RBI notifies special G-Secs under 'fully accessible route'

FPI limit in corporate bonds raised; special series to enable inclusion in global indices

ARUP ROYCHOUDHURY
New Delhi, 30 March

The Reserve Bank of India (RBI) on Monday said it will issue certain series of government securities (G-secs) under the "fully accessible route". These special securities will attract no foreign portfolio investor (FPI) limits until maturity and are the first step towards Indian G-Secs being listed on global bond indices as the Centre looks to attract access cheap liquidity in the overseas markets.

The RBI also raised upwards the FPI limits for corporate bonds to 15 per cent, from 9 per cent, for 2020-21. However, the overall FPI limit in G-secs of 6 per cent has not been changed as yet. "The revised limits for FPI investment in G-Secs and state development loans for 2020-21 (FY21) will be advised separately," the RBI said. "The RBI shall notify the G-secs that shall be eligible for investment under the fully accessible route for non-resident investors. These securities will continue to be eligible for investment by residents," the central bank said in a circular.

CORPORATE BONDS
(Amount in ₹ trillion)

Current FPI limit	3.17
Revised limit for April–September 2020–21	4.29
Revised limit for October–March 2020–21	5.41

The ministry tweeted: "This will substantially ease access of non-residents to the Indian government securities markets and facilitate inclusion in global bond indices. This would facilitate the inflow of stable foreign investment in Indian bonds."

The RBI did not say what percentage of the ₹8-trillion gross borrowing for FY21 will be through the special securities, but sources said it could be anything between 15 per cent and 20 per cent. This means anything between ₹1.2 trillion and ₹1.6 trillion could be borrowed through these bonds without FPI restrictions.

The RBI notification follows a Budget announcement by Finance Minister Nirmala Sitharaman regarding the same. "Certain specified categories of G-secs would be opened fully for non-resident investors, apart from being available to domestic investors as well," Sitharaman had in her FY21 Budget speech.

The RBI said all new issuances of G-secs of 5-year, 10-year, and 30-year tenors from FY21 will be eligible for investment as "specified securities".

Some of the global bond indices that could embrace Indian G-secs, if all the conditions are met, include the Bloomberg Barclays Global Aggregate Index, FTSE Russel Asia Pacific Government Bond Index, and JPMorgan Government Bond Index-Emerging Markets. These indices have conditions which favour scale and size. For example, according to the criteria of some of these indices, each issuance should be $400 million at least, and the total quantum of the bonds should be at least $5 billion.

Ministry officials have had several meetings with the RBI, as well as the administrators of the global bond indices. They have also met banks which may act as potential market makers for the bonds.

Government officials as well as bond market analysts said being part of the global bond indices would help Indian G-secs attract large funds from major global investors, including pension funds.

CORONAVIRUS EFFECT

Direct tax shortfall likely to touch a 20-year high

I-T dept estimates mop-up of around ₹10.7 trillion this fiscal year

SHRIMI CHOUDHARY
New Delhi, 30 March

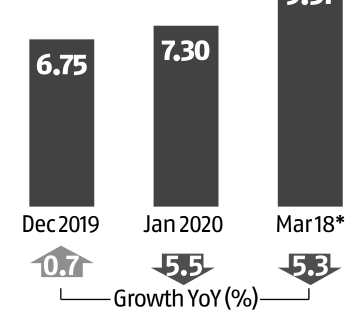
India's direct tax collection for the current fiscal year ending March 31 is likely to see a whopping shortfall of about ₹1.5 trillion compared to the Revised Estimates (RE). This is set to take place for the first time in at least two decades, derailing the government's fiscal deficit goals.

According to senior officials, the income tax department estimates total collection to be between ₹10.5 trillion and ₹10.7 trillion, against the revised target of ₹11.7 trillion. However, the exact figures may come by April 1.

Shortfall as a percentage of RE for 2019-20 (FY20) is also likely to be the highest in recent history. At the estimated level, it would be from 8.7 per cent to 10.2 per cent of the RE in FY20. It was 5.3 per cent in the previous year. During the 2008-09 crisis, it was 7.5 per cent of the RE.

