

RBI tries to help, but govt needs to do its bit as well

The cut in the repo was expected, though the shift in the stance was an unexpected surprise; real interest rates are still too high

GIVEN HOW GROWTH has collapsed and inflation stayed benign, RBI had both reason and the room to be accommodative. While a 25-basis-points cut in the repo rate, to 5.75%, had been pencilled in, the shift in stance to 'accommodative' was a surprise and thrilled the bond markets. Not only are rate hikes off the table for now, liquidity too will likely be in surplus from now on. RBI's recent liquidity infusing measures—open market operations—have already seen wholesale rates in the money markets trending down by 25-50 basis points.

However, bankers are not sure the abundant liquidity alone will translate into very meaningful cuts in deposit rates or, therefore, loan rates. To be sure, both deposit rates and loan rates could be trimmed by 10-15 basis points, but, taken together, with the 20 basis points weighted average fall since February, this would add up to a fall of only 30-35 basis points in loan rates, as against a much steeper 75 basis points cut in the repo. Governor Shaktikanta Das's belief that transmission will be faster this time around seems optimistic. The fact is banks have been apprehensive of lowering interest rates on deposits because the returns from small savings are more attractive. Also, there is evidence that household savings are slowing since incomes aren't growing fast enough. Governor Das must impress upon the government the need to lower rates on small savings so as to make deposits more attractive, else, banks won't have the room to cut deposit rates. Repo rates may be at their lowest in nine years but real rates remain high—around 5.4%—so even if industry believes demand is looking up, it might be unwilling to invest at these levels.

Inflation is unlikely to go up too much—food inflation is rising but core inflation is softening—and, therefore, most economists believe the central bank would cut rates again either in August or October. The MPC now expects inflation in H1FY20 at 3.0-3.1%, slightly higher than the earlier 2.9-3.0%, and H2FY20 inflation at 3.4-3.7%, a shade lower than the earlier forecast of 3.5-3.8%, with risks broadly balanced. However, these estimates suggest the government will be fiscally prudent and that the deficit will be reined in at levels of 3.3-3.4%. Governor Das was appreciative of the Centre having stayed on the fiscal glide path and did not seem concerned about the large extra budgetary resources which threaten to crowd out private sector borrowings. Indeed, not so long ago, the bond markets were positively nervous about the large quantum of off-balance-sheet borrowings the government had resorted to in FY19. Das chose to speak about public sector undertakings which repay their market loans from internal accruals, and did not dwell on the rollovers of subsidy payments. However, given how the tax collections have fallen short of the targets, there is every chance the government will be compelled to tap non-budgetary sources this year too, since strategic sales may not yield too much. So, the risk of the private sector getting crowded out remains unless foreign portfolio investors retain their appetite for Indian bonds, which is a distinct possibility. Right now, though, RBI's growth forecast of 7% for FY20 is a bit of a stretch.

The right message

Nuance key to Madras HC's ruling on forwarded messages

THE PRECEDENT SET by the Madras High Court ruling that a 'forwarded message is equal to accepting the message and endorsing the message', in a case against a BJP leader in Tamil Nadu who shared a derogatory public post on women journalists on a social media platform, is a double-edged sword. It is simultaneously a dangerous legal precedent and a way to rein in indiscriminate sharing of fake information, often with an intent to whip up divisive sentiments. Social media and instant-messaging services have been wielded as amplifiers of misinformation to whip up polarising sentiments, and this has often triggered assaults and law and order situations. Recall the child-kidnapping rumours forwarded via WhatsApp that fed mass paranoia in Assam and resulted in the lynching of two youths or the assault on African youths in the national capital region over rumours of cannibalism, again spread via WhatsApp. In a scenario where Facebook posts and WhatsApp forwards are used to harvest bigotry and xenophobia, the High Court affixing responsibility of the impact, manifest or otherwise, to sharing of such posts/messages should spur more cautious and circumspect sharing. Thus, the order would seem a welcome one if it proves an effective curb on hateful content "going viral".

The High Court's order rejecting the anticipatory bail petition of journalist-turned-BJP leader S Ve Shekher tries to bring in some nuance to its 'forward equals endorsement' stand, noting that while what is said in message/post is important, "who has said it, is very important... When a celebrity-like person forwards messages like this, the common public will start (to) believe it that this type of things are going on." However, chances are this nuance will be lost in politicised cases like that of the arrest of the West Bengal BJP worker for sharing a meme on chief minister Mamata Banerjee or that of the two Mumbai girls who criticised the funeral arrangements made for former Shiv Sena chief Bal Thackeray. Even in cases where a news-report or opinion piece is shared, deemed to have been put out after due diligence by the publication, if the content is deemed polarising or used to fuel bigotry, those who share can be held accountable under the precedent set by the HC judgment. Also, in cases where an organised network is used to spread fake news and hate-fuelling content, how will the 'who said (shared) it' touchstone be nuanced for those forming the hub of the hate-wheel? After all, they may not always be public personalities—or even persons (bots are used to increase tweet-reach).

While there is no denying that social media has allowed users to channel and publicise their prejudices with the cover of relative anonymity—and, therefore, accountability—it is also true that these are also being used to voice dissent. The Madras High Court ruling, with necessary nuance brought in, can become a catalyst for restraint and more prudent usage of social media. Sans any context-based modulation, it can prove a draconian muzzling of freedom of expression.

