue to be in current account surplus as the increase in exports of services remained solid. All this under the assumption that economic restrictions will cease, and vaccines will continue at a high rate in the first half of 2021 and foreign tourism will renew, however, limited, in the second half of 2021.

In general, Israel's credit profile has demonstrated resilience, according to Fitch. It’s credit rating balances strong external accounts, a diversified economy with high added value and institutional resilience, and the ratio of government debt to GDP, which is relatively high compared to countries of similar size and background, especially when considering the ongoing political and security risks.

Import/Export

In 2020, the Israeli government signed normalization agreements with several countries, including the United Arabes Emirates, Bahrain, Sudan, Morocco, and more. These agreements are of great importance in everything related to security, but also of great importance to the economy. These agreements allow trade relations with these countries, which is expected to increase the export on the one hand, and import on the other hand, which may lower prices in Israel. Export of Israeli agricultural products is gradually declining, especially on the European front. This problem may be elimi nated with the signing of these agreements, especially with the UAE, which as of 2018, about 80% of the consumption of agricultural produce in the country is imported, with a total value of over $ 10 B. Furthermore, the UAE is a global trade and transit center for goods destined for and out of the Middle East.

Moreover, other industries that may benefit from the normalization of relations with the UAE are machinery and electrical equipment, vehicles and spare parts for vehicles, chemicals, pearls, and precious stones, which are the main import industries in the country.

The agriculture industry described above will also be the biggest beneficiary of the normalization of relations with Morocco. Agriculture is the main employer in the country (about 40% of the employed) and it provides one-sixth of the national product, which begs the question: how does Israel benefit from this? The answer will come in the form of an example: an investment company from the United Arab Emirates has purchased extensive agricultural land in Morocco, and it designates the management and development of these lands to an Israeli aggrotech company using advanced Israeli irrigation and growing technologies.

Another industry that should benefit significantly from these agreements is the tourism industry, in the bilateral sense, as these agreements will allow the entry of no less than 48 million citizens of these countries. In addition, the agreement with the UAE, renowned for beings a wealthy country, opens the door to foreign money be invested and foreign investors investing in Israeli companies and by that, help develop The Israeli economy significantly.

USD/NIS

The factors that affect the New Israel Slekel exchange rate are many and complex, including: Changes in Fiscal & Monetary policies (see the discussion above) and Macroeconomic factors (such as strength of the Israeli economy). At the beginning of the COVID-19 crisis, a sharp appreciation of USD developed due to severe shortage of it's liquidity. The Bank of Israel began to do swap transactions to provide the liquidity required and thus lead to a reduction in volatility and a stronger NIS (see the discussion above). Since then, the NIS has strengthened against the USD and the effective nominal exchange rate has fallen to a lower level than before the crisis. At the end of 2020, the Bank of Israel purchased foreign currency for approximately $ 15B to provide forces that acted to revaluation of the NIS. Over a third of the purchases were made in November, following a sharp appreciation that occurred that month.

The significant appreciation of the NIS is mainly due to the strengthening of the NIS against the USD. The analysis conducted by the Bank of Israel shows that some of the appreciation can be attributed to good reason, such as the Israeli economy enjoys a growing current account surplus, leading technology companies continue to invest in the Israeli economy and large investment bodies around the world have increased the volume of their holdings in Israeli government bonds, also in light of Israel's inclusion in the WGBI index and foreign currency purchases of the Bank of Israel moderated the rate of appreciation and reduced the impact of the deterioration of world trade conditions on exporters.

GDP

GDP (Gross Domestic Product) is an economic index that indicates a measurement of the complex value of the goods and services produced in a particular territorial state. Using a complex method based on extend data, surveys and estimates, the Central Bureau of Statistics in Israel (CBS) estimates all economic activity that occurred in Israel in a given period, by private consumers, businesses and government. During 2020, Israel imposed a three national lockdown to fight COVID-19 infections. The extent of the impact of the COVID-19 crisis on the national economy and GDP depends, among other things, on the date on which governments imposed the restrictions and the rate of return to the routine of the economy. Thus, for example, private consumption expenditure was most significantly affected by the COVID-19 and in the second quarter of 2020 (in which lockdown was imposed in Israel) private consumption fell by 44% in the second quarter of year 2020 in annual calculation (5.13% in quarterly calculation) following a decrease of 23.9% in annual calculation (6.6% in calculation Quarterly). However, In January 2021, CBS published an estimate for the third quarter of 2020, according to which the gross domestic product increased by 7.39%, and the private consumption increased by 42.3% on an annual basis. The sharp rise in gross domestic product in the third quarter of 2020 followed the significant intention in the economy in the second quarter of the year. The changes in gross domestic product in the first three quarters

of 2020 were affected by the COVID-19 crisis and taking government measures to stop the spread of coronavirus extended (Significant action that includes quick and large-scale vaccinations).

Illiquidity

Just like in the rest of the world, in Israel too, with the arrival of Covid-19, many independent traders and investors entered the capital market, but it seems that most of them are concentrated in the American stock market and not in the Israeli market. When asked the obvious question "Why?" One response from Ben Gilboa, Director of the Foreign Securities Desk at Excellence Trade, was that "one of the most important benefits of trading in the United States is liquidity. In the Tel Aviv Stock Exchange, liquidity may be limited, and sometimes trading volumes can be very low (what can be justified by, among other things, the market concentration). If, for example, a trader wants to buy stocks not included in a major index - on some days he will have a hard time doing so. In the United States, on the other hand, the volume of trading is much higher which makes it easier to sell and buy. For example, it is possible to buy shares of a particular company without worrying about liquidity, even when it comes to a high amount. In Israel, if an investor sells a certain stock on a large scale, it may have a significant effect on the stock price. In the United States, this phenomenon is very rare."

To create liquidity, you need a strong interest in the company by Investors, you need money, you need transparent information, you need a large number of tradable shares and you need to have the 'convenience' of trading. While all these factors exist in the United States, only some exist in Israel (although it is on the rise and liquidity seems to be rising rapidly).

The prevailing opinion is that with the development of real “market makers”, whose activity leads to a shift in stocks and with the transparency that is constantly rising and becoming more efficient as the days go by, the liquidity issue is expected to resolve itself in the coming years.

The new clean energy Index

The green trend has gained momentum in recent years for a variety of reasons, but thanks to technological improvements, it has become more accessible, more available, cheaper, and most importantly has progressed to a much better springboard. The Tel-Aviv Stock Exchange (TASE) explained that the global volume of investments in renewable energy is constantly on the rise, and that it reached $ 300 B in 2019 alone. In December 2020, The Tel Aviv Stock Exchange (TASE) launched a green version of the Tel Aviv 125 Index – completely free of fossil fuels. The launch of this Index marks the first index on Israel’s main stock exchange that is designed to exclude oil and gas firms. According to the simulation performed on October 15, 2020, the index includes shares of 112 companies with a market cap of about NIS 545 B ($166 B). Public float value is about NIS 376 B ($115 B). It should be noted that a simulation of the TA-125 Fossil Fuel-Free Climate Index demonstrate that they outperform the yield of TA-125 Index for one year, 3 years and 5 years. This is consistent with the surplus yield of the S&P 500 Fossil-Fuel--Free Index over the S&P 500 Index. The new index will be joining another green index launched by TASE in November 2020, the Tel Aviv Clean-tech index, which includes 12 companies in the field of renewable energy and the TA-Cannabis Index (Launched in December 2020). The launch of a local clean-tech index is made possible now that the clean-tech companies listed on TASE have reached the numbers and market cap required for a deep index that is representative of this growing sector.

Worst VS. Best Performing Sectors

The Israeli capital market, like other markets in the world, received a severe blow in March-April of 2020. When analyzing how the pandemic affected the different sectors, one must divide the sectoral analysis into 3 groups:

- **The first group** includes the recovered sectors that ended up yielding high (double-digit) returns.
- **The second group** includes the sectors that partially recovered yet closed the year with a positive or negative return but in the single digits.
- **The third group** includes the sectors that failed to recover from these terrible months and closed the year with a negative return in the double-digits (although not as much as they lost in March-April).

The First Group

Similar to the global trend, the Tel Aviv Technology Index, which in March--April lost about 34.28% of its value, ended the year with an excellent return of about 31.75% positive profit. Similarly, the Tel Aviv Biomed Index also ended the year with a return of about 27.39%, a fact that is not surprising given the global epidemic that underscores the need for these companies and their far-reaching impact.

Other indices that showed such recovery are Tel Aviv Industry, which ended the year with a 15.79% profit (after a decrease of about 33.51% in March-April), Tel Aviv Communications and Information Technologies, which rose by 18.76% after a decrease of about 32.72%, Tel Aviv Insurance, which ended the year with a positive return of approximately 13.78% (after a loss of approximately 43.32%) and the Tel Aviv Construction Index, which ended the year with a return of approximately 23.69% after the loss of approximately 43.89%.

The Second Group

On the one hand, there are indices such as Tel Aviv Cleantech and Tel Aviv Infrastructure and Energy (after a loss of about 37%), which ended the year with yields of about 4.19% and 8.21% respectively and showed a positive year overall.

On the other hand, some indices managed to recover but ended the year with a negative return, such as Tel Aviv Real Estate (-8.62%) and the Tel Aviv Finance Index (-0.47%) after declines of about 41.41% and 38.53%, respectively.

The Third Group

This group is the smallest and includes only the Tel Aviv Banks and Tel Aviv Oil and Gas indices, which ended the year with returns of approximately 15.61% and 34.79%, respectively, after decreases of approximately 35.69% and 59.67% respectively in March--April.

Thus, it is evident that the economy was hit in March-April, but the Israeli capital market showed how fast it can recover: 8 of the 12 sectors ended 2020 with a positive return (after double-digit losses in these months), and the remaining four sectors managed to minimize losses, even if it didn't translate into positive returns.

Conclusions

To sum up the year 2020, it was a mixed one. On the one hand, the Tel Aviv 35 Index (the leading and central index in Israel) eroded by about 15.4% and the Tel Aviv 125 Index (the second most important) erased about 7% of its value, compared to record--breaking that occurred on Wall Street.

On the other hand, it has been a year of many achievements. First, the number of companies that issued on the stock exchange for the first time (IPO) was 27, the highest number since 2007, when 19 of them were high-tech companies and 8 of all companies issued at a value higher than NIS 1 billion (300 million$).

In addition, TASE UP, the innovative trading platform, which enables companies and funds to raise capital from accredited and institutional investors while remaining private, reported 2 new entrants: the venture capital group Group 11 of investor Dovi Frances and the start-up company VEEV.

