ALL INDIA BANK OFFICERS' ASSOCIATION

[CENTRAL OFFICE]

A.K.Nayak Bhavan, 2nd Floor 14, Second Line Beach,

CHENNAI-600 001

Phone: 25265511 / M 9840645081 / FAX: 044-25249081 / e mail: aiboa.hq@gmail.com www.aiboa.org

ISSUE NO 374

BY VASANT PONKSHE

CO-CHAIRMAN BOMOA

PERMANENT INVITEE TO AIBOA

FINANCIAL SECTOR
WEEKLY NEWS UPDATES
08th to 13th April 2019

Vice President Venkaiah Naidu ask banks for stricter due diligence

NEW DELHI: Vice President Venkaiah Naidu on Friday said that the rising Non Performing Assets (NPAs) in the banking system is a cause for great concern and has certainly affected banks' capacity to lend. He called on banks to maintain strict vigilance during pre- and post-sanction procedures of loans and never make compromises in the due diligence processes, the Vice President said lenders must constantly strengthen their internal processes to effectively monitor funds and maintain strict discipline in lending. Naidu who was speaking at the 125th Foundation Day celebrations of the Punjab National Bank (PNB) said there has to be an effective and efficient system of checks and balances in place so that the loop holes in the system are not taken advantage of. "We must also take a re-look at the practice of financing big-ticket projects which have long gestation periods and hence face cash flow issues, through deposit-taking commercial banks," he added. Referring to various populist schemes announced by political parties, he said, so many politicians are taking to populism. "We have to see that we supplement the infrastructure, we provide opportunities of better market, and we take care of timely, affordable and cheaper credit available to the farmer. These are the long term solutions. Policy makers of the country have to think on these lines," he said. PNB MD Sunil Mehta said the history of the bank has always been strongly intertwined with the history of modern India. "Last year was a challenging year for us. Putting the past behind all toiled hard to ensure that the bank returned to profitability in just 9 months," he said adding that PNB has topped the first ever EASE (Enhanced Access and Service Excellence) index this year, he said.

Want efficient banks? Go for more mergers, says RBI research

More consolidation in India's struggling banking sector will help lenders lower costs and efficiently scale their operations, said researchers at the Reserve Bank of India. Labour cost efficiency, or output per employee, moderated across the sector between 2005-18, according to the recently-published paper. The authors added that state-owned banks fared better than private rivals on this metric because they slowed hiring and adopted technology, while larger banks reaped the benefits of scale. "This finding provides an additional rationale for recent mergers of banks, both among public and private sector banks, and suggests that further avenues of consolidation in the banking sphere may be explored," they wrote. Mergers and bailouts have become a key policy tool in India as lenders try to clean up one of the world's biggest piles of bad loans after a credit spree went sour. State-run Bank of

Baroda became the third-largest lender after it was merged with Dena Bank and Vijaya Bank earlier this month. Insurance giant, the Life Insurance Corporation of India, has also taken over IDBI Bank as authorities threw a lifeline to the struggling lender. The overhang of bad debts is driving up the cost of capital and pushing the central bank, which is also the banking regulator, and the government, which owns state-run banks, to opt for mergers. The paper finds that while India had 19 cost efficient banks in 2005, this number fell as low as 12 before recovering slightly to 14 by the end of 2018.

BBB for autonomy to PSU banks to decide organisational structure

The Banks Board Bureau (BBB), the apex body for selection of whole-time directors of state-owned lenders, has made a case for giving a complete autonomy to banks to decide organisational structure for better efficiency. The BBB headed by former DoPT secretary B P Sharma also suggested revamping credit governance architecture in nationalised banks to reinforce efforts to minimise credit costs and enhance efficiency of credit allocation. In its activity report for October 2018 to March 2019, the board also recommended incentivisation scheme linked to performance. "Incentivise maximisation of risk adjusted income and disincentivise operational inefficiencies by aligning compensation with right performance metrics through the introduction of performance based compensation through Employee Stock Option Scheme (ESOS), which is different from Employee Share Purchase Scheme (ESPS), and Performance Linked Incentives (PLIs)," the report said. Highlighting the work undertaken by the board during the period, it said the recommendations for filling up the posts of whole-time directors in public sector banks (PSBs) were made on time and as a result, the vacancies which came up during this six months' period were filled up without delay. However, it said, the only vacancy which could not be filled up on time was that of MD and CEO in Canara Bank for which candidates outside the PSB universe are also eligible. "The vacancy was advertised twice. However, it was met with less than enthusiastic response on both occasions. The bureau made the recommendation for filling up of the vacancy on January 31, 2019. The bureau has separately recommended to the government the measures which may improve the pool of talent for filling up such vacancies," it said. It further said the bureau was assigned with the task of recommending personnel for appointment as director in PSU insurance company. In this regard, on January 4, 2019, it made its recommendations for appointment of chairman and MDs of LIC. Prime Minister Narendra Modi in 2016 approved the constitution of the BBB as a body of eminent professionals and officials to make recommendations for appointment of whole-time directors as well as non-executive chairmen of PSBs. They were also given the task of engaging with the board of directors of all the public sector banks to formulate appropriate strategies for their growth and development. Besides, it was also asked to frame strategy discussion on consolidation based on the requirement. The government wanted to encourage bank boards to restructure their business strategy and also suggest way forward for their consolidation and merger with other banks.

Banks need to upgrade their PoS as 2G phases out: Telecom department H

YDERABAD: In the wake of 2G spectrum and services being phased-out, banks need to upgrade their Point of Sale (POS) machines to advanced technologies such as 3G and 4G, said a senior official of department of telecommunications Friday here. "One of the things that the banking sector uses is the POS, which right now is 2G enabled. In a couple of years, there will be no 2G in this country. There will only be 3G, 4G and beyond.. Are we getting ready for the (upgrade of) POS as the 2G is moving out? We would (other wise) have a challenge of financial inclusion," Amit Yadav, joint secretary Department of Telecommunications said. He formally launched "5G Use Cases Lab for the Banking and Financial Sector in India" by the Institute for Development and Research in Banking Technologies (IDRBT). On the infrastructure for mobile services, he said the number of mobile towers in the country have gone up to over five lakhs during the past three years from less than two lakh and Base Stations (BTS) have increased to over 20 lakh from the earlier six lakh. He said the Department of Telecom, Information Technology and Science and Technology teamed up and submitted a report to the Centre on 5G Roadmap for India. The IDRBT Friday unveiled a White Paper on "5G Applications for Banking and Financial Services".

Raghuram Rajan's to-do list for the next government of India

By Raghuram Rajan As with every Indian election, this one is touted as one that will shape the future of India. Political parties seem to be either emphasising national security or job-creating economic growth. The reality is that these are not two different issues – they are the same. Let me explain: There is no immediate national security emergency – we have faced terrorism and cross-border interference for decades now. Over the medium term, however, our national security depends primarily on our economic strength. If we do not have strong job-creating economic growth in coming years, we will suffer on multiple fronts. We will not have the resources to upgrade our military's equipment. We will not have the economic clout that will persuade other nations to arrest our terrorists and extradite those who flee our laws. And we will have rising levels of internal political unrest as our unemployed youths started venting their frustration. One cannot have meaningful national security without strong job-creating economic growth. On both growth and jobs, it is unquestionable that we need to do better. Given the discrepancy between government claims on these, and those of quasi-government and private bodies, it is better to turn to other evidence. On growth, the slow pace of private investment thus far suggests low capacity utilisation and the absence of animal spirits that would otherwise accompany strong growth. On jobs, in a survey of 2.7 lakh voters by the Association for Democratic Reform, the most frequent concern on voter minds was "better employment prospects" (47% of respondents). Even if the government thinks good jobs are plentiful, the electorate seems concerned. How will we create jobs? Undoubtedly, we have to elevate our pace of growth, especially in job creating sectors. And that requires a new generation of reforms since the old ones are running out of steam. Consider just one sector, construction, to see the range of interlinked reforms that are needed. Construction – of affordable housing, roads, railways, ports, airports and commercial real estate – is the primary source of jobs for the moderately skilled in many emerging markets. Yet our construction sector is held back, in part by a cumbersome process of land acquisition, and in part by limited access to credit. The next government will have to learn from best practices in states how to acquire land in a transparent, fair and speedy way, and convert that learning into legislation. That will help reduce the risk in financing large infrastructure projects, to which delays in land acquisition contribute significantly. Better digital mapping and titling of land, a state subject, will help ease land acquisition. We have discussed land mapping and titling for many years, and a few states have done it, but many have not. This needs to be expedited. It will not just facilitate land sales; a collateral benefit will be to ease land leasing. Many marginal farmers can leave agriculture, getting good rents by leasing to farms of now-viable size. Land use is also constrained by a plethora of permissions, including zoning and environmental permissions. There is no question that the unsightly and damaging development that mars so much of India needs to be stopped or even reversed. For instance, we cement over water catchment areas so that when it rains heavily we get floods, but too little water is absorbed to replenish ground water reserves. Unfortunately, our current system of permissions often results in delay and corruption without leading to better development. One focus of the next government must be to streamline government itself, so that it is fit for the purpose intended. Instead of focussing on World Bank indicators of "Doing Business", which are primarily based on a few selected indicators in Delhi and Mumbai, we must lighten the actual compliance load for business, while ensuring development is sustainable. The private sector also needs reform. Banks have shied away from lending to firms in the construction sector because of their murky practices. Finance companies have filled the gap, but they have gotten into trouble. Construction companies have to come clean. A transparent land acquisition process, as well as more regulations improving practices, like the Real Estate (Regulation and Development) Act, will help. A cleaned-up construction sector will attract formal financing, which could drive out the dirty money that it has historically relied on. Common themes show up in other sectors. The broader point is that there are plenty of reforms the next government could do to jump start job creation. And a good job, after all, is the best form of inclusion. There is much to be done. A new government must also learn from the past. Any genuine reform programme will be too vast, and requires too much from the states, to be run entirely from the Prime Minister's Office. A collegial empowered Cabinet will be more likely to push a broad range of reforms and will avoid the policy mistakes that arise when too few are involved in decision making. States will also have to become partners in reform through genuine cooperative federalism. We also need to respect resource constraints. The portfolio of government schemes has to be rationalised so that the budget is fiscally sound, even while it targets genuine needs more efficiently. Lastly, any sustainable growth path will require social calm – any party that explicitly demonises a large group of citizens ensures we will neither have growth nor national security. There is only one objective as we go towards elections – sustainable, job-creating, economic growth.

India's GDP number 'still has some issues': Gita Gopinath

After 108 economists and former RBI Governor Raghuram Rajan, International Monetary Fund's (IMF) Chief Economist Gita Gopinath has expressed doubt over India's growth rate, saying that there are still some issues with the way India calculates it. This comes as a blow for the government as the key argument that senior officials in the NDA government have consistently made is that the GDP figures are accepted by global organisations like the World Bank and the IMF. "With regards to the newer numbers that are coming out, we are paying close attention to it, we are speaking closely to our colleagues in India and then we will make a determination based on that," Gopinath told CNBC. While she welcomed the changes made to the GDP calculation in 2015, including the change in base year, she also flagged concerns over the "deflator" used to calculate the real GDP. "There were important revisions that were made in 2015 as a part of modernizing India's national accounts statistics, so that is certainly welcome. That said there are still some issues that need to be fixed and this we have flagged before with respect to the deflator that is being used for estimating real GDP... this is something we have flagged in the past," Gopinath said. Several experts have expressed doubt over the unemployment, growth rate figures and have alleged that the government was suppressing uncomfortable data. Explaining one such point of contention, R. Nagaraj of the Indira Gandhi Institute of Development Research had told that as the employment rate has fallen, one would also expect output growth to have decreased, unless there is a huge rise in productivity per worker for which there is no evidence. "So, the rising GDP and declining employment rate for the same year seems anomalous," he said. Nagraj, alongside several economists, in a statement released earlier this month, questioned the government's intent behind the Gross Domestic Product (GDP) methodology revision and called for the restoration of independence of statistical bodies in light of the allegations that government was suppressing uncomfortable data. On a similar note, former Reserve Bank of India Governor Rajan said in a TV interview: "I know one Minister has said how can we be growing at 7 per cent and not have jobs. Well, one possibility is that we are not growing at 7 per cent." Earlier this year, a report citing National Sample Survey Office's PLFS data, the publication of which was withheld, revealed that unemployment in the country was at a 45-year-high of 6.1 per cent in 2017-18.

Centre asks CVC for clarity over supervision in privatised IDBI bank

The government has asked the Central Vigilance Commission if it still has vigilance jurisdiction on the now privatised IDBI Bank, and sought its advice on the course of action in case of ongoing complaints or investigations, a government official said. In January, the Reserve bank of India had classified IDBI Bank as a private sector lender after state-run Life Insurance Corporation (LIC) acquired 51% stake by infusing around Rs 20,800 crores capital. “Since the lender is now owned by a state run financial institution we need to have clarity if we still can take up vigilance issues in the bank,” the official said. Another government official confirmed that the finance ministry has sought the CVC’s views and will proceed as advised. In 2017, the Central Bureau of Investigation (CBI) had arrested former IDBI chairman Yogesh Agarwal and three other ex-officials in connection with the Kingfisher Airlines loan default case. They were accused of sanctioning loans worth over Rs 1,000 crore to the now defunct airline despite its weak financial record. Agarwal and the other officials were later released on bail. In August last year, the Union cabinet had approved the acquisition of controlling stake by Life Insurance Corporation (LIC) as a promoter in the bank through a combination of preferential allotment and open offer of equity. LIC now holds 51% stake in the bank, while government share has come down to 46.46%. A senior bank executive said the government doesn’t have any vigilance jurisdiction on the lender as it ceased to be a majority holder “They have a board representative and that is it,” he said. “Any such vigilance related issues now need to be dealt internally or with the banking sector regulator, RBI.” LIC will also need to bring down its stake in the bank as per insurance regulatory requirements and hence there is no case for government to take up vigilance issues, the bank official said. The Insurance Regulatory Development Authority of India (IRDAI) has asked LIC to submit a proposal for bringing down its stake in IDBI Bank to below 51%. The banking sector regulator RBI also has set an upper ceiling of 15% for promoter stake in a private sector bank.

India needs to bolster level of capitalisation of government owned banks: IMF

Noting that the level of non-performing loans in India remains high, the International Monetary Fund has favoured bolstering the level of capitalisation of some banks, particularly government-owned banks. Anna Ilyina, Division Chief of IMF Monetary and Capital Markets Department, said Wednesday that bolstering the level of capitalisation was one of the recommendations of the Financial Sector Assessment Programme (FSAP) for India. "The level of non-performing loans (NPLs) in India remains high. And the level of the capitalization of some banks, particularly government-owned banks, should be bolstered," said Ilyina. "There were some steps that were taken by the authorities to boost capital buffers in banks and also to improve governance in stateowned banks that have had some positive impact," Ilyina said. The institutional mechanisms for resolution and the recognition of NPLs are, of course, an extremely important part of the process of cleaning up the banking system of non-performing loans, she said adding that the authorities should continue working along these lines. Tobias Adrian, Financial Counsellor and Director, Monetary and Capital Markets Department of the IMF, said that there continues to be a high stock of Non-performing Assets in India. "There has been some progression, but we would welcome further progress on the non-performing assets in India," he said responding to a question on Indian banking system. The Indian government in February said bad loans fell by Rs 31,168 crore in April-December 2018-19 compared to NPAs worth Rs 8,95,601 crore at March-end 2018.

NCLAT seeks details about 4 IL&FS group entities

NEW DELHI: The National Company Law Appellate Tribunal Monday directed debt-ridden IL&FS to submit information over investment made by pension and provident funds in its four group firms, and also sought details of financial liabilities of those entities. These four 'amber' companies are -- Hazribagh Ranchi Expressway, Jharkhand Road Project Implementation Company, Moradabad Bareily

Expressway and West Gujarat Expressway. The NCLAT also made clear that it has not stopped IL&FS and its group entities from going for resolution process. During the proceedings of the appellate tribunal, a two-member bench headed by Justice S J Mukhopadhaya observed that the money invested by pension fund, and provident fund in the IL&FS companies should be released first. "Provident fund and pension fund have nothing to do with this, this is not your money, it is related to the employees." "We want that it should be released first," the bench said. The NCLAT had directed 4 out of 13 amber entities to prepare charts, and held that the remaining 9 firms will also try to prepare charts by the next date of hearing, which is April 16. Earlier on March 29, the NCLAT had sought financial details about 13 entities of IL&FS group that have been classified under the 'amber' category. Under its resolution plan, the government has categorised IL&FS group entities into green, amber and red categories based on their respective financial positions. Entities classified as 'green' are those which continue to meet their payment obligations, while 'amber' category firms can meet only operational payment obligations to senior secured financial creditors. Those falling in the 'red' category are the entities which cannot meet their payment obligations towards even senior secured financial creditors. Earlier, the corporate affairs ministry submitted the debt resolution plan for IL&FS. The entire resolution process is based on the principles enunciated in the Insolvency and Bankruptcy Code, as per the ministry. During the previous hearing on March 19, IL&FS had informed the NCLAT that the number of 'green' companies has increased to 50 from 21. The number of 'amber' entities also increased to 13 from 10.