Nailing NIPAH

A second outbreak, just a year after the first, shows how ill-prepared Kerala is in terms of preventing recurrence

ONLY A YEAR after India dealt with its first outbreak of the deadly Nipah virus infection (NIV)—it had claimed 17 lives between late May and early June 2018—another case of the infection was confirmed in a 23-year-old from Kerala. As many as 314 people with whom the patient is supposed to have come in contact have been placed under quarantine; eight districts in Karnataka and seven in Tamil Nadu have been put on high alert. While government response across states has been swift, ensuring inter-departmental coordination for administration, and preparing isolation and intensive care wards, the second outbreak shows very little has happened on containing infection and preventing recurrence after last year's outbreak. Given the limitations of the public healthcare infrastructure, the virulence of the pathogen and the deadly nature of the infection, prevention can mean the difference between a freak, solitary infection and an epidemic.

A major cause of Nipah's return is a lag in government surveillance. Once the outbreak in Kerala last year was controlled, state and central authorities declared it a local occurrence and discontinued monitoring the virus. The government, however, has neither a vaccine nor a fail-safe cure for Nipah, which means such inaction is dangerous—2018 was not the first outbreak of Nipah virus in India; in 2001, the virus claimed the lives of 49 people in Siliguri, West Bengal, although the cause for these deaths was only identified post the fact. Ideally, Kerala should not only have monitored the virus but also tracked movement of persons from regions where the disease is endemic, such as Bangladesh where regular cases of NIV encephalitis have been recorded since 2001. The scramble to identify the source of the virus this time around speaks only to the state of unpreparedness of authorities to deal with a public medical emergency of this nature and magnitude.

● SHIFTING PARADIGM?

WE ARE IN THE MIDDLE OF A MULTI-STAGE PROCESS IN WHICH STRONG DISINFLATIONARY SUPPLY-SIDE FORCES EVENTUALLY GIVE WAY TO THE RETURN OF HIGHER INFLATION

How inflation could return

MOHAMED A EL-ERIAN

Chief Economic Adviser at Allianz, former chairman of US president Barack Obama's Global Development Council



DEBATES ABOUT INFLATION in advanced economies have changed remarkably over the past decades. Setting aside (mis)measurement issues, concerns about debilitatingly high inflation and the excessive power of bond markets are long gone, and the worry now is that excessively low inflation may hamper growth.

Moreover, while persistently subdued—and, on nearly \$11 trillion of global bonds, negative—interest rates may be causing resource misallocations and undercutting long-term financial security for households, elevated asset prices have heightened the risk of future financial instability. Also, investors have become highly (and happily) dependent on central banks, when they should be prudently more fearful of them.

In search of new ways to produce higher inflation, the major central banks have tended to favour a cyclical mindset, making frequent references to insufficient aggregate demand. But what if that is the wrong lens through which to view current conditions, and we are actually in the middle of a multi-stage process in which strong disinflationary supply-side forces eventually give way to the return of higher inflation? In that case, monetary policymakers and market participants would need to consider quite a different opportunity-risk paradigm than the one currently being pursued.

To be sure, after coming close to central banks' 2% target in 2018, core inflation rates in Europe and the United States have since been declining. The conventional measure of market expectations for inflation—the break-even rate on five-year US Treasuries—remains stubbornly below target, even though the six-month moving average pace of job creation is almost 50% above the historical level needed to absorb new labour-market entrants so deep in the economic cycle. Though the US unemployment rate (3.6%) is at its lowest level in around five decades, the labour-force participation rate (62.8%) also remains relatively low.

Owing to the persistence of low

inflation, monetary policies have remained ultra-loose for an unusually long time, raising concerns that the US or Europe may succumb to "japanification" as consumers postpone purchases and companies reduce investment outlays. So far, that risk has led to protractedly low or negative (in the case of the European Central Bank) policy rates and bloated central-bank balance sheets, despite the potentially deleterious effects of such policies on the integrity of the financial system.

In fact, some economic observers favour the ECB not just maintaining negative interest rates, but also restarting asset purchases under its quantitative-easing (QE) programme. Likewise, there are those who want the US Federal Reserve to implement an "insurance cut," despite indicators suggesting that this will be another year of solid economic growth and job creation. Meanwhile, central banks have begun to look beyond their existing tool-kits (traditional and unconventional) for new ways to spur economy-wide price increases, such as by raising the inflation target, either directly or by pursuing an average and allowing for deviations over time.

But today's surprisingly low inflation also appears to be linked to larger structural forces, which means that it's not rooted only in insufficient aggregate demand. Technological innovations—particularly those related to artificial intelligence, big data, and mobility—have ushered in a more generalised breakdown of traditional economic relationships and an erosion of pricing power.

Taken together, I call these structural forces the Amazon/Google/Uber effect. While the Amazon model pushes down prices by allowing consumers to

bypass more expensive intermediaries, Google undercuts companies' pricing power by reducing search costs, and Uber brings existing assets into the marketplace, further eroding established firms' pricing power.

The Amazon/Google/Uber effect has turbocharged a disinflationary process that began with the acceleration of globalisation, bringing far more low-cost production online and reducing the power of organized labour in advanced economies (as has the gig economy more recently). But while these trends will mostly continue for now, they are likely to confront countervailing inflationary influences

that have yet to reach critical mass: the slack in the labour market is diminishing every month, and increased industrial concentration is giving some companies, especially in the technology sector, far greater pricing power.

