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INDUSTRY OUTLOOK

ECONOMIC DIGEST (May 2020)

9 June 2020

1. Global economy could witness losses up to $8.8 trillion: ADB-Tribune

"The global economy could suffer between $5.8 trillion and $8.8 trillion in losses — equivalent to 6.4% to 9.7% of the global GDP — as a result of Covid-19 pandemic," ADB said. Of this, the impact on South Asian GDP will be $142-218 billion. South Asia's GDP will be lower by 3.9-6%, mainly reflecting the tight restrictions in countries like Bangladesh, India and Pakistan. The economic losses in Asia and the Pacific region could range from $1.7 trillion under a short containment scenario of three months to $2.5 trillion under a long containment scenario of 6 months, with the region accounting for about 30% of the overall decline in global output. The People's Republic of China (PRC) could suffer losses between $1.1 trillion and $1.6 trillion.

In the ADO 2020 published on April 3, ADB had estimated Covid-19's global cost to range from $2 trillion to $4.1 trillion. Earlier on March 6, it had estimated the economic impact globally ranging from $77 billion to $347 billion (0.1 to 0.4% of global GDP). This new analysis is excluding the impact of policy measures. ADB's new estimate is more than double the World Bank's estimate of 2-4% decline in global GDP and higher than the IMF's World Economic Outlook estimate of 6.3% decline in global GDP.

2. Fed says financial system came under severe strain in March-WTO V9 Fox

The Federal Reserve said that parts of the U.S. financial system was severely strained in March as a global pandemic was shutting down much of the economy (May 15, 2020). Quick action by the central bank helped alleviate many of the stresses but cautioned that further shocks to the financial system could occur depending on the course of the virus and the amount of damage to the U.S. economy.

3. COVID-19 Crisis: Understanding the State of Economy -EPW

The modern-day production of goods and services is concentrated in some pockets that are widely dispersed geographically. So, the produced goods have to be moved to the consuming centres all over the globe.

This requires finance, trade, and transportation. Consequently, no country or a region in a country is self-sufficient. There are global supply chains, so even nations are not self-sufficient. Only a few large economies have relative self-sufficiency. Even large economies, e.g., the US and the European Union, import a lot of common consumables from the developing world. While some of those imports are consumed (like, clothing and electronics), others (like, machines) are put to use in production units. The smaller economies are even more dependent on imports… supply chains have been affected across the globe. Progressively global production has been increasingly affected.

THE DOMINO EFFECT IN A STALLED ECONOMY

Generally, manufacturers hold some raw material in stock so that even if supplies are affected for any reason, they can continue their production. But, maintaining inventories come at a financial cost, since working capital is borrowed from banks, and an interest is paid to banks in return. So, companies try to minimise their inventories. Many businesses now work on the concept of "just in time;" get inputs every day and produce every day to cut down costs on inventories. Such a business is considered efficient. Due to such business structures, a supply disruption, due to the lockdown, immediately stalls production in the entire supply chain.

…A lockdown does two things. First, workers cannot go to work, and second, the supply of inputs are disrupted, so that production largely stops. So, even though workers and capital both exist, production stops. Generally, world over, production is carried out in large- and small-scale industrial units. In India, there is also the medium and cottage industry, or the unorganised sector. The large and medium industrial sectors by definition have a lot of capital and machines while the rest have minimal resources. A working capital is needed to buy raw materials and inputs, and to pay workers their salaries. At the start of a business, to buy machinery and to construct factory buildings, among others, loans are taken from banks. The smaller units get loans from private lenders, or have to invest their own savings. In a nutshell, businesses work with a lot of debt on which they pay interest.

An interest is paid out of revenue generated from sales. So, if sales stop, repayment of loan or payment of interest becomes difficult, and businesses begin to fail. Such loans from the banks become NPAs. However, if production continues when sales have stopped, more inputs are needed and more unsold products accumulate, so more working capital is required and more interest has to be paid. Hence, losses increase, and companies stop production in a lockdown.