Another positive sign is the increase in trading volume as the stock exchange reports the opening of approximately 135,000 new accounts and average daily trading volumes of approximately NIS 1.9 billion (580 million$).

We all hope that with the effective and extensive vaccination campaign, 2021 will be a green and positive year, that the number of IPO's and capital raising will continue to grow, that liquidity and volume in the market will continue to grow and that the Israeli economy will develop and grow even further.

Strathmore University Finance and Financial Economics Student's Association

The Strathmore University Finance and Financial Economics Student's Association (SUFFESA) was established in 2011, to enhance the overall student experience in finance and economics. Our mission is to provide a platform for our members to develop their analytical thinking, problem solving and overall work ethic. Additionally, we aim to create industry awareness on often-misunderstood Bachelor of Business Science in Financial Engineering and Financial Economics courses, which are still new in the region.

Kenya's exit from Agriculture

INTRODUCTION

The real Gross Domestic Product (GDP) of Kenya expanded by 5.4 per cent in 2019 compared to a growth of 6.3 per cent in 2018. The growth was spread across all sectors of the economy topped by the service-oriented sectors like tourism and hospitality industry. Agriculture, Forestry and Fishing sector accounted for a sizeable proportion of the slowdown, from 6.0 per cent growth in 2018 to 3.6 percent in 2019.This paper reviews the move from agricultural sector to the other sectors of the economy namely construction, manufacturing, tourism and transport. (KNBS Econo mic Survey, 2020). The paper tries to explain this phenomenon paired with statistics mainly from Kenya National Bureau of Statistics (KNBS).

Maize production declined from 44.6 million bags in 2018 to 39.8 million bags in 2019 largely attributed to drought in several areas coupled with the fall army worms infestation. Tea production decreased by 6.9 per cent to 458.5 thousand tonnes in 2019 from 493.0 thousand tonnes in 2018. Cane deliveries to factories declined from 5.3 million tonnes in 2018 to 4.6 million tonnes in 2019.These number can be partly explained by the shift from the agricultural sector.

Table 0: Key Economic and Social Indicators, 2015-2019

	DESCRIPTION	Unit	2015	2016	2017	2018	2019*
1	Population	(Million)	45.3	44.3	45.4	46.1	47.6
2	Growth of GDP at Constant Prices	(Per cent)	5.7	5.9	4.8	6.3	5.4
3	GDP at Market Prices:	(Kshs Mn)	6,284,184.9	7,022,963.1	8,165,842.2	8,892,110.9	9,740,360.0
4	Total value of petroleum products	(Kshs Mn)	224,125.7	197,098.7	265,233.6	327,777.6	314,683.4
5	Trade balance	(Kshs Mn)	-998,952.9	-937,244.6	-1,130,368.1	-1,158,151.0	-1,209,650.0
6	Money Supply (M3)	(Kshs Mn)	1,658,165.8	1,784,507.6	1,930,846.0	1,137,852.0	1,114,036.1
7	Total domestic credit	(Kshs Mn)	1,793,891.9	1,973,173.0	2,179,317.4	1,430,151.0	1,600,240.0
8	Balance of Payments (current account balance)	(Kshs Mn)	-434,028.6	-409,210.6	-588,145.1	-511,326.9	-368,093.2
9	Coffee marketed production	('000 tonnes)	32.2	39.7	33.7	36.8	33.6
10	Tea marketed production	('000 tonnes)	399.2	475.8	439.9	495.0	430.9
11	Fresh Horticultural Produce exports	('000 tonnes)	258.7	261.1	304.1	322.6	329.3
12	Maize marketed production	('000 tonnes)	395.3	365.8	239.2	441.3	316.7
13	Wheat marketed production	('000 tonnes)	327.3	313.9	134.9	330.3	340.8
14	Sugar cane production	('000 tonnes)	7,166.8	7,151.7	6,751.6	5,262.2	4,888.1
15	Milk sold centrally	(Mn litres)	413.9	458.3	533.7	424.3	468.2
16	Manufacturing output	(Kshs Mn)	1,977,169.6	2,131,987.9	2,251,686.7	2,409,980.1	2,568,717.1
17	Construction output	(Kshs Mn)	804,219.6	858,083.9	1,036,308.3	1,104,984.1	1,197,295.6
18	Cement Consumption	('000 tonnes)	3,798.8	4,318.1	5,817.9	5,948.7	5,933.3
19	Petroleum Consumption	('000 tonnes)	4,738.1	5,084.2	5,178.6	5,189.2	5,207.1
20	Electricity consumption	(GWh)	7,826.4	8,053.2	8,418.1	9,793.3	8,854.9
21	Tourism earnings	(Kshs Mn)	84,600.0	99,690.0	119,900.0	137,286.2	143,119.7
22	New registration of motor vehicles and cycles	(Number)	247,181	213,713	282,672	297,289	327,178
23	Rail freight	('000 tonnes)	3,542.0	3,380.0	3,147.0	3,544.0	4,021.0
24	Air passengers handled	('000) No.	8,895.3	9,791.9	10,114.2	11,721.7	12,079.3
25	Mobile Subscriptions	('000) No.	37,734.0	38,993.0	42,813.1	49,501.3	54,550.0
26	Total mobile money transfer	Kshs Bn	2,014.0	3,316.0	3,638.0	3,984.0	4,346.0
27	Wage employment	('000) No.	2,598.1	2,683.1	2,793.1	2,860.1	2,926.1

Table 1: Key Economic and Social Indicators, 2015-2019

It can be noted that funds within the agricultural sector are smaller and gradually reducing as compared to funds within manufacturing and construction which are increasing by the year. This is mainly attributed to the shift in the labor force from the agricultural sector.

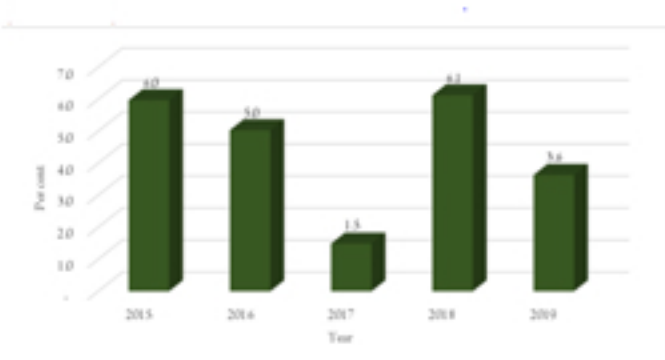


Figure 1: Real Agriculture Growth Rate, 2015-2019

CLOSURE OF PROCESSING PLANTS

The closure of processing plants in Kenya like Mumias Sugar Company greatly reduced the production of sugarcane in the areas of Western Kenya particularly Kakamega, Bungoma and Busia.The company supported about 2.2M Kenyans all of whom moved to other sectors of the economy after the company's closure. The few who remained were put off by the late payment of suppliers and ended up uprooting their crops. The company was owing about 1.1B a year in taxes, electricity, factory maintenance and farmers (KPMG REPORT,2015). All revenue went to offsetting the debt but farmers were not a priority. At the eventual closure of the company, the 2.2M Kenyans moved to other sectors like construction since its labour was mainly unskilled.

Kisumu cotton mills better known as KICOMI suffered the same fate in 1999.Cotton was a major cash crop in African countries especially after the countries gained independence. Africans knew they would profit immensely from it. Over three thousand employees were gainfully employed. They made shirts, trousers, linen and blanket thickeners. KICOMI brought great pride among the workers and the entire country. It boosted the growth of the formerly Nyanza region. It started suffering after the rise in popularity of polyester which was cheaper and more durable to produce than cotton. This caused the prices of cotton to fluctuate, despite the cost of production in electricity and fuel continued to rise. KICOMI suffered greatly from the increased import of second-hand clothes from the West. The final straw was when the International Monetary Fund (IMF) and World Bank structural adjustment program during the 1980 liberalized the textile industry of Africa. Now KICOMI has been left as weather beaten tins and a single sleepy watchman at its bent.

CLIMATE CHANGE

Kenya is the largest economy in East Africa, and the economy is largely dependent on agriculture. Climate risks pose as a threat to the Kenyan farmers as many crops cannot survive neither flourish in an arid or semi-arid environment. The decline in rainfall is leading to a decline in cereal production. Some crops are scarce – we realize this when we visit our local markets. These are simple things like tomatoes, onions, seasonal fruits i.e., mangoes, all this occurs due to the unpredictable climate. The high temperatures lead to increase in severity of dry spells and dura tion of heat waves. These cause drought and famine, as well as reduced quality and quantity of grains produced. The heat wave damages the land, crops and livestock. Cur-

rently, many Kenyans go without food. The question is, if the Kenyan people cannot a basic need such as food, what impact does that have to the Kenyan economy? Not only the Kenyan economy, but also the East African economy. In other regions there is reduced water quality and quantity which poses a risk to crops as many crops die.

In the recent past, 2019-2020, many farmers were, and they are still devastated due to the invasion of desert locusts. Invasion of locusts on Kenyan land is due to the its "suitable" climate for these pests to thrive. The locusts devoured all farmers' produce hence were left with nothing to earn them income as they sell after a harvest. The locusts also consumed animal food hence many animal farmers are frustrated as the animals have no feed hence starvation, which leads to low animal and dairy produce. In some regions, especially Western parts of Kenya, increased frequency and intensity of rainfall it's not a blessing at all. The flooding experienced leads to many loses. The heavy rainfall damages many crops. It degrades crop and pastureland. Furthermore, increased incidence of pests and diseases for crops and livestock.

Climate is not a factor that farmers can control; its uncertainty has discouraged many farmers as they experience many loses. The many pests and diseases make it expensive for some farmers to buy the pesticides and equipment used to administer them. The arid climate leads to inadequate water for plants to the extent that a farmer must buy water. All this makes farming difficult, expensive and the many losses leads to unstable income to many families. Farmers cannot survive without cash flowing into their homes hence they have to divert into other businesses that do not depend on something they cannot control i.e., climate.

As many farmers opt for other businesses other than agricultural- based business, the question is, if agriculture accounts for more than 30% of our GDP and primary livelihood of approximately 60% Kenyans what will become of the Kenyan and East African economy?

IMPORTS

Kenya is highly dependent on imports resulting in a negative trade balance. Some of the imports are agricultural produce, which is ironical considering that Kenya is an agriculturally based country. Most of the farmers are discouraged since they harvest most of their produce which goes bad because of the imported produce that is bought. Not only will the farmers experience losses but also unstable income in their households. Many farmers have opted for other businesses to make a living.