Now, consider those trends in the context of today's changing political landscape. Fuelled by understandable anger over inequality (of income, wealth, and opportunity), more politicians are embracing populism, with promises of more active fiscal management and measures to curb the power of capital in favour of labour. At the same time, there is growing political pressure on central banks to bypass the asset channel (that is, QE bond purchases) and inject liquidity directly into the economy.

Economic anxieties are also driving anti-globalisation politics. The weaponisation of economic-policy tools such as tariffs and other trade

Central banks have begun to look beyond their existing toolkits for new ways to spur economy-wide price increases

measures is risking a fragmentation of global economic and financial relationships, favouring higher prices, and compelling a greater degree of more costly self-insurance by companies and consumers. At the same time, as expectations of continued low inflation become more entrenched, an upward price shock could expose vulnerabilities and increase the risk of policy mistakes and market accidents.

Considering how these competing forces are likely to play out over time, policymakers and investors should not rule out a return of inflation over time. Looking ahead, we will likely continue experiencing an initial stage in which the Amazon/Google/Uber effect remains dominant. But that may well be followed by a second stage in which tight labour markets, populist nationalism, and industry concentration begin to offset the one-time structural effects of new technologies being widely adopted. And in a third stage, the possible onset of higher inflation may catch policymakers and investors by surprise, producing excessive reactions that make a bad situation worse.

As with most paradigm shifts, there can be little certainty regarding the timing of this scenario. But, either way, policymakers in advanced economies must recognize that their inflation outlook is subject to a wider range of dynamic possibilities than they have considered so far. Focusing too much on the cyclical, rather than the structural, could pose serious risks to future economic well-being and financial stability. The longer we wait to broaden the prevailing mindset, the more likely we are to advance to the next stages of an inflationary process in which the impact of an exciting one-and-done technological event gives way to some old and more familiar tendencies.

Copyright: Project Syndicate, 2019
www.project-syndicate.org

LETTERS TO THE EDITOR

BJP-TMC clashes in West Bengal

There seems to be no end to the clashes between BJP and TMC in West Bengal. The Sangh Parivar is demonstrating that it would go to any lengths to tap religious identity for political gain. BJP cadres shout the sacred chant 'Jai Sri Ram' in front of West Bengal Chief Minister to provoke her and not to praise Ram. It is most unfortunate that Hindu Right is reducing 'Jai Sri Ram' to an emblem of Hindutva and finding nothing wrong in mixing religion with politics. By chanting 'Jai Sri Ram' in an inappropriate time and place from base motives the Hindutva zealots are devaluing and de-sanctifying the evocative religious phrase. Chanting the words should be an act of piety. It must be bona-fide and not mala-fide. Shouting it belligerently at the time of commission of hate crimes is not worthy of devotees of Ram. Hatred lays religion waste. Nothing can be more ungodly than deliberately misusing Bhagwan's name to stir up political division and social strife. Still the Hindutva brigade does it as part of a wider design to narcotize the underclass and deny them a share in power and resources and a better material life. One wonders how any Hindutva neta would react to the chanting of 'Praise the Lord' by an Indian Christian or 'Allahu Akbar' by an Indian Muslim in the manner BJP cadres shouted 'Jai Sri Ram' in front of Mamata Banerjee. One also wonders how it would look and go down with us if in a predominately Christian or Islamic country 'Praise the Lord' or 'Allahu Akbar' is made a political slogan to shore up political or electoral support. Perhaps enlightened political consciousness, coupled with humanity, is the antidote to the misuse of religion.
— G David Milton, Maruthancode

● Write to us at feletters@expressindia.com

Simplify the GST structure

The govt is about to kick off the pilot for the new GST compliance mechanism. It is hoped that this time around, the systems are tested rigorously before they are rolled out

RAHUL RENAVIKAR

MD, Acuris Advisors Pvt. Ltd.
Views are personal



NOW THAT THE new government is in place, it is time for fixing GST glitches, and further simplifying its structure and administration. It is heartening to note that both the ruling party and the Opposition were very vocal during the election campaign on the need to simplify the GST structure and mechanism. The very fact that India is, perhaps, the only country in the world where a government that introduced GST came back to power (and how!) should give enough boost to the newly formed government to take some radical decisions in re-hauling the GST system.

The foremost structural change must be to bring electricity, oil & gas, and real estate fully into the GST net. It is simply not done to expect robust GST collections while keeping the majority of economic transactions out of the GST net. The tax cascading caused by keeping these products beyond the GST ambit and continuing to levy other taxes, such as excise and value added tax, not only increases the cost of these products but also is an additional tax compliance burden for taxpayers in this space. Inducting a taxpayer from any of the sectors mentioned before as part of the "Ease of Doing Business" study has the potential to drag down India's ranking. GST collections have, for the first time since July 2017, reached the ₹1 lakh crore mark consecutively for two months, and the government should take steps to bring all constituents of the economy within GST's ambit.

The next area for change is GST rates. Given India's diverse economic and social structure, the inadvisability of a single rate GST is a foregone conclusion as it can become regressive for many consumers. It is, hence, prudent to have only two GST rates instead of the many GST rates that we currently have.

A third GST rate, strictly for de-merit goods/services, can also be introduced to dissuade consumers from buying them. Having said that, the government can look at implementing a two-rate GST structure, viz. a low of 6/8% and a high of 12/16%.

