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Supreme Court judgments led to around 23,00,000 job losses: FIMI

FE Bureau | September 24, 2019
THE FINANCIAL EXPRESS

The mining sector emerged as the third largest in terms of generating job per unit increase in the sectoral GDP with an employment elasticity of 0.52%, next only to construction and finance & real estate

Taking cognisance of illegal mining, the Supreme Court had in 2011 stopped mining in 188 leases in Karnataka

Echoing eminent lawyer Harish Salve's reported view that the Supreme Court is also to be blamed for the economic slowdown of the country, the Federation of Indian Mining Industries (FIMI) on Monday said some judgments of the apex court have led to around 23 lakh job losses, both direct and indirect, in the mining sector, excluding petroleum and natural gas. "Although the mining sector employed 23.23 lakh people in 2011-12, various judgments, including bans and restrictions on mining by the Supreme Court, has led to a significant drop in employment in the mining sector," FIMI's secretary general RK Sharma said.

Sharma said due to bans and restrictions imposed by the court, around 80,000 direct employee lost their jobs in Karantaka. The number is higher in Goa at one lakh. Huge penalty imposed by the apex court in February 2017 on 102 iron and manganese ore leases in Odihsa has also led to around 50,000 direct job loss. The ratio of direct to indirect employment in the mining sector is 1:10.

Taking cognisance of illegal mining, the Supreme Court had in 2011 stopped mining in 188 leases in Karnataka. Subsequently, it allowed mining in 115 leases. The apex court had in 2012 suspended all mining leases in Goa, but in 2014 granted renewals of leases with an annual production cap of 20 million tonne. However, with effect from March last year, it cancelled renewal of 88 mining, putting a blanket ban on mining operation in the state.

"The closure or limitation of production has crippled the mining industry and adversely impacted both direct and indirect employment. Many mines are finding it difficult to operate and closing down one by one, further creating a slump and increasing unemployment rate in remote and tribal regions," Sharma said.

Unemployment has remained a major issue for India. As per NSSO's annual employment-unemployment survey, 2017-18, unemployment rate among the labour force has risen dramatically from 2.2% in 2011-12 to 6.1% in 2017-18; workforce has shrunk by 47 million and that labour force participation rate has come down from 55.9% to 49.8%.

The mining sector emerged as the third largest in terms of generating job per unit increase in the sectoral GDP with an employment elasticity of 0.52%, next only to construction and finance & real estate. This implies that with every 1% growth in mining sector's GDP, employment in the sector increases by 0.52%.

ICICI Bank to open 450 new branches

SPECIAL CORRESPONDENT
MUMBAI, SEPTEMBER 23, 2019
THE HINDU

Anup Bagchi of ICICI Bank says, "We believe that a wide branch network continues to be important for retail banking"

Private sector lender ICICI Bank is planning to open 450 branches this financial year, of which 320 branches have already been added, the bank said in a statement.

“The bank has made 320 branches operational for customers and in the process, it has crossed the milestone of having 5,000 branches. The milestone branch was set up at Thane in Maharashtra,” the bank said. Anup Bagchi, executive director, ICICI Bank, said “We believe that a wide branch network continues to be important for retail banking. It helps deepen the relationship with the customer by serving them a wide range of products and offerings.”

Corporate tax cut to have minor impact on fiscal deficit: Niti Aayog

PTI
MUMBAI, SEPTEMBER 21, 2019
THE HINDU

GST collection has been ebbing below the desired Rs.1 lakh crore mark all through the year expect one month

The Rs.1.45 lakh crore tax giveaway is unlikely to widen fiscal deficit much as the shortfall will be met through increased tax collections due to higher growth which the massive tax cuts are expected to achieve, Niti Aayog Vice Chairman Rajiv Kumar said here on Saturday.

On Friday, the government had announced tax cuts for corporates by 10-12% points, bringing down the effective corporate tax to 25.17% inclusive of all cess and surcharges for domestic companies. The new tax rate will be applicable from April 1, involving a revenue loss of Rs.1.45 lakh crore this fiscal.

“I don’t think tax cuts will leave a gaping hole in the fiscal numbers. There will be some, which will be minor,” said Mr. Kumar.

Budget had estimated fiscal deficit at 3.3% of the GDP for the current fiscal but many analysts have pegged it overshooting by at least 70 bps to 4.1% as the quantum of the giveaways is worth 0.7% of the GDP.

Significantly, it can be noted that neither the Finance Minister or her senior cabinet colleagues who talked to the media after the announcement took questions on the shape of fiscal deficit numbers post the tax cuts.

Even, Reserve Bank Governor Shaktikanta Das had lapped it up as growth boosting just a day before warning the government that it has no leeway to undertake any fiscally expansionary measures.

It can be noted that while the GST collection has been ebbing below the desired Rs.1 lakh crore mark all through the year expect one month, the direct tax mop-up for the first half lagged way behind the target. It grew a paltry 4.7% in H1 of this fiscal at Rs.5.5 lakh crore against a budgeted target of 17.5% growth in collections for the full year.

Mr. Kumar said direct and indirect tax revenues are expected to go up with growth picking up after these tax cuts.

"There is buoyancy in growth. In the past, our tax buoyancy has been very good. Therefore, both direct and in direct tax collections will go up with growth," he said.

Mr. Kumar said another area for his optimism is the government focus on divestment which he budgeted at Rs.1.05 lakh crore.

"Asset sales will yield an additional Rs.52,000 crore over the budget estimate. Then you have got another Rs.50,000 crore from the RBI which was not included in the Budget," he said.

The higher revenue from tax and non-tax fronts will help the government finance the fiscal deficit, he added.

Mr. Kumar said the 5% GDP growth is not yet a crisis and the first quarter number marks the bottoming out of the cycle.

"We will achieve a nearly 6.5% growth this year and we will be on track for doubling up our per capita income in the next five years," he added.

Corporate tax reduction is credit positive for companies, but increases government's fiscal risks, says Moody's

SPECIAL CORRESPONDENT
MUMBAI, SEPTEMBER 21, 2019
THE HINDU

Among Moody's rated non-financial companies in India, commodity and IT services companies will benefit most from the tax rate cut

Corporate tax reduction is credit positive for companies, but raises government's fiscal risks, said Moody's Investors Service.

The rating agency doesn't expect the tax rate cut to revive growth such that stronger tax buoyancy compensates for the loss in revenue.

Finance Minister Nirmala Sitharaman on Friday announced a reduction in the base corporate tax rate to 22% from 30% as part of stimulus measures to reverse slowing economic growth.

