"If BJP has guts, it should go for a UN-monitored referendum on amended Citizenship Act and NRC"
MAMATA BANERJEE
West Bengal chief minister

"CAA seeks to implement exactly the same suggestion which had been very effectively and logically put across by Dr Manmohan Singh in 2003 as the Leader of Opposition in Rajya Sabha"
JITENDRA SINGH
Union minister

"There was violence in Lucknow and Sambhal... Those involved in damaging public assets have been captured in video and CCTV footage, their properties will be seized and auctioned"
YOGI ADITYANATH
Uttar Pradesh chief minister

IN BRIEF

Deal street sees sharp 40% plunge in value this year at $73 billion

Deepening economic woes and global trade challenges have led to a near 40 per cent plunge in deal activities at $73 billion across 1,500 transactions this year, still making it the second-best year for deal activity after 2018. Falling numbers come amid the plunging growth numbers. Many also blame frequent policy flip-flops and increasing tax scrutiny as big dampeners for business. With $120 billion worth of deals, 2018 was the best year on record, and 2019 deal size at $73 billion is a clear plunge to the tune of 39.1 per cent from the record, show the data collated by PwC India. The street play was led by private equity investments which nearly retained the momentum, recording deals worth $36 billion as of November, still an 11 per cent fall from $40 billion last year. Significantly, the largest M&A deal — the ₹42,000-crore or over $6 billion, buyout of Essar Steel by ArcelorMittal which concluded only earlier this week, is not included in the list, which otherwise would have increased the tally by $6 billion more. PTI

Centre makes standard format for ration cards

The Centre has designed a standard format for ration cards as it moves ahead with 'one nation, one ration card' initiative and has asked state governments to follow the pattern while issuing fresh ration cards. Currently, the central government's ambitious initiative is being implemented on a pilot basis in a cluster of six states. It wants to implement this facility across the country from June 1, 2020. Under the initiative, eligible beneficiaries would be able to avail their entitled foodgrains under the NFSA from any Fair Price Shop in the country using the same ration card. PTI

HC dismisses plea claiming juvenility in Nirbhaya case

The Delhi High Court on Thursday dismissed the claim of one of the four convicts, facing the gallows in the Nirbhaya case, that he was a juvenile at the time of the offence in December 2012 and deprecated the conduct of his advocate for filing forged documents and not appearing in the court. It also asked Bar Council of Delhi to act against the advocate for filing forged affidavit in the court regarding the convict's age PTI

Upgraded Pinaka guided rocket system test-fired

An upgraded version of Indias indigenously developed Pinaka guided rocket system was successfully test-fired from a base on Odisha coast on Thursday in a boost to the Armys artillery power, defence sources said. The multi-barrel rocket launch system, developed by Defence Research and Development Organisation, was fired from the Proof and Experimental Establishment firing test range at Chandipur near noon, they said. PTI

HDIL, its promoters have to repay loan to PMC Bank: HC

The Bombay High Court said the HDIL and its promoters, Rakesh and Sarang Wadhawan, will have to repay their loan to crisis-hit Punjab and Maharashtra Cooperative (PMC) Bank as it was in the interest of the lender and its depositors. The court also said that the assets of HDIL and Wadhawans must be sold at the earliest in the interest of the PMC Bank and its depositors. PTI

Prime Minister Narendra Modi shakes hands with Portuguese Prime Minister Antonio Costa before their meeting at Hyderabad House in New Delhi on Thursday PHOTO: PTI

RBI to simultaneously buy, sell bonds under OMO

ABHIJIT LELE & BLOOMBERG
Mumbai, 19 December

The Reserve Bank of India will simultaneously buy and sell government bonds worth ₹10,000 crore each on December 23, through Open Market Operations (OMOs). The move signals its intent to lower yields on long-term bonds.

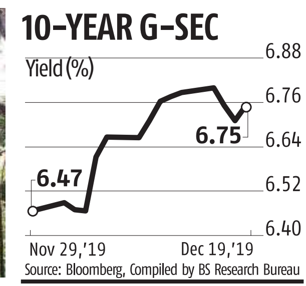
The RBI buys and sells bonds from the secondary market under such OMOs.

But this may end up hitting RBI's own fight for increased transmission, experts warned. In response to RBI's 135 basis points cut, banks' weighted average lending rate on fresh rupee loans fell less than 45 basis points between February and December. With no indication of rate cuts in the coming months, 10-year bond yields have climbed 30 basis points. And, hence, further transmission itself has become a challenging task to achieve.

