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Jalan Panel bats for lowering of RBI reserves

The new government that takes office post May 23 is set to be pleasantly surprised. Sources told ETNow that the Bimal Jalan panel, reviewing the economic capital framework, is likely to recommend lowering of RBI reserves. The amount of reserves the central bank can keep was a contentious issue between the government and RBI, which les to the stepping down of former RBI governor Urjit Patel in December last year. "The panel's recommendations will balance the issue of growth and monetary function. It will look at the way reserves were used during the Asian Crisis of 1997 and the Lehman Crisis of 2008," sources in the know of the development said. The Jalan panel will submit its report by June and could recommend transferring the reserves to the central government over a course of 4-5 years. "Any central bank has to come up with a consensus on what is the optimum level of reserves and transfer the rest to the central government over a period. Immediate transfer could be inflationary in nature," the source said. "As long as the recommendations are prospective in nature and not retrospective, the consequences of the recommendations of the Jalan panel should not be too difficult to handle. Any transfer of reserves that is prospective will not rock the boat as far as the economy is concerned but transfer of reserves on retrospective basis would mean shrinking of RBIs balance sheet could have grave impact on the economy," said ET Now's Consulting Editor Mythili Bhusnurmath. At a time when growth is sputtering, consumption is weak and extravagant promises have been made by political parties this election season, higher funds from central bank could aid the government's finances. RBI gave a record interim dividend of Rs 28,000 cr to the government after Shaktikanta Das took over after a public standoff over RBI's independence led to a change at the top of the central bank. "The panel was set up as discussion on the reserve issue has been pending for years. We are not saying give the funds to us and we will tell you how should the funds be used, but discussions on monetary and fiscal issues are important," the second official said.

Could the single engine driving India crash? Yes, if you go by one of Modi's top guys

At a time when the shadow of a slowdown lengthens but the government steadfastly downplays any such concern, here comes a cracker of an observation from one of India's most celebrated economists who also happens to be a vital cog in Modi's policy team. In an interview to NDTV, Rathin Roy, member of the Prime Minister's Economic Advisory Council (PMEAC) and Director of National Institute of Public Finance & Policy, said that India could be headed towards a structural crisis. In view of the coming crisis, India could soon get ensnared in the middle-income trap, eventually becoming like Brazil or South Africa, the top economist warned. "In the history of the world, countries have avoided the middle income trap, but no country — once caught in it — has ever been able to get out," he said. The shadow of a slowdown An ET Intelligence Group survey had found a few days ago that India's consumption story was seriously misfiring — with many sectors like auto, FMCG and air travel, among others, wallowing in multi-quarter lows. Decreasing money supply, rising uncertainty, and a plunge in income growth in both rural and urban India were forcing people to cut down on spending, the study had discovered. These findings were particularly worrying for the economy because consumption was till now just about the only real driver that had kept India moving. Both macro data (like household savings) and micro data (like sector and company volume) showed Indian households may have cut consumption due to slow income growth, analysts said. Whoever comes to power on May 23 will have to step on the gas if consumption — which due to lack of private investment and export growth has assumed primary significance for the economy — were to be brought back on track to help India avoid that trap, according to experts. The trap in India's path The World Bank's lower middle income range for countries is defined as per capita gross national income (GNI) of between $996 and $3,895. As per 2017 figures, the income of an average Indian was in the vicinity of $1,795, which placed the country well below the halfway mark, data from Bloomberg shows. During the same period, the comparable figure for China stood at $8,690, which put it well above the halfway mark in the upper middle income range — defined as GNI per capita between $3,896 and $12,055. Roy said that the 10 crore Indian consumers who have so far been powering India's growth story are now beginning to plateau out. He called it an early warning: since 1991 the economy has been driven not by exports but by what these 10 crore consumers wanted to buy. The risk, Roy said, now runs deeper; the possibility that India will remain stuck at the middle income range has now started appearing more and more real, which indicates India will never be another China or South Korea but could begin replicating basket cases like South Africa or Brazil where large swathes of poor population are powering not growth, but crime. A word of caution. The widely respected policy czar's words have underlined the fate of an economy caught between a rock and a hard place at a time when a slowdown has gradually taken firm hold, analysts have opined. And it's not just Rathin Roy. Even the Ministry of Finance, in its Monthly Economic Report of March 2019, had shed ample light on the current scenario. "India's economy appears to have slowed down slightly in 2018-19. The proximate factors responsible for this slowdown include declining growth of private consumption, tepid increase in fixed investment, and muted exports," it had warned. And what does Roy think of the claim about India being the world's fastest-growing economy? India certainly is currently the world's fastest-growing, but this is not the fastest growth in India's history, he says, adding an interesting aspect to the debate — he thinks India is fastest only because China is not currently the fastest. A growth rate of 6.1-6.6 per cent is not bad, but consumption slowdown is going to put that under threat, Roy warned: "A time will come when that will stop."

Payments Banks: How RBI's move for financial inclusion quickly went downhill

Durable relationships are rarely transactional but frequent transactions could form the bedrock of solid relationships – and help achieve the federal objective of financial inclusion. Policymakers at Mint Road were guided by this noble thought when they granted payment bank licences four years ago to familiarise India with transaction modes that didn't use currency bills. In theory, the central bank was doing what was needed to extend organised banking services to those left unbanked by traditional lenders. In practice, however, business models of these new-age entities were not defined with sufficient clarity to underpin sustainable operations. Such was the fog on the windshield that four of the 11 original licence holders returned the permits within months after the Reserve Bank of India (RBI) offered them. Others are back to the drawing board, trying out several revenue streams to build cash flows that would last. These include transaction support, cash management, and cross-selling of other financial products, such as insurance and mutual funds. To be sure, payment banks begin with a distinct regulatory handicap. Unlike traditional lenders, payment banks cannot keep public deposits of more than Rs 1 lakh with them. They cannot lend money either, but must invest 75% of their demand deposits in government securities. Of the seven that now have the licence to run the business, Fino Payments Bank, India Post Payments Bank and Airtel Payments Bank have started fullfledged operations. In comparison, NSDL Payments Bank, Jio Payments Bank and Aditya Birla Payments Bank (ABPB) have operations that are limited in scale. Vodafone was also among the companies that secured a licence, but its merger with Idea Cellular resulted in regulatory complications for the entity as Idea had 49% stake in ABPB, a stake preventing the Vodafone payments bank from starting out. The objective of giving out payment bank licences in 2015 was to "further financial inclusion by providing small savings accounts and payments/remittance services to migrant labour force, low income households, small businesses, other unorganised sector entities and other users," according to the relevant RBI circular.

BANKABLE BUSINESS MODELS

The success of the Jan Dhan Yojana since the scheme was launched has meant that opening bank accounts is no longer as lucrative as it was expected to be, forcing payment banks to figure out other alternatives. For example, Fino Payments Bank, which was earlier running a successful banking correspondent business, has moved totally to a commission-based model, riding on transactions from small shops. Its branches have remained at 425 while more merchant outlets have been added to collect and disburse cash. "We started with 25,000 merchant outlets and have now increased to more than 1 lakh, but our branches have remained at around 425. There are another 1,20,000 to 1,50,000 third-party merchant points under partnerships. It is a variable model that pays for itself. The merchant gets commission on micro ATMs and CMS, so the merchant economy is better and customer loyalty is superb. We can also earn on both side on supply and demand," said Rishi Gupta, CEO at Fino Payments Bank. These new banks have also had to learn the hard way to keep within the regulatory ambit. Last year, Fino was barred from opening any new accounts after the total balance in certain accounts went above the Rs 1 lakh limit. The bank has since tied up with Suryoday Small Finance Bank to automatically transfer funds in accounts exceeding Rs 1 lakh to the small finance bank, which has no such restrictions. Paytm and Airtel payments banks also had to suspend new account openings after they were accused of violating the KYC process mandated by RBI. Last year's Supreme Court judgement, which denied private companies the right to seek a person's Aadhaar number to use the network for e-KYC, has hit these banks hard since most of them had built processes around this low-cost system. "The difference between e-KYC and manual KYC is at least three times in terms of cost. Right now, we are doing 70% of KYC manually and we hope to be gradually able to do 90% of KYC electronically by June," said Satish Kumar Gupta, CEO at Paytm Payments Bank. With just its second branch launched last week, the Paytm banking network is almost entirely correspondent led, with 2 lakh banking correspondents across 550 districts in the country. Gupta said the plan is to expand to 2.50 lakh banking correspondents across more than 600 districts by the end of the fiscal. India Post Payments Bank, the earliest to receive a licence, is relying on its readymade postal network of 1.55 lakh post offices to function as access points for its customers. Unlike Fino and Paytm, India Post Payments Bank can also lean on the postal savings account for automatic transfer of deposits when it exceeds the stipulated Rs 1 lakh. The post office savings bank has 39 crore accounts, of which 17 crore are savings accounts. "The margins are small, so scale is very important. Regulators have allowed us to tie up with third-party services to cross sell our products. We have partnered with Bajaj Allianz on their life insurance product, with PNB to offer loan services and we also tied up with the government on insurance products," said Suresh Sethi, CEO at India Post Payments Bank. Banks that had created moats have not felt the disruption as much. DCB Bank, for example, announced doubling its branch network in 2015. "Looking back now, that enhanced network helped us to be in a better position today. The impact of payment banks has not been much because they do not have a differentiated product to offer and are paying to acquire customers like any of us. But I would still say they are a work in progress," said DCB Bank CEO Murali Natrajan.

THE ROAD AHEAD

Payment Bank CEOs say the future of the business will be based on transactions, including cash withdrawals though their network of small stores across the hinterland. Fee income generated by selling financial products should be another revenue stream. However, profits are still not in sight. "We have not broken even yet as have none of the other payment banks. The initial costs of investments and limitations on business operations have limited our operations but as more and more people start availing our services, we expect revenue growth. Talking about the future is futile, but in time our business will expand and evolve," said Sethi from India Post Payments Bank. Fino, which had a banking correspondent model previously, has also not broken even but expects that the bank can start showing profits in the next two to three quarters. "Year on year, we have so far seen a 45% growth in income mainly due to fees from transactions in digital, cash management and insurance business. As a bank, we expect to be in the range of Rs 400 crore profit annually. Profit is currently at a break-even level in terms of earnings before interest tax, depreciation and amortisation (EBITDA)," said Gupta from Fino.

Credit demand, deposit growth lose steam

Both bank credit and deposit growth lost the momentum and slowed to 12.95 percent and 9.71 percent at Rs 96.21 lakh crore and 124.86 lakh crore respectively, in the fortnight to April 26, according to the Reserve Bank data released Thursday. In the year-ago fortnight, credit stood at Rs 85.17 lakh crore while deposits stood at Rs 113.81 lakh crore. In the previous fortnight, credit off take grew 14.19 per cent and deposits 10.60 percent. For the full year to March 2019, bank credit grew 13.24 percent and deposits 10.03 percent. On a year-on-year basis, non-food credit rose 12.3 percent in March from 8.4 percent. Advances to agriculture and allied activities more than doubled to 7.9 percent from 3.8. Credit to the services sector expanded 17.8 percent compared to 13.8 percent in March. Advances to industry rose 6.9 percent compared to a low 0.7 percent a year ago. Personal loans growth slipped a bit to 16.4 percent in the month from 17.8 percent.

ICRA top brass being probed for influencing AAA rating for IL&FS Rating agency

ICRA's top brass is under Sebi scanner for alleged interference to ensure good rating for IL&FS, according to sources. Sebi is looking at whistle blower allegations that ICRA top management meddled to ensure AAA rating to IL&FS. The market regulator has forwarded the whistle blower complaint to the rating agency. "The board of ICRA has given KPMG mandate to look into allegations," sources said. Sebi has started adjudication proceedings against a rating assigned to a client, ICRA said in its earnings statement, adding that the board has hired external experts to look into the anonymous complaint forwarded by Sebi. "The company is in the process of addressing certain matters (i) related to credit rating assigned to one of its customers and its subsidiaries, regarding which adjudication proceedings have been initiated by Sebi and (ii) related to an anonymous representation that was forwarded to the company by Sebi. The board of directors has appointed external experts to assist with/ look into the aforesaid and related matters, which are currently on going. Based on the work done till date, the company has made provision on a prudent basis with regards to the adjudication proceedings, while, apropos the representation, no findings have yet been identified. The company will consider the implications, if any, in due course, upon completion of these matters," Icra said in the disclosure. The company on Thursday reported a consolidated net profit of Rs 25.85 crore for Q4FY19 over Rs 27.42 crore reported for the corresponding quarter last year. The Icra stock settled 4.28 per cent down at Rs 2,969.80.

RBI weighs incentives for banks to move IBC

MUMBAI: The Reserve Bank of India (RBI) is understood to be weighing a plan to 'incentivise' lenders to take errant borrowers to bankruptcy court. It's part of the regulatory countermove that RBI is working on to overcome hurdles in the wake of a recent Supreme Court ruling. A month ago, the apex court struck down RBI's February 12, 2018 directive that gave defaulting companies 180 days to agree on a resolution plan with lenders or be taken to bankruptcy court to recover debt of Rs 2,000 crore and above. According to people aware of the matter, RBI is considering a proposal to assign a 'lower risk weight' on loans to companies against which action has been initiated under the Insolvency & Bankruptcy Code (IBC) of 2016. "A lower risk weight would act as an incentive to banks as it would help them in conserving capital. It would be a regulatory change that would be very much within RBI's domain," a person familiar with the proposal told ET. Lower risk weights on loans would make it easier for banks to achieve and maintain capital adequacy ratio. Action Plan to Salvage Sunk Loans Capital adequacy ratio determines the quantum of loan a bank can disburse at a given level of capital (i.e, equity and free reserves). A bank has to live with a string of business restrictions if its capital adequacy slips below the floor set by the regulator. "A lower risk weights on IBC companies should be an acceptable regulation — simply because initiating corporate insolvency is a step towards resolution of NPAs (non-performing assets)," said a senior banker. After the apex court ruled that the February 12, 2018 circular was beyond the scope of the RBI's powers, the regulator has been working on a new framework for debt resolution and invoking the corporate insolvency code. "Since it would not be possible (post the court ruling) for RBI to fix a deadline of 180 days or even 1 year (from the day of default) for banks to invoke the insolvency law, it's thinking of ways to incentivise lenders for using the IBC," said a banker. Under the circumstances lower risk weights could be an element in the new action plan to salvage sunk loans. ET's email to an RBI spokesperson went unanswered till the time of going to press. According to the insolvency law, any financial creditor (among other creditors) can file an insolvency petition before the National Company Law Tribunal (NCLT) which was formed to resolve corporate disputes, improve ease of doing business, and enable quicker implementation of the bankruptcy code. Within 14 days, the tribunal has to pass an order for insolvency resolution. Once NCLT passes its order, the seriousness of the code becomes apparent: an insolvency practitioner steps in to take possession of the company's assets, replace the board with a committee of creditors, issue public notices, and run the company as a going concern. In the next 180 days, which can be stretched by another 90 days , a resolution package comprising a debt rejig, entry of new investors, infusion of fund by promoters, among other conditions is drawn up. The company goes into liquidation if either the management or creditors with at least 75% of the outstanding loans turn down the revival package. There is a widely shared perception that the culture of loan recovery and repayment that IBC was beginning to inculcate would suffer following the Supreme Court ruling neither because neither lenders would be forced to move bankruptcy court nor would corporates be under pressure to regularise loan servicing. RBI had often raised or lowered risk weights on loans to either deter loans to certain businesses such as stock broking, real estate and commodities, or encourage lending to segments like agriculture. (If risk weight on a loan is 75% and capital adequacy is 9%, the minimum capital a bank needs for a loan portfolio of Rs100 crore is Rs 6.75 crore (100 *0.75*0.09).)

IL&FS default: Role of LIC officials under SFIO lens

MUMBAI: The Serious Fraud Investigation Office (SFIO) is examining the role of Life Insurance Corp officials as part of its investigation into the Infrastructure Leasing & Financial Services (IL&FS) default in September last year. The shock default led to a liquidity squeeze, the effects of which are still reverberating through the financial markets. LIC is the largest shareholder in IL&FS with a 25% stake and had its representatives on the board. The SFIO recently questioned a former LIC director, said an official familiar with the development. The agency is seeking information about the funding of IL&FS Transportation Networks Ltd (ITNL) by IL&FS Financial Services Ltd (IFIN) since LIC was one of the lenders to IL&FS, the person said. "The SFIO wants to know if lenders were kept in the loop when IFIN took the decision to fund ITNL. This is one of the major issues on which the former LIC director was questioned," the person said. "Currently the probe is focusing on irregularities in the affairs of IFIN (an IL&FS subsidiary)." Once the interim report on IFIN is submitted, the focus will shift to IL&FS and other LIC officials are likely to be called in for questioning by the SFIO, said the person. LIC didn't respond to queries. SFIO is also probing the role played by other IL&FS shareholders. It recently questioned Central Bank of India executives over the short-term loans that the state-run lender gave to IL&FS. Central Bank of India holds 7.76% of IL&FS. "Their (Central Bank of India executives) statements have been recorded and will be part of the final report prepared by SFIO," the official added. Central Bank of India had declined to comment on ET's queries in this regard earlier. "The infusion of funds in ITNL was also mentioned in the interim report submitted by Grant Thornton India. The directors and the shareholders will also be questioned on the said findings," said the person cited above. SFIO's interim investigation revealed that IFIN allegedly advanced loans to ITNL violating prudential norms for exposure to group companies framed by the Reserve Bank of India (RBI). In order to bypass the RBI norms, the loans ultimately advanced to ITNL were layered through eight group companies of IL&FS. The probe by the investigative arm of the corporate affairs ministry further revealed that loans were sanctioned without clear purpose or against specific projects. "Funding of high-value loans should be given for a specific purpose or for specific project in hand on the basis of some project feasibility reports," the SFIO said in its interim report to the corporate affairs ministry in November last year. "However, the purpose mentioned for these loans is very generic and, prima facie, should not have been sanctioned in the normal course of business." The agency said loans were advanced to these companies despite them having a negative net worth. It also said that the committee of directors of IFIN that approved loans to ITNL held the same position in the latter company. "The public money was extended to the group companies by IFIN without required security and performing due diligence," the agency said in its report. IFIN is a non-banking finance company and subsidiary of IL&FS. It provided debt syndication services to all IL&FS group companies for funding from banks. IFIN had advanced a total of about Rs 16,000 crore toward this. The government replaced the IL&FS board in October last year with a new one headed by Kotak Mahindra Bank managing director Uday Kotak to rebuild investor confidence following the firm's defaults.

