Economy

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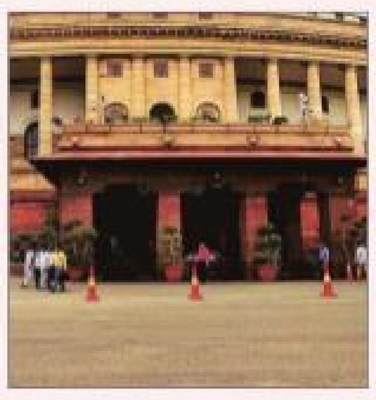
PRAGMATIC BUDGET

Amitabh Kant, CEO, NITI Aayog

It is a pragmatic Budget. It pushes for public-private partnership in many areas. Budget lays a lot of emphasis on AI, quantum computing and road map for infrastructure sector. The Budget will put India on right track.

IN PARLIAMENT



Reporting of frauds by banks, others

FRAUDS INVOLVING ₹1,13,374 crore were reported by banks and select financial institutions in the first half of the current financial year, Finance Minister Nirmala Sitharaman told Parliament on Monday. The minister said the government in 2015 had issued 'Framework for timely detection, reporting, investigation relating to large value bank frauds' for public sector banks to deal with suspected frauds involving sums of money in excess of ₹50 crore.

2-instalment GST compensation

THE CENTRE WILL release all due GST compensation to states in two instalments, Union minister Anurag Thakur said in Lok Sabha on Monday. The minister said GST (Compensation to States) Act, 2017 provides for compensation to States/UTs (UT with legislature only) on account of revenue loss due to implementation of GST on a bi-monthly basis.

30 cr PANs linked with Aadhaar

AS THE DATE for linking PAN with Aadhaar has been extended by three months, the government has linked over 30 crore such numbers with the unique identification code, minister of state for finance Anurag Singh Thakur said in Parliament on Monday. The total number of PAN cards which are linked with Aadhaar number as on January 27, 2020, is 30,75,02,824, Thakur informed the Lok Sabha.

PSBs' NPAs at ₹7.27 lakh crore

THE GOVERNMENT ON Monday said the non-performing assets (NPAs) of public sector banks (PSBs) stood at ₹7.27 lakh crore as on September 30, 2019. Minister of state for finance Anurag Thakur also said in the Lok Sabha that scheduled commercial banks and select financial institutions have reported frauds to the tune of ₹1,13,374 crore in the first half of the current financial year.

FM SPEAK

Won't just splurge money, spending to be prudent

FE BUREAU
New Delhi, February 3

THE GOVERNMENT WON'T resort to fiscal profligacy, but will adopt the principle of prudent spending to create productive assets to reverse decelerating growth momentum, finance minister Nirmala Sitharaman said on Monday.

"We are putting money where assets need to be created," Sitharaman said at an Ficci event. She acknowledged that the economy may need some pump-priming. "Yes, we are willing to do that, but we are not willing to splurge the money, we have decided to invest money, only in asset creation, especially to create connectivity."

The government has budgeted an 18% hike in its capital expenditure for the next fiscal, compared with 13.4% in FY20. However, it has also bridled the pace of its revenue spending. While the shift towards productive spending signals a welcome change, achieving the target without worsening the fiscal deficit will be quite a task, given that the headway to squeeze revenue expenditure is typically limited.

Thanks to lower revenue spending, overall spending will increase 12.7% in FY21 to ₹30.4 lakh crore, against 16.6% this fiscal. Revenue expenditure is budgeted to rise 11.9% in FY21 to ₹26.3 lakh crore, against the revised estimate (RE) of 17% for the current fiscal.

Sitharaman has already reiterated her commitment to proposed investments of ₹103 lakh crore in infrastructure over a six-year period through FY25 under the recently-unveiled national infrastructure pipeline plan. While the pipeline consists of 39% of projects each of the Centre and states, 22% of the projects are envisaged to be executed by the private sector.

