Economy

WEDNESDAY, DECEMBER 25, 2019

ANDHRA FARMERS MEET V-P

Venkaiah Naidu, Vice-President

I understand your (agitating Andhra Pradesh farmers) anguish. Nowhere in the country did farmers give up over 33,000 acres for a purpose.

Quick View

1.10 cr FASTags issued till date, says NHAI

THE PAN-INDIA rollout of electronic toll collection on national highways (NHs) has resulted in issuance of 1.10 crore FASTags till date, as per NHAI. The National Highways Authority of India (NHAI) started electronic toll collection through RFID-based FASTags on its 523 toll plazas across the country from December 15 for seamless flow of traffic.

Govt expects $2 trn from MSMEs by'24

THE GOVERNMENT on Tuesday said it envisions MSMEs to contribute $2 trillion to the country's target of becoming $5-trillion economy by 2024. Under the Prime Minister's Employment Generation Programme, 65,312 new micro-enterprises have been set up, the MSME ministry said in its year-end review for 2019.

Rohtang Pass tunnel to get Vajpayee name

THE GOVERNMENT will name the strategic tunnel under Rohtang Pass in Himachal Pradesh after former prime minister Atal Bihari Vajpayee on his birth anniversary on Wednesday. The historic decision to construct a strategic tunnel below the Rohtang Pass was taken on June 3, 2000, when Vajpayee was the PM.

RING-FENCING BIDDERS

Ordinance to amend insolvency law soon

Cabinet okays proposal to promulgate Ordinance; Speaker sends IBC Amendment Bill to House panel on finance

FE BUREAU
New Delhi, December 24

It's unclear if the Ordinance would contain the proposal to bar a single homebuyer from initiating insolvency proceedings against a real estate firm

THE CABINET ON Tuesday cleared a proposal to promulgate an Ordinance to amend the Insolvency and Bankruptcy Code (IBC) to "ring-fence" successful new bidders of stressed assets from criminal proceedings against offences committed by previous management/promoters.

However, it's immediately not clear if the Ordinance would also contain the proposal to bar a single homebuyer from initiating insolvency proceedings against their real estate firm. These amendments were cleared by the Cabinet earlier this month and a Bill to this effect was introduced in the Lok Sabha as well. However, it was yet to get parliamentary clearance, hence the need for the Ordinance.

Meanwhile, the Lok Sabha secretariat on Tuesday said Speaker Om Birla has referred the IBC Amendment Bill to a Parliamentary Standing Committee on finance, chaired by former minister of state for finance Jayant Sinha. This means earlier proposals that are not part of the planned IBC Ordinance will go through an enhanced scrutiny before being presented in Parliament for clearance.

The move to insulate third-party winning bidders from the sins of earlier management will avoid a repeat of cases like Bhushan Power & Steel (BPSL). Recently, the Enforcement Directorate (ED) had seized a portion of BPSL's assets in a money laundering case against its former promoters. Though NCLAT subsequently asked ED to release the attached properties, it had also put the ₹19,700-crore payout by JSW Steel for the debt-ridden company on hold until further orders.

As for insolvency proceedings against real estate players, though an official statement on Tuesday remained silent on the issue, according to the proposal cleared by the Cabinet earlier this month, the number of homebuyers required to file a case against a developer at NCLT must be at least 100 or they must account for 10% of the total number of such creditors, whichever is lower. At present, a homebuyer — just like any financial or operational creditor — can file an insolvency case against the realty developer if the default amount involved is ₹1 lakh or more.

The latest plan is aimed at preventing a few potentially unscrupulous elements within the homebuyer community from abusing the spirit of IBC by unsettling real estate companies at the behest of or in connivance with rival firms. However, homebuyers will continue to be treated as financial creditors.

India in midst of significant slowdown, urgent policy actions needed, says IMF

LALIT K JHA
Washington, December 24

INDIA IS NOW in the midst of a significant economic slowdown, the International Monetary Fund (IMF) has said, urging the government to take urgent policy actions to address the current prolonged downturn.

In its report released on Monday, the IMF directors noted that India's rapid economic expansion in recent years has lifted millions of people out of poverty. However, in the first half of 2019, a combination of factors led to subdued economic growth in India.

"The issue in India currently is the growth slowdown. We still believe it is mostly cyclical, not structural... because of the financial sector issues, we think, the recovery will be not as quickly quick as we thought earlier. That's the main issue," Ranil Salgado, mission chief for India in the IMF Asia and Pacific department told PTI in an interview, as it released its annual staff report on India.