Extent of overestimation of GDP marginal: Govt over NSSO controversy

NEW DELHI: The government has said enterprises excluded from the services sector survey are involved in some form of economic activity, making them eligible for inclusion in estimation of the gross domestic product (GDP). It said that the blowing up of the numbers, small over or under estimation, to account for missing enterprises, affects the level of GDP and not the year-to-year economic growth rates. There is a raging debate over the veracity of GDP estimates since a report on services sector enterprises by the National Sample Survey Office (NSSO) said 38.7% of companies in the MCA-21 database used in the study were either missing or wrongly classified. The MCA-21 database is used for estimating the GDP in the new series with 2011-12 as base. It faced criticism ever since it was released in 2015 because of a wide divergence in growth from earlier estimates. According to the NSSO report, 35,456 entities were categorised as out-of-survey enterprises. The government said 'out of survey' does not mean that these enterprises do not exist in the economy, as was interpreted "On the basis of this interpretation, the suggestion has emerged that by not removing out-of-survey enterprises from the MCA database, the Central Statistics Office (CSO) over-estimates the GDP," a finance ministry statement said on Friday, offering reasons why this was erroneous. Of the 38.7% out-of-survey enterprises in the NSSO report, out-of-coverage enterprises make up for 21.4%. "The out-of coverage enterprises are simply those enterprises that are not engaged in activities intended for inclusion in the services sector survey," it said. These enterprises are engaged in, for instance, manufacturing sector, said the statement. "As a result, they cannot be classified as out-of-coverage enterprises for the purpose of estimating the GDP." It added that out-of-coverage enterprises are very much a part of the overall GDP. The ministry said that of the remaining 17.3% out-of survey enterprises, 0.9% are establishments that are not considered in the MCA database for GDP estimation. The rest 16.4% are either closed or non traceable enterprises, but with continuous evolution of the MCA database, the proportion of such entities has been coming down. "Thus, the extent of overestimation of GDP in all likelihood is marginal," the finance ministry said.

NO IMPACT ON GROWTH

The finance ministry pointed out that from 2012-13 to 2016-17, the number of enterprises whose annual returns were not available for GDP estimation accounted for only 12-15% of paid-up capital of all the enterprises in the MCA database. To account for this, it said the gross value-add estimated for the responsive enterprises was increased by a blow-up factor of 1.13-1.17 to estimate the Gross Value Added (GVA) of the entire private corporate sector. Most of the non-responsive enterprises did not provide data because they exercised their discretion of filing returns in subsequent years while continuing to engage in activities reflected in their previously filed returns, it said. "Accordingly, their inclusion in the overall GVA estimation was legitimate," the statement said, justifying inclusion of these in the estimates through the blow-up. Because the blow-up is a feature of estimates for every year, based on the reporting percentage, it can overestimate absolute GDP by not growth so much. "This feature ensures that although GVA levels could be slightly more or less than what they actually are, the growth rate of GVA from year to year will not be affected," it said. The MCA database on the private corporate sector is a valuable addition to the data sources available for estimation of GDP and its use provides a more correct measure of economic activity in the country, the statement said.

Bandhan Bank to consolidate existing branch network

KOLKATA: City-based Bandhan bank would consolidate and bring efficiency in its existing branch network which will soon touch 1000 branches, a senior official said Thursday. The bank has 986 branches as of March 2019 which was 936 last fiscal. In 1-2 months the number is expected to touch 1000. This strategy was much before RBI imposed restrictions on expansion, the official said. "Our strategy even before the restriction was that once we crossed 1000 branches, we will try and consolidate and bring efficiency into those branches before we again start the expansion," Bandhan CFO Sunil Samdani told an analysts conference. "We have the approval of 1000 plus branches today, so further branch expansion will not be as it was in the last two years as we have built enough capacity already to take care of our growth for next 2 to 3 years," he told an analysts conference. RBI has imposed some restrictions in regard to meeting certain stake dilution criteria of promoter's holding in the bank. The bank opened 50 new branches 250 new DSCs (doorstep service centre) in the last fiscal. "The number of DSCs has now increased to 3014 taking our total banking outlets at 4000," bank MD & CEO Chandra Sekhar Ghosh said. The bank claimed 75 per cent of its branches are in unbanked districts giving an immense opportunity for raising deposits and credit lending. The operational expense ratio, year-on-year it has remained flat at 3.6 per cent for the bank indicating branch expansion is not eating into margins. However, its exclusive customer percentage has come down from 72 per cent to 60 per cent but the bank explained it is due to policy "one loan per customer" and not due to lack of loyalty toward the bank.

Does EPFO really have enough money left for the year after IL&FS?

FinMin wants to know The Finance ministry and Labour ministry are crossing swords yet again, this time over a matter that has kept India hooked ever since the IL&FS story broke. FinMin wants to know whether or not the EPFO has sufficient surplus left for honouring the 8.65 per cent interest rate recommended for 2018-19, an Indian Express report has revealed. The EPFO board had in February recommended a hike in the interest rate — the first increase in last three years — to 8.65 per cent for 2018-19 from 8.55 per cent in 2017-18, which was a five-year low. The interest rate had been cut in 2016-17 to 8.65 per cent from 8.8 per cent in 2015-16. As per norm, the Finance ministry ratifies the interest rate after EPFO's board has recommended it. Post FinMin's nod, the I-T department and Labour ministry notify the rate, after which EPFO directs its field offices (currently more than 120) to credit interest amount to the accounts of its subscribers. Loaded questions galore The end of Five-Year Plans: All you need to know According to the story, the Finance ministry's questions include how much exposure EPFO had to IL&FS and other such risky companies, and more importantly, if any of these investments have gone sour. In the event of a default, the government will have to bear the onus of paying up the promised interest rate to over six crore active subscribers of EPFO. That is the reason why Finance Ministry wants a due diligence done on EPFO's books, Indian Express quoted an official as saying. The raise in the rate would yield an interest higher than most of India's small savings instruments — something that has lent added significance to the matter. Finance ministry's questionnaire, sent to the Labour Secretary last week, brought to light a peculiar anomaly in EPFO's accounts that has continued over the years. The "surplus" after payout of EPF interest rates is shown only in EPFO "estimates", but not in the "actuals". In the 2016-17 account of EPFO (the latest year for which audited data is available publicly), there is an entry on "income over expenditure" on a cumulative basis. That head, however, does not provide any specific detail. This curious phenomenon is precisely what FinMin's questionnaire wants explained. Quite a few rounds of discussions between the two ministries have already been held on the matter, but these have led to "less than sufficient" clarification, said the report. The numbers game post IL&FS EPFO's exposure to IL&FS stands at Rs 574.73 crore, according to the estimates of the Standing Committee on Labour. The exposure of exempted companies — those who operate their employee accounts on their own — is additional to the amount mentioned in the estimates. Any losses to the subscribers in the event of an IL&FS-type exposure going bad "are made good from the surplus", the Labour ministry had said in reply to a question by the Standing Committee on the matter. At an 8.65 per cent interest rate the estimated surplus would be Rs 151.67 crore, a PTI report said citing EPFO estimates made public in February. The surplus would stand at Rs 771.37 crore if EPFO were to retain the earlier rate of 8.55 per cent. If in case EPFO opted for 8.7 per cent — a higher-than-recommended interest rate — it would cause a deficit of Rs 158 crore. That is the reason it decided to keep the interest for 2018-19 at 8.65 per cent, PTI said. In comparison, EPFO had a surplus of Rs 586 crore left in 2017-18, the financial year for which it had paid a 8.55 per cent interest to its subscribers. The Labour ministry has not yet replied to Finance Ministry's questions. Indian Express' queries to the ministry did not elicit any response, the report said. All calculations are correct; the story quoted an EPFO official as saying, who also said the method in question has been followed for two decades. About the speculated blow from IL&FS, the official acknowledged Finance ministry's questions but said it should not be worried since nothing has happened so far.

ADB should expand private sector operations: Subhash Chandra Garg NADI (FIJI):

Asserting that Asia continues to be the growth engine of the world, Economic Affairs Secretary Subhash Chandra Garg Saturday said the ADB must expand its private sector operations to boost economic development. Addressing the Board of Governors of the Asian Development Bank (ADB) here, he said there is a rising need for the agency to focus on strengthening human capital and develop social safety nets. "Therefore, we urge the ADB management to expand it social sector engagements in countries like India, while at the same time, continuing with the focus on making cities smart, providing 24x7 water and power supply, enhancing connectivity, and mitigating the risk of climate change. Our regional cooperation initiatives must aim to integrate the countries of the region with the global value chains," he said. "While ADB should continue helping the member countries harness their growth potential by providing larger financial resources, it must expand its private sector operations across the region. By investing more through equity and infrastructure trusts, ADB can play a meaningful role in development of private sector initiatives," Garg, India's Alternate Governor on ADB's Board of Governors, said. ADB's private sector operations reached USD 3.14 billion in 2018, a 37 per cent increase from the previous fiscal, and stood at 14.5 per cent of its overall commitment. Emphasising that ADB has helped the developing countries in building infrastructure and reducing extreme poverty for the past 52 years, Garg said innovation in financing will be the key to success of long-term growth strategy. "This will require careful fine-tuning of both public and private sector financing. Private financing has to be carefully shepherded to the right sectors like manufacturing, services and new digital economy industries with active support of equity financing from ADB and other multilateral agencies," he said. Private investment in more difficult sectors like infrastructure and human capital improvement, however, will not flow unless these projects are sufficiently de-risked for the private sector with both direct investment as well as provision of guarantees and other structured support, he said. He further said that ADB has played a pivotal role in helping member countries change their developmental landscape all these years. "However, in order to realise the goals of shared prosperity in Asia and the Pacific and meet the Sustainable Development Goals on poverty and hunger by 2030, ADB will require to continue providing affordable financing to its borrowing members, offer lending instruments which are innovative, and expand equity financing to private sector," he said. It must also remain fully engaged in funding of infrastructure and human development projects by funding directly and structuring projects appropriately and guiding them as a key knowledge partner in their developmental journey, he added.

RBI warns finance panel of more fiscal slippages by states

MUMBAI: Continuing to voice concerns over populist measures, the Reserve Bank Wednesday warned that income support schemes and farm loan waivers will lead to fiscal slippages for the states. The remarks were made during a meeting between the members of the 15th Finance Commission and the RBI brass, including governor Shaktikanta Das and the deputy governors, at the central bank headquarters here. In its presentation, the RBI listed out specific factors that would drive fiscal slippages in the revised estimates of 2018-19, including "farm loan waivers and income support schemes", an official release said. The presentation mentioned that in the past, states' fiscal position was stretched due to the Uday bonds for the power sector. It can be noted that ahead of the general elections, a slew of states and also the Centre had doled out sops to the marginalised sections, including the farmers and the poor. While the BJP-led states have announced sops in the face of rural distress and agitations, three Congress-led ones made it a point to declare such schemes soon after taking over the office last December. The Centre has drawn inspiration from the income support scheme of Andhra Pradesh and extended it to the poor households nationally, while the Congress is promising an assured income of Rs 72,000 per household through income support if it is voted to power, which is being dubbed as a scheme which would drain resources. All RBI governors have been repeatedly flagging its concerns on the fiscal slippages, primarily because of its impact on inflation, its core mandate. According to the presentation, the importance of states in the economy has increased with the shift in composition of government finances. "Fiscal deficit of states is budgeted to be lower in 2019-20 BE (Budget Estimates), but RE (Revised Estimates) and actuals deviate significantly (reflecting poor fiscal marksmanship)," the release said quoting the presentation. Outstanding debt as percentage of GDP has been rising despite moderation in interest payment as percentage of revenue receipts, it added. Other key issues raised by Das, who was a member of the commission before being appointed as the governor last December, included necessity of setting up state finance commissions, public sector borrowings and "continuity of finance commission", the release said. The RBI also discussed ways of increasing orientation of state government borrowing to markets, improving secondary market liquidity, risk asymmetry and increasing the corpus of Consolidated Sinking Fund and Guarantee Redemption Fund. The presentation also spoke about cash management wherein the states need to improve their cash forecasting capabilities. The visiting Finance Commission team, led by chairman N K Singh, also had a meeting with senior economists and is likely to meet top bankers Thursday. Besides, the Commission Wednesday deliberated on the need to set up such panels in states during the meeting. Other issues that came up for discussion, included public sector borrowing requirements and continuity of the Commission as well as development of expenditure codes, especially given that expenditure norms vary from state to state. On the continuity of the Commission, it was "felt that this was required more in view of the fiscal management requirements of the states, especially given the absence of mid-term reviews of awards granted by the Finance Commission, as it used to happen earlier with the awards granted by the Planning Commission", the release said.

Economic census 2019 to include geotagged data of business enterprises

The upcoming Seventh Economic Census 2019 will include geotagged data of business enterprises to ensure that no bogus enterprises are included in the official statistics, a senior official said. The move comes even as the government is facing questions over its national income numbers and growth estimates. Field officials conducting the survey will include live locations of the enterprises via their mobile phones, the official told ET. “Geotagging will help to organically clean the database.” At the first stage, there will be a physical check and geotagging of all enterprises by the officers of Common Service Centres, the access points for delivering government eservices in rural and remote areas. This would be followed by a sampling check in which government’s field officers will randomly verify the location of the enterprise. The geotagging is expected to help weed out the shell companies and thereby improve data quality. This comes after a National Sample Survey (NSS) technical report on services sector enterprises in India released last week had shown that nearly a third of the companies included in the MCA-21 data were either missing or wrongly classified. This led to further criticism of the official GDP calculations as MCA-21 data is used for calculating corporate value addition in the new series with 2011-12 base. The new GDP series has been under criticism for showing high growth not corroborated by high-frequency indicators and sharp revision in earlier estimates. The government had on Wednesday said the shortcomings had not impacted the data. “It is emphasised that there is no impact on the existing GDP/GVA estimates for the corporate sector as due care is taken to appropriately adjust the corporate filings at the aggregate level based on the paid-up capital,” MoSPI said.

Income tax e-filers drop by over 6.6 lakh in FY19: Official data

NEW DELHI: In a first in recent history of tax filings, income tax e-filings in FY2019 have dropped by more than 6.6 lakh, a trend that analysts said was surprising as tax base was expected to increase post demonetisation. According to statistics put out on Income Tax Department's e-filing website, income tax e-filings in FY 2018-19 was 6.68 crore, down from 6.74 crore in the previous fiscal. E-filers in FY 2016-17 were 5.28 crore. Kotak Economic Research in an April 30 report said: "We are surprised with the decline in income tax e-filing in FY2019." "If the filings are indeed plateauing, it will be a worry for the fiscal which has seemingly shifted its focus to compensatory expenditure," it said. "Tax filings have surprisingly plateaued in FY2019. This is surprising given that post demonetisation it was expected that the tax base would continue to increase." However, registered filers have been on the rise - they grew by 15 per cent to 8.45 crore as on March 31, 2019, the e-filing website showed. Registered filers were just 2.7 crore at the end of March 2013 which almost doubled to 5.2 crore in March 2016 and to 6.2 crore in March 2017. In signs of lower compliance, the ratio of actual filings to registered filers was 79 per cent in FY2018-19, down from 91.6 per cent in the previous fiscal. The compliance ratio was 85 per cent and 83 per cent in the preceding two years. It was 79.3 per cent in FY2014-15, which was a decline from 82 per cent of FY2013-14. The data showed a steady rise in filers in the Rs 5 lakh to Rs 10 lakh range with 1.05 crore filings in FY2018-19 including 1.02 crore of individual taxpayers. Kotak said the declining e-filings " do beg the question whether compliance was weaker in the latter part of FY2019 given that the number of registered filers has continued to see steady growth." "If compliance has been weak, the new government will aim at increasing the filings and collections in FY2020," it said. "A focused utilization of the data on deposits during demonetization could yield better compliance, especially in the higher income brackets." This combined with the granular GST filing data will be essential in increasing the filings as well as revenues over the next few years, it said. "The task is cut out for the next government looking at improving the tax buoyancy -- essential to fund the increasing transfers in expenditure." The government needs to look at further expanding the tax base (optimally using the data repository from demonetization and GST). Without a significant improvement in the tax base, the medium-term growth path will be at risk, Kotak said. It said that while it is hoped that the filings for the assessment year increase (around August when filings are completed), a relatively muted tax filing growth will create further headwinds in an already stressed fiscal space. "With the recent inception of direct transfers in the budget, the fiscal could easily be on a slippery slope unless there is a rationalization of expenditure," it said adding around 55 per cent of central government expenditure is fixed in nature and the eventual impact could be on further lowering capex. Given the stressed fiscal space, debt markets are burdened with heavy government and PSE borrowings, which are likely to keep the yield curve steep in FY2020, it added. Kotak said while a number of activity indicators have been signalling a slowdown in parts of the economy, the tax collections corroborate it too. "Aggregate indirect tax revenues' buoyancy has been weak along with targets being missed on direct taxes too. Further, persistently high borrowing cost for financial institutions and companies (given crowding out by the government sector) will weigh on the near-term aggregate demand in the economy," it said. From a medium-term perspective, if the government does not expand its capital expenditure (higher transfers and muted tax growth), the growth prospects will be under doubt given estimated fiscal multipliers, it added.

Finance Commission meets Shaktikanta Das; discusses setting up of state-level commissions

NEW DELHI: The 15th Finance Commission Wednesday deliberated on the need to set up such panels in states during its meeting with RBI Governor Shaktikanta Das and other senior functionaries of the central bank. The other issues which came up for discussion during the meeting in Mumbai include public sector borrowing requirements and continuity of the Finance Commission and development of expenditure codes, especially given that expenditure norms vary from state to state. On the continuity of the Finance Commission, an official statement said in the meeting it was "felt that this was required more in view of the fiscal management requirements of the states, especially given the absence of mid-term reviews of awards granted by the Finance Commission, as it used to happen earlier with the awards granted by the Planning Commission". The RBI made presentations to the Finance Commission on state Government Finances for 2019-20 and also on the issues and challenges of the market borrowings of state governments. The main issues raised by the RBI included increasing orientation of state governments borrowing to markets, and improving secondary market liquidity.

