

20 ECONOMY

PLANS TO RAISE A PORTION OF THE CENTRE'S BORROWINGS IN GLOBAL MARKETS

Govt to make provision for hedging currency risk in overseas borrowings

SUNNY VERMA
NEW DELHI, JULY 13

WHILE ISSUING sovereign bonds in foreign currency in international markets, the government is expected to keep a provision in its books to account for a potential currency fluctuation that may affect its liability.

Sources said after discussions with the Reserve Bank of India (RBI) on the sovereign bond issue, the government will put in place a mechanism to hedge its currency risk. The government plans to borrow \$10 billion for the first time ever in the international markets. Finance Minister Nirmala Sitharaman had announced the government's plans to raise a portion of the Centre's borrowings in global markets in foreign currency. The government is planning to issue first such bonds in the middle of the year.

When foreign portfolio investors buy government bonds in Indian debt markets, they bear the

EXPLAINED

Risk on exchequer if funds raised in foreign currency

THE GOVERNMENT will for the first time raise resources from international markets to meet a portion of its borrowings. Unlike in the case of foreign investors putting in money in government bonds in India, the Centre raising funds in foreign currency puts the currency risk on the Exchequer.

To hedge against this risk of currency volatility, the government's plan to create a hedging mechanism will help in maintaining macroeconomic stability while at the same time take some load of the domestic bond market that is funding the deficit.

risk of any untoward movement in the Indian rupee. But when the government raises funds in foreign currency, it has to bear the risk of currency movements.

While the rate of interest in international markets is much lower at around 2-3 per cent, compared to around 7 per cent the government pays in India, the

rate differential shrinks after accounting for the costs associated with hedging the currency risk. Depending upon the premium in the forward markets that are used to hedge the currency risk, such costs can be as high as 4 per cent.

The overseas borrowing proposal, along with the government's target of lowering the fiscal

deficit to 3.3 per cent of the Gross Domestic Product by March-end 2020, have been received positively by the bond market, as reflected in sharp reduction in bond yields since the introduction of the Union Budget 2019-20.

When the government raises a portion of its borrowings overseas, it reduces the domestic supply of debt papers by an equivalent amount. This helps in lowering domestic borrowing costs for the government, while freeing up similar amount of fund that the banks can now lend to retail and commercial borrowers.

The Finance Ministry expects the depreciation of the Indian rupee not to exceed the interest rate differential between local and global borrowings — providing a natural hedge on its debt exposure. "When we allow foreigners to invest in rupee securities we pay them higher rate of interest, as compared to what the rate of interest they earn (outside). The differential in rate of interest is a way towards the foreign currency risk. So in this case, you are

taking a call on the foreign exchange risk for future, but our experience suggests very clearly that the differential that is there between the rupee interest rate and the foreign currency interest rate, is actually higher than the depreciation in the domestic currency. So hopefully the same trend will continue," Finance Secretary Subhash Chandra Garg told *The Indian Express* on July 6.

"And I think we will make provisions for the differential also so that we don't have asset liability mismatches and the Budget takes into account the real expected cost of money," he said. Since this is the first time the Centre will raise funds abroad, the government and the RBI will now start work on putting in place a mechanism for flow of money, payment of interest and taxation among others. The RBI, which is debt manager of the government, has in the past been vary of proposal for global issuance of sovereign bonds, mainly because of currency volatility and its potential impact on macroeconomic stability.

DHFL defaults; reports net loss of ₹2,223 crore in fourth quarter of FY19

ENS ECONOMIC BUREAU
NEW DELHI, JULY 13

DEWAN HOUSING Finance Corporation (DHFL) on Saturday said it had made fresh defaults in two instances. On July 6, it failed to meet an interest payment obligation of Rs 19.59 crore on private placement NCD and of Rs 28.41 crore on July 8 towards another private placement NCD.

Since June, the company has either delayed or defaulted on interest payments of various instruments. On June 4, it missed interest payment on secured redeemable NCDs worth Rs 900 crore but later revealed it had made full payment within the cure period. Soon after, on June 25, it defaulted on maturing unsecured commercial paper to the tune of Rs 225 crore. More recently, on July 4, the company said it defaulted on interest payments on private placement secured redeemable NCDs to the tune of Rs 4.75 crore and of Rs 1.9 lakh on public issue of NCDs.

