ALL INDIA BANK OFFICERS' ASSOCIATION

[CENTRAL OFFICE]
A.K.Nayak Bhavan, 2nd Floor 14, Second Line Beach,
CHENNAI-600 001

Phone: 25265511 / M 9840645081 / FAX: 044-25249081 / e mail: aiboa.hq@gmail.com www.aiboa.org

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BY VASANT PONKSHE
CO-CHAIRMAN BOMOA
PERMANENT INVITEE TO AIBOA

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View: The economic battle, now that the political one's won

By Rathin Roy

We have a new government and renewed political space to address urgent short and medium-term economic challenges. I offer an aide-memoire specifying these. IN THE SHORT TERM The present monetary policy framework is due to be revised in March 2021. While inflation has stayed within the mandated range, we need to consider whether this range is consistent with growth objectives, at what cost the inflation target is secured, and whether it has caused monetary dominance. In a context where the magnitude and quality of GoI's fiscal deficit constrains its fiscal space, monetary dominance can make it difficult for the government to adhere to its fiscal targets, which, in turn, constrains private sector credit availability. These issues should inform the design of the next monetary policy framework. The central government has been shrinking in size (share of GDP). This needs to be recognised. To improve productivity and predictability of public expenditure, immediately introduce a medium-term fiscal framework to replace annual budgeting as the operational instrument for the execution of fiscal policy. This requires GoI to specify a medium-term expenditure ceiling assuming no significant increase in revenue-GDP ratios over the medium term. This would be the baseline to maintain fiscal prudence, such that expenditures only increase when there is more revenue. The government should also commission a review of three important areas of central expenditure: defence, internal security and railways, and specify resource envelopes for these over the next nine years. The operation of credit policy is currently unsatisfactory, and ultimately the exchequer bears the consequences. A major reason for this is that the trade-off between the prudential and other objectives of credit policy has not been clearly specified. To fix this, GoI, in consultation with RBI and other stakeholders, should first specify the volume of reserves RBI should hold for prudential reasons. Second, assign responsibility for the financial burden arising from any regulatory failure between RBI and the government. Third, draft a clear policy that specifies the purpose, cost and time frame of directed credit. These concrete short-term measures to improve the overall functioning of the macro economy are India-specific, and require policy actions that go beyond simply executing generic 'counter-cyclical' expansionary or contractionary measures.

MEDIUM-TERM ACTIONS TO ADDRESS STRUCTURAL CONSTRAINTS

The major structural weakness that India faces is that, so far, growth is spurred by catering to the consumption of the top 15% of the population. Hence, the leading indicators of the economy so beloved to Mumbai are about sales of automobiles, two wheelers, air conditioners, fast-moving consumer goods, etc. The goods consumed by all 1.2 billion Indians — nutritious food, affordable clothing, affordable housing and affordable health and education — do not figure. These areas of economic activity, that touch the lives of every Indian, are the indicators of economic progress on which GoI should focus. An important beginning has been made with the shift in emphasis to doubling farmers' income, as opposed to maximising agricultural output, and with the emphasis on affordable housing. The task before GoI and the private sector is now to deliver a business model such that both agriculture and affordable housing provide opportunities for those in these businesses to earn at least 15% return, while those earning twice the minimum wage are able to meet the demand for these items without subsidy. (The rest can be subsidised if it is affordable.) In the case of clothing, there is a huge opportunity to undertake import substitution by locating these industries in the north and east of India where wages are competitive with Bangladesh and Vietnam. With health and education, the central and state governments need to work together to deliver a viable business model so these important public goods are delivered at affordable unit cost and acceptable quality. It is also important to recognise that quality economic growth has bypassed northern and eastern India. They have only benefited from remittance income from migration to the south and west. Some of this has occurred due to new economic opportunities in IT, manufacturing, diamond cutting, etc, but most of these migrants are in low paid, insecure service jobs. It is vital that this imbalance be addressed, as it is the major economic challenge to India's integrity. The five sectors I mentioned above can deliver such jobs without waiting for a huge increase in existing capabilities in the poorer regions of the country where the majority live. India's medium-term growth path would now be based on meeting home market demand in these five sectors of importance to all Indians, the spearhead of economic growth. Investments would be judged on how effective they are in securing this objective. Thus, a programme of import substitution to revive the affordable textile industry would involve fostering units in low-wage areas of northern and eastern India, rather than high wage islands close to the metropolitan regions. Production of intermediate goods for affordable housing would involve setting up production units that are dispersed to minimise logistic costs; this would mean that employment is created closer to where the unemployed live, rather than involving migration to concentrated urban hubs. Addressing these questions at the macro level, and assessing their positive impact on growth and employment, would be the principal economic policy task going forward.

FinMin prepares 100-day agenda for new government; focus on boosting economy, investment

With the Lok Sabha election process coming to an end, the finance ministry has prepared 100-day agenda for the new government with an aim to push the economy which has slipped to 6.6 per cent in the third quarter of 2018-19. Among other things, the agenda is likely to focus on increasing private investment, employment generation and giving relief to the farm sector, sources said. Besides, the agenda also include improving direct and indirect tax collection. Simplification of tax procedure especially with regards to the goods and services tax is also on the cards. As announced in the interim Budget, the decision with regard to changes in tax slab or tax rate as far as income tax is concerned could be taken in the final Budget for 2019-20 probably in July. The Prime Minister's Office had asked all ministries and departments to prepare 100-day agenda for the new government which is likely to take office in the next few days. Reinvigorating industrial growth, increasing credit growth, consolidation in the banking sector and funding the unfunded would also be part of the 100-day agenda, the sources said. There would be emphasis on raising corporate governance in the banking sector including a more diversified board structure. The finance ministry in the process of further improving its EASE (Enhanced Access and Service Excellence) focusing on six themes of customer responsiveness, responsible banking, credit off take, PSBs as Udyami Mitra, deepening financial inclusion and digitalisation and developing personnel for brand of public sector banks. It is to be noted industrial output growth slowed to a 20-month low of 0.1 per cent in February, mainly due to contraction in the manufacturing sector. Factory output, as measured in terms of the Index of Industrial Production (IIP), had grown by 6.9 per cent in February 2018, according to data released by the Central Statistics Office (CSO). During April-February 2018-19, industrial output grew at 4 per cent as against 4.3 per cent in the corresponding period of the previous fiscal. At the same time, passenger vehicle sales in India dropped 17.07 per cent in April, the steepest fall since October 2011, as weak customer sentiment led by liquidity crunch, uncertainty revolving elections and high product prices hit sales. The domestic sales declined for sixth straight month in April to 2,47,541 units against 2,98,504 units in the year-ago month. It is the worst dip in passenger vehicle sales since October 2011 when sales had dropped by 19.87 per cent. All major segments, including two-wheelers and commercial vehicles, witnessed a decline in sales in April, according to data released by the Society of Indian Automobile Manufacturers (SIAM). Various experts have pointed out the new government should take on the challenge of introducing reforms in areas including land and labour in order to push economic growth. Macroeconomic stability will guide India's high growth trajectory. According to the interim Budget 2019-20, the government has pegged fiscal deficit target of 3.4 per cent for the current fiscal year ending March 31. Deviating from the path laid down in the Fiscal Responsibility and Budget Management (FRBM) Act, the government has pegged the fiscal deficit for the next financial year at 3.4 per cent of GDP, as against the original target of 3.1 per cent.

View: Creating good jobs requires a more open economy and wide-ranging reforms

By Arvind Panagariya

The Narendra Modi government has won a resounding mandate. This soundly puts him and his administration in a position to seriously confront a problem that confronts India. Today, a disproportionately large part of India’s workforce consists of farmers with holdings of less than a hectare, self-employed, and those employed in low-productivity activities in farming or micro enterprises in industry and services. This vast workforce earns near subsistence level of income or wages. Creation of well-paid jobs for this vast workforce is nearly synonymous with transforming India into a modern economy. As such, no one should make light of the challenge this task poses. Accomplishing it requires interconnected reforms in virtually all areas of the economy. The first point that the new government, businesses and public at large need to recognise is that job creation is not the job of the government. What the second Narendra Modi government can do is to put in place employment-friendly policies. But private entrepreneurs must create the vast majority of well-paid jobs. Often the government may not know precisely what it is that is keeping entrepreneurs from creating jobs. Under such circumstances, entrepreneurs, their industry associations and public policy experts have the responsibility to inform it of necessary policy changes rather than join the political class in continuously attacking it for the failure to create jobs. Because private sector needs to be on the forefront of this mission, the first step is to accelerate fiscal consolidation. Today, the public sector, which includes agencies such as Food Corporation of India (FCI), borrow nearly all financially intermediated household savings, plus even a part of corporate savings. This greatly weakens private investment. Woes of banking sector have added to this problem. We also need to resuscitate it by accelerating a non-performing assets (NPAs) clean-up and infusion of capital. Beyond private investment, reforms of the new government must address the bottlenecks responsible for holding back labour-intensive sectors such as apparel, footwear, furniture, travel goods, watches and clocks, office and stationery supplies, plastic products, baby carriages, toys and sporting goods in industry and tourism, construction and transportation in services. Here, key reforms, which cannot be spelt out in detail due to space constraint, relate to international trade, exchange rate, labour laws, land laws and urbanisation. We need to fundamentally change our attitude towards the role of international trade in creating good jobs. In recent years, forgetting our past history of total failure of import substitution industrialisation (ISI), we have embraced it yet again. A fundamental theorem of international trade is that a tax on imports is equivalent to a tax on exports. Therefore, an import tariff leads to the expansion of costly or inferior domestic substitutes while contracting less costly and superior export products. Import liberalisation reverses this process. It allows us to buy goods in which our costs are high cheaply from foreigners. But we cannot pay for these goods unless we earn additional foreign exchange by expanding exports. The only other alternative is to borrow abroad to pay for the extra imports, but this adds to the current account deficit that RBI usually avoids. An even more compelling argument for liberal trade policy is related to scale and productivity. Under ISI, we are nudging our entrepreneurs towards the small domestic market. This encourages smaller and inefficient firms. In contrast, an export oriented strategy encourages efficiency and scale. All evidence shows that export-oriented firms are larger and more productive than their import-competing counterparts. ISI lovers might tell you that we can capture both domestic and foreign markets. But, alas, this is not how the world works. Even after 70 years of prohibitive tariffs and punishing prices paid by domestic consumers for decades, our auto manufacturers are yet to capture even 2% of the global export sales of passenger vehicles. With India's political will now pretty much fully behind, Prime Minister Modi, it's time to open the economy and implement wide-ranging reforms. Job creation will follow.

Reforms, job creation need of the hour: Economists to Modi govt

NEW DELHI: The new government will have to undertake structural reforms to reverse the slowdown in economic growth to create jobs and attract investments in the country, said economists. Reforms in agriculture, policy measures to increase household savings and create conducive business environment to attract investments, and tightening of expenditure are direly needed, they said, even as they pointed out that much-needed trade reforms will be subject to revival in global economy. "High economic growth is essential to generate employment and some of the structural reforms that will have to be taken up by the new government," said Indranil Pan, group chief economist, IDFC FIRST Bank. India's GDP grew 8%, 7% and 6.6% in the first, second and third quarters, respectively, of 2018-19. It is expected that GDP growth will come down to an eight-quarter low of 6.1- 6.3% in the fourth quarter of 2018-19, when the numbers come out later this month, and the full-year growth could be as low as 7%.The Organisation for Economic Cooperation and Development (OECD) recently projected in its Economic Outlook that India's gross domestic product would strengthen to close to 7.25% in 2018-19 and close to 7.5% in 2019-20 on the back of higher domestic demand owing to improved financial conditions, fiscal and quasi-fiscal stimulus, including new income support measures for rural farmers and recent structural reforms Saugata Bhattacharya, chief economist at Axis Bank, said that some of the key things the government needs to do in the upcoming budget is speed up infrastructure spending and increase consumption at consumer and corporate level by cutting down taxes. Pan said the plan should include cutting down recurring expenditure when there is not enough fiscal space and a clear policy to enable farmers to get a realistic price for their crops. He also advocated allowing greater participation of private players in agriculture. He said the new government must focus on outcomes of education and strengthening of Make In India and Skill India initiatives to make an impact on the ground. Bhattacharya said: "With the current slowdown in growth, there is not much fiscal space with the government to do many things immediately, but one could tap state financial institutions for part funding infrastructure investments in the country." The government will also have to relook the fiscal consolidation roadmap. According to DK Pant, chief economist at India Ratings, higher economic growth will help the government in better fiscal consolidation. “The slowdown in economic growth over the last few quarters has to be reversed if the government wants to do sharper fiscal consolidation,” he said. Household savings are not enough to finance government borrowings at this point in time, said Pant. “The new government must come up with some policy measures aimed at reducing pressure on households so that savings rate could go up,” he said.

GST on fuel, easier licensing rules the needed energy bars

NEW DELHI: Bringing key petroleum products in the ambit of the Goods and Services Tax, easing licensing needs and taxation for upstream projects, enhancing third-party access to gas pipelines and helping in faster execution of city gas projects to stimulate gas demand in the country would be some of the key measures the new government may want to consider to energise the hydrocarbon sector. At the top of the industry wish-list is the inclusion of petrol, diesel, aviation fuel, crude oil and natural gas into the ambit of Goods & Services Tax. “I will definitely be happy if GST Council and the government consider this reform,” HPCL chairman MK Surana said. “We don’t get input tax credit as companies in other sectors do. So that’s definitely a loss to that that extent,” he said. HPCL lost about Rs 400 crore on this count in 2018-19. Oil companies together lose thousands of crores of rupees every year due to this. Including petrol and diesel in GST would face stiff resistance from states as they depend heavily on fuel taxes. In the past five years, the government undertook many reforms in the exploration and production sector, which are yet to translate into big interest from the private and foreign players. The government freed up gas prices for new discoveries, gave companies the liberty to carve out their own blocks, offered them a single license to extract all forms of hydrocarbons, and placed more emphasis on work programme in selecting licensee for exploration blocks. The new government will need to take more steps to reap the full advantage of the reforms undertaken in the previous years, industry executives said, adding that easing licensing requirements can help quicken the pace of upstream projects. “The next steps for the new government must be to extend marketing freedom to current commercially producing fields under Nomination and pre-NELP contracts as well and alleviate double taxation via royalty and cess, which results in higher costs and lower investible surplus,” said Ajay Kumar Dixit, the chief executive of Vedanta’s oil and gas arm. The government may want to pick up some of the unfinished tasks of the past five years such as enhancing third-party access to gas pipelines, building a gas grid and a trading platform, key measures needed to turn India into a gas-based economy, executives said. Many foreign and private firms have been demanding separation of control of gas marketing and transportation entities to ensure a level playing field for all gas marketers wanting to use pipelines that’s today overwhelmingly controlled by state-run entities. A trading platform can also help vitalise the domestic gas market, executives said, warning that this would first require reforming the fuel allocation policy. Natural gas consumption rose barely 1.5% in 2018-19 despite government’s effort to drive up demand due to inadequate infrastructure and higher prices of imported gas.

Government plans Rs 1,000-crore fund for startups in priority areas

NEW DELHI: The government proposes to introduce a slew of reforms and another fund to boost startups that are focussed on priority areas such as rural healthcare, water and waste management, clean energy solutions, cyber security and drones. The Department for Promotion of Industry and Internal Trade (DPIIT) plans to set up an India Startup Fund with an initial amount of Rs 1,000 crore. “The government wants to offer seed funds for high-tech, cutting edge startups. The proposal is to provide seed funds to 5,000 startups in priority areas,” a senior government official aware of the proposal told ET. The dedicated fund, proposed in the department’s 100-day Action Plan, is separate from the Fund of Funds for Startups (FFS), which was set up in 2016 under the Small Industries

Development Bank of India. The Rs 10,000 crore fund of funds makes downstream investments in venture capital and alternative investment funds that in turn invest in startups. “Startups focussed on other technologies like Internet of Things and artificial intelligence will also be included gradually,” the official added. To boost startups, DPIIT has recommended regulatory changes aimed at promoting venture capital and angel investments, especially from Indian investors. “There will be separate carve-outs for startups in all the laws of the country wherever required,” it said in the plan. The likely changes would be in addition to those announced in February aimed at freeing investors and entrepreneurs from the so-called angel tax. The government increased the exemption threshold and kept investments by listed companies of certain minimum size, venture capital funds and non-residents in startups outside the ambit of the tax to bring relief to companies registered as startups with the department. Until now, the department has recognised as many as 17,984 startups. Besides, the government has pitched to treat outsourced R&D efforts on par with in-house R&D for incentivisation purposes and easier movement of researchers between academia, public research institutions, entrepreneurship and industry.

Export-oriented policies needed for Reform 2.0: Principal Economic Advisor Sanjeev Sanyal

The Reform Agenda 2.0 should focus on turning India into an export and private sector driven high growth economy says India’s Principal Economic Advisor Sanjeev Sanyal to ET Now, a day after the Modi government won a massive mandate in the 2019 general elections, becoming the third prime minister after Nehru and Indira Gandhi to return to power the second time with full majority. “Our infrastructure is not the binding constraint anymore. We have done major framework reforms like GST and IBC, so the last five years were for creating framework for delivery, infrastructure, governance. The next five years should be for growth driven by exports and private investments. Space has opened up going for growth and I am not in favour artificially inflating consumption”, said Sanyal, one of North Block’s top policymakers The three key engines of the economy are witnessing a slowdown- private investment, consumption and exports and Finance Ministry is tasked with drawing a blueprint to pump prime the economy at a time when trade war has become a reality. Sanyal said that there is demand slowdown but fiscal and monetary tools will be used to boost growth, while adding that tight real interest rates and liquidity issues had to be addressed soon. Sanyal also pointed that trade war should be used as an opportunity to boost India’s competitiveness. “There is disruption in global trade, but there’s a lot of opportunity. Our share is very small so we can easily expand our share. Liquification of global trade networks is a good thing. It allows us to insert ourselves in global supply chains both in services and goods. We shouldn’t think that our internal market is end all and be all and we can use this space to leverage on building scale and size”, he added. Sanyal also added that Enforcement of contract is the single biggest in India’s Ease of doing business. Indian ranked 77th in World Bank Ease of Doing Business list in 2018.