How Srei Infrastructure is trying to recover from its IL&FS shock

Sunil Kanoria, 53, vice-chairman of Srei Infrastructure Finance Ltd (SIFL), has successfully lost weight over the last two years. Kanoria says he had gained much of it when he led the industry body, Assocham, three years ago. The weight loss mantra was simple: give up wheat and rice, and eat coarse cereals like ragi and jowar. The diet did the trick for Kanoria, who works out regularly. SIFL, the Kolkata-based infrastructure-focused non-banking financial company (NBFC) founded by the Kanoria family, is also on a diet of sorts. It is trying to re-shape its Rs 50,000 crore asset book (total loans advanced) and is avoiding any further infrastructure project financing. The year 2018 was a nightmare for the SIFL stock. Its market capitalisation dropped by almost 66%. SIFL also had to drop plans for an initial public offering of its subsidiary, Srei Equipment Finance Ltd. “When you hit a bumpy stretch on the road, you have to reduce speed,” says Hemant Kanoria, chairman of SFIL and Sunil Kanoria’s elder brother. SIFL was started by Hemant, 56, and Sunil Kanoria in April 1989, branching out of a family business dominated by flour mills. After starting with infrastructure equipment financing, the group entered equipment leasing, infrastructure financing, infrastructure development, merchant banking, broking, advisory, power distribution, real estate and hospitality and healthcare businesses. It also has a mutual funds licence. Due to the diversification, SIFL looks like a smaller version of IL&FS, the Mumbai-based core infrastructure focused NBFC that defaulted in August 2018. When the entity owned by LIC and other financial institutions missed debt repayments, it triggering a meltdown in the NBFC sector. Going by its FY2018 consolidated revenue of Rs 5,239 crore, SIFL is around 27% of the size of IL&FS (revenue of `18,798 crore). The unravelling of IL&FS affected the stocks of NBFCs, and SIFL was not spared either — the Kolkata-based company has a large exposure (Rs 1,000 crore by some estimates) to IL&FS entities. SIFL was already on a roller-coaster ride on the bourses since April 27, 2018, when its market capitalisation closed at a high of Rs 4,628 crore. It tumbled in the wake of the slide in the mid-cap stocks on the bourses. By the time IL&FS defaulted on August 31, SIFL’s market cap was already down at Rs 2,767 crore. It fell to Rs 1,821 crore by December 31, 2018. As the NBFC sector hit a fresh rough patch in 2019, SIFL market cap dropped to Rs 1,116 crore in February. Hemant Kanoria insists that he was aware of such possibilities all along. “We were aware from the beginning that unlike IL&FS, we do not have a parent to support us in a crisis. We had to create a self-sufficient model.” It meant strong focus on liquidity, constant vigil on asset-liability management, specialising on risk assessment and never taking a call on interest rate movements — essentially always working on floating interest rates on both assets and liabilities sides. Hemant Kanoria says SIFL was spared the worst mostly because it used short-term borrowings such as commercial papers (CP) only for its treasury operations, and not to meet its funding needs. CPs are usually very shortterm lending instruments and have a lower interest rate. This market had crashed in the aftermath of IL&FS, and mutual funds that lent through CPs had closed the tap. “We even called up our mutual fund lenders and offered to pay back. We actually paid back a little more than Rs 200 crore,” he says. To be future-ready, SIFL is re-balancing its books. Its equipment finance book is now nearing double the size of the infrastructure book. By December 31, it had grown to Rs 32,000 crore from Rs 27,000 crore on December 31, 2017. The core infra-financing book stayed unchanged at Rs 18,000 crore through the period. SIFL is separating its equipment finance business from itself through a demerger, after the IPO plans failed to unlock its value. Kanoria says that parent SIFL will focus on advisory business as well as partnering with banks — bringing its risk assessment specialisation in infrastructure into play while the banks bring in the funds. Investments, if any, will go into existing projects. The Kanorias have put all their business shareholding under a trust called Kanoria Foundation, which is now the promoter of all the group companies. Around 80% of the foundation's earnings are re-invested, 10% is spent for the benefit of the Kanoria family members and the rest for CSR activities. The trustees include patriarch HP Kanoria, and his two other sons — Sanjeev Kanoria (a London-based doctor) and Sujit Kanoria (who heads the real estate and hospitality businesses). From early on in its journey, SIFL has received funds from the likes of German institution DEG or World Bank arm IFC. Hemant Kanoria says the Indian infrastructure sector will either need that kind of long-term institutional money or government expenditure in future. It is not the realm of an NBFC. Sunil Kanoria says: "Future infrastructure development will be driven by governments. We would like to come in as advisors with our experience in the sector." SIFL has also been nimble on its feet in cutting great deals, having made money out of a Kingfisher Airlines debt it took over from ICICI Bank or the telecom towers business it bought out from the Tatas. "Knowing when to exit is key to succeeding in this business," adds Hemant Kanoria.

Mudra loans may cross Rs 3 lakh crore in 2019-20

NEW DELHI: Total sanctions under the Pradhan Mantri Mudra Yojana (PMMY) loan scheme for micro industries are likely to cross Rs 3 lakh crore in the current fiscal, a senior Finance Ministry source said on Thursday. Government data for the scheme for the last fiscal, till March 22, 2019, put the figure of Mudra sanctions at Rs 2.82 lakh crore to 541.27 lakh borrowers. The loan is given primarily for the purpose of employment creation at the grassroots level through formal banking credit channel. Maximum loan amount under the PMMY is upto Rs 10 lakh. Loans up to Rs 50,000 are categorised as 'Shishu', those from Rs 50,001 to Rs 5 lakh are called 'Kishore' and loans from Rs 5.01 lakh to Rs 10 lakh are categorised as 'Tarun'. The loans are being given as working capital and term loans for business enterprises in manufacturing, trading and services, including for allied agricultural activities. Finance Ministry data shows Rs 2,82,594.30 crore has been sanctioned under PMMY and the Shishu loan cornered 46 per cent of the amount , Kishore 32 per cent and Tarun makes up 22 per cent of the sanctioned amount. Out of a total 5, 41, 27,092 accounts, Shishu accounts are at 4, 69,04 215, Kishore at 58,64,952 and Tarun at 13,57,925. Out of these accounts, women borrowers are 340.45 lakh and SC/ST/OBC borrowers are 259.71 lakhs, the new entreprenuers are 107.57 lakh, the data said. These loans require no collateral security and are guaranteed by the Credit Guarantee for Micro Units (CGFMU), and the same is provided through the National Credit Guarantee Trustee Company (NCGTC).

IDBI sees early synergies with LIC

MUMBAI: IDBI Bank is targeting Rs 500 crore in revenue this fiscal through cross-selling opportunities and expects to double that in the next financial year, a top executive said, as the purchase of a majority stake earlier this year by Life Insurance Corporation (LIC) shows signs of success, especially on the retail front. The bank is using its network to sell insurance policies and in turn planning to offer home loans to LIC's customers. In March, IDBI Bank sold 26,116 policies worth Rs 160 crore from across 1,800 branches, raising hopes that other retail products of both could be cross-sold to their respective customers. "We have had a big-bang start in bancassurance. This even surprised LIC and is a kind of a record," said Jorty Chacko, executive director in charge of retail assets and third party distribution at IDBI. "We have identified over 100 such synergies in corporate and retail segments and will slowly roll them out." IDBI Bank is already offering a 15 basis point discount to LIC employees on their home loans and plans to offer a 10 basis point discount on home loans for LIC policy holders, said Chacko, who heads a special implementation team created by IDBI to look at synergies with LIC and is also the member of a 12-member task force set up to oversee the execution of that process.

IDBI also plans to offer cash management and payroll products to the insurance behemoth. LIC collects Rs 1.35 lakh crore in premium and redeems Rs 1.24 lakh crore worth policies each year, according to the bank's estimates. "These large withdrawals and disbursements will give us float money. Then, there are 12 lakh LIC agents and crores of policy holders we can tap, besides the more than one lakh employees," Chacko said. "The synergies are more in retail, which we want to tap to the fullest, but we also can extend our services to the corporate side, like investments and broking." In January, LIC completed the acquisition of a 51% controlling stake in the bank.

FMCG distributors face GST scrutiny for post-sale discounts

NEW DELHI: Coca-Cola India's bottling partner Hindustan Coca-Cola Beverages (HCCB) and distributors of FMCG and consumer durable firms have come under the lens of the goods and services tax (GST) authorities over so-called post-sale discounts offered by manufacturers, said a person familiar with the matter. The authorities have asked why GST was not paid on these discounts, treating them as services by distributors. In some cases, authorities have sought sales details for the past five years from distributors. That's stumped the industry for which such discounts are commonly used to promote sales, prompting it to lobby the government for relief. A spokesperson for HCCB, which accounts for two-thirds of Coca-Cola India's volumes, said the company operates in "full compliance" with regulations. "It is critical to note that none of the past assessments, nor the judicial precedents on this issue, have treated the said expenses as being in the nature of any 'service' rendered by the distributors to the company," an HCCB spokesperson said in an email. HCCB produces Coca-Cola and Sprite soft drinks, Minute Maid juices and Kinley water at 18 factories. "With the coming of GST in 2017, which subsumed all levies on goods and services under the GST, HCCB continued to do business on the same basis, and hence continued to treat discount schemes, deductible from the value on which GST is leviable, as a supply of goods," the spokesperson said. The company has met Directorate General of Revenue Intelligence officials and presented its arguments on the subject, he said. "We are standing by for any further clarifications and discussions that may be required," the spokesperson said. "As regards the contention of the Directorate General of Goods and Services Tax, HCCB offers to its distributors various types of discounts, price-offs, rate rebates and promotions under various schemes and nomenclatures to promote the sale of products (referred to as discount schemes)." These take the form of additional margins, allowances and redistribution margins related to volumes. They are separately given as credit notes, on which GST is not paid. Tax authorities have questioned the discounts, calling them subsidies. Their contention is that this becomes a part of the consideration in the hands of distributors, requiring them to pay tax on a higher amount. Tax experts disagree with this contention. "Fundamentally, the nature of discount doesn't change basis the GST adjustment and where the transactions happen on a principal to principal basis, there is hardly any scope for services provided by the dealer to the manufacturer," said Pratik Jain, national leader, indirect taxes, PwC. In any case, even if GST is levied, it would largely be revenue neutral as the manufacturers will be entitled for input credit, Jain added. The industry has told the government that post-sale discounts should not be treated as a consideration for services provided by distributors to manufacturers. They also want the inclusion of post-sale discounts in any amount paid by the manufacturers to distributors or retailers for reduction in the price of products, in line with the schemes offered by the manufacturer to promote sales. "Ideally, the amounts passed on to dealers and distributors are nothing but post-sale discounts which are clearly covered under the credit note provisions. The allegation that these amounts represent a service seems untenable," said Rashmi Deshpande, partner, Khaitan & Co. "These price-offs extended to distributors on account of reduction in prices of products are purely in the nature of post sale discounts and treatment of such discounts as a 'subsidy' is not in consonance with the provision of law."

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RBI allows banks to treat IL&FS exposure as NPAs

MUMBAI: The Reserve bank of India has allowed banks to treat exposure to IL&FS and its group entities as non-performing assets -NPAs- following the NCLAT - National Company Law Appellate Tribunal's - order allowing the same. It may be recalled that the central bank in its April 24 directive had asked banks to not treat their exposure to IL&FS and its 300 group entities as NPAs, following a circular by the NCLAT on February 25. It had said that "no financial institution will declare the accounts of 'Infrastructure Leasing & Financial Services Limited' or its entities as 'NPA' without prior permission of this Appellate Tribunal". The Reserve Bank had then advised banks and financial institutions to disclose in their notes to accounts. But an order by NCLAT on May 02, allowed the banks to declare the accounts of IL&FS and its group companies that have defaulted on repayments of loans as NPAs. A judicial bench then lifted the embargo on the banks to declare the accounts of the debt-ridden IL&FS and its 300 group entities, which could not repay their debt. "In view of NCLAT's May 02, 2019 order… the instructions contained in the (April 24) circular stand withdrawn" RBI said in a notification posted on its web site on Wednesday. IL&FS Group companies, with a collective debt of over Rs 90,000 crore, are going through resolution process.

Data row: Finance panel wants to reconcile conflicting numbers

Amid concerns over data credibility, the 15th finance commission chairman NK Singh Thursday said the panel is embarking on a prudential measure of reconciling all publicly available data and arrive at the best conclusion. He, however, made it clear that the reconciliation exercise to be carried out over the next two days by senior panel officials, has nothing to do with data computation methods which have raised many eyebrows. "We will try to reconcile and come to a conclusion on what we would consider reliable data in the public domain," Singh told reporters, adding the exercise will be carried out with the CAG and the Reserve Bank. "We may or may not succeed, but at least we must come to a conclusion that this is what we believe is the most credible before accepting it," he added. He was replying to a specific query on whether the row over data credibility came up at the meetings with economists here as part of its two-day visit that concluded Thursday. Singh said while the issue did not feature in the meeting with economists, and suggested that the panel took the decision of data reconciliation proactively. Asked if the panel regularly carries out such reconciliations, he said the exercise will "be within the bounds of acceptable and appropriate prudence to do so". It can be noted that a group of over 100 top economists, from the country and outside, had earlier this year held a presser expressing concerns over "political interference" in statistical data, and had called for restoration of "institutional independence" and integrity of statistical organisations. Their appeal came against the backdrop of the controversies over revision of GDP numbers which indicated even in the note-ban year, the economy grew higher the top GDP numbers reported during the previous Congress rule, and withholding employment data by the NSSO that showed that unemployment had hit a 47-year low in FY18, leading to the head of the organisation to quit in protest. They said for decades, the nation's statistical machinery enjoyed high reputation for the integrity of the data it produced on a range of economic and social parameters. "Our statistical machinery was often criticised for the quality of its estimates, but never were allegations made of political interference influencing decisions and the estimates themselves," the economists had said in the appeal. The secretary of the 15th finance commission Arvind Mehta said all finance panels consult the CSO to get comparable series for state macro numbers. "It is a normal practice that you are looking at different sets of data and you are consulting with various organisations and then you are trying to build up a series of comparables for the states especially for comparable data from the states," he said. Meanwhile, Singh said GST mop-up has not been as healthy and the panel is set to have another round of meetings with the revenue department to understand the collection trajectory going ahead.

Congratulating the outgoing government for fiscal rectitude, Singh said the manifestos of both BJP and the Congress speak about the need for fiscal balance, and added that the same is necessary for growth and financial stability. On the Reserve Bank's concerns on deviations between budget estimates and revised estimates, Singh drew attention to the actual outcomes in the states which illustrate that there is not much of a difference between the original estimate and the final outcome. Singh said going forward, the declining national savings rate is a space that needs to be watched carefully. Asked about the panel's timeline, he expressed hope of submitting the report on time as the panel has already visited 20 of the 29 states but is yet to get a formal memorandum from the Centre to finalise the report. Among other challenges that the panel is confronting is the future of Centrally-sponsored schemes, he said, adding attempts to rationalise them have met with modest success so far.

International bank fund transfers become easier

With sending money into cross-border accounts set to get as efficient as domestic fund transfers, remittance companies will need to reinvent themselves according to SWIFT — the global cooperative promoted by banks to facilitate funds transfer through messaging. Speaking to TOI, SWIFT's head of Asia-Pacific and Europe, Middle East & Africa, Alain Raes, said that the business model for remittance companies got created because of inefficiencies. He said that domestic remittances got efficient faster because they were part of a single-payment ecosystem, while the multiple jurisdictions made it more complex. But now in many jurisdictions banks were plugging in their domestic transfer platforms to cross-border and the SWIFT messaging system was getting comprehensive and carrying more details, enabling funds to move directly. He said that already immediate account-to-account transfers are possible in several jurisdictions like China and Australia. "We are moving into discussions around Southeast Asia, Singapore, Malaysia and Indonesia that will be getting into a proof of concept soon. We are now in discussion with the European Central Bank to interconnect their real-time platform with the rest of the world," he said. According to Raes, remittance companies will have to find other uses for the large resources they have built up. "There are many blue-collar workers who go to work in the Middle East and because of these innovations in the banking system; they have started to use other modes of transfer. The shift to banking is going to bring down remittance costs sharply," said SWIFT India CEO Kiran Shetty. SWIFT is also helping banks to automate cross-border remittances by providing them with application programming interfaces (APIs) for all its products and services. "We believe that in the long term, API technology has more future than distributed ledger technology (blockchain)," said Raes.

Shoppers use debit cards more on ecommerce websites: Report

BENGALURU: Debit cards continued to be the most preferred payment instrument for shoppers on ecommerce websites, according to a report by payment technology and transaction processing company Financial Software and Systems (FSS). There were 589 million debit card transactions reported on the FSS gateway compared with 201.4 million credit card transactions last year, according to the FSS Payments Trend Report 2018. In terms of value, credit cards were ahead at more than $10 billion compared with slightly less than $8 billion for debit cards. "For the trend report, we have only calculated merchant payments done digitally that are being processed by our platform and not included peer-to-peer payments," said Suresh Rajagopalan, president of software products business at FSS. "Overall transactions have also been growing, which is a healthy sign, driven by strong growth in debit card transactions." While cards dominated the merchant payment space, Rajagopalan said the company processed more than 900 million transactions through the Unified Payments Interface last year, mainly person-to-person payments. For mobile banking and Immediate Payment Service

(IMPS) transactions, another person-to-person payment mode, the number could be about 700 million, he said. FSS, which conducted the study with 19 of the major banks, claims to process more than 58% of the total online payments for merchants. According to the report, Visa had the highest share of transactions with 47.5% of the card swipes, followed by Mastercard at 35% and RuPay at less than 16%. In terms of value, Visa cornered a 47.1% share last year. As per the report, the average amount for debit card transactions was $13.4 compared with $54.4 for credit cards. “Average ticket size of debit card transactions has come down from last year, showing that consumers might be using digital payments for even small purchases online, like food delivery,” Rajgopalan Said. Mobile wallets had the highest share in terms of digital transactions at 291 million, followed by the travel and hotel segment at about 140 million. FSS claims to have processed $1.85 billion of transactions in October.