Next in line is the GST compliance mechanism. It has been almost two years since GST was rolled out, and the government has been nimble and agile while dealing with compliance requirements. The due dates for filing GST returns and other compliance have often been revised to accommodate delays in filing for a variety of reasons. As expected, the start of the GST compliance cycle has been a rough ride, for both taxpayers as well as tax administrators. The government is about to kick off the pilot for the new GST compliance mechanism that is expected to be simple and robust for tax registrants. It is hoped that this time around, the systems are tested rigorously before they are rolled out for the general public. The government also intends to roll out an e-invoicing system for B2B supplies, a hugely successful mechanism in the European Union. While all this is expected to make compliance easier for taxpayers, there still remains a lot of GST compliance backlog. In fact, most taxpayers, especially the small and medium ones, are struggling to meet the revised deadline (June 30) for filing of GST annual return for the nine-month period ending March 31, 2018. The reconciliation between purchase data as accounted by the taxpayer and invoice data as uploaded by vendors itself is causing tremendous anxiety, not to mention reconciliation of other data points. Frequent changes to GST rates and forms, a raft of clarifications and orders, conflicting advance rulings

pronounced by various state GST authorities, etc., have eroded the charm of the simplistic GST structure..

The government has recently announced its intent to have a single authority for processing GST refunds—a very welcome move—and it should also look at a unified function for GST audits/assessments. As a pilot, the GST Policy Wing at the Centre and those in the respective states can be merged to form a National GST Policy Wing where central and state officials can discuss/debate GST policy issues and ensure their uniform interpretation across the country. This step alone will save a lot of avoidable litigation and hassles for the government and taxpayers.

In case of import of goods by a GST-registered person, the government can consider the option to link the GST payable on such import of goods to the GST return due to be filed by the taxpayer without requiring the GST-registered taxpayer to pay the GST on imports at the time of clearing goods for home consumption. As most GST-registered taxpayers claim input tax credit of the GST paid on goods imported almost immediately (wherever eligible), the working capital requirement for these taxpayers can be optimised by deferring and linking the GST on import of goods to the GST return filed in the subsequent month. This can be initially rolled out for large taxpayers with significant imports.

While many such simplification measures can be rolled out, one should remember that the GST is a journey that has its highs and lows and the government can certainly make it smoother for honest taxpayers and harder for dishonest ones!



RANVEER NAGAICH & JANAK PRIYANI
Authors are Young Professionals, NITI Aayog.
Views are personal

FOOD PROCESSING

The untapped growth opportunity

The food processing industry is of enormous significance as it provides vital linkages and synergies that it promotes between the two pillars of the economy, i.e. agriculture and industry

FOOD PROCESSING HAS become an integral part of the food supply chain in the global economy, and India has also seen growth in this sector in the last few years. The sector contributes around 11% of agricultural value-added and 9% of manufacturing value-added. According to the ministry of food processing industries annual report, the sector employs 12.8% of the workforce in the organised sector (factories registered under Factories Act, 1948), and 13.7% of the workforce in the unorganised sector. Despite being one of the largest producers of agricultural and food products in the world, India ranks fairly low in the global food processing value chains. In fact, as with the rest of India (most other sectors), this sector is also largely unorganised and informal.

Processing can be further delineated into primary and secondary processing. Rice, sugar, edible oil and flour mills are examples of primary processing. Secondary processing includes the processing of fruits and vegetables, dairy, bakery, chocolates and other items. Most processing in India can be classified as primary processing, which has lower value-addition compared to secondary processing. There is a need to move up the value chain in processed food products to boost farmer incomes. For instance, horticulture products, such as fruits and vegetables, carry the potential for higher value-addition when compared to cereal crops.

Food processing exports
At present, India's agricultural exports predominantly consist of raw materials, which are then processed in other countries, again indicating the space to move up the value chain. Despite India being one of the largest producers of agricultural commodities in the world, agricultural exports as a share of GDP are fairly low in India relative to the rest of the world. The same proportion is around 4% for Brazil, 7% for Argentina, 9% for Thailand, while for India it is just 2%. Food processing provides an opportunity to utilise excess production efficiently. Not just from a growth perspective, food processing is also important from the point of reducing food waste. In fact, the United Nations estimates that 40% of production is wasted. Similarly, the NITI Aayog cited a study that estimated annual post-harvest losses of close to ₹90,000 crore. With greater thrust on proper sorting and grading close to the farm gate, this wastage could also be

reduced, leading to better price realisation for farmers.