On Saturday, it announced fresh defaults in two instances. On July 6, it failed to meet an interest payment obligation of Rs 19.59 crore on private placement NCD and of Rs 28.41 crore on July 8 towards another private placement NCD. Lenders to the housing financier have since signed an inter-creditor agreement to resolve the account and DHFL is expected to present a resolution proposal next week.

The company also reported a net loss of Rs 2,223 crore for the March quarter on Saturday. In the same quarter last year, the lender had posted a net profit of Rs 134.4 crore. DHFL deferred the announcement of financial results for the March

GROSS NPAs STANDS AT 2.74% AS ON MAR 31

■ Gross non-performing assets stood at 2.74 per cent as on March 31 against 0.91 per cent in previous quarter and 0.96 per cent in the same quarter last year

■ DHFL's liquidity crisis has led to downgrade of its debt

■ The company is taking active steps to monetise its assets and is in discussions with multiple Indian banks and international financial institutions to sell off its retail as well as wholesale portfolio, the note to result said

quarter to Saturday, which was earlier scheduled for June 29, citing the unavailability of the management concerned.

Gross non-performing assets (NPAs) stood at 2.74 per cent as on March 31 against 0.91 per cent in the previous quarter and 0.96 per cent in the corresponding quarter last year. Provisions in Q4FY19 rose to Rs 729.47 crore from Rs 373.13 crore in the corresponding quarter last year.

DHFL's liquidity crisis has led to the downgrade of its debt of over Rs 1 lakh crore across various instruments including long-term borrowing and fixed deposits to D from AAA by various rating agencies like Crisil, CARE, ICRA and India Ratings.

"The company is taking active steps to monetise its assets and is in discussions with multiple Indian banks and international financial institutions to sell off its retail as well as wholesale portfolio. It is in discussions with the consortium of bankers/lenders to restructure its borrowings and will take all the necessary steps to ensure that it meets its financial commitments," notes to the result read.

It further stated, "In view thereof, the requirements in respect of creation of debenture redemption reserve and the corresponding deposit in liquid

assets shall be assessed upon conclusion of the restructuring plan. The Company is in the process of submitting a resolution plan to the lenders and the lenders are expected to give an in-principle approval to the plan by end of July 2019." It also referred to discussions for stake sale by the promoters to a strategic partner with further equity infusion and plan to monetise the wholesale loan portfolio.

The company also tabled a report in Saturday's board meeting regarding an independent review of allegations against the management and promoters by a media portal revealing procedural lapses, documentation deficiencies and failure on monitoring end use of the funds loaned as per the mandate of loan sanction conditions.

"The statutory auditors posted their review of the independent chartered accountants report, provided their observations and suggestions on the scope, coverage and findings by the independent chartered accountants in the report, as well as additional areas that needed to be covered. The management is in the process of determining the action to address the comments of the statutory auditors," the company said in a release. FE

'Forex kitty hits a new high of \$429.9 bn'

The forex kitty continued to surge for fourth successive week to scale a new lifetime high of \$429.911 billion, after a heavy increase in the value of gold and currency assets during the week to July 5, as per the RBI

\$2.23 bn: The reserves have jumped by \$2.23 billion, while in the past reporting week the same had increased by \$1.262 billion to reach a new high of \$427.67 billion

\$906.8 mn: During the reporting week, foreign currency assets, which are major component of the overall reserves, increased by \$906.8 million to \$400.809 billion, the Reserve Bank said

EARNING SOURCE: Forex reserves are one of the key revenue earning sources for the central bank, which invests the money in foreign



government bonds and also with the IMF and other secure investment class

FOREIGN CURRENCY ASSETS: Expressed in dollar terms, foreign currency assets include the effect of

appreciation/depreciation of non-US units like the euro, pound and yen held in the reserves

GOLD: The value of the gold reserves swelled by \$1.345 billion, taking the total to

8 tonnes

A portion of reserve is used to shore up gold reserves, which RBI increased by over 8 tonnes last fiscal

\$24.304 billion, according to the RBI data

\$1.451 bn: The special drawing rights with the International Monetary Fund came down by \$4.7 million to \$1.451 billion

\$15.3 mn: The country's reserve position with the Fund also dipped by \$15.3 million to \$3.346 billion