FOOD SECURITY IN KENYA

The World Health Organization (WHO) states that Food Security is achieved "when all people, at all times have physical and economic access to adequate/-sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life".

Food security in any country depends on food availability, food accessibility, stability and utilization/nutrition. The analysis of average food availability in one third of African countries, the average daily caloric intake availability is below the recommended level of 2100 Kcal for Ethiopia, Kenya, Rwanda and Tanzania in East Africa, and Angola, Madagascar (FAO, 2006).

There has been a great surge in rural to urban migration. 98% of food consumed in urban areas is purchased while 2% is own production (FAO, 2006). If everybody from the rural area move to urban areas, then who will produce the food for Kenya? It will be a starving nation. Sub-Saharan African countries have had to rely increasingly on imports. About 30% of cereal consumption is currently imported compared to 5% (FAO, 2008).

Table 1: Agriculture sector indicators, Kenya, Ethiopia and Uganda

	1995			2005			2016		
	Kenya	Ethiopia	Uganda	Kenya	Ethiopia	Uganda	Kenya	Ethiopia	Uganda
Population (total, millions)	27.3	57.3	20.6	36.0	76.7	28.5	49.7	105.0	42.9
Rural population (total, millions)	22.4	49.1	18.3	28.0	64.2	25.0	36.1	82.7	35.6
Government expenditure on agriculture (% total outlays)	-	-	-	3.9	15.9	3.1	1.5	17.9[2]	4.0
Employment in agriculture (%)	45.9	89.4	81.3	41.4	80.2	82.1	38.1	69.0	75.8
Agriculture value added per worker (constant US$)	1,496	281	664	1,868	321	656	2,013	538	575
Agriculture, value added (% GDP)	26	52	37	21	42	27	33	34	23
Cereal yield (kg/hectare)	1,753	1,034	1,571	1,646	1,361	1,574	1,628	2,325	2,019

Source: http://www.fao.org/faostat

Table 2: Agriculture sector indicators, Kenya, Ethiopia and Uganda

CONCLUSION

The decline in the agricultural sector has led to a shift into the manufacturing sector to support the livelihood of Kenyans. The agricultural sector may seem doomed now, but the following policies can be put in place to salvage the situation:

- Setting up industries in the rural areas instead of urban will curb the rural urban migration, hence increasing the agricultural labour force in Kenya. Farming will improve the living conditions of people in the rural areas. It will also increase the GDP attributed to agriculture.
- The government should build boreholes to provide water to irrigate the crops during periods of drought.

The government policies should be introduced to put a cap on the amount of agricultural imports, especially on goods locally produced.

- Farmers should form co-operations that will manage the agricultural processing plants to avoid mismanagement and have an outlet for their goods.

Well-equipped storage facilities for agricultural produce to act as reserves for the uncertain future and climatic conditions.

- Subsidize the prices for agricultural inputs like fertilizer.
- Bridge the metrological information to the farmers. The government through the Ministry of Agriculture should inform the farmer of the climate throughout the year so they can be prepared of when the rain comes.

IFSA Rotterdam

The IFSA Rotterdam delivers finance-related events and content to the students of Erasmus University Rotterdam. As a founding Chapter of the IFSA, it enjoys hosting both local and international audiences.

Benelux in focus

Overview about the Netherlands

The Netherlands in early 2021 can be described as a country not being certain about the state and direction of its economy. The 2010s decade has largely been a time of prosperity for the country, driven by rising industries like tech, but also the emergence of Amsterdam as a major financial hub for trading. Paired with a stance on the forefront of austere fiscal policies in Europe, the treasury was filled when Covid-19 swept across the globe. Despite being a very open economy- large parts of the GDP come from trade, tourism and finance- the economic shock has been relatively moderate. Indeed, it was the worst shock since the second world war. Still, with comparable relaxed economic restrictions and an unrivalled program of government aid, the economy has shrunk 'only' 4.1% in 2020, in 2020, much better than the EU average of 6.4% (European Commission).

The Netherlands can in many ways be described as a typical Northwestern European Economy: Incomes are high, unemployment is low, and most of the GDP is created by services. The ratio of trade to GDP is very high for a country of this size, driven by a very advanced system of infrastructure by road, air and railroad. Most of the trade comes in through our harbor of Rotterdam however – the largest one outside Asia- and then gets exported to fellow European countries like Germany and France. This makes the Dutch economy relatively susceptible to developments in these countries as well. Multinational firms are crucial for the Dutch economy: Shell and Unilever have dominated their sectors and grown into global companies, partially moving their headquarters away. On paper

however, soft taxation policies for large firm- some may call the Netherlands a tax haven- have incentivized many to move their fiscal headquarters there, such as Fiat/Peugeot and Ikea.

Probably more interesting for finance students, the Netherlands has become the largest trading hub of Europe in early 2021. With London having left the continent's economic bloc, detailed terms of the agreement concerning the financial sector are still unclear. Amsterdam's ease of doing business, high-frequency trading infrastructure and history as a financial capital has shifted a large part of London's trading volume here. To some historically-minded Dutch, this may be the reincarnation of the Golden Age in the 17th Century, when the Netherlands outpaced the UK as global financial and maritime power. It remains questionable whether Amsterdam will be able to retain the additional trading business as that is dependent on the final agreement between the UK and the EU. Also, much of Amsterdam's trading volume comes from foreign stocks listed there, rather than from the relatively small Dutch economy. Parts of its financial market volume is also due to the Netherlands' opaque taxation rules. Still, its high proficiency in English and open-minded culture makes the Netherlands an attractive location for financial firms and international finance professionals.

The future also looks relatively bright for the Netherlands and its financial sector. Further real economic growth can be expected post-covid. The Dutch economy is very attractive to foreign investments, as shown by the Global Competitiveness Report 2019 in which it ranked as highest within the EU-28. Most likely, this growth will still be driven by tech and finance, with the trade sector suffering from the sluggish growth of globalization in the past decade. Some risks in the short-term may be political deadlock following the 2021 general election, and the very slow vaccine rollout.

Overview about Luxembourg

The Grand Duchy of Luxembourg is a small landlocked nation bordered by France, Germany and Belgium and is the only remaining grand duchy in the world. It is both the smallest and the least populous country in the Benelux, counting just over 630.000 inhabitants. Despite this, the country is a major hub for financial services, large multinationals and for the European Union.

Luxembourg is considered one of the wealthiest countries with a nominal GDP per capita of USD 115.000 as of 2019. Workers employed in Luxembourg also enjoy the highest minimum wage in the world, at $13.78 per hour. This attracts a lot of foreigners as only 50.9% of the population is comprised of Luxembourgish nationals. The primary foreign nationalities are Portuguese (15.6%), French (7.6%) and Italian (3.7%) – facilitated by the fundamental right of free movement and residence of citizens within the Schengen-area. Roughly 200.000 people cross the border daily from neighbouring France, Germany and Belgium to work in Luxembourg. This accounts to 45% of the Duchy's workforce. In all this creates a very diverse and international environment. This can be seen in the fact that the average Luxembourger speaking four languages fluently, amongst which German, French and Luxembourgish.

Luxembourg aims for an inflation rate of just below 2%, conform with the EU standard. Luxembourg has mostly adhered to this in recent year, with the exception of 2020 where inflation has dropped to just 0.82%. Interest rates remain close to 0% ever since 2015 as set by the European Central Bank. Luxembourg's unemployment rate prior to the Covid-19 induced lockdown was 5.5%, since then it has peaked at 7% in April 2020 - the highest recorded to date. Government debt is incredibly low, where it remained in the single digits prior to the financial crisis of 2008. It has since risen to 24%, which is still far below the European Union average of 95% or the American rate of 108% debt to GDP.

Luxembourg has long been a supporter of European economic and political integration. It is one of the founding members of the NATO, the United Nations and the European Union. Regarding the latter Luxembourg is one of the four official capitals of the EU, together with Brussels, Frankfurt and Strasbourg. It seats several EU institutions, amongst which the secretary of the European Parliament, the European Investment Bank, the European Court of Justice and the European Court of Auditors. amongst others.

Luxembourg's economy is primarily service-based and predominantly dependent on banking and on the country's steel industry.. The Luxembourgish banking industry is most developed in the corporate banking segment, as well as asset and wealth management. The country has specialised in the cross-border fund administration business and off-shore trade of European bonds. Next to the financial service industry, Luxembourg is home to many (regional) headquarters from large multinationals.

This is mostly due to Luxembourg's favourable tax laws, which have led to the country's reputation as a tax haven. In fact, according to the Tax Justice Network's Financial Secrecy Index Luxembourg is ranked second. This means the Duchy is the second most obscure financial centre in the world, after Switzerland. The country attracts $4 trillion in foreign direct investments, the same amount as the USA. With Luxembourg's small population this comes down to $6.6 million FDI per capita, of which most flows directly into shell companies. In 2014 the country dealt with a financial scandal, named LuxLeaks, that involved large global entities paying an effective tax rate of less than 1%. This scandal also involved the previous Luxembourgish prime minister, Jean-Claude Juncker, who at the time of the revelation was newly appointed as president of the European Commission. Since then, the country has worked on clearing its image by adopting anti-tax avoidance directives enforced by the EU.

The country has recently been determined to diversify its economy away from banking. Due to Brexit, the company is strengthening its position in the insurance industry and plans to become leader in green finance. The country has also entered more exotic industries, such as space technology, cyber security and supercomputer manufacturing. All in all, Luxembourg is a developed and incredibly wealthy country build on the financial service industry as its backbone. It is relatively unscathed from the effects of the Covid-19 pandemic and has benefitted from Brexit. With its fast-growing population, we are curious to see what the future brings for the sole Grand Duchy.

Overview about Belgium

The economic importance of the financial sector has increased significantly since the 1960s. Numerous Belgian and foreign banks operate in the country, particularly in Brussels. The National Bank, the central bank of Belgium, works to ensure national financial security, issues currency, and provides financial services to the federal government, the financial sector, and the public. The European Central Bank is now responsible for the formulation of key aspects of monetary policy. An important stock exchange was founded in Brussels in the early 19th century. In 2000 it merged with the Amsterdam and Paris stock exchanges to form Euronext—the first fully integrated cross-border equities market. Belgium has long been a target of significant foreign investment. Foreign investments in the energy, finance, and business--support sectors are of particular significance in 21st-century Belgium.

The Belgian banking community is characterized by a variety of players who are active in different market segments. BNP Paribas Fortis, KBC, Belfius and ING Belgium are the four leading banks (with a cumulated balance sheet on a non-consolidated basis of 66% of the sector total at the end of 2019) and offer an extensive range of services in the field of retail banking, private banking, corporate finance and payment services. In addition, a number of smaller institutions exist which are often active in a limited number of market segments.

