AIBEA's Banking News

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NEWS BULLETIN FROM ALL INDIA BANK EMPLOYEES' ASSOCIATION

In today's Bulletin

AIBEA offers to foot train fare of migrant workers

SPECIAL CORRESPONDENT,

CHENNAI , MAY 19, 2020

THE HINDU

All India Bank Employees Association (AIBEA) has come forward to foot the train fare of the migrant workers up to a total amount of Rs 1 crore for travel by Shramik trains from one State to another.

In a letter written to the Railways Minister, AIBEA General Secretary C.H. Venkatachalam said migrant workers in various States have lost their livelihood in the present lockdown scenario since all economic activities are at a standstill in the present circumstances. All of them, who number around 8 crore, have migrated from various States and are working thousands of kilometres away from homes.

They have no employment now and are in deep distress conditions for the past nearly a month and a half. This has led to travel back to their villages. Due to the intervention of the government, some Shramik trains have been operated but here also, problems have arisen for payment of train fare, he said..

It is not clear whether the Centre, respective State government or the Railways will bear the ticket cost. But, it is clear these poor migrant workers cannot afford to pay. In this background, as a humble contribution from our Association and as a social welfare measure, we feel it our duty to associate our organisation with the government's various measures to mitigate the problems of these suffering migrant workers, he said.

Ramdev International fraud: Why did SBI, other lenders wait for 4 long years to move CBI?

An obscure Delhi-based rice producer defaulted on loans worth more than Rs 400 crore, but lenders were painfully slow in swinging to action.

Dinesh Unnikrishnan @Dinesh_Unni

Little is known about Ramdev International. The registered address is in Sector 17, Rohini in New Delhi. Despite the flashy label, the company has no website. Ramdev makes — used to rather — grain mill products, starches and starch products.

Details are hard to come by, but one can gather from the Ministry of Corporate Affairs (MCA) website that the company was incorporated on April 5, 2004 with an authorised share capital of Rs 5 crore and paid-up capital of Rs 4.3 crore. The Balance Sheet was last filed on March 31, 2014 and the Annual General Meeting (AGM) last held on September 29, 2014.

To use an analogy drawn from its business, it is a 'needle in a haystack' kind of company. But all of a sudden, Ramdev International has been thrust into the limelight because for some mysterious reason, despite its obscurity, the company's credentials were good enough for six banks, including State Bank of India (SBI) — India's largest — to lend to the promoters generously six years ago. The Rs 414-crore loan SBI and five other banks offered to Ramdev International for business expansion turned an NPA (non-performing assets) on January 27, 2016.

Not a measly amount, by any stretch of imagination. Yet, SBI and other banks moved the Central Bureau of Investigation (CBI) with a complaint only early this year--on February 25. That's four years after the lenders discovered foul play in the account and the conduct of its promoters.

While the story of Ramdev International is emblematic of the ugly banking sector mess, there are eerie parallels with the shenanigans of liquor tycoon Vijay Mallya.

Not only did SBI and the other lenders wait four years to classify the account as fraud, they also moved painfully slow to seek legal action against its promoters— Naresh Kumar, Suresh Kumar and Sangita. When a complaint was finally filed with the CBI against the three, the bankers found they had fled the country around a year ago. To give the bankers the benefit of doubt, banks discovered about their escape a little late. But why did they wait until February to file a complaint?

SBI is yet to respond to a detailed email questionnaire sent by Moneycontrol on May 14 enquiring about the bank's delay in moving the CBI to report the fraud.

Twist in the tale

The CBI is investigating the Kumars and Sangita for allegedly defrauding the six banks and fudging accounts. Of the Rs 414 crore, SBI lent Rs173 crore to Ramdev International, Canara Bank disbursed Rs 76.09 crore, Union Bank of India Rs 64.31 crore, Central Bank of India Rs 51.31 crore, Corporation Bank Rs 36.91 crore and IDBI Bank Rs 12.27 crore. The CBI noted that all three promoters escaped to safer pastures long before SBI moved the CBI with the complaint of fraud and default.

Bankers that Moneycontrol spoke to said besides rice milling plants, Ramdev also has offices in Saudi Arabia and Dubai for trading business. They did not want to be named.

How the events unfolded

The Ramdev International account was a typical corporate borrower default case for SBI and other banks until August 2016. Most companies involved in the business of paddy procurement and processing were reporting losses on account of the high procurement cost and low receivables.

A team of lenders decided to swing into action that month, seven months after the account turned NPA. They inspected the company premises.

According to SBI's complaint to CBI, when the inspection team landed at the factory premises, all that they found was Haryana Police Security Guards roaming the premises. "On enquiry, (we came to know) that the borrowers are absconding and have left the country," says the SBI complaint.

The borrowers had removed the entire machinery from the old plant and fudged the Balance Sheet in order to unlawfully gain at the cost of banks' funds. It didn't take much time for the bankers to realise they were duped.

Remember, this incident happened in 2016. The visit to the premises should have given enough warning bells that something was seriously amiss. But it took another three years, according to the bank's complaint to CBI, for the lenders to confirm the missing status of the Kumars.

What explains the inordinate delay by SBI and other lenders to report the fraud? Did the delay on the part of banks help the promoters leave the country before investigators could arrest them?

Why did the banks delay action?

According to a senior bank executive, banks typically delay reporting fraud even after sufficient evidence to avoid sudden one-time provisions.

"If an account becomes NPA, you need to make partial provisions depending up on the class of the asset. In most cases, this could start from 15 percent. But if the account is reported as fraud, this will be a 100 percent upfront provision. If you report fraud after a few years, the provisioning can be spread across a period; hence less impact on books," said the banker who requested anonymity.

Did SBI delay reporting the fraud and filing the complaint with CBI for this reason? The article will be updated when SBI responds.