"The move is credit-positive for companies because it will enable them to generate higher post-tax incomes. However, it is credit negative for the sovereign, as it aggravates mounting risks for the government in meeting its fiscal deficit target," said Moody's in a statement.

However, the degree of strengthening in corporate credit profiles will depend on whether companies reinvest surplus earnings into their businesses, or use them to reduce debt or boost shareholder returns.

In aggregate, rated non-financial companies in India reported a total pre-tax net income of about $35 billion for the fiscal year ended March 2019 (fiscal 2018).

Assuming the earnings of these companies remain unchanged for fiscal 2019, they will save about $3 billion from the tax rate reduction, according to Moody's.

The July 2019 Budget projected total corporate tax revenue of Rs.7.7 trillion ($108.5 billion or about 4% of GDP), and the Finance Minister estimated that the decrease in the corporate tax rate will reduce revenue by about Rs.1.5 trillion during the current fiscal year.

As such, the reduction in corporate income tax revenue — even when balanced against the windfall from the recent transfer of the Reserve Bank of India surplus reserves, equivalent to about 0.3% of GDP during the current fiscal year — further narrows fiscal room for manoeuvre.

Economic slowdown due to structural changes: Amit Mitra

PTI
KOLKATA, SEPTEMBER 23, 2019
THE HINDU

West Bengal Finance Minister Amit Mitra said the structural changes have been ushered in due to demonetisation and "faulty" GST implementation along with the collapse of IL&FS

West Bengal Finance Minister Amit Mitra on Monday said that the current slowdown in the economy is due to "structural" changes and not "cyclical".

He said the structural changes have been ushered in due to demonetisation and "faulty" GST implementation along with the collapse of IL&FS which crippled the NBFC sector.

"The slowdown in the economy is structural and not cyclical. This structural change has been brought about by demonetisation, hasty and faulty implementation of GST and the collapse of the IL&FS," Mr. Mitra said at the annual general meeting of Bengal Chamber of Commerce & Industry here.

He said that when the economy was "coming up from the U-curve, the rising growth rate was hit by demonetisation which caused GDP growth to fall from 8.15% to 7.17%".

"Another massive structural change came from the GST implementation," he claimed.

Mr. Mitra said that he had spoken to Goods and Services Tax Network (GSTN) Chairman who told him that the country "was not ready for its implementation on the scheduled date".

"But a singular decision in the democracy was taken by the government and GST was implemented from July 1, 2017," he said.

Lastly, the collapse of IL&FS crippled the NBFC sector which is now facing huge liquidity crunch, he added.

Regarding the direct tax collection, he said the government could mop-up only 4.7% more so far this year.

In order to meet the budgetary target of 17.3 per cent, the growth in direct tax collection will have to be 27% in the remaining months of this fiscal, Mr. Mitra said.

"Is it possible to meet the target for an economy which is witnessing slowdown?" he asked.

Regarding GST, he said that collection of the indirect tax is not meeting its target.

Talking about West Bengal, he said that the State Cabinet had cleared the proposal of Tata Metaliks' expansion plan in Kharagpur and the company will invest Rs.600 crore for this.

The expansion project will create job opportunities for 3,500 people, he added.

No plans to revise fiscal deficit target: Sitharaman

REUTERS
NEW DELHI, SEPTEMBER 22, 2019
THE HINDU

Govt. won't cut spending, says Finance Minister

The government will not revise the fiscal deficit target immediately and is not planning any spending cuts at this stage, Finance Minister Nirmala Sitharaman said on Sunday.

The government cut corporate tax rates on Friday in a surprise move designed to woo manufacturers, revive private investment and lift growth from a six-year low that has led to major job losses.

The measures will cut revenue by Rs.1.45 trillion in the current fiscal year, according to government estimates. But Ms. Sitharaman said the government would only review the fiscal deficit target closer to the 2020/21 budget.

HDFC Bank to hold 1,000 loan fairs in villages over next 6 months

PTI

NEW DELHI, SEPTEMBER 22, 2019

THE HINDU

Just like a traditional village fair, the grameen loan mela will be a one-stop shop for people from the surrounding five or six villages to access the entire range of the bank's products

HDFC Bank on Sunday said it plans to organise 1,000 'grameen loan melas' over the next six months in a bid to expand its retail portfolio.

These 'grameen loan melas' (or village loan fairs) will be held across more than 300 districts and cover around 6,000 villages across India, HDFC Bank said in a statement.

Just like a traditional village fair, the grameen loan mela will be a one-stop shop for people from the surrounding five or six villages to access the entire range of the bank's products, it said.

Customers can avail of tractor, auto, two-wheeler and agri loans or open current or savings accounts, it said.

Besides, self help groups (SHGs) can avail of finance through the bank's Sustainable Livelihood Initiative.

The loan melas will also serve as a platform to educate the local populace about banking services.

In a bid to boost credit flow, the government on Thursday asked public sector banks to hold loan fairs in 400 districts to lend to desirable shadow banks and retail borrowers.

'Surcharge relief may improve sentiment, boost earnings'

SPECIAL CORRESPONDENT
MUMBAI, SEPTEMBER 20, 2019
THE HINDU

Government waives the levy for all categories of investors; surcharge not applicable on FPIs on sale of securities in the derivatives segment

Almost a month after announcing the first set of incentives for foreign portfolio investors (FPIs) by waiving the surcharge introduced in the Union Budget – but which failed to stem the outflows in any manner – the government has announced fresh incentives while also extending the benefit to all categories of investors.

On Friday, Finance Minister Nirmala Sitharaman said that the tax surcharge would be waived for all categories of investors, including individuals and those operating under structures like Hindu Undivided Family (HUF), Association of Persons (AOP), Body of Individuals (BOI) and Artificial Juridical Person (AJP).

A statement from the government clarified that the surcharge would not be applicable on the "capital gains arising on sale of equity shares in a company or a unit of an equity-oriented fund or a unit of a business trust liable for securities transaction tax."

Further, the government has also clarified that the surcharge would not be applicable on FPIs on sale of securities in the derivatives segment as well.

Simply put, any gains arising from the sale of securities in the cash or derivatives segment or units of equity mutual funds on which securities transaction tax (STT) has been levied will not be subjected to the surcharge, that had further fuelled the flight of foreign money from the Indian capital markets.