Improving the supply chain
Gaps in the supply chain are perhaps the biggest challenge faced by this industry. Preprocessing losses occur due to lack of awareness and a dearth of storage and pack-house facilities close to the farm gate. The shortage of refrigerated vehicles is reflected through losses occurring at the transport stage. Losses occur at the storage level as well. While at an aggregate level, India's cold storage capacity is at the required levels, the reality is that 60% of these cold storages are located in just four states—Uttar Pradesh, Punjab, West Bengal and Gujarat. Variation in quality is another impediment. Lack of avenues to adequately grade, sort and pack perishable produce is a major culprit in this regard. Therefore, pack-houses are of extreme importance.
The upgrading of 22,000 rural *haats* into Gramin Agriculture Markets (GrAMS) was announced in the 2018-19 Budget. These are largely informal markets, but are close to the farm gate. A preliminary survey has revealed that close to 70% of these rural *haats* are owned by local bodies—such as urban local bodies, rural local bodies or gram panchayats. Bringing in social entrepreneurs or the private sector to develop these markets into modern centres for aggregating and sorting produce may be considered, through appropriate public-private partnership (PPP) models.
Similarly, these local bodies could also explore partnerships with cooperatives and farmer producer organisations for the development of these markets. The NITI Aayog, in the *Strategy for New India @ 75* document, recommended village-level procurement centres for perishables such as fruits, vegetables and dairy. These procurement centres could then be linked to these GrAMS.
Farmer training and extension
Although building infrastructure is a requisite for enhancing the processing capacity, what is also of immense importance is to have enough skills to be able to use that capacity. Backward linkages to farmers need to be made more robust. Contract farming is an attractive avenue in this regard. According to the Model Contract Farming Act, 2018, the contract will specify the quantity, quality and price of produce being supplied. This would shield farmers from price volatility, subject to quality commitments. The *Strategy for New India @ 75* recommends that states take the lead in passing this enabling legislation.
Skill training is required at two levels. First at the farm gate in promoting agricultural best practices and in processing activities. Revamped extension services are critical at the farm gate, which have been written about in the past. Similarly, skill training in the food processing industry must be stepped up. The National Skill Development Corporation (NSDC) estimated the need to skill 17.8 million persons in the food processing industry by 2022.
The food processing industry is of enormous significance as it provides vital linkages and synergies that it promotes between the two pillars of the economy, i.e. agriculture and industry. Although still at a nascent stage, the sector has been growing at a robust pace and several steps have been taken in the past few years to accelerate this sector. The launch of the Pradhan Mantri Kisan Sampada Yojana is aimed at bridging the infrastructure gap. In fact, 100% foreign direct investment in food processing units has been allowed.
In order to ensure sustained growth in the sector, the priority for the new government is enhancing the cold-chain capacity, logistics infrastructure, proper ways of marketing commodities, farmer training and skilling of the workforce.

The priority must be on enhancing cold-chain capacity, logistics, proper ways of marketing commodities, and farmers' training and skilling

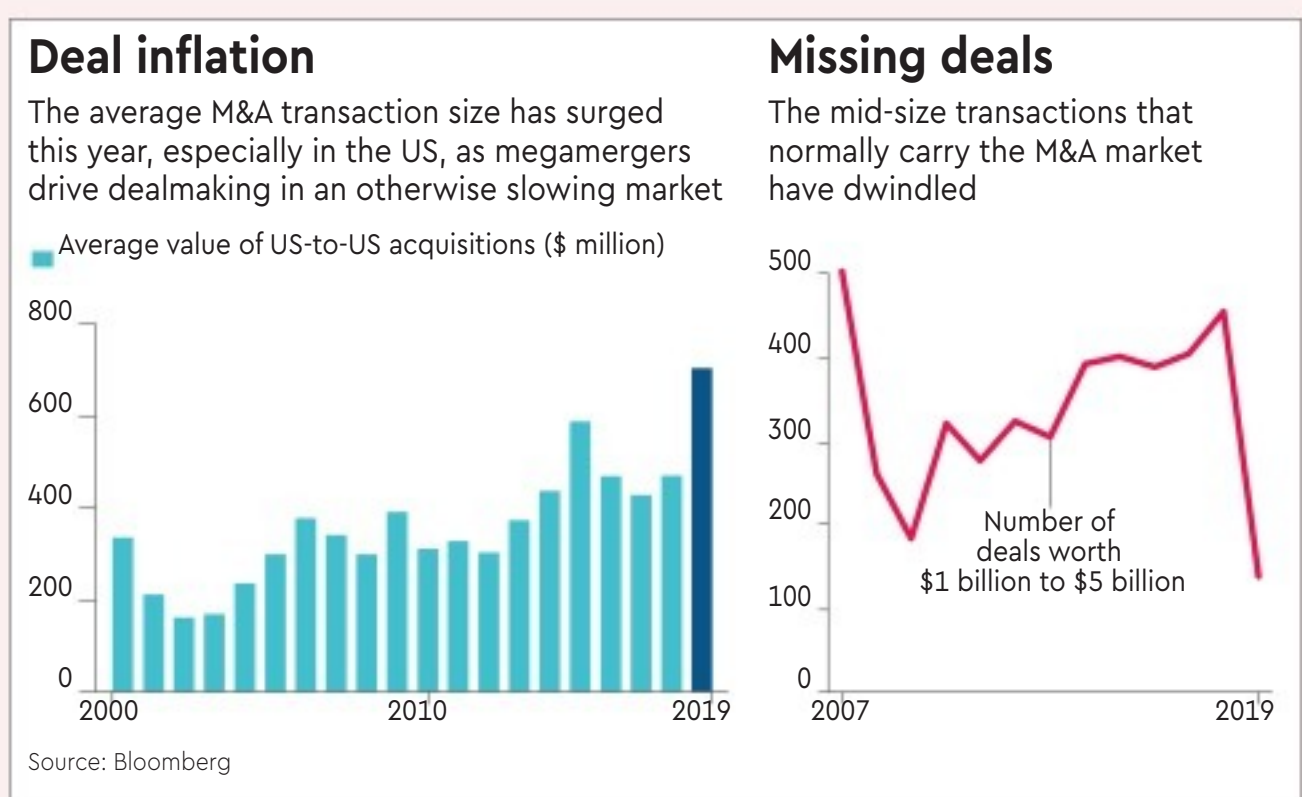
MERGERS & ACQUISITIONS

Next trade-war casualty may be M&A market

Whether it's the sale of a Boeing jetliner or a tech takeover, trade tensions spell bad news for megadeals

