IN BRIEF

Arun Jaitley returns as finance minister

Arun Jaitley on Friday resumed charge as the finance minister after a gap of over a month, which was the second break within a year that he had to take to undergo medical treatment. The President of India, as advised by the prime minister, has directed to assign the portfolios of the minister of finance and minister of corporate affairs to Arun Jaitley, an official statement said. Jaitley tweeted: "Resumed work at the Ministry of Finance today (Friday). Thankful to Shri Piyush Goyal who discharged the responsibility at the MoF diligently & competently." Jaitley, 66, who last week returned from the US after undergoing medical treatment, first attended the Cabinet Committee on Security (CCS) meeting that Prime Minister Narendra Modi had called to discuss the terror attack in south Kashmir's Pulwama district that killed around 40 CRPF personnel, and then came to North Block – the seat of the finance ministry. PTI

Vijay Mallya files for permission to appeal against extradition

Embattled liquor baron Vijay Mallya, wanted in India on alleged fraud and money laundering charges amounting to an estimated ₹9,000 crores, has filed an application in the UK High Court, seeking permission to appeal against an extradition order signed by the British Home Secretary. The businessman, who remains on bail on an extradition warrant in the UK, made the application in the Administrative Court division of the High Court on Thursday, 10 days after Home Secretary Sajid Javid signed off on the order triggering a 14-day window for his appeal application. PTI

Lodha's stake sale in London may help in paying for bonds

Moody's on Friday said additional stake divestment by Lodha Developers in its London development arm is expected to reduce leverage and generate funds to address the March 2020 bond maturity. The firm's sale of 28 per cent of equity in Lodha Developers UK allows the developer to monetise its stake in the two London properties, currently under development and may also pave the way for further stake reductions by LDL, the agency said. PTI

Ayodhya: SC to hear plea against law on land acquisition

The Supreme Court on Friday decided to hear a fresh plea challenging the constitutional validity of a 1993 central law by which the government acquired 67.703 acres of land, including the disputed premises of Ram Janambhoomi-Babri Masjid in Ayodhya. A Bench headed by Chief Justice Ranjan Gogoi tagged the matter with the main petition on title dispute pending before a constitution Bench. PTI

IICA launches 2-yr graduate insolvency programme

With growing demand for insolvency professionals, Indian Institute of Corporate Affairs (IICA) has launched a graduate insolvency programme (GIP). Approved by the Insolvency and Bankruptcy Board of India (IBBI), GIP offers course for those individuals who want to join the insolvency profession or are seeking other roles in the value chain, in the country and in foreign jurisdictions. PTI

Wheat sown in 298 lakh hectare in rabi season

Wheat planting has been done in 298.47 lakh hectare so far in the ongoing rabi (winter) season, which is close to the year-ago period, according to the agriculture ministry. However, sowing of rice, pulses, coarse cereals and oilseeds remained slightly lower than the year-ago period, the ministry said in a statement. Sowing of wheat, the main rabi crop, begins from October and harvesting from March-April. PTI

ED attaches ₹4.62 cr of assets of Robert Vadra company

The Enforcement Directorate has attached assets worth ₹4.62 crore of Robert Vadra's company in the Bikaner land scam case, officials said on Friday. The ED had registered a criminal case in connection with the deal in 2015, taking cognisance of a clutch of FIRs and charge sheets filed by Rajasthan Police after the tehsildar of Bikaner complained about alleged forgery in the allotment of land in the area, considered sensitive due to its proximity to the India-Pakistan border. PTI

Minimum wage can go up to 5 times in some states

SOMESH JHA
New Delhi, 15 February

The biggest benefit from a hike in the minimum wage, as proposed by a government-appointed expert panel recently, would go to workers in at least 10 states.

Workers from Andhra Pradesh, Telangana, Gujarat, Himachal Pradesh, Maharashtra, Tamil Nadu, Nagaland, Arunachal Pradesh, Tripura and Meghalaya may see their income levels rise by two to five times. In other words, these states had a significantly lower level of minimum wage than what was established by the panel, based on data.

For instance, in Andhra Pradesh and Telangana, the minimum wage level for an unskilled worker stood at ₹69 a day (or ₹1,794 a month) as on November 1. According to the proposal, the minimum wage can go up to ₹380/day (or 9,880/month) in these states.

The government last year set up an expert committee led by V V Giri National Labour Institute (VVGNLI) fellow Anoop Satpathy to determine a new methodology for minimum wage. The report was made public on Monday.