SBI Card charts out plans for a card-less world

SBI Card, the credit card arm of State Bank of India (SBI), is changing its business model as the distinctions between a card company, banks and fintechs blur. The card company, which is also backed by private equity fund Carlyle, is diversifying its funding from banks beyond SBI to tap the local bond market as it seeks diversification after the exit of GE Capital more than a year ago. “We are using chatbots, artificial intelligence and robots to do our repetitive jobs,” said Hardayal Prasad, CEO at SBI Card. “We are preparing for a card less world. In the last 18 months since GE has exited, we set up our own infrastructure and brought back our core platform to India without losing sight of growth. We are growing at 31% in terms of number of cards against the industry growth of 25%. We have gained market share and now have 18.3% in terms of spends.” Prasad expects the company to clock a profit before tax of more than Rs 1,000 crore in the fiscal year ended March 2019, up 20% from Rs 776 crore reported in fiscal 2018, riding on rising card sales to the open market outside SBI branches. “Right now, new card sourcing from SBI is 50% to 55% but the open market is strengthening significantly. We source 2.5 lakh cards per month from malls, point of sales, tele calling and online applications. We have now expanded our network to tier II and tier III towns and are now present in 150 cities from 75 cities about a year ago,” Prasad said. SBI Card has partnerships with eight banks including SBI and has 10 retail co-branded partnerships. The company is the second largest in India in terms of credit cards outstanding with 8 million cards behind the 12.4 million issued by leader HDFC Bank. Prasad said both SBI and Carlyle infused fresh capital in July last year and no more funding is required till December. “We also realise that we need to manage the balance in assets and liability and to hedge that we decided to also go for long-term borrowings. We started borrowing from the market in September last year. Though it is a bit expensive and our costs have gone up but we are fine with it,” Prasad said.

Delhi HC asks RBI to explain how Google's G Pay is operating

NEW DELHI: The Delhi High Court on Wednesday asked the Reserve Bank of India (RBI) to explain how Google's mobile payment app G Pay is facilitating financial transactions without requisite authorisation. The RBI and Google India Digital Services have been asked to submit their replies following a plea alleging that Google Pay was not listed as an authorised operator as per the list of 'Payment System Operators.' The division bench comprising of Delhi Chief Justice Rajendra Menon and Justice Anup Jairam Bhambhani was hearing the petition filed by Abhijit Mishra. Mishra said in his plea that he is concerned over the welfare of Indian economic and banking system and privacy of Indian citizens. Hence, he requested the court to impose penalties on Google India Digital Services for doing unauthorised operations in the country. Google Pay is violating Section 4(1) of the Payment and Settlement Systems Act 2007 published by the RBI on March 20 which says no person other than the central bank will commence or operate a payment system, except under and in accordance with an authorisation issued by the Reserve Bank under the provisions of this Act, he said in the petition.

NCLAT seeks information on exposure to IL&FS 'amber' companies

NEW DELHI: In a move to protect the investments of pension funds and provident funds, the National Company Law Appellate Tribunal has sought the details of the investment of such funds in "amber" companies of the debt laden Infrastructure Leasing and Financial Services (IL&FS). The tribunal may be keen to release at least those payments that are due to these funds. The IL&FS group has a total group debt of Rs 94,216 crore. The bench also directed that no organisations including the National Highway Authority of India take any step to cancel any agreement with any company in question in response to claims by lenders that NHAI intended to cancel agreements with certain IL&FS group entities and this would harm their ability to maintain the status of a going concern. "How many companies are there who have provident funds and pension funds. You release them. We want that that should be released first." said a two-member bench led by justice SJ Mukhopadhaya on Monday. The bench directed all financial and operational creditors of amber companies to hand over details of amounts payable and matured as well as the amounts generated from provident funds, pension funds, gratuity funds etc. The tribunal was hearing appeals by senior secured lenders of "amber" companies that payments due to them be released. All group companies of IL&FS are being classified according to their ability to meet payment obligations. Group companies able to meet all payment obligations are categorised as 'green'. Those companies able to meet only operational payments and senior secured debt obligations are categorised as "amber". Others are categorised as "red." Of the 169 IL&FS group companies, 50 entities have been classified as green, while 13 have been classified as amber and 80 as red. The total outstanding debt of the 13 'amber' firms is Rs 16,373 crore. All but 50 of the 169 domestic group companies of IL&FS are currently enjoying a moratorium on all financial claims against them ordered by the NCLAT for an orderly resolution of claims against the group. Counsel for IL&FS said that if payments were made to individual creditors of amber companies, it would have a negative impact on the resolution of other group entities. Counsel for the government said that the government was confident of resolving many of the cases in two months by forming a committee of creditors and evaluating bids from prospective buyer of group entities. Counsel for creditors of amber companies however said that they would not participate in the planned resolution process as "amber" companies had not defaulted. The bench also asked IL&FS and government to submit details of amber companies as well as operational and financial creditors of amber companies pursuant to an earlier order as it had not been filed in a format that the appellate tribunal wanted.

View: How to ring fence the IBC

Last week, the Supreme Court struck down as ultra vires — acting or beyond one's legal authority — the February 12, 2018, RBI circular that instructed banks to trigger insolvency proceedings under the Insolvency and Bankruptcy Code (IBC) against borrowers with defaults above a specified amount. This means banks are no longer bound by RBI to take defaulting borrowers to the National Company Law

Tribunal (NCLT). A constructive approach, however, may be used to retain IBC's promise. NCLT's capacity is a critical issue. It's required to adjudicate on the full gamut of matters under the Companies Act 2013, as well as those under IBC. This has placed severe strain on NCLT. About 30% of the more than 800 ongoing cases under corporate insolvency resolution process (CIRP) have surpassed the time ceiling statutorily prescribed, with an additional 20% having crossed the six-month timeline. The recent induction of 38 new members into NCLT is extremely welcome. But it's crucial for the tribunal to inculcate specialisation as well as depth in its expertise. One way could be to set up specialised NCLT benches to deal only with insolvency matters. China set up specialised bankruptcy courts during 2007-17. In their 2018 study, 'Going Bankrupt in China' (bit.do/eNKZx), Bo Li and Jacopo Ponticelli show that courts brought faster resolution of financially distressed firms, improved access to credit, and pushed local private firms to invest more. India could learn from this. A major success of IBC has been the deterrent effect it has had. For such settlements to be more effective, they should take place in a structured manner, similar to a 'pre-pack arrangement'. Pre-packed insolvency arrangements are relatively common in Britain, allowing for the sale of a business as a going concern prior to the appointment of an administrator or insolvency professional, subject to the approval of a majority of the creditors. A similar proposal, the European Restructuring Directive, was approved by the European Parliament last week. This will, however, require checks and balances to prevent it from being gamed or used tactically to subvert IBC. They could include a code of conduct to be issued by the Insolvency and Bankruptcy Board of India (IBBI) to regulate the behaviour of the resolution professional dealing with the pre-pack. Additionally, guidelines on the conduct of the creditors, permitting holding-out creditors to be 'dragged along' as well protection for certain creditors and the manner in which this will be made binding on all creditors, should be drawn out. The corporate affairs ministry has been working on a template. Along with industry and IBBI, a framework can be developed. RBI's circular had provided for a resolution process prior to referring to a borrower to IBC. The pre-pack arrangement with safeguards could replace this. Certain existing provisions of IBC and its subordinate legislation can be revived and utilised more effectively. Under Section 61, for instance, appeals from NCLT to the National Company Law Appellate Tribunal (NCLAT) are permitted under certain tightly circumscribed matters of law, and as a creature of statute, NCLAT has to comply with this. And, yet, there are multiple instances where it has overstepped this mandate, ruling on the process of resolution in certain instances, including on the share of the classes of lenders. It is true that NCLT and NCLAT have often had to adjudicate on disputes, making the adjudication process complex and time consuming. There are, however, certain innovations possible, even within IBC. Economists Oliver Hart, Philippe Aghion and John Moore, in their paper 'Improving Bankruptcy Procedure' (bit.do/eNK8y), propose a procedure that should resolve insolvency in 90 days. They acknowledge that certain contentious claims and disputes can't be resolved in this period, and propose that the plan be voted upon with contentious claims remaining outstanding. It could be settled following the approval of the plan. IBC could incorporate this principle. IBBI's Corporate Insolvency Resolution Process Regulations' Regulation 14 provides that where the amount claimed by a creditor is uncertain, the resolution professional shall make the best estimate of the amount of the claim based on the information available with her, and revise the estimate of the claims she comes across additional information warranting such revision. This would allow the resolution process to continue with such contentious claims being resolved subsequently. Further, under Section 31of IBC, the order passed by NCLT or NCLAT approving a resolution plan provide for ongoing implementation and supervision of the plan, which could include the adjudication of such disputes. With some of these innovations, IBC could deliver even better outcomes, and lenders voluntarily file proceedings, and not on account of a dikat from their regulator.

<u>Six months on, 'Mission IL&FS' is proving to be more difficult than thought</u>

A week before Lehman Brothers foundered in the autumn of 2008, the US Treasury had stepped in to bail out Fannie Mae and Freddie Mac, the ultimate backstops in America's mortgage-lending market. Initially, $100 billion was the authorized bailout package that surged to $187 billion over time. And the Treasury's emergency intervention was based on the premise that Washington must do its bit to reconstruct a financing ecosystem underpinned by trust. Exactly ten years later, Mumbai's policy and money-market mavens sat around oak-panelled boardrooms to decide the fate of a troubled financier that, although nowhere as large as the embattled leaders in US housing securitisation, owns and runs arterial roads, ports and warehouses across India. Hence, reviving IL&FS and shepherding its turnaround is as crucial to infrastructure - and capital-deficient India as was Washington's challenge to reengage the mortgage securitisation market stateside. By way of federal intent and urgency, the similarities are evident. But that is where they appear to have ended, at least for now. Fannie Mae and Freddie Mac earned the Treasury $58 billion in profits over the next decade, on tax-dollar investments of $187 billion in bailouts. To be sure, New Delhi has not promised a bailout package or forgiven loans to the defaulting group, replacing instead the management at IL&FS with a new board. The premise here is that IL&FS owns sufficiently attractive assets that could be sold to help retire liabilities and enhance recoveries. While the first part of the argument is not in question, at least in theory, the second seems to have been rather optimistic – especially in the light of about Rs 1 lakh crore in outstanding debt.

THE INTRICATE WEB

So, six months later, IL&FS remains as much an enigma as it was in the autumn of 2018. It has high gearing, with consolidated debt to equity of 10:1, and glaring asset liability mismatches, pointing to the likelihood of significantly lower loan recoveries than earlier thought. Of course, the subprime reference has never been too far away from IL&FS. In August, when it ran out of money and was unable to repay debt obligations, it drew comparisons with the Lehman crisis. From an original debt burden of Rs 91,000 crore, the situation has worsened because of delays in infrastructure projects, eroding the value of many operating assets. Earlier, the assessment was that special purpose vehicles (SPVs) were covered by their own cash flows, but now banks are making provisions on SPVs as well. "I am not sure if the whole episode was handled well after and prior to the crisis," said TT Ram Mohan, professor, IIM Ahmedabad. "The new board and management are taking very long to get a grip on the numerous businesses of the group. To some extent, this is, perhaps, inevitable since they are new to the businesses. It would have been helpful if the board had quickly prioritised 10-12 assets that could be sold off so that liquidity could be infused into the other businesses." IL&FS Financial Services, with a loan book of over Rs 18,000 crore, saw non-performing loans reach 90%. The management has recovered 10% of the doubtful exposure in six months.

RECOVERIES IN DOUBT

"The recoverability of the loans either by IFIN or to third party is posing a challenge both in terms of timelines and the amount of money that can be possessed," said N Sivaraman, a member of the new board. "Clients IFIN lent to are weak, which could have an impact on what we recover." The management is trying to address operational challenges such as securing the release of O&M payments, termination notices from authorities, coercive action from international creditors, and litigations renewing critical bank guarantees. It has developed a liquidity management framework using a 12-month, cash flow based solvency test. The management has its hands full with 169 entities in various stages of resolution. It needs time to comprehend, develop and implement resolution plans. One of the many reasons valuations are falling is the government's reluctance to provide indemnity and warranties to potential buyers. A case in point is the IL&FS energy business. Although the company received around a dozen initial bids from investors, including global infra partners, KKR, Brookfield, I Sqaured Capital and Macquarie, to buy more than 1,000-megawatt of renewable energy assets, the number of binding bids was minuscule. The company had pencilled in recoveries of Rs 8,000 crore from the sale of energy assets, although it may end up getting Rs 6,000 crore. The group has several types of creditors. They include banks, NCD holders, provident funds, mutual funds, foreign banks and financiers that funded ECBs. The company has more than 150 intervening applications from companies across sectors. It has appointed Cyril Amarchand Mangaldas and Shardul Amarchand Mangaldas as its legal advisors.

ASSET-LIABILITY MISMATCHES

IL&FS is involved in long-term infrastructure projects. Most projects have cost overruns and are funded through external credit. These assets generate cash over a long period. In one of the verticals, the cash flow comes in 7-8 years while average maturity of loans is between 3 and 5 years. The solvency requirement is met out of fresh debt with the support of high credit rating. Of course, that lifeline did not exist the day the company logged its first default. “You have a situation that unless you continuously create value at SPVs and creditworthiness in the minds of creditors, your ability to raise fresh debt to sustain the current debt will be very difficult,” said N Sivaraman, a member of the board. The company has prepared a list of companies under the Red category, where liquidation appears to be the most appropriate goal. It has decided to pay creditors under the Green category, while exposure under the Amber category is under dispute. “If we do not have a calm period, we will not have the management bandwidth for the task because we would not know whether to handle litigation or resolution,” said Sivaraman. The management wants IL&FS to be maintained as a going concern. It has received binding bids for the energy business. Between the energy and road verticals, the company plans to recover Rs 30,000 crore of debt. A large number of road assets are part of the sale process. If the resolution process is allowed to stretch beyond a particular point, bankers and other creditors are going to see steep value erosion. The new management can now only do the best of a bad job and minimise the loss to creditors. “Beauty lies in the eyes of the beholder,” said Uday Kotak, non-executive chairman at IL&FS. “Where we think we may not recover value, somebody may find value. Similarly, where we think there is value, there may not be any. In a competitive bidding process, it is important to not give away your cards before they are played out.”

Banks working on legal pact for ‘good’ loans

MUMBAI: Banks, led by state-run lenders, are working on a legal agreement for “good” loans, a senior banker in know of the development said, much like the inter creditor agreement they already have in place for dealing with bad loans by large borrowers. Most banks have made changes to their credit processes after bad debts piled up, with many either cutting down on lending to projects or increasing the rating requirements. Last year, around 50 banks signed an inter-creditor agreement to deal with speedy resolution of stressed assets, called Project Sashakt, with around two three cases taken up under the ICA, including that of Jet Airways. “We don’t have any such structure for good accounts, and now it is being contemplated to sign an ICA upfront for good accounts also,” said a senior banker in know of the development. “So, every time we lend in a consortium to an account, it gets into Sashakt.” Under Sashakt, if 66% of lenders agree to a resolution plan, it would be binding on all lenders. The remaining lenders can get out of the plan by taking a haircut under the terms of the inter-creditor agreement. A dissenting creditor could sell its loan at a discount of 15% to the liquidation value to the other lenders or buy the entire loan at 125% of the resolution plan agreed upon by other banks. Under the proposed agreement, which could take the form of a standardisation of covenants, the lead bank in the consortium is likely to decide on the loan terms, with the others following the guidelines. “Many corporate banks want some arrangement,” said another bank executive. “The top blue-chip corporates may be able to dictate terms, but the banks are getting comfortable in having some structure while lending in a consortium. Banks are increasingly comfortable in getting some arrangement which can be called a consortium.” Disputes have risen in instances of lenders giving loans without collateral, the banker added.

Will realty-linked NBFCs get banking licence now?

MUMBAI: A private equity executive, with substantial stakes in the financial sector, fielded many calls from friends in India and overseas on Saturday. All the discussions were centred around Indiabulls Housing Finance’s acquisition of Lakshmi Vilas Bank (LVB) and its implications for the banking sector. Indiabulls Housing Finance, an NBFC with substantial exposure to the real-estate sector, will get a coveted banking licence. Does that mean that real-estate exposure is no longer frowned upon by the Reserve Bank of India? Will it open the doors for other NBFCs to acquire distressed banks and get a deposit-taking licence? Can large corporate houses, which have earlier been rejected by the RBI, seriously re-consider holding a banking licence? “The financial corridors of Mumbai are abuzz with questions this deal raises. If this deal goes through, it is a regulatory shift. The RBI has to be prepared to deal with the questions this deal throws up and likely interest from other corporate groups, which always had intentions of owning a bank,” said this executive. The fact that two RBI nominees were present on the LVB board also raised questions whether that meant regulatory approval was a foregone conclusion, forcing the central bank to issue a clarification in a late-night statement. “It is clarified that the merger announcement does not have any approval of RBI at this stage. It is also clarified that the presence of additional directors nominated by the RBI on the board of LVB does not imply any approval of the RBI of the merger proposal. Moreover, the additional directors have clearly mentioned at the meeting that they have no view on the proposal,” RBI said. The proposal will be examined according to guidelines as and when the central bank receives it, RBI said. Banking executives are trying to understand how a company with high exposure to a speculative sector like real estate can own a bank. “RBI has steadfastly disallowed companies from owning banks because of the risk that these pose in terms of quid pro quo lending and also price disruptions, which could throw the financial markets into disarray. It is not that these risks have gone away. So, everyone is wondering how would this happen,” said the CEO of a private sector bank. In his interview to ET on Friday, Indiabulls MD Gagan Banga sounded confident. “Before making such a big move, we have spoken at levels at RBI and we have got some sense of comfort there informally. So, we have done our checking of the boxes and we are confident that this deal will go through,” Banga had said. He mentioned the 2016 RBI guidelines for on-tap banking licences as a reference point for banking applicants. The 2016 guidelines were also pointed out for reference by former RBI deputy governor R Gandhi, who is of the view that real estate exposure does not on its own disqualify Indiabulls from getting a banking licence. “Exposure to real estate and aversion to large companies were listed in the 2013 guidelines. In the updated 2016 guidelines, there is no mention of sensitive sectors like real estate and brokerages. The only qualification is for entities to have total assets of Rs 5,000 crore or more. So, specific to these two points, Indiabulls does qualify,” Gandhi said. Analysts say the ball is in the RBI’s court depending on when Indiabulls and LVB apply for the central bank’s approval. “There are many other NBFCs who would like to buy banks and get a deposit taking licence, especially after the crisis of confidence that we saw a few months ago. This deal raises many questions and it is only fair to see what decision the RBI takes because it will set the direction on the way forward," said Saurabh Tripathi, senior partner at BCG.