With risks to the outlook tilted to the downside, the IMF directors called for continued sound macroeconomic management. They saw an opportunity with the strong mandate of the new government to reinvigorate the reform agenda to boost inclusive and sustainable growth, the report said. The staff report was done in August when the IMF was not fully aware of India's current economic slowdown.

"India is now in the midst of a significant economic slowdown," Salgado told reporters over phone.

Growth in the second quarter of FY19/20 came in at a six-year low of 4.5% (y-o-y), and the composition of growth indicates that private domestic demand expanded by only 1% in the quarter. Most high-frequency indicators suggest that weak economic activity has continued into December, he said.

Salgado attributed this to the abrupt reduction in non-bank financial companies' (NBFC) credit expansion and the associated broadbased tightening of credit conditions appears to be an important factor and weak income growth, especially rural, has been affecting private consumption.

Private investment has been hindered by the financial sector difficulties (including in the public sector banks) and insufficient business confidence, he said. Some implementation issues with important and appropriate structural reforms, such as the nation-wide goods and services tax (GST), may also have played a role, he added.

Responding to a question, Salgado said the new growth projections for India, which will come out in January, would be significantly lower than the previous ones.

—PTI

'India needs to recommit to debt reduction, focus on having greater fiscal transparency'

PRESS TRUST OF INDIA
New Delhi, December 24

Despite some improvement in reported fiscal deficits, debt as a share of GDP remains little changed over the past decade, the IMF said

INDIA SHOULD "RECOMMIT" to cut debt by bringing down its public sector borrowing requirements and enhance focus on having a greater fiscal transparency to help investors make informed economic decisions, according to multilateral agency IMF.

Despite some improvement in reported fiscal deficits, debt as a share of GDP remains little changed over the past decade partly due to increases in off-budget financing, the International Monetary Fund further said.

"More fiscal transparency would mean better economic policy in India... Getting the word out on India's true fiscal stance could yield significant benefits for policymakers and the Indian economy," the Washington-based institution said in a report.

It pointed out that as part of the Group of 20, India has already committed to publishing general government fiscal information on a quarterly basis, which should enable better monitoring and faster policy reactions.

"As a complement, India will have to improve the collection and disclosure of information on public enterprises, especially at state level, in order to better anticipate possible cases of financial distress and minimise their costs for taxpayers," the IMF said. It noted that much of the discussion regarding fiscal policies in India focuses on its central and states' government deficits.

A broader and more relevant measure of the government's fiscal position — and its bearing on the economy — is the public sectors borrowing requirement, which has risen to about 8.5% of GDP, according to IMF estimates.

From the Front Page

Ex-CEA against PIT cut, extra fiscal boost

Following the recent slashing of corporate tax rates, the clamour for a cut in the personal income tax rates has grown shriller. When asked about this, finance minister Nirmala Sitharaman recently said if the government opts for reducing income tax, it would purely be on the basis of intrinsic merit of such a step, rather than in relation to the corporate tax cut.

Noting that there is a growing opinion that many economies might have erred on the side of fiscal prudence, Subramanian said it would still not make a case for India to loosen its fiscal policy given the consolidated primary deficit (fiscal deficit less interest payments) of the general government here remained high and interest rates exceeded GDP growth rate. Also, he was sceptical about the government's ability to spend quickly and meaningfully to bring about a push to economy of the required magnitude and topicality. Economic growth slowed to a 4.5% in Q2FY20, the lowest quarterly growth since Q4FY13.

He said the current slowdown is intense but said there was no longer any "magic bullet" for the short term to fix the economy, suggesting structural remedies would probably do the trick, with focus on agriculture and power-sector reforms.

Although GST collections have been trailing the targets month after month, Subramanian thinks the indirect tax structure is being blamed harshly. Faltering collection, he said, is the symptom of the broader economic slowdown instead of a typical GST-related or compliance problem. The government shouldn't raise the GST rates at this juncture when it's otherwise aiming at improving consumption. Once the economy gets on to its feet, maybe after two quarters or so, the GST system could be cleansed, he said, referring to the GST base computed by a panel headed by him and the revenue neutral rate of a little over 15%.

The recent sharp corporate tax cut was a necessary step but its efficacy will depend on other complementary steps, the former CEA said.

Given the government's propensity to mask actual fiscal deficit by resorting to extra-budgetary spending, the former CEA recommended that the Centre undertake a detailed and "honest accounting" of its balance sheet. But he advised against extending an additional fiscal stimulus on top of the already-expanded balance sheet. However, Subramanian argued against firming up an ambitious fiscal consolidation glide path that will ultimately be revised.