DISSAVING DURING LOCKDOWN

Healthy companies maintain reserves (savings) which they can use for a while, but this is not so with weak companies or smaller industrial units. Generally, in the cottage industry, savings are used to carry out the production, but when production stops, there is no income flow. So, savings are used for consumption.

A working capital is required to carry out production, or to restart. This comes from banks, which, in turn, get it from their depositors in the form of savings. The working capital keeps the economy running. Since production is not possible without it, investments are crucial than consumption to keep the economy going. If investments decline then income declines and so do consumption and savings. As workers earn their wages and businessmen their profits from production, both are negatively affected in a situation of economic lockdown. The demand in the economy falls, and even if factories are in a position to produce, they do not carry out production lest inventory builds up. As production capacity becomes idle, more investment does not make sense. As investments decline, there would be another round of reduction in incomes and consumption levels, becoming something like a vicious cycle. This is the story of a near-complete lockdown, only when essentials are allowed to be produced.

Savings represent the income left after consumption. So, if incomes collapse, so do savings. But, in any case, consumption has to continue, so people withdraw their savings and past deposits from the banks and financial institutions. Small businesses use their savings for current consumption. As a result, deposits in the banks decline, and simultaneously, credit demand falls as production and investments are affected. That is why an interest rate reduction by the central banks does not give a boost to the economy, because businesses which are shut do not need credit. Banks park any excess funds with the RBI, as is the case currently.

Most Indians working in the unorganised sector and the poor have low incomes and hardly any savings. So, when incomes stop, their consumption drastically falls. This model of uneven development, which has been forcing people to migrate, has to be re-examined. Similarly, those running small and cottage industrial sectors are bound to exhaust their savings within a short while, and would not be able to restart their businesses when the situation limps back to normal.

But organised sector employees, having fixed incomes, will continue to get at least a part of their salaries for some time and would be able to continue their consumption of essentials. But, this would also mean loss of savings for the companies, and they too cannot sustain it for long. The self-employed, elderly, and retired people have no option but to use their savings.

BUSINESS FAILURES

Businesses, which had already been stressed in a slowing Indian economy prior to March 2020, will now face a failure. Among them, those which have been depending a lot on borrowing (highly leveraged) will be the first ones to fail. Many firms in the financial sector are in this category, and can fail. As these firms are all interlinked via credit, so when one fails to return a loan, the next fails too, and the domino effect takes over, as it happened when Lehman Brother Holdings had failed in 2008 in the US.

Though the three-month moratorium announced by the government for the payment of interest to banks could help check business failure to an extent for some time, it would be inadequate because production and income generation have stopped during the lockdown, and their revival is uncertain. Though businesses that have large reserves (savings) could face less trouble, they too will come under strain due to the prolonged lockdown. Although agriculture, mining, forestry and logging, and fishing could continue, but as incomes fall, demand for their produce would also decline. In such a situation, either they have to reduce production, or their prices would collapse. For agriculture and fishing, the looming danger is that the price of produce could fall at the source, but in consuming centres in urban areas, due to shortages and profiteering, their prices would rise. Therefore, regulation of trade would become crucial in the coming days.

GRADUAL RECOVERY AND BLEAK ECONOMIC SCENARIO

As the lockdown is likely to be recovered in stages, production could recover gradually. However, the demand for non-essential items would remain low as consumer sentiment and capacity utilisation are down. As it would take some time for investments to pick up, employment and incomes could only revive gradually.

Businesses, which have exhausted their working capital, or have failed during the lockdown, would not be able to restart operations immediately. Even if they want to, banks would be wary of lending to such businesses because of the fear of loans becoming NPAs. In fact, the financial health of banks and other financial institutions would also be precarious, owing to the adverse impact of the lockdown.

