TAKE 5

1. The limit for non-banking financial companies (NBFCs) to be eligible for debt recovery under the SARFAESI Act 2002 will be reduced from Rs 500 crore to asset size of Rs 100 crore or loan size from existing Rs 1 crore to Rs 50 lakh.

2. To strengthen cooperative banks, the central government has proposed amendments to the Banking Regulation Act for increasing professionalism, enabling access to capital and improving governance and oversight.

3. The central government has suggested amendments to the Factoring Regulation Act 2011, which will enable NBFCs to extend invoice financing to the MSMEs through The Trade Receivable Discounting System TReDS.

4. The government has proposed to extend the Tax Deducted at Source (TDS) on interest paid by certain large co-operative societies whose gross receipts exceeds Rs 50 crore during the last financial year.

5. The government plans to impose commodity transaction tax (CTT) on trading in commodity indices as well as options in goods from April 1. The CTT will be chargeable at 0.01 per cent payable by the seller, which is the same rate currently charged on sale of futures.

LIQUIDITY STILL A CONCERN

Mumbai's business district — Bandra Kurla Complex, home to major lenders and financiers. *Pradip Das*

CAPITAL INFUSION
In the last few years, the government infused capital of about Rs 3.50 lakh crore into public sector banks for regulatory and growth purposes. Some banks raise additional capital from the equity market.

BETTER GOVERNANCE
The government acknowledged the need to take more steps to bring in transparency and greater professionalism in public sector banks. This is part of the Finance Ministry's governance reforms in these banks

Liquidity push: New debt ETF with G-secs for retail investors

SUNNY VERMA
NEW DELHI, FEBRUARY 1

FINANCE MINISTER Nirmala Sitharaman announced a number of measures in Budget 2020-21 to widen and deepen the corporate bond and the government securities market.

The Centre also unveiled measures to increase bond market access of micro, small and medium enterprises (MSMEs). With the government's borrowing programme rising next year, along with expansion in the fiscal deficit to 3.5 per cent of GDP, the Centre plans to float a new debt exchange-traded fund (ETF) that will comprise of government securities (G-sec). This will ensure that retail investors — who are so far not investing much in the G-sec market — are able to buy a basket of government bonds through the units in the proposed debt ETF in a seamless manner. The government expects the debt ETF to improve liquidity in the bond market, enhance investor base and smoothen its borrowing plans.

The recently-launched Bharat Bond ETF, which comprised AAA-rated debt papers of large government-owned companies, successfully raised Rs 12,400 crore in its maiden offer. The debt ETF provides of government securities will provide an option to conservative investors to earn around 6.5 per cent to 7 per cent yield, along with the facility of overnight liquidity as ETFs are listed on exchanges. This will also help the Centre diversify its sources of borrowings, as currently only institutional investors are the key buyers of these debt papers. "This will give retail investors access to government securities as well as giving an attractive investment for pension funds and long-term investors," Sitharaman said while presenting the Budget on Saturday.

Apart from domestic retail investors who can now invest in G-sec via ETF, the finance ministry has also proposed to open certain category of government securities for non-resident investors. The government has pegged its net market borrowings at Rs 5.36 lakh crore for 2020-21, up from Rs 4.99 lakh crore in 2019-20. Enabling access to new class of investors will ensure that the government's borrowing programme goes on smoothly without putting upward pressure bond yields.

With regard to corporate bonds, the Centre has substantially raised investment limit for foreign portfolio investors (FPIs) to 15 per cent of the outstanding stock of corporate bonds from 9 per cent at present. This is aimed at attracting fund flows and comes at a time when the debt market witnessed an outflow of Rs 11,917 crore in January this year. December 2019 saw outflows of Rs 4,616 crore, while November 2019 outflows were Rs 2,358 crore. While the equity investment in calendar year 2019 was Rs 101,122 crore, debt market could attract only Rs 25,882 crore. The Reserve Bank had last December raised FPI investment limits in G-sec as well as short-term bonds.

Meanwhile, to improve MSME access to debt market, the government will introduce a scheme to provide subordinate debt (or quasi equity) for MSME entrepreneurs. This debt will be fully guaranteed through the Credit Guarantee Trust for Medium and Small Entrepreneur, and enable MSMEs to meet their working capital requirements, thereby, easing their credit crunch and improving liquidity position. The Budget also proposed measures to enable non-banking financial companies (NBFCs) to provide invoice financing to MSMEs through the Trade Receivable Discounting System, or TReDS. As MSMEs usually get payments after a lag of few weeks, funds raised against billed invoice helps them improve their working capital position.