Vijay Mallya déjà vu

In many ways, the similarities between the Ramdev International case and the infamous Vijay Mallya case are stark. By the time SBI and other banks moved Supreme Court in 2016, Mallya had left the country (on March 2) to the UK after defaulting Rs 9,000 crore disbursed by 17 banks, including SBI, to his defunct Kingfisher Airline.

Banks had clearly acted late in the case. The Kingfisher Airlines account had tuned NPA in 2012. Even after four years, banks are still struggling to get Mallya back though he has offered to pay.

The NPA mess has broken the back of India's banking system. Yet, the episodes of Ramdev International and Kingfisher show unscrupulous promoters still have hope of receiving a free rein from negligent bankers.

'Self-Reliant India' package: Economy needs more demand-side measure

May 20, 2020 | Aastha Gudwani & Indranil Sen Gupta

THE FINANCIAL EXPRESS

Expect RBI to cut the reverse repo rate by 75bps by October, and purchase $75bn of G-Secs via OMOs or bidding at primary auctions

We estimate that each month of lockdown shaves off 100-200bps from headline growth

As India braced for lockdown 4.0, with total Covid cases crossing 100,000 (run rate now at ~5,000 cases a day), details of the 'Self-Reliant India' package that PM Modi announced in the run-up to lockdown 4.0 were keenly awaited. In five parts, the finance minister, laid out the details of the Rs 20 lakh crore (10% of GDP) economic package (fiscal + monetary), focusing on a broad range of sectors, ranging from agriculture to defence, MSME to NBFC, rural employment, migrant workers, urban poor, rental housing, space atomic energy, etc. We laud these measures and expect them to push India's potential growth up in the medium term. However, given that the current outlay for these measures amounts to Rs 4 lakh crore (1.1% of GDP, BofAe, see graphic), we see growth falling to -0.1% in FY21. We expect the Reserve Bank of India to follow up the announced measures with further monetary easing.

Details of the package

Reforms in agriculture, mining, power and industry, higher foreign direct investment (FDI) in defence, and opening up of strategic sectors to private enterprises should help push up growth over time. Most of the measures announced are in the right direction, but the focus is largely on supply-side reforms. Demand-stimulating measures that are currently needed to ward off the Covid-19 shock were rather limited. Thus, in the near term, GDP will likely contract by 12% in the June quarter, and by 0.1% in FY21 (see graphic). This assumes the national lockdown is extended to June (with some relaxations), with the restart taking up to mid-August. We estimate that each month of lockdown shaves off 100-200bps from headline growth. Moreover, given migrant labour dislocation, we expect the restart to be quite patchy, shaving off about 120bps. In response, we expect the RBI MPC to cut the reverse repo rate by 75bps to 3% by October (lower than the previous cyclical low of 3.25%) atop the 115bps cuts announced since March.

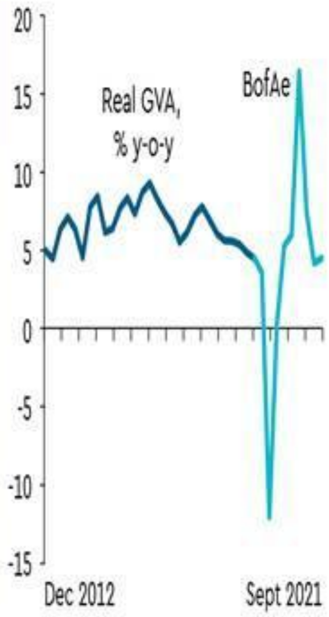
The stimulus package was announced in tranches, and included measures such as creation of an agriculture infrastructure fund (0.5% of GDP), liberalisation of agriculture produce marketing, raising allocation to MGNREGS by 0.2% of GDP, and extension of Kisan credit cards (by 1% of GDP). The ministry of finance (MoF) has also liberalised investments in mining and defence (by raising the FDI cap to 74% from 49%). It will also strategise to push up investment in champion sectors, and open up strategic sectors to private players. A large part of the measures announced revolves around access to credit, adequate liquidity, government guarantees, etc. Notably, of the total Rs 20 lakh crore, RBI's measures are expected to provide Rs 8 lakh crore (3.8% of GDP). We estimate the cash outgo associated with these measures by the Centre at Rs 2.4 lakh crore (1.1% of GDP). We believe the additional borrowing announced previously should help fund this.

Thus, we maintain our FY21 growth forecast of -0.1% of GDP. We do see a downside risk to this estimate, should the lockdown be extended further. Also, we have cut our 2020 global GDP forecast to -3.1% from -2.7% earlier.

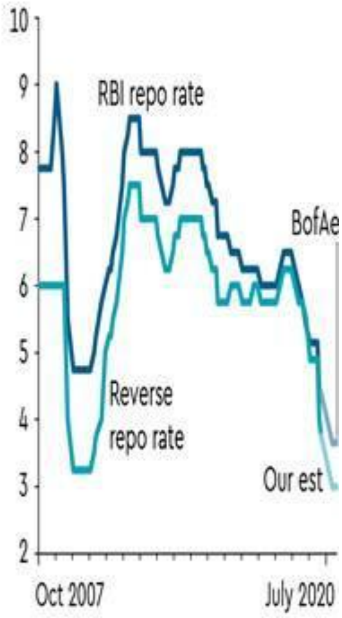
Table of the day: Self-reliant India stimulus 10% of GDP, fiscal impact 1.1%

	₹ crore	% of GDP	Est cash outgo/ rev loss	% of GDP
Earlier Measures Ind PMGKP	1,92,800	0.9%	97,800	0.5%
RBI Measures (Actual)	8,01,603	3.8%		
Part 1	5,94,500	2.11%	73,550	0.3%
Part 2	3,10,000	1.5%	5,000	0.0%
Part3	1,50,000	0.7%	16,750	0.1%
Ports 4 & 5	48,100	0.2%	48,100	02%
Total	20,97,003	10%	2,41,200	1.1%

Medium-term reforms, near-term growth to contract



MExpect the RBI to cut reverse repo rate by 75 bps by October



Source: BofA Global Research estimates, MOSPI, RBI

What more to expect?