TARA LACHAPELLE
Bloomberg

ALREADY, ONE MEGADEAL is at risk because of the US-China trade spat: a massive order by Chinese airlines for Boeing planes that may be worth more than \$30 billion.
A Bloomberg News story on Wednesday detailed how important the deal is to both sides, and how the talks may take a precarious turn because of escalating tensions between their countries. But the Boeing matter draws attention to an even bigger risk: namely, that the trade war could complicate giant M&A deals, the kind that have kept the market together even as other types of dealmaking have slowed.
This year, there have been an unusually high number of mergers and acquisitions in the \$20-billion-and-up range, such as Bristol-Myers Squibb's takeover of Celgene Corp and last week's announced deal between Global Payments and Total System Services. In fact, the average M&A transaction



size so far in 2019 is a record. The trend is even more pronounced when looking at combinations involving only US companies, as the accompanying chart shows.
Despite a steady flow of large mergers, global dealmaking is down 16% overall. That's because transactions in the \$1 billion to \$5 billion range—typically considered the bread and butter of the M&A market—have slowed significantly in every region.
Boeing's possible deal with the Chinese airlines doesn't fall under M&A, but it shows corporate decision-making being influenced by geopolitical conflict. If influenced by the scale of a \$30-billion airplane order were to get derailed, so, too, could megamergers highly sensitive to things like CEO confidence, open markets

and cross-border supply chains. And without these big transactions, the M&A market might really dry up.
“If the big deals start to taper off and you don't get a pick-up in the sweet spot (the \$1 billion to \$5 billion deals), then I think the second half of the year could be more problematic,” Mark Shafir, co-head of global M&A at Citigroup, said at the Bloomberg Invest New York conference on Wednesday. As companies study their supply chains, “it's starting to become a confidence issue,” he said. Many are dependent on parts from China and Mexico or sales in those nations.
One year after Donald Trump was elected president, I wrote about how acquirers were spending a lot less money than usual on American companies, perhaps on account of the White House's more isolationist views making the US a slightly less attractive place to make acquisitions. The trade war, along with the larger policing role that the Committee on Foreign Investment in the US (known as CFIUS) seems to be playing, could again stymie cross-border merger considerations.
Whether it's the sale of a Boeing jetliner or a tech takeover, trade tensions spell bad news for megadeals.

Rate cut to boost growth

SHANTI EKAMBARAM
The author is president, Consumer Banking, Kotak Mahindra Bank. Views are personal

RBI'S MPC AGREED to reduce the policy repo rate by 25bps to 5.75% and change the policy stance to ‘accommodative’ from ‘neutral’. This was broadly in line with market expectations.
From a monetary policy perspective, the stated objective of RBI has been inflation-targeting and supporting growth. The tone of the policy statement indicates RBI is concerned about slowing growth, while being adequately comfortable about inflation estimates. This being the case, RBI highlighted there is scope for MPC to support efforts to boost growth and consumption; in particular private investment activity.
Global growth remained sluggish across both advanced and emerging markets. Global yields have fallen significantly. Crude has also fallen from its highs and is likely to be range-bound in the near-term.
Domestic economic activity decelerated sharply to 5.8% in Q4FY19 from 6.6% in Q3FY19 and 8.1% in Q4FY18, with growth in private consumption also slowing. Also, high frequency indicators point to a slowdown in the services sector. Exports have been impacted due to weak

global demand, partly due to the uncertainties surrounding trade wars. Thus, GDP growth in FY19 was at 6.8%, coming in lower than estimates.
RBI estimated FY20 GDP growth at 7% (7.2% earlier), 6.4-6.7% in 1HFY20 (6.8-7.1% earlier) and 7.2-7.5% in 2HFY20 (7.3-7.4% earlier). Upside risks to inflation include uncertainties related to monsoon, increase in vegetable prices and higher crude oil prices amid geopolitical tensions.
RBI has ensured adequate liquidity in the system; it said it would conduct OMO purchase auction of ₹15,000 crore to inject liquidity into the system on June 13.
To maintain financial stability, RBI has set the minimum leverage ratio at 3.5% for all Indian banks and 4% for systemically-important banks. This is higher than the minimum leverage ratio of 3% mandated by the Basel Committee on Banking Supervision (BCBS) and will inspire confidence in India's banking sector.
RBI announced it will issue draft guidelines for ‘on tap’ licensing of small finance banks and a committee will be formed to look into ATM charges.
Overall, against the backdrop of a stable government, higher capacity utilisation and expectations of fiscal stimulus to boost growth, RBI will keep a close watch on the Budget, as well as other key data points including the monsoon, global economic indicators, geopolitical equations, crude oil prices as well as domestic growth and inflation estimates to plan its next move.

RBI Monetary Policy

FRIDAY, JUNE 7, 2019



The change in the policy stance to 'accommodative' will simultaneously help the financial system to navigate to a lower term structure of interest rates and also accommodate growth concerns. Also, the move to scrap transaction charges for RTGS & NEFT will boost digital transactions.

RAJNISH KUMAR, CHAIRMAN, STATE BANK OF INDIA



Major part of the statement was the change of stance to 'accommodative', which rules out any rate hikes in future. Suppressed inflation and real sector performance were the major parameters behind this decision.

DINABANDHU MOHAPATRA, MD & CEO, BANK OF INDIA



RBI delivers the first hat-trick during 2019 edition of the World Cup! While the rate cut and stance is good, the transmission and execution will make it great and help the country to rise.