Google Pay looks beyond UPI, card payments in the works

BENGALURU: Google Pay, which offers UPI payments in India, is expected to soon offer Indian consumers the option to pay through debit or credit cards saved on the platform. The technology giant unveiled plans to make Google Pay a bigger payment instrument at the IO19 developers' conference organised by it in San Francisco earlier this week. The move is aimed at offering consumers a smooth payment experience while shopping online. Avnish Miduthuri, product manager at Google, said the search giant is not only adding to the number of places where Google Pay will be accepted, but also working on increasing the ways of paying through the app. “You can already accept cards and now PayPal (in the US and Germany), and coming soon Unified Payments (Interface) will be available via the same unified API,” he said at the conference. “That means, with a single integration, Indian merchants will be able to accept Google Pay from their users wherever they operate and global merchants can accept UPI payments from their Indian users.” ET understands that Google is bringing in a single software development kit (SDK) for merchants and developers, so that consumers can make payments across platforms through the Google Pay application. The kit has already gone live with PayPal in the US and Germany. “While it is not live yet in India, going forward Google Pay will offer a single SDK for all payment modes to allow Indian consumers to pay through other instruments beyond only UPI,” said a top executive in the know of the matter. A consumer paying through Google Pay currently has to use UPI, which is connected to a specific bank account. Going forward, however, consumers can use Google Pay to make payments via their credit cards, gift cards or other instruments. “It will become a payment aggregator for consumers. And, for merchants, the advantage is that once they integrate with Google Pay, they will get all other payment modes in one shot,” said the person quoted above.

Delhi High Court sets aside 5 orders against ED seizure of assets

NEW DELHI: The Delhi high court has set aside five orders that prevented the Enforcement Directorate from attaching the assets of those suspected of violating the Prevention of Money Laundering Act (PMLA) in response to a plea by the central probe agency. The orders were passed by the appellate PMLA tribunal after four banks – State Bank of India, Axis Bank, IDBI and Punjab National Bank – complained that the ED had attached properties over which the banks had liens, compromising their ability to sell the assets and recover loans that had been granted to the suspected criminals. The banks had approached the appellate PMLA court to get the attachment orders reversed and succeeded in all five cases. Some borrowers in these cases included individuals suspected of involvement in a 2015 forex scam that hit the Bank of Baroda. The HC said banks could recover their money from assets seized by the probe agency if their claims were genuine and predate the period when the crime came to light. In a 105-page judgement that ET has reviewed, Delhi high court judge RK Gauba noted, “An order of attachment under PMLA is not illegal only because a secured creditor has a prior secured interest (charge) in the property." The ED, a specialised financial investigation agency under the Department of Revenue, is said to have appealed against as many as 50 orders of the appellate PMLA court that prevented it from attaching the assets of individuals or companies suspected of money laundering because banks had a claim on them. ET reported in its edition dated March 9 that the appellate PMLA court had stayed an order allowing the agency to attach the property, bank accounts and jewellery linked to fugitive businessman Mehul Choksi and his company Gitanjali Gems in response to a plea by ICICI Bank. The private lender had approached the appellate PMLA court on the grounds that the asset was required for valuation as Gitanjali Gems was undergoing insolvency proceedings. The HC judgement specified that where the claims of banks are established to be bona fide or genuine and predate the period when the crime came to light, they would have the right to recover their money from the assets seized by the probe agency.

Auto slowdown may hit banks' retail growth

MUMBAI: Indian banks' retail growth may take a hit due to slowdown in motorcycle and car sales and liquidity tightness in the market, say top bankers and rating agencies as growth in personal vehicle loans, which make a sizeable part of banks' overall retail credit, nearly halved in the last fiscal. Latest data from the RBI shows that the personal vehicle loan portfolio made up by cars and two-wheeler loans grew 6.5% in fiscal 2018-19 as against 11.3% in the previous fiscal. At Rs 2 lakh crore, this portfolio constitutes almost 10% of all retail loans in the commercial banking system. This comes in tow with the sales slowdown in the auto industry. During FY19, the Indian passenger vehicle industry sold 33.8 lakh units, posting a growth of 2.7% —the slowest in the past five years. Two-wheeler sales grew 4.9% to 2.1 crore units in FY19, as against the preceding fiscal's high of 14.9%. "We have witnessed some slowdown in our auto loan portfolio, especially the personal vehicle loan segment in the current quarter… While our yearly growth has been close to 15% in the March quarter, this may fall to single digit in the next quarter," said Sandeep Batra, executive director, ICICI Bank. Most major retail banks, who dominate the vehicle finance segment, such as Kotak Mahindra Bank, HDFC Bank and ICICI Bank reported lower growth rates in the March quarter. Automobile sales growth slowed last fiscal as tight credit conditions after the NBFC crisis and higher insurance pay out in the first year to follow judicial orders. Maruti, the biggest car-maker in India, reported a 5.25% growth in sales last year as against a double-digit growth forecast it gave at the beginning of the year. While financial markets and rule change affected sales, there may be structural shifts happening in the economy which could alter the demand pattern permanently. "The question that needs to be asked is if something structural is changing. Is there a fundamental change in consumer behaviour happening with the rise of Ola and Uber," Uday Kotak, chairman, Kotak Mahindra Bank told media during their March quarter results conference. "If this is indeed the case, we need to be ready with a new alternative," he said. Other bankers and auto-industry stakeholders that ETspoke with also attributed this slowdown to tightness in liquidity forcing banks to reduce their risk-appetite in these loans. While lenders would fund up to 90% of a vehicle's cost earlier, they are now weary to lend more than 75%, said an auto-dealer.

Mastercard commits Rs 7,000 crore investment in India in next 5 years

BENGALURU: Global payments giant Mastercard plans to invest $1 billion in its India operations over the next five years, a top company executive said, and about $350 million of that would go into setting up a local payments processing centre in keeping with the Reserve Bank of India's mandate to store all payments data locally. The processing centre, which is expected to open in the next 18 months and create employment for an additional 1,000 people, will be MasterCard's first outside of the United States, and could service markets including Southeast Asia and maybe Apac as well. "This isn't just a basic node that does authorisation and processing — we will bring in many other value-added services," said Porush Singh, division president for south Asia, Mastercard. "These capabilities will keep evolving over time and we will look at other markets we can service out of here." The centre, most likely to come up in Pune, is expected to handle tasks including circuit switching for ATMs, prepaid, Point of Sale, and ecommerce transactions. It will also offer all associated services such as fraud mitigation, tokenisation and authentication, the company said. Mastercard was banking on partnerships and startups that it is working with in the country to expand into neighbouring regions to help drive international workload to the country, Singh said. Mastercard is expected to invest the remaining amount to grow locally and to expand the team that services its overseas operations. Singh did not specify the employment that the investment would generate since it would depend on how digital payments would scale up in India. "We're going to be investing in both technology and people and already have centres in Gurugram, Vadodara and Pune," Singh said. "Because of the kind of capabilities we are deploying, this time, alarge chunk of that value is going to be in India itself, and that's why we're looking at how we can deploy it across multiple markets in the region." MasterCard's five-year investment plan that spans to 2024 comes after the payments major pumped in close to .`6,500 crore and grew its team here from 30 to around 2,000 in the previous five years. Today, India is MasterCard's second-largest location globally in terms of the size of its workforce after the US.

<u>Indiabulls Housing and its unit set for merger with Lakshmi Vilas Bank</u>

MUMBAI: Indiabulls Housing Finance (IHF) and its subsidiary Indiabulls Commercial Credit Ltd (ICC) will be merged into Lakshmi Vilas Bank (LVB) after a change in the merger agreement announced on the stock exchanges late on Friday. The change will potentially make it easier for the entities to get regulatory approval as Indiabulls promoters may potentially not need to pass muster with the Reserve Bank of India (RBI). Under the earlier scheme of amalgamation announced on April 5, LVB was supposed to be merged with Indiabulls Housing Finance subject to regulatory approval. The share swap ratios and other details linked to the deal remain the same, said Gagan Banga, managing director at IHF. "When we announced the scheme in April both the options were open to us but after considering all options in the last few days we have decided that both the Indiabulls companies will be merged with LVB. All other things will remain the same and LVB shareholders will hold 9.5% in the combined entity," Banga said. In a notice to the stock exchange on Friday, IHF and ICC were described as transferor companies while LVB was described a transferee company, a change from April 5 when LVB was described as the transferor company. Also, ICC was part of the deal which was announced on April 5. The new deal envisages the merger of both Indiabulls companies into LVB on an ongoing basis without being wound up.

<u>India orders anti-trust probe of Google for alleged Android abuse</u>

NEW DELHI: India's antitrust watchdog has ordered an investigation into Alphabet Inc's unit Google for allegedly abusing the dominant position of its popular Android mobile operating system to block rivals, two sources aware of the matter told Reuters. The Competition Commission of India (CCI) last year started looking into the complaint, which is similar to one Google faced in Europe that resulted in a 4.34 billion euro ($5 billion) fine on the company, Reuters reported in February. In mid-April, the CCI decided there was merit in the accusations made in the complaint and ordered its investigation unit to launch a full probe, one of the sources with direct knowledge of the matter said. That decision, which was confirmed by the second source, has not been previously reported and the order calling the full investigation was not made public. "It is a strong case for the CCI, given the EU precedent," said the first source. "The CCI has (preliminarily) found Google abused its dominant position." The probe would be completed in about a year and Google executives would likely be summoned to appear before the CCI in coming months, the source said. The CCI did not respond to a request for comment. A Google spokesman said Android has enabled millions of Indians to connect to the internet by making mobile devices more affordable. Google looked forward to working with the CCI "to demonstrate how Android has led to more competition and innovation, not less", the spokesman said in a statement. Reuters could not establish who filed the complaint, which involves more than one person. UNFAIR ADVANTAGE The precise details of the complaint against Google in India could not be determined, but sources have told Reuters it is on the exact same lines as the case filed against the company in Europe. In the EU case, regulators said Google forced manufacturers to pre-install Google Search and its Chrome browser, together with its Google Play app store, on Android devices, giving it an unfair advantage. Google has appealed the order but, in a bid to quell EU antitrust concerns, last month said its Android device users in Europe would be able to choose rival browsers and search engines. Once a user downloads a rival search app, it also prompts them to change their default search engine in their Google Chrome browser, if they so wish. Android, used by device makers for free, features on about 88 percent of the world's smartphones. In India, about 99 percent of the smartphones sold this year used the platform, Counterpoint Research estimates. It remains possible that the CCI's investigations unit could clear Google of any wrongdoing. The amount of fine that can be imposed on Google if the CCI rules against it was not immediately clear. The Indian regulator has powers to impose a penalty of up to 10% of the relevant turnover of a company in the last three financial years if it is found to have abused its dominant position. In that case, Google's earnings linked to its web browser and search engine could be considered to assess the fine, New Delhi-based antitrust lawyer Gautam Shahi said. Google does not disclose its India earnings from its web browser or search engine. "They can either change their conduct in India voluntarily or let CCI investigate. Voluntary change in conduct may have an impact on the quantum of penalty, if it's imposed," said Shahi. The Indian investigation, however, is not the only antitrust trouble for the Mountain View, California-based company in its key market. Last year, the CCI imposed a fine of 1.36 billion rupees ($19.46 million) on Google for "search bias" and abuse of its dominant position. It also found Google had put its commercial flight search function in a prominent position on the search results page. Google appealed against that order, saying the ruling could cause it "irreparable" harm and reputational loss.

MUST READ ITEM FOR THIS WEEK

Banks and Fintechs – A Match Made in Heaven?

By **Bryan Shaw***, Associate and* **David Gardner***, Partner at UK law firm TLT*

There has been a rapid increase in the size and number of investments into UK fintechs with the likes of Monzo and Revolut leading the charge. Interestingly, it is not just the VC funds driving this; banks are also investing or in many cases, acquiring fintech companies outright. While you could argue that this is a short-term, tactical move by established financial services institutions, it does appear to be part of a longer-term play – supported by a number of key market drivers and with plenty of good reasons to believe that this trend will continue. Indeed, when we surveyed banks and fintechs in August 2018, two thirds (66%) believed that the market will become more consolidated as larger banks acquire fintechs and smaller banks to keep up with the level of innovation and speed of product development required to remain competitive. To highlight just a few recent examples of investments, Spain's BBVA has acquired a string of digital upstarts including Simple in the US, Atom Bank in the UK and Holvi in Finland. Barclays has led a £10m funding round in Bink and a $6m round in Simudyne.

Barclays has also established Rise as a national network of accelerators for entrepreneurs in the fintech industry. In Asia, Standard Chartered has teamed up with China's Alipay to launch a digital remittance service, using blockchain technology to send money across borders quickly and cheaply. The list goes on.

A Continuing Trend

There are a number of reasons why we expect this trend to continue:

- ***Market Disruption***

Established lenders and financial services companies face increasing competition from new market entrants, including digital banks, challenger banks and fintechs. As demand for digital banking grows, these businesses are offering new service propositions, disrupting the traditional banking model and shaking up how we bank and manage our finances. In addition, our latest research reveals that GAFA (Google, Amazon, Facebook and Apple) is actually the biggest perceived threat to banks and fintechs despite them not having a substantive banking presence in the UK yet. Two thirds (63%) of banks and half (45%) of non-banks perceive GAFA as a threat to their business. The tech giants have already shown an appetite to disrupt the financial services market and have gained a toehold in the payments space via popular services like ApplePay and AndroidPay. More recently, Apple has launched a credit card with Goldman Sachs. A lot of this competition is being driven by regulation, with the Competition and Market Authority's open banking regime now fully underway. This is enabling more FCA-registered companies to access customer banking data (via a secure interface with the major UK banks, and only with the customer's consent) so that they can launch a range of new services, from data analytics and comparison platforms to financial management tools. Existing banks are looking at collaboration and acquisition of fintechs in order to remain competitive.

- ***Compliance***

As well as open banking, there are a number of other regulatory regimes and governance requirements, including the General Data Protection Regulation and requirements relating to the use of cloud computing, which affect banks and often require technology transformation as part of achieving compliance. In many cases, banks are investing in fintechs to bring the necessary technology and skills into their business, to help fulfil regulatory obligations and future-proof their business as these evolve.

- ***New Products/Revenue Streams***

With new technology, banks are able to offer a broader range of products and services to new and existing customers, and open up new, previously untapped, revenue streams. For instance, analytics software can be used to detect when a customer's needs change, allowing the bank to tailor and target specific products and services uniquely to each customer. A new mortgage service offered by Royal Bank of Canada is a great example of how technology is being used to diversify an existing offering. It goes beyond the traditional 'Welcome home' hamper for new mortgage customers, offering to research neighbourhoods, move furniture, paint the house and even decide which bins to take out each week – all as part of its mortgage service.

- ***Cost Reduction***

Back office administrative costs have already been greatly reduced in the last decade, but there is still an opportunity for fintechs to help banks save significant costs savings, which is driving some of these investment trends and motivating banks to move into this space.

- ***Speed***

The financial services market is changing rapidly, with three quarters (77%) of our research respondents describing the open banking reforms in 2018 as one of the most radical changes in the recent history of the industry. In the same year, the General Data Protection Regulation dramatically enhanced people's legal rights over how their personal data is gathered and used, placing further legal and compliance burdens on banks. At the same time, people are living their lives through an increasingly digitised world, and digital service delivery models are becoming a lot more familiar, common and therefore in demand. Consumers' banking habits are changing all the time and the growth of digital banking is a self-fulfilling prophecy at the moment – the more digital services people become familiar with, the more this will be considered the norm and the industry will need to be agile enough to keep up. With this scale of disruption and pace of change, acquiring fintech companies to remain relevant to today's banking customers can often be seen as quicker and easier and therefore more desirable that developing proprietary technology in-house or buying technology off-the-shelf.

Staying Relevant

Customer retention and keeping pace with technology are top priority for every CEO. Not surprisingly, these concepts are complimentary, because the better the technology, the better user experience for the customer, leading to increased customer engagement and retention. Investments by banks in fintechs will continue to be a necessity to stay relevant in the modern financial services world. It will be interesting to see how open banking and other initiatives drive further innovation in the market as it continues to mature.

VIEW OF THE WEEK

Raising the Red Flag on TBML

By **Colin Camp***, Senior Director – Business Development & Sales, APAC*

How AI technology can support banks in efficient, effective monitoring for TBML indicators

"Trade Based Money Laundering (TBML) is an important component of the underlying system that supports all transnational crime. It's far more complex than any other type of financial investigation and requires a lot more co-operation across agencies and across national jurisdictions," says Mark Giuffre, former special agent for the American Drug Enforcement Administration. At a time when money laundering transactions equate to 5% of global GDP annually (according to the United Nations Office on Drugs and Crime), governments and regulators are understandably intensifying their focus on illicit financial flows within trade finance. Given banks are often the (unwitting) facilitators of this illegal activity, it is not surprising that they are coming under increasing pressure from regulators to take greater action to identify and restrict this growing international crime.

Red flags rule

Regulatory bodies around the globe are stepping up scrutiny on TBML and banks are increasingly obliged to take more stringent action to ensure they are not facilitating any illicit transactions. The Monetary Authority of Singapore (MAS), the Hong Kong Monetary Authority (HKMA) and the Financial Conduct Authority (FCA) in the UK are some of the global regulators that have issued guidelines and red flag checks around trade finance, echoing those issued by the International Chamber of Commerce (ICC), Bankers Association for Finance and Trade (BAFT) and the Wolfsberg Group. These red flag checks define the key attributes in trade finance transactions that indicate a high risk for TBML and are now seen as the global standard for due diligence for which financial institutions must screen and monitor. Fail to comply and banks incur not only hefty fines, but also significant reputational harm – regulatory enforcement actions often feature specific language indicating that banks aided and abetted terrorism, drug trafficking, and human trafficking by failing to detect and report illicit activity, upon which media outlets can be quick to capitalize. Compliance, on the other hand, is no mean feat.

Sanctions screening

Given its international nature, ensuring compliance with government sanctions lists naturally forms a substantial part of the checks for trade finance that banks are required to make. Red flag guidelines require banks to monitor for customers conducting business in or shipping items through high-risk jurisdictions; or customers engaging in potentially high-risk activities, such as trade in defence articles or chemicals. Banks must verify all counterparties (corporations and banks) as part of Know Your Customer (KYC) regulations and ensure that all parties to a transaction undergo “sanctions screening” against official sanctions lists, including those from the Office of Foreign Assets Control (OFAC), the European Union (EU), and the United Nations (UN).

Document consistency and Dual-Use goods

Significant discrepancies in the information provided in the various shipping documents is a key focus area for red flag checks because they can hide important indications of potential illegal trades or money laundering. Inconsistencies between the description of the goods on the bill of lading or invoice and the actual goods shipped; shipment locations or shipping terms not consistent with letter of credit; or the shipment does not make economic sense – perhaps the use of an oversized container for a small volume of goods – are all anomalies that require investigation. Red flag checks also target the illicit shipment of dual-use goods – goods which can be used for both innocent civilian purposes, as well as having a military use. For example, ammonium nitrate is used as a fertilizer but can also be used in explosives. In this case, understanding the context of the shipment, and knowing the organisations involved is key.