Fiscal road map review may be needed to bolster economy

New Delhi: With the economy showing signs of slowing, India may have to redraw its fiscal consolidation framework, and the new government must take steps such as aggressive resource mobilisation through bold strategic sales to reinvigorate growth, experts have said. “We will have to reassess the fiscal road map if you have to create space to stimulate the economy…. government will need to go in for aggressive disinvestment and asset monetisation,” said DK Joshi, chief economist, CRISIL. The government should stick to its fiscal deficit target, he said, pointing out that it had met the 3% target only once in 2007- 08, during a phase of exceptional growth. The current road map seeks to bring down fiscal deficit to 3% of GDP by 2020-21. “We need to have fiscal stimulus to boost demand-…We need to relook at the fiscal consolidation road map,” said NR Bhanumurthy, professor at

National Institute of Public Finance and Policy. An aggressive plan to generate income should be put in place, they said. "The market for instruments like Bharat ETF has maxed out, it needs to do genuine privatisation, strategic sales, identify companies and sell it," said Abheek Barua, chief economist, HDFC Bank. "Government needs to be courageous. It has a honeymoon period and should start from Day 1." Getting GST collections on track and reviving a slowing economy are the two key challenges, he said. GST collections fell by an estimated Rs 40,000 crore in FY 2019. The government's fiscal deficit will overshoot the budgeted target by 0.2 percentage points to 3.6% of the GDP in the 2019-20 fiscal year, said Fitch Solutions, the research arm of Fitch Group, in a recent report. "We believe that continued fiscal stimulus by the central government will see the government miss its goal of lowering its fiscal deficit to 3% of GDP by FY2020-21," it said in a note titled 'India's Populist FY2019-20 Budget to Delay Fiscal Consolidation.' Social sector reforms initiated by the government will also pose a challenge, Barua said. "You have Pradhan Mantri Kisan Samman Siddhi (PMKSS) in its full form, Ayushman Bharat and bank recapitalisation needs, which will add to the expenditure," he said. The annual budget for PMKSS is Rs 75,000 crore, and it may exceed that number. The government last year rolled over payments of LPG and kerosene subsidies to state-run oil firms. That will amount to around Rs 30,000 crore payable this fiscal, according to reports. The government has paid Rs 71,500 crore towards its three major direct benefit transfer schemes, which includes the Mahatma Gandhi National Rural Employment Guarantee scheme, according to finance ministry data until February.

Near-term worries for finance ministry: Credit woes, slowing demand

BY RAHUL BAJORIA

The feat of winning consecutive majorities by a single party has not been achieved in India since the seminal elections of 1984. The government would also not be mistaken in interpreting the results as a strong referendum on the macro stability India has been able to achieve in the last five years. Indeed, low inflation, manageable twin deficits and reasonable growth have played a role in the government's re-election. The fixed income and equity markets have reacted positively, signalling their approval for policy continuity. While there may be potential changes in the Cabinet, we do not believe the economic team and management will change materially in its second avatar. The near term headwinds, however, are daunting. Q1 GDP figures next week will confirm that growth in India is in the midst of a cyclical slowdown. The government faces a three-pronged slowdown. There has been a simultaneous stalling in consumption, persisting credit issues in the banking and NBFC sectors, and an uncertain global backdrop. This trifecta of problems will pose a strong near term challenge, which the government will need to navigate adroitly through both communication and actions. We think the Ministry of Finance will quickly need to consider reasserting commitment to maintain stability in India's financial system, especially banks and the NBFCs, while working to strengthen regulation. In recent quarters, the Reserve Bank of India (RBI) has been pro-active, and a high degree of coordination — deploying fiscal and monetary support to prop up near-term growth prospects — would be ideal. Over the medium term, the government should move decisively to nip financial sector issues in the bud, ensuring that growth improvement incentives are clear and flowing. Simplification of GST, a focus on resolution and providing more opportunities for foreign participation in our capital markets will be greatly beneficial for the economy. Further, the trade war escalation between the United States and China provides a unique opportunity for India to increase its manufacturing footprint, and a targeted effort to attract export focused manufacturing and building surplus capacity can provide for both foreign direct investment (FDI) and increased investment in the economy. Further, the Chief Economic Advisor has recently spoken about land and labour reforms, which if implemented will further improve India's potential growth. The government has been able to deliver 4% inflation, and 7.5% growth in its last five years, while consolidating its fiscal deficit and building external resilience. If the government pursues the promised reforms in agriculture, manufacturing, and the financial sector, India can expect its factor productivity growth of labour and capital to be further unlocked, and the country can be set on a path of sustained growth above 8% for the next five years.

India needs a few mega banks to compete globally: CEA Krishnamurthy V Subramanian

Batting for PSU banks' consolidation, Chief Economic Advisor Krishnamurthy V Subramanian has said having a few good banks is a good idea as they can compete and their quality can get enhanced to compete globally with the best in the world. "Having a few large Indian banks is a good idea. By encouraging some of our healthy banks to become big and thereby tap into savings elsewhere, it will be a positive thing. We should have a few banks who can compete. By this the quality of those banks gets enhanced as they compete globally with the best in the world", the CEA told IANS in an interview. He said a global bank benefits savings across the world. Chinese and European banks are very large, there are benefits they derive from economies of scale, which reduces their costs. American and Chinese banks benefit from global savings. The Finance Ministry has been saying that India needs fewer and mega banks. The ministry had earlier called for further consolidation of India's savings. Taking that line of action forward, state-run Bank of Baroda (BoB) became India's third largest bank after its merger with Dena Bank and Vijaya Bank came into effect from April 1, 2019, beating the private sector lender ICICI Bank. With a total business of about Rs 15 trillion, the merged entity is the third-largest lender in India, after State Bank of India (SBI) and HDFC Bank. banking industry, saying the country needs fewer, stronger mega lenders to exploit economies of scale. The reasoning of the NDA government behind such consolidation has been to drive synergies, reducing duplication and generate Bank of Baroda now ranks second in India across all banks. The merged entity has nearly 9,500 branches as Dena Bank and Vijaya Bank will help BoB increase its reach in the western, southern and north-eastern regions. The new merged Bank of Baroda has an advances and deposits market share of 6.9 per cent and 7.4 per cent, respectively, according to a Motilal Oswal report. The retail book of the merged entity will increase to about 20% of total loans due to a higher retail book of Vijaya Bank. The combined entity will have a CASA mix of 33.6%, with a CD ratio of 70.7%, according to the report. Before that in 2017, five associates and the Bharatiya Mahila Bank became part of the SBI catapulting the country's largest lender to among the top 50 banks in the world. State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), besides Bharatiya Mahila Bank (BMB), merged with SBI from April 1, 2017. With this merger, the bank had joined the league of top 50 banks globally in terms of assets. The total customer base of the bank will reach 37 crore with a branch network of around 24,000 and nearly 59,000 ATMs across the country. The merged entity had a deposit base of more than Rs 26 lakh crore and advances level of Rs 18.50 lakh crore. According to the annual report, the six entities added Rs 5.41 lakh crore to the deposits and Rs 2.98 lakh crore to the total loans.

First 100 days of Modi 2.0 could see tax cut, GST rejig, bank reform

NEW DELHI: With the major event risk of election out of the way, analysts on Dalal Street have started speculating on what measures the government may unveil in its first 100 days of the second term. With the economy slowing, demand situation sluggish, farm sector in distress and a part of the financial markets wrestling with a crippling liquidity squeeze, the government has to hit the ground running. On Friday, it was made official that the government will start second innings on May 30. Finance and other ministries are said to have already lined up measures for the new government to consider to pump-prime the economy. In its poll manifesto, BJP promised to turn India into a $5 trillion economy by 2025 and reiterated its promise to double farm income by 2022. To deal with the slowing economy, the government may first look at the low-hanging fruits in the first 100 days, analysts said. Some economists say the government may use the full Budget, due early July, to address the demand side issues, which may include a cut in individual income tax to boost consumption. This along with another 25 basis points rate cut expected from RBI on June 6 could help reverse the demand slowdown. Measures like further simplification of the GST structure and incentives for MSMEs to generate employment could also come in, IIFL Institutional Equities said in a note. GST tax slabs could be merged into two main rates from four at present. Analysts noted that the BJP election manifesto talked about simplification of the GST process and lowering time spent for tax compliance to 1 hour per month. It also promises reduced tax rates, higher tax collection and better compliance. “If one reads the manifesto with the forthcoming changes to the GST compliance process, i.e. new return forms and e-invoicing facility, and interim Budget speech, the focus may be on better tax compliance through automation and ease of doing business,” said Jigar Doshi, Executive Director at SKP Business Consulting. The government may open channels for more dialogue with industry stakeholders on simplification of the GST structure, Doshi said. BofA-ML said a renewed popular mandate for the Modi government should make it easier for the Jalan Committee to hand over the excess RBI capital in one shot to the Ministry of Finance. The brokerage expects the finance ministry to recapitalise PSU banks with this excess RBI capital. The Jalan Committee report is due by June. UBS expects broad-spectrum policy support, including fiscal incentives, subject to being WTO compliant. It cited Commerce and Industry Minister Suresh Prabhu’s recent comment in which he said the government was working on a new industrial policy that will link the country with the global supply chain. “The code on wages was introduced in Lok Sabha in 2017, and the Parliamentary Standing Committee has already reviewed and given its recommendations on it in December 2018. It is likely that this would be introduced in the Lower House shortly," said Credit Suisse. Besides, eyes would also be on the labour code, which has already been presented to the Cabinet, but is awaiting clearance. While these changes are mostly going to be replacements of existing laws, the simplified structure would be a significant step forward, making it harder for inspectors to harass businesses owners, Credit Suisse said. Motilal Oswal Securities said from a near-term perspective, the immediate focus of the government would be to revive rural consumption, address liquidity stress of NBFCs and debt market in coordination with RBI, and drive spending to revive industrial growth. The brokerage noted that real interest rates in the economy remain high, even as inflation is largely under control and within the target band of RBI. “Toward that effect, the next RBI policy in June and the first Budget of the new administration in July will be key policy events to watch out for,” it said. “We believe the need to kick-start the economy is paramount, there should be fiscal and monetary stimuli, i.e. reflation over reforms,” said Edelweiss Securities. Nomura India said the focus now shifts to the composition of the Cabinet, which is likely to be announced over the weekend and the Budget due early July. “We believe unlike BJP’s first term, where prudence came at the cost of growth, the policy priority in the second term will be to reignite growth with prudence as a secondary priority. We expect a mix of rural reflationary policies, infrastructure spending, tax simplification and social investment (housing for all),” the brokerage said.

Reserve bank moots checks and balances to tackle NBFC stress

MUMBAI: The central bank on Friday proposed a set of strict norms for non-banking financial companies (NBFCs), including mandatory investments in government bonds and maintenance of cash thresholds, to enable them to tide over liquidity problems without causing disruptions to the broader financial system. The Reserve Bank of India (RBI) has also proposed that asset-liability mismatches at NBFCs not go beyond 20% of the outflows. The regulator has further suggested that NBFCs publicly disclose their funding concentration by way of both instruments and counterparties. The Liquidity Coverage Ratio (LCR) rule for NBFCs begins April 2020, and thresholds must be implemented in stages by March 2024, the central bank has proposed. “All deposit-taking NBFCs, irrespective of their asset sizes, shall maintain a liquidity buffer in terms of a liquidity coverage ratio, which will promote resilience of NBFCs to potential liquidity disruptions by ensuring that they have sufficient high-quality liquid asset (HQLA) to survive any acute liquidity stress scenario lasting 30 days,” said the draft rules posted on the RBI’s website. Risk Mitigation Policies These rules have been prescribed for all NBFCs with assets of more than Rs 5,000 crore. The boards of these NBFCs have to ensure that they put in place comprehensive risk mitigation policies, the RBI said. The regulator’s proposals follow disruptions and a protracted credit squeeze in the financial markets since September after Infrastructure Leasing & Financial Services (IL&FS) and some of its operating units defaulted on repayment commitments. Many NBFCs were exposed to serious asset-liability mismatches, leading to pronounced declines in these stocks. “The stock of HQLA to be maintained by the NBFCs shall be a minimum of 100% of total net cash outflows over the next 30 calendar days,” the RBI said. HQLA could include cash and government bonds without haircut and with graded haircut from 15-50% of securities belonging to staterun companies and other sovereign-backed paper. “The liquidity management guidelines are clearly intended to ensure a strong liquidity management culture among large NBFCs,” said Nachiket Naik, head, corporate lending, Kirloskar Finance. “A lot of the means elaborated in the guidelines to monitor ALM are akin to those prescribed for banks and demonstrate the RBI’s intent to harmonise governance and supervision standards between banks and large NBFCs.” The RBI has suggested that NBFC boards must monitor off balance sheet items as well. “The management of liquidity risks relating to certain off balance sheet exposures on account of special purpose vehicles, financial derivatives, and guarantees and commitments may be given particular importance due to the difficulties that many NBFCs have in assessing the related liquidity risks that could materialise in times of stress,” the draft rules said. Yet another mandate is to diversify the source of funds so that over-reliance on one stream doesn’t choke the system. “There should not be over-reliance on a single source of funding,” according to the draft rules. “Funding strategy should also take into account the qualitative dimension of the concentrated behaviour of deposit withdrawal (for deposit-taking companies) in typical market conditions and over-reliance on other funding sources arising out of the unique business model."

View: Who lost? The economy, stupid

By Chaitanya Kalbag

Narendra Modi's pulverising victory has wiped out every semblance of opposition in parliament's lower house. The Congress party's humiliation is so total that it will fail to be recognised as the main opposition party in the Lok Sabha for the second time in a row. What does this mean for the economy? The 2019 campaign was distinguished by the near-absence of economic debate and by a submersion in nationalism and slander. Is it possible for voters to ignore economic reality and choose emotional rhetoric? It appears that India's voters still hope that a strong central government will bring them security, and security will subsume well-being. Some Bharatiya Janata Party leaders flipped the arguments around that note bandi was an act of whimsical recklessness: demonetization, as much as Balakot, demonstrated decisive leadership, they said; and this is what voters endorsed. If the economy grew by a modest 7.0% in 2018/19, it does not seem to matter. The latest data show GDP growth slowing steadily, from 8 to 7 to 6.6% in the first three quarters, and a predicted 6.4% in the January-March quarter. To be sure, consumption will be boosted in 2019/20 the state assembly and parliament with more money as much as a better message. The Election Commission's seizures of cash and contraband nationwide totalled about Rs 3,400 crore, so you can safely assume parties spent at least twenty times that on the mother of all election campaigns. Inflation has started ticking up; private investment continues to languish; industrial production shrank in March for the first time in two years; the current-account deficit is rising, and the trade deficit widened to $96 billion in 2018/19 from $86 billion a year earlier. Farmers' distress is steadily growing, fuelled by low crop prices, and mounting indebtedness. Worst of all, the unemployment rate rose to 7.35% in April, according to the Centre for Monitoring Indian Economy. CMIE Managing Director and CEO Mahesh Vyas said the government will have to spend more, but more strategically. "It will have to run the economy in a more deliberate way, not on auto-pilot," he told me. "Private investment is low because demand is low. Plant-load factors (in electricity generation) are at just 60%, and capacity utilisation in industry is at 75%." Some economists have suggested the government ought to expand the Mahatma Gandhi National Rural Employment Guarantee Scheme to urban areas to generate more jobs. Modi 2.0 will have to create millions of 'quality' jobs - jobs that are secured by contracts and carry with them benefits like health-care and insurance and above all, security. by the ginormous spending on the elections, especially in the south - Jagan Reddy's YSR Congress has erased Chandrababu Naidu and the Telugu Desam party in both Over the past two years, and especially after the devastation unleashed by demonetization, Prime Minister Modi swerved decisively towards the kind of welfare-state populism that he derided the Congress party for when he was a candidate in 2013-14. The difference now is that he can no longer lean on the misgovernment of the past. The past five years have been his, and he has promised to usher in a New India by 2022. "Together we will build a strong and inclusive India," he promised on Thursday as the results came in. The Economist Intelligence Unit, which predicted a coalition government, said earlier this month that Modi might not accelerate the pace of economic reforms in his second term. "Notably, we do not expect significant progress on the reform of India's notoriously difficult labour laws," it said. Modi also needs to leverage his new mandate to bite the bullet on land acquisition laws. Some reforms will continue to be difficult because the NDA does not have a majority (yet) in the Rajya Sabha, but that is only a matter of time. Interestingly, a recent Pew Research survey said that 68% of Indians polled said the current economic situation is bad. A significant 52% said their rights to express their views in public are not protected, against 24% who said they are. A good 45% of Indians said elected officials do not care about what ordinary people think, against 27% who said they do. The same Pew survey across 27 countries found people were dissatisfied with the way democracy was working in their countries: 60% felt no matter who wins an election, things do not change very much, and 54% thought most politicians were corrupt. However much of a shock this Modi landslide might deliver to India's political system, a 66% voter turnout is a thumping reaffirmation of democracy - and opposition politicians, especially in the Congress party, would have to be brainless lemmings not to effect drastic changes in their party leaderships and goals. There is a long list of things that need to be fixed in the economy. This is the first time since the 1970s that a government has won a strong majority for the second time running. Modi needs to resist the temptation to reach for band-aids, or hyped-up populism. He has been handed a blank cheque for tough decisions that could put India firmly on track for middle-class stability. He must make sure it does not bounce.