A number of institutions have specialized in international niche activities, such as Euroclear (one of the world's biggest players in clearing and settlement services) or The Bank of New York Mellon (custody). Like the Belgian economy, the banking sector is characterized by a high degree of international openness. Of the 85 banks established in Belgium end of December 2019, 83.5% are branches or subsidiaries of foreign institutions, and only 16.5% has a Belgian majority shareholder ship. At the end of 2019, 13 credit institutions under Belgian law had 80 entities in 24 other countries.

According to the European Commission, after an increase of 1.4% in 2019, Belgian GDP is expected to contract by 8.8% in 2020 due to the Covid – 19 pandemic before recovering at an annual growth rate of 6.5% in 2021. Compared to 2018 (+1.5%), GDP growth eased somewhat in 2019 in the wake of the economic slowdown in the euro area as a whole, for which the very open Belgian economy was all but immune. However, several positive developments should be noted: the policy to improve competitiveness, inter alia, by reducing labour costs (including a major tax shift operation), supports exports and employment growth (employment grew by 0.8% in 2019, and the unemployment rate fell from 6.0% in 2018 to 5.4% in 2019). Investments are in a relatively strong phase, in particular, equipment investments by companies. A plan has been elaborated at the political level with the aim of pooling investments worth several tens of billions of euros in the fields of energy, mobility, security, digitisation and health. Elections were held in May 2019 and regional governments have been installed. Conversely, it takes much more time to agree on a new federal government.

The outlook on the Finance industry in the post pandemic world, focus on the Benelux

Deloitte analysed the movements between Q4 2019 and Q3 2020 for the Dutch tier 1 banks. In summary, they indicate notable changes in operating expenses, impairment charges & provisioning, payment holidays, RoE, and CET 1. Based on these developments and the current macro-economic outlook, we expect the following impact:

- A decrease in operating expenses, as banks are more cost-aware and will try to limit their costs in order to anticipate further economic downturns.
- Increased impairment charges & provisioning. With the new COVID-19 measures the economy cannot operate at its full capacity. Credit quality will further deteriorate, leading to more impairment charges & IFRS 9 provisions.
- Increased payment holidays. Due to the further deterioration of credit quality, it is expected that the new COVID-19 measures will lead to more payment holidays. The current amount of payment holidays could act as a proxy for the impairment charges & provisioning numbers in the annual report. This means that the bank with a higher amount of payment holidays as compared to the total assets could also have higher impairment charges & provisioning at year-end. However, the results of our research (see below) do not indicate that the bank that had provided more payment holidays in Q2 2020 had significantly higher impairment charges & provisioning in Q3 2020.
- A decrease in RoE, because the returns of banks are expected to decrease without an expected decrease in equity. This means that RoE will probably decrease as compared to the end of 2019.
- A decrease in total CET 1 capital, since the buffers have to be used to deal with the decrease in credit quality and the expected increase in defaults.

A little relief

Overall, we expect that banks will have to use their capital to absorb the losses incurred by the slowing down of economic activity. One possible relief to the expected losses of banks could be the loan guarantee schemes that have been implemented in the euro area. Also, currently there is a discussion within the ECB around the possible creation of a “bad bank” for unpaid euro debt. The “bad bank” could prove to be a relief for the European banking sector4. Next to this, the European Commission has published an “NPL Action Plan” in which several measures are proposed to address the build-up of non-performing loans on banks’ balance sheets5. What the final impact of the COVID-19 crisis is on the annual figures over 2020 of the banks, remains to be seen. The annual reports of the Dutch banks will eventually tell us.

Our predictions are based on an analysis of the quarterly results and/or annual report of Dutch tier 1 banks between Q4 2019 and Q4 2020. Our analysis was focused on operating expenses, impairment charges & provisioning, Return on Equity (RoE) and CET 1 capital, since these are important metrics for measuring the performance of banks. In addition, we included the data regarding the payment holidays due to COVID-19. All movements in the five metrics that were analysed can be found below.

1. Operating expenses: One bank shows an increase of 4% between Q4 2019 and Q2 2020 and next a decrease of 6% between Q2 2020 and Q3 2020. Another bank shows a decrease of 13% between Q4 2019 and Q2 2020 and an increase of 13% between Q2 2020 and Q3 2020. The third bank has 3.101 (millions of euros) of operating expenses in the first half-year of 2020 whereas over the whole year of 2019 this figure was 7.115 million. If the figure for the first half-year of 2020 would be extrapolated to an entire year there is a decrease of 13%.

2. Impairment charges & provisioning: Both banks publishing quarterly results first show an increase in provisions of 212% and 124% between Q4 2019 and Q2 2020 and next a decrease of 65% and 62% between Q2 2020 and Q3 2020. The third bank has 1.442 million of impairment char ges and provisioning in the first half-year of 2020 whereas over the whole year of 2019 this was 975. If the figure for the first half--year of 2020 would be extrapolated to an entire year there is an increase of 196%.

3. Payment holidays (as a percentage of total assets): The gross carrying amount of payment holidays granted were only available for two banks as the third bank only publicly reported the number of customers and businesses that were granted a payment holiday. As per Q2 2020, one bank has granted payment holidays for 2% of total assets and the other bank for 4% of total assets. The bank that had granted 2% of total assets as payment holidays had 0,05% of total assets in impairment charges & provisioning in Q3 2020. The other bank had 0,06% of total assets in impairment charges & provisioning in Q3 2020.

4. RoE: Two banks first show a decrease of 5% and 7% between Q4 2019 and Q2 2020 and next, an increase of 4% and 6% between Q2 2020 and Q3 2020. The third bank shows a decrease of 4% between Q2 2020 and YE 2019.

5. CET 1: One bank shows an increase of 1% between Q4 2019 and Q2 2020 and a decrease of -1% between Q2 2020 and Q3 2020. Another bank shows a decrease of 3% between Q4 2019 and an increase of 2% between Q2 2020 and Q3 2020. The third bank shows an increase of 1,8% between Q2 2020 and YE 2019.

The effect of Brexit on the Benelux

The citizens of the United Kingdom expressed their opinion on a referendum held on the 23rd of June 2016 to leave European Union, with a turnout of 72% and a result of 52% in favour. The decision initiated long lasting negotiations with uncertain implications for both the UK and other nations, like the Netherlands and the Benelux states, who have tight bonds with the island. Even though the transition period ended at the end of 2020, and the UK left the European trading bloc, there are still many negotiations to come regarding mainly financial services and data sharing.

The Netherlands, Belgium and Luxembourg form one of the oldest and most institutionalised collaborative blocs within the European Union. Hence, first the effect of Brexit will be analysed in the context of the Benelux states pursuing to maintain their significant political and economic presence within Europe. Afterwards, the analysis will zoom in on the nuances of each country of the Benelux states, and the recent unexpected occurrences that have happened.

Since the establishment of the Benelux states, it has been extensively free of the internal market; on safety and societal measure even goes further what is possible on a European level. The well connected infrastructure, regular reliable commuting, and cargo capabilities even grant a bigger nego tiating power and a division of professional capabilities. Hence the central perspective than in the reshaping economic activities the Benelux can establish a stronger presence as a bridge builder between the UK and the rest of Europe. Because of the Netherlands' close connection to Berlin and Belgium's bigger voice in Paris can leverage the division of Europe. Despite all the chances that the Benelux can strengthen their presence, there are significant regional GDP risk exposures projected due the Brexit. 3.5%-5% in the Netherlands, 2.8%--4% in Belgium and roughly 2% for Luxembourg. Additionally, the Withdrawal agreement will affect many of the British nationals, who based on reciprocity, will be considered as third country nationals, and they need to apply for different kinds of visas. On the other hand, taxation rules seem to be left unchanged for the time being between the Benelux nations and the UK.

Focusing on the European Financial market, Brexit will have a significant influence on the market in Belgium and Luxembourg. Luxembourg manages over €3000bn worth of assets that is the second largest after the US. For mutual funds, the country occupies roughly 10% of the global market, and the 29.22% corporate tax rate is favourable. However, Brits are the largest investors in Luxembourg, and analysts fear that big investment partners will abandon the country. On the contrary the country can be a target for other corporations who wish to reallocate their operations. Deloitte in a report already surveyed many banks who plan to reallocate their operation to Brussels to maintain a stable service in Europe. Belgium and the UK have developed strong economic bonds, so besides foreign trade, both investments and financial markets will be highly affected. As a turbulence caused by regulation of Brexit financial industries will be less optimised and will not generate the same amount of revenues. The Netherlands has seen a positive effect of Brexit to become Europe's first trading hub. As many have reported a significant amount of stock and derivatives trading has shifted to Euro next in Amsterdam. The total amount has topped at €9.2bn, which is a fourfold increase to previously exchange stock a year before. What to expect for the future is that the Benelux states will start to negotiate different solutions with the UK, additionally there are opportunities for the sector to deve lop new financial modus operandi to strengthen their position in Europe.

As a final point of the analysis the impact of Brexit on Dutch enterprises is vast, as concluded in a PwC report. A concrete realization is that for corporate mergers the 10th EU directive will no longer be applicable for UK companies if two corporations want to merge. And since the Dutch legal framework is not prepared for such instances it will be overly complicated in the future to legally (de)merge. Additionally, Brexit has financial implications for the passporting regimes, therefore Dutch companies need to comply with British regulations if they want to be listed on stock markets in the UK.

FEP Finance Club

FEP Finance Club

Founded in 2012 and following the tradition of major international business schools, FEP Finance Club is the student-run finance and investment club of the School of Economics and Management of the University of Porto (FEP U. Porto). Our mission: to train our members as well as our community in technical and soft skills required by professions in Finance and Consulting, as well as to provide key opportunities for students to apply what they learn in class and to support our community's financial literacy. The Financial Markets department, the one responsible for this project, aims primarily at enhancing its members' knowledge by both debating and presenting ideas. It is divided into 3 sub-departments: Market Research, Portfolio Management, and Forex Trading.

Portugal, the EU & the council of the European Union At a Crucial Time

As Portugal assumes the Presidency of the Council of the European Union, it becomes vital to analyse the social and economic circumstances of both Portugal and the EU at the moment.

Portugal

Portugal has been one of the many countries struck by the current pandemic. Hence, it is important to study the economic and social impacts as well as the state of its markets.

