

# 14 ECONOMY

## BANKING WATCH 11 PNB NPA ACCOUNTS FOR SALE

**New Delhi:** Punjab National Bank (PNB) has put up for sale 11 non-performing assets (NPA) to recover dues of over Rs 1,234 crore, and has invited bids from asset reconstruction companies (ARCs)/NBFCs/banks/financial institutions for these accounts. **PTI**

## SENTIMENT REMAINS DAMP, WITH SENSEX SEEING 7.9% FALL SINCE JULY 5

# Surcharge rollback fails to pay off as FPI outflows from stocks continue

**GEORGE MATHEW**  
MUMBAI, SEPTEMBER 8

THE GOVERNMENT'S decision to roll back the super-rich tax on foreign portfolio investors (FPIs) and other measures to revive the economy have failed to boost investor sentiment, as the stock markets continued to witness capital outflows as a slowing economy dampened the enthusiasm of the investor community, with the Sensex falling 7.9 per cent — or over 2,900 points — since the Budget presentation on July 5.

After pulling out around Rs 30,000 crore in July and August, FPIs have withdrawn Rs 4,200 crore from stock markets in September so far. Though FPIs continued to invest in the debt market, net outflows since July 1 this year have crossed Rs 10,000 crore, according to NSDL data.

On the other hand, the debt market received over Rs 23,000 crore since July, with Rs 3,000 crore coming in September so far, the National Securities Depository Limited (NSDL) data reveals.

On August 23, the central government withdrew the enhanced surcharge levied on the foreign portfolio investment on long and short term capital gains, in the wake of protests from FPIs.

The surcharge of 25 per cent was imposed on those having taxable income between Rs 2 crore and Rs 5 crore, and 39 per cent on those with taxable income over Rs

**EXPLAINED**

## Global factors as well as domestic woes at play

DESPITE THE Centre's move to rollback the surcharge on FPIs, outflows have continued on account of a gamut of factors. These include slow demand growth in major economies, weakening current account surpluses in nations like China, as well as geopolitical and trade tensions.

To add to these woes, many domestic sectors are facing a slowdown and the GDP growth has fallen to a six-year low.

5 crore in the Budget 2019-20.

While the Finance Minister earlier suggested the FPI trusts to convert into companies where the Budget has not made any change in tax treatment, FPI investors called it a cumbersome process and an impractical solution. The selling spree intensified after July 19 when the FM declined to remove or relax the applicability of the new surcharge on the super rich and FPIs.

India Ratings and Research (Ind-Ra) said it expects headwinds to FPI flows into India to continue over the near-to-medium term, despite the accommodative global monetary policy stance and the Centre's efforts to alleviate uncertainty regarding the higher surcharge. "A gamut of factors, such as slower-than-expected demand growth in major economies, geopolitical and trade

tensions, and a gradual weakening of the economic growth prospects in India, have contributed to a build-up of risk aversion, which has impeded the demand for emerging market (EM) debt instruments," Ind-Ra said.

The impact of these factors has been exacerbated by the weakening current account surpluses of major economies, including China and Germany, which has impaired their ability to export capital. In fact, countries such as China and Saudi Arabia have actually been borrowing large quantum of funds from the global markets.

The government's plan to borrow from overseas markets has not made much headway after the Budget announcement and the GDP growth declined to 5 per cent for the June quarter, with many sectors like auto, FMCG and cement witnessing a slowdown.

MONTH	EQUITY	DEBT	HYBRID	TOTAL
April	21,193	-5,099	634	16,728
May	7,920	1,187	2,264	11,370
June	2,596	8,319	2,196	13,111
July	-12,419	9,433	-17	-3,003
August	-17,592	11,672	49	-5,871
September**	-4,264	3,001	-5	-1,268
<b>Total - 2019</b>	<b>44,373</b>	<b>33,177</b>	<b>8,768</b>	<b>86,315</b>

\*\* Up to Sept 8, 2019  
Source: NSDL

The FPI outflow has also impacted the rupee which fell below the Rs 72-level recently. "Recently announced measures by the Finance Minister have failed to boost investors and FPI flows have not improved since July 2019. Crisil lowered India's GDP growth forecast to 6.3 per cent and says that the slowdown is deeper than suspected," said Abhishek Bansal, chairman, ABans Group of companies.

