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Blunting the economic impact of a pandemic

Raghuvir Srinivasan MARCH 21, 2020

THE HINDU

There are a number of helpful actions the government can take in response to the unfolding distress across sectors

That screeching noise that you hear is of the wheels of commerce grinding to a halt. The effect of the strong clampdown measures taken by the government to arrest the spread of the coronavirus is beginning to be felt across a swathe of the economy.

Prime Minister Narendra Modi, in his address to the nation on Thursday, said that a task force under Finance Minister Nirmala Sitharaman has been constituted to assess the economic impact of the pandemic and suggest palliative measures.

Here are some suggestions for the task force to discuss.

Cash transfers

Those such as cab drivers, restaurant waiters, mall workers, domestic help, itinerant retailers and other casual job workers are either already without jobs and incomes or will soon find themselves in that position.

It may not be a bad idea to consider cash transfers of a fixed amount to these vulnerable sections. There are 33 crore accounts under the Pradhan Mantri Jan Dhan Yojana that can be leveraged for this purpose. There is also an efficient Public Distribution System prevalent in most States through which the beneficiaries can be identified for a cash handout.

There are a total of 23.53 crore ration cards in the country according to the National Food Security Portal. Assuming that all of these are below poverty line cards, a transfer of Rs.1,000, which is the least that should be considered, will cost the Centre over Rs.23,500 crore. Granted that the funds requirement is huge even for this basic amount. We will look at funding possibilities later in this piece.

Last month, Hong Kong announced a cash handout of HK$10,000 to every permanent resident as a supportive measure. The United States is also weighing the option of a cash handout totalling $250 billion to its citizens.

Loan guarantee

Service industries such as airlines, hotels and restaurants and tourism have begun to feel the pinch, and in course of time the pain will extend to the manufacturing sector as well. The immediate problem for the services industry is that the cash spigot has been turned off. There will be revenue and profit issues to deal with later but the immediate crisis is one of cash flows.

While the cash registers have stopped ringing, these businesses have to deal with expenses that cannot be put off such as salaries, lease instalments, loan repayments and so on.

Banks are obviously not going to offer any accommodation to these businesses given their own issues with sick loans. This is where the government can consider what most of the affected nations in the West have done —offer loan guarantees to affected businesses. Britain has pledged £330 billion of government-backed loans and guarantees, France and Spain have announced €300 billion and €100 billion aid, respectively.

The priority is to keep businesses liquid and that is the reason why these countries have pledged such large amounts as guarantees. The cash machine has to be kept well-lubricated in these difficult times and the government can play a role in that. For a start, it can provide guarantees to working capital loans and link it with assurances from the borrowers concerned that they will secure the jobs in their companies.

Mortgage holiday

An equated monthly instalment (EMI) holiday can be a huge blessing for individuals and businesses when faced with a job loss, salary cut or loss of revenue. A three-month mortgage holiday should be coaxed out of lenders by the government to begin with for businesses in obvious trouble and to those employed by such businesses.

The Reserve Bank of India should show regulatory forbearance in the matter of asset recognition for banks when it comes to these industries. But it should be made amply clear that this is only temporary accommodation till the crisis plays itself out.

God forbid, but if this shutdown prolongs beyond the next couple of weeks, the government may have to look at offering temporary tax relief to businesses. We are looking at an unprecedented situation where revenues are likely to fall off the cliff and cash flows wind down to zero. There are other helpful actions that the government can take such as promptly discharging its bills, refunding taxes without delay, promptly carrying out direct benefit transfers already budgeted for, and, if necessary, even permitting affected businesses to temporarily delay payment of statutory dues such as provident fund and ESI.

How to finance?

This is difficult but there are viable answers. The resources of the Centre and the States have to be pooled to develop a national response to this unfolding economic tragedy. Kerala, for example, has already announced a Rs.20,000 crore package and other States may follow suit. It may be a good idea for the Centre to leverage State resources along with its own.