Officials attributed the shortfall to the pandemic. But even the earlier months of the year had turned out to be bad for direct tax collection.

Sources said the Vivad se Vishwas scheme, expected to give a leg-up to collections, has not seen a single big entry so far. Since the scheme has been pushed to June, people are likely to come forward only after the lockdown is lifted.



*As of March 18, total direct tax collection stood at ₹9.57 trillion
Target for fiscal year 2019-20 is ₹11.7 trillion
*Net collection: Direct tax collection after refunds
Source: I-T department

The government had set direct tax collection target of ₹13.5 trillion for this fiscal year (FY20) in the Budget Estimates (BE), a 17 per cent rise over 2018-19. However, during the year, businesses and corporates saw significant decline in demand. This led to job losses and cut in the investment targets. Further, change in corporate tax structure, coupled with the Covid-19 pandemic, has worsened the situation.

The government had to revise the BE downwards to ₹11.7 trillion in the RE on account of reduction in the corporation tax rates. This is expected to hit the exchequer by ₹1.45 trillion and slow down the economy.

According to official figures, the tax office managed to garner ₹9.57 trillion till March 18, a decline of 5.3 per cent over the corresponding period in the previous year.

Sources said the tax department had started making efforts after seeing a drop in the third quarter (October-December) advance tax collection payment. In the third quarter, corporation tax mop-up dropped by 5 per cent. In January, the total collection stood at ₹7.3 trillion.

In the fourth quarter (January-March), advance tax payment by corporates further slipped to 10 per cent.

The shortfall may widen the Centre's fiscal deficit, which is pegged at 3.8 per cent of GDP in FY20, said a government source.

Fiscal deficit surpassed the budget target for FY20 by 28.5 per cent in absolute terms by January itself. However, the focus of the government is now not on the economic situation but to arrest the Covid-19 outbreak, which has halted every activity and eroded billions. Tax experts, too, feel the priority is not fiscal math but to contain spread of the global outbreak.

"At this point, the immediate focus is to arrest the pandemic and not the fiscal deficit. Rather, the Centre and states should lend maximum to support venerable businesses, especially small and medium enterprise and in making them solvent," said Sudhir Kapadia, national tax leader, EY India. "The government should also focus on relevant sectors such as hotels, tourism entertainment and aviation, which are completely shut. All in all, there is no way any country, including India, can hope for taxes and improving fiscal math. Even if the fiscal deficit widened 1-2 per cent, the focus should be on the survival of business," said Kapadia.

CORONAVIRUS PANDEMIC

Sanjay Sanghvi, partner, Khaitan & Co, said: "This unfortunate development and the complete lockdown have derailed the tax collections target. This fiscal year will be an exceptional year for the government in terms of low tax collection and growth. However, I think the first priority for the Centre is now to contain the spread of this pandemic."

Exports stare at hard March; US, Europe orders disappear

SUBHAYAN CHAKRABORTY
New Delhi, 30 March

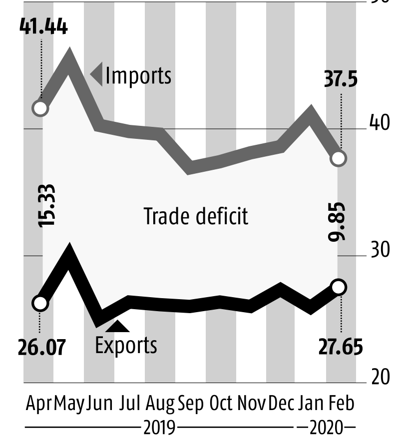
After a sudden growth in February, exports are fast heading towards a lengthy period of contraction as buyers cancel major shipments in foreign exchange (forex) earning sectors, fear exporters.

"We expect contraction in March. With major economies continuing to see sharp rise in cases, the cumulative fall in demand would spill over into April, causing a bigger contraction," Ajay Sahai, director general of the Federation of Indian Export Organisations, said.