BRIEFLY

Japan, S Korea fail to resolve trade dispute

Seoul: A row between Japan and South Korea escalated on Saturday, with contested accounts of a frosty meeting the day before that had failed to make progress on a dispute that could threaten global supplies of microchips and smartphone displays. Tokyo lodged a protest against Seoul, saying it had broken an agreement on what the two sides would disclose from the Friday discussions on Japan's curbs of exports to Korea of some materials used to make high-tech equipment, said Japanese trade ministry official Jun Iwamatsu. Japan's Ministry of Economy, Trade and Industry (METI) also disputed a Korean official's statement that Seoul had asked Japan on Friday to withdraw the restrictions. But a Korean trade ministry official shot back that Seoul had "clearly demanded Japan withdraw its trade restrictions at yesterday's meeting, and there should be no disagreement over that matter with Japan."

Oil at \$66.72 a barrel as storm limits output

London: Oil prices were little changed on Friday as US Gulf of Mexico crude output dropped by more than half from disruptions caused by a tropical storm, but concerns over global crude surplus in months ahead limited gains. Brent crude futures settled at \$66.72/barrel, climbing 20 cents. REUTERS

AIIB, Aberdeen join hands for \$500 mn Asia bond programme

ENS ECONOMIC BUREAU
MUMBAI, JULY 13

THE ASIAN Infrastructure Investment Bank (AIIB) and Aberdeen Standard Investments (ASI) have forged a strategic partnership that aims to develop debt capital markets for infrastructure, drive responsible investing in fixed income and build a sustainable environmental, social and governance (ESG) ecosystem in emerging markets in Asia.

The partnership entails the US \$500 million AIIB Asia ESG Enhanced Credit Managed Portfolio managed by ASI on behalf of AIIB, which will comprise primarily Asian infrastructure related bonds including both green and unlabeled issuances, with ESG factors fully integrated in the investment process and portfolio management.

ASI will work closely with AIIB on launch of the Sustainable Capital Markets Initiative, that aims to catalyse ESG investing strategies

In addition, through bespoke research and active engagement, ASI will work closely with AIIB on the launch of the Sustainable Capital Markets Initiative, which aims to catalyse ESG investing strategies, act as an engine of change to improve ESG standards and build capacity around responsible investing with various market participants including corporate bond issuers, rating agencies and index providers to improve disclosure and expand ESG rating coverage in Emerging Asia, AIIB Vice

President and Chief Investment Officer DJ Pandian said.

Over the next few decades, institutional investors are expected to play an integral role in financing Asia's growing infrastructure investment needs, AIIB said. As the region is facing some of the most pressing sustainability challenges, integrating environmental and social factors into investment decisions is critical, along with governance. In close alignment with AIIB's objectives and ASI's investment philosophy, the project aims to unlock the potential of ESG investing and mobilise private capital to support the region's sustainable development.

The Asia ESG Enhanced Credit Managed Portfolio was approved by the AIIB Board of Directors in December 2018. ASI was awarded the contract to manage the portfolio through a competitive bidding process.

LARGEST PENALTY EVER IMPOSED BY FTC

US regulators approve \$5 bn Facebook settlement over privacy issues

AGENCE FRANCE-PRESSE
WASHINGTON, JULY 13

US REGULATORS have approved a \$5 billion penalty to be levied on Facebook to settle a probe into the social network's privacy and data protection lapses, the *Wall Street Journal* reported Friday.

The newspaper said the Federal Trade Commission approved the settlement in a 3-2 vote, with the two Democratic members of the consumer protection agency dissenting.

According to the report, the deal, which would be the largest penalty ever imposed by the FTC for privacy violations, still needs approval from the Justice

Department before it is finalised.

Although details have not yet been released, the deal will likely include restrictions on how Facebook is able to use personal data. Charlotte Slaيمان of the consumer group Public Knowledge thinks it is unlikely the restrictions will be overly harsh. "We don't yet know key aspects of the settlement: whether Facebook must make any changes to its business model or practices as a result," said Charlotte Slaيمان, the group's Competition Policy Counsel.

"By itself, this fine will not be sufficient to change Facebook's behaviour." The outlook was more optimistic at the Center for Democracy and Technology, whose president Nuala O'Connor

DEAL NEEDS JUSTICE DEPT NOD FOR FINALISATION

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said the fine underscored the importance of "data stewardship" in the digital age. "The FTC has put all companies on notice that they must safeguard personal information," O'Connor said.

