ECONOMY

GOLD	RUPEE	OIL	SILVER
₹40,220	₹71.80	$59.44	₹49,050

Indian basket as on August 28, 2019

SENSEX: 37,068.93 ▼ 382.91 **NIFTY:** 10,948.30 ▼ 97.80 **NIKKEI:** 20,460.93 ▼ 18.49 **HANG SENG:** 25,703.50 ▲ 88.02 **FTSE:** 7,187.76 ▲ 73.05 **DAX:** 11,829.86 ▲ 128.84

International market data till 1900 IST

2018-19: RBI income shoots up by 146.59% to ₹193,036 crore

Overall surplus jumps ₹175,987 crore as against ₹50,000 crore in 2017-18

GEORGE MATHEW
MUMBAI, AUGUST 29

THE RESERVE Bank of India's income for the year 2018-19 vaulted by a whopping 146.59 per cent and the expenditure decreased by 39.72 per cent, enabling the central bank's board to transfer a higher amount of Rs 123,414 crore as surplus to the government for the year 2018-19.

The income of the central bank zoomed from Rs 78,281 crore in 2017-18 to Rs 193,036 crore in 2018-19. On the other hand, expenditure declined from Rs 28,277 crore last year to Rs 17,045 crore in 2018-19, leaving a huge surplus. The year ended with an overall surplus of Rs 175,987 crore as against Rs 50,000 crore in the previous year, representing an increase of 251.97 per cent, the RBI said in its Annual Report.

The jump in the RBI's income was mainly due to the rise in interest income and other income. Interest income rose from Rs 73,871 crore in 2018 to Rs 106,837 crore in 2019. Other income sky-rocketed from Rs 4,410 crore to Rs 86,199 crore during the period.

The RBI also reported an increase in the size of the balance sheet during 2018-19. "The balance sheet increased by Rs 485,311 crore — 13.42 per cent — from Rs 36,17,594 crore as of June 2018 to Rs 41,02,905 crore as of June 2019. The increase on the asset side was due to increase in domestic and foreign investments by 57.19 per cent and 5.70 per cent, respectively and increase in gold by 16.30 per cent," the RBI said.

On the liability side, the increase was due to increase in notes issued, other liabilities and provisions and deposits by 13.43 per cent, 11.10 per cent and 17.21 per cent, respectively. Domestic assets constituted 28.03 per cent while the foreign currency assets and gold (including gold held in India) constituted 71.97 per cent of total assets as on June 30, 2019 as against 23.18 per cent and 76.82 per cent, respectively as on June 30, 2018. The income from foreign sources increased by 173.56 per cent from Rs 27,401 crore in 2017-18 to Rs 74,958 crore in 2018-19 mainly on account of the general rise in yield/interest rates across all currencies and movement in the exchange rates.

JUMP IN INTEREST AND OTHER INCOME

- **The income of the central bank zoomed from Rs 78,281 crore in 2017-18 to Rs 193,036 crore in 2018-19**
- **On the other hand, expenditure declined from Rs 28,277 crore last year to Rs 17,045 crore in 2018-19, leaving a huge surplus**
- **Jump in RBI's income was mainly due to the rise in interest income and other income**

The rate of earnings on foreign currency assets was higher at 2.79 per cent in 2018-19 as compared with 1.09 per cent in 2017-18.

The net income from domestic sources increased by 132.07 per cent from Rs 50,880 crore in 2017-18 to Rs 118,078 crore in 2018-19 mainly on account of increase in coupon income due to an increase in the portfolio of rupee securities, net income on interest under LAF/MSF operations due to increase in net liquidity injection to the banking system and write back of excess risk provision from CF.

The total employee cost for the year 2018-19 increased by 78.04 per cent from Rs 3,848 crore in 2017-18 to Rs 6,851 crore in 2018-19. The increase was due to net impact of increase in bank's expenditure towards accrued liabilities of various superannuation funds from Rs 648 crore in 2017-18 to Rs 3,610 crore in 2018-19. Contribution to superannuation funds depends on the actuarial valuation of the liabilities under these funds, it said.

