GOLD	RUPEE	OIL	SILVER
₹39,970	₹71.77	$59.54	₹48,850

Indian basket as on August 26 2019

SENSEX: 37,451.84 ▼ 189.43 **NIFTY:** 11,046.10 ▼ 59.25 **NIKKEI:** 20,479.42 ▲ 23.34 **HANG SENG:** 25,615.48 ▼ 48.59 **FTSE:** 7,065.62 ▼ 23.96 **DAX:** 11,589.46 ▼ 140.56

International market data till 1900 IST

RESEARCHERS AT CAFRAL SAID CURRENT CORE CAPITAL OF RBI AT 6.6% IS TOO LOW

As RBI picks lower end of risk buffer at 5.5% its think tank pegged ideal level above 16%

SUNNY VERMA
NEW DELHI, AUGUST 28

THE CENTRAL Board of the Reserve Bank of India Monday decided to maintain the realised equity level at 5.5 per cent of the RBI's balance sheet as against the existing 6.8 per cent (as on June 30, 2019), thereby adopting the lower band of the safe range of 5.5-6.5 per cent recommended by the Bimal Jalan Committee that reviewed the economic capital framework of the central bank.

This resulted in Rs 52,637 crore of excess provisions identified under a revised Economic Capital Framework (ECF) adopted by the RBI board, which the RBI decided to transfer to the government along with Rs 1.23 lakh crore of surplus transfer for 2018-19.

While the RBI has adopted to maintain the level of 5.5 per cent of realised equity, an independent research body promoted by the central bank had in a recent research paper argued that the core capital of the RBI "at 6.6 percent is too low (and) the target number for the RBI core capital should be above 16 percent." The Centre For Advanced Financial Research and Learning (CAFRAL), which is promoted by the RBI, published a research paper in January 2019 on the subject "Central Bank Equity: Facts and Analytics", which analysed equity levels of central banks of 45 countries from around the world consisting of the 14 developed countries and 31 emerging and developing economies.

"Our estimates, for all confidence intervals, all methods and all time horizons for computing returns, suggest that at 6.6 per cent the current level of the core capital of the RBI is too low. The target number for the RBI core capital, as per our estimates, should be above 16 per cent, which is more than double the RBI's current level of core capital," the report concluded. The authors of the report — led by Amartya Lahiri, director at CAFRAL — had clarified that these are their opinion and do not reflect the views of any organisation.

The report argued that higher equity levels were needed for central banks to manage risks better and to withstand losses in any given year. Low capital reserves compromise the ability of a central bank to manage risks and losses in a given year can push the central bank into negative equity territory, affecting their operational capability. "We find that negative income shocks amongst central banks are fairly common. In any given year, more than one in seven central banks have negative surpluses with the number rising to one in five in some years. Moreover, when negative income shocks occur they can be large enough to wipe out the entire core capital of the central bank," the report said.

More than one in every seven central banks suffer losses every year with the proportion becoming as high as one in five in some years, the research paper argued, pitching for higher equity levels for the central bank. While the CAFRAL report pitched for 16 per cent core equity level for the RBI, the committee under former RBI Governor Bimal Jalan, recommended the realised equity level to be kept within a band of 6.5-5.5 per cent. At the upper band of 6.5 per cent, excess of risk provisioning would have been Rs 11,608 crore. The RBI has adopted 5.5 per cent level. While recommending the level of equity capital for the RBI to maintain Contingency Risk Buffer (CRB), the Jalan Committee argued that this buffer is the country's savings for a 'rainy day' (a financial stability crisis).

EXPLAINED

Desired levels of equity: debate settled for now

EVEN AS the Reserve Bank of India has decided to maintain 5.5 per cent equity as a percentage of its balance sheet, based on the lower end of the safe range of 5.5 -6.5 per cent suggested by the Jalan Committee, a recent research paper by authors at RBI-promoted research centre had argued that present core capital of the RBI is too low and it should be raised above 16 per cent to cover all risks. Despite varied views on the desired levels of equity for the RBI, the Jalan panel report has settled this debate for now.