Tracking trade finance is a huge issue for banks

Keeping track of trade finance transactions and monitoring for indicators of TBML is currently a highly inefficient and costly labour-intensive process for banks. TBML is difficult to detect because of the complexity within the Trade Finance process itself, the number of entities and data sources involved, and a reliance on paper-based documentation and manual processes. The unstructured, inconsistent format of Trade Finance documentation, including word documents, PDF files and scanned images create automation and screening challenges. Trade instruments such as Bills of Exchange, Bills of Lading, Letters of Credit, and SWIFT MT7xx series are heavy on free-format text and unstructured data, and do not lend themselves well to most compliance filters, which require formatted, structured data in order to accurately and correctly detect non-compliant items. In other words, it's easy for a mis-presented price or quantity of goods, or a false customs declaration to go unnoticed.

AI-Insight

With such a complex task, with multiple document formats and data sources to monitor, a digitised process leveraging the unique capabilities of Artificial Intelligence technology becomes the only solution for banks wishing to meet their TBML compliance obligations. Unstructured data from the various paper-based trade documents must first be scanned and put into machine-readable text format with the help of optical character recognition (OCR) technology. Once the data is in a format that can be processed and analysed, the Artificial Intelligence (AI) discipline of Natural Language Processing (NLP) can be used in combination with a rules-based engine to interpret the text, understand the context and derive meaning from it, in order to identify red flag indicators and sanctions subjects. By harnessing the unique capabilities of AI technology, banks are able to go beyond the efficiency benefits of simple document digitisation, to be able to effectively monitor and rapidly detect money laundering activities, without the burden of having to employ large numbers of expensive, error-prone and time-consuming human resources to tackle difficult compliance checks manually. While TBML remains widespread, red flag guidelines and watch lists will continue to evolve and grow. It is only through flexible, intelligent, automated AI-powered solutions that banks can keep up with and adapt to heightened regulation required to tackle this growing international crime.

INTERVIEW OF THE WEEK

After elections, set up a body to audit how NSSO data was calculated: Bimal Jalan

There is a case for relook at the data but that does not mean this data is wrong, said Bimal Jalan, Former RBI Governor, in an exclusive interview with ETnow. Edited excerpts:

One of the big issues facing the Indian economy is that of data credibility. This is the second time around that we have seen the NSSO data being questioned. Do you think that government is actually suppressing the economic data?

No, I do not think we can take that view. If you do not agree with the data and there are different data, that is possible and it is possible that somebody in the governmental system etc. have been influencing data collection, but so far as the national statistics institution is concerned, they are quite autonomous. If you look at history, despite many changes in the government, by and large their data has been satisfactory in terms of what they have been able to count. The main issue is the sample that you take and try and get into data. Now whether the government has influence on that particular part or not, one cannot say.

Since you are saying if the government has influenced the data or not one really cannot say, isn't there a case for a statistical audit of the Indian data, need for an independent agency or economists to look at the quality of the Indian data?

That does not have to depend on the election. That part can be done if an autonomous body is set up to see whether there was any fault in the data calculations over the last five-six years and then we can decide whether any methodology has to be changed because ultimately you cannot count 1.3 billion people. You can only count a section of the people who are representative of the total data in terms of consumption, in terms of services, employment and so on and so forth.

Would you say there is a case for relook at the data by an independent valuator?

Yes, but not by saying that this particular data is wrong and that particular data is wrong, unless there is evidence. I do not know whether it is possible to establish an evidence.

But the fact is that 108 economists had raised a lot of questions about the Indian data/Whether it was a jobs report of the latest data which says the MCA-21 data is dodgy, how should one really look at it? Perhaps a body like NSSO need legal backing?

You can have a legal backing and make it autonomous and so on. After the election, a little body can be set up which will look into it and which would audit how the data has been calculated. What you might say deficit or lack of data is a different matter because that would be estimated but we can try and improve. If there is so much debate, than the best thing is after the election, set up a committee or set up an investigating audit committee to see what more needs to be done in terms of either increasing the sample size or increasing the different areas which are more reflective of the total population in terms of activity, in terms of services, manufacturing and all that.

A lot of people are concerned about the consumption slowdown. It is manifest not only in the auto sector but also in the FMCG sector. Is that really pointing to a larger slowdown in the economy?

Not in the long term. You have to view this as short term because we are having elections. There is uncertainty and people are waiting to see the outcome of elections and what kind of government is formed. Investors are waiting. Food prices have risen but agriculture is not in a very good state. In services sector also, people who are doing work would wait and see what kind of election results are there. At the moment, I would not put too much weight on this. But the task of new government which comes into power is precisely to make sure that our growth picks up and our unemployment reduces. Our agricultural areas will see the kind of funds required for fertilisers and other things . In terms of fundamentals, there is no other country than India and perhaps China, which have all the strings. We have technology. We have capital in terms of total investment. We have savings. We have labour and we have land. All the factors of production are in our favour and there is no reason why we cannot reach 8% rate of growth which we did during 2004 to 2010. What are the fiscal tools that are available with us? The revenue stream is weak. The government is borrowing a lot more in FY20.

What are the fiscal tools that are available for the government to push growth if you are saying that is going to be one big task in front of the new government?

Things are inter-related. If consumption is decreasing, then also total amount of GST earnings may increase, but it would be less than what it could be if consumption was increasing. Similar is the case with employment. If you look at fiscal deficit, earlier fiscal deficit was higher. It came down to 3.4% last year. This year, it is supposed to be higher. Part of this may be due to all the things that you have said about the slowdown in economy. So, tax receipts are higher. But there may be difference between expenditure and revenues partly because of the election expenditure or partly because of investments that you are doing all over the country. Implementation may be slow but the investment rate is probably increasing. But it is not producing outputs as of now.

Do you believe the new government could perhaps look at a fiscal stimulus? That will come at the risk of a ballooning fiscal deficit?

My view on the fiscal deficit part is very different from what the normal view is. The reason you want lower fiscal deficit are two in number. One is essentially inflation. If you have a large deficit, then the so called money multiplier would be large and you would have money supply, which would increase at a much faster rate than output. So, you will have much higher inflation. If you do not have say an inflation problem, then you can have a fiscal deficit which is higher. Second, what do you do with that fiscal deficit? If you are doing that fiscal deficit part in order to do things in times of election, to provide more money to people which are free or loan waivers or other things, then you would have a lot of disjuncture between what the actual poor get and what you are spending as has been the case with many of our schemes. We are providing support for ration cards or for the shops for food. Data show that 50% is diverted.

INTERESTING TO KNOW THIS WEEK

Temple run: How much gold do Kerala temples have?

THIRUVANANTHAPURAM: In 2011, former IPS officer-turned-lawyer T.P. Soundarajan filed a plea in the Supreme Court seeking to know the stock of gold in the famed Sree Padmanabhaswamy Temple here. Since then, speculation has pegged the value of the gold stored in the temple at over Rs 1 lakh crore. Sree Padmanabhaswamy is the tutelary deity of the royal family of Travancore but its scion Prince Aditya Varma has always declined to comment on the estimated value of the gold stored in the temple. Varma, however, said that as the legend goes, a portion of the temple's treasures was meant to be used by the erstwhile kingdom at times of famine or other such natural tragedies. He said that elders in the family had told him that close to 1,000 kg of gold was still kept in temple in the form of paddy grains. "This was kept by our forefathers for use in times of need," said Varma. In 2011, the apex court had formed a committee to assess the value of the treasures kept in the temple. But due to legal hurdles, a detailed assessment report of the treasures stacked in several vaults is yet to be released. Another temple in Kerala known for its large devotee base is the Guruvayoor Sri Krishna Temple near Thrissur. Veteran Congress leader and former Lok Sabha member Peethambara Kurup, who's the ex-President of the Guruvayoor Devasom Board which oversees the functioning of the temple, told that when he was the head of the board till two years back, the total gold kept in the temple reserves was in excess of 3,000 kg. "This came from the devotees who contribute to the temple both in cash and kind. According to the rules of the temple, a good portion of the gold is kept in safe custody in Mumbai. The remaining gold stock is kept in banks in and around Thrissur," said Kurup. He added that as per rough estimates, every year the temple receives 15 to 20 kg of gold by way of donation. "In normal circumstances, this gold is left untouched out of respect and fear of the deity. However, according to the rules, if the temple administration wishes to pledge some of the gold, it can be done only with the concurrence of the Kerala government. According to my knowledge, such a thing has not happened so far and is unlikely to happen in the future," said Kurup. Prayar Gopalakrishnan, a former Congress legislator and ex-President of the Travancore Devasom Board under which comes the famed Sabarimala Temple, said that 1,500 temples fell under the jurisdiction of the board. "Of this, only 25 have gold in their custody, out of which just six, including the Sabarimala Temple, have a substantial quantity of the yellow metal. I stepped down as the President about two years back and to my surprise even though a ledger is maintained about the quantity of gold kept in each of these six temples, it has not been physically verified," he said. However, Gopalakrishnan said that a substantial portion of the gold belonging to the Sabarimala Temple was kept in the custody of the royal family of Pandalam. Every year during the Makheram festival in January, it was taken from Pandalam to the Sabarimala Temple and taken back after the rituals got over.

INTERNATIONAL NEWS THIS WEEK

UK based Al Rayan Bank partners with mortgage broker Alexander Hall

Maisam Fazal, chief commercial officer, Al Rayan Bank

UK based Al Rayan Bank has partnered with UK based mortgage broker Alexander Hall. Alexander Hall is the sister company of Foxtons estate agents who will be working with the bank to increase awareness of its home finance proposition. Alexander Hall will be operating across two areas of the bank's existing business, referring UK domestic Islamic home finance enquiries, as well as enquiries from expats in GCC countries who are looking to invest in UK property from overseas. Maisam Fazal, chief commercial officer, Al Rayan Bank, said "We're anticipating a strong level of business from Alexander Hall this year. Their 25 years' experience in the sector and position as one of the top mortgage brokers in the UK means we're looking forward to fostering this relationship, and increasing awareness of Islamic home finance to mainstream audiences in both the UK and abroad."

Greg Cunnington, director of lender relationships and new homes, Alexander Hall, said "One of our responsibilities is to search the market and provide the widest choice of providers as possible for our clients, and it is important to us that we are able to source suitable options for all of them. Islamic home finance products provide opportunities for those looking to acquire a home that cannot use non-Islamic home finance products. Al Rayan Bank is a leader in this space, being one of the largest providers of Islamic home finance in the UK, and we look forward to growing our already strong relationship." Al Rayan Bank was the first Islamic bank to offer Sharia-compliant Islamic mortgage alternatives – Home Purchase Plans or HPPs – to the UK market. As an Islamic bank, Al Rayan Bank's HPPs do not involve interest, instead, the Bank and customer purchase the property together as partners with each owning a share. Over time, the customer increases their share in the property whilst paying rent on the portion still owned by the Bank. At the end of the term, when the finance has been settled, ownership transfers to the customer.

U.S. housing agency wants new rules to attract mortgages from banks

WASHINGTON, May 9 (Reuters) - The Federal Housing Administration announced on Thursday it was seeking to streamline and clarify its rules in a bid to entice traditional banks to rebuild their FHA loan business, as the agency seeks to give consumers a greater choice of lenders. The FHA provides mortgage insurance on loans created by approved lenders, helping borrowers with less money for down payments or lower credit scores qualify for home loans. The FHA insurance protects the lender in the event of a borrower default. Some academics and policymakers have expressed concern about the growing presence of nonbank lenders in mortgage lending, such as online lender Quicken Loans, given they are not as strictly regulated and lack a deposit base to help weather downturns. Traditional banks made a significant exit from the FHA mortgage business in recent years, citing costly and complex rules. But now the FHA said it wants to more clearly explain what lenders and what types of mortgages qualify for its programs in an effort to bring them back.

"We are proposing a new, more transparent, plain-English set of requirements that preserves our enforcement authority without scaring lenders away from doing business with the FHA," FHA Commissioner Brian Montgomery said. Depository institutions now make up just 13 percent of new FHA loans, with nonbank institutions originating the rest, he said. According to the FHA, it was estimated in 2018 that one out of every five mortgage loans originated in the United States is an FHA loan. Such loans require a down payment of only 3.5 percent, compared with the 20 percent required for most conventional mortgages. Specifically, the FHA is proposing providing more clarity around what a lender needs to do, both in general and on a loan-by-loan basis, to qualify as an FHA-certified lender. The agency also wants to provide more clarity around how it identifies certain loans as defective and how lenders can address those deficiencies. The FHA had sparred with some large institutions in the past, charging some with misusing the program and obtaining insurance on loans that did not qualify. (Reporting by Pete Schroeder Editing by Leslie Adler)

Nordea introduces blockchain trade platform for European SMEs

Nordic based financial services company, Nordea Bank Obj, commonly known as Nordea announced that they will now be making their we.trade platform available to all their small and medium business customers. The blockchain based platform, initially launched in April, offers a secured venue for European companies to trade with each other and increases the bank's offering for SME customers. Developed on the IBM Blockchain platform we.trade is a blockchain based venture developed by twelve countries, with Nordea joining in on the collaboration in November 2017. By building an ecosystem for the buyer and seller, the bank takes on a new role and starts its interaction with the customer as early as from the order, not just at the time of payment. Speaking about this venture, Magnus Montan, Head of Business Banking for Nordea said. "We see more and more small and medium sized companies getting involved in cross border trading. There are some common challenges that they face. The biggest one is related to trust in their overseas trading partners. we.trade is not only about providing trade finance, it is something much bigger than that. It is about enabling trade and with we.trade we are creating an ecosystem for the global trade, where trust is an integral part,"

The bank implied that almost 60 percent of the SME's have to make advance payments creating an obvious sense of insecurity surrounding cross-border trade. In addition to that customer surveys identified three primary needs that were key in the first commercial version of the platform. Event-driven payments meet the stated need for automated payments. A guarantee by the bank satisfies the need for secured payments, should the buyer lack sufficient funds. The seller may also sell the invoice to the bank and gain earlier access to payment. Patrik Zekkar, Global Head of Trade Finance & Working Capital Management at Nordea, explained that trading over the we.trade platform simplifies the order and contract processes between buyers and sellers. Trading is controlled through a set of rules, which adds security to the process. Flexibility is gained as the parties are offered to choose for example what events will trigger payments.

Deutsche Borse & Microsoft strive for cloud service adoption in EU

Christoph Böhm, Deutsche Börse AG & Sabine Bendiek, Microsoft Germany

Deutsche Borse and Microsoft have announced an agreement regarding a contract for the adoption of cloud services in the financial services industry. The new agreement facilitates the establishment of new contract standards in the EU financial services sector and will be instrumental in the launch of regulated workload on Microsoft cloud services in Europe. "Cloud is a main driver for innovation and has the potential to reshape the financial services industry. As a key technology, cloud lays the foundation for enabling major initiatives that support Deutsche Börse Group's Roadmap 2020," said Christoph Böhm, member of the Executive Board of Deutsche Börse AG. "Together with Microsoft as a strong partner, we are very much looking forward to accelerating cloud adoption, for us as a company and for our clients". According to the supplier, the contract addresses regulatory issues such as adherence to national and EU regulations and will enable Deutsche Borse to react dynamically to the changing businesses and consumer demands. Microsoft's public cloud environment will allow faster implementation of new functionalities, improve efficiency by further automating the provisioning of infrastructure and services, and deploy a state-of-the-art cloud-based office solution. "As a platform provider, Microsoft is committed to supporting our partner Deutsche Börse in achieving their growth ambitions. This means understanding the market they are in and helping them to overcome the specific challenges of their industry," said Sabine Bendiek, Managing Director of Microsoft Germany. "This step by Deutsche Börse is an important signal for cloud adoption in the entire financial industry and other industries with regulated workloads. With our joint approach, Deutsche Börse and Microsoft enable all companies in the European financial market to make full use of cloud services." Deutsche Börse will use Microsoft cloud services, including the cloud platform Azure as well as Microsoft 365, the cloud offering for office and collaboration tools.

Orange to acquire cybersecurity provider SecureLink for €515m

Hugues Foulon, Executive Director of Cybersecurity at Orange

Orange is all set to acquire the European independent cybersecurity provider, SecureLink on a €515m Enterprise Value basis. Orange has entered into an agreement with Investcorp for 100% acquisition of SecureLink. The recent acquisitions of SecureLink and SecureData along with its Orange's Cyberdefence platform aims to propel Orange's standing in the European cybersecurity ecosystem. The combined capabilities of both the companies, i.e. Orange and SecureLink, is expected to address the ever-growing complexity of the security needs of customers globally. It will also assist in delivering and expanding their presence across Orange's 3000 multinational enterprises. Thomas Fetten, Chief Executive Officer at SecureLink, commented "We have been very impressed by the ambition and successful development of Orange Cyberdefense over the past few years, and are very excited to build a pan-European leader of cybersecurity together. Orange Cyberdefense, SecureData and SecureLink are highly complementary and share a common vision for the sector, and the combined organisation will be in a phenomenal position to address the needs of our customers, partners and employees." Founded in 2003 and based in the Netherlands, SecureLink provides a range of cybersecurity services including specialised security consulting, security maintenance and support with 24/7 service desks (SOCs) as well as advanced managed detection and response capabilities (MDR).

"Cybersecurity is a growing priority for companies of all sizes, and we believe the two most important success factors are Scale and Proximity. Scale because today's threats are global, complex, and require matching protection capabilities. Proximity because in the global IT world, you want a trusted local partner to secure your most strategic assets. With the acquisition of SecureData and SecureLink, Orange has the highest scale to anticipate and fend off attacks, as well as local defense teams in all the main European markets, positioning the combined organisation as the go-to defense specialist." said Hugues Foulon, Executive Director of Cybersecurity at Orange. "I am looking forward to building the integrated organisation with Michel [Van Den Berghe, CEO of Orange Cyberdefense], Thomas Fetten and all the teams", he added.