Given a large part of the measures were focused on revival, we think some demand-side measures are still needed. We expect the following to be announced:

Subvention: We expect MoF to offer interest rate subsidy for SMEs and real estate

Issuance of PSU bonds of 0.5% of GDP to fund capex.

Recapitalisation of PSBs via non-fiscal levers like re-cap of bonds, and use of RBI revaluation reserves. We also expect RBI to follow up with measures such as:

75bps RBI reverse repo rate cut to 3% by October, with inflation set to slip to 2.5% in 2HFY21 (see graphic).

Purchase of G-secs of $75bn via OMOs or bidding at primary auctions, to fund the Centre’s additional borrowing of 2% of GDP and the consolidated fiscal deficit of 10% of GDP.

Giving banks the assurance of held to maturity facility to incentivise them to invest their surplus in G-secs at low yields to offset future mark-

to-market hit. Banks could invest, say, Rs 2 lakh crore/0.9% of GDP of their Rs 8 lakh crore money-market surplus to fund higher issuance. As the blended cost of funds is about 5%, a bank may prefer to buy, say, a 10y with a coupon of 6%, instead of parking its surplus at 3.75% RBI reverse repo. At the same time, it loses Rs 7.1 if the 10y yield goes up by 100bps to 7%.
We continue to expect RBI to sell $50bn of FX to support the rupee.

Coronavirus relief package: Covid agri-reforms are half-baked

May 20, 2020 | Sanjib Pohit

THE FINANCIAL EXPRESS

If Bihar's example is anything to go by, simply repealing the APMC Act is not enough to benefit farmers. There is a need to move from notional to functional FPOs

What is certain is that in the present crisis, private investment is unlikely to flow for capacity building in agri-infrastructure

In the Covid-19 relief package, finance minister Nirmala Sitharaman has focused on a number of capacity building measures for the agriculture sector—such as the Agriculture Infrastructure Fund for strengthening the so-called farm-gate infrastructure, including logistics and storage support for perishable farm produce, formalisation of micro food enterprises, support for marine aquaculture, animal husbandry and herbal cultivation, and an additional emergency working capital to farmers through NABARD, among others. Most of these are part of the recommendations of the DFI committee that have been lying with the finance ministry for quite some time.

The FM also took this opportunity to reform the Agriculture Produce Marketing Committees (APMC) structure, and the creation of an enabling legal framework for farmers. The expectation is that reforming/repealing the Act will enhance price realisation for farmers by deregulating select agriculture food stuffs, including cereals, pulses, edible oils, oilseeds, onions, and potato. The formulation of a central law to bring about agriculture marketing reforms is expected to provide marketing flexibility to farmers to sell their product at their chosen market, where the price is high. The private investment will flow into the sector for creating capacity in storage etc—this is currently not forthcoming due to the presence of the APMC Act. This is another overdue recommendation of the DFI committee.

While there are fallacies in the APMC Act, repealing/reforming it is only a small part of the game. More concrete steps are needed to derive benefits from it. What is certain is that in the present crisis, private investment is unlikely to flow for capacity building in agri-infrastructure. It will be at least a year before private investment will flow. More worrying is that private investment may not flow at all, and farmers may be worse off, if we go by Bihar’s example!

Let me explain. The Bihar government took a bold decision to repeal the APMC Act in 2006. Traders are allowed to purchase agricultural commodities directly from farmers, and the market fee is not levied on purchases.

Did these reforms improve price efficiency in the Bihar’s agri-markets? With the abolition of the APMC Act, one would expect that the state’s grain markets are integrated within Bihar and also with national markets. Farmers are free to sell to traders in any part of Bihar, and elsewhere in the country. This would imply that there is effective price transmission between the grain markets within the state, and, hence, better price is received by farmers. Sadly, NCAER’s study, Agricultural Diagnostics for the State of Bihar in India, indicates that this did not happen till 2019, a span of nearly 13 years.

After the APMC Act was abolished in 2006, it was expected that private investment would take place, creating new markets and strengthening facilities in existing ones. On the contrary, the situation at the ground level has not improved. Focus group discussions with farmers and traders revealed that agricultural markets are located far away from the villages.

It has also been reported that the storage cost in private warehouses is very high and it is difficult for most farmers, particularly marginal and small ones, to afford it.

Even after the repeal of the APMC Act, over 90% of the output of crops, including paddy, wheat, maize, lentil, gram, mustard, and banana, is sold within the village, to traders and commission agents. Farmers reported that they do not get a fair price for their agricultural produce. Most farmers reported that their poor economic conditions, and the need for immediate cash after harvest compel them to sell to traders at a lower price. Further, government market facilities are not available near the village. Even if farmers take their produce to a distant market yard, they face the problem of paying extra (bribes) to commission agents.

Farmers also cannot store produce at their homes due to lack of space and necessary storage conditions—doing so would risk spoilage of grains. Therefore, they are forced to sell at the price that traders are willing to offer. Of course, the situation is worse in Bihar due to the low level of participation of government agencies in procurement. This situation may be obtained in other states of India, too, if government procurement activities come to a standstill due to the repeal of the Act.

As such, the bargaining power of a farmer is minuscule vis–a-vis a trader’s. To increase their bargaining power, the government needs to promote and strengthen farmer producer organisations (FPOs). Group marketing not only reduces the length of marketing channels and marketing costs, but also increases farmers’ voice. There is a need to move from the stage of “notional FPOs” to “functional FPOs”.

Contract farming provides a secure market with assured prices for agricultural products. This is important, particularly, for the growing of perishable products such as vegetables. While the FM has been proactive in reforming the APMC Act, she could well have introduced the Model Contract Farming Act. This would have provided a level playing field for both producers, and agro-commercial firms.