Portugal And Its Current Economic State

In the period before the Covid-19 pandemic, the Portuguese economy was in a moment of recovery, presenting, since 2014, an average GDP growth rate of 2.2%, a value that was even higher than the value verified in the European Union. Despite the growth of the national economy, it remained structurally weak, showing a limited expansion potential and a weak progression in labor productivity. Due to the fact that the Portuguese economy presents these and several other weaknesses while also having very volatile sectors such as the restaurant and hotel industry, the Covid-19 pandemic had a more significant impact than in other countries with a different economic structure.

The Macroeconomic Situation

In economic terms, the situation in Portugal is quite alarming, with a drop in GDP of 7.6% in 2020. This is contrasted with the values of the GDP in 2019 which had a rise of 2.2%. This fall is directly due

to the consequences of the pandemic, which has placed the world in a deep recession, especially in the economically most fragile countries, such as Portugal itself. Indeed, the pandemic affected sectors such as tourism, commerce and restaurants that play a major role in the Portuguese economy. Despite this drop, the Ministry of Finance stated that "the evolution reflects an improvement compared to the forecast presented by the Government in the State Budget for 2021".

Alongside this decline in GDP, the public debt itself rose from 250 billion euros in December of 2019 to 270.4 billion euros in December of 2020. When comparing these with the values of the public debt in February, the period immediately before the outbreak of the pandemic, public debt increased by 15.1 billion euros.

Economic Difficulties In The Sectors

The Covid-19 virus also had a direct impact on companies and, therefore, on the labor market, with unemployment falling to 7.2% in November 2020, while in July 2020 the unemployment rate had been at 8.1%. It should be noted that there is a relationship between these levels of unemployment and the impact of the pandemic on the tourism sector, as it generates a large amount of jobs in Portugal.

Now noticing the situation of the Portuguese textile industry, according to data from Banco de Portugal, in November 2020, there was a 2.1% increase in corporate debt compared to the same month of the previous year. The industrial sector and the commerce, accommodation and catering sector stand out, as these presented a debt growth of 7.8% and 7.3%, respectively. However, there was an 8.2% decrease in indebtedness in the electricity, gas and water sectors compared to the same period last year.

It should also be stated that small and medium-sized companies have the highest annual growth in indebtedness, with an increase of 8.2% in November 2020. From the data obtained, it is known that 85% planned to maintain the same amount of jobs until the end of 2020, while 10% had plans to reduce it.

The Hopeful Recovery

Although the drop in the GDP is not as serious as initially predicted, the Portuguese economic situation is facing difficulties in the future. Portugal awaits the beginning of the easing of the lockdown measures as well as the acceleration of the vaccination process to start the economic recovery through critical sectors such as tourism or even the intensification of exports.

The Social Effect Of The Pandemic In Portugal

When we talk about the present social situation of the country, it is impossible to overlook the effect of the pandemic. Furthermore, Portugal has been proven to be the stage of terrifying news: high death numbers, inadequate vaccination scandals and mental health progressively more deteriorated. Though, it is not only the health that is in danger: it is also the financial sustainability of the Portuguese citizens. The pandemic is certainly concerning the citizens in numerous aspects of their lives, so measures must be taken in order to avoid an unprecedented economic recession, in addition to the social crisis that historically happens side by side with the financial crisis. In order to maintain and enlighten the issues above, there is a need to develop numerous topics.

The Misfortune Of Searching For A First Job In The Midst Of A Disaster

Young people getting into the job market for the first time during this pandemic are likely going to see their income decreased for several years. This phenomenon is called the "scar effect" of the job market and it has been studied during past economic crises, on a national and interna tional level. Many studies have concluded that the negative effects on earnings of newly employed people endure for up to 10 or 15 years. There is still not much data for the pandemic crisis, but it all points to the same consequences of previous economic recessions. Already, there has been a particularly significant loss of recent jobs (with less than 6 months) which means that it is the younger layer of the working population

that has been the most affected by the crisis, which will consequently reflect on their earnings. Something which differentiates this crisis from others is that emigration is no longer an obvious solution for young people, as the pandemic has hit the whole world and, thus, provoked a worldwide recession.

Portuguese Hospitals Achieve Maximum Capacity And Request Aid From European Countries

The Portuguese health minister, Marta Temido, declared on the 31st of January of 2021 that the government triggered all procedures at its disposal and international wise confronting the pandemic scenario, in order to deliver improved aiding towards all the Covid-19 sufferers. Mrs. Temido reiterated that the European pandemic situation is extremely disturbing and, at the moment, there were roughly 5600 hospital patients with the new SARS-CoV-2 virus as well as more than 760 in ICUs. Countless hospitals have sparked a catastrophe strategy up to this day. Immediately after the Portuguese application for assistance to some European countries, a German military medical crew of 26 professionals began their aiding on the 8th of February 2021 (almost a week following the request). Beyond their aid, they have managed to bring about 50 breathing apparatus, 150 infusion bombs as well as certain hospital beds. Accompanied by their arrival the Portuguese Prime Minister, António Costa, revealed that the country had achieved the balance point in the total number of vaccines supplied, which made it possible to plan an administration for those. For the time being, the Portuguese govern ment expects to have 70% of their population vaccinated by the end of the summer.

Presidential Elections

On the 24th of January of 2021, in the midst of lockdown, the Portuguese came out to elect their new President. The result of 60,7% was clear about the re-election of Marcelo Rebelo de Sousa, who has been in office since 2016. He was followed by Ana Gomes, a former member of the European Parliament from 2004 to 2019, who got 12,97% of votes. These elections were marked by the rise of the popularity of André Ventura, leader of the far-right party CHEGA. He aspired to end second in the race for the presidency but got only 11,9% of votes, ending in third place, behind Ana Gomes. Of the remaining four candidates, none got over 5% of votes. It was argued whether the elections should take place during a time when the lockdown was in place and while Covid-19 new cases and deaths were soaring. However, in the end, the voting process was considered safe enough to not have to postpone the elections.

A Change Of Picture: Portugal Gets A Ray Of Hope With Decreasing Covid-19 Cases

On the 7th of February 2021 (a day prior to the arrival of the aiding German medical crew), Portugal, at last, gets a decrease in new Covid-19 infections. Following the soft measures implemented by the government during the holiday season, the Minister of Health is particularly concerned with the number of cases and death numbers. António Costa acknowledges the failure in agreeing to accept such weak measures, which led to an obligatory lockdown established by the government in order to decrease the number of cases. For right now, the country's aim is to guarantee the vaccinations of the elders, health assistants as well as all professionals in the field. In the foreseeable future, there are going to be declared new measures for the lockdown ending, but it is expected that the intended date is after Easter celebrations.

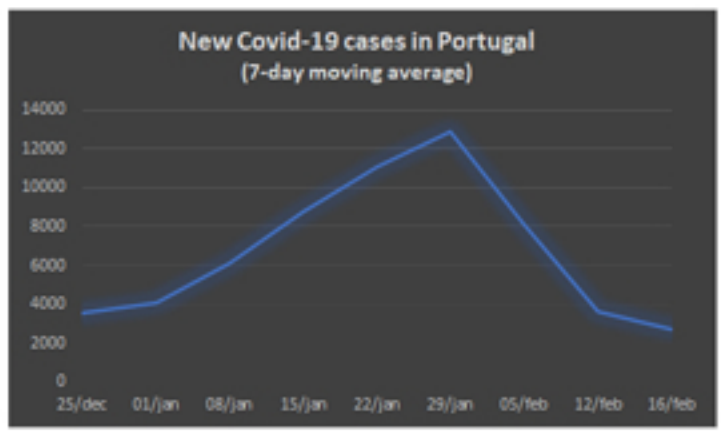


Figure 1 – "New Coivd-19 Cases in Portugal" – Source: Worldometer

The Pandemic And The Portuguese Markets

When we think about some of the major world indices, the S&P 500 from the US markets may quickly come to mind. However, there are several other stock indexes outside the main American markets that are worth mentioning, such as the FTSE 100 from the United Kingdom, Ibovespa from Brazil and, finally, the PSI-20 from Portugal.

"PSI-20" is an acronym that stands for Portugal Stock Index, with the "20" referring to the twenty most actively traded shares listed on Euronext Lisbon. Keep in mind that while the Lisbon Stock Exchange, owned by the NYSE Euronext, is the largest stock exchange in Portugal with over 70 companies traded on its floor, PSI-20 serves as the main index reference of Euronext Lisbon and, therefore, represents the most widely used indicator of the Portuguese stock market. So, PSI-20 can be seen as a benchmark stock market index of the companies that trade on Euronext Lisbon.

PSI-20 was created on the 31st of December of 1992 with a base value of 3000 index points. It has since experienced a great deal of volatility: in March 2000 the index achieved its highest value to date of approximately 15.000 points but is now trading near 5.000 points, with some bubbles and crashes along the way.

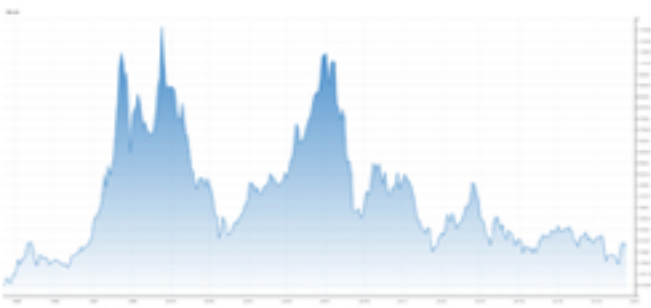


Figure 2 – "PSI-20" – Source: Trading Economics

PSI-20 is currently formed by the minimum required 18 companies (20 being the maximum): Galp, EDP, Jeronimo Martins, EDP Renovaveis, BCP, Navigator, NOS, Sonae, Altri, REN, Corticeira Amorim, Semapa, Mota Engil, CTT, F Ramada Investimentos, Pharol, Novabase and Ibersol.

The graph below shows us that, in July 2020, the three most valuable companies in the index were EDP and EDP Renovaveis, followed by Jeronimo Martins. Overall, EDP and EDP Renovaveis together have a market capitalization that is bigger than all the other 16 companies combined, which demonstrates the major importance of these two companies.