About ₹22,000 crore has already been provided as support to the pipeline, she said. This would cater equity support to infrastructure finance companies such as IIFCL and a subsidiary of the NIIF. "They would leverage it, as permissible, to create financing pipeline of more than Rs 1 lakh crore. This would create a major source of long-term debt for infrastructure projects and fulfil a long-awaited requirement."

On Monday, the minister also said the emphasis of the Budget has been on creating a trust-based tax system. "We trust the assessee, we mean that we trust the taxpayers and tax officers have to be lot more objective with the help of technology."

Small savings rate may see moderation next quarter

PRESS TRUST OF INDIA
New Delhi, February 3

DEPARTMENT OF ECONOMIC Affairs secretary Atanu Chakraborty has hinted at a revision in the small savings rate next quarter, in line with the market rate, a development that could lead to speedier transmission of monetary policy rate.

During the current quarter, the government refrained from cutting interest rates on small savings schemes, including Public Provident Fund (PPF) and National Savings Certificate (NSC), despite moderating bank deposit rates.

"In India, right now we have about ₹12 lakh crore in small savings schemes and roughly ₹114 lakh crore in bank deposits. So, the liability side of banks is getting affected by ₹12 lakh crore. When banks say this, it seems a bit of a tail-wagging-the-dog situation," he said.

Nevertheless, Chakraborty said the rate of small savings should have some linkages to the market rate, which is largely determined by the G-Sec rates.

Stating that the report of the Shyamala Gopinath committee has been accepted, but the operation of the linkage is still in works, he said, "Wait for this quarter interest rates. That will give you a fairly good indication."

Bankers have been complaining that high small savings rates prohibit them to cut their deposit rates immediately to check flight of savings. Currently, there is difference of nearly 100 basis point between the deposit rate of banks and the small savings rate for one-year maturity.

Chakraborty also said although the government is not dependent on small savings schemes, there is no plan to do away with the scheme as people use those instruments.

Govt didn't include AGR dues payment in Budget 2020-21: DEA secy

The government has not included AGR dues in the Budget, Chakraborty said on Monday. It is pertinent to mention here that 15 entities owe the government about ₹1.47 lakh crore in past dues – ₹92,642 crore in unpaid licence fee and another ₹55,054 crore in outstanding spectrum usage charges.

"AGR dues payment has not been taken into account in the Budget," Chakraborty said.

Sources, meanwhile, said past AGR or statutory dues have not been included as the matter is in the court. Bharti Airtel, Vodafone Idea, and Tata Teleservices have jointly filed a modification application in the Supreme Court seeking more time to pay their statutory dues.

BPSL: JSW Steel rejects ED's contentions in affidavit to NCLAT

SURYA SARATHI RAY
New Delhi, February 3

JSW STEEL, THE preferred bidder for Bhushan Power and Steel (BPSL), in a reply affidavit to the National Company Law Appellate Tribunal (NCLAT), has rejected the Enforcement Directorate (ED)'s two major contentions — it cannot seek immunity from attachment of BPSL assets by the enforcement agency and that JSW Steel is a related party. It has described these two contentions as "complete misconception" and "misplaced".

The NCLAT will hear the matter on Tuesday.

JSW Steel's ₹19,700-crore resolution plan for BPSL was approved by the National Company Law Tribunal (NCLT) on September 5, 2019. The NCLT, while approving JSW Steel's bid, did not grant JSW Steel protection from attachment of assets on account of acts of omission or commission of the previous directors under Prevention of Money Laundering Act (PMLA). JSW Steel had on September 13, 2019 filed an application with the NCLAT seeking protection of the insolvent firm's assets after takeover.

While the matter was still being heard by the NCLAT, the ED in October had attached BPSL's assets worth over ₹4,000 crore in connection with a money-laundering probe against the company's former promoters. Following this, the NCLAT issued notice to the ED. In the meantime, through an ordinance promulgated on December 28, 2019, the government notified Section 32A in the Insolvency and Bankruptcy Code (IBC) that seeks to ring-fence assets of the corporate debtor for any offence committed prior to the commencement of the Corporate Insolvency Resolution Process.