RBI THIS WEEK

RBI Working Paper No. 02/2019: Cross-border Trade Credit: A Post-Crisis Empirical Analysis for India

The Reserve Bank of India today placed on its website a Working Paper titled "Cross-border Trade Credit: A Post-Crisis Empirical Analysis for India" under the Reserve Bank of India Working Paper Series*. The Paper is authored by Rajeev Jain, Dhirendra Gajbhiye and Soumasree Tewari. The paper profiles trade credit extended by domestic and foreign banks to Indian importers by focusing on its size, composition and cost pattern. Using a panel data of 55 banks for 2007-08:Q1 to 2016-17:Q4, the paper finds that both demand and supply-side factors influence the flow of trade credit. The paper suggests that higher imports – whether due to high prices or volumes – lead to an increase in trade credit. From the supply-side perspective, financial health of banks, cost of trade credit and size of their overseas network seem to influence their trade credit operations. The empirical findings of the paper suggest that the banks need to expand their global banking relationship and shift towards the use of globally accepted trade finance instruments instead of indigenous instruments (*i.e.*, LoUs /LoCs) which, however, may push up the cost. ** The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.*

RBI clarifies on safe custody of its gold reserves

We have come across reports in certain sections of the print and social media regarding RBI shifting abroad a part of its gold holding in 2014. It is a normal practice for Central Banks world over, to keep their gold reserves overseas with Central Banks of other countries like Bank of England for safe custody. It is further stated that no gold was shifted by the RBI from India to other countries in 2014 or thereafter. Thus the media reports cited above are factually incorrect.

Mint Street Memo No. 19: Inflation Forecasts: Recent Experience in India and a Cross-country Assessment

The Reserve Bank of India today placed on its website the nineteenth release under the series 'Mint Street Memos (MSM)' titled "Inflation Forecasts: Recent Experience in India and a Cross-country Assessment". The paper authored by Janak Raj, Muneesh Kapur, Praggya Das, Asish Thomas George, Garima Wahi and Pawan Kumar analyses the inflation forecast performance based on the all India Consumer Price Index (CPI), with a special focus on identifying the episodes of large forecast errors and explaining the underlying factors. The views and opinions expressed in MSM series are those of the authors and do not necessarily represent the views of the RBI.

RBI announces rate of interest on Floating Rate Bond, 2024

The rate of interest on the Floating Rate Bond, 2024 (FRB 2024) applicable for the half year May 07, 2019 to November 06, 2019 shall be 6.47 percent per annum. It may be recalled that the rate of interest on the FRB, 2024 is set at average rate (rounded off up to two decimal places) of the implicit yields at the cut-off prices of the last three auctions of Government of India 182 day Treasury Bills held up to period preceding the coupon reset date, which is May 07. The implicit yields will be computed by reckoning 365 days in a year. The coupon rate has been fixed accordingly.

Priority Sector Lending – Targets and Classification

Please refer to Para 10 of the Statement on Developmental and Regulatory Policies of the First Bi-Monthly Monetary Policy Statement 2019-20 dated April 4, 2019 and Para 9 of Master Direction – Regional Rural Banks (RRBs) - Priority Sector Lending – Targets and Classification dated July 7, 2016/Para 5 of the Compendium for Small Finance Banks (SFBs) – Priority Sector Lending – Targets & Classification dated July 6, 2017, prescribing eligibility criteria of housing loans for classification under priority sector.

2. In terms of the above Master Direction for RRBs, loans to individuals up to ₹ 20 lakh for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit does not exceed ₹ 25 lakh are eligible to be classified under priority sector. In terms of the Compendium for SFBs, loans to individuals up to ₹ 28 lakh in metropolitan centres (with population of ten lakh and above) and ₹ 20 lakh in other centres, are eligible to be classified under priority sector, provided that the cost of dwelling unit does not exceed ₹ 35 lakh and ₹ 25 lakh, respectively.

3. In order to bring the RRBs and SFBs at a level playing field with other Scheduled Commercial Banks, it has now been decided to enhance the housing loan limits for eligibility under priority sector lending. Accordingly, in respect of RRBs and SFBs, housing loans to individuals up to ₹ 35 lakh in metropolitan centres (with population of ten lakh and above) and ₹ 25 lakh in other centres, provided the overall cost of the dwelling unit in the metropolitan centres and at other centres does not exceed ₹ 45 lakh and ₹ 30 lakh, respectively will be eligible for classification under Priority Sector Lending.

4. Furthermore, the existing family income limit of ₹ 2 lakh per annum, prescribed under Para 9.4 of the above Master Direction for RRBs/Para 5.4 of the Compendium for SFBs, eligible for loans to housing projects exclusively for the purpose of construction of houses for Economically Weaker Sections (EWS) and Low Income Groups (LIG), is revised to ₹ 3 lakh per annum for EWS and ₹ 6 lakh per annum for LIG, in alignment with the income criteria specified under the Pradhan Mantri Awas Yojana.

5. Accordingly, the RRBs/SFBs are allowed to reckon their outstanding portfolio of housing loans meeting the revised criteria for classification under priority sector lending from the date of this circular.

6. All other terms and conditions specified under the Master Direction/Compendium shall remain unchanged.

Disclosure on Exposure to Infrastructure Leasing & Financial Services Limited (ILFS) and its group entities

Please refer to the circular DBR.BP.BC.No.37/21.04.048/2018-19 dated April 24, 2019 on the captioned subject. In view of the National Company Law Appellate Tribunal's (NCLAT) order dated May 2, 2019 in respect of Company Appeal (AT) No. 346 of 2018 and I.A. No. 1139 of 2019, the instructions contained in the above mentioned circular stand withdrawn.

FINMIN THIS WEEK

GDP Estimation – A clarification

1. The Technical Report of Services Sector Enterprises in India, which was finalized under the 74th Round of National Sample Survey, was released recently by the National Sample Survey Office (NSSO). The survey utilized a sample of 35456 enterprises taken from the database of Ministry of Corporate Affairs (MCA) for the comprised out-of-survey units. The Report has stated that 38.7 percent of the sample of 35456 enterprises comprised out-of-survey units. Some sections of the media have misinterpreted these out-of-survey enterprises (as classified for the purposes of surveying the services sector) to be enterprises that do not exist in the economy. On the basis of this interpretation, the suggestion has emerged that by not removing out-of-survey enterprises from the MCA database,

Central Statistics Office (CSO) over-estimates the Gross Domestic Product of the country. This Press Release is intended to clarify the aforesaid misconceptions.

2. Of the 38.7 percent out-of-survey enterprises in the NSSO report, out-of-coverage enterprises comprise 21.4 percent. The out-of-coverage enterprises are simply those enterprises that are not engaged in activities intended for inclusion in the service sector survey. However, these enterprises are engaged in some economic activity, possibly in the manufacturing sector for instance. As a result, they cannot be classified as out-of-coverage enterprises for the purposes of estimating the GDP of the country. In other words, the GDP estimates based on the aforesaid out-of-coverage enterprises are very much a part of overall GDP of the country.

3. Of the remaining 17.3 percent out-of-survey enterprises, establishments that are not considered in the MCA database for GDP estimation comprise 0.9 percent. The balance 16.4 percent are either closed or non-traceable enterprises. However, with continuous evolution of the MCA database, the proportion of closed and non-traceable enterprises has been falling. Thus the extent of overestimation of GDP in all likelihood is marginal.

4. Crucially, we must note that the share of total paid up capital of the private corporate sector that is accounted by non-responsive enterprises affects GDP estimates using the MCA database; not the number of non-responsive enterprises in the private corporate sector. The following table shows from 2012-13 to 2016-17 the number of active firms and the firms whose information was directly used for GVA estimation.

Table 1: Blow up factor based on Paid-up capital of included and excluded firms

Year	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Number of firms that filed for the year (lakhs)	5.6	6.1	6.0	6.3	7.1
Active Companies(lakhs)	8.8	9.5	10.1	10.8	11.6
Multiplier (Based on Paid Up Capital)	1.15	1.14	1.17	1.13	1.17
Share of Paid Up Capital of Reporting Companies	87%	88%	85%	88%	85%
Share of Paid Up Capital of Non-reporting Companies	13%	12%	15%	12%	15%

From 2012-13 to 2016-17, the number of enterprises whose annual returns were not available for GDP estimation accounted for only 12-15 percent of paid-up capital of all the enterprises in the MCA database. As such the GVA estimated for the responsive enterprises was increased by a blow-up factor of only 1.13-1.17 to estimate the GVA of the entire private corporate sector. Most of the non-responsive enterprises did not provide data because they exercised their discretion of filing returns in subsequent years while continuing to engage in activities reflected in their previously filed return. Accordingly, their inclusion in the overall GVA estimation was legitimate.

5. Finally, even when there is a small over- or under-estimation, the blowing up affects the level of GDP and not the year-to-year annual growth rates materially. As seen in Table 1 above, the proportion of firms in the MCA data base that have ceased their operations varies minimally from year to year from 2012-13 to 2016-17. This feature ensures that although GVA levels could be slightly more or less than what they actually are, the growth rate of GVA from year to year will not be affected.

6. The MCA data base on the private corporate sector is a valuable addition to the data sources available for estimation of GDP and its use provides a more correct measure of economic activity in the country.

20th Conference of Regional Heads of Customs Administration (RHCA) of Asia Pacific Region of the World Customs Organisation (WCO) concludes in Kochi;

Three Day Conference took stock of the progress made in carrying forward the programmes and initiatives of WCO to promote, facilitate and secure cross-border trade in the Region and the capacity building and technical assistance required by Member Administrations to achieve these goals among others

The Central Board of Indirect Taxes and Customs (CBIC) had organised a Conference of the Regional Heads of Customs Administration of Asia Pacific Region of the World Customs Organisation (WCO) in Kochi from 08th to 10th May, 2019. India hosted this Conference in its capacity as Vice-Chair of the Asia Pacific Region of WCO which it assumed on 1st July, 2018 for a two-year period. The Conference took stock of the progress made in carrying forward the programmes and initiatives of WCO to promote, facilitate and secure cross-border trade in the Region and the capacity building and technical assistance required by Member Administrations to achieve these goals. This 3-day Conference was chaired by Mr. Pranab Kumar Das, Chairman, CBIC. Customs delegations from more than twenty countries of the Asia Pacific Region participated in the Conference along with senior officials of the WCO and its Regional Bodies, the Regional Office for Capacity Building (ROCB) and Regional Intelligence Liaoning Office (RILO). Mr Kunio Mikuriya, Secretary General, WCO and Mr P. N. Rao, Principal Chief Commissioner, Customs, Kochi also attended the meeting. In addition to the discussions on the strategic priorities of the Asia Pacific Region, the Conference also deliberated on the work programs of the Vice-Chair, ROCB & RILO, security related issues, trade facilitation, e-commerce, performance measurement, trusted trader programmes and emerging technological and logistical challenges in the fields of trade facilitation and Customs Administrations. The Conference also facilitated Bilateral Meetings between the Member States. Recognising the importance of the collaborative approach between Customs and trade, a Trade Day was organised on 7th May, 2019 as a precursor to the Conference of the Regional Heads of Customs. In the daylong deliberations, representatives from trade & industry and think-tanks shared their insights and experiences that are expected to shape the thinking of customs administrations of the region in adopting policies and measures to promote trade facilitation and secure global trade, and promote ethical leadership.

Meeting of the 15th Finance Commission with the Reserve Bank of India

The 15th Finance Commission headed by Chairman, Shri N.K. Singh today held a detailed meeting with the Governor and Deputy Governors of RBI in Mumbai today. Key issues raised by RBI Governor, Shri Shaktikanta Das and Finance Commission Chairman, Shri N.K. Singh were discussed in detail at the meeting. These issues included the following:–

· The necessity of setting up State Finance Commissions for respective State Governments.

· Public Sector Borrowing Requirements.

· Continuity of the Finance Commission. It was felt that this was required more in view of the fiscal management requirements of the States, especially given the absence of mid-term reviews of Awards granted by the Finance Commission, as it used to happen earlier with the Awards granted by the Planning Commission.

· Need for Expenditure Codes, especially given that expenditure norms vary from state to state.

· Role of States in Growth and Inflation, for instance, role of states in Ease of doing Business.

The RBI made a detailed presentation to the Finance Commission, on State Government Finances for 2019-20. The key takeaways are:

· The importance of states in the economy has increased with the shift in composition of government finances.

· Fiscal deficit of states is budgeted to be lower in 2019-20 BE, but RE and actuals deviate significantly (reflecting poor fiscal marksmanship).

· Specific factors drive fiscal slippages: these factors include UDAY in the past and farm loan waivers and income support schemes in 2018-19 RE.

· Outstanding debt as percentage of GDP rising despite moderation in interest payment as percentage of revenue receipts.

The RBI made another presentation on the issues and challenges of the market borrowings of state governments. The main issues raised in this presentation were the following:

· **Increasing orientation of state governments borrowing to markets.**

· **Improving secondary market liquidity –** re-issuances, non-standard issuances, widening investor base.

· **Risk Asymmetry-** Phasing out of ADM, rating of SDLs, valuation of SDLs, more frequent disclosures**.**

· **Strengthening the corpus of CSF/GRF –** incentive for increasing the corpus, indicative target of 5% of outstanding liabilities/ guarantees by all states.

· **Cash Management –** States to improve their cash forecasting capabilities, states' request to consider avenues for short term borrowings.

· **Disclosures –** Disclosure of high frequency data; budget presentations and release of financial data may be in a) common format b) within narrow time frame.

· **Contingent liabilities –** lack of reliable data, hence there is a need for standardization in compilation and reporting under FRBM and to enforce uniform ceiling for issue of guarantees.

During its two-day visit to Mumbai, the Finance Commission is slated to have meetings with banks,

E-filing of Income Tax Returns registers an increase of 19%

There have been some incorrect reports in media pertaining to reduction in numbers of Income Tax Returns(ITR) e-filed during Financial Year(F.Y.) 2018-19 as compared to F.Y. 2017-18. This is factually untrue, because the figures for F.Y. 2017-18 and F.Y. 2018-19 are not directly comparable. It is stated that during F.Y. 2017-18, out of a total of 6.74 crore ITRs which were e-filed, 5.47 crore ITRs were filed for Assessment Year(A.Y.) 2017-18 (the current year). In comparison, during F.Y. 2018-19, a total of 6.68 crore ITRs were e-filed which included 6.49 crore ITRs of current A.Y. 2018-19 marking an increase of almost **19%**. This would imply that substantially larger number of taxpayers filed their ITRs electronically in the F.Y. 2018-19 as compared to F.Y. 2017-18. Furthermore, during F.Y. 2017-18, apart from the returns for the A.Y. 2017-18, nearly 1.21 crore ITRs were filed for A.Y. 2016-17. The balance number of ITRs filed for A.Y. 2015-16 and prior A.Ys is 0.06 crore. In comparison, during F.Y. 2018-19 only 0.14 crore ITRs for A.Y. 2017-18 were filed. Thus, the apparent decrease in the number of ITRs filed during F.Y. 2018-19 pertaining to earlier years was due to an amendment in Section 139(5) of the Income-tax Act, 1961 brought in vide Finance Act, 2017, w.e.f. 01.04.2018, which mandated that a revised return could be furnished only upto the end of the relevant Assessment Year. As a result, only 0.14 crore ITRs pertaining to A.Y. 2017-18 were filed during F.Y. 2018-19 as these were the revised ITRs for the relevant A.Y. which could only be filed due to change in law and no other ITR of any earlier A.Y. could be filed in view of the amended provisions of law. These figures are also available in the Tab-> 'Filing growth (A.Y.)' on the e-filing website. It is also stated that the number of paper ITRs for A.Y. 2017-18 was only 9.2 lakh (1.5% of total ITRs filed) and the number of paper ITRs for A.Y. 2018-19 is 4.8 lakh (0.6% of total ITRs filed). As per the above details, it is evident that most of the taxpayers have steadily switched to e-filing which is clear from the dwindling numbers of paper returns filed for A.Y. 2018-19 compared to earlier years.

WORLD BANK THIS WEEK

World Bank EUR-Denominated Sustainable Development Bond Highlights the Importance of Water and Ocean Resources

Washington, D.C, May 10, 2019 —The World Bank (International Bank for Reconstruction and Development, IBRD, Aaa/AAA) launched a Sustainable Development Bond to raise awareness for the critical role that water and ocean resources play in development around the world. This EUR denominated 10-year forward Euro 10-year CMS rate linked bond was priced on April 24, 2019 and raised EUR 200,000,000.

HSBC was the sole lead manager of the bond.

"This bond shows investor interest in preserving freshwater and marine ecosystems that are crucial for our habitats, drinking water and climate. We are pleased to see that investors are looking for ways to support the Sustainable Development Goals - including through our bonds," said **Heike Reichelt, Head of World Bank's Investor Relations and New Products.**

"The World Bank's work on the blue economy is critical for the protection and sustainable use of marine and coastal resources. We're delighted to have worked on this important transaction," said **Farnam Bidgoli, Head of Sustainable Bonds DCM EMEA, HSBC.**

With annual issuances between US$40-US$50 billion, all World Bank bonds support the financing of programs that support the Sustainable Development Goals. World Bank bonds are aligned with the sustainability bond guidelines published by the International Capital Markets Association (ICMA). The World Bank is also a member of the Executive Committee of the Green Bond Principles. A key priority for the World Bank's engagement in the capital markets is to build strategic partnerships with investors to raise awareness for the role of private sector financing in sustainable development.

World Bank Prices its Second Sterling Overnight Index Average (SONIA) Linked Bond

Washington, DC, May 8, 2019 – The World Bank (International Bank for Reconstruction and Development, IBRD, Aaa/AAA) today priced a new 5-year Sterling Overnight Index Average (SONIA) linked bond adding a second liquid point on its SONIA curve. The GBP 1.25 billion floating rate transaction is World Bank's second SONIA-linked bond with total raised matching its previous issuance of a SONIA-linked bond in September 2018. Both World Bank SONIA-linked floaters are the largest issued in the market to date. The successful outcome of the transaction and the number of accounts participating demonstrate once again the solid demand for SONIA-linked assets. Both issuances reflect the World Bank's commitment to support the developing of a market for LIBOR alternatives and offering investors high quality, liquid assets in those markets.

The high-quality order book of 36 investors included 96% from bank treasuries followed by UK local authorities (2%) and asset managers (2%).