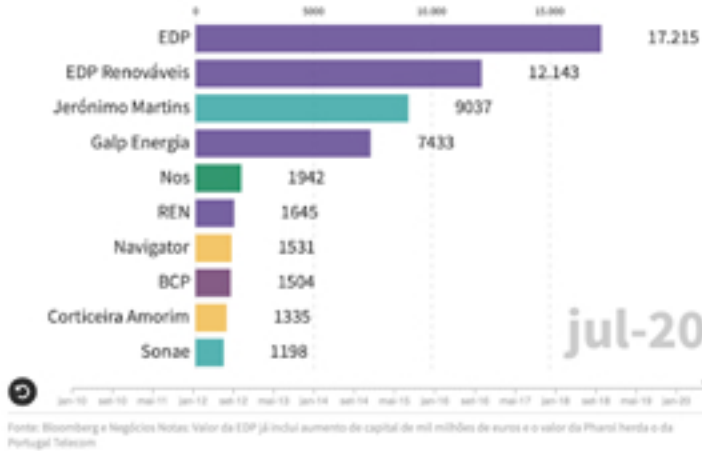


Figure 3 – "PSI-20 Components' Values" – Source: Jornal de Negócios

Performance Review

As stated earlier, PSI-20 has had volatile trading sessions - for example, measured in December 2020, the 30-Day Volatility was at 18,24%. In a long-term analysis, there are several important bearish and bullish markets worth analyzing over its historical data.

Since its base date on 31st December 1992 until the end of 2020, PSI-20 has offered an average annual return of 1,77%. From mid-1994 until January 2000 - the culmination of the dot-com bubble - PSI-20 registered a considerable amount of growth, contrary to what has happened from January 2007 until now. Specifically, PSI-20 went from 11 500 points in January 2007 to 4 800 points in January 2021, showing what can be considered as a long bearish trend.

Now, if we take a closer look at the companies themselves, it becomes clear that most of them had a negative performance in the last 3 years. In fact, the index annualized return in the last 3 years was -3,13%. As stated earlier, EDP and EDP Renovaveis are currently the most important companies in PSI 20 and, through the graph, we can see that the latter had a

growth of about 230% whereas the former registered an approximated 90% growth. On the other side, Mota Engil (a multi-industry company in the sectors of civil construction, public works, port operations, waste, water, and logistics), Banco Comercial Português (a Portuguese bank founded in 1985) and Ramada (a Portugal-based holding company) registered the worst performance of the group during the same period, at around negative 50%-60% variation.

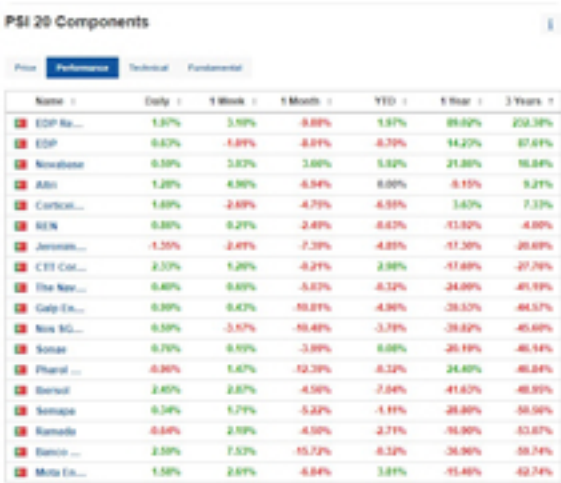


Figure 4 – "PSI-20 Components" – Source: Investing.com

Covid-19 Impact

The Covid-19 pandemic has affected global stock markets in a very similar way - a sharp and steep recession during the initial period, followed by a stable and relatively fast recovery. PSI-20 shares the same story in this respect.

During the "pandemic-year" 2020, the Portuguese stock market fell approximately 6%, a depreciation that did not, however, completely undo the 10,20% growth observed in 2019. To put these numbers in perspective, the Portuguese GDP is estimated to have fallen 7,6% that same year, versus a 2,2% growth during the year 2019.

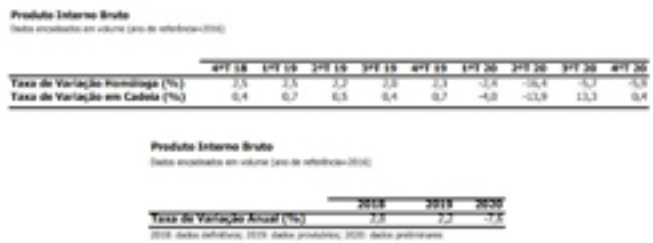


Figure 5 – "Portuguese GDP annual and quarterly variation" – Source: INE

As in other global stock indexes, the deep sell-off in the PSI-20 occurred mainly during the weeks of February and March when the first "stay-at-home" orders made investors fear the future state of the economy. During this time, the Portuguese index fell to an almost 30-year minimum value of 3500 points on March 23rd. However, in a long-term analysis, the index has been falling consistently since the 2008 recession. So, despite the significant downturn that Covid-19 had in the Portuguese stock market during 2020, it does not come close to the 50% depreciation observed in 2008 or the 30% fall after the official financial assistance request from the EU in 2011. Moreover, since then, the index has almost completely recovered all its losses from the March bottom, a gain consistent with hopes of a fast economic recovery thanks to the quick development of effective Covid-19's vaccines. In fact, the Portuguese GDP positive quarterly variation in the last two-quarters of the year points in this same direction.

Figure 6 – "PSI-20 devaluated 6% in 2020" – Source: Jornal de Negócios

By examining the components of the index, it is possible to observe which were the biggest winners and losers during the pandemic. On the one hand, "EDP" and "EDP Renovaveis" stocks both had a very positive performance during 2020, with the latter more than doubling its value during that year. These are companies from the energy sector in the electric power industry, so it is understandable how they were able to grow at a time where most people were forced to stay indoors. On the other hand, the vast majority of the stocks suffered a major blow on their prices, such as "Galp" (also a company from the energy sector, but in the petroleum industry, thus being affected by the drop in the price of Brent oil), "NOS" with over a 40% price decrease, and "BCP", one of the largest private Portuguese banks affected by the historical minimum interest rates and the increased preference for fintech by its clients. Overall, only 5 of the 18 companies were able to exhibit a positive performance, while the rest of the companies are only now starting to recover from their strong devaluations during 2020.

Figure 7 – "PSI-20 Components' Returns" – Source: Jornal de Negócios

What To expect For The Near Future Of The Portuguese Stock Market

In conclusion, PSI-20 can be considered as a good measurement of the overall state of the Portuguese stock market. Since its base-date value until the end of 2020, the index has been under extreme pressure by some of the biggest economic crises that have been affecting the global and European economy. In fact, in March 2020, affected by the Covid-19 pandemic, PSI-20 came close to the bottom at the original 1992 value of 3000 points, trading only 500 points above it. Nevertheless, its companies are still capable of growth and resilience, and a strong market recovery can now be forming into the future in what can be considered as a possible "buy-the-dip" opportunity.

European Union

The European Union has been working on helping methods for its own countries during the difficult time. Thus, it is important to review its financial aid package, its central bank's measures and the impact on its markets.

European Union's Financial Package

Every seven years the European Council, the European Commission and the European Parliament draw the EU's long--term budget, in a multiphase cooperation effort between the 3 institutions. All three have different mandates, like setting the bloc's policy direction in the case of the Council or having the legislative power in the case of the European Commission. The previous budget ended in 2020, and, during the same year, the institutions above mentioned worked on finishing the new budget, which is set for 2021-2027, and this particular budget is one of the most unique ones ever. First, the EU was facing such situations as Brexit and the fast-changing economic structure due to new technologies. Then the coronavirus pandemic hit and, with the health crisis, came an economic downturn as well.

The Financial Package

So, in February of 2020 and before the generalized lockdowns, the European Council gave their guidelines for the budget, which focused on two major points: predictability regarding the state members contributions, accompanied by budget discipline; and the budget itself needed to be shrewd to leave space for unseen situations, and, as always, respecting the EU's multiannual financial framework. Afterwards, the pandemic hit all the members, lockdowns started and the European authorities quickly realized that they were going to have to produce a tailor-made budget for this situation. In May of 2020, a new proposal was made, but it was only on the 10th of November that the agreement was closed

with the European Parliament. The European Commission presented a stimulus plan of 750 billion euros, called the Next Generation EU, together with a proposal for the EU's 2021-2027 budget of 1074.3 billion euros. This totals 1.8 trillion euros that were shaped to help to diminish the consequences of the coronavirus, as the bloc tries to instigate a V shape recovery, which is a fast recovery focused on an economic expansion in both 2021 and 2022 that would offset the downturn that occurred in 2020. Also, this package has the objective to create the base for a viable and more developed, greener and digital Europe in the future as well. The Next Generation EU, on the other hand, aims especially to help the countries recover from the recession caused by the Covid-19 and its centerpiece is the 672.5 billion euros recovery facility, with almost half to be conceded in loans and the remaining in grants so that the impacts of the pandemic can be mitigated.

Overall, the 1.8 trillion euros package is designed to be not only a response to the current needs but also a mechanism to enable the European Union to react to what tomorrow's uncertainty may bring.

The Problem And The Solution

This process, despite the joint effort we saw between countries and institutions, hit some speed bumps, with the biggest being the rule of law clause that the European Commission included back in May, which stated that countries who do not respect this rule, regarding the judiciary system of the members, would get a smaller share than the one it was provisioned in the budget. Hungary and Poland would probably be punished under this new rule, so they both threatened to veto both the recovery fund for Covid-19 economic implications as well as the whole budget itself, creating a real Mexican standoff in a time of desperate need to get this budget approved.

As this whole situation was becoming a bigger problem as the denial of the defined budget would require drastic cuts, the European Commission considered rebuilding the funds outside of its structures leaving Poland and Hungary out of it.

Then, Angela Merkel, current president of the EU's Council managed a compromise to keep the European Union united, that consisted in a delay of the sanctions for the countries who do not oblige to the rule of law to 2022, and by that not curbing the recovery anticipated by Poland and Hungary in both 2021 and 2022. This situation also showed some weakness to fellow competitors outside of Europe as the EU strug gled to stand united.

The rule of law for money distribution remains untouched since the agreement, stating that the European Commission can block disbursements of EU funds if it suspects corruption and misusing of those, so long as most of the members agree on it. In addition, countries that abuse on their undemocratic behavior can be punished, as long as it has unanimity among the EU members. Countries like the Netherlands were concerned with Merkel's vision regarding the "hold-outs", but later such stance was dismissed, as they declared themselves satisfied on the 10th of Decem ber. The rule of law is still criticized wildly around Europe, as it only concerns corruption and misuse of funds referred to before and it is virtually impossible to act on anti-constitutional situations, as Hungary muzzling its critics or Poland packing the country's top courts. Another critic is related to the incapability of beginning proceedings against countries violating some former laws regarding human rights and ethnic respect.

In conclusion, the EU and Mrs. Merkel deserve due recognition for managing to keep everyone "rowing" in the same direction on a financial program that is considered one of the most ambitious of all time since the formation of the former EEC.