RBI not in favour of special credit window for NBFCs

New Delhi: The Reserve Bank of India is not in favour of providing special credit window to the NBFC sector to tide over the liquidity crunch as the cash crunch phenomenon is not systemic, said sources. Industry players and government think-tank NITI Aayog made a case for giving special credit window for non-banking financial companies (NBFCs) facing liquidity crunch following default by group of companies of IL&FS since September 2018. Many NBFCs, including DHFL and Indiabulls Finance, came under severe liquidity pressure compelling them to bring down their reliance on commercial papers. Ever since the IL&FS crisis erupted, banks have been averse to lending to the sector, which has put them in a tight spot. There are concerns that NBFCs may run out of money, which will lead to defaults. According to the sources, the Reserve Bank of India (RBI) is of the view that special window is not required as of now based on their assessment. The central bank feels that cash crunch is not a sector-specific phenomenon but limited to few large NBFCs which have over-leveraged due to aggressive lending According to estimates, about Rs 1 lakh crore of commercial papers (CPs) raised by The end of Five-Year Plans: All you need to know NBFCs from investors will come up for redemption in the next three months. CPs are debt instruments issued by companies to raise funds for a time period of up to one year. As the NBFCs are cash-strapped, there is a looming fear that they will default on the CPs. The sources also said the RBI board during the two-day meeting ended on Tuesday took stock of the NBFC sector and cash crunch faced by them. The central bank is keeping a tab on the liquidity position of these firms on a monthly basis and recently asked NBFCs with assets over Rs 5,000 crore to appoint a chief risk officer (CRO). The primary role of the risk officer will be identification, measurement and mitigation of risks and all credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks. The CRO's role in deciding credit proposals shall be limited to being an adviser.

Debit card PoS swipes rise 27% as per RBI data

BENGALURU: Indians are increasingly using their debit cards to pay merchants directly. As per data from the Reserve Bank of India, debit card swipes on Point of Sales (PoS) terminals jumped more than 27% in March 2019 compared to corresponding period last year. In contrast, ATM withdrawals grew at a slower pace of 15%. In absolute terms, debit card swipes for March stood at 407 million almost half of ATM withdrawals at 891 million. At a lower base, debit card payments for merchant transactions have gone up more than 250% between March 2019 and 2016. In contrast the total number of ATM withdrawals has remained constant over the last couple of years hovering in the range of 800 million per month. The biggest push to debit card payments for merchant transactions took place when the government sucked out more than 85% of the cash from the domestic economy at the time of demonetisation in November 2016. Credit cards clocked a 22% growth rate for PoS transactions versus last year. It clocked more than 162 million PoS transactions in March 2019 against 127 million in March 2018. “While this is an interesting trend it should be understood in the context of new ATMs not getting deployed by banks and PoS terminals increasing in number. There is no doubt about the increasing popularity of debit cards but the reason for the stagnation of ATMs could be the infrastructural challenges,” said a senior executive of a payments company on the condition of anonymity. ATMs have been stagnant in numbers at around the 2.2 lakh range since the last couple of years, which experts say is grossly inadequate for a country of the size of India. While PoS terminals are growing, there is still a shortfall in their numbers. There are 3.7 million terminals for card payments in India having grown almost 50% from 2.5 million in March 2017, as per RBI. “Despite the shortfall in the number of terminals, the rapid adoption of card payments shows that digital payments have the potential to become more mainstream for all sets of merchants,” said the executive quoted above. “Also newly deployed terminals in most cases are showing active transactions and not lying idle.” Experts have suggested that not only are people using their debit cards for merchant payments directly, they are not withdrawing cash to pay each other, increasingly relying on digital modes. ATM withdrawals remained almost stagnant at 890 million in March this year against 869 million in October last year. In the same period UPI grew 62% to 781 million in March against 482 million in October.

PSB reforms via EASE 2.0 scheme on the cards

NEW DELHI: A host of measures are on the cards for transformation of public sector banks (PSBs). While consolidation tops the agenda, a list of directions is being separately worked out for state-owned lenders to focus on risk assessment, enhanced early warning signals in cases of stressed assets and bringing in new fintech players. “We will soon be initiating the second round of reforms through our EASE (enhanced access and service excellence) programme,” a finance ministry official told ET on condition of anonymity. PSBs have already been asked to carry out an internal assessment for short listing ideal candidates for possible mergers or acquisitions. “Two separate processes are simultaneously being carried out.... The government has some combinations in mind and based on the inputs it receives from lenders, it will take a final call,” said the official. Some possible combinations revolve around big lenders such as the Punjab National Bank and Bank of India. Last year the government had initiated reforms for PSBs under EASE programme and directed these lenders to draw up a board approved strategic vision consistent with their risk-appetite framework. “We have been holding discussions and reviews with PSBs in the last two months. Based on that we will soon roll out measures for prudential and clean lending,” said another finance ministry official. The new performance parameters that may be introduced this year through the EASE programme include more stringent early warning signals (EWS) to tackle stressed assets, effective coordination in large value loans and bringing in new financial technology players to deepen financial inclusion and digitalisation. Another suggestion is to reconstitute the management committee of the board which takes decisions on large value loans and have representation from risk management, said the second official. Separately, the Banks Board Bureau (BBB) has selected around 80 chief general managers (CGMs) from all PSBs who will be trained in globally acclaimed management institutes such as the Kellogg School of Management in the United States. “This is to create a pipeline for future heads in PSBs and also to address the knowledge gap in key functioning areas of banks,” said the official. Some experts said the government should look beyond EASE rankings and push banks towards differentiated banking. “Merger is not the silver bullet for India’s banking woes,” said MP Shorawala, a former independent director with the Central Bank of India.

Yes Bank loans to Essel companies worry rating company

MUMBAI: Credit rating agencies are in the dark about the fate of the ‘loans’ taken by Essel Group entities from Yes Bank. Two closely held firms controlled by Essel promoters have not submitted the customary ‘no-default certificate’ to the rating agency, Acuité, which tracks the debt while the private sector lender is silent on whether the borrowing companies have missed servicing loans. Besides raising funds through sale of stock-backed debt securities to mutual funds, some of the Essel Group companies have drawn loans from Yes Bank on the back of comfort letters or guarantees from promoters. Responding to ET’s queries, an Essel Group spokesman said: “Essel Business Excellence and Essel Corporate Resources Pvt Ltd have availed borrowings from Yes Bank and the said accounts were ‘standard’ as on 31/03/2019 and continue to be ‘standard’ as on date.” When contacted, a Yes Bank spokesman declined to comment on the matter. A loan account, according to banking parlance, remains ‘standard’ till it gets the tag of non-performing asset (NPA), which happens only if there is non-payment of dues within 90 days from the due date. (Thus, hypothetically, any borrower which fails to pay loan interest on March 31can technically remain ‘standard’ in the bank’s book till end-June). The Essel official did not elaborate on why ‘no-default certificate’ from the borrowing firms were pending. Industry sources said Acuité could not obtain the information from Yes, the lending bank. There is no compulsion, however, on the part of Yes (or, any lender) to disclose information to rating agencies — a state of affairs that agencies complain have placed them as well as investors at a disadvantage. Unlike a default on debenture or bond, which investors come to know immediately, only banks and the Reserve Bank of India are privy to information on delay in loan servicing. A ‘standstill agreement’ between Essel and some of the fund houses (which have subscribed to Essel group’s rated debentures) is under force. However, unlike mutual funds, banks, which have to follow strict prudential guidelines laid down by RBI, are not free to strike such deals with borrowers. In fact, Sebi, after its initial silence on the agreement, has recently questioned the pact which was entered into soon after shares of Subhash Chandra-led Essel Group companies Zee and Dish TV plunged in late January. Bank term loan facilities of Rs 495 crore to Essel Corporate Resources as well as Rs 400 crore to Essel Business Excellence are under 'rating watch'. "A non-submission of no-default certificate is a trigger for the rating agency but it does not necessarily mean that the security is in for downgrade. Agencies, typically, approach lending banks in trying to find out if there is any default. But, there is no regulation that compels banks to share such information to anyone other than RBI. But if there is a downgrade on loans, ratings of Essel debentures could come for examination," said a senior official at a bond house. Ratings of the two companies were placed on 'watch' after Essel promoters announced their intentions to dilute holding in Zee Entertainment Enterprises, the group flagship. The agency perceives that the financial flexibility of the promoters of Essel Group emanates from their holdings in their listed companies, mainly ZEE Ltd.

IL&FS crisis: ED conducts fresh raids in Mumbai

NEW DELHI/MUMBAI: The Enforcement Directorate Wednesday carried out fresh searches in Mumbai in connection with its money laundering probe in the multi-crore IL&FS payment default crisis, officials said. The residences and offices of at least four directors of the firm are being raided in Bandra, Khar, Nariman Point and Goregaon area of the metropolis, they said. Some documents have been recovered during the searches, the officials said. The central agency had first carried out searches in this case in February after it filed a criminal case under the Prevention of Money Laundering Act (PMLA). The searches are aimed at collecting additional evidences and documents, they said. The debt crisis at the infrastructure lender came to light following a series of defaults by its group companies beginning September, 2018. IL&FS has defaulted on payment of loans to SIDBI and along with its subsidiaries has a combined debt of over Rs 91,000 crore. The ED's case is based on an FIR filed before the Economic Offences Wing (EOW) of the Delhi Police in December last year. Ashish Begwani, director of Enso Infrastructures (P) Ltd, had filed the case against officials of IL&FS Rail Ltd for allegedly causing Rs 70 crore loss to his company by fraudulent means. Begwani had alleged in his complaint that in August 2010, he was approached by two officials of IL&FS Transportation Networks Ltd and he had invested Rs 170 crore in IL&FS Rail Ltd, a special purpose vehicle for Gurugram Metro project, in order to take its 15 per cent shares. "However, over a period of time, the complainant observed that the company was not performing profitably and funds were being misused," an EOW official said quoting Begwani's complaint. The Enforcement Directorate (ED) will probe if funds generated illegally in this case were laundered to create illegitimate assets by the accused. The crisis-ridden infrastructure conglomerate IL&FS group, once hailed as a pioneer of public-private partnership, has come under the scanner of multiple regulators for alleged defaults related to financial disclosures and corporate governance.

Some banks make record provisions against bad loans

MUMBAI: Banks have used the past one year to improve their provision coverage ratio (PCR) as they clean up their books and strengthen balance sheets amid a slowdown in fresh additions to bad loans. PCR is at record levels for some banks, which is a positive because it makes bank numbers more reliable and increases chances of a write-back from bad assets. Data analysed by ET showed that there has been a secular upward trend in PCR. For example, State Bank of India's (SBI) PCR increased to 78.73% in March 2019 from 74.63% a year earlier. For ICICI Bank, the upward move has been even sharper — to 80.60% from 60.40% a year earlier. PCRs for Kotak Mahindra Bank, Axis Bank, RBL Bank and also state-owned banks such as Canara Bank and Bank of India have also climbed. PCR is the ratio of provisioning to gross non-performing assets and indicates the extent of funds a bank has kept aside to cover loan losses. A 100% PCR means that a bank has set aside 100% of doubtful loans to cover eventual losses. Analysts said higher PCR is also related to higher provisions banks may have had to take for NPAs that have aged. “Banks have taken additional provisions during the quarter on ageing related NPAs and also in a few cases, 100% provisions on some NCLT accounts. This resulted in overall PCR going up for most banks. Higher PCR is certainly a positive outcome for banks,” said Siddharth Purohit, analyst at SMC Global Securities. “Banks will continue to take additional provisions in FY20 as well, largely due to ageing related provisions, based on the RBI regulations.” A fall in new additions of nonperforming assets for banks has also resulted in higher PCR. Some analysts said that bank PCRs may be near their peaks. “Because of stringent norms, banks are providing provisions due to which NPAs are bottoming out, especially for PSBs, this quarter,” said G Chokkalingam, founder of research and advisory firm Equinomics. “Most banks also finished their last leg of provisioning for IL&FS. We have reached the maximum provision coverage ratio for most banks because most have provided for old NPAs, with no new major additions to slippages.”Analysts said high provision coverage ratio, slowing slippages and possibilities of write backs, especially from NCLT cases, should boost profitability in the coming quarters.

RBI plans liquidity buffer at shadow banks to aid stressed sector

The Reserve Bank of India (RBI) on Friday proposed introducing a liquidity coverage ratio (LCR) for large non-banking finance companies (NBFC) to help tackle liquidity problems in the sector. The central bank said it planned to implement LCR, a liquidity buffer, "in a calibrated manner" over four years starting from April 2020. The LCR is proposed for all deposit taking NBFCs, and non-deposit taking NBFCs with an asset size of 50 billion rupees ($720 million) and above. NBFCs will have to maintain minimum high quality liquid assets of 100% of total net cash outflows over the following 30 calendar days. Sources told Reuters this week that the central bank was concerned about liquidity issues facing some of the so-called shadow banks such as mortgage or auto lenders and wants to ensure the problems do not become a systemic issue. The collapse of the Infrastructure Leasing and Financial Services (IL&FS) last year triggered a series a default across the shadow banking sector, as borrowing costs for the sector surged.

Small finance banks' capital rules on RBI radar again

The Reserve Bank of India is said to be reviewing small finance banks’ capital and holding structure and may come up with a pari-passu arrangement for all lenders. The review of the norms may immediately benefit Equitas Small Finance Bank and Ujjivan Small Finance Bank, which are desperately trying to abide by the listing rule by way of share-transfer schemes. The RBI, under previous governor Urjit Patel, had directed these lenders to get listed within the deadline as specified in their bank licensing agreements, closing down all other options such as reverse merger of banks and their holding companies. However, current RBI governor Shaktikanta Das is more open to communication and has told some of these lenders to put in writing the issues they are facing, moving away from the regulator’s previous rigid stance. "RBI told us to submit a paper on capital and holding structure. We are waiting for its response," Ujjivan Small Finance Bank Managing Director Samit Ghosh told ET. Equitas Holdings, which is listed and is the holding company for Equitas Small Finance Bank, has already sought permission to offer 47% of its ownership in the bank to its existing shareholders for no cash consideration. This will dilute the holding company’s stake in the bank to 53%. The bank will then list the shares on the stock exchanges using a provision that allows companies to get listed without making an initial public offer of shares. The deadline for this exercise is September 4. The promoter will then have to bring down the stake to 40% by September 4, 2021. Equitas Small Finance Bank managing director PN Vasudevan refused to comment on the issue. An email query to RBI on the issue remained unanswered till as of press time. Experts said that such arrangements may dilute the shareholders' value. Ujjivan will have to get its bank listed by January 2020. Its promoter and holding company, Ujjivan Financial Services, will have to dilute their holding to 40% by January 2022. Ujjivan was earlier contemplating issuing of bonus shares of the bank in favour of the investors of the holding firm, but this proved to be expensive. "There is also lack of clarity on what would happen with the minimum promoter holding after the five-year term. RBI needs to address this issue as well," a CEO of a bank said. The holding company rule is also not uniform for all lenders. Seven of the 10 small finance banks followed the holding company structure with AU Small Finance Bank, Capital Small Finance Bank and Suryoday Small Finance Bank being the exceptions.

Swift selloff on cards to help Government meet target

NEW DELHI: The government is expected to swiftly proceed with strategic stake sale in at least 10 state-owned companies in which there is "wide interest", a finance ministry official said, seeking to achieve its target of raising Rs 90,000 crore from disinvestment proceeds in the current financial year. The government already has approval for selling shares in about 24 companies, including Air India, the national carrier. "In around a dozen companies, there is wide interest from private players. We are close to fulfilling all the due processes and will invite the final bids," the official said, adding that some firms may get sold in the July-September quarter itself. Companies that could be on the block include Scooters India, Bharat Pumps & Compressors, Project & Development India (PDIL), Hindustan Prefab, Hindustan Newsprint, Bridge & Roof Company and Hindustan Fluorocarbons. Clear Mandate to Expedite Process The government's disinvestment plan may get a push after the Bharatiya Janata Party won a clear mandate in the just-concluded general elections. The government had exceeded asset-sale targets of Rs 1 lakh crore in 2017-18 and Rs 80,000 crore in 2018-19. In February, the Union Cabinet had approved an institutional framework for monetisation of non-core assets of central public sector enterprises under strategic disinvestment. The framework included the setting up of a panel of ministers from the finance ministry, road transport and highways ministry and the respective administrative departments. The panel, known as the alternative mechanism, would decide the timing, price and quantum of shares of a state-run company to be sold. "We have already identified such assets for these firms and will be soon initiating this exercise," said an official with the Department of Investment and Public Asset Management. On asset monetisation of profit-making state-owned companies, the official said such firms and their administrative ministries can follow the same model prescribed in the framework. "Niti Aayog can also identify such assets after consultation with the administrative ministry," he added. A key merchant banker involved with some of the transactions said a clear mandate for the NDA government should expedite the process. "The problem is that some of these companies may not fetch more than Rs 500 crore and no bureaucrat will want post-closure controversies," he said, adding that not all companies will get good valuations. Last year, the government's attempt to sell a 76% stake in Air India and transfer management control of the airline to private players failed to attract any bids. "So, one has to factor that as well while taking a call on valuations," the merchant banker added. Some experts said the government should remove all entry barriers if a strategic sale is to succeed. "If it is non-strategic, then let even foreign firms come and bid," said Prithvi Haldea of Prime Database, adding that the only two requirements for bidders should be that they can demonstrate financial capability and have a well-etched labour plan.