Second, the government will have to engage with the private sector while devising assistance measures. There is a lot of expertise and sharp financial minds available in the private sector and these should be tapped into for innovative ideas. The Yes Bank rescue proves the heft of the private financial sector in coming to the rescue of one of its own.

The virus has eaten into the just-a-month-old Budget whose numbers now appear unrealistic. It is not just tax revenues that are heading for trouble, even the disinvestment budget of Rs.2.10 lakh crore now appears unachievable. Bharat Petroleum Corporation Limited and Air India appear destined to remain government companies in the foreseeable future. In this backdrop, it is impossible for the Budget to fund any stimulus programme now. Extra budgetary support will be needed and that is where the idea of a bond issue comes in.

A well-structured, tax-efficient bond issue can be an option to tap into the large pool of domestic savings. The large Indian diaspora can also be tapped into. Remember the Resurgent India Bonds experience of 1998 post-Pokhran? The State Bank of India raised about $4 billion from non-resident Indians against all odds to help India tide over the immediate impact of sanctions. Why not do something similar now? After all, this is as unprecedented a situation for the country as the aftermath of the sanctions in 1998.

RBI sets contingency plan in motion, identitifies property to host personnel

Manojit Saha MUMBAI, MARCH 20, 2020 THE HINDU

Aim is to protect financial markets

The Reserve Bank of India (RBI) has put in motion a contingency plan in the wake of the spread of COVID-19 to ensure that the financial markets continue to function smoothly.

A property in the vicinity of the primary data centre has been identified to host 150 personnel of the RBI and service providers. About 70 support staff were also isolated within the hotel on a continuous basis.

Since information technology infrastructure forms the backbone of most businesses, and especially the financial system, RBI data centres play a crucial role.

About 600 people belonging to third-party service providers are generally deployed at data centres for non-IT and IT services, apart from 60 RBI officials.

"All residents have been asked to be prepared for the separation, while being assured that one can leave the group in case of any family or other emergency," said a source. This plan was implemented from Thursday to ensure continuity of critical services of the RBI.

Similar arrangements have been made at other data centres too to run systems with maximum services whenever there is a need to shift operations from the current location.

The data centres of the central bank run critical systems like real time gross settlement, national electronic fund transfer, services for government and interbank transactions, currency management, among others.

Under the minimum staffing plan, two batches are formed, with the second batch kept on ready standby to take over when required. A backup replacement pool was also prepared.

A team of 37 officials was formed comprising key personnel from important functions like debt management, reserve management, monetary operations etc.

Over half of India Inc. catches a cold

SPECIAL CORRESPONDENT NEW DELHI, MARCH 20, 2020 THE HINDU

Many companies see huge reduction in orders, cash flows, says FICCI survey

Over 50% of Indian businesses are seeing marked impact on their operations due to the COVID-19 pandemic, while about 45% companies believe that it could take at least six months for the situation to come under control, according to a study by the Federation of Indian Chambers of Commerce and Industry (FICCI).

"A significant 53% of Indian businesses indicate the marked impact of the coronavirus pandemic on business operations even at early stages," the survey, which saw participation from 317 companies between March 15-19, 2020, said. Almost three-fourth of the businesses indicated big reductions in orders. "Of these, almost 50% indicated a 20% and more decrease in the orders," it said.

Likewise, almost 80% of companies reported a decrease in cash flow, with more than 40% respondents reporting a fall of 20% or more in cash flows. Asked about the expected time for normalcy to return, 45.21% respondents said it would take six months, while 42.47% expected it in three months. The survey added that nearly 30% organisations have put in place work-from-home policies for their employees.

However, it added that for some sectors, including manufacturing units, banking and IT, the work-from-home proposition is posing implementation challenges. "A combination of monetary, fiscal and financial market measures is needed to help the businesses and people cope with the crisis," it said.

Among other things, it suggested that the cost of funds be brought down through reduction in policy rates, increase credit limits for all regular banking accounts by 25% across the board and bring in flexibility in the banking system to reschedule payment terms without the need for provisioning. It added that the government should not pare down its capital spending plans despite any shortfall in tax collections.