A string of order cancellations by major clients in the US and Europe — two major centres of the coronavirus outbreak — is expected to massively hit sectors like engineering goods and apparel. More than 40 per cent of India's engineering exports land up in both markets, while Indian apparel is already under threat from cheaper Bangladeshi and Vietnamese alternatives in their primary export destination of Europe.

"This industry needs immediate relief in terms of faster clearance of banking and packing credit, late realisation of export bills, and raising of advance limit to 25 per cent without any collateral to ease working capital constraints," A Sakthivel, chairman, Apparel Export Promotion Council, said. Also, there should be no penalty on advance forex booking and deferment of equated monthly instalments by six months to start with, he added.

Exports had caught a rare breather in February, rising after six months, leading to hopes of a recovery period beginning soon. But, policymakers are not convinced. "Last month, exports gained over a low base. Also, global oil prices spiked, allowing India to pull in more receipts from the sale of refined petroleum," a government trade expert said.



Total exports in FY20 so far	Total imports in FY20 so far	Cumulative trade deficit in FY19 so far
292.9	436.06	143.11

Source: Ministry of Commerce & Industry

Lockdown blues

Exports have been rocked by chronic labour shortage, arising from a massive exodus of workers to the rural hinterland. "This issue continues as people are afraid of not being able to survive for the entire duration of the lockdown. More importantly, smaller businesses making up the majority of the sector continue to be harassed by local authority and police despite the commerce department saying exports are a priority sector," a senior functionary of the Clothing Manufacturers Association of India, said.

While a final notification from the home department regarding which businesses can remain open has assured the sector, these small businesses remain worried.

Coupled with a lack of liquidity with export credits having contracted by about 23 per cent in 2019 (January-December) even before the coronavirus outbreak, factory units look set to make major losses.

"While the three-month loan moratorium and 75 basis points cut in interest rates would help exporters, the sector has been the worst hit by the outbreak. The moratorium should be extended at least to six months to one year, since the global economy is set to be slipping into a recession," Ravi Sehgal, chairman of the Engineering Export Promotion Council, said.

Policy delay

As a result, total exports again run the risk of missing the government's internal target of $350 billion. India's total outbound trade tally stood at $331 billion in 2018-19. It was the first time that exports remained above $300 billion for two consecutive years.

On the other hand, the government is gearing up to announce the extension of the current five-year foreign trade policy (FTP) by six months, sources said. Commerce and Industry Minister Piyush Goyal is likely to announce the same on Tuesday. The updated FTP was expected to go live from April 1.

Treat oil output as essential service: Regulator to states

SHINE JACOB
New Delhi, 30 March

The directorate-general of hydrocarbons (DGH) has written to major producing states to exempt its production from the ongoing lockdown's ambit, and classify the commodity as an essential service.

Rajasthan, Assam, Andhra Pradesh, and Gujarat are all major producing areas. The move will help Oil and Natural Gas Corporation (ONGC), Vedanta, Reliance Industries, Oil India, and Hindustan Oil Exploration Company (HOEC).

Sources say Rajasthan and Assam have given clearance, but those of Tamil Nadu and Maharashtra are yet to give a final nod for movement of oil company staff and material. The letter had cited a February 28 notification that categorised any oilfield work as a public utility service. "Petroleum and natural gas are essential commodities under the laws. Domestic petroleum crude and natural gas production is a priority area for the country. Hence, uninterrupted operations are essential," went the letter.

In addition, the DGH says it has merged the sixth and seventh rounds of Open Acreage Licencing Policy (OALP) bids for oil and gas blocks. "In view of the lockdown, the EoI (expression of interest) cycle for Round VI (ending March 31) and Round VII (ending July 31) shall stand merged. A bidding round would be launched based on EoIs received till July 31," says the DGH on its website.

The final date for bidding under the fifth round of OALP is scheduled on April 16. A total of 11 oil and gas blocks are being offered under this round.

Following the lockdown, a majority of firms were reportedly forced to cut production by a tenth as customers refused to take supplies.

"The private sector, too, is facing such problems. A lot of consumers and factories in Assam are not taking supplies because of business disruption. However, we are continuing production from our fields," said P Elango, managing director of Chennai-based HOEC.