PNB may take control of 2-3 small state-run banks

Punjab National Bank could take control of two-to-three small state-run banks, that could include Oriental Bank Of Commerce, Andhra Bank and Allahabad Bank, according to two sources familiar with the situation. PNB could start the process of taking control of the banks in the next three months, according to the sources, who declined to be named. The government is seeking to consolidate the nation's debt-burdened state banking sector.

RBI against special NBFC window

NEW DELHI: The Reserve Bank of India (RBI) is not keen on offering a lifeline to stressed non-banking finance companies (NBFCs), despite strong pitch by NITI Aayog and industry players. The government think tank has made a strong case for a special lending window for NBFCs to tide over a cash crunch in the wake of IL&FS' collapse, which has made banks wary of funding the sector. In addition, NITI Aayog has sought a higher lending from banks for the sector, arguing that Raghuram Rajan had opened a similar window during his stint in the RBI. Finance ministry officials, however, said the central bank was not keen on accepting the proposal, at least for now. The RBI, which has already held discussions with NBFCs, is of the view that not all of them are stressed and it is only a few that are highly leveraged due to aggressive lending in the past. The RBI is wary of opening a special lending window, given that the finance companies had lent to weaker companies, including several in the stressed real estate sector. "A large number of them are companies that could not get funds from the banking sector and therefore had to go to NBFCs. The quality of the security may be suspect and it may be tough to accept the rating on face value," said an official, acknowledging RBI's concerns. NBFCs have been making a case for a bailout, arguing that the fund crunch in the market is impacting consumer demand, which is visible in declining auto sales and consumer loans. The housing sector, which was already in the grip of a slowdown, is said to be impacted more. The demand for lending a helping hand to NBFCs comes at a time when a new government is on the verge of taking office.

Ujjivan to become a mass market bank under Nitin Chugh, says current CEO Samit Ghosh

KOLKATA: Ujjivan Small Finance Bank has roped in HDFC Bank's digital banking head Nitin Chugh as its next managing director & chief executive officer. Chugh will join Ujjivan in August and will work closely with current MD & CEO Samit Ghosh for "a smooth transition" before taking over the baton from him on December 1. Ghosh is slated to retire on November 30. "Nitin's inclusion will help us chase our ambition to become a mass market bank with digital push," Ghosh told ET. "We aim to scale up from 4 million customers to 40 million in seven years time and this cannot be done without technology adaption. He will bring in a lot of value to the table," Ghosh, who will be 70 on November 30. Reserve Bank of India has approved the appointment which is for a period of three years, Ujjivan said in a regulatory filing to stock exchanges. Chugh, a career banker with over 25 years of experience behind his belt, worked in HDFC Bank since April 2001. He has experience in retail banking sales and distribution (credit cards, retail assets, branch and phone banking), virtual relationship management and digital / direct marketing. Chugh holds a Bachelor of Technology degree and has a Post-Graduate Diploma in Management.

ATMs, once the future of banking, starting to become more scarce

By Hannah Levitt

In the wake of the economic crisis, Paul Volcker called automated teller machines the last financial innovation that improved society. A decade later, their popularity is slipping. The number of ATMs around the world fell for the first time last year as banks closed branches and redirected resources toward digital payments, consulting firm RBR said in a study released on Monday. Declines in four of the world's five largest markets - China, the U.S., Japan and Brazil - drove the 1% drop in ATMs in 2018. In the fifth, India, "growth slowed considerably," London-based RBR said. Bank customers are increasingly turning to their mobile phones for routine financial services, and moving away from cash in favor of credit and debit cards. JPMorgan Chase & Co., the biggest U.S. bank, cut back its branches by 2% last year while earmarking $10.8 billion for technology. The lender saw a 5% increase in active digital customers, and an 11% gain in active mobile customers. While the ATM count worldwide has fallen for the first time, the shift away from the machines isn't a new phenomenon. Bank of America Corp. cut back on its ATMs in 2012, and JPMorgan did the same in 2015. Their decline could hurt makers such as NCR Corp. and Diebold Nixdorf Inc. Still, not every year will see a drop like last year's. Growth in ATMs in developing markets will slow the decline, according to RBR. The firm expects the number of bank machines globally to fall just 0.6% in the next six years. "Financial inclusion initiatives continue to bolster ATM growth in developing markets across Asia-Pacific, the Middle East and Africa and Latin America," RBR said in a statement.

Karnataka Bank launches savings bank product for salaried class

Private sector lender Karnataka Bank on Monday launched a new savings bank product called "KBL SB Salary" for salaried class with three variants of Executive, Prime and Classic. "All these 3 variants of our KBL SB Salary Scheme are available for the Salaried People with a host of Digitally Powered features and without any Minimum Balance Criteria. No annual charge on Debit Cards, Unlimited free access to Karnataka Bank ATMs, Free Cash Deposit facility across all branches, Free Fund Transfer within the Bank, Free NEFT & RTGS through Internet and Mobile Banking, Free Outstation Cheque Collection, No Annual Fee on Demat & Trading Accounts are some of the major features of these Schemes," the bank said in a press release. According to the release, the bank will provide, free of cost, an insurance coverage of up to Rs 50,000 against chain snatching, theft and burglary for women employees falling in the top category of the salary scheme. "We have designed these 3 variants to cater all the financial needs of the entire 'Employer-Employee Ecosystem' said Bank's MD Mahabaleshwara M S.

Merger impact: BoB looks to rationalise 800-900 branches

New Delhi, May 19 (PTI) State-owned Bank of Baroda (BoB) is considering the option of rationalising 800-900 branches across the country to improve operational efficiency, following its merger with Dena Bank and Vijaya Bank. The merger of Dena Bank and Vijaya Bank with BoB became effective from April 1. It does not make sense to have branches of Dena and Vijaya at the same location when both have been merged into BoB, a senior bank official said. "There are cases where branches of three banks are at one location or one building. So these branches have to be either closed or rationalised as duplication is a drain on efficiency," the official said. After comprehensive review, BoB has identified 800-900 branches which needs to be rationalised, the official said, adding that the lender could opt for re-location and in some cases closure. Besides, there is also need to close regional and zonal offices of merged entities as they would not be required. The official further said, the bank needs to expand in eastern part of country as it has strong presence in South, West and northern part of the country. With the first ever three-way merger, BoB has now become the second-largest public sector lender after State Bank of India with over 9,500 branches, 13,400 ATMs, and 85,000 employees to serve 12 crore customers. The consolidated entity started the operation with a business mix of over Rs 15 lakh crore on the balance sheet, with deposits and advances of Rs 8.75 lakh crore and Rs 6.25 lakh crore, respectively. The maiden three-way amalgamation is considered as the major step in the consolidation of the public sector banking industry recommended in 1991 by the Narasimham Committee report. It is to be noted that when State Bank of India (SBI) amalgamated its five associate banks and Bharatiya Mahila Bank in April 2017, it rationalised about 1,500 branches across the country.

Nandan Nilekani committee submits report on payments to RBI

MUMBAI: Nandan Nilekani led high-level committee on deepening digital payments submitted their report to the Reserve Bank of India on Friday, the central bank said in a press release. The five-member team was formed in January this year to consult with various stakeholders of the payments ecosystem and deliberate on solutions to further strengthen the industry. The regulators said that they will implement the panel's recommendations wherever they deem necessary in their payments vision document released earlier this week. "The Reserve Bank of India will examine the recommendations of the Committee and will dovetail the action points, wherever necessary, in its Payment Systems Vision 2021 published on May 15, 2019, for implementation," RBI said.

SBI to engage with 1 lakh customers on Tuesday to resolve concern, seek suggestion

NEW DELHI: The country's largest lender SBI will conduct a customer outreach programme next week to address their queries and seek suggestions to improve services. The 'Mega Customer Meet', to be held on Tuesday, is expected to engage with 1 lakh bank customers across 500 locations through 17 local head offices across the country. SBI customers of Delhi, NCR and Uttarakhand can attend this programme in 41 locations, the bank said. Under this initiative, customers can interact with the bank staff to discuss their concerns and share feedbacks and suggestions on the bank's products and services, it said in a release. SBI Managing Director for Retail and Digital Banking P K Gupta said this is part of the bank's regular interaction with the customers. "We try to do it generally about once in a year on a larger scale and organise it at all our major centres across the country. We have asked our customers to share their views, expectations and feedback how we can improve our services," Gupta told PTI. He also said at times, the concerns of the customers do not get fully resolved at the branches and programmes like these give better opportunity to listen to them and find out solutions. SBI said the employees of the bank will also inform and educate customers about the features and convenience of using its one-stop platform for digital banking and lifestyle shopping app -- YONO SBI. The state-owned lender said the YONO app, which was launched in November 2017, has seen more than 2 crore downloads so far.

NEWS OF THE WEEK

EY back on job for Air India sale, EoI to be ready soon

NEW DELHI: The government has put top consultancy firm EY to work for divesting its stake in flag carrier Air India and "quickly" issue expression of interest (EoI). "EY continues to be the transaction advisor for the sale of Air India. We have been directed to close the accounts for FY 2018-19 and provide updated data for EoI to take the disinvestment process forward," said a senior Air India official. "Until the transaction gets completed EY is our advisor. They will be paid their fees after disinvestment process is complete. The instruction now is immediately start the process for EoI. Of course, approval of the Union Cabinet will be required for it," he added. The development comes close on the heels of Prime Minister's Office (PMO) directing the Aviation Ministry to speed up the process of strategic disinvestment of Air India and three of its subsidiaries. In a letter to Air India Chairman Ashwani Lohani, Civil Aviation Secretary Pradeep Singh Kharola had advised to finalise the financials of Air India and its subsidiaries by end of June, 2019. "Also, the accounts for FY 2018-19 would form the basis of bidding. Therefore, it is necessary that they are prepared with utmost caution so as to reflect the correct financial status," Kharola had written in the letter which has been reviewed by IANS. The Aviation Secretary directed the airline to get contingent liabilities and account receivables verified thoroughly besides a physical verification of the inventories. A list of pending litigations is also required to be drawn up. The government had last year initiated the process to sell majority 74 per cent stake in the national carrier but the plan proved a damp squib with no private investor turning up for the offer. In view of rising fuel price and weak investment environment, the government had put the process on hold maintaining that it would be taken up after Lok Sabha elections 2019.

Public sector banks recover Rs 1.2 lakh cr from bad loans in 2018-19

Public sector banks (PSBs) have recovered close to Rs 1.2 lakh crore from stressed assets during the financial ended March, primarily helped by resolution under the Insolvency and Bankruptcy Code (IBC), an official said. During the first half of the previous fiscal, banks recovered Rs 60,713 crore from bad loans. "Due to non-resolution of some big accounts referred under NCLT (National Company Law Tribunal), PSBs could not achieve the resolution target of Rs 1.80 lakh crore. But, these accounts should be resolved in the current financial year," the official said. Banks recovered close to Rs 55,000 crore from the NCLT resolution, the official said. "Compared to Rs 74,562 crore in 2017-18, the recovery in the previous financial year nearly doubled to Rs 1.2 lakh crore," the official said. Two large accounts of Essar Steel and Bhushan Power & Steel Ltd are still pending to be resolved. It is expected that these two accounts should be resolved in the next few months and recoveries from these could be around Rs 50,000 crore. JSW Steel had revised its offer from Rs 11,000 crore to Rs 18,000 crore and later to over Rs 19,000 crore, whereas Tata Steel's last offer was at Rs 17,000 crore after it had refused to revise its bid. ArcelorMittal has made a bid of Rs 42,000 crore for Essar Steel. According to the official, consolidation among public sector banks and higher recoveries by state-owned lenders will be on the government's agenda in the current financial year. Referring to the liquidity crisis in the non-banking financial companies (NBFCs), the official said that there are issues with both solvency and liquidity in these companies. "The government and the Reserve Bank of India will take adequate measures to address the issues plaguing the NBFC sector," the official said. Many NBFCs, including DHFL and Indiabulls Finance, came under severe liquidity pressure compelling them to bring down their reliance on commercial papers. Ever since the IL&FS crisis erupted, banks have been averse to lending to the sector, which has put them in a tight spot. There are concerns that NBFCs may run out of money, which will lead to defaults.

MUST READ ITEM FOR THIS WEEK

Theresa May: A prime minister defined and defeated by Brexit

Theresa May became prime minister in 2016 with one overriding goal: to lead Britain out of the European Union. Three years on, the U.K. is still in the EU, and May's time in 10 Downing St. is ending. She announced Friday that she will step down as Conservative leader on June 7, remaining as caretaker prime minister during a party leadership contest to choose her successor. She will be remembered as the latest in a long line of Conservative leaders destroyed by the party's divisions over Europe, and as a prime minister who failed in her primary mission. But history may also see her as a leader who faced a devilishly difficult situation with stubborn determination. The daughter of a rural Anglican vicar, May attended Oxford University and worked in financial services before being elected to Parliament in 1997. She was quiet and diligent, but also ambitious. One university friend later recalled that May hoped to be Britain's first female prime minister, and ``was quite irritated when Margaret Thatcher got there first.'' She was not a natural political campaigner; her stiff public appearances as prime minister landed her the nickname ``The Maybot.'' Her only touches of flamboyance are a fondness for bold outfits and accessories like brightly patterned kitten-heel shoes. But she soon established a reputation for solid competence and a knack for vanquishing flashier rivals. May served for six years in the notoriously thankless job of home secretary, responsible for borders, immigration and law and order. In 2016, she beat flashier and better-known politicians, including

Brexit-backer Boris Johnson _ now the favourite to succeed her _ to become Britain's second female prime minister, after Margaret Thatcher. May was the surprise winner of a Conservative leadership contest triggered when Prime Minister David Cameron stepped down after voters rejected his advice to remain in the EU, instead voting 52%-48% to leave. In her first speech as prime minister in July 2016, May sketched out plans for an ambitious policy agenda. She spoke of giving the poor a helping hand and lifting barriers to social mobility. But Brexit soon crowded out almost all other policies. Like Cameron, May had campaigned to remain, but in office she became a champion of Brexit. ``Brexit means Brexit'' became her mantra _ a meaningless one, said her detractors, as it emerged that undoing 45 years of ties with the bloc would be a fraught and complex process. Attempting to win the support of Conservative Brexiteers suspicious of her past pro-EU leanings, May set out firm red lines in negotiations with the EU: Britain would leave the bloc's single market and customs union and end the right of EU citizens to live and work in the U.K. For a time, May's resolve helped her unite the warring factions of her party, which for decades has been divided over policy toward Europe. But she then gambled on a snap election in June 2017, in an attempt to bolster her slim majority in Parliament and strengthen her hand in Brexit negotiations with the EU. The move backfired. May ran a lack lustre campaign on a platform that included plans to cut benefits to pensioners and change the way they pay for long-term care _ quickly dubbed a ``dementia tax.'' The Conservatives lost their majority, and May had to strike a deal with 10 lawmakers from Northern Ireland's Democratic Unionist Party to stay in power. The DUP's support became a complication when the border between Northern Ireland and EU member Ireland emerged as a major issue in Brexit negotiations. The unionist party strongly opposed special measures to ensure the border remained free of customs posts and other barriers, worrying they might weaken the bonds between Northern Ireland and the rest of the U.K. May pressed on and in November 2018 struck a divorce agreement with the EU, setting out the terms of Britain's departure and establishing a transition period of almost two years for the two sides to work out their future relations. All that remained was for the British and European Parliaments to ratify it. And that is where May's best-laid plans came undone. Her careful compromise of an agreement was rejected by both sides of the Brexit debate. Brexiteers felt it gave too much away and left Britain bound to EU rules. Pro-EU lawmakers wanted a softer Brexit that kept close economic ties to the bloc. In January, May's deal was rejected by 230 votes, the biggest government defeat in British parliamentary history. Whatever her flaws, May was no quitter. Late last year she likened herself to Geoffrey Boycott, a cricketer who was famous for his dull but effective batting style. ``Geoffrey Boycott stuck to it and he got the runs in the end,'' she said. She tried again to get her Brexit deal approved, losing by 149 votes. A third attempt narrowed the margin of defeat to 48. She tried talks with the Labour Party about securing a compromise, but managed only to further alienate her own lawmakers with her concessions to the opposition. A promise to let Parliament vote on whether to hold a new EU membership referendum was the final straw. By this time, a growing number of Conservatives had concluded that May was the problem and would have to leave before Brexit could be sorted out. But she resisted the pressure, planning instead to try for a fourth time by bringing a withdrawal agreement bill to Parliament for a vote. In the end, the pressure became irresistible.

VIEW OF THE WEEK

BSNL may use free space optics technology for mobile backhaul

NEW DELHI: State-owned Bharat Sanchar Nigam Limited (BSNL), in industry-first is likely to use free space optics, a new line-of-sight outdoor wireless technology, to overcome backhaul constraints in large arid areas of Rajasthan and Gujarat plains. “High bandwidth can be provided with a reception of light by deploying free space optics technology for backhaul, and that can do well in areas such as

Rajasthan and Gujarat," BSNL chairman Anupam Shrivastava told ETT. Free Space Optics (FSO) is a newer low-latency technology that offers speeds comparable to fibre optics that transmit voice, video and data with up to 1.5Gbps, and can be deployed to expand mobile network footprint with building-to-building connectivity. The fourth-largest telco, however, is currently studying the technology and its use case for future application, following spectrum constraints in scenarios of high data traffic growth with the advent of fourth-generation or 4G services. "In a mass production situation, the cost of this technology will come down," the top official said, adding that it can be used to provide backhaul but has some restrictions in the situations where the climate becomes cloudy. BSNL, the largest public sector telco, is also expecting the government to allow it with much-needed 4G radio waves to offer high-speed mobile Internet and voice over-LTE (VoLTE) services in order to compete with the likes of Vodafone Idea, Bharti Airtel and Reliance Jio. "The Cabinet note is already ready and is expected to be tabled by the telecom department soon," Shrivastava said, adding that a slew of initiatives such as land assets monetisation would soon become a reality that could eventually boost telco's revenue as well as consumers and employees' confidence. The telco is also expecting normalcy in cash flows in the second quarter of FY 2020, after a temporary crunch early this year that led to nearly a two-week delay in February salaries to a majority of 1.76 lakh workforce. The top official also said that the BSNL Board has no plans to bring the staff retirement age to 58, from 60 years as reported in a section of media recently. The telco spends nearly 70% of its earnings to maintain staff wages, and few of its government-funded programs in uncovered villages remain nonstarter.

