GOLD	RUPEE	OIL	SILVER
₹38,530	₹70.87	$62.35	₹45,705

*Indian basket as on September 27, 2019

SENSEX: 38,667.33 ▼ 155.24 **NIFTY:** 11,474.45 ▼ 37.95 **NIKKEI:** 21,755.84 ▼ 123.06 **HANG SENG:** 26,092.27 ▲ 137.46 **FTSE:** 7,418.30 ▼ 7.91 **DAX:** 12,390.94 ▲ 10.00

International market data till 1900 GMT

RESERVE BANK OF INDIA REPORT

States improve fiscal position, but with sharp cuts in capex

ENS ECONOMIC BUREAU
NEW DELHI, SEPTEMBER 30

A RESERVE Bank of India study Monday revealed that states' gross fiscal deficit was within the threshold of Fiscal Responsibility and Budget Management laws in the last two years, but it was possible due to sharp reduction in capital expenditure by states. The RBI's report on States Finances: A Study of Budgets of 2019-20 said that the outstanding debt of states have risen over the last five years to 25 per cent of Gross Domestic Product, posing medium-term challenges to its sustainability.

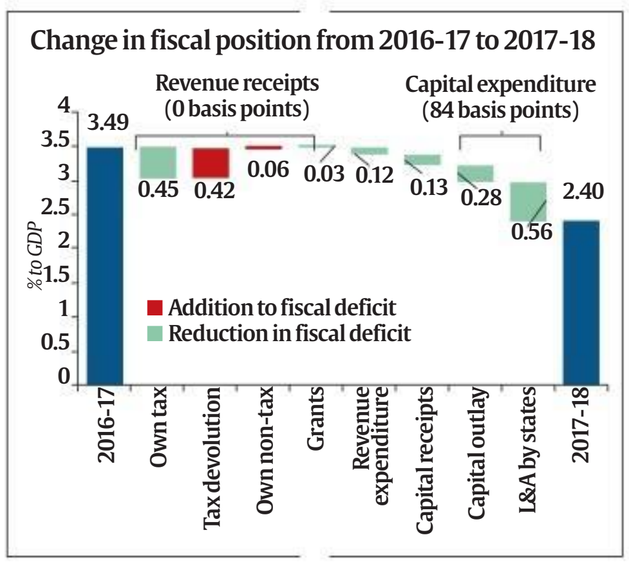
"States' gross fiscal deficit (GFD) has remained within the FRBM threshold of 3 per cent of gross domestic product (GDP) during 2017-18 and 2018-19. This has, however, been achieved by sharp retrenchment in expenditures, in particular, capital expenditure. For 2019-20, states have budgeted for a consolidated GFD of 2.6 per cent of GDP with a marginal revenue surplus (as against revenue deficits in the previous three years)," as per the report released Monday.

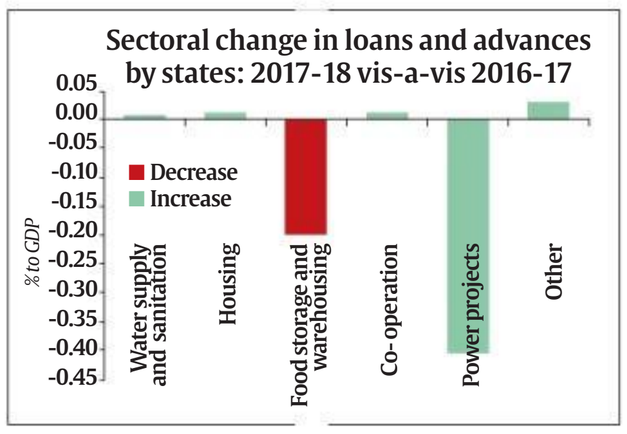
The report said sharp reduction in capital expenditure by states has potentially adverse implications for the pace and quality of economic development, given the large welfare effects of a much wider interface with the lives of people at the federal level. "Currently, states employ about five times more people and spend around one and a half times more than the Centre. Moreover, public expenditure by states influences the quality of physical and social capital infrastructure of the economy," it noted.

The report said states need to combine efforts towards mobilising higher revenues with strategies to maximise efficiency gains rather than mere increase in tax rates. Unless revenues pick, states will be forced to cut capital expenditure, further stoking the economic slowdown. Reduction in capital expenditure can feed an ever-tightening vicious spiral of austerity deepening the economic downturn which, in turn, cramps fiscal revenues and forces further expenditure reductions and so on.