CENTRAL BANK TO CONSIDER EXTENDING PLAN TO HELP ENTREPRENEURS BY ONE MORE YEAR

Govt asks RBI to extend MSME loan recast scheme

GEORGE MATHEW
MUMBAI, FEBRUARY 1

THE GOVERNMENT has asked the Reserve Bank of India to consider extending the loan restructuring scheme for micro, small and medium enterprises (MSMEs) by one more year till March 31, 2021.

The government proposal, announced in the Union Budget, would help MSME entrepreneurs – who were hit by demonetization and GST implementation — in supporting their business. While over five lakh small businesses had taken advantage of the scheme in the last one year, thousands of units have either shut down or on the verge of closure as the economic slowdown has intensified the woes of the MSME sector.

Unveiling the scheme on January 1, 2019, the RBI had said the aggregate exposure, including non-fund based facilities of banks and non-bank entities, to a small borrower should not exceed Rs 25 crore as on January 1, 2019. The restructuring was originally to be implemented by March 31, 2020 and a provision of 5 per cent in addition to the provisions already held, should be made in respect of accounts restructured under this scheme.

The RBI, when Urjit Patel was the Governor, was initially reluctant to sanction such a forbearance but relented in the wake of pressure from several board members who pushed for the bail-out small borrowers hit by demonetization and implementation of GST. As per the RBI, to be eligible for restructuring, the borrower's account should be in default but is a 'standard asset' as on January 1, 2019 and continues to be classified as a 'standard asset' till the date of implementation of the restructuring. The borrowing entity should be GST-registered on the date of implementation of the restructuring. However, this condition will not apply to MSMEs which are exempt from GST-registration.

The RBI had said accounts classified as non-performing asset (NPA) can be restructured, but the extant asset classification norms governing restructuring of NPAs will continue to apply. However, as a general rule, barring the one-time exception, any MSME account which is restructured must be downgraded to NPA upon restructuring and will slip into progressively lower asset classification and higher provisioning requirements as per the current norms. Such an account may be considered for upgradation to 'standard' only if it demonstrates satisfactory performance during the specified period.

Satisfactory performance means no payment (interest and/or principal) should remain overdue for a period of more than 30 days.

Meanwhile, on Saturday, Finance Minister Nirmala Sitharaman allocated Rs 350 crore under the interest subvention scheme, for 2 per cent interest subvention for all GST registered MSMEs, on fresh or incremental loans.

The Finance Minister said that the government will create a payment platform for MSMEs to enable filing of bills and payment. This will help eliminate delays in payment and give a boost to investment in MSMEs.

PLATFORM FOR FILING OF BILLS AND PAYMENT

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THE GOVT will create a payment platform for MSMEs to enable filing of bills and payment

EXPLAINED

To help sector reeling from note ban, GST

THE GOVERNMENT proposal, announced in the Union Budget, would help MSME entrepreneurs — who were hit by demonetization and GST implementation — support their business. While over 5 lakh small businesses had taken advantage of the scheme in the past one year, thousands of units have either shut down or are on the verge of closure as the economic slowdown has intensified the woes of the sector.

International bullion exchange in GIFT City may lead to better price discovery

GEORGE MATHEW
MUMBAI, FEBRUARY 1

THE GOVERNMENT has proposed to set up an international bullion exchange at IFSC in GIFT City — a move that could lead to better price discovery of gold, create more jobs and enhance India's position in the global bullion market.

GIFT City would set up an international bullion exchange as an additional option for trade by global market participants, Finance Minister Nirmala Sitharaman said. The country's only International Financial Services Centre (IFSC) is in GIFT City, near Ahmedabad in Gujarat.

Somasundaram PR, managing director, India, World Gold Council, said, "The establishment of regulated international bullion exchange in GIFT City in India is a positive step towards making gold a mainstream asset class. With its unique locational, infrastructural and regulatory advantages as an IFSC, GIFT city is well placed to build a fair, efficient and transparent bullion trading ecosystem. An organised bullion trading system will benefit the entire supply chain particularly, small players and exporters."

"This will lead to better price discovery of gold, create more jobs and further enhance India's position in the bullion market. This announcement is in line with Prime Minister Narendra Modi's vision that GIFT City would become a price setter in some of the world's largest traded instruments in the next 10 years," said Tapan Ray, MD & group CEO, GIFT City.

"Finance Minister has re-emphasised the importance of GIFT IFSC as an emerging Global financial services hub. The policy pronouncement regarding GIFT IFSC gives a tremendous boost to investor confidence both in India and abroad," Ray said.