LATEST ON BREXIT

Brexit Uncertainty Continues to Weigh on UK House Prices

By **Samantha Barnes***, International Banker*

In April, the Office for National Statistics (ONS) released its UK House Price Index statistical bulletin for February, showing that with their +0.6-percent growth from a year earlier, UK house prices rose by the lowest annual rate since September 2012's 0.4 percent. February's annual growth was also markedly lower than the 1.7-percent growth in house prices recorded for the year to January 2019. The lacklustre performance is a strong indication that the uncertainty over Brexit continues to weigh heavily on the UK housing market. Indeed, annual price increases have been on a consistent downward trajectory since the United Kingdom's referendum vote to leave the European Union was held back in June 2016: The protracted Brexit process, which was initially planned for March but which has now been delayed until October 31, has been a considerable drag on house prices over the last several months, with the most recent ONS figures largely reflecting the dramatic fall in prices being experienced in London and its surrounding regions. The capital city posted the lowest growth rate in the country, with prices falling by 3.8 percent during the year to February, a significant decline from the 2.2-percent contraction in January. The South East also saw prices fall over the same period, by 1.8 percent, marking the first time the region has seen negative growth since October 2011. With an unfavorable Brexit deal for the UK still remaining a distinct possibility, London's status as one of the world's premier financial centers remains under threat—prices are now 6 percent lower than their peak reached in mid-2017. At the other end of the scale, however, both Wales and the North West have continued to enjoy buoyant growth in house prices, with 4.1-percent and 4.0-percent rises being recorded respectively. The weak ONS figures are supported by other leading housing-market institutions. According to the Royal Institution of Chartered Surveyors (RICS) monthly survey for April, for instance, the net balance of reported house-price increases versus declines was posted at -23 percent, meaning that more surveyors reported decreases in prices in their designated areas than increases. While not quite as disappointing as February's -27 percent—the weakest reading in almost eight years—April's figure, which was the same as March's, will do little to suggest that a turnaround is on the horizon. A sustained fall in new-buyer enquiries has contributed considerably to the weaker price trends in certain parts of the country, with April marking the ninth consecutive month of falling inquiries. This trend corresponds with recent Bank of England (BoE) data, which showed that UK lenders in March approved the fewest mortgages since December 2017. The RICS survey also showed that fewer properties are being put onto the market, with sellers continuing to hold back during this time of uncertainty. A net balance of 35 percent of surveyors have experienced declines in new instructions during the month, which is the weakest recording since June 2016.

But while many downbeat assessments of the housing market have emerged in recent times, not everyone sees things in such a negative light. Halifax recently reported an uptick in annual house-price growth in the three months to April. The period saw a 5-percent increase from the previous year, which is the highest growth rate since February 2017 and almost double the 2.6-percent annual growth for the three months to March. However, the figures from the country's biggest mortgage lender have been called into question by several analysts, with Samuel Tombs, chief UK economist at Pantheon Macroeconomics, declaring that the reported surge "cannot be reconciled with any other evidence from the housing market". Even Halifax Bank Managing Director Russell Galley has sounded a note of caution, stating that the data "factors in a notably high growth figure recorded in February this year, driven by a higher volume of London sales and more expensive new build properties".

Looking forward, the outlook does not appear to be particularly positive, either. Clearly, the final decision on Brexit will play a major role in dictating which direction house prices ultimately take; but many of the forecasts for the remainder of the year suggest that the market will remain subdued. According to Howard Archer, chief economic adviser to the EY Item Club, a UK-based economic forecasting group, Brexit's six-month delay to the end of October could be positive for house prices. "It is possible that the avoidance of a no-deal Brexit at the end of March could provide a modest boost to the housing market through easing some of the immediate uncertainty and concerns," Archer stated. But he also added that it was more likely that due to the Brexit delay, "prolonged uncertainty will weigh down on the housing market and hamper activity". Rightmove, the UK's foremost property website, also recently suggested that the Brexit delay may result in a brief rally over the summer on the back of a "window of relative certainty in uncertain times", in the words of the company's founding director, Miles Shipside. But many predict a more pessimistic outlook for the UK's housing market this year. RICS, for example, cites Brexit uncertainty and a lack of available stock to purchase as being the biggest constraints on the market at present, meaning that "little change in momentum is anticipated in the near term". Over longer time horizons, moreover, the organisation predicted in April that prices are likely to decline across the country for six months, while the bear market would stretch to a full year for London and the South East. RICS chief economist, Simon Rubinsohn, acknowledges that there is "little conviction in the feedback from respondents to the survey that activity in the housing market will pick up anytime soon…. The key RICS buyer enquiries indicator remains subdued, and sales expectations looking a year out are only modestly positive".

It should be noted, however, that Brexit is not the only factor cooling the housing market at the moment. A higher stamp duty and changes to the buy-to-let taxation system mean that it is not as lucrative to lease out property as it was once upon a time. With upper-bracket taxpayers soon unable to deduct their mortgage expenses from rental income to reduce their tax bills, and with tighter mortgage-lending regulation having come into play, moreover, landlords are not as incentivised to buy-to-let as they were previously; and as such, they are buying fewer homes. But as long as the country remains in an unresolved situation regarding Brexit, it would seem that London, as well as much of the rest of the United Kingdom, will continue to experience a bearish housing market. Assuming no further delays, therefore, October 31 has become a crucially important date, when both house buyers and sellers will no doubt gain some much-needed clarity.

TECHONOLOGY AND BANKING TOMORROW

Legal Contracts on the Frontline of Fighting Corruption with Artificial Intelligence

By **Stuart Brock***, Director, Seal Software*

In the age of specialization, many organizations turn to intermediaries to do business. They take the form of partners, suppliers, distributors, or agents, and many firms can have thousands of "feet on the ground" doing work on their behalf around the globe. This is particularly true when assistance is needed in emerging markets, where bribery, money laundering, bid-rigging, and price-fixing are common ways of doing business. A global survey of compliance officers conducted by E&Y found 39 percent of respondents reported that bribery or corrupt practices take place with alarming frequency, and in emerging markets, a majority of the respondents indicated that corruption is common. The fact remains that even in the most advanced countries; still too many individuals believe it is acceptable to gain commercial advantage through cash payments or similar means. Another interesting fact comes from a study conducted by the Organization for Economic Co-operation and Development, which found that 75 percent of bribery-related incidents involve payments made through intermediaries. The reality is that if your intermediary is exposed for bribery or corruption activities while working on your behalf, whether you are aware of the activity or not, you are at significant risk. The laws addressing anti-bribery and corruption violations include the Foreign Corrupt Practices Act (FCPA) of 1997, the U.K. Bribery Law of 2010, OCC 2013-29, and the HITECH Anti-Kickback Act of 2009 for healthcare. The agencies enforcing these laws include the U.S. Department of Justice, the SEC, U.K. Serious Fraud Office (SFO), and the British Financial Conduct Authority (FCA) under their Outsourcing Requirements. These oversight entities have been increasing their efforts to investigate and prosecute offenders in recent years, resulting in significant fines and penalties. For example, Olympus paid $623 million for running afoul of the healthcare anti-kickback statute. Other notable violations resulted in Rolls Royce being fined more than $900 million for bribes to officials in China, India, Thailand, and other markets, and Siemens AG forking out $450 million in penalties for violating the FCPA. Alcoa was forced to pay $175 million in restitution, and a fine of $209 million for paying bribes to government officials in Bahrain and Australia, and even Goodyear Tire paid $16 million for FCPA violations committed by two African subsidiaries

Contracts are at the frontlines of risk

High-risk activities such as procurement, invoicing, payments, and supply chain functions, are the frontline of risk mitigation. Corporate executives including chief compliance officers, COOs, and procurement and legal teams have become acutely aware that prosecution extends beyond the activities of employees to the corrupt actions of third-party representatives. As a result, they are taking a sobering look at Anti-Bribery and Corruption (ABAC) programs. In a growing number of cases, these teams are implementing clear, multi-faceted strategies and policies to reduce exposure. They have responded with consistent and frequent formalized training programs for their employees and their intermediaries in an attempt to better identify and understand their weak spots. They are attempting to implement stronger vetting and due diligence programs for current and potential intermediaries, and perhaps most importantly, they have also looked to instituting legal protections within contracts and agreements to reduce vulnerability in the case of violations by contracted third-parties. We have found at Seal Software, for example, that customers and prospects are more frequently engaged on this last point than they were in the past. They are looking for ways, more specifically, to reduce risk with well-written ABAC clauses in vendor contracts. Organizations can create their own high-quality ABAC clauses for contracts, and they can take advantage of resources like the International Chamber of Commerce (ICC), which provides a set of clauses on their website to help organizations protect themselves.

Strong ABAC clauses can provide protection if an intermediary is found guilty of anti-bribery and corruption violations. This can effectively reduce liability in the wake of ABAC violations by an intermediary while also increasing a firm's own contractual rights to revoke a contract should a violation occur. It can also help organizations claim damages against an offending intermediary when appropriate. It is crucial in the first instance to institutionalize efforts to review vendor contracts to determine if they have ABAC clauses, and then to ascertain if they meet the legal requirements necessary to make them both effective and enforceable. When contracts fall short, it is imperative to identify those which need amending and then re-paper accordingly. It's a daunting task for the enterprise that has tens of thousands of contracts siloed across different departments and geographies.

Optimizing the process with AI

When companies embark on vendor risk management initiatives, it often requires a manual effort of tracking down and painstakingly reviewing each document to extract and record the needed information – usually in spreadsheets. Only then can business and legal resources decide which contracts need revision, renegotiation, cancellation, or some other action. It is, however, possible to sift through massive amounts of data to connect the dots and root out corruption without slowing down the procurement process. Artificial intelligence and machine learning are not simply showing potential, but are already a proven potent weapon. Analytics-driven AI are being deployed by Seal to collect, interrogate, and assess huge 'data sets' of contracts and legal agreements, to reveal both potential concerns of corrupt behavior, as well as mitigate risks before a contract is issued. The technology provides a high level of accuracy, speed, and scale in these activities, as well. Optimizing the process for companies embarking on ABAC risk management initiatives requires finding contracts across the network to determine what terms, provisions, and clauses they contain. This means not just surfacing contracts that do not have any ABAC clauses but going deeper to identify those that do not contain the standard or approved language, and finally, which ones have appropriate language. Artificial intelligence can also be trained to 'read' each document and let users know, very specifically, what decisions and actions are needed to meet organizational objectives. This type of automation is often the first step of the ABAC process, reducing the time and costs associated with managing ABAC risk. It also is more accurate by taking away the subjectivityand judgment errors of human reviewers.

Artificial intelligence as a force multiplier

The potential of AI to improve the procurement process and related risk mitigation is great. Looking at contracts to detect problems has led to experiments in using the technology to probe different types of data, expanding the pool of information and refining its application to drive true digital transformation in the procurement process. Another facet, for instance, of using artificial intelligence to automate anti-bribery and corruption protection, is that once the initial extraction has been done, organizations then have access to a much broader set of data than just ABAC clauses. It is often seen as a 'force multiplier' in that the data can also be examined for insight into a variety of other procurement drivers. Vendor contract terms, renewal and auto-renewal information, pricing details, purchase incentives, service levels and metrics, can often be determined simultaneously with an ABAC program. Other contract terms and provisions that are directly or indirectly affected by ABAC may include limits of liability, assignment rules, termination, and cancellation requirements. Anti-bribery and anti-corruption practices have historically been underserved by technology, forcing firms to analyze contracts manually and at significant cost. At best, statistics indicate that less than half of violations are detected by whistleblowers or by using legacy processes, leaving firms open to immeasurable legal and reputational vulnerabilities. Artificial intelligence and machine learning are being applied to create automated workflows that smartly address the challenge, and make it easier to uncover risk before it becomes a crisis.

INTERVIEW OF THE WEEK

Rate cut not enough, auto industry must become globally competitive: RC Bhargava

All the people engaged in manufacturing, in industry and in education and in infrastructure have to understand that they cannot continue to function as if they are running their small little empires for their own personal benefits, they have to look at the nation as a whole, said RC Bhargava, Chairman, Maruti Suzuki, in an interview with ETNOW.

Edited excerpts:

What do you make of the kind of verdict that Modi-led NDA government get and how do you think it is going to be for India in the next five years?

The voter has shown great understanding of what Mr Modi has been doing and has understood that this work which he started five years ago requires to be completed because restructuring the economy and the governance system of a country is not a short-term project. The voter has full confidence in the Prime Minister and he has voted to let this programme be carried on and accelerated. The mandate shows that people actually are supporting what Mr Modi is doing.

What is it in terms of actions and indications that you expect the government to work on immediately?

Is there anything that you believe the government should have on the top of their agenda? The Prime Minister has done what needs to be done to bring this country on the growth path and to get the industry growing. Looking at all the challenges which the economy is facing, there are actions which have to be taken in all areas of the economy. It is best left to him and the government to work out the programme but I do hope that on the basis of this programme and on the basis of what has been done, there will be more of a national consensus on the programme which will be undertaken and we will not have what has been happening in the past of perfectly good economic measures getting blocked just because of the theory that an opposition must oppose.

It is certainly a bolder NDA 2.0. That is something that one must watch out for. How different will NDA 2.0 be from NDA-1?

What do you think is going to be different about Prime Minister Modi from here on? Fundamentally, Mr Modi and the government will be very much the same. Because of the confidence which the entire country has reposed in what they were doing and they should not have any hesitation now in taking these reforms to their logical conclusion because the people of the country are behind them.

Growth is something that has been a key fear among market participants for the last couple of months. The pace of growth may have been tempering a bit. What do you think the government should do with respect to that? Is cutting rates enough?

No, I do not think interest rates are going to drive the growth of manufacturing and industry and the economy. That is giving far too much importance to interest rates. What is needed is to look at all the factors which are inhibiting Indian manufacturing from becoming globally competitive. While the government has some things to do, far more will need to be done by industry participant themselves and it is not going to be the government alone which can make the economy grow. All the people engaged in manufacturing, in industry and in education and in infrastructure everybody has to understand that to get what the people want, they cannot continue to function as if they are running their small little empires for their own personal benefits, they have to look at the nation as a whole.

Given that for the last five to six months growth in auto sector over has slowed down, what role do you think government could play in spurring the auto sales since there seems to be a liquidity crunch?

The banking reforms have very much to do with this. The whole role of the PSU banks and how they should function because I do not think that we can get liquidity problems and such issues resolved unless we have a very healthy banking structure. One of the major reform areas would be the public sector which I believe is a drag on the economy.

I want to get in your perspective on the international trade front as well. A key contentious point over there is what Donald Trump is doing with respect to autos. Do you think this is the moment that India could shine as other countries are caught in the trade tussle?

We certainly have an opportunity but to take that opportunity, our products must become more competitive than products made elsewhere. That was is why I was emphasising earlier also the importance of doing everything possible to make Indian industry competitive. Competitiveness comes from quality, cost reduction, increasing productivity, waste reduction, improving infrastructure, improving manpower skills etc.

And do you think these are areas where India's manufacturing is lagging behind a tad bit?

Absolutely. I think we are not adequately competitive yet.

Who do you think would be most apt to fit in among the top brass or the key cabinet portfolios of the new government?

I am totally incompetent to answer that question.

INTERESTING TO KNOW THIS WEEK

Facebook plans cryptocurrency launch next year: Report

Facebook has been in contact with US and British financial regulators with a view to launching its own cryptocurrency next year, the BBC reported on Friday. "GlobalCoin" would work with a new digital payments system in about a dozen countries, starting in the first quarter of 2020, the broadcaster said on its website. Previous reports have said Facebook is taking a serious look at blockchain technology under its "Project Libra", in part to tackle doubts about privacy among its many users following a series of scandals. But the targeted date appears new. The BBC said Facebook had already spoken to Bank of England governor Mark Carney and to officials at the US Treasury, and was expected to flesh out its plans this northern hemisphere summer. Facebook's currency would be "stablecoin", a digital unit pegged to the dollar in contrast to more anarchic means of virtual payment such as bitcoin, according to earlier reporting by Bloomberg and the Wall Street Journal among others. With more than two billion users across its platforms, which include WhatsApp and Instagram, Facebook could have the clout to take a cryptocurrency mainstream and emulate the likes of WeChat in China, where the US site is banned. WeChat allows its users to chat, shop and play games without leaving its platform, generating more revenue by offering a one-stop portal. Facebook chief Mark Zuckerberg has said that adding e-commerce is the logical evolution of the company's advertising-based business model. But such a step is likely to invite more intense regulatory scrutiny at a time when Facebook is already under a cloud for abuses of privacy and the spread of fake news. Facebook said it had disabled 2.19 billion fake accounts in the first quarter of this year, nearly double the number of the three months prior. But Zuckerberg on Thursday rejected the idea of breaking up the social media giant, saying that would hamper the fight against deceit and harmful online content.