The central board of the RBI in its meeting held on August 26 accepted all the recommendations of the Jalan Committee and finalised the Reserve Bank's accounts for 2018-19 using the revised framework to determine risk provisioning and surplus transfer. "As the RBI's financial resilience was within the desired range, the excess risk provision amounting to Rs 52,637 crore was written back from Contingency Fund (CF) to income," it said.

DECELRATION IN ECONOMY

RBI: Cyclical downswing, not a deep structural slowdown

GEORGE MATHEW
MUMBAI, AUGUST 29

EXPLAINED

Consumption demand, private investment revival highest priority

DISAGGREGATED ANALYSIS by the RBI has confirmed that a broad-based cyclical downturn is underway in several sectors — manufacturing, trade, hotels, transport, communication and broadcasting, construction and agriculture. It acknowledged that revival of consumption demand and private investment has assumed the highest priority for the government and the central bank.

THE RESERVE Bank of India (RBI) has suggested that the recent deceleration in the economy could be in the nature of a soft patch mutating into a "cyclical downswing", rather than a "deep structural slowdown", even as it proposed several measures, including improving ease of doing business, reforms in factors of production and faster implementation of capital expenditure to revive the animal spirits of the economy.

The RBI, in its Annual Report for 2018-19 released on Thursday, said its disaggregated analysis confirms that a broad-based cyclical downturn is underway in several sectors — manufacturing, trade, hotels, transport, communication and broadcasting, construction and agriculture. The government which had come out with several measures last week to tackle the downswing has promised more steps in the coming weeks.

India's real GDP growth which clocked an average of 7.7 per cent during 2014-18 and 8 per cent in the first quarter of 2018-19, began to shed momentum through the rest of 2018-19. The growth slid down to a five-year low of 5.8 per cent in the March quarter of 2018-19. The loss of speed became evident from second quarter as some drivers of growth — notably investment — began to fade, albeit cushioned by still resilient consumption spending. Several sectors, including auto and consumer goods, have witnessed demand slowdown, production cuts and lay-offs.

According to the RBI, it's important to note that trend growth has witnessed slight moderation since 2016-17, contributed mainly by the services sector, especially trade, hotels, transport, communication and broadcasting, and financial, real estate and professional services. "Issues and challenges in these sectors need to be addressed for achieving broad-based upturn," it said.

"What ails the animal spirits? At the core is the issue of domestic demand," the central bank said. And what should be the policy focus? Continuing focus on improving ease of doing business; reforms in factors of production, viz., land and labour, capitalising on opportunities opened up by the heightened trade tensions and faster expenditures by public authorities and similar other measures have the potential to inject growth impulses into the economy, it said.

There are still structural issues in land, labour, agricultural marketing and the like, "which need to be addressed". "These stylised facts and empirical findings conditioned the setting of monetary and fiscal policies during 2018-19. They warrant a careful evaluation, at least from the point of view of ascertaining the headroom available for counter-cyclical policy responses, if the slowdown gets prolonged," the RBI said. It noted that the space available for delivering a fiscal stimulus to the economy, if warranted, is constrained.

Through the second half of the year, high frequency indicators have flashed slowing sales growth among manufacturing and non-IT services sector corporations, with evidence of private consumption losing pace, especially in the FMCG segment. Financial conditions eased, but bank credit is yet to become broad-based and flow of resources from nonbank financial intermediaries has not yet gained its earlier traction.

"The key question that confronts the Indian economy as it looks ahead to the rest of 2019-20 is: are we dealing with a soft patch, or a cyclical downswing, or a structural slowdown?" the RBI Annual Report asked. "This will determine the policy responses - illustratively, a soft patch can be looked through, while a cyclical downswing will warrant counter-cyclical actions in terms of monetary and fiscal policies, but a structural slowdown will need deep-seated reforms," it said.