"States' revenue prospects are confronted with low tax buoyancies, shrinking revenue autonomy under the GST framework and unpredictability associated with transfers of IGST and grants. Unrealistic revenue forecasts in budget estimates thereby leave no option for states than expenditure compression in even the most productive and employment-generating heads," it said. It noted that states need to gradually harness the GST database to expand the tax base. They also need to review their tariff policies relating to power and irrigation, keeping in mind the break-even user charges.

The report also warned about risk of off-budget liabilities in the form of guarantees mutating into a contingent risk to debt sustainability even as structural bottlenecks in power distribution continue to foster. States may have to take over higher losses of power distribution companies if they do not show a turnaround in their performance.





FE BEST BANKS AWARDS

Best in the business honoured

From Top: FE Best Banks award winners; Finance Minister Nirmala Sitharaman presents Banker of the Year award to Bajaj Finserv Managing Director Sanjiv Bajaj. Also in the frame is Express Group Chairman Viveck Goenka; IndusInd Bank Managing Director & CEO Romesh Sobti receives Lifetime Achievement award from the Finance Minister in Mumbai on Monday. *Nirmal Harindran*

Associate Partners — Knowledge Provider

LIFETIME ACHIEVEMENT AWARD
Romesh Sobti, MD & CEO, IndusInd Bank

BANKER OF THE YEAR
Sanjiv Bajaj, MD, Bajaj Finserv

CATEGORY	WINNER
Nationalised Bank	Indian Bank
Private Bank	HDFC Bank
Foreign Bank	HSBC India
Small Finance Bank	Equitas Small Finance Bank
NBFC	Bajaj Finance
NBFC	CreditAccess Grameen
Home Loan Product	State Bank of India
Savings Product	Kotak Mahindra Bank
Digital Bank	Axis Bank
Fintech	Razorpay
Fintech	CreditVidya
Fintech	Loan Frame
Fintech	Acko General Insurance
Fintech	National Payments Corporation of India

STATE WATCH
KERALA

Nissan, state govt iron out differences over setting up of global research hub

PRANAV MUKUL & ANIL SASI
THIRUVANANTHANPURAM/ NEW DELHI, SEPTEMBER 30

NISSAN MOTOR Corporation and the Kerala government are learnt to have reached common ground after a visible spillover of differences over the auto maker's plans to set up its first global research hub in the state capital.

In July, the Yokohama-based automaker had blamed the Left Front government in the state of going back on its assurances extended earlier, including setting up of a single-window clearance for the project and in facilitating the development of physical infrastructure in and around the hub. A senior Kerala government official indicated that the points in contention have been resolved and that the only sticking point pertains to the issue of direct connectivity between Tokyo and Thiruvananthapuram.

"The only concern Nissan had was with the social ecosystem - they wanted a direct flight from Tokyo. India only has a direct flight to Tokyo from Delhi. These kind of issues take some time to get resolved. They have around 700 people working here, they have one full tower in the IT park (Thiruvananthapuram Technopark)," M Sivasankar, Secretary to Kerala Chief Minister and Secretary of the state's Electronics & IT Department told The Indian Express. A Kerala government official, on condition of anonymity, said that a request had already been sent to the Ministry of Civil Aviation for a non-stop Tokyo-Trivandrum flight, but so far there was no progress from Delhi.

The Japanese carmaker, responding to queries on the issue, too indicated that it is taking forward the partnership, despite the initial hiccups.

"Nissan is committed to its MoU with the Govt. of Kerala for establishing a ... digital transformation hub in the state. As any routine process review we work with our partners and the Govt. alike. We are confident that our strong partnership of the Govt. will help us lead the way forward," Bruno Grippay, director-Connected Cars and Product Planning-AMI(Africa Middles East and India) Region of Nissan told The Indian Express in a recent interview.

> **"The only concern Nissan had was with the social ecosystem — they wanted a direct flight from Tokyo. India only has a direct flight to Tokyo from Delhi. These kind of issues take some time to get resolved"**
>
> **M SIVASANKAR**
> SECRETARY TO THE KERALA CM

It has been learnt that in June this year, Nissan's chief digital officer sent a terse four-page letter to the Kerala chief secretary Tom Jose and other officials stating that Nissan has had "to approach various departments in the government towards fulfillment of conditions for our success in Trivandrum, which has been time and effort consuming, and other than running from department to department". The automaker had sought the government's intervention in settling these issues. Subsequently, in July, Kerala Chief Minister Pinarayi Vijayan said at a press interaction that the government has appointed a key bureaucrat as its pointsperson to assist Nissan Motor fast track the research hub project.