The panel suggested the national-level minimum wage in the country should be ₹9,750 a month (₹375/ day). Alternatively, it proposed a national minimum wage at various regional levels, depending upon local conditions, in the range of ₹8,892 to ₹11,622/month (or ₹342-447/day), and suggested an additional house rent allowance for urban workers.

Only Delhi had a higher minimum wage (₹538/day) than the proposed level (of ₹447/day). The difference in the minimum wage set in all states and the proposed one was in the range of 20-450 per cent. The difference was the least in Madhya Pradesh (20 per cent).

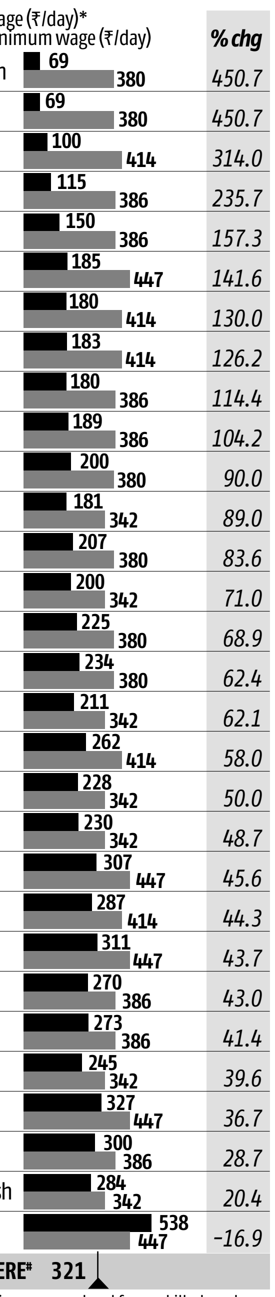
The proposed minimum wage levels seek to address the pay parity prevalent across the states. "Despite the statutory fixation of wages under the Minimum Wages Act, 1948, low wages and wide disparities in minimum wages for various scheduled employments have continued to prevail across states," the committee report noted. It found no systematic procedure to revise minimum wages in states, and said that "everything is contingent upon the state's institutional capacity or the minimum wage-fixing machinery".

The monthly minimum wage difference between the states with lowest level and those with the highest level thresholds is at ₹12,194 at present. If the proposed system is put in place, this difference would stand at ₹2,730.

In India, real minimum wages declined in some scheduled employments, such as brick kilns and oil mills, even in Kerala which is well known for higher minimum wages. The minimum income levels also fell for agriculture and constructions sectors in Maharashtra during 2008-13, according to the International Labour Organisation's India Wage Report 2018.

However, some experts feel the minimum wage framework should be simplistic, instead of a region-wise income threshold. "A less complex minimum wage system is easier to implement. There should be one national-level minimum wage which should be either a floor or a median minimum wage. It should be revised every two-three years," said K R Shyam Sundar, professor of human resources management at Xavier School of Management.

WIN-WIN SITUATION



* Provisional minimum wage level for unskilled worker category as of Nov 1, 2018. All figures are rounded off. #Rates fixed in the central sphere are applicable to establishments under the authority of Central govt, railway administration, mines, oil-fields, major port, etc
Source: Report of the Expert Committee on Determining the Methodology for Fixing the National Minimum Wage, Lok Sabha

RBI proposes hedging for future exposure in forex

A year ago, the central bank had increased the limit of buying currency derivatives to up to $100 million or equivalent, without any underlying exposure, from $15 million earlier

ANUP ROY
Mumbai, 15 February

The Reserve Bank of India (RBI) on Friday proposed the introduction of hedging for 'anticipated exposure' of foreign currency debt, while merging the facilities for residents and non-residents into a unified facility for all users.

Hedging can be done using any available instruments.

An anticipated exposure is having an exchange rate on current and capital account transactions, which are expected to be entered into in the future, the RBI said.

A year ago, the central bank had increased the limit of buying currency derivatives to up to $100 million or equivalent, without any underlying exposure, from $15 million earlier. However, the RBI had made it clear that the exposure should be utilised only for hedging purpose.

The draft guidelines put the onus to ensure the contracted derivatives are used for hedging on banks. They must ensure the notional and tenor of the contract does not exceed the value and tenor of the exposure, and the same exposure has not been hedged using any another derivative contract, the RBI said.

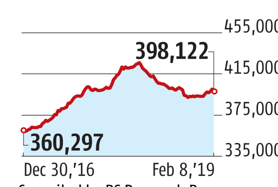
"Where the value of the exposure is not ascertainable with certainty, derivative contracts may be booked on the basis of reasonable estimates," the draft said.