Trade unions complain to ILO against dilution of State labour laws

AM Jigeesh New Delhi | May 19, 2020

THE HINDU BusinessLine

If UN body acts on complaint, it may hit India's global trade

In a move that may cause international embarrassment and impact India's global trade in the aftermath of 13 State governments diluting or doing away with labour laws altogether, all central trade unions, except the RSS-affiliated BMS, have filed a complaint with the International Labour Organisation (ILO) against the Centre and State governments' alleged anti-labour and worker practices.

The unions said they will provide supplementary evidences against the governments in a day or two.

The complaint, a copy of which has been accessed by *BusinessLine,* says the recent amendments have undermined various ILO conventions, including Convention 144 on tripartism. The complaint is addressed to Guy Ryder, Director General of ILO, Geneva. If the ILO acts on the complaint, it could adversely impact India's trade with many countries that have adopted ILO conventions.

Lockdown-led suffering

The trade unions said in the letter that working people in India have been subjected to inhuman sufferings owing to loss of jobs, loss of wages and eviction by landlords amid the lockdown.

"We the trade unions in India have been fighting for the retention of jobs and income support to all those who lost their livelihoods to overcome the present situation," said the complaint, sent to the ILO on May 14.

"It is unfortunate that the Government of India supports the blanket exemptions to all establishments from the employers' obligation under all substantive labour laws for a period of three years by the State governments through amendments by executive order or ordinance for a period of three years, empowering the employers to hire and fire workers at their convenience, freezing collective bargaining rights, undoing the rights of occupational safety and health, without the Labour Department's intervention in the establishments for any inspection of the basic bare minimum needs for decent working conditions, etc during the said period," it added.

Plight of migrants

The letter further said migrant workers are trapped without support due to the suddenly announced lockdown. As a result, they have been walking for several hundreds of miles on roads, on railway tracks, through fields and jungles to reach their hometowns, with several precious lives lost on the way to hunger, exhaustion and accidents.

"At the same time, eight State governments have enhanced the daily working hours from eight hours to 12 hours through executive order in violation of the Factories Act, taking advantage of the lockdown situation. More State governments are also making a similar move.

"We consider these moves an attack on human rights and labour rights, besides being gross violation of the International Labour Standards and also the internationally accepted norm of eight-hours working day. The ILO Convention 144 in regard to tripartism has also been undermined by the government," the unions said in their letter.

"We, the 10 central trade unions in India, request the ILO to take immediate cognisance of these extremely precarious and regressive moves for necessary intervention in the interest of the working class of India," the complaint said.

Supplementary evidences

CITU General Secretary Tapan Sen, one of the complainants, said the initial complaint will be followed by supplementary evidences with details of the "regressive steps" taken by the Centre and State governments. "The ILO follows a process. We will provide all the evidences before the ILO soon," he added.

The preamble of 144th Convention (year 1976) of the ILO says: "Recalling the terms of existing international labour conventions and recommendations — in particular the Freedom of Association and Protection of the Right to Organise Convention, 1948, the Right to Organise and Collective Bargaining Convention, 1949, and the Consultation (Industrial and National Levels) Recommendation, 1960 — which affirm the right of employers and workers to establish free and independent organisations and call for measures to promote effective consultation at the national level between public authorities and employers' and workers' organisations, as well as the provisions of numerous international labour conventions and recommendations which provide for the consultation of employers' and workers' organisations on measures to give effect thereto..."

Gold loans, a panacea for the financing needs of MSMEs

George Alexander Muthoot | May 19, 2020

THE HINDU BusinessLine

In the current risk-averse credit environment, MSMEs need alternative sources of raising finance to continue as going concerns. Their best bet may be to consider gold loans

The world is currently passing through an unprecedented situation. The coronavirus, that was first identified in China in December 2019, has now swept across the world, infecting over three million people. As the contagion spread, many governments across the world, including India, resorted to countrywide lockdowns as an appropriate strategy to flatten the curve of severely affected patients and reduce stress on the limited resources available to the healthcare systems. In India, the government-enforced lockdown has brought economic activity virtually to a standstill, and this inevitably will have a severe negative impact on economic growth. The impact is already seen in the rise of unemployment from 6 per cent to over 27 per cent; nearly one in three people is without a job and income as on the first week of May.

A survey by the Federation of Indian Chambers of Commerce & Industry (FICCI) on the immediate impact of Covid-19 reveals that besides the direct impact on employment, demand and supply of goods and services, businesses are also facing reduced cash flows due to the slowing down of economic activity, which in turn has an impact on all payments, including those to employees, interest, loan repayments and taxes. The survey further revealed that almost 80 per cent of the organisations reported a decrease in cash flows.

Importance of MSMEs

Over the last decade, MSMEs have grown to become an integral cog in India's economic growth. They currently contribute around 29 per cent to India's GDP and have generated about 5.87 lakh jobs in 2018-19 under the Prime Minister's Employment Generation Programme. Additionally, with more than 50 per cent MSMEs being present in rural India, they are playing a critical role in the alleviation of the depressed socio-economic conditions of rural India, and in providing last-mile connectivity.

Having said that, the fact that the current lockdown has severely stressed the cash-flows of these enterprises becomes extremely significant when considering the revival of the Indian economy. These enterprises operate on a relatively small scale, with lower margins and do not have adequate liquidity buffers in order to honour their liabilities in the present situation. Their problems are further amplified due to challenges in accessing timely and affordable finance.

In the current credit environment, where there is a strong risk-aversion towards lending by banks and NBFCs, MSMEs need alternative sources of raising finance to continue as going concerns. However, if the show must go on, the best way for MSMEs to address the challenges related to financing is to consider gold loans.

Glimmer of hope

Gold loans are essentially loans where gold jewellery is pledged as an underlying security. Due to the high liquidity enjoyed by gold and the established market values for the commodity, these loans have a quick turnaround time. Even prior to the economic crisis, gold loans were a popular and hassle-free method of raising capital for SMEs. Gold loans do not entail the extensive cash-flow assessments that a regular working capital loan would require. In the current pandemic, they can become an effective substitute and efficient source of financing for MSMEs.