Nissan's entry into Kerala has spurred the development of peripheral service sector facilities, including hotels, hospitals, garbage treatment plants and apartment complexes in the area around the research hub.

External debt rises by 2.6%

Mumbai: India's external debt was placed at $557.4 billion, recording an increase of $14.1 billion, or 2.6 per cent, as of June 2019 as against its level at end-March 2019, the RBI has said. Valuation losses due to the depreciation of the US dollar vis-à-vis Indian rupee and other major currencies were placed at $1.7 billion. Excluding the valuation effect, the increase in external debt would have been $12.4 billion instead of $14.1 billion at end-June 2019 over end-March 2019. **ENS**

Current account deficit narrows to 2% on higher invisible receipts, lower oil prices

ENS ECONOMIC BUREAU
MUMBAI, SEPTEMBER 30

AIDED BY higher invisible receipts and lower crude oil prices, India's current account deficit (CAD) at $14.3 billion, or 2.0 per cent of GDP, in the June quarter of 2019-20 narrowed from $15.8 billion (2.3 per cent of GDP) in the same period of 2018-19, the Reserve Bank of India (RBI) has said.

However, CAD rose sharply from $4.6 billion (0.7 per cent of GDP) registered in the preceding quarter amid the spike in gold imports. "The healthy growth in the surplus of services and secondary income, as well as lower crude oil prices helped to restrain the size of the current account deficit in the June quarter, despite a sharp increase in gold imports.

Oil imports rose by a mild 0.4 per cent to $34.9 billion in Q1 of FY2020 from $34.7 billion in Q1 FY2019, dampened by the decline of 6.9 per cent in oil prices between these two quarters," said Aditi Nayar, Principal Economist, ICRA. However, gold imports rose by a sharp 35.6 per cent to $11.4 billion in the June quarter from $8.4 billion in Q1 FY2019, with the fall in gold prices in the US dollar terms during the period boosting demand. The CAD contracted on a year-on-year (y-o-y) basis, primarily on account of higher invisible receipts at $31.9 billion as compared with $29.9 billion a year ago, the RBI said. Invisible receipt is that part of the balance of trade that refers to services and other products that do not result in the transfer of physical objects. The examples include consulting services, shipping services, tourism and patent license revenues.

Net services receipts increased by 7.3 per cent on a y-o-y basis, mainly on the back of a rise in net earnings from travel, financial services and telecommunications, computer and information services. "Private transfer receipts, mainly representing remittances by Indians employed overseas, rose to $19.9 billion, increasing by 6.2 per cent from their level a year ago," the RBI said.

According to the RBI, net foreign direct investment (FDI) was $13.9 billion in the first quarter of 2019-20 as compared with $9.6 billion in Q1 of 2018-19. Foreign portfolio investment (FPI) recorded net inflow of $4.8 billion in Q1 of 2019-20 as against an outflow of $8.1 billion in Q1 of 2018-19 on account of net purchases in both debt and equity markets.

On the other hand, net inflow on account of external commercial borrowings (ECBs) to India was $6.3 billion in Q1 of 2019-20 as against an outflow of $1.5 billion a year ago.

The RBI said there was an accretion of $14.0 billion to the foreign exchange reserves (on BoP basis) in June quarter as against a depletion of $11.3 billion in Q1 of 2018-19.

EXPLAINED

Despite gold import spurt, CAD improved

NOTWITHSTANDING A sharp rise in gold imports, India's current account deficit improved on a year-on-year basis. Higher overseas remittances, FDI, portfolio investments, stable oil imports and ECBs boosted the prospects on the external front. What can push up CAD in the remaining months of the year is a spike in oil prices and capital outflows. CAD is expected to ease appreciably to 1.8 per cent of the GDP in the full year of 2019-20 from 2.1 per cent of GDP in FY2019, unless oil prices record a sustained increase or domestic investment and consumption demand display revival.

Fiscal deficit at 78.7% of BE till Aug-end

New Delhi: India's fiscal deficit touched Rs 5.54 lakh crore at the end of August, which was 78.7 per cent of the Budget Estimate for 2019-20, official data showed. In absolute terms, the fiscal deficit or the gap between expenditure and revenue was Rs 5,53,840 crore as on August 31, according to the data released by the Controller General of Accounts (CGA). **PTI**

BORROWING IN THE CURRENT FISCAL

Govt sticks to FY20 Budget target; plans for overseas sovereign bonds not firmed up

ENS ECONOMIC BUREAU
NEW DELHI, SEPTEMBER 30

ANNOUNCING ITS debt raising programme for October-March period, the government Monday said its borrowing in the current fiscal will be within the budgeted Rs 7.1 lakh crore. The Centre indicated that it will stick to the fiscal deficit glide path despite Rs 1.45 lakh crore worth of corporate tax cuts. The Finance Ministry, however, has not firmed up plans so far to raise funds in overseas markets through issuance of sovereign bonds in foreign currency.