As the economy is currently running at 25% of its capacity, compared to what it was in February and before, and assuming that this period of economic inactivity lasts for two months and then it recovers slowly to pre-crisis level in a year, India could see 35% and more drop in its GDP levels this FY. The economy would lose more than Rs 70 lakh crore of production and GDP would come down to Rs 130 lakh crore from Rs 204 lakh crore in 2019–20. Most of this loss will be that of the small and unorganised sectors of the economy and that is why many of these units would collapse. So, support would be required both for workers and the small businesses and that can only come from the government, the collective. It would have to provide essentials to the people, so that they do not face hunger, and societal disruption is prevented. It is a medical emergency, so massive investment is required in health infrastructure to tackle the disease. All this would require tightening governance which has been notoriously weak in India.

GOVERNMENT RESOURCES AND DEFICIT

How does the government finance the massive increase in expenditures that would be required to tackle the pandemic? Taxes are collected from the incomes of people and also from production and consumption. But if the economy produces much less and incomes collapse, then tax collections would also fall. Other revenues would also fall as they too depend on economic performance.

Since GDP would be down by 35%, tax collection would fall by much more than this amount, as essentials would come with a low tax rate of zero rate. Currently, whatever production is taking place, it is mostly essentials. Revenues of centre and states could fall by 50% to 8% of the reduced GDP of 2020–21. So, from Rs 32 lakh crore, it would be down to about Rs 10.4 lakh crore. It may be noted that last year, the tax/GDP ratio was around 16%. This cannot even meet the current levels of expenditures much less the burden of new expenditures due to COVID-19. The state governments are complaining of shortage of resources and they have to carry much of the burden of taking care of the people.

But government expenditures have a committed part, e.g., interest payment. More measures such as a curtailment of salaries, defence expenditure, travel, meetings, etc. Investments could be postponed, and new projects could be shelved to reduce expenditure. But, it would also mean bringing down employment levels further in the economy. If expenditures are not slashed—as the fiscal deficit was already at 10% of the old GDP—it could touch 15.5% of the already reduced GDP levels. In fact, even before this crisis emerged, the fiscal deficit was already at 10% of the GDP pointing out at the poor health of the economy. The possible rise in fiscal deficit levels could be attributed to a drastic fall in the revenue (around 17% of the already reduced GDP projections), increased expenditure to sustain at least half of the population (amounting to 14% of the GDP) and increased medical expenditures to deal with the pandemic.
The government has to go in for a survival package by massively bringing down expenditure and providing a basic minimum for the population to survive, and to contain the spread of infection through lockdown. Thus, even though machines, factories, and offices exist, the economy has stalled, and restarting production would be difficult if the lockdown lasts for a few months. The poor and the unorganised sector producers who have little savings would be the worst sufferers. As the government's resource position is badly stretched, it could only cater to survival.

4. Fitch Ratings, CRISIL, SBI Research see India economy shrinking in FY21-BS

Fitch ratings, CRISIL, and SBI Research have drastically cut India's economic growth forecast in the current fiscal year due to a prolonged lock-down. While both Fitch and CRISIL projected the economy to contract 5%, from their earlier esti-mates of the economic growth at 0.8% and 1.8%, respectively, SBI Research slashed economic contraction to 6.8% from earlier 4.7%. CRISIL expected the current quarter's GDP to shrink 25% year on year. CRISIL expects non-agricultural GDP to contract 6%, agriculture could cushion the blow by growing at 2.5% in FY21. It would really be a long road to recovery and going back to the pre-Covid-19 trend level of GDP in India will not be possible for the next three fiscal years. The lockdown extension, higher economic costs, and an economic package that lacked muscle are the three key reasons why CRISIL has downgraded the GDP forecast.
SBI also calculated GDP growth taking bottom-to-top approach than earlier top-to-bottom one. As such, group chief economic advisor Soumya Kanti Ghosh estimated the district-wise, zone-wise loss in GSDP for each state and found that total GSDP loss due to Covid-19 for states stands at Rs 30.3 trillion, which is 13.5% of total GSDP.