"We are pleased with the exceptionally strong reception for World Bank's second SONIA-linked bond. The success of this transaction demonstrates investor interest in high-quality liquid investments and speaks to World Bank's commitment to develop robust alternatives to LIBOR which benefit the global financial system. We appreciate the collaboration of our financial partners and the tremendous enthusiasm of our investors as we continue to move the market forward," said **Jingdong Hua, Vice President and Treasurer, World Bank.**

Adrien de Naurois, Managing Director, SSA Syndicate, Bank of America Merrill Lynch, said: *"Congratulations to the World Bank team on another outstanding sterling transaction and on successfully extending their SONIA curve. The competitive pricing and diverse orderbook is testament to investors' ongoing appetite for the World Bank name. The transaction is also a fantastic follow up to their inaugural GBP 1.25 billion SONIA FRN in October and demonstrates World Bank's continued support for this developing market."*

Asif Sherani, MD, Head of SSA Syndicate, HSBC, said: *"World Bank cemented its position as a leader in the Sterling market today printing the largest SONIA floater we've seen year to date, in a year where supply has been at record levels. The deal was well timed, tapping into strong appetite and allowing a print of large size with minimal concession. World Bank's choice of a floating rate note and SONIA as a reference rate demonstrates its continued push to develop the floating rate markets in face of LIBOR transition discussions."*

Mark Byrne, Director, SSA Syndicate, TD Securities, said: *"With this transaction, the World Bank has demonstrated their market-leading presence in the GBP market. By adding a second liquid point on their SONIA curve and issuing a GPB 1.25 billion sized bond, this is an exceptional result for the issuer. This transaction once more highlights the persistent bid for World Bank bonds across all markets from the global investor community."*

Pacific Finance Ministers Ready to Invest in Human Capital

DENARAU, May 6, 2019 - Pacific Finance Ministers came together today in Denarau, Fiji, to respond to the World Bank's call for increased investments in human capital -- the knowledge, skills, and health that people accumulate over their lives. Ministers of Finance from several Pacific Island countries including Fiji joined the World Bank to discuss the challenges their countries face, including significant deficits in nutrition, hygiene, healthcare and education. In the Pacific region, deficiencies in these areas have led to stunting in one out of four children, and as high as one in two in Papua New Guinea. In terms of education, Pacific children are not staying in school long enough and are simply not learning enough. In PNG, for example, an average child will complete only eight years of school and only learn the equivalent of around five years' worth by global standards.

"*We recognize that the health, education and skills of our young represent the best hope for our region's future prosperity,"* said **Fiji's Minister of Economy, Hon. Aiyaz Sayed-Khaiyum** at the Summit. *"That is why we are committed to working with the World Bank and other partners to identify the best investments to secure growth and our people's ability to thrive, earn and contribute in the future."*

Last October, the World Bank launched a global Human Capital Project – an accelerated effort to assess the progress countries have made in building human capital and help countries invest more – and more effectively – in their people.

"*A country's human capital is a critical driver of sustainable economic growth. It is key to ending extreme poverty and creating more inclusive societies,"* said **Victoria Kwakwa, Vice President East Asia Pacific of the World Bank** during her opening remarks at the Summit. *"Committing more and better investments for people in education, nutrition and health is fundamental for the future of their wellbeing and the prosperity of the Pacific economies"* she added.

Key development partners - including UNICEF, the UN Development Program, the World Health Organization, the University of the South Pacific, Australia's Department of Foreign Affairs and Trade, New Zealand's Ministry of Foreign Affairs and Trade and the Japanese International Cooperation Agency - also shared their perspectives on human capital and expressed support for a focus on more and better investments in the Pacific's people. At the Summit's conclusion participating Ministers of Finance committed to accelerating progress on human capital, with the World Bank similarly pledging to increase support for countries in these areas, in line with national development plans. The World Bank currently supports several human capital related projects in the Pacific including early age reading in Kiribati, Tonga and Tuvalu; a training and skills program in Tonga; health and nutrition support across the region, and a new early childhood development program that was recently launched in Marshall Islands, with several partners, including UNICEF.

World Bank and Egypt Sign US$200 Million Agreement to Promote Small Businesses and Spur Job Creation for Women and Young People

World Bank and Egypt Sign US$200 Million Agreement to Promote Small Businesses and Spur Job Creation for Women and Young People

ASWAN,– The World Bank and Egypt today signed an agreement to support the next generation of reforms in Egypt focused on promoting entrepreneurship and creating more job opportunities particularly for young people and women. The US$200 million "*Catalyzing Entrepreneurship for Job Creation*" project is aimed at promoting entrepreneurship, combined with expanding access to finance for small and medium enterprises, which have proven to be a major source of growth and job creation.

The signing took place in Aswan and was attended by **the new President of the World Bank Group, David Malpass,** who was concluding a two-day working visit to Egypt**. The Minister of Investment and International Cooperation Dr. Sahar Nasr,** who also **represents Egypt on the World Bank Board of Governors,** signed on behalf of Egypt, and World Bank **Country Director for Egypt, Yemen and Djibouti, Marina Wes** signed on behalf of the World Bank.

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''*Entrepreneurs - and especially women - are a cornerstone for strong and stable economies*,'' said **Dr. Nasr.** "*Our partnership with the Word Bank Group aims to empower Egyptian women and youth to become successful entrepreneurs. This is an investment that offers many opportunities to improve the livelihoods of Egyptians through job creation while contributing to a solid foundation for the country's economy*.''

"Egypt's strong commitment to reform is beginning to show positive results, but more efforts are needed for the benefits to reach all segments of society,'' said **Mr. Malpass.** "*With this new financing, we are keen to support Egypt's second wave of reforms, which has at its heart the creation of new opportunities for young people and women, along with further progress toward sustainable and inclusive growth."*

The new project is designed to address the major obstacles that young people and women face when launching new businesses. In an economy where the financial system is dominated by banks lending primarily to mature businesses, the project will channel US$145 million mainly through non-bank financial institutions that offer loans to small businesses. This project component will have established lending targets for women and youth-led businesses, first-time borrowers, and small businesses in less developed regions across Egypt. To build up the early-stage investment ecosystem in Egypt, the project will invest US$50 million in privately managed risk capital intermediaries. The project will also fund coaching opportunities for new businesses throughout the entrepreneurial lifecycle to build the necessary skills and capacity for success.

The World Bank has a diverse package of support to Egypt focused on expanding social protection and social inclusion to all citizens, improving competitiveness and infrastructure in less developed parts of Egypt, developing a digital development strategy for the jobs of tomorrow, leveraging private sector investments for infrastructure, and supporting reforms in the education and health sector to help build human capital. The World Bank currently has a portfolio of 16 projects in Egypt with a total commitment of US$6.69 billion.

IMF THIS WEEK

Ireland: Staff Concluding Statement of the 2019 Article IV Mission

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under Article IV of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments. The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

A decade after the global financial crisis, the Irish economy is one of the most dynamic in Europe. Economic growth is strong, unemployment is nearing historical lows, and public finances have improved. Ireland's success story is broad-based with multinational enterprises playing an important role. The downsized banking sector is well capitalized and liquid, but profitability is under pressure while credit to the economy has only recently begun to expand. Investment funds and other financial intermediaries continue to grow rapidly, lifting the overall size of Ireland's financial sector above its pre-crisis level.

The baseline economic outlook foresees continued robust growth and job creation with a further tightening of capacity constraints. External risks are increasing, however, as Ireland's close ties with the U.K. make it uniquely vulnerable to Brexit. Also, an escalation in global protectionism and changes in international corporate taxation could have negative spillovers. Policymakers should manage these risks by focusing on building buffers and strengthening resilience of the economy, both to alleviate demand pressures and prepare for the possibility of a major external shock.

Key measures to consider include: (i) tightening fiscal policy somewhat by avoiding spending overruns and broadening the tax base in a growth-friendly manner; (ii) using any proceeds from the National Asset Management Agency and from sales of government stakes in the banking sector or any other windfalls to pay down the still high public debt; (iii) further reducing nonperforming loans of the banks and closely monitoring risks in the large and fast-growing nonbank financial sector; (iv) continuing to reduce the housing shortage and homelessness; and (v) supporting productivity growth in the domestic economy and closing the gender gap in the labor market.

Strengthening fiscal resilience

The government's fiscal strategy is solid, but vulnerabilities are building. Budget 2019 aims to maintain fiscal balance, in part relying on buoyant corporate income tax (CIT) revenue. Accounting for nearly a fifth of total tax revenue, up from 7 percent in 2014, its increase can be traced largely to activities of multinational enterprises. Most of the additional CIT revenue has been used to cover spending overruns in healthcare and to offset reductions in income taxation. However, part of CIT revenue is at risk due to its high concentration, weak links to the domestic economy, and susceptibility to changes in the international tax landscape. At the same time, public debt remains high compared to European Union (EU) peers.

Considering these vulnerabilities and the economy's advanced cyclical position, fiscal policy should be tightened to alleviate demand pressures and build buffers against potential shocks. Based on current policies, the fiscal stance would be broadly neutral in 2019-20. Assuming an orderly Brexit, the mission recommends pursuing a small budget surplus in 2019, which could be achieved by strictly adhering to budgeted expenditure ceilings and saving any unforeseen additional CIT revenue (either in the Rainy-Day Fund or to pay down debt). For 2020, the government should target a surplus of 0.5 percent of GDP, while aiming to reduce the public debt ratio below 50 percent over the medium term. Actions to achieve this could include:

- *Broadening the tax base in a growth-friendly manner.* The increase in the value-added tax (VAT) rate for the hospitality sector is a welcome step, but there is scope to further streamline Ireland's five-rate VAT system. The Universal Social Charge (USC) in its current form largely duplicates the Income Tax but adds administrative costs. The USC could be folded into a reformed Income Tax with somewhat higher rates, broader base, and more tax bands to reduce disincentives to work, while preserving the overall yield and income redistribution features. Rather than postponing adjustments in the local property tax, implementation could be improved by adhering to the three-yearly valuation assessments and maintaining the tax rate, while capping the rate of annual tax base increases to smooth tax payments.

- *Moderating expenditure growth while increasing its efficiency.* It is crucial to continue to resist spending pressures and to avoid the use of temporary revenue gains to fund permanent measures. A thorough healthcare review is needed to halt continuous spending overruns, which undermine the integrity of public finances. The enlarged capital budget and introduction of the investment tracker are welcome, but improvements in planning, selecting, costing, and ex-post assessment, including of public-private partnerships, are needed to improve the efficiency of Ireland's infrastructure investments.

- *Using any proceeds from the National Asset Management Agency and from sale of government stakes in the banking sector for debt reduction*, to reverse the large increase in public debt during the crisis to support the banking sector.

Ireland should continue its proactive approach to the international corporate tax reform agenda. The government's commitment—as set out in Ireland's Corporation Tax Roadmap—to continue implementing agreed reforms, including the EU Anti-Tax Avoidance Directives, is welcome. To safeguard its reputation, Ireland should engage constructively in multilateral efforts to address digitalization and tax avoidance. With a more level international taxation playing field, the impact on the economy of such measures would be mitigated by the country's various other competitive advantages such as its welcoming business environment and qualified labor force.

The financial soundness of the Social Insurance Fund (SIF) should be ensured. Population ageing is expected to increase pensions and other social expenditures in the coming years and the SIF faces significant deficits starting in 2030. To safeguard the SIF's long-term viability and avoid future pressure on the government budget, a review of social security contributions and benefits should be conducted. The planned increases in the state pension age are steps in the right direction.

Ireland should step up policy efforts to achieve its climate targets. Rising greenhouse gas emissions bring Ireland further away from its climate commitments. There is an urgent need to develop and implement a comprehensive and appropriately ambitious strategy to transform the carbon-based economic model, particularly through decarbonizing agriculture, transport, and housing. Such a strategy should include increasing the carbon tax.

Safeguarding financial sector stability

Domestic banks have improved their resilience, but profitability and in some cases business models remain vulnerable. Stress tests suggest that Irish banks could withstand sizeable shocks to the economy. Nonperforming loans (NPLs) are declining, helped by portfolio sales and improved economic conditions. But their level remains high and weighs on profitability, together with the sizable portfolio of low-rate tracker mortgages, regulatory requirements to build up loss-absorbing liabilities, and elevated operational costs. Further improving the banks' asset quality should be achieved by intensifying borrower-creditor engagement, accelerating legal proceedings, strengthening supervisory guidelines on provisioning and NPL write-offs, and avoiding legislation which could discourage NPL portfolio sales. The banks should also improve their cost-efficiency and diversify lending.

The large and fast-growing non-bank financial sector calls for close surveillance. This sector—comprising investment funds, money market funds, and other financial intermediaries—receives most of its funding from abroad and invests mainly in foreign assets. While the non-bank financial sector in Ireland would mostly be a conduit of global financial shocks, links to the domestic economy are non-trivial and growing. For now, the risk of financial distress in the investment funds sector appears low, but vulnerabilities are emerging. The authorities should continue to monitor risks closely, including the use of leverage by investment funds, while further improving data collection and continuing intensive international cooperation. It is also important to develop the capacity to conduct system-wide stress testing.

Macroprudential policies appear to be appropriately calibrated, but the macro-prudential toolkit should be enhanced. Current limits on loan-to-value and loan-to-income ratios have become more binding while lending standards have been upheld, helping to prevent excessive borrowing in the housing market and dampening house price increases. The authorities should also introduce debt-based measures (e.g., limits on debt-to-income and debt service-to-income ratios) that better capture household repayment capacity. The increase in the countercyclical capital buffer to 1 percent, announced last year in view of the advanced business cycle, will come into effect in July. Given the openness of the economy and its vulnerability to external shocks, expanding the toolkit with a systemic risk capital buffer would bolster system resilience.

Progress is being made in getting ready for Brexit. Financial sector preparations for Brexit appear broadly adequate to mitigate major disruptions. Close cooperation with the EU and U.K. should continue to ensure business continuity and avoid cliff-edge risks. Given continued uncertainty, financial institutions should remain conservative in their risk assessments. The central bank should continue to devote adequate resources to guarantee a high-quality authorization process for U.K.-based financial firms seeking to migrate some of their activities to Ireland.

Ireland should continue to strengthen its anti-money laundering regime and ensure the integrity of its globally interconnected economy. The transposition into national law of the 4th EU Anti-Money Laundering Directive, including establishing a legal basis for a central registry of beneficial ownerships and enhancing due diligence requirements particularly for politically exposed persons, is welcome. In view of the rapidly growing financial sector and Brexit-related relocations, an appropriate framework to mitigate any new risks is crucial. The authorities should ensure ongoing implementation of requirements regarding customer due diligence; transparency of beneficial ownership; and suspicious transaction reporting by banks, the real estate sector, lawyers, and trust and company service providers.

Addressing bottlenecks to growth

Further efforts are needed to address the housing shortage. Housing prices continue to rise, albeit at a more moderate pace as the supply of housing has begun to respond to rising demand. Supply shortages in the rental market, meanwhile, have pushed rents well above pre-crisis levels. The government has taken several steps to facilitate housing development, including by establishing a state lender for financially constrained developers. In addition, spatial planning should be improved to support building houses in areas where demand is strong. Building regulations could be further rationalized, and the efficiency of existing tax measures could be improved to counter land hoarding in urban growth areas. Efforts to expand social housing are welcome. Measures to improve affordability should be targeted to low-income households and the homeless to avoid exacerbating housing price pressures.

Overall productivity is high in Ireland, but certain sectors are lagging. The multinational sector is highly productive, and small- and medium-sized enterprises are more productive on average than in the rest of Europe. However, productivity has been declining in transportation, accommodation, food services, and agriculture—the same sectors that are most exposed to Brexit. The government should seek to improve the enabling environment in these sectors, including through direct funding of research and development, training of workers, and quality infrastructure investment. More workers should be equipped with skills necessary to find employment in sectors such as finance, professional services, and information and communication technology, where jobs are difficult to fill.

Ireland has an opportunity to substantially raise its economic potential by closing the gender gap. Female labor force participation, though increasing, continues to lag the EU average. The high cost of child care is a major obstacle to greater female labor force participation, particularly for low-income families. The launch of the Affordable Childcare Scheme is therefore a welcome development. Further steps to address the large gender employment and pay gaps could include the promotion of flexible work schedules, equal employment opportunities for men and women, individualization of the income tax, and greater transparency of gender pay differentials at the company level.

Disorderly no-deal Brexit contingency

A disorderly no-deal Brexit would have significant and immediate adverse consequences for the Irish economy and reduce long-run output. In this case, the government should allow automatic fiscal stabilizers to operate and provide targeted, temporary, and effective support to help hard-hit sectors adjust to the new market configuration. It should also prepare for a fiscal stimulus and deploy the Rainy-Day Fund, depending on the severity of the downturn in the broader economy. The central bank should release the countercyclical capital buffer in case of a sharp contraction in bank credit.

How to Ensure the Effective and Sustainable Financing of International Development

By Christine Lagarde, IMF Managing Director Paris Forum May 7, 2019

As prepared for delivery

Good morning Excellencies, honorable guests, friends, ladies and gentlemen, I would like to thank Minister Le Maire and the organizers of the Paris Forum for inviting me to address this important topic. Our focus today is on sustainability. Sustainable debt for sustainable growth—and, may I add, on a sustainable planet and for a sustainable future.

The challenge of attaining the SDGs

We are all committed to see low-income countries make decisive and lasting advances in development. This commitment is embodied in the Sustainable Development Goals, or SDGs—the noble trifecta of economic prosperity, social inclusion, and environmental sustainability. Attaining the SDGs is both an economic and ethical imperative. Yet we face a steep uphill climb. Our work at the IMF has shown that many countries need to significantly scale up spending to meet the SDGs by 2030. The additional spending needs in vital areas such as health, education, and priority infrastructure represent as much as 15 percentage points of GDP on average in low-income developing countries—which is equivalent to about half a trillion US dollars in 2030. This is clearly a considerable challenge.

How can this be financed in a way that is sustainable? This is the key question. The first step begins at home—raising more domestic revenue, making spending more efficient, reducing corruption, and improving the business environment. We believe that countries can raise as much as 5 percentage points of GDP in additional tax revenue—ambitious, but doable. But this alone will not be enough. Developing countries will also need support from the international community—from bilateral donors, international institutions, and the private sector.

On the latter: It is high time for the private sector to embrace a greater sense of social responsibility, focusing more on long-term development and less on short-term profit. Fortunately, we are seeing far greater interest in "impact investing" and financial instruments that embrace environmental, social, and governance issues. This certainly bodes well for the SDGs.

The financing conundrum

We also need to talk about debt financing, which has become again an issue of concern. Let me drill down a little on this topic. On one level, of course, there is nothing wrong with borrowing for development—if it is done sustainably. Here, let me share some good news and some not-so-good news. First, the good news. In recent years, low-income countries have been able to access more financing. This partly reflects relatively easy global financing conditions. More importantly, we have also seen a diverse group of official creditors step up to make funding available, and sometimes on a very significant scale in support of potentially transformative infrastructure investment. China's Belt and Road Initiative has attracted considerable attention in this regard. The Asian Infrastructure Investment Bank (AIIB) has also emerged as an important source of financing, and the Islamic Development Bank's capital was more than tripled recently. Now for the not-so-good news. Unfortunately, not all borrowers have managed this increased financing well, and others have been hit by significant economic shocks. The result has been a rapid rise in the median debt burden to 47 percent of GDP in 2018 for low-income developing countries. The rise has been particularly concentrated in commodity producers. Forty-three percent of low-income developing countries are currently assessed at either high risk of debt distress or are already in debt distress, compared with 21 percent in 2013. So how can we get past the conundrum that countries need to spend more while their macroeconomic stability is in jeopardy?