As for fiscal transparency, the government has in recent years raised its reliance on extra-budgetary resources to fund expenditure. Even excluding a big chunk of such borrowings for railways capex, the government's extra-budgetary resources rose from ₹2.73 lakh crore in 2016-17 to as much as ₹5.27 lakh crore in 2018-19. Although the government has pegged such mop-ups at ₹4.44 lakh crore in the Budget for 2019-20, given the revenue shortfall, this target will be missed, analysts have warned. The Comptroller and Auditor General of India said last year that off-budget capex and revenue expenditures understate fiscal deficit.

Appreciating the efficacy and usefulness of Insolvency and Bankruptcy Code regime in recovering the value of stressed assets, Subramanian, however, opined that the IBC system might not be conducive for power and real estate sectors, where social externalities distort markets and asset values are determined also by government policies.

Stating that his postulation that the GDP growth in India might have been overstated in recent years was based on sound analysis, he cited the wide incongruity between assorted high-frequency indicators and the growth figures (see chart). There was a need to rebuild confidence in data systems by revamping them across the board. Subramanian believes the slowdown might turn worse over Q3/Q4 before it starts moving upwards.

Govt clears NPR, not same as NRC

He added, "since the forms were longer, it used to take a lot of time. An app for this has been developed."

"No proof, paper, document or bio-metric submission would be necessary as we have full faith on the people," he said.

When asked whether NPR will be linked to NRC, Javadekar said that was never the government's intention. Home minister Amit Shah also later reiterated this stance.

The Cabinet also approved merging of the existing eight Group A services of the Indian Railways into a unified Central service called Indian Railway Management Service and reorganisation of the now all-powerful Railway Board into a linear structure on functional lines. Railway minister Piyush Goyal said the move is aimed at ending the culture of departmentalisation in the national carrier and expediting decision-making.

According to the minister, the organisational revamp of the national transporter would aid faster implementation of projects and reduce cost overruns, which is now a regular feature.

The Narendra Modi government has ambitious plans of ₹50 lakh crore investments over the next 12 years in the railway sector to modernise the infrastructure and provide the highest standards of safety, speed and services to passengers. However, the steadily declining performance of Indian Railways was reflected in its FY18 operating ratio (OR) of 98.44%, which was the worst in the last 10 years, as noted by the Comptroller and Auditor General (CAG) in a report tabled in Parliament earlier this month.

In the new structure for Railway Board, there will be a chairperson, four permanent members and some independent directors. The chairperson will be the cadre controlling authority.

According to Tuesday's Cabinet decision, the NPR would be updated along with the house-listing phase of Census 2021 during April to September 2020 in all the states/Union Territories except Assam, where the NRC process is under way. In the second phase, the enumeration of population will be done from February 9 to February 28, 2021 with reference moment as 00:00 hours of March 1, 2021. For snow-bound areas in Jammu and Kashmir, Himachal Pradesh and Uttarakhand, the reference date will be October 1, 2020.

The NPR is a list of "usual residents" of the country. A "usual resident" is defined for the purposes of NPR as a person who has resided in a local area for the past six months or more or a person who intends to reside in that area for the next six months or more. The data for NPR was first collected in 2010 along with the house-listing phase of Census of India 2011; the data was updated in 2015 by conducting door-to-door survey. The digitisation of the updated information has been completed.

The census provides detailed and authentic information on demography, economic activity, literacy and education, housing and household amenities, urbanisation, fertility and mortality, Scheduled Castes and Scheduled Tribes, language, religion, migration, disability, besides others. The enumerators also collect data related to cultivators and agricultural labourers, their sex, occupational classification of workers in non-households industry, trade, business, profession or service by class of worker and sex. There will be detailed survey on gender and literacy rate, number of towns, slum households and their population.

The CAA provides non-Muslim minorities from Afghanistan, Bangladesh and Pakistan who moved here before 2015 a pathway to Indian citizenship. It is being opposed for its alleged discriminatory character and being allegedly violative of the spirit of the Constitution of India that vows secularism and non-discrimination in the name of caste, creed and religion and gender.

—With agency inputs

Carnation Auto: CBI books Khattar for PNB loan fraud

The CBI has alleged that Khattar and his company dishonestly and fraudulently sold the goods hypothecated to the bank without its permission and diverted the funds thereby causing criminal breach of trust and cheating that caused wrongful loss to the bank and gain to Khattar and his company.

The bank had conducted a forensic audit which showed that fixed assets to the tune of ₹66.92 crore were sold for a consideration amount of ₹4.55 crore without its approval, they said.

It is also alleged that sale proceeds were not deposited with the bank and Khattar had dishonestly and fraudulently extended loans and advances to its sister concern/subsidiaries also.

"Thereby it has committed mis-appropriation of bank funds and has put them for own use," the FIR said.