Booster dose

With Friday's development, India's corporate tax rate becomes comparable to nations that typically attract investments

Country	Corporate tax rate
U.S.	25.89%
U.K.	19%
Germany	29.89%
France	32.02%
China	25%
Vietnam	20%
Philippines	30%
Malaysia	24%
Singapore	17%
South Korea	27.50%
India	25.17%

SOURCE: KPMG, OECD

Interestingly, after the government announced the initial rollback of the surcharge on August 23, FPIs have till date sold shares worth almost Rs.6,300 crore.

Market participants, however, are optimistic that the latest set of measures would have a longer term impact on the markets in terms of a positive impact on earnings and fund flows.

"This will help improve the sentiments and have a positive impact on earnings thereby leading to an overall re-rating of the markets," according to Mihir Kothari, head, institutional sales, Motilal Oswal Financial Services.

No buy-back tax

Meanwhile, after announcing a buy-back tax in the Union Budget, the government has now decided to exempt firms that announced a buy-back before the proposal was announced on July 5.

"In order to provide relief to listed companies which have already made a public announcement of buy-back before July 5, 2019, it is provided that tax on buy back of shares in case of such companies shall not be charged," stated the government in the release.

The exemption would benefit companies like Sasken Technologies, Greaves Cotton, Welspun Corp, Indowind Energy, Star Cement and Eris Lifesciences among others, as per data from Prime Database, which pegs the cumulative size of buy-back offers that would benefit from Friday's relief at approximately Rs.1,100 crore.

`On-tap' licensing of small finance banks: Will payments banks go for it

Radhika Merwin | September 24, 2019 | BL Research Bureau

THE HINDU BusinessLine

After granting licenses to ten players to set up small finance banks (SFBs) four years ago, the RBI has announced guidelines for on-tap licencing of SFBs, to widen the competition. Aside from higher minimum capital and revision in timelines for bringing down promoter shareholding, the guidelines for on-tap licensing are similar to that laid down earlier.

Importantly, payments banks can apply for the small finance bank license. This implies that existing players in the payments banks space can convert themselves into a small finance bank. The question is, will they go for it?

Given that payments banks have been constrained by limited revenue streams, small margins and challenging business model, it is likely that many of them would consider applying for the SFB license. Converting into an SFB will allow these players to lend and scale up profitability.

India Post Payments Bank has already stated that it is evaluating the SFB option. Rishi Gupta, MD & CEO, Fino Payments Bank, also says that they are looking at the guidelines to assess the SFB route.

How is it different?

The eligibility criteria, the scope of activities, prudential norms and listing requirements under the on-tap licensing are more or less similar to that laid down in 2014. Hence resident individuals/professionals with ten years of experience in banking and finance; and companies and societies owned and controlled by residents running the business for at least five years are eligible as promoters to set up SFB. Existing NBFCs, MFIs, local area banks and payments banks too can opt for conversion into SFB. Of course, they will have to fulfil the 'fit and proper' criteria.

As an SFB, these players can lend but will have to meet the norm of extending 75 per cent of loans to the priority sector and have at least 50 per cent of loans up to Rs.25 lakh. They will also have to comply with cash reserve (CRR) and statutory liquidity (SLR) requirements from day one of conversion into a bank.

The on-tap guidelines however set a higher capital requirement of Rs 200 crore (Rs 100 crore earlier) and have a different promoter exit timeline. Under the earlier guidelines, shareholding by promoters in the bank had to be brought down to 40 per cent within three years, subsequently to 30 per cent within ten years and to 26 per cent within 12 years.

Under the on-tap licensing guidelines, shareholding by promoters in the bank has to be brought down to 40 per cent within five years, subsequently to 30 per cent within ten years and to 15 per cent within 15 years.

Payments banks to SFB

While the RBI had given payments bank licenses to many as 11 players four years ago, only six are operational currently. Payments banks are challenged by their underlying business model. Unlike traditional banks that lend money raised from deposits, payments banks cannot engage in any lending activity. Their income comprises mostly of interest from investments in safe government securities and fee income that they can earn by distributing simple financial products such as mutual funds and insurance.

As per the RBI guidelines, payments banks are allowed to take deposits only up to Rs.1 lakh per account. They also need to invest 75 per cent of their deposits in government securities with maturity up to one year, and the balance 25 per cent can be parked with commercial banks.

Hence they operate on thin margins. On the deposits front, they have to compete with traditional banks as well as existing small finance banks.

Paytm Payments Bank, however, managed to report a Rs.19 crore profit for fiscal 2018-19, the first payments bank in India to make a profit. Fino Payments too has been looking at innovative tie-ups to scale-up profitability. For instance, it has tied up with Suryoday Small Finance Bank, offering a sweep facility. Fino Payments expects to turn positive at the operating profit level this fiscal.

"That said, while we have been able to perform well under the current payments model, we will be looking at the on-tap guidelines for SFB. Converting into an SFB may help us scale better and earn higher profits. The model also appears more sustainable," says Rishi Gupta.

Challenges in SFB

Of the ten players who have been granted SFB licence by the RBI, eight were MFIs. This helped them meet the RBI's lending norms (75 per cent to priority sector etc.). For any new player, say payments bank, replicating the door-to-door delivery model of MFIs to deliver credit to the weaker sections can be a challenge. Even if a broader reach in rural areas helps some players in ramping up lending activity, doing so in a profitable manner (MFIs have been able to do so in a cost-effective way and by generating strong returns) will be critical.

The key challenge, however, lies in ramping up low-cost retail deposits to improve profitability. Many existing small finance banks continue to offer high-interest rates to draw in deposits and rely heavily on bulk deposits. Hence scaling up low-cost deposits will be a key challenge for new players opting to apply for the small finance bank.