5. Indian economy may expand by around 5% in FY22: Ex-RBI governor Subbarao-BS

India's economy may expand by around 5 % next financial year after likely contracting by 5 % this time, Subbarao said. Crisil had said the Indian economy may shrink by 5 % in fiscal 2021, which could be the country's fourth since Independence and perhaps the worst to date.

6. Indian banks may need $20 billion of capital over next year: Credit Suisse-Mint

Indian banks may need to raise $20 billion additional capital over the next 12 months as credit quality weakens, resulting in increased provisioning. Credit Suisse said that it estimates private sector banks will raise $7 billion worth of capital and public sector banks may require $13 billion worth of recapitalisation. "We raise our credit cost estimates by 20-60% giv-en the lockdown extensions and unimpressive fiscal stimulus. Private banks tier-1 is healthy at 13%, and coupled with strong pre-provisioning profitability, adequate to absorb up to 4% additional credit costs," said Ashish Gupta, Credit Suisse. "We, however, expect them to shore up capital buffers and estimate $20 billion in capital-raising by Indian banks in the next 12 months." Credit cost imply provisioning requirements.

The need to raise additional capital arises from the deteriorating asset quality, which is likely to worsen. The economy is expected to contract by as much as 5% in real terms in fiscal year 2020-21 . "We estimate that 70% of the Indian financial system's lending capacity is now constrained. PSU banks (ex-SBI) are 25% of system credit and are still to emerge from NPA issues, and now in the midst of mergers. NBFCs and small private banks are also pulling back given their rising liquidity constraints," said Gupta.

7. Quantitative easing: Is it a solution for economic crisis due to Covid19-DC

COVID 19 affected nearly 20 lakh people globally with more than one lakh lives lost. Countries across the globe are fighting this pandemic through testing, tracing and treating people and creating awareness about personal hygiene and social distancing. Many countries adopted strategy of partial lockdown to complete lockdown resulting in shutting factories and businesses, suspending flights, stopping trains and restricting mobility of goods and people… But India's GDP growth estimates took significant hit. World bank predicts India's GDP growth to be 1.5% – 2.8 % for the FY 2021, which would be lowest in last three decades and Fitch ratings projects it to be at 2%. While central government and state governments are leaving no stone unturned to handle COVID Crisis situation, both are struggling to mobilise required funds to handle massive needs of the 135 crores population of India.

Sri K C S Rao, Chief Minister of Telangana suggested Government of India to explore the option of 'Quantitative Easing' to release an amount of nearly Rs 10 lakh crores, which is 5% of 203 lakh crores of Indian GDP. The amount generated through Quantitative Easing will be spent by the governments to handle economic crisis due to COVID 19. Quantitative easing is a monetary policy tool used by Central Banks to buy Government bonds/Corporate bonds to create liquidity in markets and boost economy from recession. In QE, central banks generate money to purchase bonds from banks, financial institutions and infuse money supply for increased credit activity. Banks and Financial institutions may lend to governments, businesses, individual households at lower interest rates. This results in increased levels of consumption and income. Theoretically, when the economy recovers, Central bank sells the bonds and destroys the cash received. This means in the long term there has been no extra cash created.

QE is used by Central Banks in prolonged recessionary conditions. Usually, Central banks attempts to revive economy through Monetary policy tools such as lowering Cash Reserve Ratio, Statutory Liquidity Ratio, Banks Rates, Repo rates to infuse more liquidity into the economy. QE is used as a last resort, when no other tools are working to revive economy. QE as a monetary policy tool was used by federal reserve bank during global financial crisis in 2008 and by European Central Bank during Euro Debt Crisis in 2014.