The European Central Bank's Action

The current times are the most terrifying and exasperating ones. Everything is changing, from the economic situation to people's lifestyles. In fact, the implications of this virus are inestimable, and the marks left behind are much deeper. In order to minimize the effects and repercussions of the coronavirus situation, European Central Bank has been adopting and implementing, since March, a group of measures, whose main purpose is to support the economy of the European Union countries. Therefore, Portugal is one of the countries that benefit

from the Pandemic Emergency Purchase Programme (PEPP), a plan which pretends to hinder the progress of the crisis, underlying to Covid-19 and, in this way, preventing an economic disaster.

Helping The Economy Absorb The Shock Of The Current Crisis

The ECB first started buying assets in 2015, as a non-standard monetary policy measure, which supported economic growth and helped to return to the inflation levels close to 2%. Back in March of 2020, the ECB developed a major €750 billion Pandemic Emergency Purchase Programme (PEPP) and adjusted the previous requirements regarding eligible assets, as well as relieving collateral standards by adjusting the main risk parameters of the collateral framework. In particular, the central bank aims to ensure counterparties continue to benefit from the Eurosystem's refinancing operations, by namely expanding the scope of additional credit to include claims related to the financing of the corporate sector.

Then, on the 4th of June, the ECB deemed it necessary to increase the pandemic emergency purchase programme by €600 million reaching a total of €1,350 billion. The PEPP would also ease the general monetary policy stance, supporting in a more favourable fashion, businesses and households. Net purchases were decided to continue at a monthly pace of €20 billion, together with the purchases under the additional €120 billion temporary envelope. The governing council decided that these purchases were to continue for as long as necessary to reinforce the accommodative impact of its policy rates. The interest rates on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility were not altered and continued at 0.00%, 0.25% and -0.5%, respectively.

On the 10th of December, interest rates remained once again untouched and the PEPP increased an additional €500 billion and the horizon for net purchases was extended to the end of March 2022. Furthermore, the central bank increased the total amount that counterparties are able to borrow in these operations, from 50 per cent to 55 per cent of their stock of eligible loans and in order to provide an incentive for banks to sustain their level of bank lending. Only banks which reach a certain performance level are entitled to these revised conditions.

Supporting Access To Credit For Firms And Households

The ECB has made an effort to increase the amount of money that banks can borrow from the central bank specifically to make loans to those hardest-hit by the pandemic, namely small and medium--sized firms. To facilitate borrowing, the ECB kept low-interest rates and eased stan dards regarding the collateral the banks have to ensure when borrowing from the central bank, as well as being less strict when evaluating these assets.

The ECB, on the 30th of April, reduced interest rates on all targeted longer-term refinancing operations by 25 basis points to -0,5%. The central bank also allowed interest rates to be as low as -1% for banks and came forward with additional longer--term refinancing operations to guarantee sufficient liquidity and smooth money market conditions.

On December the 10th, four extra pandemic emergency longer-term refinancing operations (PELTROs) were implemented, on a quarterly basis during 2021, with a duration of approximately one year. In a similar fashion, the Governing Council decided to modify the terms and conditions regarding the third series of targeted longer--term refinancing operations (TLTRO III).

Increasing Bank's Lending Capacity

Another measure implemented by the Central Bank, which pretends to reinforce the support given by banks to the economy, consists of "Increasing bank's lending capacity". In order to achieve its target, the ECB became more condescending in relation to "the amount of funds, or "capital", that banks are required to hold as a buffer for difficult times".

According to the first guideline published on 12th March 2020, ECB provided, on the one hand, capital and liquidity buffers in such a way that banks have more margin to support the economy, assuring the funding of households and corporate customers. On the other hand, the measures, by which banks are governed, became less restrictive.

On the 27th of March, the Central Bank released that banks should not pay dividends until at least October and buy back shares during the Covid-19 pandemic. With this recommendation, Central Banks pretended to ensure that banks complied with their obligations of supporting the economy during the coronavirus situation, assuring mainly the funding of households, small businesses and corporations.

The Reinforcement Of The Measures

Taking the evolution of the pandemic situation into consideration, the ECB decided to extend, on the one hand, the deadline for the measures adopted and, on the other hand, the ceilings set. In fact, the numbers of Covid-19 cases kept growing in the majority of the European countries and many of them had already imposed lockdowns. Hence, Executive Vice-President Margrethe Vestager affirmed this January that "As the coronavirus outbreak persists longer than we were all hoping for, (...) we have prolonged the application of the Temporary Framework until the end of the year. We have also increased the ceilings of certain measures set out in the Temporary Framework and provided incentives to use repayable instruments, by enabling the conversion of certain loans and other repayable instruments into direct grants later on. In this way, the EU enabled the Member States to make full use of the flexibility of State aid rules to support their economies while limiting distortions to competition."

Above all, the support given by European Central Bank is essential to mitigate the impact of this frightening and distressing situation, helping not only companies and corporations but also European citizens. According to Christine Lagarde, the President of the ECB, "Extraordinary times require extraordinary action. There are no limits to our commitment to the euro."

EU And Brexit: Reshaping The Markets

After months of fraught negotiations, Britain and the European Union had reached a historical trade deal on the 24th of December of 2020. On the 31st of December, the UK and the EU Parliaments had signed off the Trade and Cooperation Agreement (TCA) on their new partnership, which would apply from the 1st of January of 2021.

The Deal And The Markets

After the Christmas break, the FTSE 100 Index climbed as much as 2.7% in London and the UK stock market closed at its highest in nine months. On the first full day of trading since the Brexit deal, the pound also rose and long-dated sterling corporate bonds led peers. As for the first trading day of the year, European shares soared due to the EU-UK TCA and to the Covid-19 vaccination campaigns across the continent. Nevertheless, the markets reacted negatively at the end of the day because Boris Johnson announced a new lockdown in England.

It is a weird predicament both sides have fallen under due to the delay in Brexit negotiations, only concluding during one of the worst years for the bloc, ravaged by the pandemic and its following lockdowns and the negotiations behind the next EU budget. The severity of the current Covid-19 lockdowns will surely outweigh Brexit's impact in the short-term, but it seems some industries are already prospecting what the future holds, whether good or bad.

Some of the most illustrious winners from Brexit were the US Bankers, due to the uncertainty laid on Financials and Institution's relations between the London hub and the Continent, with many establishing new European offices to have access to those markets. On the other foot, many US Bankers already ran companies on both sides, giving them quick access to both markets and businesses that cannot be immediately picked up by their British or European counterparts. And sure enough, this prospect and following conclusion made Goldman Sachs' stock surge nearly 10%, between the 4th and the 8th of January, and a further 3.77%, from the 11th till the 15th, reaching an all-time high of 307.87 on the 14th. Moreover, JPMorgan Chase followed suit, surging 7.04% and 1.93% on the same time frames, respectively.

However, Financial Services from both the EU and UK have suffered also. Great Britain has seen many of its players relocate to European cities, with official data showing that approximately £1.2 trillion in financial sector assets and 7500 jobs have been relocated since 2016. Speaking again of the first trading session since Brexit, the three biggest platforms in London that handle European stocks noticed that almost all of its businesses moved into the bloc. For instance, the Chief Executive Officer of Aquis Exchange announced that 99.6% of the European stock trading shifted to its corresponding venue in Paris. Also, shares in UK banks such as Lloyds Banking Group and Barclays dropped between 0.7% and 3%, and the broader European banking index fell 0.8%, as the agreement does not cover UK's financial services.

The uncertainty over the Financial industry's operations, fruit of differing regulations and the need for equivalence rulings on investment banks' business, which have not yet been discussed or prospected, is sure to be felt. Already in the second month of 2021 and the UK and the EU are still no closer to set a deal over its financial markets' future relationship. Recently, an EU commissioner announced that the framework that the bloc has with the US is similar to the framework it intends also with Britain.

The Future Of Capital Markets Union

Question marks have also been raised over the bloc's Capital Markets Union. The CMU is a result of the EU's ambition to establish an integrated capital market for cross-border investment into the bloc. The city of London - the EU's largest financial center - was one of the main intervenients in the CMU. Therefore, Brexit affected this complex CMU's project:

- During Brexit's transition period, financial markets in the UK and the EU remained uncertain and volatile. Initially, in 2016 it was thought that the UK would remain attached to the EU. However, in 2021 will take place more negotiations to flesh out the deal;

- The news of this agreement provided traction to UK markets. However, it would not protect the economy from long--term scarring, prompted by a combination of Brexit and coronavirus;

- Brexit disrupted efforts to achieve an integrated European capital market under the banner of the CMU project. Indeed, this phenomenon led to disruption for investors, issuers, and both the UK and European economies and, as a result, a new action plan has been published on the 24th of September 2020.

The Deal And The Industries

Already disrupted since the start of 2020 from the pandemic lockdowns, the supply chain of many industries is sure to be even more affected by the Brexit deal, in which it is established that goods in transit contain, generally, more than 50% of locally sourced content to qualify for free trade and other benefits. This means that many manufacturers may have to make sourcing adjustments. It will also heavily impact the Logistics Sector and the Agriculture Industry.

Furthermore, special attention must be brought over Pharmaceuticals, as the deal signed also raises several doubts over diverging regulations. Alongside supply chain disruption and the need for companies to bilaterally negotiate, these diverging views are more pronounced considering the EU's vaccination campaigns against Covid--19. AstraZeneca has decided to establish parallel labs in the EU but even then the Isle was the quickest to approve its vaccine and commence roll-out. Difficulties regarding the bloc's political harmony and payment meant that the company would only supply the continent with 31 million doses until March, with Brussels officials fearing they were being treated unfairly when compared to the United Kingdom. AstraZeneca has since promised a further 9 million doses, on January 31st, but even then the company's stock has not recovered from its volatility, ending the first week of February at 7275 GBX, the lowest since the 24th of December. GlaxoSmithKline has also had a rocky start to the year, with its preparations for more continental labs, but has, since the 2nd of February, plummeted to its lowest stock value since 2018 (at 1265.8 GBX).

Since the 2016 Brexit referendum, Britain has been the worst performer among the most relevant equity markets. The discount that has dogged UK assets since 2016 will not disappear immediately and the hope the deal would allow British assets

to catch up with high-flying overseas markets may be disappointing. In the following years, politicians, regulators, and bankers on both sides of the English Channel will vie to shape European financial markets.

The Portuguese Presidency Of The Council Of The European Union

Finally, as Portugal takes over the Presidency of the Council of the European Union, it is vital to explore the objectives, challenges and opportunities that might surge nowadays.