Deepak Jasani, head—retail research, HDFC Securities, said, "The withdrawal of surcharge on capital gains tax for FPIs and local investors (along with the recent relaxation in eligibility criteria for FPI registration by Sebi) will remove major irritants, though its positive impact on markets will depend on growth issues being sorted out over the near term."

With the Sensex having lost

another 351 points in the bygone week, the benchmark has lost 2,927 points since the Budget presentation to end at 36,981.77, with slowdown in many sectors adding to the bearishness.

"As corporate margins are under pressure, there's very little chance of making money in stocks. That's why FPIs have shifted focus to the debt where there's scope to get better returns," said an analyst.

The corporate sector registered a 11.97 per cent fall in net profit in the June quarter, even as the Reserve Bank cut the key policy interest rate by 75 points between February and June this year and the banks went slow in passing on the benefits of rate reduction to their customers. Stock markets are now banking on more measures from the government for a turnaround in their fortunes.

## Repo-linked loans: Cheaper now for borrowers, but rate hike cycle may turn up heat

**ENSECONOMIC BUREAU**  
MUMBAI, SEPTEMBER 8

THE RESERVE Bank of India's (RBI) decision to link interest rates on personal and MSME loans to a benchmark rate like the repo rate will cheer borrowers in the short-term; but it can turn the heat on them when the rate cycle changes and turns upwards, analysts and rating agencies have warned.

The first casualty will be housing loan customers who generally opt for variable interest rates. The banking system has seen both rate hike and easing cycles many times in the last two decades.

Although retail customers would receive cheaper loans now, the cost of increased interest rate causes volatility, as the changes—both lower and higher—would be reflected much faster. "In the current falling interest rate cycle, it is to the benefit of the borrowers. However, if the interest cycle turns, retail borrowers might face the heat," Care Ratings said.

This would primarily impact the housing loans segment (over 13 per cent of bank credit) which has variable interest rate, as vehicle or any other asset financing generally has a fixed interest rate.

The RBI has traditionally altered the repo rate in increments of 25 basis points (bps), with the last policy action being an outlier with a cut of 35 bps. "Such large changes in the repo rate may cause increased volatility in the EMIs for the borrowers, which may pose hardship during the rate

**The RBI move to link interest rates on some loans to the repo rate has been undertaken to enable faster transmission of benefits of lowering of interest rate to retail and MSME borrowers**

hike cycles. Hence, we expect the future monetary policy actions may be asymmetric, with a relatively lower increment during the rate hike cycles and frontloading during rate cuts," said Anil Gupta, vice president, ICRA.

The latest RBI initiative has been undertaken to enable faster transmission of benefits of lowering of interest rate to retail and MSME borrowers, who constitute over 30 per cent of the bank credit.

Faster transmission of interest cost benefit will in turn boost consumption supporting economic growth.

"Further, given the declining interest rate scenario and competitive pressures, HFCs are likely to face volatility in their customer base and cede a portion of the market share to the banks. The banks' NIMs could be squeezed to the extent of lag in lowering their deposit rates," Care Ratings added.

The new dispensation could aggravate their asset-liability mismatch. Ideally, both sides should be moved to similar benchmarks

to ensure an appropriate operational environment. PSU banks have been quicker off the mark for launching such products compared to their private peers. This could be another reason for PSU banks to face some erosion in the deposits as they have been losing ground to the private banks, Care Ratings noted.

"The external bench-marking of retail and MSME loans requires banks to reset their lending rates at least once in three months, as opposed to the longer reset frequency for the term deposit rates, which is likely to create volatility in the interest spreads for the banks," Gupta said. Banks will need to better manage their interest rate risks, either by widening their deposit product offerings by pricing floating rate products more attractively than fixed rate products, or through interest rate derivatives, he added.