The diagnosis is difficult; these conditions are hard to disentangle cleanly, at least in the formative state. Proximate answers could perhaps be found in the lessons of the experience of 2018-19, with which it could be feasible to assess the outlook for 2019-20, it said.

Finance Minister Nirmala Sitharaman along with MoS Finance Anurag Singh Thakur (right) and Revenue Secretary Ajay Bhushan Pandey in Guwahati on Thursday. *PIB/PTI*

Booster for economy: FinMin may soon come out with more steps

ENS ECONOMIC BUREAU
NEW DELHI, AUGUST 29

FINANCE MINISTER Nirmala Sitharaman said on Thursday that the Centre could bring forward some expenditure milestones laid out in the Budget. She stressed that the momentum of infrastructure spending by the public-sector agencies would be maintained.

She said India remained the fastest growing economy.

The comments, were made during a session with the media in Guwahati after a meeting with the industry. The minister is holding a series of such meetings with the industry and taxpayers in various tier-2 cities to elicit their views on how to address the issues confronting the economy.

Sitharaman said that the Finance Ministry would soon announce more measures to boost the economy. Last week, she had announced infusion of more liquidity in the hands of non-banking financial companies along with tax sops and regulatory relaxations for auto industry. **FE**

CG Power board removes Gautam Thapar as chairman

ENS ECONOMIC BUREAU
MUMBAI/ NEW DELHI, AUG 29

THE BOARD of CG Power & Industrial Solutions on Thursday sacked Gautam Thapar as its chairman in the wake of an investigation that unearthed a financial scam in the company.

"In cognizance of the current situation being faced by the company and the recent developments, including disclosures dated August 19, 2019, made by the company, the board of directors passed by majority consent, have resolved to remove Gautam Thapar as the chairman of the board with immediate effect," CG Power said in a regulatory filing.

It said this decision has been taken in the interests of the company and its stakeholders in discharge of the fiduciary responsibilities of the board. On August 20, the firm had stated that a probe instituted by its board had found governance and financial lapses including some assets being provided as collateral and money from the loans siphoned off by "identified company personnel, both current and past, including certain non-executive directors."

The company made a series of revelations about some unauthorised transactions carried out by certain employees of the company, which led to potential understatement of not only the firm's liabilities, but also advances to related and unrelated parties of the company and the group. The company said that this was going on for over two years now.

CG Power informed the stock exchanges that the liabilities and advances to related and unrelated parties have been understated for financial years 2017 and 2018. While assets were provided as collateral without any authority and the company was made a co-borrower/guarantor to enable third parties to secure loan, the money so obtained was immediately routed out of the company.

"No promoter or promoter entity has derived any undue benefit. There is simply no fraud. The reports following the board meeting of August 19, 2019, are disheartening ... In the interests of all stakeholders ... I must say that no funds lent by banks nor any funds of CG have been misappropriated ..."

GAUTAM THAPAR,
FOUNDER, CG POWER & INDUSTRIAL SOLUTIONS

"These were carried out by identified company personnel, both current and past, including certain non-executive directors. These transactions appear to be undertaken in a seemingly fraudulent manner, and hence warrant further detailed investigation," the company said without naming any official. On his part, Thapar said, "No promoter or promoter entity has derived any undue benefit. There is simply no fraud. The reports following the board meeting of August 19, 2019, are disheartening. Indeed, I would say that the reports do not reflect facts."

"In the interests of all stakeholders, including banks and financial institutions, I must say that no funds lent by banks nor any funds of CG have been misappropriated. The money has been applied with due board approval. All inter-corporate transactions have been fully authorised by the board," Thapar said in a statement. He added that promoters who have paid back Rs 4,000 crore to lenders since 2015 "do not cheat".