With over 62 per cent of the budgeted borrowing being already completed in six months to September 30, Economic Affairs Secretary Atanu Chakraborty said the remaining half of the current fiscal will see the remainder of Rs 2.68 lakh crore being borrowed in rupee denomination.

Despite the recent tax cuts hitting government finances, he said the government is sticking to the glide path of keeping fiscal deficit at 3.3 per cent of the GDP in the current fiscal. During the first half of this fiscal, the government has raised Rs 4.42 lakh crore, 62.25 per cent of the total borrowing. "Rs 2.68 lakh crore borrowing indicates that the fiscal glide path as indicated in the budget is being maintained," he said.

On overseas sovereign bonds, he said, the bonds to be raised in external currency are decided on the basis of current price, market appetite and market conditions and related issue and the structuring of the bond itself. "We need very careful calibrations and deliberations before it enters in the market. The work on that is presently going on to work out the structures and various pros and cons and it is a process which is long. For this year, all the borrowing of the government will presently be in rupee-denominated bonds," the secretary said.

> **With over 62% of the budgeted borrowing already completed in six months, DEA Secretary Atanu Chakraborty said the remaining half of the fiscal will see remainder of Rs 2.68 lakh crore being borrowed in rupee denomination**

Finance Minister Nirmala Sitharaman has announced in the Budget about government's plans to raise funds abroad in overseas currency through issuance of sovereign bonds.

As regards the second half borrowing, he said, 37.75 per cent of the total gross borrowing will be spread over 17 weekly auctions of Rs 16,000 crore each.

However, it will be Rs 14,000 crore in the last two auctions. The government will issue floating rate bonds to the extent of 10 per cent of gross issuances during the year.

Borrowing through treasury-bills is being planned in such a way as to result in net outflows of Rs 20,000 crore during the third quarter of the fiscal. Switching of government securities will continue while buyback of securities will also be performed in the second half, the secretary added. The central bank also provides funds to the government under Ways and Means Advances (WMA) mechanism to help it tide over short-term mismatch in receipts and payments.

AMONG 13 ASIA-PACIFIC ECONOMIES

Indian banks most vulnerable ... their capital will be wiped out under stress scenario: Moody's

ENS ECONOMIC BUREAU
MUMBAI/NEW DELHI, SEPTEMBER 30

AMONG THE 13 Asia-Pacific economies, India's banking system is the most vulnerable to a deterioration in corporate debt repayment capacity along with Indonesia, followed by Singapore, Malaysia and China, Moody's Investors Service said on Monday, causing the Nifty bank index to close 2.59 per cent lower.

Slower economic growth and rising trade and geopolitical tensions could weaken debt servicing abilities of corporates in the region, the rating agency wrote. "Indian banks are the most vulnerable because they have lower capital ratios, and their capital will be wiped out under our stress scenario," it added.

On Monday, Yes Bank stock fell 15 per cent, State Bank of India 3.7 per cent, ICICI Bank 3.5 per cent, Axis Bank 2.3 per cent, and HDFC Bank 1.4 per cent.

According to a recent Crisil report, PSBs — which make up for roughly 80 per cent of the bad loans in the banking system — will see their gross NPAs shrinking by as much as 400 bps to 10.6 per cent by March 2020 from 14.6 per cent in March 2018. Separately, the government recently told Parliament that gross NPAs of state-run banks dropped to Rs 8,06,412 crore as of March 2019 from the peak of Rs 8,95,601 crore a year earlier, highlighting the improvement in PSBs' asset quality.

While the ratio of corporate debt to GDP is relatively lower in India and Indonesia, the distribution of debt is skewed toward highly leveraged corporate borrowers with low interest coverage ratios, and this has resulted in high loan default rates that have plagued Indian banks since 2011, according to Moody's.

"Our stress test — which assumes a 25 per cent decline in EBITDA (earnings before interest, tax, depreciation and amortization) — shows banks in India and Indonesia are most prone to a deterioration in corporate debt repayment capacity ...," wrote Rebaca Tan, assistant vice-president and analyst at the Moody's Investors Service. India and Indonesia will have the largest share of debt owed by corporates with debt/EBITDA ratios of more than 4 and interest coverage ratios (ICRs) of less than 1, as well as those with negative EBITDA. **FE**