RBI yet to approve Lakshmi Vilas Bank-IHFL merger

MUMBAI: Denying reports of it approving the merger of Lakshmi Vilas Bank (LVB) and Indiabulls Housing Finance Ltd (IHFL), the Reserve Bank of India has said that the merger does not have its nod so far and it would examine the proposals once it receives them from the merging entities. The board of Lakshmi Vilas Bank on Friday had approved a scheme of amalgamation with the IHFL. Some media reports cited the presence of two RBI-nominated additional directors on the bank's board as an indirect approval by the apex bank. "It is clarified that the merger announcement does not have any approval of the RBI at this stage. It is also clarified that presence of Additional Directors nominated by the RBI on the Board of LVB does not imply any approval of the RBI of the merger proposal," the central bank said in a statement on Saturday. "The Additional Directors have clearly mentioned at the meeting that they have no view on the proposal," it said. The RBI statement further noted that it would examine the proposals as per extant regulatory guidelines and directions and when it receives them from the entities concerned. The Lakshmi Vilas Bank also issued a statement on Saturday saying the RBI nominee directors did not participate in the voting or express any views. "The bank also wishes to clarify that the process of applying to the Reserve Bank of India is now on hand. There has been no prior informal notification to the regulator," it said.

12 people lose Rs 10 lakh after using ATMs in east Delhi

NEW DELHI: A dozen people holding accounts in different banks in east Delhi lost almost Rs 10 lakh in a suspected skimming attack after having swiped their cards in ATMs near Laxmi Nagar in the past week. In their complaints, the victims claimed that money from their accounts was withdrawn from ATMs in Noida and east Delhi without their knowledge, mostly in large amounts. These were withdrawn at one go before the cards could be blocked. Upender Kumar, who owns a business in the area, realised that money was being deducted from his account after he started getting a series of messages from his bank advising him about the withdrawals. “Several transactions took place within 12-15 minutes before I could even call and inform my bank that I was not involved. My ATM card was with me and I had last used it a month ago,” Kumar told TOI. The cash was withdrawn through different ATMs across the city. When Kumar approached his bank with a complaint, he was asked to register a police complaint at the Shakarpur police station. There he discovered that there were at least seven others in the same situation as him. Chirag, for instance, lost Rs 25,000 from his account with a private bank. Most of the victims reported using a Punjab National Bank ATM and suspected the skimmer was fitted there. In recent times, criminals from Romania have indulged in this illegal act and remain prime suspects in this case too. They get details of ATM cards through the skimmer inserted in a teller machine and clone cards to withdraw money after copying these details on to blank cards. Pankaj Kumar, an employee of an IT firm, lost almost all his month’s salary in several such transactions. “The cash was withdrawn from numerous ATMs so it is difficult for anyone to track them down,” said Kumar, who has registered a complaint at the police station. Arun Kumar, a businessman who lost Rs 1.45 lakh from his account in a similar way, said that the bank authorities has sought two months for an inquiry to be conducted, after which they will initiate action. Police said that a case of cheating and theft would be registered after an inquiry into the stolen cash is completed. The cops have received seven complaints so far and are scanning the footage from CCTV cameras fitted in some of the unguarded ATM kiosks for clues to the identities of the culprits.

A 93-year-old bank in Tamil Nadu is getting a rich parent from

Mumbai A 93-year-old bank in Tamil Nadu is moving to Mumbai. The boards of Lakshmi Vilas Bank (LVB) and Indiabulls Housing Finance this week approved the merger between the two to create what would be known as the ‘Indiabulls Lakshmi Vilas Bank’, with a combined loan book of Rs 1.23 lakh crore. The merger ends a decade-old institution, started by a group of businessmen to promote trade in western Tamil Nadu. LVB has been hit by rising bad loans over the past one year, depleting its capital adequacy ratio, which dropped to 7.57% at the end of December 2018 from 9.67% three months ago. The bank has made losses for five successive quarters, forcing it to raise capital through a hurried QIP a few days ago. In came the white knight in Indiabulls Housing Finance. Now the merged entity - Indiabulls Lakshmi Vilas Bank - will shift headquarters to Mumbai with Indiabulls chairman Sameer Gehlaut as the possible vice chairman of the new entity. Dismissing calls of selling out an orphaned child, current MD and CEO Parthasarathi Mukherjee told TOI that the new deal will give wings to the bank. "I would say we found a rich parent." The deal structure gives the shareholders of Lakshmi Vilas Bank 14 shares of Indiabulls Housing Finance for every 100 shares held —about a 40% premium to LVB’s closing price on Thursday. Started by a group of seven businessmen of Karur under the leadership of V S N Ramalinga Chettiar in 1926, the bank was formed to cater to the financial needs of the people in and around the town who were occupied in trading businesses, industry and agriculture. LVB's troubles multiplied after it disbursed loans amounting to around Rs 720 crore to the investment arms of Malvinder Singh and Shivinder Singh, former promoters of pharma major Ranbaxy and Fortis Healthcare, against fixed deposits (FDs) of Rs 794 crore made with the bank by Religare Finvest in late 2016 and early 2017. Religare was promoted by the Singh brothers. Religare later sued the Delhi branch of LVB after the bank invoked the FDs to recover the loans. The issue is in the courts. "The bank grew while it was operating out of Karur. In 2014, the headquarters was shifted to Chennai from Karur, and ever since the bank's downhill journey started," a retired general manager of the bank told TOI. "It was small, working on a set mandate and content. The aggression to grow killed it." This deal may now raise expectations of more such transactions at south India-based banks that require capital but have large deposit franchises. "Since it had its roots in a small town, the bank was built by forging a strong relationship with customers," said a former employee of LVB. Though he had left the bank almost a decade ago, he still nurtures the relationships he built during his stint there. "This has happened because of the NPAs. But it is an excellent bank and I am sure it would bounce back," he said. "For long, Karur was linked to two banks - Karur Vysya Bank and LVB. One is gone now. Needless aggressive lending to grab market share has resulted in this downfall," N Mahalingam, a small trader in Karur, told TOI. His family owns shares in LVB.

Startups get angel tax breather: 277 startups secure all clear from Income Tax department

New Delhi: As many as 277 startups have got an all clear certificate from income tax department, shielding them from the what has been popularly dubbed as the angel tax, as the government gets cracking with the implementation of the new startup framework. A total of 302 entities had applied for it, said a government official privy to the development. The move comes after the Central Board of Direct Taxes (CBDT) and the Department for Promotion of Industry and Internal Trade (DPIIT) amended the startup framework in February to ring-fence them from ‘angel tax’. Startups can apply to the DPIIT for approval and recognition under the new framework, which is then vetted by the CBDT. “A total of 302 people have applied…. 277 have been sent an intimation or acknowledgement…. Our team has started informing the 25 about the discrepancy and all discrepancies will be shared with them by today so that they can reapply,” the official said. Startups can submit this certificate to income tax authorities locally and get relief. The CBDT has already directed its field officials to promptly act in these cases. The latest changes to the framework include a widened definition of startups and raised caps for investments that would not be scrutinised for angel tax. Now, entities that have been in operation for up to ten years from date of incorporation or registration instead of the current seven years can be classified as start-ups. A firm can be a categorised as a startup even if its turnover for any of the financial years since incorporation has not exceeded Rs 100 crore instead of the existing cap of Rs 25 crore. Investment limit of Rs 10 crore has been raised to Rs 25 crore. Besides, investments by listed companies with a net worth of Rs 100 crore or turnover of Rs 250 crore into an eligible startup will be exempt from section 56 (2) of the Income Tax Act, beyond the Rs 25 crore limit. The section 56 (2) (vii)(b) of the Income Tax Act provides that if a closely held company issues its shares at a price more than its fair market value, the amount received in excess of the fair market value will be taxed as income from other sources. The provision was introduced in 2012 by the then finance minister Pranab Mukherjee as an anti-laundering measure. A number of startups that received angel funding were served show cause notices, earning the provision the name ‘angel tax.’

Business correspondents’ income model based on commissions unviable

MUMBAI: Business correspondents (BCs), who function as last mile access points for banks’ customers in under banked areas, are losing out on their income due to “unviable” income-model based on commissions, the industry representative body has claimed. Business Correspondent Federation of India (BCFI) told ET that while the government and regulators have shown intent in developing guidelines for BCs to thrive and further the Centre’s broader aim of financial inclusion; glitches and miscommunication between various stakeholders have caused the model to become unviable. Almost 10 lakh BCs function in both rural and urban under banked areas where banks don’t have branches, providing customers basic banking services such as savings account opening and remittance transfer. “BCs work on a commission-based model, where they are either paid 0.5% of the transaction amount or Rs 15, whichever is lower, by the bank on Direct Benefit Transfers. This was done to equate the BC charges with fees charged by banks on ATM withdrawals,” said a senior official from BCFI. “But BCs who work in rural areas have to bear the risk and equipment maintenance costs themselves, which squeezes their already wafer-thin margins.” The government, while the guidelines were being drafted, had shown intent to either fix a monthly income for BCs or set the commission at 3.15% of the transaction fee, “but that has not happened,” the source said. In March, a five-member team from BCFI had met Nandan Nilekani-led RBI’s Committee for Deepening Digital Payments (CDDP) and highlighted various concerns faced by the industry. ET had reported that, the body had asked for a separate independent regulator with experts from the sector to strengthen the existing framework along with the RBI. “We had an encouraging meeting with the six-member CDDP at the RBI headquarters on March 8, 2019. They were receptive to the points we had put forward. We hope they will take cognisance of the issues we raised and factor it in their final report,” a person from BCFI said. RBI’s CDDP was formed earlier this year to undertake a comprehensive study of the payments industry and publish a recommendation report to deepen the existing regulatory framework. The regulators had said in a circular dated January 8, 2019, that the committee will meet stakeholders and industry bodies and publish their report “90 days from the first meeting.” Issues on interoperability between sponsor banks and identification mechanism of tax-exempt accounts for systematic transfer of benefits as per the latest taxation regime, were raised in the meeting, according to the BCFI spokesperson.

COMMISSION BASED

BCs work on a commission-based model, where they are either paid 0.5% of the transaction amount or Rs 15, whichever is lower. Business correspondents’ income model based on commissions unviable Business correspondents’ income model based on commissions unviable

In a first, nine private sector specialists selected as joint secretaries in govt departments

In a first, nine private sector specialists have been selected for appointment as joint secretaries in central government departments. Usually, the posts of joint secretaries are manned by the officers of Indian Administrative Service (IAS), Indian Police Service (IPS), Indian Forest Service (IFoS)) and Indian

Revenue Service (IRS) among others who are selected through a three-phased rigorous selection process undertaken by the Union Public Service Commission (UPSC). The Personnel Ministry had in June last year invited applications for the joint secretary rank posts through "lateral entry" mode. The lateral entry mode, which relates to the appointment of specialists from private sector in government organisations, is considered as an ambitious step of the Modi government to bring in fresh talent in bureaucracy. These posts are in revenue, financial services, economic affairs, agriculture and farmers welfare, road transport and highways, shipping, environment, forest and climate change, new and renewable energy, civil aviation and commerce departments. The deadline to apply for the posts was July 30, 2018. A total of 6,077 applications were received in response to the government's advertisement. However, the ministry had in December decided to entrust the task of selecting the candidates for these posts to the UPSC, that conducts civil services examination to select the country's bureaucrat, diplomats and police officers. Nine private sector specialists have been recommended for joint secretary posts by the UPSC, that announced the result on Friday. Those selected are Amber Dubey (for civil aviation), Arun Goel (commerce), Rajeev Saksena (Economic Affairs), Sujit Kumar Bajpayee (environment, forest and climate change), Saurabh Mishra (financial services) and Dinesh Dayanand Jagdale (new and renewable energy), it said. Suman Prasad Singh has been selected for appointment as joint secretary in road transport and highways ministry, Bhushan Kumar in Shipping and Kokoli Ghosh for agriculture, cooperation and farmers' welfare, the UPSC said. "The recruitment process for selection of candidate for joint secretary level post on contract basis (lateral entry) for the department of revenue, ministry of finance has become infructuous at the interview stage," it said without citing further details. Of the total 6,077 applications received by the government, only 89 were short-listed for the interview. They were then asked to fill up a Detailed Application Form (DAF) for further processing. Of these 89 candidates, 14 each are for the posts of joint secretary in agriculture cooperation and farmers welfare, and shipping, 13 for aviation, 10 for the department of financial services, nine each for the departments of revenue and new and renewable energy, eight for road transport and highways, seven for environment, forest and climate change, three for department of economic affairs and two for the commerce department. Government think tank Niti Aayog had in a report highlighted that it was essential that specialists be inducted into the system through lateral entry on fixed-term contract.

The jobs data mystery: Understanding India's big crisis in a fraught poll season

NEW DELHI-Employment generation has remained one of the biggest mysteries of Modi government's five years — a debate that has led to more questions than answers. The protracted delay in the release of the National Sample Survey Organisation (NSSO) employment/unemployment data has not helped matters either. In a fraught election season, the wrangling over jobs data has led to a bitter political slugfest, with the Opposition throwing all kinds of charges at the government, and the government going all out to defend its jobs record. There was a big hue and cry over the issue when the Business Standard newspaper published a report on leaked NSSO data. The leaked data pertained to the first year of the two-year pilot periodic labour force survey (PLFS). The report said unemployment in India in 2017-18 was 6% — 7.8% urban and 5.3% rural joblessness — which makes it a 45- year jobs low for India. The 12th Five-Year Plan (2012-17) included a proposal to conduct PLFS. The main proposed objective of this survey is to measure quarterly changes in various indicators in India's urban labour market. Another objective of PLFS is making annual estimates of different labour force indicators both in rural and urban areas. PLFS is based on quarterly changes in the labour force. In contrast, the earlier mechanism — employment or unemployment surveys (EUS) — is a five-year job survey. India had its last EUS in 2011-2012, after which the mechanism was shifted to the quarterly method that is generally considered to be more accurate.

Niti's rebuttal

Niti Aayog chief Amitabh Kant issued a vigorous rebuttal of the version of Modi govt's jobs critics. He maintained that it would be unfair to compare PLFS findings with data from EUS. He pointed out discrepancies in population figures in the two surveys to refute claims of negative jobs growth. Kant says that the 50% growth in real GDP since 2011-12 could not have happened if the workforce was shrinking in size. Besides, he also cites India's rapid urbanisation and growing wages to drive home his line of argument. And last but not least, he points out what he says is faulty methodology — that the sample size taken in PLFS was too meagre and so can't give the real picture. Kant underlines the impact of MUDRA loans — given to small entrepreneurs that "may have generated plenty of jobs". 15.56 crore MUDRA loans have been disbursed amounting to over Rs 7 lakh crore and over 4 crore first-time borrowers have started their business enterprises, the Niti chief says. However, findings by several other sources seem to be strikingly at odds with claims made by Kant.

A critique of Kant

Centre for Monitoring Indian Economy (CMIE) data shows that the unemployment rate in India has increased to 7.2% in February 2019 vis-a-vis 5.9% in February 2018. As per these figures, there were 14 million unemployed people in India as of July 2017, which doubled to around 29 million in October 2018. As of February 2019, India had around 31.2 million people actively looking for jobs, data shows. Azim Premji University's "State of Working India 2018" report says that the relationship between growth and employment generation has become weaker over the last few years. During the 1970s and 1980s, when India's growth rate was around 3–4%, employment growth was relatively strong with the number hovering at around 2% per annum. Since 2004, even though the annual growth increased to more than 7%, the employment rate slowed down to less than 1%.

The raging debate

Meanwhile, the absence of official data has kept the debate over jobs alive and raging. It has strengthened the assumption that India is facing jobless growth — a phenomenon that started a decade back when India had clocked a meagre rise in employment to 463 million in 2009-10 from 458 million in 2004-05. A study by IIT-Delhi's Jayan Jose Thomas (Jobs and gloom) shows employment generation in industry and services during the period from 2004-05 to 2011-12 was inadequate. After taking into account the increase in working-age population and the number of workers who quit agriculture during 2004-12, the research estimated that the potential workforce in industry and services should have grown at the rate of 14.7 million a year. However, the actual figure at which employment was generated by these two sectors during the above period was only 6.5 million a year. That would translate to less than half the potential figure.