CENTRAL BANK CAPITAL RATIOS

Developed Countries	
Denmark	14.65%
Switzerland	13.77%
Singapore	13.42%
United States	0.93%
Emerging Markets/Others	
Hong Kong	18.90%
Croatia	12.52%
Kenya	11.44%
South Africa	9.25%
Indonesia	8.31%
Sri Lanka	6.70%
India	6.60%
Turkey	6.28%
Malaysia	3.87%
Brazil	0.75%

Source: CAFRAL research paper

₹7.3L cr in CGRA account can't be transferred to govt

GEORGE MATHEW
MUMBAI, AUGUST 28

THE CENTRAL Board of the Reserve Bank of India has decided not to transfer any amount from the CGRA (currency and gold revaluation account), which has Rs 730,000 crore of unrealised gains, to the government as recommended by the Bimal Jalan committee.

CGRA comprises unrealised gains or losses on foreign currency assets and gold due to movement in exchange rate and prices of gold. There will be no distribution of unrealised revaluation balances. This effectively means bulk of the RBI's Rs 10 lakh crore surplus — mostly lying in CGRA — can't be touched. This policy, as proposed by the committee, will be in vogue for the next five years. The contention of the RBI Board as well as the Jalan committee is that central bank doesn't have the money in its CRGA account as it's unrealised balance.

For the year ended June 2018, the RBI had total reserves of Rs 9.6 lakh crore, comprising mainly CGRA (Rs 6.91 lakh crore) and contingency fund (Rs 2.32 lakh crore). CGRA has now risen to Rs 7.3 lakh crore. Though the RBI's economic capital could appear to be relatively higher, it is largely on account of the revaluation balances which are determined by exogenous factors such as market prices and the RBI's discharge of its public policy objectives.

The RBI's economic capital has undergone a significant transformation over the past 20 years, with unrealised revaluation balances now accounting for almost 73 per cent of RBI's economic capital. Unrealised valuation buffers will be used as risk buffers against market risks. As a result, the excess realised equity as on June 30, 2018, ranges from Rs 26,280 crore (at upper bound of contingent risk buffer, or CRB) to Rs 62,456 crore (at lower bound of CRB).

CGRA comprises unrealised gains or losses on foreign currency assets and gold due to exchange rate and gold price movement

One of the contentious issues in the conflict between the government and the RBI under Urjit Patel was the size of the central bank's reserves, which at Rs 9.6 lakh crore was then perceived as being excessive by the government. The government last year sought transfer of Rs 3.6 lakh crore surplus, more than a third of the total Rs 9.6 lakh crore reserves of the central bank to the government. The ministry had then suggested that this surplus can be managed jointly by the RBI and the government.

The identified excess capital of Rs 52,637 crore transferred by the RBI to the government is much lower than expectations of a transfer Rs 2-3 lakh crore. However, this disappointment was blunted owing to a much higher than expected normal dividend transfer for the current year which, if used judiciously, can be invaluable in making the Budget math sound more credible.

The RBI witnesses considerable accretion to its revaluation balances (CGRA) during periods of external stress (i.e. 2008, 2011 and 2013) when the trend towards depreciation is markedly strong. Further, a rapidly appreciating rupee can force the RBI to intervene, increasing the size and currency mismatch of the balance sheet as well as depleting the CGRA. If liquidity absorption operations become warranted, there could be substantial decrease in the RBI's income as open market operations reduce holdings of government securities and interest outgo on account of reverse repo operations (though it may counteract to an extent the increased balance sheet size).

The CGRA can be used not only for meeting the risks of USD-INR, cross-currency and gold price movements, but also for interest rate risks. Similarly, the Investment Revaluation Account-Rupee Securities and IRA-FS Investment Revaluation Account-Foreign Securities can meet currency and gold price risks in addition to the interest rate risks.

In his speech on October 26, 2019, which brought into open the tussle between the Finance Ministry and the central bank, the then RBI Deputy Governor Viral Acharya said how a transfer of excess reserves from a central bank to the government can be "catastrophic," as had been proven in the case of Argentina. The transfer of $6.6 billion of its central bank's reserves to the national treasury, sparked off "the worst constitutional crises in Argentina" and led to "a grave reassessment of its sovereign risk", Acharya had asserted.