"I had no opportunity to participate in the 'investigation' nor the resulting 'report'. I leave it to stakeholders to draw their own conclusions from this fact. I will reaffirm this at the board meeting tomorrow, August 30, 2019," he said. **WITH FE**

'PV sales likely to decline 4-7% in 2019-20'

Woes of the automobile sector do not seem to be coming to an end anytime soon. According to a report prepared by ICRA, domestic passenger vehicle sales is expected decline by 4-7% in 2019-20

21.6%: **The decline registered by auto industry in the first four months of FY'20. While BS-VI emission norms remains an issue for demand within the industry, the report said that prevailing subdued rural and urban sentiments would also have an impact in the short-term**

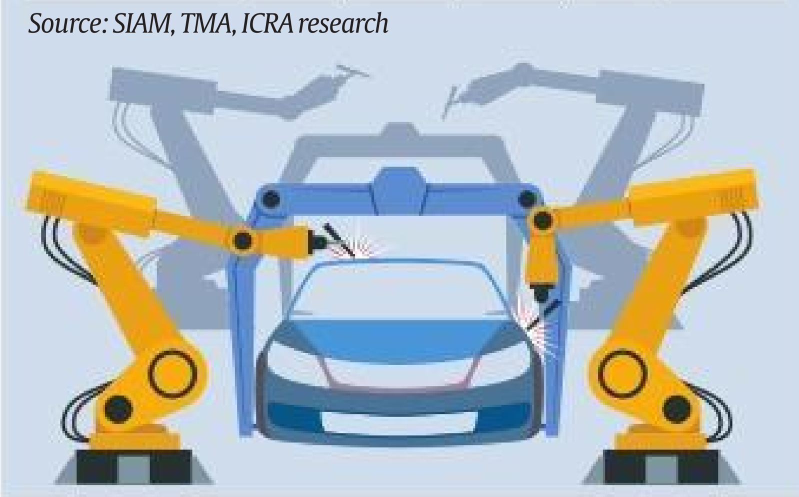
0-5%: **Likely decline in medium & heavy commercial vehicle sales**

WEAK CONSUMER sentiment due to weak farm inflows, subdued agri-commodity prices, rising cost of ownership as a result of regulatory changes including safety, emissions, vehicle registration, along with a rise in interest cost, have impacted demand

TRIEND IN DOMESTIC AUTOMOBILE SALES (% CHANGE YOY)

	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	4m FY20
Commercial Vehicles	52%	28%	7%	1%	-14%
Passenger Vehicles	20%	-4%	-1%	-2%	-22%
Two Wheelers	16%	5%	9%	-9%	-13%
Tractors	26%	0%	22%	-6%	-14%

Source: SIAM, TMA, ICRA research



TIGHT LIQUIDITY among financiers, banks and NBFC segment; revision in axle load norms, slowdown in government spending on infra and uncertainty related to selection between BS-IV versus BS-VI among buyers, have played negative roles

WHILE RECENT steps announced by the Centre is a positive, the report said that liquidity support announced for the banking system and government spend on infrastructure can act as a catalyst

73.8% rise in bank frauds; number of cases up 15%

ENS ECONOMIC BUREAU
MUMBAI/NEW DELHI, AUG 29

AS THE default and NPAs continued to climb, the amount involved in bank frauds witnessed a sharp 73.8 per cent jump over the last one year from Rs 41,167 crore in 2017-18 to Rs 71,542 crore in 2018-19. The number of cases of frauds, however, increased 15 per cent from 5,916 to 6,801 in the same period.

Public sector banks continued to account for majority of the fraud, more so on the value of frauds. Data shows that while 55 per cent of the total number of frauds were committed at state owned banks, in value terms these banks accounted for 90 per cent of the frauds i.e. the PSBs saw frauds amounting to Rs 64,509 crore out of the total fraud of Rs 71,542 crore. In the previous year bank fraud at PSBs amounted to Rs 38,260 crore. For private banks, while the number of frauds rose from 1,975 to 2,090 over previous year, the value more than doubled from Rs 2,478 crore to Rs 5,515 crore.