The ED, in a reply affidavit to the NCLAT, contended that preferred bidder JSW Steel could not seek to ring-fence BPSL and its assets since Section 32A of the IBC did not apply retrospectively. The section prohibits prosecution, in case the resolution plan results in change of the management to a person who was not a promoter or in the management or control of the corporate debtor or a related party of such a person, from the day the resolution plan is approved by the insolvency court.

"Therefore, the amendment in the form of Section 32A having come into force after the resolution plan was approved in this case, and the fact that Section 32A had not been given retrospective effect, would mean that the benefit of section 32A cannot be claimed by the successful resolution applicant in this case," the ED said.

JSW Steel, in its reply affidavit, submitted that by promulgation of the IBC Ordinance 2019, the law related to protection to the corporate debtor and th0e liability for offences committed prior to the commencement of the CIRP upon approval of a resolution plan, stands settled by virtue of introduction of 32A in the IBC. "It is submitted that the condition stipulated in Section 32A (1) (a) is merely a subset of Section 29A of the IBC which sets out the circumstances in which a person would be ineligible to be a resolution applicant and submit a resolution plan," it said, adding that both the resolution professional (RP) and the committee of creditors (CoC) had earlier found that JSW was eligible to submit the resolution plan under Section 29A.

Discom dues: NTPC's receivables rise

ANUPAM CHATTERJEE
New Delhi, February 3

DUES OF STATE-RUN electricity distribution companies (discoms) to power producers stood at ₹88,607 crore at the end of December, up 50% from a year earlier, and 88% of these were "over-dues" with payment default of 60 days or more. Most of the over-dues are pending to state-run utilities like the NTPC, DVC and NHPC, while receivables by independent power producers comprise about 26% of the total.

However, there seem to be some early signs of an apparent efficacy of the Union power ministry's letter of credit (LC) mechanism implemented in August 2019, as the pace of the growth of over-dues to power generators slowed down since implementation of the policy.

Over-dues to power plants in August-December 2019 grew 20% to ₹78,166 crore while there was a 25% rise in such receivables to ₹44,397 crore for the same period in 2018. Data from the government's 'Praapti' portal reveal that after the implementation of the LC mechanism, CPSE power generating companies bore the biggest brunt, with over-dues rising 36% to Rs 31,703 crore in August-December 2019.

Outstanding of CPSE gencos had grown 18.1% to ₹16,016 crore in the corresponding period in 2018. Over-dues from discoms of independent power producers (IPPs) increased 7.5% to ₹18,512 crore after LC implementation, whereas the same had increased 16.3% to ₹11,773 crore in August-December 2018. NTPC's invoices to discoms which remain not honoured as on December 31, 2019 totalled ₹15,963 crore, 84% higher than August-end.

Responding to *FE's* queries, NTPC said it is expecting to get the dues cleared by the end of FY20, as discoms had done at the end of the previous fiscal. While the quantum of outstanding over-dues to NTPC indeed dropped after March in previous years, NTPC over-dues in April-December recorded a whopping 475% growth in FY20. The same was 48% in FY19 and in FY18, over-dues had actually dropped 30% in the corresponding period.

NTPC said its over-dues in December 2019-end was "in the range of around Rs 12,000 crore and "discoms of Uttar Pradesh, Jammu and Kashmir, Telengana and Karnataka constitute around 80% of the above dues". While the government has attributed the rise in over-dues to delayed payment surcharges, ministry officials told *FE* that some fresh dues are being created as a number of power purchase agreements (PPAs) do not have the requisite provisions to enable the LC mechanism, keeping them out of the payment safety net. A section of industry has ascribed the lower pace of growth of new dues to the 3.9% y-o-y fall in power demand stemming from industrial slowdown in August-December 2019.

From the Front Page

Coronavirus: China stocks sink 8% in worst rout since 2015

"THE PANDEMIC is not something that will only impact the market for just a few days, it'll last for a while," said Sun Jianbo, president of China Vision Capital in Beijing.