Abhishek Bansal, chairman and managing director, Abans Group of Companies, said: "Creation of the exchange by GIFT City will add liquidity and depth to the gold commodity market. There is tremendous value potential to be unlocked from the gold industry in India in terms of it being one of the largest consumers of the precious metal globally and in terms of the finesse of jewellery produced in India, thereby acting as a vast employment generator."

As the true value of this gets unlocked by the formation of the bullion exchange, India will gain its rightful place in the global gold markets, he said.

Meanwhile, high prices kept buyers away from the yellow metal leading to a 9.2 per cent decline in demand for gold in India to 690.4 tonnes in the calendar year 2019 as compared to 760.4 tonnes in 2018. The yellow metal had glittered during 2019 with prices rising as much as 25 per cent.

The maximum fall happened during the December quarter of 2019 when demand for gold fell 18 per cent to 194.3 tonnes as compared to 236.5 tonnes in the same period of 2018, according to the World Gold Council's latest Gold Demand Trends report. Standard gold had risen from Rs 3,071 to Rs 3,802 per gram during the 12-month period. However, the value of gold bought by consumers in calendar 2019 rose three per cent to Rs 217,770 crore from Rs 211,860 crore in 2018 as prices and volatility remained high.

The country's only International Financial Services Centre (IFSC) is in GIFT City, near Ahmedabad. *Express file*

₹5 lakh insurance in case bank goes bust; cover hiked from ₹1 lakh now

GEORGE MATHEW
MUMBAI, FEBRUARY 1

IN A major relief to bank depositors, the government has proposed to increase deposit insurance cover from Rs 1 lakh to Rs 5 lakh.

The government move is expected to instill confidence among depositors as the proposal will increase the safety of the money deposited in banks. The bank deposits are insured under the Deposit Insurance and Credit Guarantee Corporation Act. After the collapse of Punjab and Maharashtra Co-operative Bank, there has been a demand from several quarters that the DICGC, the RBI subsidiary that gives insurance cover to bank deposits up to Rs one lakh, should hike the coverage cap.

According to State Bank of India Chairman Rajnish Kumar, the increase in deposit insurance limit from existing Rs one lakh to Rs 5 lakh was necessary. "The hike in deposit insurance cover to Rs 5 lakh could boost the confidence in the banking sector," said K. Paul Thomas, MD, ESAF Small Finance Bank.

Bankers said the proposal is also likely to support the deposit accretion of banks. "However, given the size of insured deposits is likely to increase, the deposit insurance premium paid by banks will increase the operating expenses of banks and will be negative for their profitability to the extent they are not able to pass it on to the bank customers. "As on March 31, 2019, 28 per cent of deposits (in value terms) and 92 per cent of depositors (in terms of number of accounts) were covered by deposit insurance, which is likely to increase to 40-50 per cent, said Karthik Srinivasan, Group Head, Financial Sector Ratings, ICRA Ltd.

What led to the hike in deposit insurance cover? In September 2019, the Reserve Bank of India (RBI) slapped curbs on Punjab and Maharashtra Cooperative Bank Ltd (PMC Bank), a leading cooperative bank headquartered in Mumbai, appointed an administrator and superseded its board of directors, sending shock waves among thousands of its depositors. Panic-stricken customers rushed to bank's branches across the state and were unable to withdraw more than Rs 1,000. Irrespective of the deposit amount, be it Rs 25 lakh or Rs 5 crore, the depositor was supposed to get only Rs one lakh if a bank collapsed. Now it will be raised to Rs 5 lakh. However, now depositors holding more than Rs 5 lakh in their account have no legal remedy in case of the collapse of the bank.

The Damodaran panel set up by the RBI had recommended that the deposit insurance cover provided by DICGC should be raised to Rs 5 lakh so as to encourage individuals to keep all their deposits in a bank convenient for them.

While DICGC has a surplus of Rs 87,995 crore, SBI, India's largest bank, has over Rs 30 lakh crore deposits. PMC Bank which collapsed earlier this year has over Rs 11,000 crore deposits. If the insurance cover cap is hiked from Rs 1 lakh, the premium to be paid by the banks may also go up, bankers say.

While Rs 12,043 crore was the premium income collected by DICGC in 2018-19 against Rs 11,128 crore a year ago, Rs 152 crore was the claim in 2018-19 as against Rs 183 crore in the previous year. The total insured deposits were Rs 33,70,000 crore as of March 2019.

PROTECTING DESPOSITORS

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- As per SBI Chairman Rajnish Kumar, the hike was necessary