RBI data also shows a sharp jump in fraud amount in the loan cases. The value of frauds related to advances jumped nearly three times from Rs 22,558 crore in 2017-18 to Rs 64,548 crore. The average lag between the date of occurrence and its detection by banks was 22 months. The average lag for large frauds — Rs 1 billion and above — amounting to Rs 52,200 crore reported during 2018-19, was 55 months. Among bank groups, PSBs, which constitute largest market share in bank lending, have accounted for the bulk of frauds reported in 2018-19. It was followed by private and foreign banks, the RBI said.

In terms of area of operations, frauds related to advances constituted the preponderant share of the total amount involved in frauds in 2018-19, while the share of frauds in off-balance sheet items declined from a year ago. "In terms of the number of frauds too, those related to advances were predominant followed by card/internet related frauds and deposits related frauds. Frauds relating to card/internet and deposits constituted only 0.3 per cent of the total value of frauds in 2018-19," it said.

Cheating and forgery was the major component, followed by misappropriation and criminal breach of trust.

Rise in ₹500, ₹2K fake notes

Mumbai: The Reserve Bank of India has reported a rise in counterfeit notes in the new denomination of 500 and 2000 notes during the year 2018-19. Counterfeit notes in the denomination of Rs 500 (new design notes) increased by 121.0 per cent, while in Rs 2,000, it increased by 21.9 per cent during 2018-19, the central bank said.

The RBI has said 21,865 counterfeit notes of Rs 500 valued at Rs 1.09 crore were detected during the year as against 9,892 notes (Rs 49.46 lakh) in the previous year. As many as 21,847 counterfeit notes of Rs 2,000 valued at Rs 4.36 crore were detected in 2018-19 as against 17,929 notes (Rs 3.58 crore) in the previous year. **ENS**

Credit flow from the NBFC sector falls 24%

ENS ECONOMIC BUREAU
MUMBAI, AUGUST 29

WITH THE collapse of the IL&FS group and resultant liquidity crunch in the financial sector, credit flow from non-banking financial companies (NBFCs) to the commercial sector plunged around 24 per cent to Rs 934,200 crore in FY2019 from a high Rs 11,60,300 crore in FY2018, the Reserve Bank of India has said.

Credit flow from systemically important non-deposit taking NBFCs (net of bank credit to NBFCs) declined from Rs 304,600 crore in 2017-18 to a negative Rs 39,700 crore in 2018-19.

"The Reserve Bank proposes to strengthen the asset-liability management (ALM) framework for NBFCs," it said. In its annual report on Thursday, the RBI said the decline in flows from non-banks was mainly on account of lower flows from non-deposit taking systemically important NBFCs (net of bank credit to NBFCs) and housing finance companies, particularly in the aftermath of IL&FS event.

Moreover, lower issuances of debt and equity instruments by non-financial entities and lower investment by LIC in corporate debt, infrastructure and social sector also resulted in lowering financial flows in 2018-19 from their levels a year ago, it said.

In contrast, there was a sharp increase in commercial paper issuances, coupled with higher accommodation by four all India financial institutions (AIFIs) regulated by the Reserve Bank.

RBI's presses print more notes than in pre-demo period

HARISH DAMODARAN
& ISHAN BAKSHI
NEW DELHI, AUGUST 29

TWO YEARS after demonetisation, the volume as well as value of new banknotes printed by the Reserve Bank of India (RBI) has surged, compared to that in the years preceding the scrapping of the outstanding Rs 500 and Rs 1,000 denomination currency notes on November 8, 2016.