VS PARTHASARATHY, CFO, MAHINDRA GROUP



The repo rate cut, the change in stance and the resolve to provide adequate liquidity will provide the impetus to counter growth and investment headwinds. The review of liquidity framework should aid monetary transmission.

ZARIN DARUWALA, STANDARD CHARTERED BANK INDIA CEO

TRANSMISSION CHALLENGE

Loan rates unlikely to fall post repo cut

Improved liquidity situation may not translate into lower deposit rates as banks remain wary in an environment of slow deposit growth

SHRITAMA BOSE
Mumbai, June 6

LOAN RATES MAY not come down immediately even though the Reserve Bank of India (RBI) on Thursday cut the repo rate by 25 basis points (bps) for the third time in 2019. Bankers say the improved liquidity situation may not translate into lower deposit rates as banks remain wary in an environment of slow deposit growth. That, in turn, could result in lending rates remaining close to where they are now.

A senior executive at a large state-owned bank told *FE*: “It’s difficult to say whether deposit rates will fall. Our deposit rates are lower than that of most other banks. The banks who have much higher rates may have to start cutting the rates.”

Large public-sector banks (PSBs) and private banks may adopt separate strategies, as the latter set pays out relatively more for deposits, leaving them with greater room to cut deposit rates.

State Bank of India (SBI) pays 7% per annum for one-year retail term deposits. While the monetary policy committee (MPC) has lowered the repo rate in each of its meetings in 2019, SBI has actually raised the rate on one-year deposits by 20 bps between February and May this year.

Bank of Baroda (BoB) pays an even lower 6.7% on one-year retail deposits, while HDFC Bank offers 7.3%.

■ Large public-sector banks and private banks may adopt separate strategies

■ Private banks pay out relatively more for deposits, leaving them with greater room to cut deposit rates

■ State Bank of India pays 7% per annum for one-year retail term deposits

■ SBI has in fact raised the rate on one-year deposits by 20 bps between February and May 2019

■ Bank of Baroda pays an even lower 6.7% on one-year retail deposits, while HDFC Bank offers 7.3%

■ Monetary policy committee has lowered the repo rate in each of its meetings in 2019



RBI governor Shaktikanta Das observed that the weighted average lending rates across the system show that banks have transmitted to the extent of 21 bps on fresh rupee loans the 50 bps worth of rate cuts in 2019

RBI governor Shaktikanta Das observed that the weighted average lending rates (WALRs) across the system show that banks have transmitted to the extent of 21 bps on fresh rupee loans the 50 bps worth of rate cuts in 2019. “Interest rates on lower-tenor money market instruments remain broadly aligned with the overnight WACR (weighted average call rate), reflecting near-full transmission of the reduction in policy rates,” Das said at

the post-policy press conference, adding that the yield on the benchmark 10-year government security has also declined by about 40 bps from its average in April 2019 to about 7%.

However, the monetary policy statement highlighted that the WALR on older rupee loans increased by 4 bps as the past loans continue to be priced at high rates.

On the RBI’s older proposal to link lending rates to one of three external benchmarks for better transmission, Das said the matter needs further examination. “We are monitoring the transmission. So as soon as we take some decision in that regard, we will announce that.” In its April policy, the RBI had deferred the implementation of the new external benchmark-linked framework for pricing of loans, which was earlier supposed to come into force on April 1, 2019.

Draft norms for 'on-tap' licensing of small finance banks by August end

RBI seeks to enhance supply of credit to small borrowers and encourage competition

FE BUREAU
Mumbai, June 6

THE RESERVE BANK of India (RBI) will issue draft guidelines for 'on-tap' licensing of Small Finance Banks (SFB) by the end of August 2019 with a view to enhance supply of credit to small borrowers and encourage competition.

On-tap licensing is a time-efficient feature that will allow parties to obtain the licence on-demand basis and eligible parties won’t have to wait.

In September 2015, the RBI had granted ‘in-principle’ approval to 10 applicants for SFBs, including entities such as Ujjivan Financial Services, Equitas Holdings and Au Financiers (India). The RBI had also expressed its intention to use the learning from the licensing round to appropriately revise the guidelines and move to giving licences more regularly or virtually ‘on tap’.

Eight of the ten small finance banks have also been included in the second schedule of the RBI Act, 1934.

“A review of the performance of small finance banks reveals that they have achieved their priority sector targets and thus attained their mandate for furthering financial inclusion. Hence, there is a case for more players to be included to enhance access to banking facilities to the small borrowers and to encourage competition,” the RBI statement on Developmental and Reg-

EASY ACCESS

■ On-tap licensing will allow parties to obtain the licence on-demand basis and eligible parties won't have to wait

■ In Sept 2015, 'in-principle' approval was granted to 10 applicants for SFBs, including Ujjivan Financial Services, Equitas Holdings and Au Financiers (India)

■ Eight of the ten small finance banks have also been included in the second schedule of the RBI Act, 1934

ulatory Policies read. However, the RBI indicated more time is needed to review the performance of payments banks before considering the licensing of this category of banks could be put ‘on tap’.

In November 2014, the regulator had issued guidelines for licensing of payments banks and SFBs in the private sector. As per the guidelines, resident individuals/professionals with 10-year experience in banking and finance; and companies and societies owned and controlled by residents would be eligible to set up SFBs.