Covid-19: FM Nirmala Sitharaman takes stock of situation, holds meeting with four ministries

PTI | March 20, 2020

THE HINDU BusinessLine

Finance Minister Nirmala Sitharaman on Friday met ministers and officials of civil aviation, animal husbandry, tourism and MSME ministries to take stock of the situation following the coronavirus outbreak.

The Finance Ministry is compiling various demands of these sectors which are severely impacted by Covid-19, Sitharaman told reporters. The Ministry will hold an internal meeting on Saturday to firm up the action plan to deal with the crisis, she added.

On Thursday, Prime Minister Narendra Modi in his address to the nation had said the government is setting up a 'Covid-19 Economic Response Task Force' to decide on relief package for sectors hit by the coronavirus outbreak.

RBI, SBI and Central Bank allow'work from home' for employees

Mumbai/ Thiruvananthapuram | March 20, 2020
Our BureausBUSINESSLINE

With the coronavirus outbreak getting more entrenched in the country, the financial sector, including the Reserve Bank of India (RBI) and State

Bank of India (SBI), have sprung into action, allowing work-from-home facility for employees, thereby cutting down travel and decongesting offices. This move is aimed at ensuring that the risk of exposure is minimised and business continues without any interruption. Barring the top management (Governor, Deputy Governors and Executive Directors), departmental heads and senior officers at the central and regional offices, a majority of the central bank's employees will be working from home.

Senior RBI officers at crucial departments such as Financial Markets Operation, Internal Debt Management, Payment and Settlement Systems, Information Technology, and Currency Management are expected to work as usual.

The RBI decision has come in the wake of the Maharashtra Government, on Thursday, announcing that only 50 per cent of the government staff will attend office on a given working day. The State, on Friday, further cut down the government staff presence in offices to 25 per cent.

SBI has issued an office order, whereby every staff member at its corporate centre and its establishments will work on alternate days. What this means is that on any day, 50 per cent of the employees in the corporate centre and its establishments will attend office, while the remaining will work from home. This arrangement will be reversed on the next working day. Those working from home have to be available on telephone and email at all times and be available in case of exigency.

Essential support

When the heads of departments draw up roster of duty for all employees, India's largest bank said it must be ensured that essential support functions such as IT services, digital services, data centre operations and treasury continue uninterrupted.

SBI said its instructions will come into effect from March 21 to April 4 or until further orders, whichever is earlier. The bank said separate instructions are being issued for other administrative offices/ centralised processing centres/ branches.

Central Bank of India has decided to implement work from home for staff at central office and zonal administrative offices / training colleges/ centres. When it comes to all verticals at the central office, the staff will be working from home on alternate days. General Managers/ vertical heads will be dividing the staff into two groups, preferably in equal numbers. This is to ensure that work flow is not hampered.

These instructions, which will come into effect from March 21 to March 31, will also apply to staff at zonal administrative offices / training colleges/ centres.

Staff 'on duty'

Employees of both SBI and Central Bank working from home will be treated as 'on duty' and no leave will be debited. Indian National Bank Employees' Federation General Secretary Subhash Sawant said the front line staff at branches are highly vulnerable to exposure. Hence, bank managements should do everything to protect their interests.

All-India Bank of Maharashtra Employees' Federation General Secretary Devidas Tuljapurkar said: "We do understand that banking services are important public utility service and has to continue to operate and extend services." He added that it is essential that bankers be given all protective gear so that they continue to serve customers without any disruption.

Allahabad Bank shareholders to lose 25% post-merger with Indian Bank

PTI Kolkata | March 19, 2020 BUSINESSLINE

'Merger of Allahabad Bank and Indian Bank will generate business of Rs 10-lakh crore in next two years'

The city headquartered Allahabad Bank shareholders would find nearly 25 per cent erosion in holding value, based on current stock price post amalgamation with the Indian Bank slated to be effective from April

1.Allahabad Bank’s name and its board will cease to exist from April 1. It has over 3,000 branches across the country.