Twin blow: Where did the jobs go?

Much of the blame for India's current jobs problem can be attributed to the inherent nature of the country's job economy. More than 75% of the working-age population is engaged in the informal/unorganised economy. Labour-intensive sectors like agriculture, construction and small enterprises account for most of these workers. Various reports show how these sectors were left deeply unsettled in the wake of demonetisation when the economy was suddenly stripped of Rs 500 and Rs 1,000 notes. Small-scale industries, who conduct their daily transactions in cash, were the worst hit. With employers unable to deal with the sudden lack of cash, a great many workers had to be laid off, which greatly added to the entrenched problem of joblessness. GST, which came a few months after demonetisation, added further fuel to the fire. It led to the closure of numerous small businesses and rendered lakhs of people jobless in the unorganised sector. The complexity of filing returns led to the shutdown of a huge number of small enterprises as small traders were unable to deal with the technicalities of monthly filings process.

The EPFO data muddle

The government's seeks to refute this argument by citing the impressively rising number of Employees Provident Fund Organisation (EPFO) subscribers over the same period. Data shows that approximately eight million new subscribers were added to EPFO between September 2017 and September 2018. Based on this data, the government argues that India's employment scenario has actually only improved after 2016. There, however, seems to be a major problem with this reasoning. Firms come under the ambit of EPFO only if they employ 20 workers or more. Now, if a firm that already employed 19 workers adds one more, it will make for a fresh addition to the EPFO database. But the addition here will be of 20 new subscribers, and not just of the single employee that the firm hired freshly. So, in this case, the number of EPFO subscriptions will increase by 20 — although new employment created here is just one. This is something that casts serious doubt on job generation claims based on EPFO numbers.

MUDRA numbers decoded

To back its jobs claim, the government has sought to use another tool at its disposal — MUDRA loan data. The plan is to use findings of the Labour Bureau's survey on jobs created under the MUDRA scheme. Using these numbers, the government wants to showcase the "gainful employment" created with the help of these loans. Data available so far, however, hardly point to a smooth-sailing. MUDRA's official site says a total of 4.1 crore loans worth Rs 2.1 lakh crore had been disbursed until end-February 2019, compared with 4.8 crore loans worth Rs 2.46 crore given in last FY. As per the latest figures available, as of March 2019, banks had a serious shortfall in their hands — they were faced with the daunting task of having to disburse at least Rs 35,000 crore worth of loans to improve on the FY18 tally and a minimum of Rs 80,000 crore worth of loans to meet its fiscal-year target. Last heard, the government has now decided to hold back the MUDRA job generation data in view of the unfolding election season.

Expert speak

So, is there a way out? Experts seems to differ. Here's collating the views of a number of who's who — from Raghuram Rajan to Arvind Panagariya to IMB's Ginny Rometty. Rajan sees jobs data as an issue in these elections: "Even if the government thinks good jobs are plentiful, the electorate seems concerned. How will we create jobs? Undoubtedly, we have to elevate our pace of growth, especially in job creating sectors. And that requires a new generation of reforms since the old ones are running out of steam." Panagariya hold his old line: "You got to make your ends meet and you got to have two meals a day. So everybody works. In this sense, unemployment rate in India has always been low and that is the case but it is the under-employment. People are doing very low productivity jobs." IBM chief Ginny Rommetty recently kicked up a storm when she said jobs was never in short supply, it's just that skills are lacking — not just in India but everywhere. Government should step up their efforts to support skill and retraining activities to address the gaps between demand and supply of work skills and qualifications and to address long-term unemployment, says Ritu Mehrotra, VP Global HR and Talent Management, Bristlecone. Many experts have cast doubts on the reliability of data being used by either camp — Modi govt and its detractors. Pronab Sen, former Chairperson of the NSC, points out that the official statistical agencies in India need greater strengthening in order to tackle the challenges thrown up by the growing size and complexity of the Indian economy.

ITEMS COMPILED & EDITED FROM NATIONAL, INTERNATIONAL FINANCIAL DALIES, WEEKLIES, WEBSITES.

NEWS OF THE WEEK

Uday Kotak flags widening trust deficit between govt & industry

Banker Uday Kotak Friday frowned upon the increasing trust deficit between the regulators and the regulated entities as the latter is increasingly becoming more rule based. He said time has come to bridge the gap by breaking the ground consistently so to have a situation where everyone gets a better balance between the principles and the rules. "I believe that in many sectors the rule-based approach of the regulator and the government has gone to the extreme, to a level where there is a lack of trust between policymakers and regulators versus the practitioners," Kotak said at an event organised by the Council for Fair Business Practices. Noting that the society, regulations and governments have moved away from the trust based model, which is principle-based, into the area of a rule-based model, he said this tendency has been increasing and there is an urgent need to bring the mutual trust back. Drawing an analogy from tennis, Kotak said in the game there is a line and one hits the ball and if the ball hits on the line or inside the line it is right and if it is outside the line it is wrong. Similarly, the time has come, in this area of fairness, to constantly hit the ball inside the line, he said. Calling for urgently bridging the chasm between the regulators and the regulated entities, he said "this means that the government, regulators and policymakers need to find a breaking ground consistently to have a situation where we get a better balance between principles and rules." And he called up on industry associations to act as that bridge that can build trust among the various actors in the society. Calling for the need to treating minority shareholders better, he said since businesses have grown in this country over the long period of time, it is extremely important that the concept of fairness is looked at from the eyes of the public who are putting in their money and trust as minority shareholders into these businesses. "It has been assumed for long that the minority shareholders can be taken for granted but I think this is changing," he said, adding traditionally, the our listed companies have been following a 'raja-praja' model, which means promoters can do whatever s/he wants to do with the profit. "I think time has changed and promoters and directors are trustees for all the stakeholders including shareholders," he warned.

British Virgin Islands claim info on Kochhars destroyed in calamity

Mumbai: The British Virgin Islands (BVI) has denied the Income Tax (I-T) Department certain account information, saying it has been destroyed in a natural calamity, sources in know told ET. The information pertains to the investigation into Deepak Kochhar, husband of former ICICI Bank chief executive Chanda Kochhar, in the quid pro quo case. In a related development, the Enforcement Directorate (ED) — probing the Kochhars and Videocon chairman Venugopal Dhoot of money-laundering — has for the first time sought details on the Videocon loan, role of the sanctioning committee and procedures followed, about a fortnight ago. The I-T department had sent Letters Rogatory (LRs) to Mauritius, Singapore and BVI. Singapore has already replied to the queries while a reply from Mauritius is awaited, the sources said. “This is not the first time BVI has cited natural calamity as the reason behind failing to share information,” said an official who spoke to ET on condition of anonymity. “Monies have been moved and received from NuPower Renewable le (Kochhar’s company) to various foreign accounts. In order to check the veracity and the purpose of these funds, we had written to the three countries. BVI replied saying they suffered a natural calamity in which all documents and storage devices have been washed away and therefore, information of the accounts sought by us cannot be parted with,” the official added. “The information given by Singapore has provided certain workable leads. We are also awaiting a response from Mauritius but aren’t hopeful that they will share it.” “Our probe has concluded that the (Kochhars’) flat in the tony CCI Chambers in south Mumbai has been bought through a web of suspicious transactions through companies linked to Videocon group," said the official. Meanwhile, ED is also planning to write to BVI, Mauritius and Singapore, though inside sources told ET they don't expect a positive response from the first two. "These countries are tax havens and they are averse to sharing information. We need to get details on the foreign accounts connected to NRL so as to unearth the money trail and connect both the source and the receiver in the chain," said an official. "The probe has so far revealed that on September 7, 2009, a rupee term loan of `300 crore was transferred to Videocon International Electronics by ICICI Bank and the very next day, Dhoot transferred `64 crore to NRL, managed by Deepak Kochhar. During questioning, Chanda Kochhar has maintained the loan was approved by the sanctioning committee. Details sought from the bank will help us tie up our case that Chanda alone was the beneficiary of loan sanctioned to Videocon," said the official. Email sent to ICICI Bank on Monday failed to elicit a response.

MUST READ ITEM FOR THIS WEEK

Leaked data Part II: Where India's jobs mess is most acute

After the NSSO data leak episode which revealed a 45-year jobs low for India that the government had a hard time countering, here comes another significant set of findings from the same source. More than a third of India's states - 11 states to be precise - had unemployment rates higher than the national average in 2017-18, reveals a Business Standard story quoting the annual periodic labour force survey of the NSSO. Seven of the 11 states - Bihar, Odisha, Uttarakhand, Jharkhand, Kerala, Assam, Haryana - were among the most jobless in 2011-12 too, the year when the last such survey was carried out. Uttar Pradesh, Telangana, Punjab and Tamil Nadu freshly entered the charts in 2017-18. India had a joblessness rate of 6.1 per cent in 2017-18, a huge jump over the 2.2 per cent registered in 2011-12, says the report that has been kept under wraps by the government. State wise break-up of joblessness Data for 2017-18 shows Kerala has the most number of jobless people at 11.4 per cent. It is followed by Haryana (8.6 per cent), Assam (8.1 per cent) and Punjab (7.8 per cent). At 3.3 per cent, Chhattisgarh had the least unemployment in 2017-18. Madhya Pradesh (4.5 per cent) and West Bengal (4.6 per cent) were at second and third places, the data showed. The joblessness rate rose the quickest in Gujarat — from 0.5 per cent in 2011-12 to 4.8 per cent in 2017-18 — a pretty sharp jump even after taking low base effect into account. Data showed that the number of jobless youth rose exponentially both in rural (14.9 percent in 2017018 from a mere 0.8 per cent in 2011-12) and urban Gujarat (to 10.7 per cent from 2.1 per cent). After Gujarat, the second, third and fourth sharpest spikes in joblessness were seen by Madhya Pradesh, Uttar Pradesh and Rajasthan. In Madhya Pradesh unemployment rose from 1 per cent in 2011-12 to 4.5 per cent in 2017-18 and in Uttar Pradesh it went up from 1.5 per cent to 6.4 per cent. Unemployment numbers climbed from 1.2 per cent to 5 per cent in Rajasthan. West Bengal was a prominent case at the other end of the spectrum. From having the fifth most jobless people in 2011-12, the state turned things around significantly to get counted among the bottom five in 2017-18. Storm over data The release of the NSSO data has been kept on hold by the government even as a storm rages over the real state of jobs in India. The assessment by the NSSO carried out between July 2017-June 2018 showed that the unemployment rate in India stood at 6.1 per cent, the highest since 1972-73. The Business Standard newspaper had raised quite a storm when it first broke a story about the withheld jobs data. The report had revealed that half of India's working-age population (15 years and above), for the first time, was not contributing to any economic activity. The NSSO data quoted by the newspaper seemed to corroborate CMIE's assessment that the country lost as many as 11 million jobs last year. The controversy had taken a political turn after the acting chairman and another member of India's prime statistical body that reviewed the data resigned citing the inexplicable delay in its release. To quell the row, Niti Aayog had subsequently stepped in with a clarification that it was just a "draft report" and that some parts of the data were still being processed. Data was being collected in a new manner which explains the delay in release of the report, NITI Vice Chairman Rajiv Kumar had said, insisting that it was not right to publish incomplete reports. This specific set of NSSO findings is thought of as particularly crucial by experts as it is the first data set to capture the comprehensive scenario of jobs in India after demonetisation.

VIEW OF THE WEEK

Ethical leadership, emotional support can reduce stress at the workplace

WASHINGTON DC: A recent study has shown that managers who demonstrate ethical leadership through two-way communication, positive reinforcement and emotional support helps alleviate stress in the work environment. The study published in the journal Applied Psychology - An International Review, determined conflicts between the home and work environment causes stress for employees, who, in turn, engage in words and behaviour meant to damage the reputation of their co-workers. "When family and life issues conflict with work situations, this can cause 'hindrance stress' which means job demands are viewed as obstacles to personal growth or goals," said Dr Gabi Eissa. "Hindrance stress often depletes the employee's ability to exercise self-control and they lash out with aggressive and undermining behaviour toward their peers," added Eissa. While it would be easy for supervisors to ignore the situation or to confront and punish employees for counter-productive behaviour, the research shows that ethical leadership may prevent these types of outbursts from even happening. "We define 'ethical leadership' as supervisors who demonstrate appropriate work conduct through their personal actions and those who engage employees by discussing their work-related worries and emotions," said Eissa. "Ethical leaders want to help employees respond positively to negative situations and they try to offer resources to help employees who may find themselves hitting a rough patch," Eissa added. Eissa and Dr Rebecca Wyland, surveyed 156 employees who worked at least 20 hours a week (focal employees) and one of their co workers to determine how work-family conflict-affected hindrance stress (can we define hindrance stress?). They asked focal employees to measure work/family conflict stress, hindrance stress and the ethical leadership qualities of their management team. They then asked the co-workers a series of questions designed to measure social undermining activities. "Once the data was merged, the results showed that hindrance stress - a specific type of stress - was a key factor that linked work family conflict to social undermining," reported Eissa. "We also found less social undermining among employees in presence of ethical leadership as well as how and when work-family conflict led social undermining, Eissa added. "Our conclusions may have implications for organisational policies, programs and training initiatives that are aimed at reducing work family conflict and hindrance stress. This, of course, leads to less social undermining and a more positive, productive workplace," said Eissa. "Our findings may help organisations to understand the importance of having ethical leaders, but it takes a commitment from their top leadership to make this a reality," Eissa added.

View: Challenges of rate benchmarking

The Reserve Bank of India has proposed that all new floating rate loans to retail and micro and small enterprises (MSE) extended by banks from April 1, 2019 shall be benchmarked to one of the following (i.e., 91- or 182-day treasury bill yield, RBI’s policy repo rate or any other benchmark rate produced by the Financial Benchmarks India Private Ltd which includes MIBOR and certificate of deposits). The final guidelines are still awaited, this is to be another step in RBI’s efforts for better transmission of policy rates starting from BPLR in 1994 to present regime of MCLR. It has been observed that while rate movement has been swifter for fresh loans, it has not worked in the same way for existing loans, for small borrowers when the interest rates are declining. The large borrowers are generally able to negotiate rates with lenders due to their awareness and bargaining power, while small borrowers are less informed and have lesser bargaining power. RBI data shows about one third of total loans of scheduled commercial banks is to the retail and MSE sector. As the system migrates towards the external benchmarking, the rate transmission is likely to be swifter. Having said that, there are pertinent challenges towards this new regime. The biggest challenge that may creep in is volatility in margins. Indian banks largely draw their funding from deposits (around 90% of their funding constitutes deposits), the cost of which is fixed for the tenor of the deposits. Hence, paying fixed costs and lending on variable costs with quarterly resets can induce interest rate risk and create volatility in the margins. Bankers have been arguing that for compensating for the increased volatility, they may need to charge additional spread, increasing the cost for end-borrowers. The spread offered by banks on deposits and repo rate could vary significantly depend on liquidity conditions in the country. Ind-Ra believes linking of savings account (SA) to the external benchmark rate may be less problematic. A break-up of deposits composition for scheduled commercial banks shows that about 42% of total deposits constitutes current and savings account deposits while rest are term deposits (TDs). The money kept in savings account is largely for transaction purpose and is less volatile. This is reaffirmed from the fact that post deregulation of interest rate regime by RBI, few banks offered substantially higher interest rates on savings deposits; however market share shift has been slow and modest. Further, it has been observed that savings account balances do see a shift towards term deposits whenever there is a widespread differential between interest rate of SA and TD A and TD. On current account, banks do not pay any interest. However, linking term deposit rates to external benchmark could be challenging. In the recent past, banks offered floating rate deposits to customers, however the response was lukewarm. One can argue that a sizeable portion of term depositors, especially the larger ticket ones, prefers banks over capital markets on account of stability of returns and higher safety. There is a possibility that in the floating rate environment, either they would ask for higher rates to cover for the risk or simply move to capital markets. This can create competition among banks for deposits, pushing the rates higher. In light of this, banks with a higher proportion of CASA deposits would be better placed as linking of CASA to the external benchmark could prove less problematic. However, banks dependent on large-ticket deposits, bulk and institutional deposits could see their borrowing costs move up, as they compensate their depositors for volatility on their returns. While the detailed guidelines are still awaited, SBI has announced a shift to the external benchmark (repo rate) for pricing savings deposits and short-term loans. The direct linking of commercial rates (both lending and deposit) with the monetary policy rate may be considered a less appropriate choice within the contours of the monetary policy literature. This is primarily because the policy rate is set based on inflation outlook, especially under the inflation targeting framework, and system liquidity and subsequent pricing impact of liquidity outlook is a matter of market dynamism-based market expectations. Hence, benchmarking rates, particularly short-term rates, with the policy fails to factor in the prevailing liquidity conditions while pricing assets and liabilities of the banking system. The bank’s ability to adjust the asset pricing will largely depend on the interest rate sensitivity of the advances at a system level, while the impact of banking sector liquidity on deposit rates will cease to reflect in the cost paid by the banks for the same. However, banks may have to choose an external benchmarking for deposits and CD rates as an external benchmark among the options could be more acceptable, given that these rates generally reflect demand and liquidity conditions in the system.