Fitch cuts GDP growth forecast to 4.6%

Fitch Solutions on Monday slashed its estimate for India's GDP growth in 2020-21 to 4.6 per cent due to weaker private consumption and contraction in investment amid coronavirus outbreak. The growth estimate for FY compares with a 4.9 per cent forecast in the current 2019-20 that ends on Tuesday. PTI

Ind-Ra cuts FY21 growth forecast to 3.6%

India Ratings (Ind-Ra) on Monday cut its FY21 growth forecast to 3.6 per cent amid Covid-related worries. It has assumed that a full or partial lockdown will continue till end of April and economic activities will be restored only after May. It expects India to clock a 2.3 per cent growth for Q1FY21, down from 4.7 per cent forecast in Q4FY20. PTI

Nomura lowers 2020 GDP growth forecast to -0.5%

With nearly 75 per cent of the Indian economy in lockdown, Nomura has lowered 2020 GDP growth forecast to -0.5 per cent YoY from 4.5 per cent. "We expect growth to slide from 4.7 per cent YoY in Q4CY19 to 3.1 per cent in Q1CY20 and fall to -6.1 per cent in Q2CY20," said Sonal Varma, MD and chief India economist at Nomura. BS REPORTER

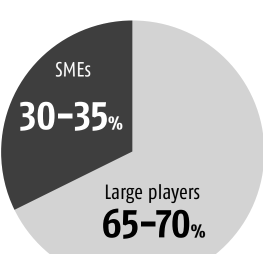
CRISIL SME TRACKER

Chemicals manufacturers brace for drop in revenues

SMALL AND MEDIUM ENTERPRISES (SMEs) engaged in the manufacture of chemicals are expected to be hit hard as the industry braces for a decline in volume and realisations in the next fiscal year (2020-21), due to the Covid-19 pandemic.

SMEs account for 30-35 per cent of the industry (in value terms), and are clustered around Gujarat, Maharashtra and the Delhi-NCR region. Gujarat alone houses over 400 chemical units.

In calendar year 2020, the price of Brent crude oil is expected average $35-40 per barrel, compared with $64 in calendar year 2019, as multiple headwinds coalesce — a global slowdown, output war between major crude oil producers, and demand contraction following the Covid-19 pandemic, to name some.



Source: CRISIL Research

In the domestic market, the demand for chemicals is expected to moderate owing to slowdown in demand from key end-use industries such as automobiles, consumer durables, textiles and construction.

Thus, along with a drop in volume, the SMEs are looking at a fall in realisations owing to lower prices of inputs such as crude oil, as the cost savings will have to be passed on to consumers.

Furthermore, with recession imminent in the United States and Europe, exports are expected to take a hit, too. Therefore, the revenues of chemicals manufacturers are expected to decline in 2020-21. Any expansion in operating margins is expected to be offset by lower top line growth because of weak demand.

'Handling of lockdown brings back DeMo memories'

JEAN DRÈZE, a renowned Belgian-born Indian economist, says migrant workers are not feeling safe and that is why they are desperate to go back home. He tells **Indivjal Dhasmana** the Centre's new order that labour should stay where it is will be difficult to implement. Drèze was part of academicians and activists who recently wrote to the Centre about the situation of the migrant workers. Edited excerpts:

Why do you say the decision to lock down the entire country was not taken with proper planning?

The term 'lockdown' is misleading. It's more like a curfew, or an attempted curfew. The Prime Minister said so in so many words on March 22. Few countries, if any, have such a harsh lockdown. The lack of planning has made things worse. There was no mention of any relief measures in the lockdown announcement. The crisis of migrant workers also took the government by surprise. The lack of planning, followed by ad hoc damage control, brings up memories of demonetisation. But this situation is much worse.

Have the governments mismanaged the issue of the movement of labour and other poor people? Will the Centre's new order that labour should stay where it is and the states must take steps to ensure their well-being there be effective?