On a review of the current liquidity and market situation and an assessment of the evolving financial conditions, the RBI has decided to buy government bonds maturing in 2029, and sell four securities aggregating ₹10,000 crore, which will mature in 2020.

Madan Sabnavis, chief economist, CARE Ratings, said that through such operations, the RBI is trying to smoothen the yield curve and signalling for correction in yield at the long end (especially 10-year bond).

The concept is similar to Operation Twist used by the Federal Reserve in 2011-2012. It had swapped short-term Treasury securities for longer-term government debt, which reduced the gap between 2-year and 10-year yields.



But by jacking up short-term yields, the RBI could be reversing its own agenda of pushing for transmission. Banks linked their retail lending rates to short-term money market instruments and repo rate only recently. While the repo rate has come down, the short-term bond buying will push up yields, and retail loans of these banks could become costly, defeating the very purpose of the 135 basis points repo cuts. The transmission in money markets is 137 basis points. That may risk getting decoupled with repo if the RBI tinkers with market rates, according to experts.

"Operation Twist has come at an interesting time. Banks have just started pricing retail and SME loan products linked to external benchmarks. Therefore, rate for loans borrowed linked to treasury-bill rate will see northbound movement opposed to repo rate," said Soumyajit Niyogi, associate director at India Ratings and Research.

Banks are not allowed to change the benchmark once selected for the loan type, and, hence, those who have chosen short-term money market rates could see their lending rates go up by default, whereas other banks choosing repo would continue to give cheaper loans.

By buying long-term paper and selling short-term paper, the net liquidity in the banking system remains intact, but that doesn't mean that different segments of the market will not get affected. The market intervention may help government borrow at a lower cost, but others may have to pay for it.

"If the RBI makes Operation Twist type operations a regular practice, one set of banks will lose market share, whereas others will likely see margin pressure because their cost of funds will continue to rise, and they cannot change the spread either," said a senior banking expert requesting anonymity.

Besides, good corporate borrowers have been borrowing commercial papers at near about repo rate, which is some 150-175 basis points rate benefit since the IL&FS crisis broke a year ago. That advantage may also dilute significantly, making cost of funds dearer if the RBI decides to make such OMO interventions a policy tool.

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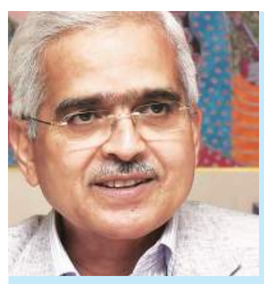
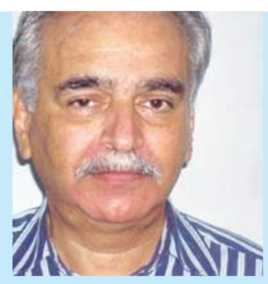
MPC MINUTES

Rising inflation, rate cut transmission led to pause

SUBRATA PANDA
Mumbai, 19 December



"The impact of recent counter-cyclical measures taken by the government is playing out... It is imperative that monetary and fiscal policies work in close coordination"
SHAKTIKANTA DAS
RBI Governor and MPC chairman



"In my opinion, therefore, the slippage of more than 50 bps may also be justified under the present circumstances"
RAVINDRA H DHOLAKIA
MPC member

"Weak monetary transmission is one of the factors that has resulted in the poor macro economic equilibrium the economy is currently in"
CHETAN GHATE
MPC member

The perception of a sharp rise in inflationary expectation, with inadequate transmission of prior monetary policy changes, led to the unanimous decision for a pause in the earlier interest rate easing cycle at the Reserve Bank.

The minutes of the latest meeting of the Monetary Policy Committee (MPC) were released on Thursday. The MPC decides on the benchmark policy rate of RBI. It comprises six members, three from the central bank and three others appointed by the central government; the RBI governor is chairman.

At the meeting, the members said they expected the counter- cyclical measures taken by the government, along with growth initiatives to be announced in the coming Union Budget, to do the 'heavy lifting' needed in a slowing economy, with monetary policy playing a facilitating role.

In the December bi-monthly MPC meet, the benchmark policy rate was kept unchanged at 5.15 per cent, while continuing with the earlier accommodative stance. Prior to that, the MPC had cut the repo rate (at which RBI lends to banks) by 135 basis points (bps) since February.