INTERNATIONAL NEWS THIS WEEK

Strategy in the works to woo companies looking to exit China

NEW DELHI: India has prepared a strategy to gain market access in China for its farm and pharmaceutical exports and attract foreign companies looking to shift out their manufacturing bases from there in the wake of the trade war between the US and China. The commerce department's strategy paper, aimed at reducing India's trade deficit with its neighbour, proposes a detailed sector-wise strategy for import substitution in electronics, telecom, electrical equipment and pharmaceuticals, which form the bulk of the country's purchases from China. India's trade deficit with China stood at a record $63.04 billion in FY18. The strategy paper, prepared by the department, was submitted to commerce and industry minister Suresh Prabhu. After taking charge as minister in September 2017, Prabhu has personally guided strategies to reduce the trade deficit with China. The core of the idea was increasing exports to China and reducing imports by substituting inbound shipments with local manufacturing. Citing the views of the telecom industry, the department said China has a host of discriminatory and restrictive practices that bar Indian companies from participating in their procurement process. The industry has suggested steps such as local manufacturing of products like printed circuit boards and camera modules and the creation of a research and development fund for the sector. In the case of solar power, the department said India needs to "ring-fence government procurement" through competitive bids and set up plans in public-private partnership mode here. For auto components, the paper said introduction of standards and common testing facilities to match EU and US standards will strengthen local production. It suggested excluding artificial fibre textiles from the proposed Regional Comprehensive Economic Partnership free-trade agreement and simpler goods and services tax norms for the sector. "India, with its vast working population, and large consumer market is an attractive destination for companies moving their manufacturing bases out of China, and also for Chinese manufacturers for collaborating for setting up production bases in India," it said. The companies likely to relocate to India are from sectors like electronics, consumer appliances, consumer electronics, textiles, healthcare equipment and heavy industry.

TARIFF, NON-TARIFF BARRIERS

The paper favours extending support to exporters by pursuing tariff reduction in the Asia-Pacific Trade Agreement (an accord among seven Asian countries) and the proposed RCEP. It talks of export incentives to adequately substitute the existing Merchandise Exports from India Scheme and the need to pursue greater market access for agriculture and dairy products and pharmaceuticals. As per the department, Indian pharmaceutical firms face regulatory hurdles and prolonged and unpredictable timelines for drug registration. They are asked to submit detailed clinical trial data and reveal the drug formulation process at the time of registration. On this, the ministry would look at establishing an interface between the Food and Drug Administration's of India and China for conduct of regular training programmes on regulatory standards and processes of filling dossiers in China and relaxing the product registration time to one year from 3-5 years. It would also look at pursuing export orders where market access has been obtained from China for commodities including rice, sugar and sesame seeds.

Zero Financial secures $20 mn in Series A funding

Bryce Galen, Founder & CEO of Zero

California-based Zero Financial has secured $20 million in a Series A financing round led by New Enterprise Associates (NEA) total equity and debt funding to date to $35 million from leading investors including NEA, SignalFire, Eniac Ventures, Nyca Partners, and Silicon Valley Bank. "Few people understand how complex it is to launch a credit card or a checking account program," said Rick Yang, Partner at NEA. "Zero is the first US startup to launch a fully integrated and elegantly designed product with both from scratch. Importantly, Zero gives consumers the ability to fully control and understand their own spend, without compromising on rewards — something that traditional account options have failed to provide." Zero is built by combining a rewards credit card called Zerocard and an FDIC-insured checking account called Zero Checking. It displays transactions from Zerocard and Zero Checking together in the Zero app, with one net number to spend from. Customers also get the benefit of a system that prevents unplanned or unwanted overspend. "Apple recently made headlines by saying they're launching the first credit card that encourages you to pay less interest," said Bryce Galen, Founder & CEO of Zero. "I think we've done one better and launched the first credit card that encourages you to pay no interest." "If you're someone who spends $30,000 a year and maintains an average of $30,000 in deposits, you'll earn $0 in cash back and interest with a typical debit card and non-interest bearing checking account, and $1,425 a year with your Zerocard Carbon[1]," said Joel Washington, Founder & COO of Zero. "And it takes just a few minutes to sign up." Founded in 2016, Zero aims to provide a modern banking experience combined with the capabilities of a debit card and the cash back of a credit card.

Intercontinental Exchange launches tick history platform ICE DataVault

Intercontinental Exchange (ICE) has announced the launch of ICE DataVault, a cloud-based tick history platform, which stores, builds and distributes historical tick data via programmatic, cloud or click-thru access. According to ICE, ICE DataVault provides front and back office solutions including market & trade surveillance. Tick data is a granular form of historical pricing data for securities which shows price moves and time in milliseconds for every security. "Historical data can provide critical insight into what is driving movements in a market and is a key ingredient for pre- and post-trade analytics and decision-making," said Jonathan Reeve, Head of Connectivity, Feeds and Desktops at ICE Data Services. "By offering our historical tick data over the cloud, or through our existing programmatic solution, we're giving customers a flexible and customizable solution for delivering data that can help power strategies, meet compliance needs and manage risk across global markets." ICE DataVault is powered by the provider of aggregated real-time data and content, ICE Global Consolidated Feed. DataVault's services can be utilized to manage and source normalized historical tick data available on ICE Data Services' Consolidated Feed and Tick History Service. Established in 2000 and headquartered in Georgia, ICE operates exchanges, clearing houses and information services. ICE Data Services serves the information and connectivity needs across all asset classes.Recently, ICE entered into a definitive agreement to acquire Simplifile, an operator of a network connecting the agents and jurisdictions that underpin residential mortgage records, for $335 million.

StanChart & IBM launch Trade AI to transform trade documentary system

Likhit Wagle, VP, Financial Services Sector, IBM Asia Pacific

Standard Chartered has partnered with IBM to launch the Trade AI Engine, in a bid to improve client experience in trade document processing through strong operational control and efficiency. Lisa Robins, Global Head, Transaction Banking at Standard Chartered said: "As a market leader and major intermediary between buyers and sellers in the centre of global trade, we process more than 36 million pages of trade documents annually, with over 200 million data elements for name capture and processing. The Trade AI Engine significantly reduces the amount of time and effort in this review process while raising the bar on our controls environment, further enhancing our ability to play the connector role for our clients by facilitating transactions at pace with the growth of their businesses." According to the supplier, the solution will allow the Bank to handle high volumes of back-office tasks efficiently and accurately. It aims to eliminate the paper-based, unstructured documents as well as the entire manual process involved in traditional documentary trade. It is expected to digitize shipping documents, enable continuous machine learning and natural language processing.

Likhit Wagle, VP, Financial Services Sector, IBM Asia Pacific said: "Trade document processing traditionally relies on a high degree of manual effort to ensure transaction compliance. IBM worked with Standard Chartered Bank to develop a solution that would automate the retrieval of key information from text within scanned documents. The Trade AI Engine enables multi-format document capture without templates and uses NLP to extract relevant information for review, as well as leveraging user interaction to improve text extraction accuracy and streamline the process with each cycle in real-time." The solution is currently live in markets across Asia, Africa and the Middle East. Additional markets to follow are Japan, Brunei, Indonesia, Taiwan, Hong Kong, Singapore, Malaysia, China and USA.

InstaReM powers cross border payments for Thai banking group

Prajit Nanu, co-founder and chief executive officer, InstaReM

Thailand-based banking group, KASIKORNBANK (KBank) has selected InstaReM for powering its cross border payments across select markets. The partnership is expected to enhance InstaReM's position in the payments market space. Prajit Nanu, co-founder and CEO of InstaReM commented on the partnership- "We are delighted to be working together with KBank to power their outward remittances. This relationship further cements InstaReM's position as a leading provider for cross-border transactions. With InstaReM, KBank clients will be able to realize faster turnarounds, while providing certainty on delivery times and payout amounts." Established in 1945 in Thailand, KBank conducts commercial banking business, securities business, and other related businesses. The bank provides solutions with respect to banking, fund management, economic and financial analyses, securities brokerage and financial advisory, auto financing and leasing services, as well as financial technology and infrastructure. Mr. Silawat Santivisat, Senior Executive Vice President of KASIKORNBANK, said, “This is an important partnership for KBank at an exciting stage in our evolution. We are continuing to expand our cross-border payment capabilities into key markets across the world, as we are witnessing increasing demand from our customers. We are confident that InstaReM’s services will complement our offering and further strengthen our capabilities in serving our clients.” Previously InstaReM has partnered with a number of Southeast Asian Banks and FIs for cross-border payments solutions. It also collaborated with First Data in a bid to deliver a strong proposition for corporates and fintechs with a need to issue cards to employees, vendors or consumers.

Mastercard & Interac collaborate for cross border payments

Payment networks Mastercard and Interac announced today a collaboration to offer Canadians a fast, simple and secure way to send money internationally. Starting with Europe, the current Interac e-Transfer platform will make use of Mastercard Send, a push-payment service to send money cross border more securely. National Bank will be the first bank to pilot the new international remittance solution for these personal banking clients. According to World Bank 2017 Bilateral Remittance Matrix (April 2018 update), $24.5 billion in remittances were sent from Canada to other countries. The new collaborative platform will make it possible for Canadians to simply log in to their mobile or online banking services and send funds. Ramesh Jayakrishnan, director of Push Payments for Mastercard in Canada commented on the need for a cost-effective solution with the new offering being able to improve customer experience all while existing on the Interac e-Transfer platform. “We’re delighted to team up with two trusted brands to launch a new digital solution that will speed up cross-border payments. This innovative offering meets a growing need to send funds quickly and securely and will have a positive impact on our clients. We look forward to deploying this valuable addition to our current digital banking experience,” said Gabrielle Cournoyer, vice president, Cards & Payment Solutions at National Bank. The Mastercard and Interac solution will be made available for other financial institutions in Canada as well.

RBI THIS WEEK

RBI releases draft circular on “Liquidity Risk Management Framework for Non-Banking Financial Companies and Core Investment Companies” for public comments

The Non-Banking Financial Companies (NBFCs) play an important role in the financial system of the country, particularly in delivering credit to the last mile, including the retail as well as MSME sectors. NBFCs’ ability to perform their role effectively and efficiently requires them to be financially resilient, well-regulated and properly governed so that they retain the confidence of all their stakeholders including their lenders and borrowers. The Reserve Bank has always endeavoured to provide and modulate a regulatory architecture consistent with these objectives. In this context, an analysis of the recent developments in the NBFC sector pointed to the need for a stronger Asset Liability Management (ALM) framework in the NBFCs. In the above background, the Reserve Bank has, today, placed on its website, a draft circular on the “Liquidity Risk Management Framework for Non-Banking Financial Companies (NBFCs) and Core Investment Companies (CICs)” to be adopted by all deposit taking NBFCs; non-deposit taking NBFCs with an asset size of ₹ 100 crore and above; and all CICs registered with the Reserve Bank. While some of the current regulatory prescriptions applicable to NBFCs on ALM framework have been updated / recast, certain new features have been added. Among others, the draft guidelines cover application of generic ALM principles, granular maturity buckets in the liquidity statements and tolerance limits, liquidity risk monitoring tool and adoption of the “stock” approach to liquidity. In addition, the draft proposes to introduce Liquidity Coverage Ratio (LCR) for all deposit taking NBFCs; and non-deposit taking NBFCs with an asset size of ₹ 5000 crore and above. With a view to ensuring a smooth transition to the LCR regime, the proposal is to implement it in a calibrated manner through a glide path over a period of four years commencing from April 2020 and going upto April 2024. Needless to say, the RBI remains committed to promote a robust, vibrant and well functioning NBFC sector. The Reserve Bank seeks public comments on the draft framework for consideration before issuing the final guidelines. Responses of NBFCs, market participants and other stakeholders may be sent latest by June 14, 2019 to

The Chief General Manager, Reserve Bank of India
Department of Non-Banking Regulation
2nd Floor, World Trade Centre, Centre 1
Cuffe Parade, Colaba
Mumbai – 400005;

OR by email with subject line “Feedback – Draft Liquidity Risk Management Framework for NBFCs and CICs”.

RBI notifies the revised Voluntary Retention Route for Investments by Foreign Portfolio Investors (FPIs) and opens allotment ‘on tap’

Reserve Bank of India introduced the Voluntary Retention Route for Investments by Foreign Portfolio Investors (FPIs) on March 01, 2019. Limits for investment in debt by Foreign Portfolio Investors (FPIs) were offered for allotment ‘on tap’ during March 11 – April 30, 2019. Based on the feedback received, and in consultation with the Government, the Bank has made certain changes in the scheme to increase its operational flexibility. The revised scheme has been notified today, vide, A.P. (DIR Series) Circular No. 34 dated May 24, 2019. The revised VRR scheme shall be open for allotment from May 27, 2019 as per the following details:-

a. The investment limit shall be ₹ 54,606.55 crores, under the VRR–Combined category, which allows investment in both government securities and corporate debt.
b. The minimum retention period shall be three years. During this period, FPIs shall maintain a minimum of 75% of the allocated amount in India.
c. Investment limits shall be available ‘on tap’ and allotted on ‘first come, first served’ basis.
d. The ‘tap’ shall be kept open till the limit is fully allotted or till December 31, 2019, whichever is earlier.
e. FPIs may apply for investment limits online to Clearing Corporation of India Ltd. (CCIL) through their respective custodians.
f. CCIL will separately notify the operational details of application and allotment.
g. FPIs that were allotted investment limits under the tap that was open during March 11-April 30, 2019, may, at their discretion, opt to convert their full allotment to ‘VRR-Combined’ by advising CCIL through their custodians. Such conversions shall not use up the investment limit of ₹ 54,606.55 crores indicated in para (a) above

RBI Central Board meets at Chennai

The Reserve Bank of India's (RBI) Central Board met today in Chennai under the Chairmanship of Shri Shaktikanta Das, Governor, Reserve Bank of India. This was the 576th meeting of the Central Board. The Board passed a condolence resolution in memory of Shri Y.C. Deveshwar, a former Director of the Central Board. The Central Board Members also took the pledge on the occasion of Anti-Terrorism Day. The Board reviewed the current economic situation, global and domestic challenges and various areas of operations of the Reserve Bank. Among other important matters, the Board discussed the Medium Term Strategy document, covering, inter-alia, the Mission Statement and the Vision Statement. The Board also reviewed the present structure of supervision in RBI in the context of the growing diversity, complexities and interconnectedness within the Indian financial sector. With a view to strengthening the supervision and regulation of commercial banks, urban cooperative banks and Non-Banking Financial Companies, the Board decided to create a specialised supervisory and regulatory cadre within the RBI. Other matters discussed by the Board included, inter-alia, issues related to the Currency Management and Banker to Government functions of the RBI. Deputy Governors Shri N. S. Vishwanathan, Dr. Viral V. Acharya, Shri B. P. Kanungo and Shri Mahesh Kumar Jain of the Reserve Bank of India, and other Directors of the Central Board of the Reserve Bank - Shri Bharat Doshi, Shri Sudhir Mankad, Shri Manish Sabharwal, Shri Satish Marathe, Shri Swaminathan Gurumurthy, Ms. Revathy Iyer and Prof. Sachin Chaturvedi, attended the meeting. The Government Directors Shri Subhash Chandra Garg, Finance Secretary and Secretary, Department of Economic Affairs and Shri Rajiv Kumar, Secretary, Department of Financial Services also attended the meeting.

Financial Action Task Force (FATF) Public Statement dated February 22, 2019

The Financial Action Task Force (FATF) has called on its members and other jurisdictions to apply counter-measures to protect the international financial system from the ongoing and substantial money laundering and terrorist financing (ML/FT) risks emanating from the jurisdiction of Democratic People's Republic of Korea (DPRK). Jurisdiction of Iran is subject to a FATF call on its members to apply enhanced due diligence measures proportionate to the risks arising from the jurisdiction. FATF has further identified the following jurisdictions as having strategic deficiencies which have developed an action plan with the FATF to deal with them. These jurisdictions are: The Bahamas, Botswana, Cambodia, Ethiopia, Ghana, Pakistan, Serbia, Sri Lanka, Syria, Trinidad and Tobago, Tunisia and Yemen. The information is available in the updated public statement and document released by FATF on February 22, 2019. The statement and document can be accessed at the following URL:

1)https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/public-statement-february-2019.html

and

2)https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/fatf-compliance-february-2019.html

FATF plenary releases a public statement and a document titled 'Improving Global AML/CFT Compliance: On-going Process' with respect to jurisdictions that have strategic AML/CFT deficiencies as a part of the ongoing efforts to identify and work with jurisdictions with strategic Anti-Money Laundering (AML)/Combating of Financing of Terrorism (CFT) deficiencies. The statement and the document are available on the website of FATF. Such advice do not preclude the regulated entities from legitimate trade and business transactions with the countries and jurisdictions mentioned there.

About FATF

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. The FATF's decision making body, the FATF Plenary, meets three times a year and updates these statements, which may be noted.

FINMIN THIS WEEK

CBDT extends due dates of TDS compliance in respect of deductors in the State of Odisha

With a view to redress genuine hardship faced by the deductors due to the severe disruption of normal life and breakdown of communication systems caused by cyclone "Fani" hitting the State of Odisha on 3rd of May, 2019, CBDT has provided the following relief in TDS compliance to the deductors in the State of Odisha. CBDT has:

(i) Extended the due date of depositing tax deducted at source (TDS) for the month of April, 2019 from 7th of May, 2019 to the 20th of May, 2019;

(ii) Extended the due date of filing of Quarterly Statement of TDS for the last quarter of Financial Year 2018-19 from 31st of May, 2019 to the 30th of June, 2019; and

(iii) Extended the due date for issue of TDS certificates in Form 16 and 16A from 15th of June, 2019 to 15th of July, 2019.

Order dated 24.05.2019 issued under section 119 of the Income-tax Act, 1961 to this effect is available on www.incometaxindia.gov.in.