INTERESTING TO KNOW THIS WEEK

TCS looks to settle US discrimination suits by ex-staffers

BENGALURU: Tata Consultancy Services is in advanced talks to settle discrimination suits filed by some former employees in the US, court documents accessed by ET reveal. If successful, this could resolve three pending cases and settle a slew of other charges made against India's largest IT services provider. Lawyers representing TCS as well as those filing the suit have made a joint filing with the US District Court, Northern District of California, stating that they are in talks for a settlement. ET has a copy of the joint filing. TCS' settlement talks come after a jury ruled that it did not discriminate in one of the three lawsuits mentioned above. Last November, the jury deliberating on a class action suit filed in 2015 by former employees Brian Buchanan, Christopher Slaight and others, ruled in favour of the IT firm. The former staffers subsequently filed a motion for a new trial.

SETTLEMENT PACT LIKELY BY APRIL 12

"This is an administrative settlement and will take care of all pending matters related to this case including individual cases, appeals etc," a person with direct knowledge of the matter told ET. The court filing indicates that a settlement agreement is likely by April 12, 2019. Any agreement will then have to be approved by a judge. "The settlement in principle is global," TCS lawyers and the lawyers for the former employees of the company said in the filing. "And (it) resolves not only the Buchanan action and the class action pending before this court, but also includes settlement of a case pending in the United States District Court for the District of New Jersey, as well as settlement of numerous arbitrations and EEOC charges," the document stated. EEOC charges refer to claims made to the US Equal Employment Opportunities Commission, which determines if aggrieved employees have a case that could lead to a lawsuit. The former employees are represented by law firm Kotchen & Low. TCS declined to comment on the development saying the matter was sub-judice. Daniel Kotchen declined to comment on the settlement citing "confidentiality". The Washington DC-based law firm is also representing former employees of other large Indian IT services companies, who have also filed similar cases of discrimination, as reported by ET. Cases against companies such as Infosys, Wipro, Cognizant and HCL Tech are still underway. Infosys and HCL Tech did not reply to ET's emailed queries. Cognizant declined comment. Wipro declined to comment as well. Governance experts are of the view that companies consider settling cases based on the exact nature of the claims against them. "I don't think any company will settle for the sake of settling. Settlement is more likely if it is a mass case like a class action or the chance of losing the case is high," Shriram Subramaniam, founder of InGovern Research Services, said. Generally, settlements in the US do not imply that the company is admitting to any kind of discrimination. However, companies prefer to settle as it could cost less than fighting a case.

INSURANCE COVERS LEGAL EXPENSE

In a December 2018 filing with the California court, TCS' lawyers pegged its court costs for the Buchanan, Slaight case at around $500,000. Lawyers' fees could be a multiple of that. Speaking to ET after the jury had ruled in TCS' favour, the company's legal head said the company did not consider settling the issue before it was vindicated. "This is was about a principle so you can't afford not to fight," Vish Iyer, vice president and global head of legal and corporate affairs, had then told ET. Iyer also said that he could not disclose the amount the company had spent in defending the case, but said it had insurance to cover those costs. Commenting on the current settlement talks, a person aware of the details of the case said, "TCS came to the settlement negotiations in a position of strength." "They had a jury verdict in their favour. A group of Americans said they were not discriminating against locals, so that would definitely factor into lowering a settlement amount," the person said. Kotchen & Low filed a case against Infosys in 2013, Wipro and Cognizant in 2017. It also filed a case against HCL

Technologies in 2018, which is now in arbitration. Another case against HCL was filed in March 2019. “It may not be so easy for other firms to settle,” said a senior industry executive.

No advance ruling for subsidiaries in India?

MUMBAI: In an application filed recently by a ‘resident taxpayer’ (which was a subsidiary company in India) for seeking an advance ruling, the income tax (I-T) department has contested that tax residents of India are not eligible for this option. However, the department has approached the Central Board of Direct Taxes (CBDT), seeking a clarification. The reason for such a stand by the tax department is a change in numbering of the relevant section of the I-T Act, by the Finance Act, 2017. Yet another challenge from the IT department is that the applicant seeking an advance ruling can do so only for a single transaction and not multiple transactions. Given that the objective of the government was to mitigate tax litigation, this spanner in the works has shocked I-T professionals and corporates. Under the I-T Act, subsidiaries of MNCs operating in India are resident taxpayers as these companies are registered here. Overseas entities set up by India-headquartered companies could be considered as resident taxpayers if their place of effective management (where key decisions are made) is in India. The Authority for Advance Ruling (AAR), a quasi-judicial body, provides for an alternate dispute-resolution mechanism for both direct and indirect taxes. It enables the applicant to obtain certainty on tax implications of transactions, including proposed transactions. For example, in an M&A transaction, the tax liability for the seller can be ascertained through an advance ruling. As the ruling given is binding on both the taxpayer and the tax department, in respect of the transaction covered, it results in certainty and avoids litigation at a later stage. “If the advance ruling mechanism is not available to resident taxpayers, it will shake confidence. It will also add to the litigation backlog,” says a chartered accountant. A senior official of the I-T department had some days ago written to the CBDT, seeking a clarification on whether resident taxpayers should continue to be allowed to apply for advance rulings. TOI has a copy of this letter. The I-T department is waiting for a clarification, until which time it is likely that applications filed by resident taxpayers will continue to be challenged. To cut down on litigation, the doors of the AAR were thrown open to tax residents of India since late 2014. A notification issued by the CBDT on November 28, 2014, expanded the definition of the applicant seeking a ruling. It now included: “A tax resident of India, in relation to his tax liability arising out of one or more transactions valuing Rs 100 crore or more in total.” Since then, several subsidiaries have benefited. Given the high threshold, it was unlikely that resident individuals could opt for this mechanism. The letter dated March 31 addressed to the CBDT by the senior I-T official points out that this notification is no longer applicable. After an amendment by the Finance Act, 2017, section 245N(b)(iia) under which it was issued no longer exists in the I-T Act. Tax experts point out that a similar section 245N(b)(A)(III) was introduced. “The current government, in its first year, had opened the doors of advance ruling forum to residents. While the threshold was kept high at Rs 100 crore, this recent stand of the I-T department is likely to impact cases for all resident applicants. This also goes against the intent of making this amendment in law to reduce litigation and improve ease of doing business,” says KPMG India partner Naveen Aggarwal. “Can a mere change in the number pattern really nullify a provision, which was introduced with a certain intent and objective?”Incidentally, the 2019 tutorial on filing of AAR applications on the website of the I-T department refers to the CBDT’s notification and the fact that tax residents of India can approach the AAR for one or more transactions.

INTERNATIONAL NEWS THIS WEEK

Bank Resolution: A Global Perspective

By **Jelena McWilliams***, Chairman, Federal Deposit Insurance Corporation*

On a cold March morning, a long line of people meandered around a bank building. They had waited all night, hoping to withdraw their savings when the bank opened the next morning. Many were retirees living off meager monthly pensions sufficient to buy bread and milk but not luxuries such as meat and fruit. Around 10 p.m. the night before, my 68-year-old father patiently stepped up to the end of the line, wearing an old but presentable three-piece suit. He belonged to a pre-World War II generation that believed one ought to dress up to visit a reputable institution such as a bank. On that drizzly morning, as daylight was struggling to penetrate city smog and gray clouds, it turned out that his three-piece suit was not necessary. By the time he reached the teller window—a solid 12 hours after he had joined the line and a mere hour after the bank had opened its doors—there was no money left to distribute to depositors. The bank was going under, and in the run on deposits, my father was not quick enough. His life savings were wiped out. The next day, he went to a street corner where he recalled seeing day laborers as he had made his daily trips to get bread and milk. This time, he was wearing patched-up pants, a sweater that my mother had knitted from leftover wool, and old shoes that he had polished that morning. Once again, he stepped in line, hoping to earn 10 Deutsche Marks for eight hours of physical labor. The year was 1993, and my father was in Belgrade, former Yugoslavia, as the country was falling apart. When I assumed the chairmanship of the Federal Deposit Insurance Corporation (FDIC) in June of last year, I did so with a firm belief that we ought to do whatever it takes to ensure that no 68-year-old would ever wait in a bank line and walk away empty-handed. Eight months later, I believe I know how we can get there…together.

Background

During its 85 years of experience as a resolution authority for banks and insured depository institutions, the FDIC has resolved more than 2,700 institutions with assets of more than $1 trillion and almost $800 billion in deposits. It has weathered two banking crises in the past four decades: one in the 1980s and early 1990s and another during the recent Great Recession. Each failure and crisis has presented us with opportunities to assess and adapt our resolution strategies and procedures. We have developed new tools, ranging from bridge banks to loss-sharing arrangements, while also adapting to new congressional requirements, such as the mandate that we resolve banks at the least cost to the Deposit Insurance Fund. Over the course of thousands of resolutions throughout the FDIC's history, no depositor has ever lost a penny of insured deposits. We are proud of our record of successfully handling smaller bank failures, but we recognize the differences and unique challenges associated with resolving larger institutions, particularly the most complex global financial institutions. Our efforts to strengthen and streamline the process of resolving a large institution are constant and ongoing.

The goals of resolution

The fundamental goal of resolution should be the same for institutions large or small: to enable failure in the least disruptive manner. That may sound too negative, but providing a vehicle for failure is critical. Markets work best when risk-takers are held accountable for both their gains and losses. When institutions benefit from the upside of their gains, but taxpayers bear the burden of their losses, the result is market failure and moral hazard. In such circumstances, institutions—and their shareholders and counterparties—benefit not from their business decisions but from political decisions. Resolution should work to break this cycle and to make sure that market discipline is real and imposed. Institutions that are big must be able to fail just like small institutions: without taxpayer bailouts and without undermining the market's ability to function. This is no easy task because a large institution's failure can have a tremendous impact on the market and third parties. This is the core challenge surrounding failure—a challenge that the FDIC and resolution authorities around the world must address.

Resolution in the United States

The greatest untested resolution challenge comes from the largest, most complex institutions. Because our goal for these institutions is that they *are* able to fail, our first priority is preparing to facilitate orderly resolution of these firms in bankruptcy. In the United States, the largest bank holding companies and certain foreign banking organizations with US operations (FBOs) are required by law to submit resolution plans outlining how they can fail, in an orderly way, under the U.S. Bankruptcy Code. These plans, known as living wills, describe the firm's strategy for rapid and orderly resolution in the event of material financial distress or failure of the company, and include both public and confidential sections. While we need to do advanced planning, after several cycles of reviewing these comprehensive plans and providing feedback, we recognize that we can do so in a more targeted and efficient manner. Because it is good government to regularly revisit regulations to ensure they are appropriate for the present, the FDIC and the Federal Reserve Board of Governors have been reviewing the resolution planning regulations for all covered companies.

US global systemically important bank resolution planning

Through the resolution plan process, US global systemically important banking organizations (G-SIBs) have made strides and implemented significant structural and operational improvements that have enhanced their resolvability in bankruptcy. They have developed a single-point-of-entry (SPOE) resolution strategy that, if successful, would enable the functioning of critical operations at key subsidiaries, while the parent enters what is akin to a prepackaged bankruptcy proceeding. These firms have established clean holding companies and issued long-term debt so that market participants—not taxpayers—bear the risk of loss, and they have identified mechanisms for measuring, maintaining and making available timely liquidity to fund operations during this period. They have taken steps to modify their contracts with service providers and counterparties, and they have worked to simplify their structures and funding lines to facilitate their strategies. There have been some indications that markets have reacted positively to these developments. Some studies suggest that we have seen improved debt pricing for the largest banks. While we should be cautious in drawing conclusions based on such data, they are nonetheless encouraging. Still, although progress has been made, SPOE in bankruptcy remains untested, the challenges to successful execution of a SPOE strategy are notable, and there is still work to do. The FDIC and the Federal Reserve have identified several key areas in need of further clarity, and firms should continue work developing, testing and operationalizing their systems and capabilities to make sure that their resolution strategies will work if and when they are needed.

Foreign banking organization resolution planning

Similarly, certain FBOs also submit resolution plans. The FDIC and the Federal Reserve review the plans and engage with the FBOs on their resolution planning requirements. This includes meeting with the four largest FBOs and issuing detailed and publicly available feedback letters. As host authorities, we recognize the importance of continued home-host cooperation and the preferred outcome for these FBOs: successful home-country resolution. Since the Great Recession, the four FBOs have improved their resolvability by significantly reducing the size and risk profiles of their US operations and increasing their capital and liquidity levels. At the same time, the resolvability of firms will change as both the firms and markets continue to evolve. The FDIC and the Federal Reserve expect all firms subject to resolution planning requirements to remain vigilant in assessing their resolvability.

Insured depository institution resolution planning

Separate from the resolution planning requirement described above, which applies at the holding-company level, the FDIC has a separate resolution plan rule for insured depository institutions (IDIs), the so-called "IDI rule". This requirement generally applies to IDIs with at least $50 billion in assets. There are a few noteworthy differences between the holding-company and IDI requirements. Instead of focusing on the entire banking organization and envisioning a resolution under the U.S. Bankruptcy Code, the IDI rule focuses only on the IDI subsidiary and envisions a resolution using the FDIC's traditional resolution tools under the Federal Deposit Insurance Act. Instead of focusing on financial stability and systemic risk, the IDI plan is focused on the FDIC's ability to resolve a particular firm, protect taxpayers, minimize potential losses to the Deposit Insurance Fund and ensure that insured depositors have access to their cash in an orderly fashion and as quickly as possible. The FDIC recognizes the costs and burdens involved in developing these plans, and we are exploring a more targeted and efficient approach, including significant changes to the IDI rule. We plan to propose revisiting the current $50 billion threshold for application of the rule and ensuring that requirements are appropriately tailored to reflect differences in size, complexity, risk and other relevant factors.

International/cross-border considerations

Given the cross-border implications of resolving a G-SIB, we have to be cognizant of our role as host authority as well. Many US firms operate overseas, some foreign firms operate in the United States, and regulators need to make sure we are not working at cross-purposes. The FDIC has strong working relationships with our foreign counterparts. For many years, the FDIC, the Bank of England, the European Commission, the Single Resolution Board and the Swiss Financial Market Supervisory Authority (FINMA)—to name a few—have worked closely on cooperation and resolution planning. We host annual crisis-management group meetings that bring together home and host authorities to discuss resolution planning for each US G-SIB, and we participate in similar meetings for foreign G-SIBs operating in the United States. We regularly coordinate with foreign jurisdictions through multilateral venues, and we have built a solid foundation for cooperation and planning with other resolution authorities around the world. Much of the current bilateral and multilateral work focuses on cross-border planning for operational readiness, such as the positioning of cross-border resources, approaches to the wind-down of cross-border derivatives portfolios and facilitating continued access to financial-market infrastructures. This reflects a progression from policymaking to implementation as work on resolution planning matures. I expect this approach will gain momentum as we continue to build the cooperative relationships that underpin our operational readiness. We have a very good foundation for building a better understanding and process, but there is still important work to do.

Lessons learned

It has been more than a decade since the onset of the financial crisis. The FDIC has devoted considerable time and resources to studying the crisis, including its causes and its consequences. There were regulatory gaps leading up to the crisis—perhaps none more important than the inadequate planning for the potential failure of the largest banks and their affiliates. At this point, a number of the post-crisis regulatory changes have been in effect for several years. While it is essential that we learn from prior crises, it is crucial that our regulatory framework be sufficiently agile to address a future crisis. We must, therefore, closely examine how these new regulatory requirements are working and whether modifications are appropriate in order to ensure that agility in both the institutions' preparedness and regulators' response.

Conclusion

Orderly resolution is a goal that resonates personally and profoundly with me. My now 93-year-old father lives with me in the United States. He is a constant reminder of why resolution planning is so important. It does not mean that we are rooting for resolution; it means we are building a process to ensure that orderly failure is possible, that market discipline exists, that taxpayers are protected and that insured depositors have confidence they will receive their cash quickly and orderly under any circumstances. Under my leadership, the FDIC will forge ahead to ensure the stability of our financial system while continuing to engage with our foreign counterparts. After all, we are in this together.

‘It's up to women to close the gender pay gap, not simply rely on male management teams', claims impact guru

With the latest data confirming that there has been no significant improvement in the UK gender pay gap between 2017 and 2018, it shrinking only marginally from 9.7% to 9.6%, international impact guru Esther Stanhope points to too many female employees simply waiting for equalisation rather than pushing for it. Of the 9,961 companies publishing their gender pay data, 7,755 paid male employees more than female staff based on median hourly pay. The hope was that, by being forced to reveal their figures, companies would be more likely to introduce greater equality for women in business, but this has clearly not happened. Former live BBC producer and internationally renowned speaker, Esther Stanhope, questions the proactive commitment of female employees in driving through a change alongside a simple data publishing exercise. ‘It is reasonable to assume that companies with a particularly poor record have held back their data so that the actual position is probably worse than has been released by the government. But much of the drive for change lies in the hands of female employees themselves,' she says. ‘I would always advise a female employee to be on the front foot and ask rather than wait for changes. The pay gap data that companies have published to date shows that the majority of top-paid positions are filled by men, but with these current figures, there's never been a better time for women to push for a promotion or pay rise. Stanhope maintains, ”What's the worst that can happen? Your manager will say no and will have some explaining to do if you are essentially doing the same job as a male colleague. The important thing is to approach the conversation with confidence. Know your market value. Research what similar roles pay for similar jobs undertaken by male employees and use that as the benchmark. Decide on what you really want for your career. Get in there early, many firms process pay rises at specific points during the year, and you don't want to miss the boat. If you're a valued employee, in turn, bringing value to the company, the last thing your boss will want is to lose you to a competitor. Stand strong, demonstrate your worth, and be confident. With relatively full employment and companies being required to balance their pay gap figures, there's never been a better time to make the move.”