The RBI transferred a surplus of Rs 265,110 crore to the government during the 2014-18 period. This is 90 per cent of the net income. In 2017-18, the RBI transferred a surplus of Rs 50,000 crore to the government (comprising an interim transfer of Rs 10,000 crore), up from Rs 30,659 crore in 2016-17, but lower than in the previous three years.

SECTOR WATCH
PHARMACEUTICAL

China's new drug law may open the doors for Indian generic medicines

ENS ECONOMIC BUREAU
NEW DELHI, AUGUST 28

CHINA'S CHANGED drug law, which removes drugs that are legal in foreign countries but not approved in China from the category of 'fake medicines', could open up the possibility of Indian generic drug manufacturers entering the Chinese market.

These drugs can be used by patients in small quantities from December 1, the newly revised drug administration law of the country said. Until now, all foreign generic drugs not approved in China were clubbed under the counterfeit category and were illegal.

The revision was approved and announced at the end of the session of the National People's Congress (NPC), the country's top legislature, on Monday, according to a *PTI* report. The change in the law is good news for Chinese patients suffering from ailments such as cancer.

India has been demanding that China open its pharmaceutical market to Indian drugs as part of the efforts to lower the $57 billion trade deficit in about $95.5 billion total trade last year.

No major Indian pharmaceutical company managed to establish itself in China in view of the rigid regulations and the costs involved.

Legal foreign drugs, including generic drugs from India, will not be treated as fake medicine in China based on a revised drug administration law that will take effect on December 1, state-run *Global Times* reported. The latest revision removes drugs that are legal in foreign countries but not approved in China from the category of fake medicines.

It also stated that people who take these drugs without an official approval into China can be granted leniency if the amount of the drug is small.

China figures on the seventeenth position in the list of countries ranked in terms of value of India's exports of pharma and fine chemicals, even below Nepal. In June, India had called for a "clear roadmap" from China to meet its long-standing demand to open up Chinese pharmaceuticals market for Indian exports as the drug regulators of both the nations held their first ever meeting in Shanghai. India has, for long, been pushing China to open its pharmaceutical market, where the prices for cancer and generic drugs are relatively high. The opening up of the Chinese market for Indian pharma exports was seen as a means to address the yawning trade deficit, which last year according to Chinese figures, crossed $57 billion.

Besides pharmaceuticals, India has been asking China to open up its IT market as well to ensure steady increase of Indian exports.

Officials of India and China have been working to address India's concerns since last year's informal Wuhan summit between Prime Minister Narendra Modi and Chinese President Xi Jinping.

Following the meeting, China had begun importing rice, sugar and soybean, but the pharma sector has remained a sticking point.

INDIA'S EXPORT OF DRUGS, PHARMACEUTICALS & FINE CHEMICALS

Country	FY19 (in $ mn)
US	5,820.41
UK	630.17
S Africa	619.08
Russia	485.55
Brazil	452.05
Nigeria	447.95
Germany	445.78
Canada	325.26
Belgium	277.49
France	276.66
Australia	276.19
Kenya	261.01
UAE	260.24
Vietnam	245.09
The Philippines	240.02
Nepal	232.76
China PRP	230.19

(Source: Pharmexil)

Jalan panel proposes change in RBI accounting year, transparent accounts

ENS ECONOMIC BUREAU
MUMBAI, AUGUST 28

THE BIMAL Jalan Committee on Economic Capital Framework of the RBI has proposed a more transparent presentation of the RBI's annual accounts and change in its accounting year from July to June to April to March from the financial year 2020-21.

The panel's report, which has been accepted by RBI Board, has noted that changes in the format of presentation of balance sheet would need necessary amendments to the RBI General Regulations. "The information may, therefore, be presented as a Schedule to the balance sheet till such time the processes for completing change in style of balance sheet presentation are formalised," it said. The committee has recommended that the RBI accounting year (July to June) may be brought in sync with fiscal year (April to March) from 2020-21. "The RBI would be able to provide better estimates of the projected surplus transfers to the government for the financial year for budgeting purposes," the committee said.