CBDT issues notification for amendment of Form No. 15H of the Income-tax Rules, 1962

Sub-section (1C) of section 197A of the Income-tax Act, 1961 (the Act) read with rule 29C of the Rules, *inter alia,* provides that no deduction of tax shall be made in case of a resident individual, who is of the age of sixty years or more, if he furnishes a declaration in Form 15H to the person responsible for paying any income of the nature referred to in section 192A, 193, 194, 194A, 194D, 194DA, 194EE, 194-I or 194K, to the effect that the tax on his estimated total income will be nil. Further, Note 10 to Form No 15H provides for non-acceptance of declaration if the amount of income of the nature referred to in section 197A(1C) or the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the previous year in which such income is to be included exceeds the maximum amount which is not chargeable to tax after allowing for deduction(s) under Chapter VIA, if any, set off of loss, if any, under the head "income from house property" for which the declarant is eligible. Section 87A of the Act has been amended vide Finance Act, 2019 which provides that a resident individual, having total income up to Rs. 5 lakh, shall be entitled to a rebate of an amount being the amount of tax chargeable or Rs. 12,500/-, whichever is less. However, at present, the note 10 of Form 15H does not take into account the maximum allowable rebate of Rs 12,500/-

provided under section 87A as above, which is available to the assessee in respect of the tax calculated on income, there could be cases, where, though income of the assessee would be above the minimum amount chargeable to income-tax, tax liability may be nil after taking into account the rebate available under section 87A. Deduction of tax in such cases may cause undue hardship to senior citizens. Accordingly, Income-tax Rules, 1962 have been amended by way of insertion of proviso in Note 10 of Form No 15H and have already been notified vide Notification No G.S.R. 375(E) dated 22nd May, 2019, so as to provide that the person responsible for paying the income referred to in column 15 of Part I shall accept the declaration in the case of the assessee, being a senior citizen, who is eligible for rebate of income-tax under section 87A, and his/her tax liability is nil after taking into account this rebate. This notification is available on www.incometaxindia.gov.in.

CBDT issues Draft Notification for Amendment of Form No 10B of the Income-tax Rules, 1962

Section 12A of the Income-tax Act, 1961 (the Act) provides for conditions for applicability of Sections 11 and 12 of the Act. One such condition under clause (b) of sub-section (1) thereof is that where the total income of the trust or institution computed without giving effect to Section 11 and 12 exceeds the maximum amount not chargeable to Income-Tax in any previous year, its accounts for that year have been audited by an accountant as defined in the *Explanation* below sub-section (2) of Section 288. It further provides that the person in receipt of the said income, furnishes along with the Return of Income for the relevant Assessment Year, the Report of such Audit in the Prescribed Form duly signed and verified by such accountant and setting forth such particulars as may be prescribed. Accordingly, vide Income-tax (2^{nd} Amendment) Rules, 1973 w.e.f. April 1, 1973 Rule 17B and Form 10B were inserted in the Income-tax Rules, 1962 (the Rules) for this purpose. Rule 17B of the Rules provide that said Report of Audit of the accounts of a trust or institution shall be in Form No. 10B. The Form No 10B besides providing the Audit Report, also provides for filing of “Statement of particulars” as Annexure. As the Rule and Form were notified long ago, there is a need to rationalise them to align with the requirements of the present times. In view of the above, the Rule and Form are proposed to be amended by way of substituting-

(a) Rule 17B with a new Rule 17B; and

(b) Form No 10B with a new Form No 10B.

The Draft Notification proposing the above amendments has been formulated and uploaded on www.incometaxindia.gov.in for inputs from stakeholders and general public. The inputs on the Draft Rules may be sent electronically at the email address, **niraj.kumar82@nic.in, latest by June 5, 2019.**

Auction for Sale (Re-Issue) of Government Stocks

The Government of India has announced the Sale (Re-issue) of (i) ‘7.32 per cent Government Stock, 2024’ for a notified amount of **Rs. 5,000 crore** (nominal) through price based auction, (ii) ‘7.26 per cent Government Stock, 2029’ for a notified amount of **Rs. 6,000 crore** (nominal) through price based auction, (iii) ‘7.69 per cent Government Stock, 2043’ for a notified amount of **Rs. 2,000 crore** (nominal) through price based auction, and (iv) ‘7.72 per cent Government Stock, 2049’ for a notified amount of **Rs. 4,000 crore** (nominal) through price based auction. Subject to the limit of **Rs. 17,000 crore**, being total notified amount, the Government of India will have the option to retain additional subscription up to **Rs. 1,000 crore** each against any one or more of the above securities. The auctions will be conducted **using <u>multiple price</u> method**. The auctions will be conducted by the Reserve Bank of India (RBI), Mumbai Office, Fort, Mumbai on **May 24, 2019 (Friday)**. Up to 5% of the notified amount of the sale of the stocks will be allotted to eligible individuals and Institutions as per the Scheme for Non-Competitive Bidding Facility in the Auction of Government Securities. Both competitive and non-competitive bids for the auction should be submitted in electronic format on the Reserve Bank of India Core Banking Solution (E-Kuber) system on **May 24, 2019**. The non-competitive bids should be submitted between 11.30 a.m. and 12.00 noon and the competitive bids should be submitted between 11.30 a.m. and 12.30 p.m. The result of the auctions will be announced on **May 24, 2019 (Friday)** and payment by successful bidders will be on **May 27, 2019 (Monday)**. The Stocks will be eligible for "When Issued" trading in accordance with the guidelines on **'When Issued transactions in Central Government Securities'** issued by the Reserve Bank of India (RBI) vide Circular No. RBI/2018-19/25 dated July 24, 2018 as amended from time to time.

WORLD BANK THIS WEEK

World Bank Group Releases Little Data Book on Gender

WASHINGTON, May 16, 2019---The World Bank Group today released the *Little Data Book on Gender 2019* to provide an easily accessible entry point to statistics tracking gaps between men and women, boys and girls for 217 economies around the world with comparable data for 2000 and 2017. In addition to demographic and economic information, the *Little Data Book on Gender* indicators include the proportion of women and men who use the internet, sex-disaggregated smoking prevalence, and the percentage of female graduates from science, technology, engineering and mathematics programs in tertiary education. The book includes two indicators from the Women, Business and the Law database: the length of paid maternity leave and whether women are legally able to work in the same industries as men.

"Progress in eliminating poverty and ensuring shared prosperity can be enhanced and accelerated when we have good data," said **Caren Grown, World Bank Group Senior Director for Gender**. *"The Little Data Book on Gender offers policymakers and development practitioners easy access to data on males and females in the domains in which we work – health, education, and economic life. As sex-disaggregated data becomes increasingly available, there is no excuse to not use it in our policy dialogue and to inform choices about interventions."*

This edition of the *Little Data Book on Gender* also features online tables that will be updated quarterly.

"Regular online updates will make it easier than ever to see how women and men are faring across a range of global indicators, and to track progress over time," said **Haishan Fu, Director, Development Data Group**. *"This supplements the fuller, curated data and analysis tools provided by the World Bank Group, including through the Gender Data Portal."*

The *Little Data Book on Gender* shows remarkable broad progress toward gender equality in education enrollment and health, while gender inequality remains stubbornly persistent in access to economic opportunities. On virtually every global measure, the *Little Data Book on Gender* reveals that women are more likely than men to be engaged in low productivity activities, and to work more in vulnerable employment.

The *Little Data Book on Gender* can be accessed online through the World Bank's Gender Data Portal, and can be used by researchers, journalists, policy makers, and anyone interested in gaps between men and women.

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

Fourth World Reconstruction Conference Pledges to "Leave No One Behind"

GENEVA, May 23, 2019 – Over 1,000 participants attended the Fourth World Reconstruction Conference (WRC4), applying the pledge made by 193 countries in the 2030 Agenda for Sustainable Development to "leave no one behind" and "endeavour to reach the furthest behind" for resilient post-disaster recovery. Jointly organized by the World Bank's Global Facility for Disaster Reduction and Recovery (GFDRR), the United Nations Development Programme (UNDP), and the European Commission (EC), and hosted by the United Nations Office for Disaster Risk Reduction (UNDRR), the WRC4 was held May 13 - 14 in Geneva, coinciding with the Global Platform for Disaster Risk Reduction. Disasters triggered by natural hazards, including climate-related events, undermine development gains and contribute to increased vulnerability and exclusion. They add up to average annual welfare losses of over US$500 billion and push up to 26 million people into poverty each year.

With the theme of "inclusion for disaster recovery", the WRC4 was an opportunity to gather practitioners and policy-makers from across the globe to share the latest best practices and account for progress on the pledges made through the 2030 Agenda and, particularly, the Sendai Framework for Disaster Risk Reduction.

"Together, we can ensure we Leave No One Behind. Together, we can make recovery more resilient, and foster risk-informed and inclusive development," said **Asako Okai, Assistant Secretary General and Director, UNDP's Crisis Bureau**.

Sameh Wahba, Director of Urban and Territorial Development and Disaster Risk Management at the World Bank, emphasized the World Bank's 2018 Building Back Better report, stressing that, "We have to build back better – meaning that the repaired or replaced assets are more resilient, but also that the recovery process is shorter and more efficient, that culture is at the heart of the reconstruction and recovery process, and that the entire recovery process does not leave anyone behind. Everyone, including the poorest and most vulnerable, must receive the support they need to fully recover." The discussions at the conference resulted in the issuance of a joint communique affirming a strong commitment to ensure that recovery processes are inclusive. **Léonard-Emile Ognimba, Ambassador, Assistant Secretary General – Political Affairs and Human Development of the ACP-EU Secretariat**, helped conclude the conference by noting, "Being inclusive in recovery is not an option if we are truly committed to 'leave no one behind' and build more inclusive societies with equal opportunities for all."

New European Union Seven Million Euro Grant to Strengthen Water and Energy Security in Central Asia

NUR-SULTAN, 23 May 2019 – The European Union and the World Bank today signed an agreement for a new €7 million grant to support water and energy security in Central Asia. The funding will contribute to the Central Asia Water & Energy Program (CAWEP) implemented by the World Bank, helping the Central Asian countries strengthen their energy and water security through knowledge exchange, analytical work, policy advice, and project preparation. "As water and energy are inextricably linked in Central Asia, joint management of these vital resources is crucial for the region's sustainable development, poverty reduction and climate resilience. By its contribution to CAWEP, the EU facilitates enhanced regional dialogue and collaboration on energy and water security matters to help the countries improve conditions for sustainable investment and socio-economic development," **stated the EU Ambassador to Kazakhstan, Sven-Olov Carlsson**.

Water is a key driver in the socio-economic development of Central Asian countries. An ever-growing demand for water due to economic development, population growth, urbanization and climate change along with recurrent natural hazards presents significant challenges to the region's economic expansion. If current water management policies and practices persist, water scarcity could lead to a significant slowdown in the region's economic performance. The almost disappearing Aral Sea, resulting dust storms and their catastrophic impact on agricultural lands and human health give a powerful incentive for regionally coordinated development. "The Central Asia region has the most to gain from properly managing water resources under climate change compared to other regions. Our assessments show that of all the world's regions, the impact of future water consumption patterns has the greatest impact on economic growth in Central Asia," said **Lilia Burunciuc, the World Bank Regional Director for Central Asia**.

With the right policies and investments, solutions come at a lower price than the economic costs of water challenges. For example, the economic impact of inadequate water supply services in some areas is estimated to cost Kazakhstan $ 200 million more per year that the investments needed for universal access. Inadequate water supply services are estimated to cost Kazakhstan more than $750 million per year. Floods result in an average of 2.25 percent of GDP loss in Kazakhstan every year.

Since its start in 2009, CAWEP has worked to address these issues and had remarkable impact. With its support, new regional projects have been launched to address some critical issues including dam safety, climate change adaptation, weather forecasting, electricity trade, and youth engagement.

Some of the results from the previous phases of CAWEP include:

More than 13,000 farmers in Uzbekistan and Tajikistan were able to implement climate-smart solutions and improve their crop production with the support of the Climate change adaptation and mitigation project in Aral Sea basin. In the Kyrgyz Republic and Tajikistan **87 weather stations and 19 river stations** were rehabilitated, improving accuracy of the weather forecasting in these countries **by up to 30 percent** under the Central Asia Hydrometeorology Modernization project.

In Tajikistan, CAWEP helped to design Nurek Rehabilitation project. Operational at only 77 percent, the Nurek Hydro Power plant will undergo a major rehabilitation and increase winter generation by 33 million kWh.

The Central Asia Youth for Water Network was established that now connects students and practitioners from around the world, helping researchers to find solutions to the most pressing issues in their countries. Going forward, CAWEP will continue to provide technical expertise, analytical and investment support to help Central Asian countries move towards water and energy secure development paths. In Kazakhstan, CAWEP will conduct technical studies and support the preparation of a new investment project for the Aral Sea to contribute to restoration of the Aral Sea delta. Along with the European Union, the Program is also supported by Switzerland and the United Kingdom's Department for International Development.

IMF THIS WEEK

The Impact of US-China Trade Tensions

About the Blog

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By Eugenio Cerutti, Gita Gopinath, and Adil Mohommad

US-China trade tensions have negatively affected consumers as well as many producers in both countries. The tariffs have reduced trade between the US and China, but the bilateral trade deficit remains broadly unchanged. While the impact on global growth is relatively modest at this time, the latest escalation could significantly dent business and financial market sentiment, disrupt global supply chains, and jeopardize the projected recovery in global growth in 2019.

Evolution of trade in the US and China

The raising of US tariffs to 25 percent on $200 billion of annual Chinese imports on May 10, together with the announced Chinese retaliation, marks the latest escalation in the US–China trade tensions. The impact of previously imposed tariffs by the US and subsequent retaliation by China is already evident in trade data. Both the countries directly involved and their trading partners have been affected by rising tariffs. In 2018, the US imposed tariffs sequentially on three “lists” of goods from China, targeting first $34 billion of annual imports, then $16 billion more, and finally an additional $200 billion. As a result, US imports from China have declined quite sharply in all three groups of the goods on which tariffs were imposed. In cases where there was a delay between announcement and implementation of tariffs, as in the case of the $16 billion and $200 billion lists, or plans to phase in the tariff increase, as in the case of the $200 billion list, we observed an increase in import growth in advance of the effective dates. This suggests that importers stocked up ahead of the tariffs, accounting for the sharper decline in imports thereafter. As China imposed retaliatory tariffs, US exports to China also declined. While the front-loading dynamic is not evident in this case, US export growth to China has been generally weaker since the trade tensions began.

Effects on consumers

Consumers in the US and China are unequivocally the losers from trade tensions. Research by Cavallo, Gopinath, Neiman and Tang, using price data from the Bureau of Labour Statistics on imports from China, finds that tariff revenue collected has been borne almost entirely by US importers. There was almost no change in the (ex-tariff) border prices of imports from China, and a sharp jump in the post-tariff import prices matching the magnitude of the tariff. Some of these tariffs have been passed on to US consumers, like those on washing machines, while others have been absorbed by importing firms through lower profit margins. A further increase in tariffs will likely be similarly passed through to consumers. While the direct effect on inflation may be small, it could lead to broader effects through an increase in the prices of domestic competitors.

Effects on producers

The effect on producers is more mixed, with some winners and many losers. Some US and Chinese producers of goods competing in domestic markets with imports affected by tariffs, as well as competing third country exporters, are potential winners. However, US and Chinese producers of the goods affected by the tariffs as well as producers that use those goods as intermediate inputs, are potential losers. Trade diversion is one channel through which producers are affected. Aggregated bilateral US data does suggest that trade diversion has occurred, as the decline in imports from China appears to have been offset by an increase in imports from other countries. For example, US imports from Mexico increased significantly among some goods on which the US imposed tariffs. After the $16 billion list was implemented in August, a sharp decline of nearly $850 million in imports from China was almost offset by about $850 million increase from Mexico, leaving overall US imports broadly unchanged. For other countries such as Japan, Korea and Canada, one can observe smaller increases in US imports relative to the levels in September-November 2017. Of course, aggregate data could be masking other factors driving the bilateral trade patterns, such as the use of inventories. For example, there was little or no change in imports from third countries in the case of photosensitive semiconductor devices.

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The other channel by which producers could be affected is through market segmentation in the price of traded goods. This was most clearly observed in the case of soybeans, where US exports to China fell dramatically in 2018 after China imposed tariffs. The United States was China's dominant soybean supplier, along with Brazil, in 2017. With the tariffs, the price of US soybeans fell while that of Brazilian soybeans increased, as US exports to China dropped to near zero and Brazilian exports to China trended higher. Though prices have since re-converged and soybean exports to China have resumed to some extent, US soybean farmers suffered, while those in Brazil benefited from trade diversion and market segmentation. The impact on US producers with significant exposure to Chinese markets was also captured in stock market valuations. For instance, the equity price performance of US companies with high sales to China underperformed relative to US businesses exposed to other international markets, after tariffs linked to the $34 billion retaliation list by China were implemented. The gap narrowed at the beginning of 2019 with the trade truce. But it reopened again after the US tariff increase to 25 percent on the $200 billion list was announced on Twitter.

Macroeconomic effects

The ratcheting up of bilateral tariffs between the US and China has had limited effect on their bilateral trade balance. In fact, in 2018, the trade deficit increased for the US as imports from China rose, which partly reflects the front-loading. As of March 2019, a small decline can be observed, but US exports to China are also falling. Indeed, macroeconomic factors—including relative aggregate demand and supply in partner countries and their underlying drivers—play a much bigger role than tariffs in determining bilateral trade balances. At the global level, the additional impact of the recently announced and envisaged new US-China tariffs, expected to extend to all trade between those countries, will subtract about 0.3 percent of global GDP in the short term, with half stemming from business and market confidence effects. The IMF's forthcoming G-20 Surveillance Note in early June will provide further details. These effects, while relatively modest at this time, come on top of tariffs already implemented in 2018. Moreover, failure to resolve trade differences and further escalation in other areas, such as the auto industry, which would cover several countries, could further dent business and financial market sentiment, negatively impact emerging market bond spreads and currencies, and slow investment and trade. In addition, higher trade barriers would disrupt global supply chains and slow the spread of new technologies, ultimately lowering global productivity and welfare. More import restrictions would also make tradable consumer goods less affordable, harming low-income households disproportionately. This type of scenario is among the reasons why we referred to 2019 as a delicate year for the global economy.