A shareholder with 1,000 shares of Allahabad Bank will get 115 shares of Indian Bank. Based on the closing price of Thursday, holding stock value of Rs 7,600 will become Rs 5,681 for an Allahabad Bank shareholder, down by 25 per cent. Indian Bank closed at Rs 49.40 a share while Allahabad Bank share closed at Rs 7.6 at BSE.

“Valuations had been done transparently by independent agencies like Deloitte and KPMG for both the banks. Swap ratio was finalised after considering grievance redressal committee for shareholders,” Indian Bank Managing Director & CEO Padmaja Chunduru said when asked.

An expert committee was constituted to consider the objections of some minority shareholders on the share exchange ratio.

Chunduru said she does not foresee any hurdle in amalgamation and it will happen as per schedule. “The amalgamated Indian Bank will be operational from April 1 and the combined branches would be about 6,000 without much overlap of branches. The amalgamated bank headquarters will be in Chennai,” Chunduru said.

RBI extends regulatory restrictions put on PMC Bank till June 22

Our Bureau Mumbai | March 21, 2020 BUSINESLINE

Under the directions, PMC Bank depositors cannot withdraw more than Rs 50,000 of the total balance in their accounts

The Reserve Bank of India (RBI) on Saturday said it is trying to work out a scheme for revival of the scam hit Punjab and Maharashtra Cooperative (PMC) Bank even as it decided to extend the directions imposed on the bank for a further period of three months.

The directions on PMC Bank have been extended from March 23, 2020 to June 22, 2020, subject to review.

The RBI emphasised that unlike in the case of commercial banks, it has no powers to draw up an enforceable scheme of reconstruction of a cooperative bank.

"Nevertheless, in the interest of the depositors and the stability of the cooperative banking sector, the Reserve Bank of India, in consultation with various stakeholders and authorities, is trying to work out a scheme for revival of the bank. In order to take this forward, it is considered necessary to extend the aforesaid Directions for a further period of three months," the RBI said in a statement.

In the wake of the Government notifying the "YES Bank Limited Reconstruction Scheme, 2020" on March 13, 2020 to rescue the private sector bank from an imminent collapse, PMC Bank depositors and shareholders too demanded that their Bank too should be revived/ rescued.

Under the directions, PMC Bank depositors cannot withdraw more than Rs 50,000 of the total balance in their accounts. Due to enhancement of the withdrawal limit from time to time, the RBI said 78 per cent of the depositors of the bank were in a position to withdraw their entire account balance.

In October 2019, the apex bank, in a statement said the financial position of PMC Bank has been substantially impaired due to fraud perpetrated on it by certain persons. As soon as the matter came to its notice, RBI said action was taken in appointing an Administrator and ensuring that the bank's available resources are protected and not misused or diverted.

Rana Kapoor sent to judicial custody till April 2

Our Bureau Mumbai March 20, 2020

YES Bank co-founder Rana Kapoor was sent to judicial custody till April 2 on Friday. The Enforcement Directorate informed the special PMLA court that it had found 19 new companies related to Kapoor and is looking into the money trail.

During investigation, ED had earlier found links of Kapoor and his family with 78 companies. Kapoor wasarrested by the ED on March 8 under provisions of the Prevention of Money Laundering Act, and was initially remanded to ED custody till March 11, which was later extended till March 16. The PMLA court had then extended his custody with the ED till March 20.

When asked by Judge Parashuram Jadhav if he had any complaints, Kapoor said that he has been suffering from asthma for the last six to seven years and has low immunity and was in severe depression.

His lawyer, advocate Abbad Ponda, also said that a person with low immunity is 'easily susceptible' to contracting coronavirus.

"The virus is spreading very fast. It is a very precarious situation. If he goes there (to the jail) he might catch something which is very, very serious," the lawyer said, requesting that Kapoor should be kept in a larger cell.

The court asked the jail authorities to take proper care of Kapoor and provide him with medicines as per the advice of the medical officer.

Kapoor is also being probed by the Central Bureau of Investigation. The CBI has also obtained a production warrant against Kapoor, which will be presented to jail authorities.