The effects reverberated across the nation's markets. China's benchmark iron ore contract declined by its daily limit of 8%, while crude and palm oil also sank by the maximum allowed. The yield on China's most actively traded 10-year government bonds dropped the most since 2014. The yuan tumbled more than 1% to weaken past 7 per dollar.

The CSI 300 Index of companies listed in Shanghai and Shenzhen closed 7.9% lower after falling as much as 9.1%. The loss was the most since August 2015 in the aftermath of the bursting of an equity bubble. Declines were led by telecom, technology and commodity producers. The Shanghai Composite Index slid 7.7%. "It is really hard to trade stocks," said Li Shuwei, chairman at Beijing WanDeFu Investment Management. "It's impossible to predict how this disease will develop. Even the experts have no clear idea when the outbreak will end, let alone stock traders. It's too early to buy stocks right now and it's also difficult to sell as all shares are limit down. So I will just have to wait and see."

The death toll from the virus has now topped 360, with more than 17,000 confirmed cases in the country. Hong Kong's Hang Seng Index, which dropped 5.9% in three days of trading last week, rose 0.3% at 3:33 pm local time, led by health-care firms. BLOOMBERG

FY20 expenditure: Don't see cut from RE level, says secretary

GST REVENUE could pick up further in Q4 and considerable revenue expected from the new dispute resolution scheme by March-end. "In the Vivad Se Vishwas Scheme for direct taxes, there is a strong incentive for people to settle their disputes before March 31. Together with likely upside in indirect taxes due to improvement in GST collections, I think that there is a very reasonable chance that the revised tax revenue estimates will be attained," Somanathan said. "Therefore, I don't see a need to tinker with the expenditure estimates."

The Tamil Nadu cadre IAS officer, who joined the finance ministry in December 2019, said: "We have tried to maintain the pace of expenditure at a time of economic stress. What we have done is a delicate balancing between providing support to growth and avoiding imprudence." He said even as the government has shifted some of the expenditure items to off-budget sources, this has been done in a transparent manner. "It (off-budget financing of certain expenditure) won't crowd out (private investors) as these sources (lNSSF) are anyway not available to the private sector."

Asked whether the curbing of outlays for central sector and centrally sponsored schemes won't hit rural consumption, Somanathan said, "We don't do budgeting of these on the basis of aggregates. We consider each scheme's requirements based on inputs from relevant ministries and assess how much they (ministries) are capable of spending. So we have provided adequately for what the ministries see as realistic".

The total outlay for central-sector and centrally sponsored schemes for FY20 was revised in the recent Budget by 4% to Rs 3.21 lakh crore and the outlay for next year is pegged at Rs 3.35 lakh crore, up just 4.4%, against 12.7% increase in the overall budget size.

Although the revenue secretary Ajay Bhushan Pandey refused to estimate tax revenue proceeds from direct tax dispute resolution scheme, if its counterpart scheme for indirect tax cases is any guide, the new scheme could yield at least 10% of the amount locked in disputes. At FY19-end, the funds stuck in direct tax disputes stood at about Rs 8 lakh crore.

The government has projected an 18% hike in its capital expenditure for the next fiscal, compared with 13.4% in FY20, but it has also bridled the pace of its revenue spending. Revenue expenditure is budgeted to rise only 11.9% in FY21 to Rs 26.3 lakh crore, against the revised estimate (RE) of 17% for the current fiscal.

Weak tax revenues and lower scope to compress spending has taken a toll on the Centre's fiscal rigour, forcing it to invoke an escape clause provided in the FRBM rule to inflate fiscal deficit by 50 basis points for this financial year and the next to 3.8% and 3.5% of GDP, respectively. A collapse in nominal economic growth in FY20 to 8.5% has also contributed to higher fiscal deficit. The FY20 budget targeted fiscal deficit at 3.3% for this fiscal and 3% for FY21.