According to a Kotak Research report, there are some key risks in the long term if the external benchmark achieves its desired objective. "Regulators are likely to introduce it to all segments from the smaller current subset. A natural reaction to such changes from a bank would be to manage/reduce volatility in NIM," it said.

It also cautioned about the ability of borrowers of recent vintages to adjust to a sharp rise in interest rates, as the banking system has seen in 2005-08 and 2011-12. Banks may also increase the share of fixed rate loan offering, though borrowers may not be comfortable, said an analyst.

## BRIEFLY

### Patanjali to infuse ₹3.4 cr in Ruchi Soya

**New Delhi:** Patanjali Ayurved, which got the NCLT approval last week to acquire Ruchi Soya in an insolvency process, will infuse over Rs 3,438 crore as equity and debt to settle dues of creditors of the debt-laden firm. Ruchi Soya informed the exchanges that the National Company Law Tribunal (NCLT), Mumbai in its order dated September 6 approved Patanjali's Rs 4,350 crore resolution plan with certain modifications that were accepted by the bidder. Ruchi Soya informed that resolution applicant Patanjali group will infuse Rs 204.75 crore as equity and Rs 3,233.36 crore as debt.

### Bol offers loan processing charges waiver

**New Delhi:** State-owned Bank of India (BoI) under its festive offer for retail products is offering home loans at concessional interest rate with no processing charges to woo customers. The bank has waived loan processing charges and will provide home loan at concessional rates. Bol general manager Salil Kumar Swain said. Home loan of up to Rs 30 lakh would be available at 8.35 per cent while loan above Rs 30 lakh would be linked to repo rate, he said. At the same time, the bank offering education loan at competitive rate, he added.

### Industry leaders pay tribute to Jethmalani

**New Delhi:** Industry leaders have condoled the demise of former Union minister and eminent lawyer Ram Jethmalani, who passed away on Sunday at 7:45 am at his official residence here. "Ram Jethmalani was a colossus who straddled the legal landscape of India for over 70 years," Hinduja Group co-chairman Gopichand Hinduja said. Former Infosys chief financial officer and multi-sector investor TV Mohandas Pai also condoled the death of Jethmalani. **PTI**

## 'PSU debt raising via bonds up; NBFCs face challenge'

The loss of fund-raising capability through corporate debt bonds by NBFCs resulted in the gain for public sector financial institutions in 2018-19, said a joint study by Assocham and Crisil

**GOVERNMENT SECURITIES:** Government securities, or G-secs, have seen notable growth over the years, commanding a penetration ratio of nearly 30 per cent of GDP

**0.55%**  
TRADING RATIO FOR G-SECS

**CORPORATE BONDS:** Corporate bonds, which are rather illiquid even in the secondary market, have a penetration ratio of 16 per cent

**0.22%**  
TRADING RATIO FOR CORPORATE BONDS



**IL&FS CRISIS DENTS CONFIDENCE:** Defaults by IL&FS at the beginning of September 2018 created panic and led to a dip in investor confidence towards lending to non-banking finance companies (NBFCs)

**CORPORATES OPT FOR PRIVATE PLACEMENTS:** Corporates prefer raising funds through private placements, though private placements lack transparency

**12 PERCENTAGE POINTS**  
Rise in the share of AAA-rated issuances, with investors opting for safer investments

**8 PERCENTAGE POINTS**  
Rise in share of overall issuance of corporate bonds by PSU financial institutions, with NBFCs losing their share

## RCEP nations pledge to clinch deal this year

**ENSECONOMIC BUREAU**  
NEW DELHI, SEPTEMBER 8

TRADE MINISTERS from the 16-nation Regional Comprehensive Economic Partnership (RCEP) grouping on Sunday pledged to address contentious issues and clinch a deal this year, underscoring the fact that continuing uncertainties in trade and investment environment had dampened growth outlook.