The minutes of the December meet reveal members felt the current spike in the headline inflation rate was due to a temporary supply shock on the food front, expected to moderate by the second quarter of 2020-21. Some did express concern on the possibility of a spillover to non-food inflation.

The headline inflation projection of RBI for the second half (Q2) of this financial year is 4.7-5.1 per cent. The rate is expected to come gradually below the target in Q2 of FY21. Last month, headline inflation touched 5.54 per cent; it has been gradually rising from August.

Members expressed concern on slowing of real Gross Domestic Product (GDP) growth. In Q2, this fell to 4.5 per cent, from 5 per cent the previous quarter.

The RBI governor believes despite weakened demand conditions, some high frequency indicators have improved. The Purchasing Managers Index (PMI) in manufacturing and services has increased in the recent past. An RBI survey shows companies have turned investors, from savers earlier, with indications that the capital expenditure cycle might be turning up.

Governor Shaktikanta Das was minuted as saying: "The impact of recent counter-cyclical measures taken by the government is playing out. The next Budget is due for presentation in about two months and will provide greater clarity about the further measures the government may initiate. It is imperative that monetary and fiscal policies work in close coordination".

Ravinda H Dholakia felt that when the economy was going through a slowdown, it was logical to expect fiscal slippage. And, if the central government cut expenditure to maintain the fiscal deficit target, it would amount to a contractionary fiscal policy during a downturn.

"In my opinion, therefore, the slippage of more than 50 bps may also be justified under the present circumstances," Dholakia said. The recommendations of the N K Singh committee on the issue had provided a buffer of 50 bps slippage in the fiscal deficit target during a slowdown period.

RBI has lowered its FY20 growth projection to five per cent, from 6.1 per cent earlier. The projection for the first half of the coming financial year is 5.9-6.3 per cent.

"While improved monetary transmission and a quick resolution of global trade tensions could push growth above the projected trajectory, a delay in revival of domestic demand, further slowdown in global economic activity and geo-political tensions could pull it below the projected path," Das said.

Transmission of earlier policy rate changes had been full across various money market segments and private corporate bond yields. However, transmission to the government securities market had been partial. And, the earlier 135 bps reduction in policy rate by the MPC had resulted in only a 44 bps reduction in the weighted average lending rate (WALR) on new rupee loans till October; rates on outstanding loans rose by 2 bps.

Story of MSME jobs portal: 900 posts for 400,000 candidates

SUBHAYAN CHAKRABORTY
New Delhi, 19 December

A jobs portal — billed by the government as a speedy way to get skilled youth employed by small businesses — has hit a persistent snag. There aren't enough openings for job seekers.

At the time of this story going to print, there were a mere 65 job postings on MSME Sampark with only 923 open vacancies for the more than 460,000 trained youth registered on the portal.

The ministry of micro, small and medium enterprises (MSME) has begun an investigation into why placements through the portal have not picked up, sources said.

Launched by President Ram Nath Kovind in June 2018, the portal was expected to help bridge the skill gap as well as reduce unemployment. Students, who studied at the 18 MSME Technology Centres nationwide, were offered the choice of making themselves available to "various reputed national and multinational companies", according to the government.

But statistics show the total number of students who have been placed till December through this plan stood at 2,528, at a rate of less than 150 people placed per month.

The government has faced difficulty in enrolling major industrial firms on the portal while multinational companies have expressed dissatisfaction with the average training level of the candidates.

Though, a senior official in the MSME ministry argued that small businesses and entrepreneurs, who often struggle to find the right person with relevant experience and skill set, have always been the main target, since big corporate houses have well-defined recruitment processes with a national reach.

The Narendra Modi government has focussed on the technology centres to provide quality tools, trained personnel and consultancy services.

These centres train 150,000 students annually, with the ministry claiming most of them are absorbed in the domestic industry with some even heading abroad. However, the ministry does not maintain data on how many students find jobs immediately after leaving college.

WHERE ARE THE JOBS?

460,000 Total registered jobseekers

5,385 Total registered recruiting firms

923 Total available vacancies

2,528 Total candidates placed since June 2018

Note: As of December 19
Source: MSME Sampark portal

More on business-standard.com

India pitches for H-1B holders in '2+2' dialogue

External Affairs Minister S Jaishankar has pitched strongly for the issuance of H1B visa to Indians, underling their significant contribution to the US society, economy and polity.