Designing Labour Policies to Foster Inclusive Growth in Emerging Markets

Other IMF Blogs

About the Blog

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By Romain Duval and Prakash Loungani

Emerging market economies have enjoyed good growth in recent decades but are still far from closing gaps in living standards with advanced economies. Emerging markets also need growth to be shared by everyone, particularly by providing their growing populations with good jobs and social protection. In a new IMF staff paper, we look at how the design of labour markets—institutions and policies—could foster inclusive growth in these countries.

Different designs

The design of labour market policies in emerging markets differs significantly from that in advanced economies, as shown in this simple summary figure. Only half of emerging markets have unemployment insurance systems in place, while they exist in nearly all advanced economies. This means that workers in emerging markets have less to fall back on in the event that they lose their jobs. In contrast, employment protection legislation is just as prevalent in emerging markets as in advanced economies. In fact, emerging markets out-rank advanced economies—at least in law—on one important component of such legislation, severance pay (what companies must pay workers if they dismiss them). Collective bargaining agreements cover only about 20 percent of workers in emerging markets and about half of workers in advanced economies. The ratio of the minimum wage to the median wage is higher in emerging markets than in advanced economies. This means that in emerging markets, the minimum wage is closer to the median wage, which partly reflects low median wages. Does the design of labour markets in advanced economies offer some guidance for emerging markets?

Protecting workers

Creating high-paying jobs requires that jobs rendered unproductive are replaced by more productive ones. But workers need some basic protections in the face of these job reallocations. This can be done partly through an unemployment insurance system, which gives workers who lose their jobs some income support while they search for new jobs. By contrast, employment protection legislation—rules such as valid grounds for eliminating jobs and provision of severance pay—protect jobs by keeping companies from excessive firing or reallocation of workers. Though the context in emerging countries is different, the experience of advanced economies suggests it may be better to protect workers more through unemployment insurance than through very stringent employment protection legislation. The model in Nordic countries like Denmark—moderate and predictable employment protection combined with high unemployment benefits but with active policies to get the unemployed back into jobs—is a prominent example.

Does the design of labour markets in advanced economies offer some guidance for emerging markets?

In emerging markets, the need to provide workers some insurance against the risk of income loss is greater than in advanced economies. However, the risk that policies fail is also greater owing to widespread labour market informality and limited administrative capacity. This may help explain why emerging markets rely more on employment protection legislation, which, however, protects only a fraction of workers—risking a dual labour market of protected formal sector workers and a large unprotected informal sector—and can be one of the obstacles to creating jobs in the formal sector. Hence, as informality is reduced and administrative capacity improves, there is a case for emerging markets to gradually expand unemployment insurance and move toward less stringent and more predictable employment protection legislation. This has been the direction advocated by the IMF over the past decade, based on our survey of advice to 30 emerging and frontier market economies. For example, Chile, Malaysia, and Turkey were advised to introduce or expand unemployment insurance systems while lowering severance payments. Several others, such as Morocco and Indonesia, were advised to lower very high legal severance payments, which can channel work to the informal sector and foster segmentation of labour markets.

Appropriate wage levels

When it comes to minimum wages, the approach, level, and design that work well will vary by country. Minimum wages serve an important distributional purpose in emerging markets by providing a basic standard of living for workers. They are helpful to alleviate the poverty of those whose jobs may not as yet pay enough to make ends meet. They can also reduce the risk that employers will underpay workers. If set too high compared with median wages, however, minimum wages can also dissuade companies from hiring low-skilled workers in the first place, keeping them from accumulating the skills that would move them later in their career into higher-paying jobs. The setting of the minimum wage thus has to balance essential distributional needs against possible adverse impacts on job creation. One route is to set minimum wages to a reasonable level (relative to the median wage in the country) and to complement them with programs such as cash transfer programs or—where administrative capacity allows—in-work tax credits. For instance, Dibao in China and Bolsa Familia in Brazil have successfully provided income support targeted to the poor. Another route may be to have lower minimum wages for certain groups of workers or in certain regions where they are particularly high relative to the local median wage. The IMF's advice to the Philippines and South Africa over the past few years illustrates the former route. In the case of South Africa, while advocating that the national minimum wage be set so as to not hurt job creation, the IMF has also recognized the government's goals of reducing inequality and providing minimum household income needs, and has advocated that social transfers and progressive taxation be used to meet these goals. The latter route was advocated in Malaysia, where the advice was to lower minimum wages in some regions.

Collective bargaining: trust matters

Along with legally required minimum wages, collective bargaining between workers and their employers can play a useful complementary role in setting decent wage and working conditions. But making bargaining work on a sector-wide basis is more difficult, although advanced countries like Germany or the Netherlands have succeeded. A lot depends on specific details of the bargaining arrangements, including whether the interests of all individual companies are well represented at the bargaining table, worker representatives coordinate among themselves, and the sector-level agreement provides some minimum flexibility to accommodate the different needs of individual firms. The IMF's labour market advice has evolved over time, as it increasingly emphasizes the need for social protection and more inclusive growth. While the IMF continues to assess how labor market institutions can be designed in a way that supports economic efficiency, it is also paying more attention to reducing inequality. Overall, IMF advice has been broadly consistent with lessons from the academic literature on how to foster flexibility while strengthening safety nets. Getting labor market policy right in emerging markets will require important next steps, such as better integrating efficiency and equity considerations, providing more specific advice in each area, and accounting for how different policy areas interact.

A Review of IMF-Supported Lending Programs

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By Petya Koeva Brooks, Martin Mühleisen, and Chad Steinberg

The IMF's *Review of Program Design and Conditionality* provides a deep look into the design of 133 IMF-supported lending programs in operation between September 2011 and December 2017. This review is the first major stocktaking of IMF programs since the Global Financial Crisis, a period of unexpectedly slow economic growth.

Programs as shock absorbers

Countries often come to the IMF when they already face major threats to economic or financial stability. Hence, IMF programs serve as "shock absorbers," enabling countries to meet immediate financial needs and significantly cushion economic distress. IMF programs also catalyze additional financing from the markets, other official lenders, and donors. This helps protect the countries' economies from even greater disruption. The review found three-quarters of IMF programs were successful or partially successful in achieving their objectives, such as resolving balance of payment problems and fostering economic growth. Social spending was generally protected as a share of GDP. Over a third of IMF programs, mostly in low-income countries, targeted fiscal expansion to support growth and poverty reduction.

In line with its commitment to be a learning institution, the Fund will draw on the lessons from the review to amend program design in the future.

Lessons learned and way forward

The review also identified several factors that potentially inhibited programs from fully reaching their objectives. Overoptimistic economic forecasts reduced a program's chances of success; accordingly, the review recommends using a more conservative approach to economic forecasts and providing deeper analyses of the impact that policies under the program could have on economic growth. More extensive contingency planning should also be included when designing programs. Public debt is a case in point. Debt sustainability improved in most cases where debt vulnerabilities started out high. In some programs, however, debt exceeded the Fund's initial projection by considerable margins. Fund policies are already in place to deal with unsustainable debt in Fund-supported programs. While any debt restructuring needs to be considered on a case-by-case basis, more careful diagnosis is essential—this means sharper tools for the IMF's debt sustainability analysis are needed to reduce any bias in judgement when assessing debt. The review finds many programs applied fiscal adjustments that were less growth-friendly than initially envisaged. Fiscal adjustment tended to be achieved by cutting public investment, possibly curtailing future growth, rather than by lowering current spending or raising revenue. To be a more useful guide for the government's fiscal policy, an IMF program could set more granular targets, like a floor for critical public investments.

Tackling structural challenges to bolster growth prospects

Fund-supported programs could also do more to tackle deep-rooted structural challenges to improve a country's long-term growth prospects. Comparing structural conditionality attached to programs with the recommendations found in preceding IMF surveillance reports, we found that programs generally kept closer to reforms that fell within the Fund's traditional areas of expertise. We also found that conditionality in fragile and small states should be better tailored to these countries' specific challenges. Where critical for achieving program goals, conditionality may also need to go beyond traditional domains, such as fiscal and monetary policy, suggesting that the Fund will need to build more expertise, for example, in labor and product market reforms. We will also continue to collaborate with partner institutions in areas where we do not have expertise. As reforms in some of these areas could take longer to implement and yield results, the Fund could consider extending the program duration of arrangements under the Extended Fund Facility in exceptional cases to five years, alongside appropriate safeguards.

The importance of ownership

IMF-supported programs tended to be most successful when country authorities had strong ownership of the specified course of action. To foster this commitment, the IMF needs to put itself into the shoes of country authorities more often. A better understanding of domestic institutional and political capacities can avoid aiming at unrealistic targets. Also, tying programs in with national reform plans will make it easier for country authorities—and their citizens—to stay the course. Effective communication with the public is often an underappreciated aspect of successful program implementation. The review recommends greater public information and engagement. If a program goes off-track, the Fund should strive to remain involved—for instance, by encouraging countries to use Staff-Monitored Programs that will help maintain the country's track record in collaborating with the Fund. In line with its commitment to be a learning institution, the Fund will draw on the lessons of the review to improve program design in the future. Moreover, the Fund will continue to conduct regular reviews of its conditionality.

Communications as a Policy Tool

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By Gerry Rice and Olga Stankova

When it comes to forging economic policy, communicating with the public is no longer an afterthought. Instead, communications are increasingly seen as a policy tool in itself. To be sure, communications can never be a substitute for good policies. But economic reforms are more likely to fail or even be reversed unless they are understood, believed, and accepted by those whom they affect. The same principle applies to a wide range of policies—monetary, financial, fiscal, and structural. The proliferation of social media makes it possible for ever more people to express their views on public policies, fuelling rising expectations for transparency and accountability across the globe. As a result, policymakers face growing pressure to better explain their actions to a broader public and show that they merit support. That means they will have to work harder to make their messages heard, understood, and believed. In a new paper, IMF staff draw on a large body of research to provide country authorities with an overview of frontier challenges in communications across different areas. Of course, each policy area faces its own, unique communications challenges. But they have enough in common to allow policymakers in one area to learn from the experiences of others. The paper also looks at country examples to highlight issues that arise and recur in a wide range of political systems and policy frameworks.

Communications can play a central role in restoring and maintaining trust.

Importance of trust

Trust is a central theme, because it is vital to the functioning of any economy and to the success of reforms. Polls across multiple countries show a long-running and deepening decline in trust in institutions and experts. The profound effects of the global financial crisis, increasing inequality, political polarization, and a lack of sincere attention to the needs of the public all seem to have contributed. Communications can play a central role in restoring and maintaining trust. However, trust is not something that can easily be rebuilt once it has been broken, and efforts to restore trust will fail if communications are perceived as just another attempt at manipulation or "spin." Instead, they may further erode trust. To be successful, *both* policies *and* communications must be trustworthy.

Learning from experience

Communicating effectively means learning from experience. It also means calibrating communications to fit distinct policy areas.

For example, in **monetary policy**, communications often take place within a well-established policy framework and play a central role in managing inflation expectations. There is a large empirical literature on how such communications work.

By contrast, in **financial stability policy**, the framework is still developing, and less is known about the most effective way to communicate. One challenge here is to find the right degree of transparency to avoid destabilizing financial markets.

In **fiscal and structural policies**, political economy considerations—who gets what, when, and how—is often at the very forefront of communications, with a high premium on both listening to and persuading the public. Brazil, for example, was a pioneer in public participation in the budget process, which has spread throughout Latin America. In many countries it is now required by law to listen to and consult civil society organizations on budget priorities.

And in a **crisis**, action may be required simultaneously in many policy areas. A coordinated approach to communications, with mutually supportive messages, can help maintain confidence and reduce the ultimate costs of the crisis.

New communications capacity

Despite diversity among areas of policy, communicating effectively with a broader audience is key for all countries. To succeed, it will be increasingly important to continuously upgrade communications capacity, harnessing new technologies, and using multiple channels, with many different paths from sender to receiver. A key goal is to reach audiences directly, with less intermediation. That is especially important in countries where specialized economic media are still developing, or a particular political agenda may be dominating. An improved communications toolkit may also include behavioural insights, along with the ethical use of techniques such as audience segmentation, made easier in today's social media world. Messages that connect with and are relatable to the intended audiences' needs and interests and are tiered by channels and content can also help to build understanding. For example, the Bank of Jamaica has begun an innovative communications campaign to explain the benefits of price stability, including through social media, as well as TV and radio advertising using Jamaica's popular reggae music. Building understanding of policy is fundamental to its effectiveness. Better communications can help in the success of a country's reform efforts. To this end, the experience of other countries and institutions can provide valuable insights.

BASLE THIS WEEK

Norman T L Chan: Monetary policy's effect on wealth distribution and a way forward for policymakers

Welcoming remarks by Mr. Norman T L Chan, Chief Executive of the Hong Kong Monetary Authority, at the Hong Kong Monetary Authority and Federal Reserve Bank of New York Joint Conference, Hong Kong, 23 May 2019.

1. Good morning, President Bullard, Director Hirtle, ladies and gentlemen. Welcome to this conference jointly organized by the Federal Reserve Bank of New York and the Hong Kong Monetary Authority. I would especially like to thank our overseas guests who have travelled a long way to be with us today.
2. Over the past 40 years, the global economy has undergone impressive growth and transformation. From 1980 to 2018, PPP-adjusted real per capita GDP in advanced economies and emerging market economies have increased by 94% and 205% respectively[1], driven by globalisation, open markets, technological advancements, and the general trend of falling inflation.
3. But the news is not all good. While the world economy has done well on the whole, economic inequality has widened noticeably at the same time. Just take a look at the Gini coefficient,

which is a commonly cited measure of income inequality. In Hong Kong, the Gini coefficient has risen steadily from 0.476 in 1991 to 0.539 in 2016, whereas in the US, it has increased from 0.449 in 1991 to 0.519 in 2015.[2] Economic inequality causes social divisions, with the rise in populism especially in the US and Europe being one of the unwelcome symptoms, and it also affects development and growth in the longer run. Indeed, problems with income and wealth disparity have become so acute that it has recently triggered a debate on the "crisis of capitalism". IMF Managing Director Christine Lagarde, when presenting her Global Policy Agenda at the IMF Spring Meetings last month, also pointed out that the rewards of economic growth have not been shared, and called for a "new multilateralism" which will, among other things, foster inclusion.

4. With so much at stake, policymakers simply cannot brush aside the issue of the widening gap between the "haves" and the "have-nots". Over the past two years, I have been talking about, on different occasions, how globalisation, technological innovation and monetary policy may have affected distribution of income and wealth. Today I wish to offer some further thoughts about the distributional consequences of monetary policies: what has happened so far, and the way forward for policymakers.

The distributional effects of unconventional monetary policies

1. While there is no doubt that unconventional monetary policies (UMPs) have helped stabilise the financial system and supported economic recovery after the Global Financial Crisis (GFC), many have argued that the economic or financial benefits created by UMPs have not been shared evenly. Some studies have highlighted that UMPs disproportionately enrich the "haves", as they tend to hold more assets such as stocks and properties that benefited most from UMPs.[3] Hong Kong has been experiencing this trend, especially in the housing market. With a prolonged period of close-to-zero nominal interest rates and negative real mortgage rates, Hong Kong's housing prices have been rising for over 10 years. This has eroded housing affordability and widened significantly the wealth gap between home owners and those who have yet to buy a home. How should central bankers and policymakers think about this important issue and what can be done about it? We have lined up a couple of presentations focusing on housing today and tomorrow, which I hope will shed some light on policymaking in this area.
2. Having looked at UMPs' implications on asset prices, let's now turn our attention for a moment to labour income. To the extent that UMPs have driven aggregate improvements in the labour market in terms of job creation, they have nonetheless failed to benefit some segments of the workforce that are the most in need. For example, many of the jobs created are low-paying and/or part-time in nature. To be sure, wage growth among lower-skilled workers has outpaced that of supervisory staff in recent quarters, in the US at least, but this is likely a reflection of cyclical labour shortage in the low-skilled sectors rather than a sustained trend. Indeed, it is worth bearing in mind the bigger picture that UMPs did not help arrest the trend of a falling labour share of income, which emerged in the US since the 1970s, well before the GFC. It is clear that UMPs should not take all the blame, but it is true that the combination of stagnant wages, very low interest income and rising asset prices has fuelled the populist sentiment in many places, especially in the advanced economies.

Questions for the future design and implementation of monetary policies

1. Ladies and gentlemen, as we continue to fortify the global financial system and economy against downside risks, a crucial question is how monetary policy, in conjunction with fiscal policy, may cause significant distributional effects on different segments of the society. It may be worthwhile to rethink how the monetary and fiscal policies can be modified to take better care of the less privileged or those who have been left behind.
2. The theme of our conference is monetary policy and heterogeneity, and I am glad that so many accomplished economists and researchers have assembled in Hong Kong to deliberate on issues relating to the distributional consequences of monetary policy. I hope that the discussions will be fruitful in helping us better understand these important issues.
3. Thank you.

25/05/2019

BY VASANT PONKSHE
EX-SECRETARY AIBOA
CO-CHAIRMAN BOMOA
PERMANENT INVITEE TO AIBOA