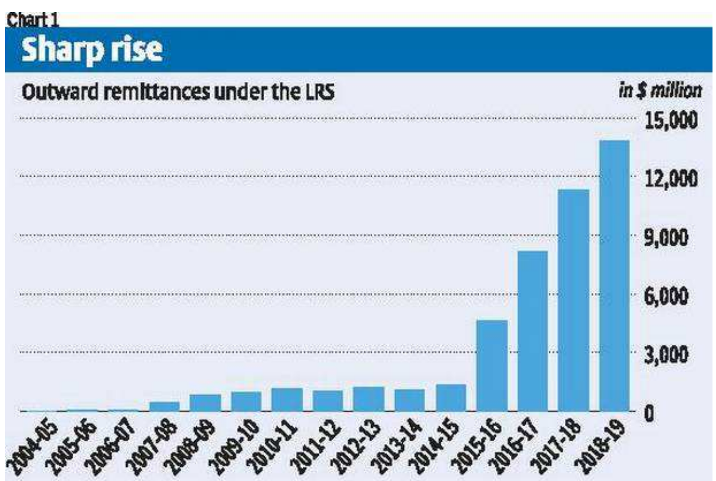
The flight of the wealth-holder is leaving India vulnerable

CP CHANDRASEKHAR, JAYATI GHOSH | September 24, 2019

THE HINDU BusinessLine

A spike in residents' outward remittances, along with a change in their composition, suggests that India is now prone to 'capital flight' when economic conditions turn adverse

Those who follow trends in India's balance of payments trends have noted an unusual development. Outward remittances under the Liberalised Remittance Scheme (LRS) for resident Indians have recently spiked, from just above $1 billion in 2014-15 to nearly $14 billion in 2018-19 (Chart 1).



This spike is unusual even when compared to pre-2015-16 trends in the outflow under the LRS. Introduced in February 2004, for a long time the scheme did not open the gates for outflows of foreign exchange from India. As Chart 1 shows, having risen gradually to a little over $1 billion in 2010-11, the outflows under this scheme remained around that level for the next five years. When the LRS was first introduced, resident individuals were allowed to freely remit up to $25,000 per calendar year. This limit was then raised to $50,000 per financial year in December 2006, $1,00,000 per financial year in May 2007 and to $2,00,000 per financial year in September 2007. In August 2013, the RBI responded to fears of a possible run on the rupee by drastically reducing the LRS limit to $75,000, only to raise it again in stages to $2,50,000.

Thus, in much of the period when total outflows under the LRS stood at around $1 billion, the per person limit for annual transfers was, at $2,00,000, close to where it stands currently. And, even when the limit was slashed during the 2013-14 period, transfers were more or less of the same magnitude. So it was not a change in the limit that led to substantially enhanced outflows in recent years, which made the reasons behind such a spike a mystery.

Balancing act

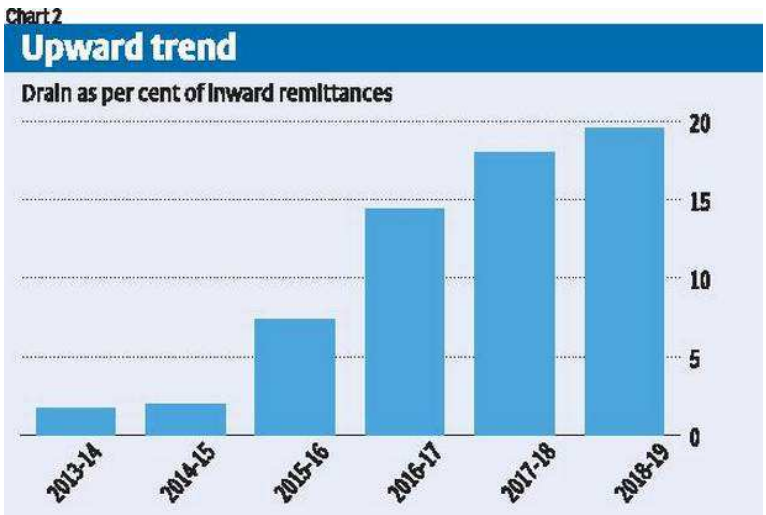
The increased outflow under the LRS is now a significant drain on foreign exchange resources. For close to four decades now, an important source of foreign exchange inflow into India — which has a stabilising effect on the balance of payments — has been remittances from abroad. Together with earnings from exports of software services, remittances have helped India deal with various shocks on the balance of payments front. Moreover, while the earnings from software services exports are losing their buoyancy, remittances have shown a strong upward trend.

So, it would be useful to compare trends in remittance inflows from non-resident Indians with outflows on account of the LRS for residents. As Chart 2 shows, starting from a low of 2 per cent or less in 2013-14 and 2014-15, the ratio of LRS outflows to remittance inflows rose to 7.4 per cent in 2015-16, 14.4 per cent in 2016-17 and 19.5 per cent in 2018-19.

That is, as much as one-fifth of the inflows on account of inward remittances are being drained out through the LRS window.

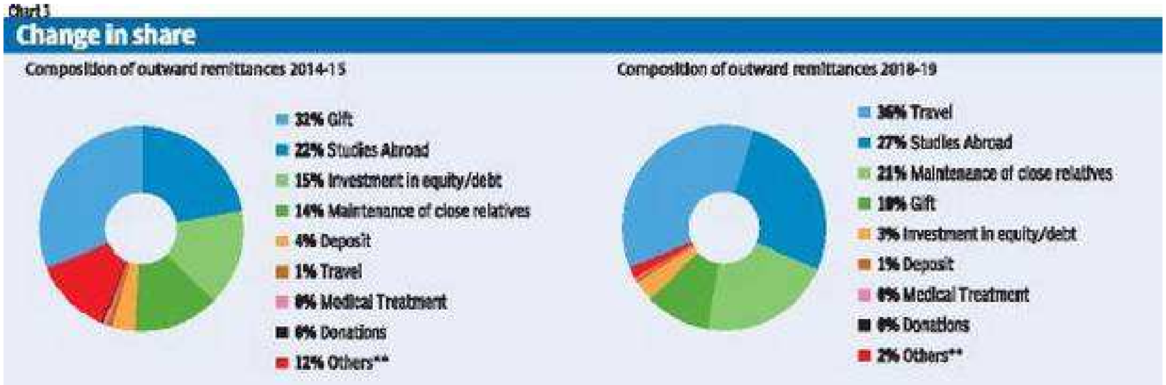
Reasons given

This sudden, steep and significant increase in outflows through the LRS window is not easily explained. However, there are some messages that can be gleaned from an examination of the composition of LRS outflows. In 2014-15, before the outflow spike, besides transfers as 'gifts' and donations, the main heads under which significant outflows were recorded were for financing 'study abroad' and 'investment in equity and debt', followed by maintenance of close relatives abroad.



With rich Indians known to make donations to institutions and universities abroad, send their children to study there and seek to diversify their asset portfolios, the first three of these exit routes are understandable. To that can be added a small outflow to maintain relatives abroad. However, as Chart 3 shows, along with the sharp increase in the composition of remittances, there have been significant changes in composition. Between 2014-15 and 2018-19, 'travel' has emerged as the dominant head for outflows, with its share in total LRS outflows rising from just 1 per cent to 36 per cent.