The users can freely cancel the contracts, but if there is a net gain on the contracts, banks will have to pass on the benefit to the buyer. Foreign exchange dealers say that banks don't pass on favourable contracts to smaller firms, thereby hampering these firms' ability to hedge effectively.

However, according to central bank rules, such contracts can be extended by banks, if the net worth is ₹200 crore or equivalent, and the notional amount of the user's outstanding foreign exchange derivatives exceeded $250 million or equivalent at any point in each of the previous four quarters.

Forex reserves down by $2.11 bn

TRACKING THE RESERVE
($ mn)



Compiled by BS Research Bureau
Source: RBI

The country's foreign exchange reserves declined by $2.11 billion to $398.12 billion in the week to February 8, due to fall in foreign currency assets, according to RBI data. In the previous week, the reserves had surged by $2.06 billion to $400.24 billion. In the reporting week, foreign currency assets, a major component of the overall reserves, fell by $2.448 billion to $370.981 billion. Expressed in US dollars, foreign currency assets include the effect of appreciation or depreciation of non-US currencies such as the euro, pound and yen held in the reserves. PTI

Cap on foreign investment in bonds lifted

The RBI on Friday withdrew the 20 per cent limit on investments by foreign portfolio investors (FPIs) in corporate bonds of an entity with a view to encourage more foreign investments. As part of the review of the FPI investment in corporate debt undertaken in April 2018, it was stipulated that no FPI should have an exposure of more than 20 per cent of its corporate bond portfolio to a single corporate. While the provision was aimed at incentivising FPIs to maintain a portfolio of assets, market feedback indicates that FPIs have been constrained by this stipulation, the RBI said. "...in order to encourage a wider spectrum of investors to access the corporate debt market, it has been decided to withdraw this provision with immediate effect," it said. PTI

Allahabad Bank draws road map to come out of PCA list by June

NAMRATA ACHARYA
Kolkata, 15 February

Allahabad Bank hopes to come out of the prompt corrective action (PCA) list by June after returning to profitability, said its Managing Director and Chief Executive Officer S S Mallikarjuna Rao.

Earlier, three public sector banks — Bank of India, Bank of Maharashtra and Oriental Bank of Commerce — were removed from the PCA list.

Allahabad Bank expects fresh capital infusion from the government by the end of this month or early next month, which will help it come out of PCA framework in terms of two parameters — capital to risk weighted assets ratio (CRAR) and common equity tier-1 (CET1).

"After March, we would not like to seek any fresh capital from the government. The requirement to reduce capital is around ₹3,800 crore, which we cannot raise in one tranche. After PCA is over, we need plans and strategies to take it forward"

S S MALLIKARJUNA RAO
MD & CEO Allahabad Bank

But, with the government shareholding in the bank currently at about 83 per cent, it will need to raise in excess of ₹3,000 crore through markets to meet Securities and Exchange Board (Sebi) norms. The norms stipulate the government shareholding to be brought down to 75 per cent, and the bank has time till October 2020 to do it.

"After March, we would not like to seek any fresh capital from the government. The requirement to reduce capital is around ₹3,800 crore, which we cannot raise in one tranche. After PCA is over, we need plans and strategies to take it forward. That is why the work has started. We are utilising the opportunity of PCA in advantageous manner and correct whatever is required," said Mallikarjuna Rao.

As of December 2018, the CRAR of the bank was 10.42 per cent, against the regulatory requirement of 10.875 per cent, while the CET1 was 7.06 per cent, against the requirement of 7.375 per cent.

The bank is in the process of winding up its Hong Kong operations, which will give it a leeway to increase domestic lending, leading to higher operating profits. The RWA (risk-weighted asset) lending limit given to the bank was around ₹1.30 trillion, and till the end of December the bank was at around ₹1.26 trillion.

Total advances by the bank as of December 2018 was around ₹1.58 trillion.

Small savings, fuel tax help lower fiscal deficit

In FY19, small savings grew 40%; may lead to deposit flight from banks

ABHISHEK WAGHMARE
New Delhi, 15 February

How did a company secretary with a car, a small farmer with a tractor, a nurse who deposits his savings in a post office, and an engineer with a public provident fund (PPF) account help the government cut fiscal deficit and provide funds to borrow for extra expenditure? By buying fuel or investing in small savings.

Almost everyone, from a CS with a car to a farmer with a tractor, uses fuel — petrol or diesel — directly or indirectly. By doing so, they provide additional revenue of nearly ₹2 trillion every year to the government.

This was instrumental in reducing fiscal deficit, the difference between spending and revenue, from 4.5 per cent of gross domestic product (GDP) in 2013-14 to 3.4 per cent of GDP in 2018-19 (FY19).