QE boosts economic Growth, preserves industries in recession, maintains existing level of employment, increases consumer confidence and increases exports due to reduction in the value of currency due to increased money supply. QE may result in higher inflationary conditions, lowers return on savings due to lower interest rates and makes imports costlier due to reduction in the value of currency due to increased money supply . Finally, it may not be possible for Central banks to sell bonds back, which reduces country's borrowing ability

RBI may create liquidity with governments and banks by purchasing bonds to revive economy through Quantitative Easing. But QE works only with a coordinated fiscal action and monetary stimulus.

QE does not work, if banks are not ready to lend or businesses are not ready to borrow due to lack of demand or consumer does not spend due to lack of confidence. In spite of RBI lowering interest rates six times in row, economic activity could not rise due to increased levels of bad loans with banks and lower income levels in rural India. Firstly, policy makers may focus on facilitating state governments or Food Corporation of India to procure agricultural produce from farmers at Minimum Support Price. This ensures better income levels in rural India. Policy makers may encourage businesses to manufacture or render services, which strengthens health care system in India, while giving necessary stimulus packages to other sectors of the industry to maintain current level of employment. Banks should be encouraged to lend for development, production and consumption activities of governments, businesses and households. Finally, RBI will have to create money through QE to support efforts of the governments in fighting COVID 19 and economic crisis due to COVID 19.

8. Interest on deposits drops to 17-year low-FE

In a blow to savers, interest rates on fixed depos-its have plunged to a 17-year low after SBI slashed the coupon on a one-year deposit by 40 bps to 5.1%; in November 2003, the lender was offering 5% for one-year money. While other banks offer higher interest rates — HDFC Bank pays 5.6% and both ICICI Bank and Bank of Baroda pay 5.55% for the same product —possibly they too will trim interest rates because of limited lending opportunities. Banks have been trimming lending rates e.g., a home loan from SBI, for an amount of up to Rs 30 lakh now costs the borrower 7.4% down from 9.45% four years ago. However, banks are barely lending as can be seen in average fortnightly growth in non-food credit of just about 6-6.25% year-on-year; in fact there has been a fall in outstanding loans of Rs 1.36 lakh crore between March 27 and May 8. Consequently, they see little reason to attract deposits and are lowering interest rates so as to protect their margins. However, even though deposits rates have been trending down for close to two years now, deposits continue to grow and are currently increasing at a robust 10-10.5% year-on-year. That has left lenders with a large surplus of close to Rs 8 lakh crore which is being parked with RBI for a return of just 3.35%. Financial experts attribute the steady rise in deposits to a lack of spending opportunities and increasingly cautious attitude of consumers.

9. Govt notifies Rs 3 lakh crore MSME credit guarantee scheme- Moneycontrol

The government on May 26 notified the Rs 3 lakh crore Emergency Credit Line Guarantee Scheme for MSMEs under the Atma Nirbhar Bharat Abhiyan to help them tide over the economic distress being faced due to the COVID-19 pandemic. Under this scheme, MSMEs borrowers with up to Rs 25 crores of total borrowing can avail an additional 20 % of the loan outstanding from banks, NBFCs, and other financial institutions (FI). This incremental lending by banks and financial institutions of up to Rs 3 lakh crore in total will be 100 % guaranteed by the Government of India.

Borrowers will have a one-year moratorium of re-payment, and the interest rate charged by banks/FIs will be capped 9.25%, and at 14 % in the case of NBFCs. The scheme is also aimed at helping stressed borrowers who are not in default, therefore borrowers with standard accounts (with timely repayment), SMA-0 (with overdue of up to 30 days) and SMA-1 (with overdubs of up to 60 days) are eligible to take these loans. The government will set up Rs 41,600 crore fund under National Credit Guarantee Trustee Company Limited (NCGTC) for this scheme.

10. PSBs get lion's share of bank deposits as savers avert risk- BS

After losing market share in deposits to private lenders, PSBs have seen a surge in deposits in the past few months, as many savers become risk-averse, thanks to the YES Bank fiasco and Franklin Templeton bond fund blow-up. PSBs reported a sharp rise in fresh deposits during the January-March 20 quarter and in April 2020, owing to the perceived safety of government-owned banks in increasingly uncertain economic environment.