To put things in perspective, the retail gold holding by the general public in India is estimated at 25,000 metric tonnes, the market value of which is around Rs.100 lakh crore ($1.3 trillion). This is almost in line with the Covid-19 economic package of $ 2 trillion announced by the US government. Considering that gold is the most liquid asset and it is already present in the hands of most Indians, monetisation of even 10 per cent of this can infuse Rs.10 lakh crore ($ 130 billion) liquidity into these stressed enterprises. This is a conservative estimate of the immense liquidity that gold loans can unleash into the economy to give the much required fillip to economic activity and growth.

Well-positioned NBFCs

NBFCs, especially gold loan NBFCs, act as conduits for the economy, imparting liquidity wherever and whenever it is required. NBFCs have the unique advantage of grass -root penetration as they have a majority of their branches in the unbanked rural/semi-urban suburbs. This means that gold loan NBFCs, with their last-mile presence and expertise in lending against gold, will be capable of speedy and efficient loan disbursals to every nook and corner of the country. In order to further augment their reach and impact, there are a few policy decisions that the government and the regulator can take. These include:

Categorising credit facilities extended by banks to gold loan NBFCs under priority sector lending.

Aligning the single counterparty exposure limit for banks' exposure to gold loan NBFCs with that of other NBFCs ie, at 20 per cent of Tier I capital of the bank (against the existing level of 7.5 per cent for gold loan NBFCs) to enhance credit flow to the sector as well as harmonisation of single counterparty exposure limit.

Considering the following relaxations in securitisation/ assignment guidelines to help NBFCs raise funds from banks:

Gold loans may be exempted from the stipulation that assets with bullet repayment of both principal and interest cannot be securitised/ assigned.

Because of the short duration of the loans, gold loans may be exempted from the minimum holding period and minimum retention ratio stipulation.

Allowing gold loan NBFCs to advance against gold coins up to 50 grams, similar to banks.

Ensuring that the branch expansion policy is aligned with that of the banks ie, branch opening does not require a prior approval. The only requirement is to inform the RBI once the branch is opened — this facility can be made available to NBFCs with Credit rating "AA" and above.

Permitting NBFCs with a credit rating of "AA" and above to accept privately-placed NCDs to mobilise savings of retail small investors.

If the economy is to wade through these turbulent times and emerge with only the battle wounds, then it is imperative that all stakeholders in the ecosystem come together and work in a collaborative manner. Considering the role that NBFCs, especially gold loan NBFCs, can play in fulfilling the government's agenda of inclusive growth, measures (as mentioned above) need to be taken to strengthen their reach and efficacy.

The virus will pass and economic activity will sooner or later get back to normal. However, not all MSMEs will be able to navigate through these turbulent times and the gap that their collapse would leave is not easily filled. A gold loan can act as a life-vest and help us weather this storm.

PSBs sanction Rs.6.45 lakh crore loans from March 1 to May 15

Our Bureau New Delhi | May 19, 2020

THE HINDU BusinessLine

The Finance Ministry on Tuesday said that Public Sector Banks (PSBs) have sanctioned loans worth over Rs.6.45 lakh crore during May 1-May 15. The approved loans pertained to 54.96 lakh accounts from MSME, Retail, Agriculture and Corporate sectors.

This sanctioned level of Rs.6.45 lakh crore as on May 15 is a "notable increase" compared to the Rs.5.95 lakh crore sanctioned as of May 8, the Finance Minister Nirmala Sitharaman's office tweeted.

This tweet is significant as it comes at a time that when the recently announced Rs.20 lakh crore stimulus package aimed at infusing life in the sagging Indian economy failed to live up to expectations of the common man.

It is also coming at a time when pressure is mounting on the RBI to extend bad loan recognition time to 180 days from the current 90 days and loan moratorium by at least one quarter.

Why the Rs.20-lakh crore stimulus adds up to just Rs.2-lakh crore direct impact

Radhika Merwin BL Research Bureau | May 19, 2020

THE HINDU BusinessLine

The package, that mainly consists of loans, liquidity measures and structural reforms but very little actual spending by the Centre, is grossly inadequate to compensate for the steep Rs.15-18-lakh crore loss in GDP this fiscal

Even as the market and industry waited with bated breath for the finer details of the Rs.20-lakh crore stimulus package, every tranche announced by the Finance Minister only amplified the disappointment for businesses and the *aam aadmi*.

The measures announced by the Centre, though big on reforms, can hardly be termed as stimulus measures to tackle the ongoing crisis. For one, of the Rs.20 lakh crore, only about Rs.2 lakh crore or 1 per cent of GDP will have a direct impact on fiscal deficit in FY21. Given that various economists have pegged the loss to GDP at a whopping Rs.15-18 lakh crore this fiscal (could even go up if lockdowns are extended and there is a second wave of infection), the direct fiscal spending is grossly inadequate to address the ongoing crisis.

Two, many of the measures are in the form of credit guarantee (which means the government stands as guarantor in case of default). How many of these schemes are utilised and reach the last-mile borrowers (cash-starved businesses in particular) needs to be seen. As such, the overall credit guarantees amount to about Rs.3.5 lakh crore of contingent liabilities for the government — which do not lead to an immediate outgo but could turn into liabilities in due course of time. Hence, if these schemes are not used judiciously with proper checks, it could come to bite the government in the coming years.

Three, nearly 40 per cent, or Rs.8 lakh crore of the Rs.20 lakh crore package, includes the RBI's policy/liquidity measures, wherein the onus falls on the already stressed banks and NBFCs to provide funding to ailing corporates and businesses. Given the heightened risk aversion among banks to lend, this is easier said than done. The steep Rs.8.5 lakh crore of funds parked by banks under the RBI's reverse repo window last week, is indicative of the low risk appetite among banks, which could have eased with a strong fiscal push (but is now missing). In any case, how could reducing the cash reserve ratio (injecting liquidity of Rs.1.37 lakh crore), increasing borrowing limit under marginal standing facility (infusing another Rs.13.7 lakh crore), targeted long term repo (TLTRO) 1.0 (Rs.1 lakh crore), TLTRO 2.0 (Rs.50,000 crore) and special liquidity window for mutual funds (Rs.50,000 crore) be counted as part of fiscal stimulus measures, is hard to fathom.