In just one year between 2016-17 and 2017-18, outflows under this head rose from \$2.6 billion to \$4 billion (Table 1). It is difficult to believe that all of a sudden, the number of Indians travelling and spending abroad rose by this proportion.



Besides travel, two categories that registered significant increases are transfer to finance studies abroad, the share of which rose from 22 per cent to 27 per cent; and transfers for maintenance of close relatives, which went up from 14 per cent to 21 per cent. The share of 'gifts' on the other hand fell from 32 per cent to 10 per cent and that of investment in equity and debt from 13 per cent to 3 per cent.

Table 1

Rise in fungible transfers

Composition of outward remittances *in $ million*

	2014-15	2015-16	2016-17	2017-18	2018-19
Deposit	45.5	90.8	92.9	89.6	84.5
Investment in equity/debt	195.5	317.9	443.6	441.8	422.9
Gift	403.5	533.0	749.5	1,169.7	1,370.2
Donations	3.2	3.9	8.8	8.5	8.7
Travel	11.0	651.4	2,568.0	4,022.1	4,803.8
Maintenance of close relatives	174.4	1,372.1	2,169.5	2,937.4	2,800.9
Medical Treatment	7.2	17.2	17.3	27.5	28.6
Studies Abroad	277.1	1,200.0	1,536.4	2,021.4	3,569.9
Others**	157.1	346.4	300.8	200.6	242.2

Ambiguous transfers

If travel, studies abroad and maintenance of close relatives are taken together, their share rose from 36 per cent of total transfers in 2014-15 to as much as 75 per cent of a much larger total of transfers in 2018-19. Since transfer for studies abroad must be based on some evidence of expenses to be incurred, this cannot be a head under which funds that are substantially in excess of requirements are transferred. In any case, the increase in the share of this head has been less than that for travel and maintenance of close relatives.

The latter two heads are more fungible, and can be used for purposes other than originally specified, and could reflect transfer abroad of savings from India to foreign locations, facilitated by the rule introduced as part of the LRS that Indian residents are allowed to hold accounts abroad to which foreign exchange bought with domestic currency can be transferred. Also, once outside the country, these funds are more easily transferred to the accounts of others.

The growing importance of these more fungible heads in total transfer, combined with the sudden spike in total outflows, suggests that the LRS has become a means for resident Indians to transfer wealth out of India, without having to necessarily invest in international debt or equity instruments, the values of which are shaky in the current environment. If that is true, the problem of 'capital flight' takes on a whole new connotation.

As evident from Latin America, when periods of instability have been associated with residents dumping assets denominated in domestic currencies, it is not only foreign investors who may retreat; domestic wealth-holders can choose to substitute domestic-currency denominated assets with assets denominated in foreign currencies.

That aggravates the problem of capital flight and increases the degree of vulnerability of countries with open borders, not only for foreign investors but also residents, as long as the cap on transfer of saving/wealth abroad is not too stringent.

The unusual spike in LRS outflows suggests that India's external vulnerability has increased; unless, as in 2013, the LRS policy is revised.

Banks hopeful DHFL resolution plan will be implemented by December

Surabhi/ K Ram Kumar Mumbai | September 24, 2019

Lenders likely to provide the debt-laden firm a working capital loan of Rs.5,000 cr

Banks are hopeful of implementing the resolution plan for troubled Dewan Housing Finance Corporation (DHFL) by December this year, and are likely to give it some emergency funding for now.

"There is enough time for the resolution to take place within the Reserve Bank of India's 180-day timeline. There are some issues, but lenders are hopeful of addressing the issues," said a banker close to the development.

ICA agreement

Sources said that banks could provide DHFL with a working capital loan of about Rs.5,000 crore to ensure that its operations continue. The inter-creditor agreement (ICA), which lenders enter into for the resolution of a stressed asset, has been signed by banks and almost all insurance companies that have an exposure to DHFL.

However, mutual funds and provident funds are yet to sign the ICA.

As for retail holders of DHFL's debt, some of them have authorised their debenture trustees to sign, while some have not done so.

The ICA establishes the ground rules for finalisation and implementation of the resolution plan (RP) in respect of borrowers with credit facilities from more than one lender. Under this agreement, any decision agreed to by lenders representing 75 per cent by value of total outstanding credit facilities (fund-based as well non-fund-based), and 60 per cent of lenders by number, shall be binding upon all the lenders.

DHFL will be meeting the lenders again this week to get a buy in from them on the RP and take the resolution process forward.

Total exposure

The total exposure of the banking sector to financially-stressed DHFL is estimated at about Rs.46,000 crore, including about Rs.32,000 crore direct (loan) exposure and about Rs.14,000 crore by way of investments in debt instruments issued by the company.

According to bankers, strategic investors will pick up stake in DHFL only if the RP works, with the retail portion of the loan book being segregated from the wholesale portion and liability restructuring taking place.

Meanwhile, talks are also on with bondholders to join the ICA and become a part of the RP. Some mutual funds are understood to have become agreeable to supporting the RP.

The deadline for approval of the RP is September 25, and talks are on to reach some sort of an agreement between the lenders.

In a regulatory filing after a board meeting on September 19, DHFL had said that it is working on the RP and that it expects more support from lenders.

“We expect further strides in gaining acceptance of a larger fraternity of lenders to join the inter-creditor agreement and give definitive acceptance to the RP,” it had said.

Focus on retail operations

The housing finance company is looking to solely focus on its retail operations, and has received proposal from developers to “act as development managers in respect of certain large projects including projects under Slum Rehabilitation Scheme where the company has extended loans in the past”.

“The company has also made significant progress in bringing in investors’ interest in certain projects for extending fresh working capital to get the projects moving towards completion stage,” DHFL had said in the filing, adding that both these measures would enable a large part of the project finance portfolio to yield faster cash flow and better turnaround time to improve the payback.

Packages announced by FM will take time to yield results

The packages announced by the finance minister so far mostly target the supply side. It will take a while to yield results by way of turning around growth

Until growth revives, the high buoyancies signify a fall in revenue unless a rise in tax base and compliance compensates for it

Often, fiscal stimulus is launched through the tax side than expenditure side, assuming that the buoyancy of the former will ensure minimum fiscal slippage, while shoving the economy out of a glut. The general idea is that a reduction in rates will increase the tax base and compliance. This, along with its positive impact on growth, would lead to higher tax buoyancy. The fiscal stimulus programme announced by finance minister Nirmala Sitharaman is also premised on a similar idea. An IMF working paper titled 'How Buoyant is the Tax System? New Evidence from a Large Heterogeneous Panel' by Paolo Dudine and Joao Tovar Jalles, published in 2017, finds that tax buoyancies are generally equal to unity or greater for developed as well as for less developed economies.