11. UPI to see growth in the 'phygital' space in a post-covid world:NPCI - Mint

NPCI said that the relevance of Unified Payments Inter-face (UPI) will grow in the 'phygital' world, combining the physical and digital space, in a post-covid world, with increasing relaxations being wit-nessed in India's lock-down. "As merchants and users avoid crowding in shops and neighbourhood stores, merchants will start taking and managing orders digitally, while requesting for payments online remotely. The UPI-used case will only grow further," said Mr Praveena Rai, COO, NPCI.

12. Loan repay-ments deferred by another three months- FE

The extension of several forbearance measures by RBI was welcomed, especially the deferral of loan repayments till end August but both banks and borrowers were disappointed as no one-time restructuring of stressed ac-counts, without the bad-loan tag, was announced. Lenders were also hoping the RBI would stretch the time period for recognising a NPA to 180 days, from the existing 90 days, after the due date but no such re-laxation was forth-coming. While extending the repayment moratorium, the RBI will also allow these exposures to be excluded from the as-set qualification guidelines. The RBI has allowed interest on working capital facilities, to be accumulated and to be paid off by March 31, 2021 so as to make it easier for borrowers. Banks have cautioned borrowers they should use the repayment holiday only if they really need to since it would cost them more.

13. Government looks at RBI to monetise defi-cit- ToI

The Centre is likely to look at the option of the RBI monetising the deficit in the second half of the financial year… The assessment within the government is that expenditure in the first half of the financial year would be met through market borrowing and spending re-prioritisation for various ministries. There is an uncertainty about how long the pandemic will last and the government is not keen on rushing into any decisions so early in the financial year. The RBI's monetisation of the fiscal deficit broadly means the central bank printing currency for the government to take care of any emergency spending and to bridge its fiscal deficit — this action is resorted to under emergency situations.

14. Retailers, small businesses not registered as MSMEs eligible for emergency credit-IT

The Rs 3 lakh crore emergency credit borrowing scheme for MSMEs announced on May 12 will also cover retailers and other businesses. Retail businesses devastated by the 62-day lockdown have been declared eligible for the scheme, although they are not recognised or registered as MSMEs. The emergency credit line facility provides 100 % guarantee coverage by National Credit Guarantee Trustee Company (NCGTC) to member lending institutions or MLIs on up to Rs three lakh crore to eligible MSMEs. With the NCGTC releasing the guidelines, it has been clarified that MSMEs/business enterprises — constituted as proprietor-ships, partnerships, registered companies, trusts and limited liability partnerships (LLPs), and also interested borrowers under Pradhan Mantri Mudra Yojna or PMMY — would be eligible for the scheme. The assistance under this scheme will come in the form of additional working capital through a term loan facility for eligible MSMEs and other businesses. Credit under the scheme would be up to 20 % of the borrower's total outstanding credit up to Rs. 25 crore, excluding off-balance sheet and non-fund based exposures, as on February 29, 2020, i.e., additional credit shall be up to Rs 5 crore.

15. Revised inter-creditor pacts may do away with need for 66% lenders' nod -BS

The revised inter-creditor agreement (ICA) frame-work may do away with the approval threshold of 66 % of lenders by value to craft resolution proposals. ICAs are also expected to cover standard assets and could be made part of loan covenants from the start of a credit relationship. Banks will be able to customise ICAs in accordance with their needs even as more financial stakeholders are on-boarded, including those with foreign currency exposures. Separately, the trigger points under the RBI's June 7, 2018 circular on its applicability to cases may be up for review. The applicability of the circular had so far been only for stressed accounts in excess of Rs 2,000 crore (effective June 7, 2019), and for those ranged between Rs 1,500 crore and Rs 2,000 crore (effective January 1, 2020). No date had been set for accounts lesser than Rs 1,500 crore. This is to make them less rigid, and even those who sign up can have a clause inserted that if things don't go according to the plot, they are free to pursue their paths for the resolution of stressed accounts, espe-cially in cases where non-bank players are to sit at the ICA table. On the specific issue of making ICAs applicable to standard assets, "some companies will need additional finance during the pandemic phase without which they may land in trouble". This is of particular import even after the pandemic and its knock-down effects are fully over as a few lenders may not want to be part of additional funding arrangements for a borrower.