Also, those who save small amounts of money in post offices or national savings certificates provide an easy, albeit costly, source of loans to the government. This reduces its requirement to borrow money from the open market.

This year, the National Small Savings Fund (NSSF), an aggregation of numerous small savings schemes, will provide the government with a fifth (19.7 per cent) of its fiscal deficit requirement — the highest since the inception of the fund. In FY19 (April to November), deposits in the NSSF have increased 40 per cent to ₹2.1 trillion from ₹1.5 trillion in FY18, according to official data.

Since 2016-17, the NSSF's share in fiscal deficit financing has been above 10 per cent. For 2019-20 or FY20 also, its contribution will be 18.5 per cent, according to the interim Budget.

This would, however, have mixed results, according to experts.

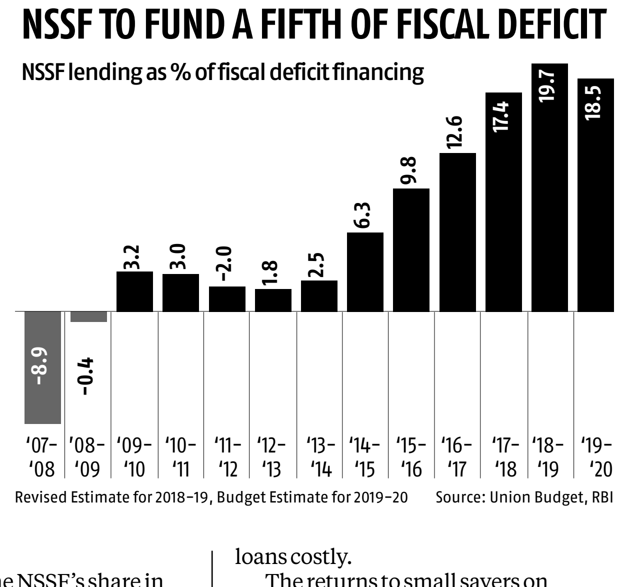
One on hand, it would avert spikes in bond yields, keeping the 10-year G-Sec yield low for now. But, this would also remove the incentive to deposit in banks, which in turn, would make bank loans costly.

The returns to small savers on various schemes are through administered interest rates, which are clamped to the G-sec rate at the beginning of a particular quarter, with a spread above it. For the most common post office fixed deposits (medium-term), it ranges between 7 per cent and 7.8 per cent, for the current quarter.

In comparison, one-year fixed deposit rate at State Bank of India at 6.4 per cent.

NSSF TO FUND A FIFTH OF FISCAL DEFICIT

NSSF lending as % of fiscal deficit financing



Revised Estimate for 2018-19, Budget Estimate for 2019-20 Source: Union Budget, RBI

NET COLLECTION IN NSSF RISES 40% IN FY19

Net small savings collection (₹ cr)

85,015 — 2017-18*
1,17,727 — 2018-19*

Note: * April – December period
Source: Govt accounts

THE NATIONAL SMALL SAVINGS FUND WILL PROVIDE THE GOVT WITH A FIFTH (19.7 PER CENT) OF ITS FISCAL DEFICIT REQUIREMENT — THE HIGHEST SINCE THE INCEPTION OF THE FUND

"Small savings act as a competing asset class against bank deposits. When NSSF collections are buoyant, it effectively results in deposit flight from banks, compelling them to increase deposit rates. This in turn makes it difficult to reduce lending rates," said Soumya Kanti Ghosh, group chief economic advisor at SBI.

He said too much small savings is not good for commercial banks. Currently, while credit growth is at 14.5 per cent, deposits growth lags near 9 per cent in FY19, he said.

Now, to ensure these returns, the NSSF is lending money to the government at a higher rate of 8.4 per cent this year, said sources in the government. But despite this, the government decided to borrow ₹1.25 trillion from the NSSF, more than the original plan of ₹75,000 crore.

"There is no other way for the central government to use the NSSF funds, especially when states' borrowing commitments from it are relaxed. It has to return money to small savers with the interest guaranteed," said Devendra Pant, chief economist at India Ratings.

Also, the reduced borrowing requirement from the market would have lesser impact on yields, and would keep them relatively stable, Ghosh said.

Apart from helping with loans to fund the sovereign deficit, it would also supply fresh finance to public agencies across sectors such as food provisions for the poor, infrastructure like roads, railways and power.

Post office savings deposit and recurring deposit accounts, and the senior citizen savings scheme account have shown the highest growth in the current financial year, official data show. PPF collection (net) on the other hand, has contracted 14 per cent.