Lastly, many of the measures announced are long-awaited structural reforms in key sectors that have nothing to do with the ongoing pandemic crisis and could have been announced any time. These measures essentially help address the supply-side issues over the long run and are not demand boosters. Cash transfers to low-income households, wage subsidies to help employers retain workers, unemployment benefits (including for workers in the informal sector) — measures that have been announced by countries such as Brazil, Indonesia, Malaysia and Philippines, should have been the focus of the Centre.

Breaking down the stimulus package

	₹ crore	
	Figure announced	Direct fiscal impact
Measures announced in March (I)		
Revenue loss due to tax concessions	7,800	7,800
PM Garib Kalyan Yojana	1,70,000	60,000-70,000
Health sector workers	15,000	15,000
Total (I)	**1,92,800**	**82,800-92,800**
RBI measures (II)	**8,01,603**	**0**
Atmanirbhar (III)		
Tranche I	5,94,550	25,000-30,000
Tranche II	3,10,000	8,000-10,000
Tranche III	1,50,000	30,000-40,000
Tranche IV	8,100	8,100
Tranche V	40,000	40,000
Total (III)	**11,02,650**	**1,11,100-1,28,100**
Total package	**20,97,053**	**1,93,900-2,20,900**

With inputs from various economists and reports

The twisted math of the Rs.20-lakh crore package could now cost the economy dearly in the coming months.

The disappointing math

The Centre's 'Atmanirbhar Bharat' package consists of a combination of short- and long-term measures. The total package as summed up by the FM amounts to Rs.20.97 lakh crore, which includes the Centre's earlier announced Rs.1.7-lakh crore package under Pradhan Mantri Garib Kalyan Scheme on March 26, the RBI's measures totalling Rs.8 lakh crore, and the five tranches of measures announced last week aggregating to Rs.11 lakh crore.

While the total stimulus, that amounts to 10 per cent of GDP, had appeared a plum deal when announced, the finer details have come a cropper. Why?

The key issue with the RBI's measures has already been pointed out. As such, none of these measures amount to direct spending — so that's Rs.8 lakh crore right out of the Rs.20-lakh crore math.

Of the Rs.1.7-lakh crore of stimulus announced under PM Garib Kalyan, only about Rs.60,000-70,000 crore has a direct spending impact this fiscal. This is because many of the measures such as the wage increase of Rs.20 per day increase under MGNREGA (already notified by the Ministry of Rural Development) and the frontloading of payment (of Rs.2,000) under the existing PM Kisan Yojana were already part of the Budget.

The balance Rs.11 lakh crore announced under five tranches last week only amount to about Rs.1 lakh crore of direct impact on the fiscal deficit in FY21. With the loss in economic output (GDP) expected to be Rs.15-18 lakh crore this fiscal, the direct spending of measly Rs.2 lakh crore by the Centre (putting together all the measures till date), hardly lends comfort.

Let us consider the first tranche of measures that amount to nearly Rs.6 lakh crore. These were mainly aimed at offering liquidity support to MSMEs and NBFCs. The Rs.3 lakh crore of collateral-free loans for MSMEs with 100 per cent credit guarantee by the government, and Rs.30,000-crore special liquidity scheme covering investment-grade debt papers of NBFCs/HFCs/MFIs (again with government guarantee) are good measures as they will allay banks' fear of lending to these segments. However, how many MSMEs benefit from this, and how these schemes are implemented, needs to be seen. Also, MSMEs that are already under stress or have NPAs are more in need of credit support. While for such companies, the government has announced Rs.20,000-crore subordinate debt provision, it may not be easy to implement. Similarly the Rs.45,000-crore partial guarantee scheme for low rated debt papers of NBFCs/MFIs may find few takers. Hence, aside from aiding certain large and well-rated MSMEs and NBFCs, the emergency credit line thrown by the Centre may not reach the last-mile borrowers as intended.

Importantly, of the Rs.6 lakh crore, only about Rs.25,000-30,000 crore will have direct impact on the fiscal deficit as chunk of the measures are in the form of guarantees — the true impact of which on the Centre's finances will be felt only in the coming years (if there are defaults). The Rs.90,000-crore liquidity injection into Discoms will also be in the form of loans given against State guarantees and does not impact the fiscal math.

The second tranche comprises food grain supply to migrant workers, interest subvention for Mudra Shishu loans, Housing CLSS-MIG, additional working capital through NABARD and credit through Kisan Credit — amounting to Rs.3.1 lakh crore. These would have just about Rs.8,000-10,000 crore of direct cash outflow for the government as the rest are in the form of loans and liquidity measures.

The third tranche of stimulus ushered in long-awaited structural reforms in the agriculture sector — amendment to the Essential Commodities Act, proposing a Central Law to let farmers transport their produce across States and sell at attractive prices. These are indeed big reforms but would yield results only in the long run. These measures do not have an impact on near-term rural income. Hence of the Rs.1.5 lakh crore announced under this tranche, only about Rs.30,000-40,000 crore would have a direct impact on the fiscal deficit this year.

In tranche four, there were more structural reforms announced for key sectors such as coal, minerals, defence etc. In the last tranche, the Centre provided Rs.40,000 crore additional allocation under MGNREGA (direct impact on fiscal) to generate more employment. While this could provide an employment boost, implementation would be critical. In the current fiscal, there has already been a shortfall of over 47 crore person days, and with monsoons on the anvil, how much more work gets generated will decide the actual impact of the higher allocation under MGNREGA on rural income.