16. Indian NBFI Funding, Liquidity Risk Yet To Ease: Fitch-ET

Indian non-bank financial institutions' (NBFI) funding and liquidity will continue to face pressure despite a pick-up in loan collections. While gradual easing of the coronavirus pandemic-related shut-down should strengthen loan receipts, any improvement should be viewed in relation to the depressed levels in April 2020. Fitch expects near-term collections to fall well short of pre-pandemic repayment schedules.
Additional support initiatives announced by the Indian government last week could help to address some earlier policy gaps, but successful implementation will be key and India has a mixed record on this front. "Furthermore, we expect collections for the next few months to continue to fall well short of pre-coronavirus repayment schedules even though NBFI loan receipts should improve from April's depressed levels as coronavirus-related curbs are gradually eased," it says. The government's latest measures seek to ease borrower strain and boost funding con-ditions for NBFIs. A fully guaranteed Rs. 3 trillion (about $40 billion) loan scheme for MSMEs aims to encourage lenders to continue funding these more-vulnerable entities, while a modest NBFI debt guarantee plan could help smaller but creditworthy non-bank lenders. The success of these schemes will rest on implementation details that are yet to be released as well as lowering the risk aversion among banks as they are the key intermediaries in the sector.

17. Covid-19 crisis: Only 46% women with Jan Dhan accounts withdrew money

Though women holding Jan Dhan accounts have already received two instalments of Rs 500 from the government as part of the Covid-19 relief package, only about 46 % have withdrawn the money, as of May 20. The government is transferring the money, amounting to Rs 20,000 crore, to women who hold the no-frills bank account over the months of April, May, and June. The slow pace of withdrawals confirms what RBI stated: "Private consumption has suffered a precipitous decline." The low level of withdrawals has surprised the government. The data has been gleaned from 20.05 crore Jan Dhan accounts after two instalments of the grant had been released… The budget for MGNREGA has been hiked by an additional Rs 40,000 crore to the Rs 70,000 crore projected in Budget 2020-21 as part of the government's economic package in response to the corona-virus pandemic. However, the sluggish withdrawal rateindicate that those at the lowest end of the income groups are opting to save more of their meagre income than spend.

18. Banks face a dilemma on lowering deposit rates any further-Mint

Banks are staring at the unpleasant decision of reducing interest rates for millions of depositors already getting poor returns, as they try to protect margins while passing on the benefit of the RBI's latest repo rate cut to borrowers. Any lending rate cut is either followed or pre-ceded by a similar cut in deposit rates. Moreover, if borrowers who are currently under moratorium ultimately fail to repay, lenders stand to lose as well. While Bank of Baroda (BoB) has 90% of its eligible borrowers utilizing the moratorium, the number is 20% in case of SBI. For mid-sized public sector bank, a cut in deposit rates is inevitable and it is not clear any longer as to what the terminal rate or the lowest possible rate could be. At a time when large banks like SBI are lowering lending and deposit rates, smaller banks cannot afford to stay put. They will have to survive in the loan market and if they do not lower interest rates on loans, some other bank will take away the customer. But if they lower their deposit rates, their depositor base will suffer making it quite a difficult situation. Since March last year, weighted average term de-posit rates for PSBs have fallen the least (39 bps). The steepest dip was in foreign bank deposit rates, by 147 bps in the same period. Private banks lowered their deposit rates by 70 bps year-on-year as on March.