"It could reduce the need for interim dividend being paid by the RBI. The payment of interim dividend may then be restricted to extraordinary circumstances," it said. It would obviate any timing considerations that may enter into the selection of open market operations or Market Stabilization Scheme as monetary policy tools. It would also bring about greater cohesiveness in monetary policy projections and reports published by RBI which mostly use the fiscal year as the base, the panel said.

"This is important in light of the very different estimates of RBI's capital which has been mentioned in the public domain," the panel said on the need for transparent accounts. In RBI's balance sheet, while capital and reserve fund are explicitly shown, other sources of financial resilience are grouped under 'Other Liabilities and Provisions' and enumerated via Schedules making it difficult to arrive at total risk provisions, the panel said.

'US-China trade war an opportunity for India'

India could increase its trade footprint in the midst of the US-China trade conflict, mainly under categories on which Washington has imposed tariffs on Beijing, as per a DBS Bank report. India needs constructive policies to counter risks, it said

INDIA'S DIRECT exposure to the US and China is modest compared to its regional peers. China (5%) and US (16%), totally account for a fifth of total merchandise exports

BY CONTRAST, regional economies are more exposed, particularly Taiwan, South Korea and Vietnam where a cumulative 40% of their total exports head to US and China

MORE EXPOSED TO US
- **Between the two, India is more exposed to the US, even as their bilateral trade surplus has been narrowing in recent years, said the report "Trade War and India: Five Factors to Watch".**
- **Despite this, India's overall trade balance is in deficit, led by a sizeable gap with China.**

MAY INCREASE FOOTPRINT
- **India could increase its trade footprint in midst of the US-China trade conflict, particularly under categories on which US has imposed tariffs on China**
- **Diversion in investment flows is also an opportunity that India could benefit from, as manufacturers seek alternative origination destinations**
- **As a counter to tough global conditions, domestic policies will have to be constructive to revive demand, the report said**

6% of total investment flows: US FDI into India jumped in 2018. There has been also notable pick-up in flows from China. Larger gains are likely in the medium-term as India continues to ease FDI norms
- **The US and China are locked in a trade war since President Donald Trump imposed heavy tariffs on imported steel and aluminium items in March last year**

CABINET DECISION

26% FDI in digital news media creates confusion in the industry

KRISHN KAUSHIK
NEW DELHI, AUGUST 28

THE GOVERNMENT has created a new digital media category, distinct from print and broadcast media, and allowed 26 per cent foreign direct investment (FDI) through the government route. Until now, digital media was not considered as a separate category for the purposes of FDI.

Members of the industry, however, reacted differently to the decision since several digital media outlets have different levels of FDI at the moment. Some digital media companies have 100 per cent FDI, while some others are restricted to 49 per cent.

In a press statement after the decision was taken by the Cabinet, the government said: "The extant FDI policy provides for 49 per cent FDI under approval route in Up-linking of 'News & Current Affairs' TV Channels. It has been decided to permit 26 per cent FDI under government route for uploading/ streaming of News & Current Affairs through Digital Media, on the lines of print media."

Some industry stakeholders feel this creates a new category for media companies — digital news and current affairs media — for which the FDI has been brought down to 26 per cent, at par with print media. Contrary to the general impression that FDI norms have been eased, some in the industry said, the move is actually "restrictive" as it limits FDI into a field which had none earlier.

However, some others feel it could bring clarity which can help the industry in the long run.

Unlike broadcast and print media, digital media has no entry barriers. To broadcast news in India, a broadcast media company needs a uplinking and/ or downlinking license; while newspapers or magazines need to register with the Registrar for the Newspapers of India (RNI), both of which fall under the Union Ministry for Information and Broadcasting.