In a nutshell, the entire Rs.20 lakh crore package, that mainly consists of loans, liquidity measures and structural reforms, and very little actual spending by the Centre (only a tenth), will not propel demand, which is the need of the hour. This will accentuate the pain for industries and more importantly trigger sharp rise in bad loans for banks — the ban on fresh insolvency under IBC for one year is an added set-back for stressed banks.

High borrowings, contingent liabilities

While the Centre’s limited finances may have constrained its ability to announce big bang spending, the frugal outlay can have a cascading impact on GDP growth and revenue collections in the coming years as well. An SBI report states that GDP numbers could have a downward bias from current stress estimate of -4.7 per cent in FY21. In the absence of demand boosters, the recovery in growth could be long-drawn in the coming years, which implies persisting shortfalls in revenue collections, larger fiscal deficit and lower spending (again leading to slower growth).

The estimated central gross market borrowing in FY21 is Rs.12 lakh crore (up by Rs.4.2 lakh crore estimated earlier). The SBI report pegs revenue loss of about Rs.6.5 lakh crore in FY21, which means that adding the actual spending of Rs.2 lakh crore (under the stimulus package) would still leave a hole of Rs.4.3 lakh crore in the Centre’s coffers. Of the total Rs.30 lakh crore budgeted expenditure this fiscal, Rs.4.1 lakh crore pertain to capital expenditure. Hence a sharp reduction in capital expenditure to make up for the loss in revenues, could further hurt growth.

On the State front, while the FM increased borrowing limit to 5 per cent of gross State domestic product from 3 per cent earlier, only 0.5 per cent is unconditional increase while the rest is contingent upon fulfilment of certain conditions. But even if we assume an additional Rs.2.5-3 lakh crore of additional State borrowings (over and above the ceiling limit of Rs.6.4 lakh crore), the State and Centre gross borrowings together would be a whopping 11-12 per cent of GDP in FY21!

Given that such large borrowings would be used to make up the shortfall in revenues rather than pump up spending, weak economic growth and large fiscal deficit can persist for a few years.

There is another risk that the Centre needs to take cognisance of — the sharp rise in contingent liabilities. Thanks to the large number of credit guarantee schemes announced by the Centre, contingent liabilities on account of these alone would be about Rs.3.5 lakh crore in FY21. Between FY13 and FY18, contingent liabilities of the Centre have ranged between Rs.2.36-3.8 lakh crore, which indicates the magnanimity of the credit guarantees announced under the stimulus package.

While contingent liabilities do not involve any actual cash outgo immediately, they can impact fiscal deficit substantially in case of large credit defaults. Given that Covid is an evolving crisis, how much of the Centre's sizeable contingent liabilities convert into actual liabilities for the government needs to be seen. According to an IMF paper, contingent liabilities have been one of the largest sources of fiscal risk; the costliest contingent liabilities shocks are often related to the financial sector.

Given that fiscal deficit risks were a given amid the pandemic crisis, the Centre should have gone all out with its spending and focussed on reviving near-term demand — boosting consumption and kick-starting manufacturing. The Centre's financial jugglery has instead left us with high borrowings that can crowd out the private sector and contingent liabilities that could significantly add to the fiscal costs given our weak financial system, with no actual big bang spending that could have given a boost to the economic growth.

Flawed stimulus is justice denied

Atul K. Thakur & Yashwant Sinha
MAY 20, 2020
THE HINDU

The government should ensure that matters of lives and livelihoods are not pitted against each other

The COVID-19 pandemic and the prolonged national lockdown have brought the Indian economy to a standstill. In tackling the crisis, the Centre has not done much to enable States to benefit from the much-touted benefits of "cooperative federalism". States are struggling to cope with the unprecedented existential challenges they face. The Centre has relentlessly undermined the immediate necessity for making appropriate financial provisions to enable States to meet the challenge. Most States have already shared their concerns on the inadequate fiscal support from the Centre. Where has India's money gone? What will happen with the unspent money in the Prime Minister’s Citizen Assistance and Relief in Emergency Situations (PM CARES) Fund?

Too modest a package

At the end of March, the Centre had announced a stimulus package of Rs.1.7-lakh crore, out of which about Rs.1.2-lakh crore was the existing entitlement. It was too modest considering the severity of the COVID-19 crisis. After about a month and a half, Prime Minister Narendra Modi, in his address to the nation on May 12, announced a package of Rs.20-lakh crore without mentioning anything specific for stranded migrant workers and for re-structuring micro, small and medium enterprises (MSMEs). Industry has been demanding a package to the tune of 7% to 8% of India’s GDP of over $2.8 trillion, nothing unusual given that similar packages have been announced by other countries to mitigate the damage done to their economies. However, keeping the government’s silence in mind, India Inc. revised its demand for a package to as low as 3% of the GDP. So, a package of the size of almost 10% of the GDP was offered like a masterstroke but without coming clear on the source of funding and oversight provision. The buck was passed to the Finance Minister and, surprisingly, no call was taken on the lockdown.

The presentation by the Finance Minister, which was more a five-episode package for television, has proved to be a damp squib. There was only word play with nothing for migrant workers, farmers, daily wage earners and the poor facing destitution. On MSMEs, the announcements offer no major concessions; soft loan, PF and tax provisions are shrewd. The redefinition of MSMEs has been long-pending and cannot be called a reform. There is nothing for the States to look forward to that can serve the immediate purpose.

Since MSMEs have been the hardest hit, being the main employers of industrial workers, their plight is grim. It is small businesses that give traction to entrepreneurial activities in the unorganised sector where migrants from rural India mostly work. Sadly, the process of economic revival has not even commenced and industry is in dire straits. The package that has been announced is too late and too flawed. Ideally, after the first round of an insufficient package, the government should have begun consultations with parliamentarians, Opposition parties and industry representatives to prepare a well-thought-out relief package to re-start the economy. Alas, this did not happen. States which have been at the forefront of the war against COVID-19 have not been given the required funds to help them cope with the public health emergency and support the high influx of returning migrant labourers from industrial locations.