Facebook did not immediately

respond to an AFP query on the agreement. The FTC announced last year it reopened its investigation into a 2011 privacy settlement with Facebook after revelations that personal data on tens of millions of users was hijacked by the

political consultancy Cambridge Analytica, which was working on the Donald Trump campaign in 2016. Facebook has also faced questions about whether it improperly shared user data with business partners in violation of the earlier settlement.

The leading social network with more than two billion users worldwide has also been facing inquiries on privacy from authorities in US states and regulators around the world. The settlement would be in line with Facebook's estimate earlier this year when it said it expected to pay \$3 billion to \$5 billion for legal settlements on "user data practices."

The fine is unlikely to hurt Facebook, which logged a profit of

\$2.4 billion on revenue that climbed 26 per cent to \$15.1 billion in the first three months of this year. Facebook's stock value increased 1.8 per cent after the fine was announced, closing at nearly \$205, the highest it has been all year. Some Facebook critics have argued the company should face tougher sanctions including monitoring of its data practices, or that chief executive Mark Zuckerberg should be personally liable for penalties.

Faced with criticism, Facebook's head of global affairs, Nick Clegg, called on governments to do more to regulate social networks, instead of leaving the work to companies. "It's not for private companies, however big or small,

to come up with those rules. It is for democratic politicians in the democratic world to do so," Clegg said in a June 24 interview with the BBC. But there are increasing calls to dismantle the massive social network.

In May, one of Facebook's co-founders called for social media behemoth to be broken up, warning that Zuckerberg had become far too powerful. "It's time to break up Facebook," said Chris Hughes in an editorial for *The New York Times*, saying it had become necessary to separate the social network from Facebook's Instagram and WhatsApp services. Zuckerberg's "focus on growth led him to sacrifice security and civility for clicks," said Hughes.

Allahabad Bank reports ₹1,775 crore fraud by Bhushan Power & Steel

ENS ECONOMIC BUREAU
KOLKATA, JULY 13

AFTER PUNJAB National Bank (PNB), another state-owned lender Allahabad Bank on Saturday reported fraud of over Rs 1,774 crore by Bhushan Power and Steel to the Reserve Bank of India.

Allahabad Bank, in a regulatory filing, said on the basis of forensic audit investigation findings and CBI filing an FIR against the company and its directors, alleging diversion of funds from banking system by Bhushan Power and Steel (BPSL), a fraud of Rs 1,774.82 crore has been reported by the bank to the RBI.

Last week, PNB reported a fraud worth Rs 3,805.15 crore by the bankrupt steel company by misappropriating funds and manipulating its books of accounts.

Around 85 per cent of PNB's Rs 4,399-crore exposure to the company had been siphoned off. Allahabad Bank also said it

PNB recently reported a fraud worth Rs 3,805.15 crore by BPSL by misappropriating bank funds. Around 85 per cent of PNB's Rs 4,399-crore exposure to the company had been siphoned off

has been observed that the company has misappropriated bank funds and manipulated books of accounts to raise funds from consortium lender banks.

The bank has already made provisions amounting to Rs 900.20 crore against exposure of the bank in BPSL, it said.

At present, the case is in the NCLT, which is in advance stage and the bank expects good recovery in the account. It is expected that more banks may report fraud committed by BPSL as the CBI complaint registered in April names several other lenders.

According to the CBI, BPSL diverted around Rs 2,348 crore through its directors and staff from the loan accounts of PNB (IFB New Delhi and IFB Chandigarh), Oriental Bank of

Commerce (Kolkata), IDBI Bank (Kolkata) and UCO Bank (IFB Kolkata) into the accounts of more than 200 shell companies without any obvious purpose.

The agency said that the company in doing so had misused the funds and the FIR named chairman Sanjay Singhal, vice-chairman Aarti Singhal, along with other directors as suspects.

"It was further alleged that the said company availed various loan facilities from 33 banks/financial institutions during the year 2007 to 2014 to the tune of Rs 47,204 crore (approx) and defaulted on repayments. Subsequently, lead bank PNB declared the account as NPA, followed by other banks and financial institutions," the CBI had stated. FE