But digital news media companies, which have websites or mobile apps, do not need any such registration. "Will they firewall anyone who is not in India," a senior industry source asked. The source mentioned that websites of almost all global news platforms can be viewed in the country, even though their companies may not be registered here. Similarly, there are digital news platforms in the country, the source pointed out, which are headquartered outside the country. How will the government ensure all these digital news outlets are treated equally, the source said.

Another senior industry member, however, was more optimistic and said the move would bring much-needed clarity. The person said that "logically" it would mean that a company that "creates content and uploads it from India" will be allowed only 26 per cent FDI, while platforms that publish news, including websites or mobile applications could be based anywhere and read in India.

The person said that "if the intent is for big companies" to attract venture funding or strategic partners, it "will be good for everyone" as, the person said. The ambiguity at the moment could have made certain potential investors hesitant.

NOT CONSIDERED A SEPARATE CATEGORY TILL NOW

- **Until now, digital media was not considered as a separate category for the purposes of FDI**
- **The extant FDI policy provides for 49 % FDI under approval route in Up-linking of 'News & Current Affairs' TV Channels. It has been decided to permit 26% FDI under government route for uploading/ streaming of News & Current Affairs through Digital Media, on the lines of print media, the government said**
- **Members of the industry, however, reacted differently to the decision since several digital media outlets have different levels of FDI at the moment**

Gold nears ₹40K/10 gram; silver up ₹2,110 a kg

PRESS TRUST OF INDIA
NEW DELHI, AUGUST 28

RESUMING ITS record-setting streak, gold price jumped Rs 300 on Wednesday to a fresh all-time high of Rs 39,970 per 10 gram here, according to the All India Sarafa Association, on higher demand from local jewellers and the yellow metal's appeal as safe-haven amid global economic concerns.

Silver skyrocketed Rs 2,110 to Rs 48,850 per kg, helped by positive trend overseas and strong demand from industrial units and coin makers. Traders and analysts said higher uptake by local jewellers ahead of festive season and investors preferring the yellow metal as a safe-haven asset helped the yellow metal touch its new all-time high level. "Spot gold held steady near a six-year high in the international market supported by increased safe haven demand," said Hareesh V, head (commodity research), Geojit Financial Services.

In the national capital, gold of 99.9 per cent and 99.5 per cent purity jumped Rs 300 each at Rs 39,970 and Rs 39,800 per 10 gram, respectively. Sovereign gold soared Rs 300 to Rs 29,800 per eight grams. Silver ready skyrocketed Rs 2,110 to Rs 48,850 per kg, while weekly-based delivery jumped 1,289 to Rs 46,416 per kg.

Silver coins were in good demand and traded higher by Rs 2,000 at Rs 98,000 for buying and Rs 99,000 for selling of 100 coins.

Global gold eases as investors book profits, dollar firms

Bengaluru: Gold eased on Wednesday as the US dollar strengthened and as investors locked in profit following a more than 1 per cent jump in the last session, but uncertainty over US-China trade dispute and the global economy kept safe-haven bullion near a multi-year peak. Spot gold fell 0.1 per cent to $1,541.20 per ounce at 1736 GMT. The dollar rose 0.2 per cent, making gold more expensive for holders of other currencies. **REUTERS**

US 30-year bond yields at record low

REUTERS
NEW YORK, AUGUST 28

US TREASURY yields fell on Wednesday, with 30-year yields setting all-time lows, as fears about a recession and trade tensions between China and the United States stoked unrelenting demand for low-risk government debt.

Inversion is spreading across the US yield curve. Yield curve inversion often precedes a recession. Secondary trading volume of US Treasuries in Europe hit a 30-day high, as per MarketAxess/Trax.

At 1541 GMT, the yields on 30-year government bonds were 1.937 per cent, down 2.4 basis points from late on Tuesday. They hit an all-time low of 1.905 per cent earlier Wednesday. The 30-year yield is below 3-month T-bill rates, which has not happened since 2007. The spread on three-month T-bill rates over 10-year yields widened to 55 basis points, a level not seen since March 2007, while premium on 2-year yields above 10-year yields rose to 6.5 bps, as per Refinitiv and Tradeweb data.