India's great middle class, which is also suffering, has found no solace either; nor is it likely that they will get anything substantial from this package. A large number of workers in the organised sector are facing heavy pay cuts, job losses, a sharp fall in income, and uncertainty. Farmers are finding it difficult to get the minimum support price for their produce; a majority of them are in debt and face many obstacles.

Plight of the migrant workers

The first national lockdown was announced in the most dramatic manner by the Prime Minister late in the evening and without adequate notice. This created panic among migrants who were suddenly left without any income security. A vast majority of them lost their livelihoods and were threatened more by the prospect of death by starvation than by the virus. And they have walked thousands of kilometres to go back home to States such as Bihar, Uttar Pradesh and Madhya Pradesh — because, for them, a home-coming was the last resort to stay alive. Instead of action by the government, the helping hands seem to be from the Opposition, charitable individuals and social organisations. Such painful displacement could have been avoided by offering industry a timely financial package. Now India faces the loss of lives and livelihoods against the backdrop of the ruling dispensation's apathy towards the poor and the disadvantaged.

On May 1, some Shramik Express trains were flagged off from certain destinations to take back migrant workers to their home States, but there was another shock — the charges levied by the Indian Railways. How can this be justified in a situation such as this? What is the meaning of being a citizen of this country? On May 4, the president of the Indian National Congress made an assurance that the Congress would bear the cost of travel for poor migrants. Sensing the imminent political loss on this issue, the ruling BJP issued a statement that the Railways would cover 85% of the cost with the State concerned covering the remainder. It is the BJP that is answering queries, when it should be the Government of India that should take up a leadership role in a crisis situation.

It was expected that the government would accord priority to cutting out wasteful expenditure on projects such as the Central Vista project and the bullet train project and, instead, manage the available resources of the Reserve Bank of India, the Employees' State Insurance Corporation, the Employees' Provident Fund Organisation and the PM CARES Fund to help the poor. This was not to be. The central bank should have been busy with restoring the health of the financial sector and also concerned itself with considering the suggestions of former RBI Governors Raghuram Rajan and C. Rangarajan on adopting an altruistic approach in place of the one driven merely by fiscal and inflationary concerns.

Stimulus that is delayed and flawed is tantamount to justice denied. Whatever the false compliments India may receive for tackling the pandemic, the fact remains that the country is at a crossroads as a result of late and wrong decisions. The government should follow a single policy, namely people first. The matters of lives and livelihoods should not be pitted against each other. Both issues have to be taken care of simultaneously. The nation is passing through a grave crisis in which a state of denial can be counterproductive. India's economy is no longer capable of absorbing the shocks from monumental blunders already committed. The country must be rescued from this terrible mess. Mere rhetoric will not help.

ED attaches assets worth Rs.18.50 crore in bank fraud case

SPECIAL CORRESPONDENT
NEW DELHI, MAY 20, 2020
THE HINDU

Probe based on an FIR by CBI for cheating Bank of Baroda

ED attaches assets in bank fraud case

The Enforcement Directorate (ED) has attached assets worth Rs.18.50 crore, including 42 immovable properties in Punjab and Himachal Pradesh, in connection with a bank fraud. The properties belong to one Vikram Seth and his family members. The probe is based on an FIR registered by the CBI against Mr. Seth and others for cheating the Bank of Baroda, in connivance with some bank officials. The accused got sanctioned 19 loans amounting to Rs.21.31 crore, which were routed through various accounts of associated firmsand siphoned off, it is alleged.

Stimulus will not trigger consumption, says Crisil

SPECIAL CORRESPONDENT MUMBAI, MAY 19, 2020
THE HINDU

Packages focus on supply-side reforms

The Rs.20 lakh crore financial package announced by the aims at the 'right corners' but is not a consumption trigger, according to ratings agency Crisil.

Considering the earlier announced measures worth Rs. 9.9 lakh crore (RBI's liquidity support and others), the financial support works out to Rs.20.9 lakh crore.

"While most of the steps are in the right direction, it is unlikely to stimulate demand/ consumption given that the package is more focussed on supply-side reforms," said Crisil in a report.

Also, no clear announcements were made for highly vulnerable sectors such as airlines, tourism and hotels, barring additional lending for MSMEs, or to improve the sentiment of the workforce, both organised and unorganised.

Given the fiscal constraints, the government has undertaken measures that can magnify the impact of every rupee of stimulus, hence, the liberal use of guarantees and tiered funding structures, Crisil said.

This reflected in the actual committed fiscal outgo of Rs.1 lakh crore, translating to a meagre 9% of the Rs.11 lakh crore of measures outlined over the five tranches.

The government has also ploughed in some earlier discussed structural reforms, especially in tranches 4 and 5, to help drive India's medium-term growth story.

The announcements pertain especially to sectors such as mining, aviation, urban infrastructure, power and agriculture.

Further, the government has increased the borrowing limit for State governments from 3% of their Gross State Domestic Product (GSDP) to 5% of GSDP.

However, of the additional 2 percentage points, 1.5 percentage point is conditional upon States achieving certain targets.

For addressing near-term issues, apart from direct benefit transfers and additional spending through MNREGA, the government has mobilised credit to micro, small and medium enterprises (MSMEs), agriculture, and the affordable housing sector.

The 100% guarantee on Rs.3 lakh-crore loans to MSMEs with one-year moratorium, for instance, will help these units, which are typically strapped for working capital. It will also spur credit growth for both banks and non-banks this fiscal and contain delinquencies in the segment, which would have increased otherwise.

Also, relaxation of insolvency norms should help companies in the near term as they will be protected from liquidation arising out of COVID-19 environment.

"The key monitorable now would be how States enable the implementation of various schemes and measures and work in close partnership with the Centre," said the report.

Further, while the government has not added much to its current year fiscal outgo – and thereby deficit –it will weigh on public debt next fiscal unless the economy revives.

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