Buoyancy of total own-tax revenue by states and the gross tax revenue of the Union

State	Long-run buoyancy <1	1	>1	Short-run buoyancy <1	1	>1	Speed of adjustment
Andhra Pradesh			1.17***		1.12***		-0.88**
Bihar			1.28***	0.29			-
Chhattisgarh			1.09***		0.94***		-0.92***
Goa		0.95***		0.08			-0.26*
Gujarat		1.09***			2.4***		-0.09
Haryana		0.85***		0.04			-0.34*
Himachal Pradesh			1.17***		1.3**		-0.98***
Jammu & Kashmir			1.28***		1.1*		-0.51*
Jharkhand			1.24***	0.54***			-0.93***
Karnataka		1.04***			1.28***		-0.5*
Kerala			1.06***		1.59***		-
Madhya Pradesh		1.15***			0.5		-0.58*
Maharashtra		0.99***			0.97***		-0.52*
Odisha		1.08***		0.29			-0.43**
Punjab		1.03***			-0.63		-0.59*
Rajasthan		0.99***			0.52***		-0.33**
Tamil Nadu		0.94***			1.19***		-0.46**
Uttar Pradesh			1.17***		1.75***		-0.88***
West Bengal		1.12***			0.66		-0.52**
Arunachal Pradesh			1.39***		0.77*		-0.51**
Assam		1.07***			1.24**		-0.42***
Manipur			1.58***		2.04**		-0.68**
Meghalaya			1.36***		0.83**		-0.41*
Mizoram			1.42***		-		-0.19**
Nagaland		1.24***			0.81		-0.25
Sikkim		0.85***		0.17			-0.35*
Tripura			1.33***		0.24		-0.41*
Union		**1.05*** **			**2.05*** **		**-0.47** **

***p<0.01, **p<0.05 and *p<0.1;
GDP and GSDP data are from RBI database; Tax revenue data are from NIPFP database of Finance Accounts

In our economy, the tax-to-GDP ratio has hovered around 14-17% for the last few decades, which is the combined figure for the Union and states. Direct and indirect taxes contribute almost equally to the total tax revenue, although the share of direct taxes is slightly higher at 52% during 2017-18. The Union collects about 10% of GDP as tax revenue and the rest is by all the states together. The finance minister’s stimulus package is premised on the buoyancy of these taxes. Hence, it is imperative to look at the tax buoyancy factor both at the Union and the state level during the recent past.

Tax buoyancy measures the response of tax revenue to a change in national income and the tax policy. Economists generally define it as the ratio of percentage change in tax revenue to a percentage change in income. Buoyancy can be estimated for the long-term as well as for the short-term. Short-term buoyancy above unity signifies that the tax system acts as an automatic stabiliser. Here, the tax system itself would automatically leave a greater proportion of income with the taxpayers during a slowdown dampening the fall in demand. Similarly, during a boom, the system would automatically take away more income through taxes, consequently slowing down the growth of demand. Such a tax system has a built-in stabiliser. In other words, the short-run buoyancy measures the instantaneous effect of a change in GDP on the tax revenue.

Long-run buoyancy is important in gauging the impact of long-run growth of the economy on fiscal sustainability. Long-run buoyancy above unity would mean that faster growth would lead to better fiscal balance through the revenue side. This would be an important guiding principle while considering countercyclical fiscal measures, meaning an increased fiscal deficit would trigger growth, which can, in turn, generate more tax revenue, leading to the easing of fiscal pressure.

The Auto Regressive Distributed Lag (ARDL) model allows us to estimate the long-run and short-run buoyancy, along with the speed of adjustment—which tells us how fast the buoyancy converges to the long-run equilibrium value.

The estimates for the period 2001-17 show that the long-run and short-run buoyancy are 1.05 and 1.74, respectively, for total tax (the Union and states combined). The high short-run buoyancy will mean that the current slowdown would have an amplified negative impact on tax revenue in the short-run. The slowdown will have a heavy impact on the Union tax revenue, which has an overall short-run buoyancy coefficient that is very high. The very high short-run buoyancy of direct taxes will escalate the fiscal pressure emanating from the recent cut in corporation taxes. This will also have a deleterious effect on the fiscal health of states as the shareable kitty will shrink substantially. Now, with the 15th Finance Commission (FC) asked to consider the impact of the award of 14th FC on Union finances, any fall in the share of states would adversely affect state finances.

Relatively low buoyancy for states' taxes (1.04 for the long-run and 1.19 for the short-run) will mean a reduced adverse impact of the slowdown on states as a whole. But the effect on individual states will depend on their buoyancies and the extent of deceleration of the gross state domestic product of respective states. Short-run buoyancy is found to be either equal to or less than unity for all states. Bihar, Goa, Haryana, Jharkhand, Odisha and Sikkim will be the ones that would be least affected in the short-run, with a buoyancy factor less than unity. For the long-term, all states have buoyancies either equal to unity or greater than unity. Goa, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, West Bengal, Assam, Nagaland and Sikkim have long-run buoyancy equal to one, making them less vulnerable in the long-run. Interestingly, most of the richer states fall in this category.

The packages announced by the finance minister so far mostly target the supply side. It will take a while to yield results by way of turning around growth. Till growth revives, the high buoyancies signify a fall in revenue unless a rise in tax base and compliance compensates for it. However, that is doubtful.

Having seen these premises and the estimates of tax buoyancy, what policy options do we have now to arrest the slowdown, revive the economy and moderate the fiscal slippage? With the general consensus that a fall in aggregate demand is the main culprit, steps can be initiated to shore up aggregate demand. These interventions can be on both revenue and expenditure sides. On the revenue side, a reduction in taxes that will benefit the relatively poorer sections and rationalisation of GST will definitely have a high multiplier effect. Expenditure on infrastructure and upscaling programmes like MGNREGA will also have a higher multiplier effect, leading to revival of growth.

More detailed analysis of buoyancies of individual taxes including GST (where we have only a short-time series) is essential. Although we have incorporated the optimal parameterisation in the models by choosing the apt lag lengths, the estimates can be refined further by incorporating variables like inflation, structural variables, political factors and business cycles in the tax buoyancy estimation models. At a disaggregate level analysis, it is also important to see whether the buoyancy of divisible pool taxes is greater than states' own taxes. Along with these, an understanding of how tax buoyancies behave in different phases of business cycle (output gap) will throw more light on the effectiveness of such polices.