Existing non-banking financial companies, micro-finance institutions and local area banks that are owned and controlled by residents could also opt for the conversion into SFBs. The minimum paid-up equity capital for small finance banks should be ₹100 crore, while the promoter’s minimum initial contribution to be at least 40%, the guidelines stated.

The RBI surprisingly changed its stance to 'accommodative' after previously maintaining its stance at 'neutral'. This is the third rate cut of 2019, representing a cumulative 75 bps of cuts so far

stance. Its accommodative stance suggests the RBI has become more concerned about the growth slowdown, while acknowledging that inflation remains capped despite its ongoing easing.

We believe the RBI’s growth projections remain optimistic, as our FY20 GDP



Governor and his deputies

Reserve Bank of India governor Shaktikanta Das and his deputies arrive for the central bank's bi-monthly policy review, in Mumbai on Thursday

EXPRESS PHOTO: GANESH SHIRSEKAR

Revised circular on resolution of stressed assets in 3-4 days: Das

FE BUREAU
Mumbai, June 6

THE RBI WILL finally issue a revised circular on resolution of stressed assets within the next three to four days after legal and internal examinations delayed the release beyond earlier expectations. “It has taken a little more time than we had originally anticipated but it will be issued very shortly. And very shortly means in a matter of 3 or 4 days,”

RBI governor Shaktikanta Das told reporters at a post-monetary policy conference.

Das suggested the delay was “because it involved examining various legal issues, it involved very detailed and wide-ranging stakeholder consultations and then internally we had to examine it in detail.”

The revised circular will replace the regulator’s original framework on resolution of stressed assets that introduced the concept of one-day default and directed banks

to refer large account of Rs 2,000 crore and above to bankruptcy court unless a resolution plan was agreed upon within 180 days. The circular was declared as “ultra vires” by the Supreme Court in April this year.

The circular issued in 2018, also popularly referred to as the ‘Feb.12 circular’ was intended to be a simplified generic framework for resolution of stressed assets that was in harmony with the Insolvency and Bankruptcy Code, 2016.

RBI monitoring developments in NBFC sector: Das

Markets have been hoping for a special liquidity window for some troubled NBFCs, HFCs which have asset-liability mismatches and have been unable to repay lenders

MITALI SALIAN
Mumbai, June 6

WHILE NOT ANNOUNCING any specific measures to help stressed non-banking financial companies (NBFCs) or housing finance companies, the Reserve Bank of India said on Thursday it would take all steps to ensure financial stability. The markets have been hoping for a special liquidity window for some NBFCs and HFCs which have been in trouble due to asset-liability mismatches and have been unable to repay their lenders.

The central bank said it is closely monitoring developments within the NBFC sector, including HFCs, even as individual entities work towards mobilising additional liquidity and resources to meet liabilities and commitments.

“The RBI does not regulate the housing finance companies. Nonetheless, the banks have significant exposure to the housing finance companies and the RBI in any case is mandated to look after the financial stability of the entire economy. And in that background, at RBI, we have been closely monitoring the activity and the performance and the developments in the NBFC sector, including the HFCs,” RBI governor Shaktikanta Das said at a post-policy conference.

Das further added, “We are also mon-



itoring major entities in this universe of NBFCs and HFCs and, as you pointed out, the individual entities are themselves resorting to various measures using market mechanisms to mobilise additional resources to meet their liabilities and commitments.”

Das further emphasised that the regulator was committed to ensuring a robust, well-functioning NBFC sector and willing to take required steps to ensure financial stability is not adversely impacted by any development.

Das’ comments come at a time when several credit rating agencies, including Crisil and Ica, as recently as Wednesday, downgraded Dewan Housing Finance Corporation’s commercial papers after it delayed interest payments.

NBFCs have been in hot water ever since Infrastructure Leasing and Financial Services defaulted on debt obligations last year, which in turn triggered a liquidity crisis within the financial services market with banks unwilling to lend to NCFs, overall rise in finance costs and market borrowing becoming tougher.

The governor also emphasised that the NBFC supervision periodicity, about 18 months earlier, had been reduced to 12 months, adding that major entities were being monitored within the RBI.

“RBI will not delay to take any action if and when such action is required,” the RBI governor added.

Industry upbeat about RBI move

PRESS TRUST OF INDIA
New Delhi, June 6

HAILING THE RBI’S decision to cut lending rate by 25 basis points as a welcome step to boost demand and revive economy, industry chambers said there is more room to slash rates further. “There is room for further rate cut...this third consecutive rate cut in repo rate will lead to effective transmission, encouraging banks to lower their lending rates for both retail and corporate credit,” said Sandip Somany, president, Ficci.

Reviving business confidence, consumer confidence and triggering animal spirits in the economy is the need of the hour, the chamber said in a statement.

Assocham said the shift in policy stance from neutral to accommodative is looking significant and these measures would

rekindle economic growth and improve business sentiments. “The credit policy resolution and the RBI governor’s emphasis on faster and higher transfer of rate cuts will be reassuring if done by the banks. This, when coupled with improved liquidity, would reduce the cost of borrowing,” said Assocham president B K Goenka.

PHD Chamber also welcomed the rate cut and said it will help to stimulate demand, boost investments, enhance exporters’ competitiveness and growth of the industrial sector. “At this juncture, the transmission of the policy rate cut by the banking sector in terms of reduced lending rates would be crucial to boost liquidity. Going ahead, we expect repo rate to come down to 5% in the coming quarters for adequate availability of credit to the industry especially to the MSMEs sector,” the chamber said.