International initiatives

As I survey the landscape, I do see a lot of efforts in the global community to find solutions that contain debt vulnerabilities. Just to give some examples:

- The German Presidency of the G-20 initiated the Compact with Africa. It stressed the need for better public financial and macroeconomic management, as well as legal and regulatory frameworks to encourage private investment and strengthen borrowing countries' ability to better manage debt.

- China just announced a new framework for evaluating debt sustainability in Belt and Road recipients—closely aligned with the framework employed by the World Bank and the IMF. We welcome this initiative by an important official creditor.

- And Caribbean countries have been exploring ways to adapt their debt instruments to build resilience against shocks—with the support of the Paris Club, the World Bank, and the IMF.

These are all excellent examples of multilateralism at work, of global solidarity. We need to continue to push these initiatives forward together.

The role of borrowing countries

Of course, borrowing countries themselves have a role to play, first and foremost by raising the payoff from public investment. Moving from the lowest to the highest public investment efficiency quartile could double the impact of investment on output, and thereby better underpin debt sustainability. Strengthening debt management will also be crucial. This can be quite tricky. As debt instruments get more complicated, debt management capacity needs to become more sophisticated. Yet today, only 40 percent of countries meet basic standards for debt recording, while just a third meet standards for reporting and monitoring of guarantees. Technical assistance will be critical here. Many of you have made contributions to the World Bank-IMF Debt Management Trust Fund, to support this kind of capacity building, and I am extremely grateful for your support. Backed by this Trust Fund, we will scale up our assistance over the next five years, with the aim to double it. Better debt management also leads to greater transparency. This is fundamental to sustainable financing.

The role of creditors

Let me now talk about the role of creditors, who have a vital role to play in encouraging greater transparency. As we have seen in Mozambique, private lenders can effectively facilitate hidden debt. Even for official creditors, non-disclosure agreements or complicated financing modalities can work against transparency. I therefore welcome the work being done by the Institute of International Finance (IIF) on *Principles for Debt Transparency* of private creditors.

I also welcome the G-20's self-assessment relative to its operational guidelines for sustainable financing. I encourage all G-20 members to participate. It is vitally important to push ahead with further reforms. The new creditor and instrument landscape is making it much harder to help countries restructure their debt. Recent cases, such as the Republic of Congo and The Gambia, showed that restructurings can be drawn out, in part because we cannot rely on established creditor coordination mechanisms. And there is no one-size-fits-all solution here. In each of these cases, there was a different set of creditors. There is no one creditor to single out; it is a deeper and broader problem. Yet there are potential solutions on the table.

The role of the Paris Club

Most importantly, the Paris Club can play an important role in coordinating debt resolution because it incorporates best practices and has a wide membership—recently expanded to include Korea and Brazil. Wider membership of the Paris Club, including new official and plurilaterals creditors, could help secure more rapid and coordinated debt resolutions. Short of that, any debt restructuring efforts involving non-members would do well to closely follow the tested rules that Paris Club members have used for many years.

Conclusion

Let me conclude this morning by mentioning the role of the IMF and the World Bank in all of this.

Our two institutions have been collaborating closely on a detailed multi-pronged work program to address debt vulnerabilities.

This includes strengthening debt analytics to help lenders and borrowers better understand risks. It also includes improving the quality, comprehensiveness, and transparency of debt data; and strengthening countries' capacity to manage debt.

Over the coming decade, mobilizing financing to support the SDGs will be one of the most important challenges faced by the global community.

But financing needs to be more sustainable than before.

We look forward to working with the international community to develop and implement the ideas to resolve these issues, and welcome today's forum to help advance our efforts. After all, it is about the flourishing of all people in a way that respects the limits of nature. What can be more important? We have identified and acknowledged the challenge, now we must act together to deliver. Thank you.

BASLE THIS WEEK

Proportionality in financial regulation: where do we go from here?

Speech by Mr Fernando Restoy, Chairman, Financial Stability Institute, Bank for International Settlements, at the BIS/IMF policy implementation meeting on proportionality in financial regulation and supervision, Basel, Switzerland, 8 May 2019.

Introduction[1]

Good morning! And welcome to our joint BIS/IMF global policy implementation meeting on proportionality. That so many senior officials from various parts of the world are gathered here testifies to the topic's universal importance. I would also take this opportunity to thank our IMF colleagues for partnering with us on this event. Now that the post-crisis reforms are almost completed, prudential authorities are focused on implementing the agreed global standards. As part of this broader shift towards policy implementation, the question of proportionality has taken centre stage. And, given the increased complexity of Basel III and other regulatory standards, it is only natural to discuss how these standards can be most appropriately applied, particularly in light of the diversity of firms and financial systems operating around the world.

An equally important debate - and one that often gets drowned out in the discussions around proportionality and regulation - is how day-to-day supervision should be tailored to reflect the systemic importance, complexity and risk profile of regulated entities. This meeting provides a timely opportunity to take stock of, and exchange views on the proportionality practices in various jurisdictions, and complement country-specific experiences with the broader analytical work done by various international organisations and academics. At the FSI, we've published several papers on proportionality during the past two years and I'll refer to some of our key findings during these remarks.

This morning, I want to touch upon three key issues. First, I will outline the concept, objectives and considerations involved with adopting the proportionality principle. Second, I will take stock of how proportionality has been applied at the global level, drawing from our analytical work at the FSI and at other international bodies. Third, I will raise a few implications for policy in the context of proportionality and conclude with brief remarks.

The concept

The concept of proportionality stems from the need to limit public intervention - in the form of rules, sanctions and oversight - to what is actually needed to achieve the desired policy objectives.[2] Financial sector policy objectives typically include financial stability, market integrity and consumer protection. Within this domain, proportionality aims at avoiding policies that could distort the financial services market, for example, by unduly constraining its development; curbing competition or limiting the diversity of market participants. Focusing on the financial stability mandate, prudential authorities generally impose, on a proportionate basis, a range of regulatory, supervisory and resolution policies to applicable entities. The proportionality *objectives* of these three policies, however, are not necessarily the same. In regulation, a proportionate approach means tailoring regulatory requirements to a firm's size, systemic importance, complexity and risk profile. Here, the aim is to avoid excessive compliance costs or regulatory burden for smaller and non-complex banks that could unduly dampen their competitive positions without a clear prudential justification (Lautenschläger (2017)).

In supervision, proportionality has a somewhat different focus: the main aim is to facilitate the efficient allocation of scarce supervisory resources and supervisory activities on firms that are either systemically important or are considered high risk. It is, therefore, closely associated with the concept of risk-based supervision. Naturally, a by-product of this approach is to lighten the supervisory burden on smaller, less complex and healthy banks. This dovetails nicely with the proportionality objectives of regulation. In regard to resolution policies, the aim of proportionality is to adjust the requirements for recovery and resolution planning and resolvability to the likelihood that regulated firms will cause systemic stress if they fail; and the expectation that firms can be subject to applicable insolvency procedures without systemic impact. Against this backdrop, to apply proportionality *necessarily means* that different institutions are subject to a differentiated set of requirements. The risk therefore exists that proportionality could be misused to offer a sort of regulatory subsidy to specific institutions, thus creating rather than removing competitive distortions, and preventing (or delaying) an otherwise orderly restructuring of the industry.

In addition, proportionality - at least in the context of regulation - generally involves the imposition of simpler, less-risk sensitive requirements to applicable entities. One unintended consequence is that it can encourage risky behaviour by firms that benefit from the simplified rules. Collectively, these risks suggest that sound proportionality regimes should, ideally, meet at least three conditions: first, the adoption of simplified requirements should not undermine key prudential safeguards, particularly the requisite capital and liquidity backstops needed to promote confidence in regulated institutions and the financial system; second, supervisors should maintain sufficient awareness and control of the overall risk profile of entities that benefit from simplified regulatory rules; and third, the proportionality regime should not seek to overprotect small or medium-sized firms from competition, particularly if there is overcapacity and where consolidation can help to promote a more efficient and viable banking industry.

The evidence

Let me now turn to how the proportionality principle has been implemented in practice. Proportionality is widely applied in tailoring regulatory, supervisory and resolution policies for banks and other financial institutions.[3]

Prudential regulation

The proportionality strategies used to tailor regulatory requirements vary markedly across jurisdictions, including the criteria used to differentiate institutions; the scope of application (eg which requirements are affected); and the methods used to apply proportionality (eg exemptions from rules, modifications to applicable Basel rules, or replacement of Basel rules by domestic standards).

These differences may reflect the lack of international guidance on how to apply proportionality. In banking, beyond the expectation that all Basel standards are applicable for internationally active banks, there is no commitment for prudential authorities to extend their application to other banks operating in their respective jurisdictions. In addition, as an 'internationally active bank' has purposely never been defined by the BCBS, national authorities are free to interpret this term in their own way. As for insurance, differences in proportionate solvency regulation across jurisdictions are even more pronounced than in the banking sector, as there is currently no global capital standard for internationally active insurance groups. Moreover, the Insurance Core Principles are not prescriptive in the application of proportionality to solvency regulation, leaving much flexibility to individual jurisdictions to implement their own approaches (Yong and Löfvendahl (2018)). The evidence on proportionality in banking regulation suggests that this concept is most often applied to the market risk framework,[4] the quantitative liquidity standards and the large exposures regime[5] as well as to disclosure and reporting obligations (Castro Carvalho et al (2017), BCBS (2019)). In general, most adjustments in regulation aim at reducing complexity without necessarily diminishing stringency (Restoy (2018)).[6] In non-BCBS member jurisdictions - which are under no commitment to adopt Basel standards - and where the vast majority of locally incorporated banks are unlikely to be internationally active, the differences in how proportionality is applied are more widespread.

In a recent FSI paper (Hohl et al (2018)), we review the proportionality practices of 100 non-BCBS jurisdictions regarding their application of Pillar 1 requirements of the Basel framework. One of the most interesting findings is that a wide variety of prudential regimes are implemented in non-BCBS jurisdictions. These include at least three Basel versions of the risk-based capital (RBC) regime (Basel I, II, III); two Basel versions of the large exposure rules (1991 and 2014); and the extensive use of domestic liquidity and large exposure rules in lieu of applicable Basel standards. Another insight is that jurisdictions apply different tailoring methods for different iterations of the Basel standards that they have chosen to adopt. For example, despite the simplicity of Basel I, jurisdictions under that standard still tend to make modifications[7] to reflect country specificities, but these adjustments are generally applied to all banks in the system - with only limited differentiation in rules between smaller versus more systemically important firms. In contrast, as countries shift to the Basel III RBC regime, greater differentiation and more multifaceted proportionality strategies are applied. This reflects Basel III's additional features and complexity. Notwithstanding the range of proportionality methods applied in non-BCBS jurisdictions, some have argued against an excessive reliance on proportionality. In a recent paper by the Center for Global Development,[8] the authors note that an undue reliance on proportionality can undermine the perceived benefits of a common global set of regulatory standards, raising level-playing-field concerns and complicating the task of making cross-country comparisons.

Supervision

With respect to proportionality and supervision, a forthcoming FSI paper (Duckwitz et al (2019)) - based on a survey of 16 BCBS and non-BCBS jurisdictions - indicates that all surveyed authorities apply proportionality, which demands various degrees of supervisory judgment. To facilitate a proportionate approach in supervision, some authorities rely more on principles-based approaches that emphasise a holistic assessment of a firm. By contrast, others have developed more structured methodologies, which we refer to as "guided discretion". We find that authorities rely more on guided discretion approaches when setting the supervisory intensity of a firm and in determining the amount of capital add-ons under Pillar 2; meanwhile, principles-based approaches, which require a more intricate degree of judgment from supervisors, are used in assessing the quality of a firm's corporate governance. The key takeaway is that the use of proportionality in supervision is not a choice; it is an intrinsic part of supervision that allows supervisory resources to be better allocated to firms that pose the greatest risks. Further, it also helps supervisors to better align a bank's risk profile with its financial buffers and the quality of its risk management/governance arrangements. These issues simply should not, and cannot, be dealt with by regulation alone.

Resolution

Proportionality is also used in tailoring resolution planning requirements - in terms of both scope and intensity - to achieve policy objectives. A recent peer review report by the Financial Stability Board (FSB (2019)) highlights the variety of proportionality methods FSB jurisdictions have applied in introducing resolution planning requirements. In terms of scope of application, the approaches vary from jurisdictions that require resolution plans for all banks to others that impose requirements only on their G-SIBs and/or D-SIBs, and a few jurisdictions that follow other approaches, for example, by imposing requirements on banks that meet an asset size threshold or tailoring rules on banks on a discretionary basis. However, where jurisdictions, such as the European Union (EU), impose resolution plans for all banks, proportionality is introduced by providing for a tailored application of some aspects of resolution planning requirements (eg the frequency of resolution plan review, data reporting and plan content). Indeed, in the Banking Union and the EU member States, resolution planning for small less-systemic banks that can be liquidated through normal insolvency proceedings focuses mainly on arrangements to assist the liquidation, such as a single customer view to enable swift depositor payouts.

Policy implications

Let me now turn to some of the policy challenges. On the one hand, the variety of proportionality approaches taken may well reflect different characteristics in national banking markets. On the other, it is unlikely that all proportionality approaches taken in various jurisdictions could deliver the same outcomes with respect to the objective of ensuring a level playing field while protecting financial stability. By way of example, if we compare how aspects of Basel III have been applied in the United States and the European Union, we find vastly different approaches taken with respect to proportionality.

In the United States, only a few banks with total assets of $250 billion or more or $10 billion or more in total on-balance sheet foreign exposure are subject to Basel III's risk-based capital and leverage requirements, with additional capital requirements applicable to US G-SIBs. In regard to the LCR, the full LCR requirement generally applies to US banking organisations that are under the advanced approaches to regulatory capital measurement and their subsidiary organisations that have consolidated assets of $10 billion or more. In contrast, in the European Union, nearly all banks are subject to Basel III, with a few exceptions for smaller banks. These vastly different approaches, while well within each jurisdiction's purview, illustrates the need to achieve a common understanding of the pros and cons of the varied proportionality approaches that have been taken or are being considered.

Against this background, consideration could be given to adopting a categorisation (or tiering) approach, where banks are grouped into several classes (defined by various criteria); and these categories are used as the basis for differentiating requirements. Indeed, this is the approach followed in countries such as Brazil and Switzerland (Castro Carvalho et al (2017), and it is the one that the United States is planning to adopt soon (US Federal Reserve (2018)). Ideally, the defined categories could be used not only to establish specific prudential rules but also supervisory criteria and resolution planning requirements.

In this context, banks which are considered systemically important to the domestic economy - regardless of the complexity of their business models - should be subject to the most stringent regulatory, supervisory and resolution policies, in relation to other entities operating in those jurisdictions. I mention what appears to be an obvious takeaway, because our recent FSI study suggests that jurisdictions that remain under earlier iterations of the Basel RBC regime tend not to make such distinctions. More generally, to the extent that less complex rules imply less risk sensitivity, authorities may consider introducing certain regulatory requirements and supervisory policies to mitigate the potential incentives for firms to take on excessive risks. In particular, there could be merit in imposing more stringent regulatory requirements for banks that are subject to simpler obligations, as an explicit trade-off for adopting less risk-sensitive methodologies.

One such approach, as currently proposed in the United States, will allow banks with consolidated assets of less than $10 billion to opt into to a community bank leverage ratio framework, provided that they meet other qualifying criteria[9] and maintain a minimum leverage ratio requirement of greater than 9%. Banking organisations that elect to maintain the leverage ratio requirement of greater than 9% would no longer be subject to other risk-based capital or leverage requirements. It is important to note that the imposition of a 9% leverage requirement would - more likely than not - require banks, on average, to hold more capital than the minimum RBC requirements under Basel III.

Having said this, we should also acknowledge some market realities. The ability to apply proportionality in financial regulation and supervision - without pushback from rating agencies, institutional investors and other market participants - seems to favour those economies that have "exorbitant privilege" in the structure of the global financial system. For economies that do not benefit from this privilege, additional work at the international level to identify good proportionality practices could serve as a reference for the supervisory community. These references may be particularly valuable for emerging market economies as they will need to ensure that their regulatory framework - particularly if it deviates in some respects from Basel standards for small and non-complex institutions - is still perceived internationally as being sufficiently rigorous.

Final remarks

In closing, let me quote the great Irish playwright George Bernard Shaw, who said: "The reasonable man adapts himself to the world: the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man." For policymakers (notwithstanding the political challenges), it may well be easier to simply take the global Basel standards and apply them to all banks in their jurisdiction, regardless of the fit. It is much more difficult to analyse the design of Basel standards, deconstruct them and decide which aspects make sense for which group(s) of regulated entities. And all this has to be done in a way that reinforces key prudential objectives, and that upholds a competitive, level playing field in both domestic and international markets. In the wake of the post-crisis reforms, applying proportionality begins with a more humble endeavour: knowing your regulated firms in a manner that allows for a sensible tiering of regulation, supervision and resolution. I trust this meeting will shed light on these and other related policy issues over the next two days. Thank you.

Jon Cunliffe: Financial stability post Brexit - risks from global debt

ITEMS COMPILED & EDITED FROM NATIONAL, INTERNATIONAL FINANCIAL DALIES, WEEKLIES, WEBSITES.

Speech by Sir Jon Cunliffe, Deputy Governor for Financial Stability of the Bank of England, at the conference on "Financial Stability Post Brexit", organized by CFO Agenda, London, 7 May 2019. Thank you for inviting me in January to speak today at your conference on "Financial Stability Post Brexit". I suspect that when this subject was chosen and the invitation sent, it was assumed that Brexit itself would have happened by the time of the conference. As it is, not only has Brexit not occurred, but the path to it and its eventual outcome are perhaps less clear now than a few months ago. So it is perhaps worth spending a little time today on the financial stability risks that might arise from Brexit. I will then go on to examine the financial stability risk environment more generally. Before going further, a health warning is necessary. It cannot be repeated too often that the Bank's approach to its financial stability objective is, in one key respect, very different to its approach to its monetary stability objective. For the latter, the Monetary Policy Committee makes the best forecast we can of the path of the economy and the path of inflation - the central case. We set out clearly and graphically the risks around those forecast, but it is the central case - what we think most likely to happen - that informs our policy decisions.

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