Why corporate tax cut is no brahmastra

Renu Kohli | September 24, 2019

THE FINANCIAL EXPRESS

A great deal will depend on how the MPC chooses to communicate its views on growth, and the role of monetary policy to undertake the 'heavy-lifting', post-fiscal shock

Last Friday's corporate tax rate cut elicited a euphoric response from the stock market, compelling several analysts to revise their short-to-medium term growth projections upwards. This unanticipated, major fiscal boost is expected to stir the 'animal spirits', rekindle private investments, and stroke consumer sentiment through positive wealth effect. Is the growth optimism justified? History would tell us to be cautious! Recollect Mr Chidambaram's dream budget of 1997, when he engineered a rather welcome rationalisation of personal income tax rates. What happened thereafter—the economy could not sustain the demand boost, and went into a recession couple of years down the line!

Corporate tax rate cut decoded! Why FM Sitharaman's announcement is a Diwali bonanza for economy

That does not mean the 1997 rationalisation of income tax rate was wrong. Rather, it was successful in meeting its objectives of expanding the tax base and raising tax revenue in the medium-to-long run. In a similar vein, Friday's corporate rate tax cut is most welcome; though its timing could be questionable.

While fiscal experts would like to debate if an economy with a per capita income below $2,000 can afford such a cut in corporate taxes, especially when rising income disparity is being projected as a long-term constraint to growth, India had very little choice in a world of "race to the bottom". Matching competing counties in terms of tax incentives was imperative. Indeed, one could argue that it came a couple of years too late! It should have been done in 2016, when the domestic private sector was in great distress, and the government had windfall oil tax revenues to bridge the financing gap.

Fiscal imperatives binding constraint

But, the immediate question everyone wants to focus on is if this fiscal boost, estimated at 0.7% of GDP by the government, will revive growth? Before this announcement, there was near-consensus that there was little fiscal space for counter-cyclical fiscal measures. RBI Governor Das, too, had communicated this, in no uncertain terms, to the market a week before. How does this measure relate to the larger fiscal concern? In the macro perspective, this would increase corporate savings by 0.7% of GDP, with immediate effect. If the general government (Centre plus states) dissaving, i.e., fiscal expansion, also goes up by equal measure, the net impact on savings, and, therefore, investment, should be zero, assuming current account projections are retained. If household savings, and its financial component remain stagnant or decelerate further, then the growth outcome could turn more intriguing!

Since the government has not clarified its stand on the financing side, bond yields moved in the other direction, confusing even the rating agencies—Moody's thought the changes are credit positive, contrary to Standard & Poor, which assessed them as credit negative! One thing, though, is clear—these tax cuts are structural, i.e., long-term commitments to firms, and, therefore, the tax shortfall will extend to multiple years. Corporate tax recovery would take time as it would depend on investment recovery, subject to evolving demand conditions. One should not forget the live lessons from faltering GST revenue collections in the face of a 14% tax revenue growth commitment given to the states, leaving very little space for counter-cyclical responses when growth falters! Which is why, now, many experts would urge more aggressive disinvestments to close as much of the financing gap as possible, subject to market conditions.

Divestment is not all panacea

How much could disinvestment help? Currently, we have many profit-making PSUs that can fetch good value in the market, which the government could tap. It needs to be flagged here that selling family silver would trigger a secular decline in non-tax revenues (dividend from PSUs). That is why, international agencies such as the IMF treat disinvestment proceeds as below-the-line (financing) item, unlike the government, which treats it as an above-the-line item.

Asset monetisation of land and building that currently yield zero return are ideal, but can materialise on a grand scale only when the private sector is ready to invest in greenfield projects!

Therefore, long-term debt sustainability issues cannot be wished away. The world over, investors now worry a lot about the global debt pile-up as inflation fails to respond. If growth fails to revive, the debt market could react adversely, forcing the government to raise effective tax rates, nullifying all that it is today hoping to achieve. There is very little choice left, except to cut current expenditure, especially, food, fertiliser, and petroleum subsidies, more aggressively than ever before!

Monetary policy communication could be critical

There is one significant difference between 2009-10, when the UPA-II government played with fiscal fire, and the current situation—lack of inflationary pressure. In hindsight, one could make a case for more aggressive easing than the 110 bps policy rate cut. Governor Das has consistently been communicating to the market that there could be more room for policy rate cut, in spite of geopolitical risks to oil prices. He has stuck to his stance even after the large fiscal shock, indicating the growth slowdown is cyclical, and output gap is large. While most analysts have retained their call for a 25-40 bps rate cut on October 4, a few are still making a case for a larger cut of 100 bps, or more.

The MPC has, so far, avoided committing publicly its stance on the real rate. It is difficult to visualise if it would opt for a monetary policy shock of 100 bps reduction, or more, in the policy rate given continued financial sector fragility. Government-pushed 'loan melas' could be another irritant. The MPC could possibly effect another rate cut, and then turn data-dependent. It would also prefer to wait and see if the latest RBI diktat on linking lending rates to an external benchmark is helping quicker transmission. The bond market is nervous as term-premiums are rising. The MPC needs to cool it down. A great deal will depend on how the MPC chooses to communicate its views on growth, and the role of monetary policy to undertake the 'heavy-lifting', post-fiscal shock.

Support with more structural reforms

Sunil Jain, in a Financial Express edit, made an apt comparison with the 1991 exchange rate devaluation—that it was required to be done, whatsoever might be the consequences. If the government's objective is to restore a competitive edge for investment in India, for both domestic and foreign firms, this was a necessary structural reform, but not a sufficient one. It would need all-round support from other structural reforms in the factor and product markets. One hopes the government will not stop at this one, and carry on with narratives of other reform agendas into the following elections in Maharashtra and Haryana—two of our industrially advanced states!

Making the grand Indian PSB mergers work

R. Krishnamurthy
SEPTEMBER 24, 2019
THE HINDU

Only a visionary leadership can bring the efficiency parameters of the merged entities in line with those of private banks

The initial enthusiasm of market analysts to the bank merger announcement is giving way to wariness and scepticism. There is a feeling that the potential benefits would take several years to show up and, meanwhile, the turbulence in the banks could take a toll on the real economy.