The bank officials allegedly did not do mandatory monthly verification of stock and cross check the debtors/creditors, the FIR said adding role of bank officials will be under scanner.

The bank had mentioned five accused persons in its complaint including three guarantor companies — Khattar Auto India Pvt Ltd, Carnation Realty Pvt Ltd and Carnation Insurance Broking Company Pvt Ltd — but their direct role did not surface during the verification exercise. "However, their role in detail will be ascertained during investigation," the agency said.

Bharti Infra, Indus Towers merger date extended to February 24

"Further to our letter dated October 24, 2019, we wish to inform you that the requisite government approvals have not been received till date, and consequently, conditions precedent could not be completed within the extended timeline ie December 24, 2019," the company pointed out.

In October this year, Bharti Infratel had extended the deadline for merger by two months to December 24 in the absence of regulatory approvals.

As on September 30, 2019, Bharti Infratel and Vodafone India hold 42% stake each in Indus. Vodafone Idea holds 11.15% stake in the mobile tower firm.

The merger of Indus Towers and Bharti Infratel announced in April last year aimed at creating the largest mobile tower operator in the world outside China with over 163,000 towers across 22 telecom service areas.

As per the plans, the combined company, which would fully own the respective businesses of Bharti Infratel and Indus Towers, would take the name Indus Towers and will continue to be listed on stock exchanges.

The company had also said the move would provide exit opportunity to shareholder operators of Indus. The timely completion of the tower deal was critical for the companies, particularly since it would allow Bharti and Vodafone Idea in offloading stake and raising funds.

Loan stress rises in H1FY20: RBI

The observations were made in the RBI's report on trend and progress of banking for 2018-19.

After rising for seven years in a row, the gross non-performing asset (GNPA) ratio of banks declined in the financial year 2018-19.

This skew can only be fixed by reviving lending to industry. The central bank has flagged off this trend and said "the need of the hour is to kick-start industrial credit and use the impetus there from to regenerate a virtuous cycle of capex, investment and growth". The banking regulator also said that it was necessary to keep in focus household leverage and indebtedness in the context of overall financial stability.

Mukesh Ambani added $17 billion to his fortune this year

The newer businesses are likely to contribute 50% of Reliance's earnings in a few years, from about 32% now, Ambani said in August. A representative for Reliance didn't reply to an email seeking comment on Ambani's wealth.

Zero net debt

While the success of the phone operator was a cause for cheer, the business mogul's plans to pare Reliance's debt has sent Reliance's stock soaring to a record.

Ambani, 62, has vowed to slash the group's net debt to zero by early 2021. Plans include a stake sale in Reliance's oil-to-chemicals business to Saudi Arabian Oil Co, listings of the telecommunications and retail units within five years, sale of tower assets and strategic partners for a digital platform linked to Reliance Jio Infocomm, the phone company.

The value of Reliance's shares have almost tripled since the end of 2016, when Jio entered the Indian market with free calls and cheap data and forced some heavily indebted incumbents to exit or merge with rivals. With more than 350 million users, unlisted Jio reported a net income of ₹9.96 billion for the September quarter while the other two private sector operators amassed record losses.

Still, investors have been wary of the ballooning debt at the group that spent about $76 billion in the last five years. Reliance Industries had a net debt of ₹1.54 trillion at the end of March 31, Ambani told shareholders in August.

Aiding Reliance's efforts to cut debt would be:

Aramco: Proposed sale of 20% of Reliance's oil-to-chemicals business in a transaction that would value the enterprise at $75 billion (including debt).

The deal, expected to complete by March, is subject to due diligence, definitive agreements and regulatory approvals.

Holding firm: In late October, Reliance unveiled a sweeping plan to create a $24-billion digital-services holding firm, with an aim to make Jio almost debt free by March

"Given the reach and scale of our digital ecosystem, we have received strong interest from potential strategic partners," Ambani said.

Brookfield: In July, Reliance announced selling a stake in an investment trust that will manage its mobile-phone tower business to Canada-based Brookfield Asset Management for ₹252.2 billion.

The proposed transaction with Aramco has run into a hurdle, threatening Ambani's debt paring plans. A court has sought details of Reliance's assets after the government petitioned to stop the proposed sale in an unrelated arbitration lawsuit.

Ambani, however, has a proven record in keeping his promises that investors are relying on.

"Ambani created value in Jio, which he deleveraged by hiving off his infrastructure assets to Brookfield," said Sandeep Gupta, managing director, Protiviti India. "He can further deleverage the company from a debt point of view by bringing in strategic investors, which will raise the value further."

—BLOOMBERG