According to the RBI's latest annual report released on Thursday, the total supply of banknotes by Bharatiya Reserve Bank Note Mudran Pvt. Ltd (BRBNMPL) and Security Printing & Minting Corporation of India Ltd (SPMCIL) — the two companies that print currency on behalf of the central bank — amounted to 2,919.1 crore pieces in 2018-19. This was higher than the number of pieces supplied in previous years, including 2016-17, when demonetisation happened. While the total face value of the new notes supplied in 2018-19, at Rs 7.26 lakh crore, was way below the Rs 13.39 lakh crore for 2016-17 — when RBI had to take recourse to printing of Rs 2,000 denomination currency as part of its immediate re-monetisation exercise — it was still higher than the levels during the pre-demonetisation years.

In other words, despite the Modi government's emphasis on digital payments and a less-cash economy, the official printing presses are churning out more currency notes than before, both in volume and value terms. The value of new notes supplied by BRBNMPL and SPMCIL grew by 16.1 per cent in 2018-19, more than the 11.2 per cent increase in India's nominal GDP. This, notwithstanding the supply of Rs 2,000 currency notes registering a drastic fall from 350.4 crore pieces in 2016-17 to 15.1 crore in 2017-18 and a mere 4.7 crore pieces in the last fiscal.

As a result, the share of Rs 2,000 notes in the value of the total supply of new currency plunged from 52.3 per cent in 2016-17 to just 1.3 per cent in 2018-19. Yet, the outstanding value of banknotes in circulation at the end of March 2019, at Rs 21.109 lakh crore, was more than the corresponding Rs 16.415 lakh crore level of March 2016 pre-demonetisation. The other interesting aspect emerging from the RBI's annual report is the declining cost of printing new banknotes. In 2016-17, the central bank spent Rs 7,965 crore on the printing of 2,904.3 crore note pieces. But in 2018-18, the expenditure was only Rs 4,811 crore on a higher supply of 2,919.1 crore pieces. The reason for this was because of lesser number of Rs 2,000 denomination notes getting printed and also reduction in unit printing costs.

In a reply to a Parliament question on July 9, the Union minister of state for finance Anurag Singh Thakur stated that the selling price of currency printed by BRBNMPL came down from Rs 4.18 per piece in 2017-18 to Rs 3.53 in 2018-19 for Rs 2,000 notes. A similar downward revision in the rates per piece took place from Rs 2.39 to Rs 2.13 for Rs 500, from Rs 2.24 to Rs 2.15 for Rs 200, from Rs 1.50 to Rs 1.34 for Rs 100, from Rs 0.83 to Rs 0.82 for Rs 50 denomination notes.

The difference between the face value of a currency note and the actual cost of producing it is called "seigniorage". Thus, if it costs only Rs 3.53 to print a Rs 2,000 note, the seigniorage is theoretically a profit accruing to the central bank from its monopoly over the issuance of the currency.

US Q2 growth revised down slightly

REUTERS
WASHINGTON, AUGUST 29

GDP increased at a 2% annualised rate — a downward revision from the 2.1% pace estimated last month

THE US economy slowed in the second quarter, but the strongest growth in consumer spending in 4-1/2 years amid a strong labour market could further temper financial market expectations of a recession.

Gross domestic product increased at a 2.0 per cent annualised rate, the US Commerce Department said in its second reading of second-quarter GDP on Thursday. That was a downward revision from the 2.1 per cent pace estimated last month. The economy grew at a 3.1 per cent rate in the January-March quarter. It expanded 2.6 per cent in the first half of the year. The small downward revision was in line with economists' expectations.

The economic expansion, now in its 11th year, is under threat from the Trump administration's year-long trade war with China, which has undercut business investment and manufacturing.

The deterioration in trade relations between the two economic giants has roiled global stock markets and triggered an inversion of the US Treasury yield curve, fanning fears of a recession.

While manufacturing and housing data suggest the economy continued to slow early in the third quarter, strong consumer spending, backed by the lowest unemployment rate in nearly 50 years, has eased some concerns about a downturn.

Growth in consumer spending, which accounts for more than two-thirds of US economic activity, surged at a 4.7 per cent rate in the second quarter. That was the fastest since the fourth quarter of 2014 and was a slight upward revision from the 4.3 per cent pace estimated last month.