The merger move demonstrates once again the lackadaisical approach of policy planners in implementing sensible **banking** reforms in Public Sector Banks (PSBs), first mooted by the Narasimham Committee more than a quarter century ago. While the committee had cautioned against merging weak banks, the government has ended doing precisely that. The consolidation should have been a gradual and calibrated exercise resulting in a smaller number of well-capitalised and professionally managed PSBs with a sound governance structure. Instead, what has come is a shotgun 'reform' decision at a time when PSBs are in deep malaise.

A key concern about merging the ten PSBs into four in one stroke is a lack of clear articulation of the rationale behind bringing disparate and weak banks together, some of whom were still under the Reserve Bank of India's Prompt Corrective Action (PCA). Further, such merger announcements generally trigger confusion, anxiety and insecurity in staff, leading to a slowdown in business. When decades-old brands are suddenly obliterated, there is widespread dismay. Poor communication within PSBs exacerbates the challenges. The smooth manner in which SBI merged five of its associate banks (ABs) in 2017 is not a relevant example in this regard. SBI had managed the ABs over the years with its own senior team, and all associates had already been functioning on common technology platform. In fact, left to its own, SBI would have preferred a gradual acquisition. The merger was forced upon it in the worst year of its history.

Reversing decline in returns

The efficiency gains from the mergers for large PSBs would be largely illusory in the absence of a sound management with a vision for the future. The post-merger scale economies that large international banks seek to achieve with ruthless measures are not feasible in India. Our objective should be to create bigger PSBs that can mirror the efficiency parameters of leading private sector banks here. The chief goal should be to reverse the decline in the PSBs' Return on Equity (RoE) after investing considerable sums in bringing them on a common technology platform, and introducing better risk management measures. The merged entities should become agile and capable of meeting the challenges in retail and mass market segments from private players and open banking sources.

To smoothen the merger process, six measures may be worth considering. First, it needs to be ensured that there is no leadership vacuum in the anchor banks. Mergers require strong skills in thought leadership, results leadership and people leadership. The technical skills needed for integration planning, transforming business support functions and value build-up have to be cultivated. There is a strong need to revamp Human Resources (HR) practices and culturally integrate the expanded workforce through sustained training initiatives.

It is vital to give the current heads of anchor banks a three-year term, or a tenure that lasts till the incumbents reach the age of 62 years, to avoid uncertainties in managing the transformation, and to enable the chiefs develop a second line. It is equally important that the top leadership comes from within the banks based on performance. The practice over the years of shuffling senior executives from one PSB to another has done more harm than good.

Second, there is a need to recruit professionals from the market in key areas of technology, HR and risk management, in all of which PSBs are grossly under-equipped. Such recruitments should obviously be at market pay, which is the norm in joint ventures promoted by PSBs such as SBI.

Training the front-line staff

Third, PSBs should not be found wanting when it comes to recruitment and training of front-line staff. There is a fear that the 'merger wave' may sink fresh hiring. While there will be rationalisation of headcount due to voluntary exits spurred by relocation and other compulsions, many staff members moved across their former banks may be less than suitable for the new roles. A buoyant exercise of recruitment and training is vital.

Fourth, the government should actively plan steps to offset a possible slow expansion in bank credit in the near term. There is a decelerating trend in loan approvals by PSBs, as brought out in the last RBI report on Trend and Progress of Banking. More risk aversion on the part of bankers, coupled with their internal preoccupations, could further slacken credit growth. Loan ***mela***s and directed lending measures would not be the ideal solution. Instead Non-Banking Financial Institutions (NBFCs), which have a better understanding of the market needs, need to be tapped to ensure better credit flow. In terms of size, NBFCs are about 15% of the combined balance sheet of all banks. They should be enabled to step in more actively to fill the gap in funding Small and Medium-sized Enterprises, which are facing real issues as regards credit availability.

Here, it may be good to consider expanding the scope of the partial credit guarantee scheme announced in this year's budget to cover all NBFCs treated as Asset Finance Companies, instead of restricting it to the top-tier NBFCs, which any way have access to multiple sources. The proposed six-month guarantee could also be raised to two years to build a sustained momentum.

Further, the Credit Guarantee Fund Trust for Micro and Small Enterprises managed by SIDBI may be revamped to assist more NBFCs. Drawings by NBFCs constitute just 7% of the disbursements made so far, and smaller firms are not even aware of this option.

Ownership tangles

Fifth, the government should resolve the tangles in the ownership of the merging PSBs in insurance, asset management and other ventures. Some ventures involve foreign partners, and some are market-listed. The anchor banks should be free to take the best course that would optimise the value of such investments.

Lastly, the government should consider converting a few 'weak' PSBs outside the merger into regional banks. This was one of the recommendations of the Narasimham Committee. Banks such as Bank of Maharashtra and Punjab and Sind Bank that have spread manpower, network, and resources thin could be turned into vibrant regional institutions to serve agriculture, trade and commerce.

While such consolidation can result in handsome productivity gains, what matters is the quality of execution by a stable and committed leadership, aided by a shrewd and benign ownership.

HR integration, main focus of merger, says Indian Bank MD

SPECIAL CORRESPONDENT
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THE HINDU

'Common CBS platform to make process smoother'

The integration of human resources (HR) would be the main focus area in the amalgamation of Indian Bank and Allahabad Bank, said Padmaja Chunduru, MD & CEO, Indian Bank.

Addressing the first town hall meeting after the boards of the two lenders approved the amalgamation, she said in the process, the banks faced two issues — technology and integration of HR.

Last week, the boards of Allahabad Bank and Indian Bank gave its in-principle approval for the amalgamation. The town hall meeting was held to address various challenges and discuss the growth potential of this merger.

Since both the banks worked on the common core **banking** solutions (CBS) platform, it would make the amalgamation relatively smoother and would open up new vistas of growth, she pointed out.

It was the integration of HR (to form a wider talent pool) that held the promise of strong growth for the merged bank and better career prospects for the employees, she added.

Deriving synergies

According to her, the bank would derive synergies from wider pan-India presence, economies of scale, higher investments in technology and improving productivity.

While exhorting the employees to continue their focus on business growth and customer service during the transition period, she said customers would benefit from better customised product and service offerings and digital initiatives that will be rolled out.

S.S. Mallikarjuna Rao, MD and CEO, Allahabad Bank, expressed confidence that the combined entity would turn into a 'great bank in the future'.

"The customisation that had gone into the CBS platforms of both the banks will require deeper attention in the process of unification of products and services. There will be capacity for better adaptability to faster technological changes, achieving economies of scale," he said.