According to a joint statement issued after the 2+2 dialogue between India and the US, the two countries asked Pakistan to take "immediate and irreversible action" to ensure that no territory under its control is used for terrorism against other countries and to prosecute the perpetrators of cross-border terror attacks, including Mumbai and Pathankot strikes.

US Secretary of State Mike Pompeo said the 5G issue was also discussed during the second edition of the ministerial dialogue. India and the US also reaffirmed their commitment to work together in support of a free, open and inclusive Indo-Pacific region. PTI

BOT share in highways seen shrinking

New guidelines for BOT projects are being worked out, making developers wait and watch

MEGHA MANCHANDA
New Delhi, 19 December

The National Highways Authority of India's high-risk build-operate-transfer (BOT) highway projects may see their share in the overall road construction mix shrink in the next three years as financial institutions raise concerns over their funding.

"We will have to go slow, there is no demand for BOT," an NHAI official told *Business Standard*. The official said even bigger road construction players are not willing to bet on BOT projects.

This means the authority will have to rethink its thrust on the BOT model.

Hetal Gandhi, director, CRISIL Research, said, "In financial year 2018-19 (FY19), BOT awarding by NHAI was nil. Over the next three years, we expect BOT awarding to slightly pick up with the government's push. Thus, contributing to 5-7 per cent of NHAI execution over FY20 to FY22. This would still be lower to the 15-20 per cent share over FY17 to FY19."

In FY10 to FY14, developers bid aggressively for BOT projects, as they wanted to scale up and there was relatively easy availability of credit. This, coupled with issues in land acquisition and clearances, led to stalled projects and highly leveraged balance sheets of these players.

BOT projects require a higher equity commitment by the developer (30 per cent versus 12-15 per cent in case of HAM projects)

As of FY19, 13 per cent of stressed assets under the National Company Law Tribunal are of infrastructure players, largely road developers, Gandhi said.

As land acquisition issues continue to persist, lenders are cautious to lend to even hybrid annuity model (HAM) projects, which have no traffic risk. Disbursements begin only after 80 per cent of land is in place.

On the other hand, BOT projects require a higher equity commitment by the developer (30 per cent versus 12-15 per cent in case of HAM projects). Liquidity crunch in the market would further discourage developers to bring in the required equity, Gandhi said.

The new guidelines for BOT projects are also under preparation by the central government, perhaps making developers wait and watch.

Under BOT, private players build, operate and maintain the road for a specified period of time before transferring the asset back to the government. In the case of HAM, the central government bears 40 per cent of the project cost and the remaining amount is arranged by the developer. EPC, or engineering-procurement-construction, projects are fully funded by the government.

The total length of roads constructed during 2018-19 was close to 11,000 km or nearly 30 km per day. The Ministry of Road Transport and Highways and NHAI have plans to construct 45 km of roads per day in FY20, which translates to over 16,000 km.

The percentage of HAM was more in the past couple of years after the government introduced it in 2015-16. It was mainly brought in to encourage private participation in the sector and it did succeed in doing so.

GST dues for 9 states could double to ₹70K crore: ICRA

Ratings agency ICRA expects just nine states to need ₹70,000 crore as compensation for the shortfall in goods and services tax (GST) collection in FY20, on account of a severe dip in growth of state GST (SGST) revenues amid the slowdown.

Karnataka, Kerala, Tamil Nadu, Gujarat, Maharashtra, Haryana, Punjab, Rajasthan, and West Bengal are the nine states. The requirement for all states could be much higher.

Till now, three tranches of compensation to all states for the April-September period (H1FY20) have cost the Centre nearly ₹80,000 crore. Business Standard reported on Thursday that for the entire fiscal year, the Centre would face shortage in compensation cess to the tune of ₹63,000 crore.

However, there is a silver lining for the Centre — it would need to give states ₹60,000-70,000 crore less as devolution this year, given that it disbursed an excess amount in FY19. The excess devolution was on account of the revised estimate, which was higher than the provisional actual revenue for FY19. On the actual level, the requirement for devolution would have been lower, and the Centre will recover the excess amount paid last year by adjusting the same in this year's payment.

This may balance out the loss arising from the excess payment to states for the SGST shortfall. States' problems, related to finances, are therefore far from over.

ABHISHEK WAGHMARE