Without explicitly mentioning

the escalating trade war between the US and China, the countries participating in the 7th RCEP ministerial meeting in Bangkok said in a joint statement that the trade uncertainties would likely impact businesses and jobs, "adding to the urgency and imperative of concluding the RCEP". Commerce and Industry Minister Piyush Goyal attended the meeting.

"While noting that certain developments in the global trade environment may affect the RPC's (RCEP participating countries) in-

dividual positions in the course of the negotiations, ministers agreed that RPCs should not lose the long-term vision of deepening and expanding the values chains in the RCEP," according to the statement.

"The ministers underscored that, successfully concluded, the RCEP will provide the much-needed stability and certainty to the market, which will in turn boost trade and investment in the region. To this end, ministers reaffirmed their collective resolve to bring negotiations to a conclu-

sion," it added.

Despite making some progress, the RCEP negotiations have dragged on for years, having missed its deadline continuously. As for India, sources had earlier said that the country could rethink its RCEP engagement and might even be forced to pull out of the mega trade deal if negotiations were sought to be concluded hurriedly without addressing its concerns on its massive trade imbalance with other members, especially China. **FE**

## IMPORTS OF AMERICAN GOODS FALL 22% IN AUG FROM A YEAR AGO TO \$10.3 BILLION

# China's trade with US shrinks as tariff war worsens

**JOE MCDONALD**  
BEIJING, SEPTEMBER 8

CHINA'S TRADE with the United States is falling as the two sides prepare for negotiations with no signs of progress toward ending a tariff war that threatens global economic growth.

Imports of American goods tumbled 22 per cent in August from a year earlier to \$10.3 billion, customs data showed Sunday. Exports to the United States, China's biggest market, sank 16 per cent to \$44.4 billion.

Both sides have raised tariffs on billions of dollars of each other's imports in the fight over complaints about Beijing's trade surplus and technology development plans.

The United States, Europe, Japan and other trading partners say those violate Chinese market-opening commitments.

US and Chinese negotiators are preparing for talks in October. Despite that, the two governments escalated their fight on September 1, imposing or increasing penalties on billions of dollars of goods. President Donald Trump plans another increase October 15.

Chinese exporters also face pressure from weakening global consumer demand. That hurts efforts to find markets to replace the United States.

"The tit-for-tat escalation shows how unlikely a trade deal and de-escalation have become," said Louis Kuijs of Oxford Economics in a report.

## CHINA'S GLOBAL EXPORTS SEE 3% FALL

■ China's global exports fell 3 per cent to \$214.8 billion, while imports were up 1.7 per cent at \$180 billion; for first eight months of 2019, exports were off 1 per cent from a year-ago and imports were down 5.6 per cent

■ China's global trade surplus rose 25 per cent from

a year earlier to \$34.8 billion; exports to the European Union rose 3 per cent from a year earlier to \$38.3 billion

■ US-Chinese negotiations broke down in May over how to enforce any agreement. Beijing says Trump's punitive tariffs must be lifted once an agreement takes effect

"Meanwhile, the global trade weakness looks set to linger, which will continue to weigh on demand for China's exports."

The conflict has disrupted trade in goods from soybeans to medical equipment, battered

traders on both sides and fueled fears in financial markets of a global economic slowdown.

China's politically sensitive trade surplus with the United States narrowed to \$31.3 billion in August from \$27 billion a year

earlier. China's global exports fell 3 per cent to \$214.8 billion, while imports were up 1.7 per cent at \$180 billion.

For the first eight months of 2019, exports were off 1 per cent from a year earlier and imports were down 5.6 per cent.

China's global trade surplus rose 25 per cent from a year earlier to \$34.8 billion. Exports to the European Union rose 3 per cent from a year earlier to \$38.3 billion. US-Chinese negotiations broke down in May over how to enforce any agreement.

Beijing says Trump's punitive tariffs must be lifted once an agreement takes effect. Washington says some must stay to ensure Beijing carries out any promises it makes. **AP**