To be fair, few people anticipated the migration crisis. Migrant workers should have been given time to reach their homes, or support to stay in place. The Centre did neither, precipitating a humanitarian and health crisis. To make things worse, many migrant workers were dealt with in an authoritarian manner, making it hard to count on their cooperation from now. The new order will be hard to implement.

Why do you say that ₹1.7-trillion package, announced by Finance Minister Nirmala Sitharaman, is inadequate?

First, it's not ₹1.7 trillion — maybe ₹1 trillion, after you discount the padding and creative accounting. Second, the transfers to poor households are too small. Households without a ration card will get just ₹500 per month if they are lucky to be among the recipients of cash transfers to Jan-Dhan Yojana accounts. It is impossible for a family to live on that. Third, there is no provision in the package for emergency relief, whether for migrant workers or for those who fall through the cracks of other measures. That is the biggest priority right now.

Is there any issue with the package related to the public distribution system (PDS)?

The big issue is whether the PDS is going to hold. With the economy at a standstill, state administrations under stress and public employees scared of infection, it may be difficult for the PDS to function or rather to function well. Any gap in the chain could expose large numbers of people to hunger. Another problem is many poor people are still excluded from the PDS.

What about issues with cash transfers?

Cash transfers can help in this situation, but most people underestimate the challenge of disbursement. I have not seen any serious discussion on it so far. The poor generally doesn't have access to fancy payment systems like Paytm or even ATM cards. To withdraw cash from their bank accounts, they depend primarily on bank counters and their outposts, called business correspondents. But the business-correspondent system is a health hazard at this time, because it is based on fingerprint authentication. If business correspondents are out of work, there is going to be a big rush to the banks as soon as the lockdown is relaxed. The banks will be jammed, much as happened after demonetisation. If the people are unable to withdraw money from their accounts, what is the use of cash transfers? All this can probably be sorted out, but it requires careful planning, and it does not seem to be on the government's radar screen.

Q&A
JEAN DRÈZE
Economist

"MOST OF THE MEASURES THE FM ANNOUNCED WILL TAKE EFFECT AFTER THE LOCKDOWN. BY THAT TIME, MILLIONS OF PEOPLE WILL BE STARVING UNLESS THEY HAVE ACCESS TO EMERGENCY ASSISTANCE."

What else should be done beyond the package?

The biggest gap in the finance minister's relief package is support for emergency assistance to people at risk of hunger. Most of the measures she announced will take effect after the lockdown. By that time, millions of people will be starving unless they have access to emergency assistance. Even after the lockdown, many people will be excluded from the relief package because they don't have, say, a ration card or an Aadhaar-linked bank account. Emergency aid could take different forms such as feeding centres, distributing take-home rations, and emergency funds with gram panchayats. Many states are working on this, but they need central resources.

States are executing their own packages. However, they are limited in scope because of a slowing economy and hence less transfer from the Centre, including compensations for losses arising out of low GST collection. How would they incur such huge expenditures?

This requires urgent initiatives from the Centre, for instance, paying GST dues, releasing food stocks, accelerating the relief package and special credit facilities, and relaxing the Fiscal Responsibility and Budget Management Act. There isn't much the states can do in a hurry, on their own, to mobilise additional resources.

The supply is insufficient. What should the government do to not allow prices of essential commodities to rise?

Once again, releasing food stocks will help. Restrictions on the production, harvesting, processing, transport and marketing of food should be removed. It is startling to hear that in some places people have been prevented from working in the fields or going to the forest. Even from the narrow point of view of checking the virus, it's probably better for them to be out there than in their overcrowded homes.

Do we forego fiscal deficit targets for now and work on new a medium-term fiscal-consolidation road map?

Yes, I think so. When people are about to die of hunger, you have no choice but to step in big time. In any case, the normal rules of fiscal prudence do not apply in a situation like this. When the lockdown ends, India will be in a situation of huge excess capacity and lack of effective demand. This is the sort of situation that calls for a large fiscal stimulus. Many countries have launched much larger fiscal stimulus packages than India, some of them as large as 10 per cent of GDP. The Indian economy cannot dispense with a shot in the arm.