Austria mulls user registration for online platforms

Austria said Wednesday it was considering a law to make it mandatory for big internet platforms to register their users and deprive those behind hate posts of anonymity. "Unfortunately there have been an increasing number of clear violations, denigrations and humiliations online in the past under the cover of anonymity. That's why we need a framework for more responsibility online," Chancellor Sebastian Kurz wrote on Twitter. The new law would take effect in 2020 and would make it mandatory for platforms such as Facebook, Twitter and Instagram to register their users, said Gernot Bluemel, minister in charge of EU affairs, art, culture and media. It would be up to the platforms themselves to decide the form of registration, but authorities would be able to access users' identities in case of hate postings or on suspicion of other laws being broken, he said. "The online space should not be a space without laws," Bluemel told reporters after a weekly cabinet meeting, adding that Austria aimed to set a precedent for other countries in the matter. French President Emmanuel Macron earlier this year caused controversy by suggesting a ban on anonymous postings on social media. In Austria, the law would have to be approved MPs as well as the European Commission to make sure it is in line with EU guidelines that stipulate, for example, that member states cannot regulate a platform provider more strictly than its country of origin. The proposed law would only apply to internet platforms that have a certain reach -- more than 100,000 users or 500,000 euros ($430,000) annual turnover in Austria -- as well as online media that receive more than 50,000 euros in state aid, Bluemel said. Austrian opposition parties have criticised the proposal, saying it restricts online freedom and gives even more user data to online giants, such as Facebook, which is already under fire over how it handles such information.

RBI THIS WEEK

Global Risks and Policy Challenges facing Emerging Market Economies

(Shri. Shaktikanta Das, Governor, Reserve Bank of India - April 12, 2019 - Delivered at the event “Governor Talks” on the sidelines of the Fund-Bank Spring Meetings, 2019, Washington DC)

Thank you for inviting me to this forum.

I intend to cover some of the global risks and policy challenges from the perspective of emerging market economies (EMEs). We are aware that most EMEs have emerged more resilient than before from a turbulent 2018. For the greater part of 2018, the EMEs faced a wave of global spillover risks leading to capital outflows, currency and asset price volatility and tightened financial conditions. These developments posed risks to growth and inflation. Strong fundamentals, forex reserve buffers, capital in banking systems and prudent macroeconomic policies, however, enabled these economies to absorb global spillovers. Yet, as Agustin Carstens and Hyun Song Shin soberingly point out, “EMEs aren’t out of the woods yet”.[1]

Global Risks

Let me highlight three major risks confronting EMEs in 2019.

2. The biggest risk facing these economies is the growing evidence that global growth and trade is weakening. Unsettled trade tensions and developments around Brexit are imparting further downside risks to the outlook. There is considerable uncertainty as to whether this weakness is temporary or the beginning of a recession in advanced economies. This uncertainty also seems to be reflected in several downward revisions to the 2019 global growth forecast by the IMF. Moreover, central banks across the world are stepping back from tightening monetary policy and some of them are promoting easier lending conditions. In some economies, fiscal stimuli are being used to support growth.

3. The second risk is that EMEs remain vulnerable to financial market volatility as the experience of 2018 has shown. The risk of sudden stops and reversals of capital flows has increased. Consequent external financing gaps and currency depreciations could undermine the outlook for growth and macroeconomic stability for these economies, just when global growth had begun to show signs of a synchronised revival a decade after the global financial crisis. Furthermore, adverse financial conditions could aggravate existing stress in the balance sheets of lending institutions in some EMEs and stretch their capital requirements.

4. The third risk to EMEs is the high volatility in international oil prices. For net energy importers like India, the recent firming up of oil prices on production cuts by major suppliers presents risks to current account deficit and inflation. The financialisation of energy markets and changing underlying dynamics in the global oil market are adding an upside risk to prices, though the demand is subdued. While break-even costs for shale production have apparently increased, investors have turned risk averse and are focusing on cash flows and financial returns. This may reduce the flexibility of shale output in filling the shortfalls created by OPEC plus production cuts.

Policy Challenges

So, in this environment, what are the policy challenges faced by EMEs?

5. In the aftermath of the global financial crisis (GFC), several EMEs have embarked upon structural reforms to reorient their economies. In the short-run, however, these reforms inevitably involve sacrifices, including in terms of losses of growth momentum. Conventionally, these reforms are best undertaken in the expansionary phase of the economic cycle. With growth slowing down in a synchronised manner across borders, the space for undertaking and/or pushing ahead with structural reforms is likely to become severely constricted or even deterred. But the fact remains that we need more structural reforms precisely when the economy is slowing down to ensure durable momentum to growth. This is a point which I would like to stress.

6. As the global economy loses speed and with fiscal space getting squeezed, the focus in EMEs as well as advanced economies is likely to be on monetary policy as the first line of defence. Central banks may once again be expected to assume the mantle of guardians of the world economy. The global financial crisis has, however, exposed several limitations of conventional and unconventional monetary policy tools. In despair, some have turned to the heterodox evolution of ideas that has come to be known as modern monetary theory. While the jury is still out on this idea, I have my own strong reservations on this due to its serious downside risks. In the end, monetary policy must touch the real economy, spur investments, and maintain monetary and financial stability.

7. I do, however, feel that the time has come to think out of the box, including by challenging the conventional wisdom. Let me try and somewhat shock you with one such thought experiment. Typically, modern central banks with interest rates as their main instrument move in baby steps – 25 basis points or multiples thereof – and announce a stance of tightening, neutrality or accommodation to guide the markets and the public on the likely future course of policy. One thought that comes to my mind is that if the unit of 25 basis points is not sacrosanct and just a convention, monetary policy can be well served by calibrating the size of the policy rate to the dynamics of the situation and the size of the change itself can convey the stance of policy. For instance, if easing of monetary policy is required but the central bank prefers to be cautious in its accommodation, a 10 basis points reduction in the policy rate would perhaps communicate the intent of authorities more clearly than two

separate moves – one on the policy rate, wasting 15 basis points of valuable rate action to rounding off, and the other on the stance, which in a sense, binds future policy action to a pre-committed direction. Likewise, in a situation in which the central bank prefers to be accommodative but not overly so, it could announce a cut in the policy rate by 35 basis points if it has judged that the standard 25 basis points is too little, but its multiple, i.e., 50 basis points is too much. This approach can also be useful when the central bank is on a tightening mode and potentially help avoid policy turnaround from forward guidance via stance too far into the future, which in a highly volatile global scenario, may not even be a year. I am articulating this idea not necessarily in search of a theory but in search of traction with domain experts and more particularly, with practitioner central bankers who face these dilemmas in their day-to-day lives.

8. At another level, a formidable challenge that EMEs will continue to face is the management of global spillovers. We live in a world of mobile capital flows where consequences of their arrivals, sudden stops and reversals are to be borne nationally. Against this backdrop, a truly global financial safety net remains elusive. The strengthening of resources of the IMF gets pushed out into time whenever we come together for Spring or Annual meetings. Under these conditions, EMEs which are typically at the receiving end when global spillovers flare up, have no recourse but to build their own forex reserve buffers. Paradoxically, the accumulation of reserves has become stigmatised, including with labels such as "currency manipulation". As I see it, we may be unintentionally setting the stage for several EME currencies to break out and challenge the hegemony of the dominant reserve currencies. There is a need for greater understanding on both sides. In the meantime, so far as the Reserve Bank of India is concerned, we will continue to play by the extant rules of the game.

9. Central banks have to interact closely with financial markets for transmission of monetary policy impulses. In this context, ensuring a sound and efficient payment and settlement system is a pre-requisite. Taking cognisance of exponential growth of digitisation and online commerce in India, policy efforts have been directed in recent years to put in place a state of the art national payments infrastructure and technology platform. This has changed the retail payments scenario of the country. Regulation and development of our payment system envisages the objectives of safety, security, convenience, accessibility, and leveraging technological solutions to enable faster processing. In order to ensure an orderly development of FinTechs and streamline their influence into the financial system, we are now working on guidelines to introduce a 'regulatory sandbox/innovation hub' within a well-defined space and duration to experiment with FinTech solutions.

10. In this high flux and uncertain environment, EMEs could perhaps be better off by stepping up cooperation on all fronts, while recognising multi-polarity. One area of cooperation could be to put in place an institutional mechanism which balances the concerns of both oil exporting and importing countries to ensure stability in energy prices. EMEs also need to explore alternatives to reduce dependence on conventional energy sources, and give greater focus on renewables and energy efficiency. The International Solar Alliance, with its headquarters in New Delhi, is a vivid example. It seeks to provide a dedicated platform for cooperation among financial and solar resource rich countries so that the global community benefits from the use of solar energy.

11. In closing, let me say a few words about India. Real GDP growth is expected to clock 7.2 per cent during 2019-20, the fastest among large economies of the world, growing by an average rate of around 7.5 per cent in recent years. Inflation has remained below target, averaging 3.6 per cent for the period under the inflation targeting framework so far (since October 2016 up to February 2019);

the current account deficit is expected to be around 2.5 per cent of GDP in 2018-19; and the gross fiscal deficit has adhered to budgetary targets.

12. Looking ahead, our priority is to remain watchful and take coordinated action to revive growth and maintain macroeconomic, financial and price stability.

Thank you.

Announcement of Merger of Lakshmi Vilas Bank and Indiabulls Housing Finance Limited

Reserve Bank of India (RBI) has learnt through media reports that Lakshmi Vilas Bank (LVB) and Indiabulls Housing Finance Limited (IBHFL) have made a merger announcement on April 5, 2019 with approval of their respective Boards. It has been reported in a section of the media that the presence of two nominee directors of the RBI on the Board of LVB implies RBI's indirect approval of the proposal. It is clarified that the merger announcement does not have any approval of RBI at this stage. It is also clarified that presence of Additional Directors nominated by the RBI on the Board of LVB does not imply any approval of the RBI of the merger proposal. Moreover, the Additional Directors have clearly mentioned at the meeting that they have no view on the proposal. The proposals, as and when received from these entities, will be examined in RBI as per extant regulatory guidelines/directions.

Minimum Standards for a Currency Chest

As stated in para 15 of the monetary policy statement dated October 04, 2016, the Bank had constituted a Committee on Currency Movement (CCM) [Chair: Shri D.K. Mohanty, Executive Director]. The Committee, inter-alia, recommended that the Reserve Bank should encourage banks to open large Currency Chests (CCs) with modern facilities and Chest Balance Limit (CBL) of at least ₹ 10 billion. Accordingly, it has been decided to have the following minimum standards for setting up new CCs:

i. Area of the strong room/ vault of at least 1500 sq. ft. For those situated in hilly / inaccessible places (as defined by central / state government/ any appropriate authority), the strong room/ vault area of at least 600 sq. ft.
ii. Processing capacity of 6,60,000 pieces of banknotes per day. For those situated in the hilly/ inaccessible places, capacity of 2,10,000 pieces of banknotes per day.
iii. Amenability to adoption of automation and adaptability to implement IT solutions.
iv. CBL of ₹ 10 billion, subject to ground realities and reasonable restrictions, at the discretion of the Reserve Bank.
v. Adherence to other extant technical specifications issued vide DCM (CC) No G-18/03.39.01/2008-09 dated November 14, 2008 relating to construction, etc.

2. Banks desirous of setting up CCs shall ensure that the above mentioned minimum standards are conformed to.

3. All other instructions regarding opening of CCs shall remain unchanged.

Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) Regulations, 2015 - Opening of Foreign Currency Accounts by Re-insurance and Composite Insurance brokers

Attention of Authorised Dealers (ADs) is invited to the Foreign Exchange Management (Foreign Currency Accounts by a Person Resident in India) Regulations, 2015, notified vide Notification No. FEMA 10(R)/2015-RB dated January 21, 2016, as amended from time to time and the relevant directions issued thereunder.

2. The extant Regulations regarding opening of foreign currency accounts in India by persons resident in India have since been reviewed in consultation with the Government of India. As notified vide Notification No. FEMA 10(R)(2)/2019-RB dated February 27, 2019, re-insurance and composite insurance brokers registered with IRDA may open and maintain non-interest bearing foreign currency accounts with an AD bank in India for the purpose of undertaking transactions in the ordinary course of their business.

3. AD Category – I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

4. The Master Direction No. 14 on Deposits and Accounts, dated January 1, 2016 is being updated simultaneously to reflect the changes.

5. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

FINMIN THIS WEEK

Auction for Sale (Re-Issue) of Government Stocks

The Government of India has announced the Sale (Issue/Re-issue) of (i) '7.32 per cent Government Stock, 2024' for a notified amount of **Rs.5,000 crore** (nominal) through price based auction,(ii)'7.26 per cent Government Stock, 2029' for a notified amount of **Rs.6,000 crore** (nominal) through price based auction,(iii) '7.40 per cent Government Stock, 2035' for a notified amount of **Rs.2,000 crore** (nominal) through price based auction, and (iv) 'New Government Stock 2049' for a notified amount of **Rs.4,000 crore** (nominal) through yield based auction. Subject to the limit of **Rs.17,000 crore**, being total notified amount, Government of India will have the option to retain additional subscription up to **Rs.1,000 crore** each against anyone or more of the above securities. The auctions will be conducted **using multiple price method**. The auctions will be conducted by the Reserve Bank of India, (RBI) Mumbai Office, Fort, Mumbai on **April12, 2019(Friday)**.

Up to 5% of the notified amount of the sale of the stocks will be allotted to eligible individuals and Institutions as per the Scheme for Non-Competitive Bidding Facility in the Auction of Government Securities. Both competitive and non-competitive bids for the auction should be submitted in electronic format on the Reserve Bank of India Core Banking Solution (E-Kuber) system on **April12, 2019**. The non-competitive bids should be submitted between 11.30 a.m. and 12.00 noon and the competitive bids should be submitted between 11.30 a.m. and 12.30 p.m. The result of the auctions will be announced on **April12, 2019 (Friday)** and payment by successful bidders will be on **April15, 2019(Monday)**. The Stocks will be eligible for "When Issued" trading in accordance with the guidelines on **'When Issued transactions in Central Government Securities'** issued by the Reserve Bank of India (RBI) vide Circular No. RBI/2018-19/25 dated July24, 2018 as amended from time to time.

WORLD BANK THIS WEEK

Social Safety Nets Key to Protecting Poor and Fighting Poverty During Economic Slowdowns

WASHINGT Social Safety Nets Key to Protecting Poor and Fighting Poverty During Economic Slow downs**ON, April 4, 2019**— The economies of Latin America and the Caribbean (LAC) are facing a number of internal and external challenges, highlighting the need for policy makers to focus on social safety net tools to support the poor and most vulnerable during cyclical downturns. Redistributive policies, like conditional cash transfers, are now widespread across LAC and accounted for around 35 percent of the fall in poverty during the commodity boom at the beginning of the century, according to the latest semiannual report from the World Bank's Chief Economist Office for Latin America and the Caribbean, "Effects of the Business Cycle on Social Indicators in Latin America and the Caribbean: When Dreams Meet Reality." However, many countries in the region lack social programs like unemployment insurance which can act as buffers during cyclical increases in poverty, the report says.

"Social programs that act as shock absorbers during economic downturns are common in developed countries but are not widespread enough in our part of the world," said **Carlos Vegh, World Bank Chief Economist for Latin America and the Caribbean**. "*This is a pending social agenda for the region to make sure that those who recently escaped poverty do not slip back down*."

This is particularly relevant now that LAC's economic growth in 2018 fell short of initial expectations and the prospects for 2019 have deteriorated. The LAC region grew 0.7 percent in 2018. The main reasons for the weak 2018 growth were Argentina's 2.5 percent GDP contraction, a slow recovery in Brazil after the major recession of 2015 and 2016, anemic growth in Mexico due to political uncertainty, and the collapse of Venezuela's economy.

"*In challenging economic times, it is more important than ever for countries to make the reforms needed to fuel sustainable and inclusive growth*," said **Axel van Trotsenburg, World Bank Vice President for Latin America and the Caribbean**. "*We cannot take the recent gains in poverty reduction for granted and need to redouble efforts to solidify and build on them."*

In 2019 the region is expected to grow 0.9 percent (excluding Venezuela, growth in 2018 was 1.4 percent and expected to be 1.9 percent in 2019). The three largest economies in the region - Brazil, Mexico and Argentina - are expected to have weak or negative growth in 2019, while Venezuela's GDP is expected to fall a further 25 percent.

"A complicated external environment is creating additional headwinds," added **Carlos Végh**. *"This includes a drop in commodity prices at the end of 2018, slower growth in major trade partner China, and higher international interest rates."*

South America grew 0.1 percent in 2018 and is expected to grow by only 0.4 percent in 2019. Central America grew 2.7 percent in 2018 and is expected to grow 3.4 percent in 2019, while the Caribbean grew 4.0 percent in 2018 and is expected to grow 3.2 percent in 2019. The weaker economic growth is having a predictable impact on social indicators. Brazil saw an increase in monetary poverty of approximately 3 percentage points between 2014 and 2017. However, it is important to distinguish between cyclical effects on social indicators and structural effects. Cyclical factors have a large impact on unemployment rates, while structural factors are much more important for indicators on unsatisfied basic needs like housing, education, and sanitation. In the current difficult environment, redistributive policies are all the more important. Most of the countries in the region already have sophisticated conditional cash transfers systems aimed at reducing long-term (and inter-generational) poverty by providing cash in exchange for investments in health and education. More programs like unemployment insurance could also go a long way towards helping limit the rise in poverty during economic downturns.