However, if the revenue-strapped government's off -budget mop-ups of Rs 1.73 lakh crore and Rs 1.86 lakh crore ·which typically mask its actual fiscal hole·to fund expenditure are factored in, the deficit would zoom to 4.6% of the GDP for this fiscal and 4.4% in FY21, respectively. Most of the off-budget financing was for Food Corporation of India for procurement and stocking operations for implementation of the National Food Security Act.

CEA speak: "PSBs healthier, won't need capital in FY21'

THE GOVERNMENT has extended ₹70,000-crore capital to state-run banks (including IDBI Bank) in FY20 and as much as ₹3.1 lakh crore in the past five years. As many as 13 PSBs clocked profits in H1FY20, against just six a year before. In an interview to FE, Subramanian also defended the government's decision (and the timing) to trim the corporate tax rate in September last year, instead of taking steps to boost consumption, even though private investments are still hard to come by. The corporate tax cut was a "necessary condition, if not necessarily sufficient" to improve growth, as complementary measures are also important.

The government, he said, chose to offer a long-term cure for the economic ailments instead of providing a steroid-type solution. The flow of investments, in response to the rate cut, typically takes place after a time lag, he stressed.

Asked if the government would pick up equity in some shadow-lenders that are stressed to help credit flow, the CEA said whatever the Centre intended to do has been announced in the Budget. Budget provisions like the one on the Sarfaesi Act etc would help non-banking financial companies. He also asserted that NBFCs are in better shape now than they were six months earlier.

The Budget has proposed that the limit of asset size of NBFCs to be eligible for debt recovery under the Sarfaesi Act be reduced from the existing Rs 500 crore to Rs 100 crore or loan size from Rs 1 crore to Rs 50 lakh.

"If the decision to cut the corporate tax was to be taken, say, a year later, the impact would take even longer to be felt," he said. "Sustained growth requires private investments. If you want to be a short-termist, you can boost consumption but boosting consumption without providing the right conditions for an increase in investments to enhance growth is like providing steroid when a person is sick. It will make the person look healthy for a short while but when the impact of it goes away, the disease will come back even stronger." Commenting on the Budget's ambitious revenue buoyancy target of 1.2 for FY21, compared with just 0.5 (RE) this fiscal, the CEA said the slide this fiscal was caused mainly by the sharp cut in the corporate tax revenue (with potential gross revenue forgone of a massive Rs 1.45 lakh crore) and that the target is realistic.

'Temasek model debatable': ETF utility as disinvestment tool on the decline, says Pandey

TEMASEK, THE investment arm of the city state's government, manages a net portfolio of over \$230 billion as on March 31, 2019 — around four fold jump from \$66 billion in 2004. Its compounded annualised total shareholder return since inception in 1974 is 15% in Singapore dollar terms. In comparison, average return was only 4% for BSE CPSE Index against 38% for BSE Sensex during 2014-2019.

"The idea (of emulating Temasek model) needs to be debated. But, if the objective is strategic sales, that in any case is being served through existing mechanism. If the idea is to create some basket of stocks and then sell, that is also being handled through ETFs, both on the bond and equity sides," Pandey said. "But if the idea is that the government has some surplus money, which can be invested, then that has to be seen in what way this will work," Pandey said.

The Economic Survey for FY20 has called for creation of a sovereign investment arm on the lines of Singapore's Temasek Holdings and asked the government to consider transferring its stakes in CPSEs to the new body to infuse professionalism in the disinvestment programme to improve returns on investment and unlock capital for priority areas like infrastructure.

He added the government was using proceeds from disinvestment for meeting capital expenditure and would continue to do so for several projects in the infrastructure pipeline. "So if that's the idea, then I think then we can continue to also use our existing instruments and possibly monetise them at a much more larger scale to generate funds," he added.

With big-ticket strategic sales including that of BPCL, Concor and Air India running behind schedule, the government has cut disinvestment target by ₹40,000 crore or 40% from budget estimate of ₹1.05 lakh crore for FY20.

For the next fiscal, Pandey said, this pipeline of strategic sales and the proposed listing of LIC would more than suffice to garner the targeted ₹2.1 lakh crore.