The Presidency Of The Council Of The European Union

A Rotating Presidency

The Presidency of the Council of the European Union rotates among the member states every 6 months. Following the Lisbon Treaty in 2009, it was established that member states that consecutively take on the presidency collaborate in groups of three, known as "trios". Each trio defines long-term objectives and develops a common agenda containing the matters that will be dealt with by the Council over an 18-month period. After that, each of the three countries formulates its own more specific 6-month programme, in accordance with the common plan.

The Tasks Of The Presidency

Throughout each 6-month period, the Presidency is accountable for conducting reunions at all configurations in the Council (except for the Foreign Affairs Council), in order to make sure the EU's work is continued and the legislative processes are carried through. To do this, the Presidency must act as an honest and neutral broker and must encourage cooperation among member states.

Therefore, the Presidency has two main tasks:

- Planning and chairing meetings in the Council and its preparatory bodies:
When doing so, the Presidency must guarantee that the Council's rules of procedure and working methods are correctly put into practice and that debates are properly carried out. The Presidency is also responsible for arranging several meetings, both formal and informal, in Brussels and in its country;

- Representing the Council in relations with the other EU institutions:
The Presidency must work towards an agreement on legislative matters, resorting to trilogues, informal negotiation meetings and Conciliation Committee meetings. To fulfil this task, the Presidency cooperates directly with the President of the European Council and the High Representative of the Union for Foreign Affairs and Security Policy. Besides assisting their work, the Presidency may sometimes be entrusted with certain duties on behalf of the High Representative, such as presiding over the Foreign Affairs Council when common commercial policy issues are debated.

The Portuguese Presidency Of The Council Of The European Union And Its Aims

On the 1st of January 2021, Portugal took over its fourth presidency of the Council of the European Union, which will last until the end of the first semester of 2021 (30th of June).

The Portuguese former presidencies took place in 1992, 2000 and 2007. Their main achievements were, respectively: the Maastricht Treaty and the European Economic Area Agreement; the first EU-Africa Summit, the adoption of the Lisbon Strategy and the celebration of the Cotonou Agreement; and the Treaty of Lisbon.

The management of most issues related to the Portuguese presidency of the Council of the EU will be delegated to Augusto Santos Silva, the minister of Foreign Affairs. This will be his third presidency.

Portugal succeeds Germany and precedes Slovenia, forming the trio Presidency. Together, they elaborated a common programme for 18 months influenced by the commitment of standing up against the Covid-19 crisis and the importance of a partnership with the UK, providing a base for each Presidency's specific programme.

The vision and priorities of Portugal-'s Presidency of the Council of the EU are clearly expressed in its motto "Time to deliver: a fair, green and digital recovery" and in its logo "The Sun and the Helm", which transforms the 12 stars of the EU flag into a Union of 27. The logo and the motto portray the idea of delivering now, together, to build a future that is innovative, sustainable, positive and human.

The Portuguese Presidency wants to provide positive and flexible actions that can build bridges between everyone. The most emblematic moments will be:

- The launching of the Horizon Europe Programme of investigation and innovation, that will be held along with the reunion of Science ministers, Nobel prize winners and business leaders.
- The EU-India Summit, which will join the 27 members' leaders and the Indian prime minister, will focus on the cooperation between the EU and India on the development of artificial intelligence and data science. The Portuguese prime minister considers this "the crown's jewel" of the Portuguese presidency.
- The Conference on digital education at which the Lisbon Declaration on democracy and digital rights is to be signed, the European Atlantic data platform is to be launched and the underwater optical fiber cable (EllaLink) is to be installed, connecting the European continent (Sines, Portu gal) to the American (Fortaleza, Brazil).

Moreover, the refurbishment of the relationship between the EU and the USA is also being looked at.

The Portuguese Presidency in the Council of the European Union, which has already been mentioned above, will take place between the 1st of January 2021 and the 30th of June of the same year and will have as priorities in the Programme of the Portuguese Presidency of the Council 2021: recovery in a post-pandemic context, ensuring the transition to a greener and digital Europe, promoting the implementation of the European Pillar of Social Rights and also increasing Europe's autonomy in a context of openness to the rest of the world.

It should also be noted that the Programme defines lines of action on which Portugal will act to make the European Union more resilient, social, greener and digital. With that in mind, to make the European Union more resilient, Portugal will implement measures such as: reducing external dependence on critical goods and technologies, investing in innovation and ensuring food security. In an effort for a greener Europe, Portugal will try to implement the European Ecological Pact in order to achieve a sustainable economic recovery. In the context of a more social Europe, Portugal will focus on problems related to gender equality, combating discrimination, poverty and social exclusion. For a digital Europe, Portugal will seek to implement measures such as promoting the digital transition and leading Europe to leadership in the matters of innovation and digital economy. Finally, in order to make Europe more global, Portugal will try to give a political boost in relations with African countries, for example.

Challenges And Opportunities During The Current Times For The Presidency

Nowadays, questions about the near future for the European Union start to surge at a startling pace. However, not only can we notice evident challenges that the new Presidency of the Council is undoubtedly going to have to face, but we can also analyse some opportunities that are about to rise.

Challenges

With the current pandemic situation, hanging in the air the uncertainty on all fronts (political, economic and social), there are several challenges in this Portuguese presidency of the 2021 EU Council.

With almost general confinement across Europe, most economic activity in each country is suspended or only possible online. Firstly, this affects the way in which the EU Council sessions and meetings are held. Although there is already a vaccine to combat Covid-19, it is almost certain that throughout 2021, the use of a mask will be mandatory anywhere and social distance recommended. In this way, it is very likely that this presidency will be fulfilled in the online format, that is, all decisions made

will be made known to other EU members through online platforms, with each leader being in their own country. This form of deliberation brings a challenge never before experienced, but, on the other hand, possible to combat due to all the available technological advances.

Portugal will also have the difficult task of presiding the EU Council in a year in which several countries of the EU are in serious economic and financial crises due to the effects of the pandemic. It is the spirit of the EU to cooperate between countries when they are in difficulties. Nevertheless, it will be a great challenge to coordinate all these recovery efforts and plans when all EU countries have been, are or will be affected by the consequences of the pandemic.

Another difficulty that Portugal may face in this presidency is the recent resurgence of the extreme right in several European countries. Countries such as Poland or Hungary have raised problems on EU proposals, such as the recent € 750 billion recovery plan with the aim of relaunching the European economy in the next 7 years in response to the crisis brought by the pandemic. In a first phase, these two countries were displeased with the program and vetoed the same. In this way, these far-right movements can threaten peace between EU members, making it difficult for Portugal to work in this presidency.

The UK's withdrawal from the EU, which took place on 31st of December of 2020, changed the scenario given that England was one of the main partners in the EU. It is one of the priorities of the Portuguese presidency to seek an embracing partnership with the United Kingdom that allows the maintenance of good relations between both parties involved.

Opportunities

Seeing things from the hopeful part of the spectrum, having in mind that the reality in which this presidency is embarking is completely different from the one seen in each of the three times the country presided the council in the past, there are still amply opportunities for this presidency to seize on.

This time the scene is much different, for the worse, evidently. The EU, as much as the rest of the world, faces its darkest hour, its hardest challenge. The 4-way crisis the EU is going through (a health crisis, a social crisis, an economic crisis, and an environmental crisis) has no precedents in a lifetime and, therefore, a powerful response is demanded.

The Portuguese presidency of the council of the EU will start the reconstruction of Europe and, with the process, many opportunities urge as said. Let's look at the 4 main opportunities ahead for the Portuguese presidency of the council of the EU.

First of all, the opportunity to learn from its mistakes and experiences. The EU has now the opportunity to prevent and to prepare a future pandemic, not only through investigation but also through investment in National Health Systems so that all conditions necessary for fighting diseases are assured.

Still looking to the consequences of this pandemic, the months of confinement accelerated the digital transition. This transition is now imminent and the EU as a space of convergency must treat it as its responsibility. In today's world the incapacity to manage electronic devices comes as a big barrier for most, thus educating people on managing digital platforms comes as a process of democratization.

Also very relevant for our future are the environmental commitments. It is crucial that companies minimize their environmental footprint leading the world on that cause. The EU and its countries have been, during the pandemic, and will be after it, supporting and providing for companies and factories. With it comes the opportunity and the responsibility for this presidency to promote and continue the climatic transition within those companies.

Finally, and maybe the most relevant, comes the opportunity to value the unity between the countries in the European Union and understanding that together makes things easier. This is a great opportunity for Portugal to unite in times of so much distancing and to put the EU in the vanguard of the digital and climate transitions of the world.

GLOBAL REPORT

Writers

Argentina: Juan Cruz Junghanss

Brazil: Gabriel Alvarez, Guilherme Portilho, Vinícius Porto, Rafael Voloch Majzels, Bruno Neves, Luis Carmona

India: Bhavya Sood, Cherish Maheshwari, Keshav Mundhra, Pulkit Sehgal, Ramanjeet Singh, Siddharth Garg, Rahul Goyal, Shailaja Dadhwal, Soumil Mittal, Kshitij Sachdeva, Dhruv Bansal,-Deorishi Gupta, Shrusti Singh, Aditi Bhatia, Harshita Sharma, Tannu Khandelwal, Shivansh Chawla, Nandini Gupta, Saanvi Gambhir, Aditya Vikram Singh, Yuganksha bhasin

Israel: Roi Kantor & Yuval Cahana

Kenya: Awuor Ashley, Imbuhila Ephie , Mphatso Mwale, Owuor Clara, Sang Stacey

Netherlands: Iris Wijnen, Rolan Böhm, Janusz Skipol, Stefan Abrudan, Miklos Doma.

Portugal: Francisco Ribeiro, Bruna Campos, Hugo Teixeira; Ana Gomes, Clara Lopes, Nuno Afonso; João Venade, Inês Silva, João Felício, Telma Silva, Tomás Pinto, Inês Vieira, Rodrigo Carvalho; Beatriz Pereira, José Nogueira, Carolina Araújo, António Flores, Jesus Barbosa , Beatriz Figueiredo, Francisco Miranda, Tiago Almeida, André Falcão.

Designer

Guilherme Nunes

Global Report Manager

Igor Coité

li@poli.ufrj.br

Publication Date:

20th April, 2021

Idealized by

LIGA DE INVESTIMENTOS
Escola Politécnica - UFRJ

Partners

IFSA Network India

Capital Market Club
Coller School of Management
Tel Aviv University

FEP Finance Club

Erasmus University Rotterdam

Club de Finanzas UCEMA