IMF THIS WEEK

The Global Economy: A Delicate Moment

By Gita Gopinath

A year ago, economic activity was accelerating in almost all regions of the world. One year later, much has changed. The escalation of US–China trade tensions, needed credit tightening in China, macroeconomic stress in Argentina and Turkey, disruptions to the auto sector in Germany, and financial tightening alongside the normalization of monetary policy in the larger advanced economies have all contributed to a significantly weakened global expansion, especially in the second half of 2018. With this weakness expected to persist into the first half of 2019, our new *World Economic Outlook* (WEO) projects a slowdown in growth in 2019 for 70 percent of the world economy. Global growth softened to 3.6 percent in 2018 and is projected to decline further to 3.3 percent in 2019. The downward revision in growth of 0.2 percentage points for 2019 from the January projection is also broad based. It reflects negative revisions for several major economies including the euro area, Latin America, the United States, the United Kingdom, Canada, and Australia. After the weak start, growth is projected to pick up in the second half of 2019. This pickup is supported by significant monetary policy accommodation by major economies, made possible by the absence of inflationary pressures despite growing at near potential. The US Federal Reserve, the European Central Bank, the Bank of Japan, and the Bank of England have all shifted to a more accommodative stance. China has ramped up its fiscal and monetary stimulus to counter the negative effect of trade tariffs. Furthermore, the outlook for US–China trade tensions has improved as the prospects of a trade agreement take shape.

After the weak start, growth is projected to pick up in the second half of 2019.

These policy responses have helped reverse the tightening of financial conditions to varying degrees across countries. Emerging markets have experienced some resumption in portfolio flows, a decline in sovereign borrowing costs, and a strengthening of their currencies relative to the US dollar. While the improvement in financial markets has been rapid, those in the real economy have been slow to materialize. Measures of industrial production and investment remain weak for now in many advanced and emerging market economies, and global trade has yet to recover. With improved prospects for the second half of 2019, global growth in 2020 is projected to return to 3.6 percent. This recovery is precarious and predicated on a rebound in emerging market and developing economies, where growth is projected to increase from 4.4 percent in 2019 to 4.8 percent in 2020. Specifically, it relies on an expected rebound in growth in Argentina and Turkey and some improvement in a set of other stressed developing economies, and is therefore subject to considerable uncertainty. Growth in advanced economies will slow slightly in 2020, despite a partial recovery in the euro area, as the impact of US fiscal stimulus fades and growth tends toward the modest potential for the group, given aging trends and low productivity growth. Beyond 2020, global growth is expected to stabilize at around 3½ percent, bolstered mainly by growth in China and India and their increasing weights in world income. Growth in emerging market and developing economies will stabilize at 5 percent, though with considerable variance as emerging Asia continues to grow faster than other regions. A similar pattern holds for low-income countries with some, particularly commodity importers, growing rapidly but others falling further behind the advanced world in per capita terms.

Risks to global growth

While the global economy continues to grow at a reasonable rate and a global recession is not in the baseline projections, there are many downside risks. Tensions in trade policy could flare up again and play out in other areas (such as the auto industry), with large disruptions to global supply chains. Growth in systemic economies such as the euro area and China may surprise on the downside, and the risks surrounding Brexit remain heightened. A deterioration in market sentiment could rapidly tighten financing conditions in an environment of large private and public sector debt in many countries, including sovereign-bank doom loop risks.

Building more inclusive economies

Given these risks, it is imperative that costly policy mistakes are avoided. Policymakers need to work cooperatively to help ensure that policy uncertainty doesn't weaken investment. Fiscal policy will need to manage trade-offs between supporting demand, protecting social spending, and ensuring that public debt remains on a sustainable path, with the optimal mix depending on country-specific circumstances. Financial sector policies must address vulnerabilities proactively by deploying macroprudential tools (such as counter-cyclical capital buffers)—a task made more urgent by the possibility that interest rates will remain low for longer. Monetary policy should remain data dependent, be well communicated, and ensure that inflation expectations remain anchored. Across all economies, the imperative is to take actions that boost potential output, improve inclusiveness, and strengthen resilience. There is a need for greater multilateral cooperation to resolve trade conflicts, to address climate change and risks from cybersecurity, and to improve the effectiveness of international taxation. This is a delicate moment for the global economy. If the downside risks do not materialize and the policy support put in place is effective, global growth should rebound. If, however, any of the major risks materialize, then the expected recoveries in stressed economies, export-dependent economies, and highly-indebted economies may be derailed. In that case, policymakers will need to adjust. Depending on circumstances, this may require synchronized though country-specific fiscal stimulus across economies, complemented by accommodative monetary policy. Lastly, adequate resources for multilateral institutions remain essential to retain an effective global safety net, which would help stabilize the global economy.

A Delicate Moment for the Global Economy: Three Priority Areas for Action

By Christine Lagarde, IMF Managing Director U.S. Chamber of Commerce, Washington, DC

Introduction

Good morning—I would like to thank my friend Tom Donohue and the Center for Capital Markets Competitiveness for inviting me to this important event.

When I walked into this magnificent hall this morning, I was struck by the powerful image of the 12 flags. These are the banners of 12 great explorers, who opened new avenues for trade and planted the seeds of commercial and industrial growth in the New World.

That spirit is at the heart of the US Chamber of Commerce, which has been working hard for more than a century to help foster the American dream. The Chamber and the IMF have much in common.

They both take an international perspective; they both advocate for greater collaboration between government and the private sector; and, above all, they both are deeply committed to promoting *growth*, *jobs*, and *opportunities* for all.

So this is a most fitting venue to discuss how to make growth more sustainable and inclusive; how to reduce trade tensions; and how to strengthen confidence and trust—in the economy and institutions.

These are also issues that Finance Ministers and Central Bank Governors will discuss next week at the IMF and World Bank's Spring Meetings here in Washington.

They will confront a changing economic landscape that places a premium on the right kind of policy action.

As President Theodore Roosevelt once put it: "*There is every reason why we should face the future seriously, neither hiding from ourselves the gravity of the problems nor fearing to approach these problems with the unbending, unflinching purpose to solve them aright*."[i]

I would like to focus on how we can harness this "unbending purpose" for the benefit of all.

2. The Global Economy: A Delicate Moment

Let me begin with the global economic weather map.

A year ago, I said, "*the sun is shining—fix the roof*." Six months ago, I pointed to clouds of risk on the horizon. Today, the weather is increasingly "unsettled". What do I mean by that?

In January, the IMF projected global growth for 2019 and 2020 at around 3 ½ percent—less than in the recent past, but still reasonable. It has since lost further momentum, as you will see from our updated forecast next week.

Only two years ago, 75 percent of the global economy experienced an *upswing*. For this year, we expect 70 percent of the global economy to experience a *slowdown* in growth.

But, to be clear, we do not see a recession in the near term. In fact, we expect some pickup in growth in the second half of 2019 and into 2020.

So you see what I mean by "unsettled". Indeed, the global economy is at a "delicate moment".

Global growth has been slowing, largely because of rising trade tensions and financial tightening in the second half of 2018. At the same time, global economic activity is set to *benefit* from the now more-patient pace of monetary normalization by major central banks—led by the US Fed—and from increased stimulus, in China for example.

These policy responses have supported an *easing* of financial conditions and increased capital flows to emerging markets, where currencies have strengthened relative to the US dollar.

But, again, to be clear: the expected rebound in global growth later this year is precarious. It is vulnerable to downside risks—including *country-related* uncertainties, such as Brexit, and *broader* uncertainties such as high debt in some sectors and countries, tensions around trade policy, and a sense of unease in financial markets.

For example: should there be a sharper-than-expected tightening of financial conditions, it could create serious challenges for many governments and companies in terms of refinancing and debt service—which could amplify exchange rate movements and financial market corrections.

3. Three Areas of Policy Action

So indeed, this is a delicate moment that requires us to "handle with care". This means that we must not only avoid policy missteps, but also be sure to take the *right* policy steps.

I see three mutually reinforcing areas of action: In *domestic policies*; in *cross-border policies*; and in coordinated efforts to tackle the major *global challenges* we all face.

Let me touch on each of these:

(a) Domestic Policies to Build More Resilient and Inclusive Economies

First and foremost, policies must provide conditions at home for people to succeed. You might have heard me say "*we should fix the roof!*"—especially when it comes to structural reforms that can help boost productivity and long-term growth. There is no one-size-fits-all, of course—policies should be customized to meet the needs of individual countries.

Broadly speaking, however, macroeconomic policy should aim to secure growth and stability. Monetary policy should remain accommodative where inflation is below target, and should anchor expectations. Exchange rate flexibility should be used, as needed, to help absorb shocks. And the financial sector should be strengthened and risks reduced by maintaining the impetus of regulatory reform.

The reality is that many economies are not resilient enough. High public debt and low interest rates have left limited room to act when the next downturn comes, which inevitably it will.

For many countries, this implies making smarter use of fiscal policy which, in turn, means striking the right balance between growth, debt sustainability, and social objectives.

As a former Finance Minister, I know that this is not so easily done. It involves building fiscal buffers in good times, while creating enough fiscal space to act in bad times. It involves the continual hard work of upgrading tax systems, mobilizing domestic revenue, prioritizing growth-friendly expenditure, and reducing public debt where needed.

It also involves addressing excessive inequality. Here fiscal policy can play a key role, including through progressive tax measures that would need to be country-specific, and stronger safety nets that can help address dislocations caused by technological change and globalization.

Above all, fiscal policy can help create broader opportunities by providing access to quality education, healthcare, and infrastructure—especially for those who have been left behind or left out. In many countries, this means paying special attention to young people and to women.

This kind of policy action can help build confidence and trust—and overcome perceptions of an unfair sharing of economic benefits.

One area where these perceptions are growing is in the increasing concentration of market power by a few corporate giants.

New IMF analysis[ii] shows that, over the past two decades, rising corporate market power in advanced economies had only a very small effect on investment, output, and the share of national income paid to workers.

But we also found that a small number of highly dynamic companies accounted for the highest price mark ups. In other words, there is a "winner-takes-most" dynamic at play—especially pronounced in the digital economy.

I am not saying that we currently have a "monopoly problem". But I am saying that we should take appropriate measures—so that it does not become a problem.

That means reducing barriers to entry for new firms and reforming competition frameworks to ensure a level playing field in all sectors, whether traditional or high-tech.

(b) Cross-Border Efforts to Provide a More Level Playing Field

This brings me to my second priority area for action: cross-border policies. Here there are a wide range of economic issues to be addressed: upgrading financial regulations, improving debt transparency, tackling illicit financial flows—to name a few.

But when it comes to levelling the playing field across borders, no issue looms larger than trade. This is an area where the Chamber and the IMF share much common ground.

We know that, for many decades, trade integration has helped to increase prosperity, reduce poverty, spread new technologies, and boost productivity. For people all over the world, it has reduced the cost of living and created millions of new jobs with higher wages.

At the same time, we know that not everyone has benefitted, that there are distortions in the trade system, and that it needs to be reformed.

We also know that trade barriers are *not* the answer. More new research from the IMF—about to be released—shows just how important it is to avoid policy missteps in this sphere.

Analyzing experience from 180 countries over the past six decades, we have found that trade integration clearly boosts investment**—**in plant, machinery, and many other high-job-creating areas**.** Conversely, trade barriers clearly *damage* investment and employment.[iii]

This finding is of particular relevance now, at a time when trade tensions could further damage investment—and at a time when investment is already weak.

So, again, it is a *delicate moment*, and we should be careful.

Specifically, we have looked at what might happen if tariffs[iv] on all goods traded between the US and China went up by 25 percentage points. That alone would reduce annual GDP by up to 0.6 percent in the US and by up to 1.5 percent in China.[v]

These are potentially self-inflicted wounds that should be avoided.

And yet, discussions about trade distortions or unfair practices are often bound up with the concept of bilateral trade deficits and surpluses—and tariffs.

The fact is that, historically, bilateral trade balances have been driven mostly by *macroeconomic* factors, not bilateral tariffs. In other words, the most effective way to reduce a bilateral trade deficit is to *steer clear* of tariffs—because tariffs on the goods of *one* country only divert trade flows to *other* countries.

Nobody wins a trade war—you might have heard me say that as well! That is why we need to work together to reduce trade barriers and modernize the global trade system—so that we all win.

That means addressing issues such as state subsidies, intellectual property, and data privacy. It also means *new* deals to unlock the full potential of tradeable services and digital commerce. And it means having rules-based frameworks to ensure fair competition and a level playing field.

So, as we move forward, we need collective action to modernize the key functions of the World Trade Organization: from negotiation, to transparency, to dispute resolution. This will create a stronger and more flexible system.

Of course, levelling the playing field across borders is not only about trade. In recent days—as you may have seen—the IMF has also emphasized the need to improve the framework around international corporate taxation**.**

I have gone so far as to say the system is fundamentally out-of-date. And I believe that we share the Chamber's view that it is counterproductive for countries to take a unilateral approach.

We need a cross-border effort.

Reforming international corporate taxation is a challenge for all countries. But developing economies rely especially on corporate tax revenues to fund essential investment in people and infrastructure.

Our analysis shows that non-OECD countries lose about $200 billion a year because companies are able to shift profits to low-tax locations.[vi]

This foregone revenue makes it even more difficult for low-income countries to increase growth, employment —and to meet the Sustainable Development Goals by the agreed target date of 2030.

The good news is that efforts to modernize the international corporate tax system are underway. But there is a lot more to be done. The IMF has put forward some options on how to work together to make the system fairer and fit for the future.

I have so far talked about two priority areas for policy action: *domestic* and *across borders*. Let me turn to my third and final priority area: global challenges.

(c) Partnership to Address Global Challenges

These are issues that no country can solve alone—and the list is long: demographics, migration, cyber-risks and, of course, the existential threat of climate change.

On that issue, I know that the Chamber sees great potential in public-private partnership as well as innovation and technology to reduce greenhouse gas emissions. We at the IMF are also deeply engaged on this issue—taking a macroeconomic perspective, of course.

We have focused in particular on pricing carbon emissions and reducing energy subsidies—which amount to about $5.2 trillion per year, or 6.5 percent of global GDP.[vii] Both of these policy tools would go a long way to help mitigate the effects of climate change.

Having just recently become a grand-mother, I must say that the challenge of making the planet a better place for our children—and grand-children—has taken on a special resonance for me.

In my conversations with young people all over the world, I have also learned that climate change is one of the two challenges that they see as of greatest importance to their future.

The other one is corruption.

This, too, is an area where the IMF has stepped up its focus on the macroeconomic effects on our member nations.

The annual cost of bribery alone is over 1.5 trillion dollars[viii]—roughly two percent of global GDP. Money laundering and the financing of terrorism are other serious dimensions of the problem—where the IMF has been working with over a hundred countries.

Our latest research underlines the high *fiscal cost* of corruption, leading to a massive loss in public revenue and lower-quality public spending. This new analysis confirms what we had all long suspected: corruption lowers growth. It increases inequality. It feeds distrust.

Is there any hope in combating corruption? We think there is—and we *do* believe that the right policy responses can make a significant difference.

In a new study, we estimate that within a group of similar economies, *less corruption* is associated with *higher* tax revenues—in fact, a very significant difference of up to 4 percentage points of GDP between countries.[ix] Better governance is also associated with higher student test scores and more efficient spending on vital infrastructure: from roads, to schools, to hospitals.

This highlights the potentially huge benefit of curbing corruption—and not only fiscal benefit, but also the potential benefit to *society* at large.

There is clearly an *international dimension* to this. Transparency International, for example, recently updated its Corruption Perceptions Index[x]—where 100 means "very clean". By that measure, two-thirds of *all* countries **score *below* 50**, indicating that they have serious problems in preventing corruption.

Certainly, countries must accept responsibility for what happens within their own borders. But corruption is an *international* plague. To fight it effectively requires *international* cooperation.

4. International Policy Cooperation and the IMF

I know that the Chamber recognizes the value of cooperation. Ever since World War II, in country after country, in crisis after crisis, working together has served the world well.

The IMF has often been at the centre of those efforts.

During the global financial crisis, the Fund was able to commit over $500 billion to help prevent another Great Depression. In the decade since, we supported economic programs in over 90 countries.

And our work continues. Consider the Fund's advice to countries to help them open up their markets and encourage investment.

Or think about our recent support for critical country programs in Egypt, Tunisia, and Jordan. Think about Ukraine. Or Argentina.

To do our job effectively, of course, we need to be sufficiently well-resourced into the future. For that, we rely on the support of our 189 member countries. This is another issue that I expect our Ministers and Governors will discuss at our Spring Meetings next week.

I am confident that the support from our membership remains strong.

5. **Conclusion**

To conclude, I want to return to the inspirational nature of this magnificent building.

Inscribed on the walls of the original Chamber building was a quote from the great American statesman Daniel Webster. He said:

"*Let us develop the resources of our land, call forth its powers, build up its institutions, promote all its great interests, and see whether we also, in our day and generation, may not perform something worthy to be remembered*."

At this *delicate moment* for the global economy, let us work together to do something worthy to be remembered.

Thank you.

<u>Some reforms in India show benefits of digitalisation: IMF</u>

WASHINGTON: Some reforms in India have shown the benefits of digitalisation which has also reduced the opportunities for discretion and fraud, the IMF said in its latest report on Wednesday. The introduction of e-procurement in India and Indonesia has also increased competition and led to better quality of construction, the International Monetary Fund (IMF) said in its latest edition of the fiscal monitor report released ahead of the its annual spring meeting with the World Bank. "Some reforms in India show the benefits of digitalisation and reducing opportunities for discretion and fraud," the International Monetary Fund (IMF) said in its latest edition of the fiscal monitor report released ahead of the its annual spring meeting with the World Bank. "For example, the adoption of an electronic platform for managing a social assistance programme in India resulted in a 17 per cent decline in spending with no corresponding decline in benefits," it said. Similarly in Andhra Pradesh, the use of smart ID cards that are used to identify beneficiaries of specific programmes and improve beneficiaries' access to information helped reduce leakage by 41 per cent relative to the control group, it said. According to the Fiscal Monitor report, studies on public procurement show that the design of procedures can have a significant impact on the prices and quality of products. The introduction of e-procurement in India and Indonesia also increased competition and led to better quality of construction, it said. External scrutiny by Supreme Audit Institutions (SAIs), parliaments and civil society helps safeguard the integrity of public finances and hold civil servants and elected officials accountable, the IMF said, adding that focused audits can help fight corruption by identifying waste and miss-management. "For example, social audits have been in place in India since 2005 to oversee the implementation of a large job guarantee programme and to fight corruption in the programme," it said. These audits were endorsed and supported by the Indian SAI and relied on the strong and direct participation of citizens, the IMF said, adding that SAIs also help promote integrity by reviewing the reliability of the internal control and audit framework. In its fiscal report, the IMF said the interim federal government budget of February 2019 envisages a slower pace of adjustment than previously planned, primarily due to the newly announced rural farm income-support scheme. "IMF staff projections are that the achievement of the federal government deficit target of three per cent of GDP will likely be delayed and that the debt target of 40 per cent of GDP will be achieved after 2024," it said. On the other hand in China, the government plans a more proactive fiscal stance for 2019 that would include reductions in the valueadded, personal income and corporate income tax rates. General government debt is projected to rise over the medium term to over 72 per cent of the GDP by 2024, the IMF added.

The Euro Area: Creating a Stronger Economic Ecosystem

By Christine Lagarde, IMF Managing Director Banque de France, Paris

As Prepared for Delivery

Introduction

Mesdames et Messieurs —bonjour. I would like to thank Governor Villeroy de Galhau for the kind introduction. I would also like to thank Banque de France and the European Money and Finance Forum [SUERF] for inviting me to this important event. As we celebrate the 20th anniversary of the euro—and as we think about the *next* 20 years—it is fitting that we should honour the *courage*, *creativity*, and *perseverance* of those who inspired this unique European project. That spirit reminds me of a story that was once told by a great friend of Europe—President John F. Kennedy. Addressing students at UC Berkeley in 1962, he said the following:

“ *The great French Marshall Lyautey once asked his gardener to plant a tree. The gardener objected that the tree was slow growing and would not reach maturity for 100 years. The Marshall replied, ‘In that case, there is no time to lose; plant it this afternoon!* ” [i]

Twenty years ago, European countries did not just plant *one* tree, they planted an *entire forest*—creating a **new economic ecosystem known as the euro area**. The fundamental strength of that system lies in its *interconnectedness* and *diversity*—a combination that can help Europe to fully unlock its immense economic potential.

With its 19 member countries, the currency union represents the world's second-largest economy. [ii] The euro is the world's second-most traded currency, making it an important reserve asset for other countries' central banks and financial institutions. Above all, the single currency has played a central role in boosting European integration, which in turn has raised living standards across the continent. Real GDP per person in the euro area has increased by more than **60 percent** over the past two decades. It is not surprising, therefore, to see strong public support for the single currency. Three in five euro area residents say that the euro is good for their country, and three-quarters say that the euro is good for the European Union. [iii]

And yet, this is still a relatively *young and incomplete* ecosystem. It braved a massive storm during the global financial crisis, and another a short while later in the euro area sovereign debt crisis. These events left painful economic scars on many households and companies, sowing the seeds of economic disparity across member countries and within. Today, one in four young people in the euro area is at risk of being in poverty, casting a dark shadow over the continent's next generation. [iv] A related challenge is the rise of populist movements in several countries, calling into question the very idea of European integration. Like any ecosystem, Europe continues to face good times and bad. After a formidable run of relatively strong growth over the last few years, economic activity in the euro area is now once again slowing, and risks are rising.

In many ways the weaker economic outlook raises an important question: **is the euro area better prepared for unexpected economic storms?**

The short answer is *yes*, the currency union is *more* resilient than ten years ago. But it is not resilient enough. Its banking system is *safer*, but not safe enough. Its economic well-being is *greater* overall, but the benefits of growth are not shared enough. In other words, now is the time to strengthen this unique economic ecosystem. How? By improving financial interconnectedness in a way that truly serves all Europeans.

The Current State of the Financial System

The relative success of the Single Market in goods and services in increasing *economic* integration serves as a reminder of the failure to achieve a similar degree of *financial* integration. There once was a vision that monetary union would serve as the foundation of a **financial union**—that just as there is a Single Market in goods and services, there would eventually be a single market in banking and non-bank finance as well. We all recognize that finance is the *lifeblood* of commerce. At its best, it waters the seeds of innovation and facilitates the churning that every healthy ecosystem needs. At its worst, it becomes a deluge that sweeps away all that stands in its path—we saw this during the global financial crisis. And somewhere in the middle, finance can simply be an underdeveloped irrigation system, delivering some nutrients but not enough, something that prevents the green shoots of growth from reaching their full potential.

I would put Europe's financial system in this middle category.

Unfortunately, political priorities seem to have moved to other areas. I, for one, *do not* view this as acceptable.

With the economic slowdown on everyone's minds, let me say this clearly: **now is the time to give euro area finance another big push** .

So today I will focus on the areas of financial integration where making progress is critical: the Banking Union and the Capital Markets Union.

Pushing Forward on Banking Union

Let me start with the **banking union**.

Before the crisis, financial integration in the euro area saw plenty of cross-border lending, especially between banks. But it was also a time of national supervision and *neglect* of proper underwriting standards, especially if the risks were far from home. Inevitably, what followed were sharp rises in asset prices in some countries, creating housing bubbles and fiscal bubbles. We know how that ended. When the global financial crisis hit, the large so-called "core" banks abruptly pulled their liquidity back to the perceived safety of home, precipitating credit crunches where once they had fueled credit booms. Asset prices collapsed. This retrenchment was an important contributor to the emergence of the euro area debt crisis just a few years later.

Today, cross-border lending between banks in the euro area is back at 2005 levels.

So, **should we be worried?** Yes.

Firms in some euro area countries **pay more than twice as much for credit** than comparable firms in other euro area countries. There is a similar situation for households. And this dispersion in borrowing costs has *increased* since 2009. It is the cost of **fragmentation in finance**.

Now, it is not that nothing has been done to address the problem. Far from it. In the midst of the crisis, policymakers recognized that the institutional architecture—the plumbing system—had not held up to the storms. They realized that, to be strong and to thrive, a monetary union needs a banking union, one where risk-taking is subject to *proper* checks and balances. Astounding progress was made in a very short amount of time. The creation of a single supervisor for banks, higher capital buffers inside banks, the introduction of a new framework for handling bank failures and crises. These new tools became critical elements of a new system of checks and balances. The good news for taxpayers is that, as a result, they are now less likely to be on the hook for massive bank *bailouts* than a decade ago.

But that is not the whole story.

Not only is "home bias" still pervasive in European banking, as banks choose to lend and invest domestically, but banks are facing new challenges from new angles. Higher capital at banks has meant lower returns on equity, implying a need to pursue leaner and more efficient business models. New entrants such as **fintech firm**s mean new sources of competition, bringing new pressures on bank profitability and, if not carefully managed, new incentives to ease lending standards. In sum, we need a European banking system that can *bend* in a storm without breaking, we need a banking system that will **truly diversify risks** across the ecosystem and irrigate growth. It is clear what is left to be done: establish **common deposit insurance**. We can find ways to resolve our legitimate national concerns and plant that vital shade-tree. I want to emphasize that this system will be *funded by banks*, not taxpayers. To get this done, member countries will need to agree on a mutually acceptable balance between risk-sharing and risk-reduction—between *trust* and *accountability*. This will not be easy. But today I *urge* euro area leaders to **reignite the discussion**, to negotiate in good faith and make the difficult compromises, to unlock the full potential of the banking union.

Unlocking the Potential of Capital Markets

In parallel, we have to pursue the essential complement to the banking union: **a thriving and integrated single European capital market.**

Just as a forest ecosystem is made more resilient by greater diversity, so Europe's financial system would be more resilient with more diversified sources of financing. Let me give you just one data point: in the United States, the corporate bond market accounts for more than **two-fifths** of GDP, compared with only **one-tenth** in the euro area. Former Federal Reserve Chairman Alan Greenspan once referred to capital markets as the "*spare tire*" of the financial system. [v]

European finance also needs a spare tire .

This is why Europe has chosen to chart a course to "capital markets union." This major endeavor, like the banking union, is ultimately about broadening the range of domestic and cross-border financing options for firms and households.

Why should people *care*?

Currently, euro area households store **40 percent** of their financial assets as bank deposits. This leaves them very exposed to the banking sector. As long as this is the case, Europe will be overly reliant on banks for savings instruments and investment financing. Not only would an integrated capital market across the EU help companies and households reduce their reliance on banks, it would also make the ecosystem more *resilient* to shocks. It would help achieve a more *uniform* cost of funding for firms across countries. Think of similar firms in Italy and Austria, just across the border from each other. Why should they face sharply different costs of financing when they are just a few kilometers apart? It would also help boost people's *returns* on savings and help buffer domestic shocks to their incomes, as they include other countries' stocks and bonds in their portfolios. Think of Italian savers having an easier ability to invest in something besides Italian banks. Think of German savers desperate to earn something more than zero on their bank deposits.

There is a long way to go.

So, *how* should policymakers unlock the full potential of the capital markets?

While a number of reforms are needed to achieve more integrated European capital markets, let me highlight three key areas.

First**, transparency of information**. Capital markets are all about arms-length transactions. You buy debt or equity claims on someone *you've never met*. Here, you rely on **public information**, information you can trust. The beating heart is transparency. Information on firms and financial instruments needs to be widely available, at low cost, based on strong audits, and presented in readily comparable ways. A good example is the recently developed standard for securitization, which will give preferential regulatory treatment to ***simple, transparent, and standardized*** (STS) instruments. After a transition period, only these standardized securitizations will be eligible as ECB collateral. Securitization developed a bad reputation during the global financial crisis, but if properly done it can be used to broaden the investor base and increase funding options for small businesses.

Investors would also greatly benefit from more efficient **insolvency regimes**. This is my second key area. The faster and smoother the insolvency process can play out, the better. This would help free up capital that could be invested more productively elsewhere. Of course, the need for reform varies widely across Europe and insolvency procedures are deeply rooted in national traditions. Resolving a corporate insolvency in Greece takes about **nine times** longer than in Ireland, for example. So yes, these reforms tend to be politically difficult and take time, but they are worth doing. The same is true when it comes to my final area—taxation of **cross-border investments**. One reason financial investors may be discouraged from venturing far from home is the different rules and procedures each country has on **withholding taxes**. Ideally, investments in other euro area countries would be treated in the same way as domestic investments. At the very least, withholding tax rules should be *simplified* and *harmonized* to encourage greater diversification in financial portfolios. The bottom line is that planting new trees in the capital markets could help promote a Single Market in finance and transform Europe into a more vibrant and more robust economy. It is time to *replicate* in finance what has been achieved in creating the Single Market for goods and services—a project that has raised GDP in the EU by an estimated **9 percent**. [vi] Is this overly ambitious? A fully integrated EU financial market, really? Time will tell—but *my* money is on Europe's *courage*, *creativity*, and *perseverance*.

Conclusion

Let me conclude with a quote from Molière, who once said: " *The trees that are slow to grow bear the best fruit*." [vii]Some can rightfully argue that Europe has been slow to produce a fully developed financial ecosystem. Going on 20 years, the time is ripe for the euro area to show new resolve and complete the banking and capital markets unions—so it can harvest the benefits *now* and in the future. Thank you very much.

BASLE THIS WEEK

Does informality facilitate inflation stability?

BIS Working Papers | No 778 | by Enrique Alberola-Ila and Carlos Urrutia

Focus

The paper assesses how informality affects inflation dynamics and monetary policy. Informality is captured by a dual labour market where the share of informal workers is driven by market demand and adjusts quickly. Only formal sector firms have access to financing, which is necessary for their production process. These elements are embedded in a standard general equilibrium framework with a Taylor rule for monetary policy. We explore the impact of different shocks on the dynamics of inflation and how the transmission channel of monetary policy is affected by informality.

Contribution

Informality is still an entrenched structural trait in emerging market economies. Informality determines the behaviour of labour markets, financial access and the productivity of the overall economy. Therefore, it influences the transmission of shocks and also of monetary policy. However, there is hardly research analysing the link between informality and monetary policy.

Findings

Informality provides higher flexibility to the labour market and buffers the impact of shocks on wages. Informality also operates through the credit cost channel: as the informal sector is excluded from credit markets, the sensitivity of unit costs to changes in interest rates is reduced. The paper has two main results: 1) the informal sector mitigates inflationary pressures arising from demand and financial shocks (but not of technology shocks); 2) the informal sector dampens the transmission channel of monetary policy: policy interventions are less effective in stabilising inflation and the sacrifice ratio is higher. Less effectiveness implies that monetary policy must react more strongly to deviations from inflation, but deviations would be smaller under most of the shocks. So, does informality facilitates inflation stability, making the job of monetary policy easier? At the light of our results, the answer is inconclusive.

Abstract

Informality is an entrenched structural trait in emerging market economies, despite of the progress achieved in macroeconomic management. Informality determines the behavior of labour markets, financial access and the productivity of the overall economy. Therefore it influences the transmission of shocks and also of monetary policy. This paper develops a simple general equilibrium closed economy model with nominal rigidities, labor and financial frictions. Informality is captured by a dual labour market where the share of informal workers is endogenous. Only formal sector firms have access to financing, which is instrumental in their production process. Informality has a buffering effect on the propagation of demand and supply shocks to prices; the financial feature of the model exacerbates the impact of financial shocks in the formal sector while the informal sector is in principle unaffected. As a result informality dampens the impact of demand and financial shocks on wages and inflation but heighten the impact of technology shocks. Informality also increases the sacrifice ratio of monetary policy actions. From a Central Bank perspective, the results imply that the presence of an informal sector mitigates inflation volatility for some type of shocks but makes monetary policy less effective.

<u>BigTech and the changing structure of financial intermediation</u>

BIS Working Papers | No 779 |

by [Jon Frost](), [Leonardo Gambacorta](), [Yi Huang](), [Hyun Song Shin]() and [Pablo Zbinden]()

Focus

This paper investigates the entry of big technology companies (BigTech) into financial services. It seeks to address three questions: What economic forces are driving this development? Do BigTech lenders have an information advantage compared with traditional data or processing methods, particularly when gauging creditworthiness? Do firms receiving BigTech credit perform differently from competitors?

Contribution

The paper reports findings based on exclusive data from BigTech lenders to provide both an overview and new cross-country evidence on BigTech activities in finance. Analysis that draws on detailed data from China's Ant Financial and Latin America's Mercado Libre sheds light on key questions about this potentially game-changing development in the world of finance.

Findings

Differences in the development of FinTech credit reflect differences in income and financial market structure. The higher a country's income and less competitive its banking system, the larger the FinTech credit volume. BigTech credit benefits even more from these factors. Looking at credit scoring data from Mercado Libre show that credit models using machine learning and data from the e-commerce platform are better at predicting losses than traditional credit bureau ratings. Finally, using detailed micro data from Mercado Libre and Ant Financial, the authors find that small firms in Argentina that used BigTech credit offered more products and had higher sales than competitors, and that small firms in China also offered more products.

Abstract

We consider the drivers and implications of the growth of "BigTech" in finance - ie the financial services offerings of technology companies with established presence in the market for digital services. BigTech firms often start with payments. Thereafter, some expand into the provision of credit, insurance, and savings and investment products, either directly or in cooperation with financial institution partners. Focusing on credit, we show that BigTech firms lend more in countries with less competitive banking sectors and less stringent regulation. Analysing the case of Argentina, we find support for the hypothesis that BigTech lenders have an information advantage in credit assessment relative to a traditional credit bureau. For borrowers in both Argentina and China, we find that firms that accessed credit expanded their product offerings more than those that did not. It is too early to judge the extent of Big-Tech's eventual advance into the provision of financial services. However, the early evidence allows us to pose pertinent questions that bear on their impact on financial stability and overall economic welfare.

13/04/2019

BY VASANT PONKSHE
EX-SECRETARY AIBOA
CO-CHAIRMAN BOMOA
PERMANENT INVITEE TO AIBOA