19. Banks' asset quality ratios may worsen up to 600 bps: Fitch-FE

Asset quality of Indian banks may be severely hit over the next two years as a result of the Covid crisis and their impairment ratios could rise by 200-600 bps, depending on the severity of stress and banks' individual risk exposures. The impaired loan ratio will trend up due to both higher fresh slippages and lower loan growth. The impact will be spread over the course of FY21 and FY22 as the impact of fresh slippages will only be reflected meaningfully after regulatory forbearance ends in August 2020. "Signs of impending pressures were evident in the early Q4FY20 results from private banks, which will increase from H1FY21 despite the relief measures announced by the authorities," Fitch said. The slowdown will pressure asset quality across sectors and segments. Private banks have either better asset quality and/or loan-loss cover than state-run banks, but remain exposed due to their large retail books, notably in unsecured personal loans and credit cards which run a high risk of impairment. While secured loans such as home and auto are relatively more resilient, they will not be isolated from stress as unemployment rises. PSBs are also at risk due to aggressive growth in retail, while they also have SME exposures. They are, therefore, more exposed to risks from this segment as SMEs have very little tolerance to such large-scale cash flow disruption.

20. RBI increases export credit period to 15 months-Hindu

With India's exports and imports getting impacted by the pandemic, the RBI has decided to increase the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks from the existing 12 months to 15 months. RBI has also extended the time period for completion of outward remittances against normal imports (excluding import of gold/diamonds and precious stones/jewellery) into India from six months to 12 months from the date of shipment. The increase in the maximum permissible period of pre-shipment and post-shipment export credit is for disbursements made up to July 31, 2020.

21. E –transactions plummet in April- BS

Digital payments nosedived in April, as economic activity came to a near standstill because of the nationwide lockdown. The value of IMPS (Immediate Payment Service) transactions in April fell to about Rs.1.21 trillion from about Rs.2.02 trillion in March. The trans-action count was 122.5 million in April, from 216.8 million in March. The IMPS is typically used for transactions up to Rs.50,000. The drop in such payments, 43.72 % compared with February and 40 % since March, indicates a huge contraction in economic activities.

22. Country faces blackout threat as discoms bleed- ET

India faces a serious risk of blackouts as collections of electricity distribution companies across country have reduced by an unprecedented 80%, barely enough to sustain staff salaries while leaving no scope of payments to power plants that need money to buy coal. Distribution companies and generators are pinning hopes on Centre's Rs.90,000 crore liquidity infusion package but might take two to three weeks for approvals and two more weeks for fund-raising and implementation. Electricity distribution companies have not been able to collect more than 20-25% of bills, which would fall further in the extended lock-down. Collections were expected to dip even further as the lock-down has been ex-tended and industrial users are holding on to cash in uncertain times. The lockdown has reduced power demand by 20-30%, particularly from the high-paying industrial and commercial consumers.

23. Crypto-currency exchanges approach RBI seeking clarity on status and taxability- ET

In March, the Supreme Court had quashed RBI's order banning crypto-currency in India. The crypto exchanges have written to RBI and sought clarity on their status as lenders continue to deny banking services to them due to a lack of clear instructions from the regulator. The crypto-currency exchanges have also sought directions on their categorisation — either a commodity, currency, goods or a service — as this will decide how they are taxed under GST framework.

24. Banks, NBFCs seek extension of moratorium by three months- FE

With the countrywide lockdown set to continue for two more weeks, banks have urged the RBI to extend the three-month moratorium on loans by another three months beyond 31st May... some more measures from RBI are expected to be announced in the next few weeks. NBFCs, too, have requested the central bank to extend the moratorium by three more months.

25. Centre owes Rs.3 trillion to states and industry- BS

At a time when industry urgently needs a stimulus, the Union government and its agencies owe companies and state governments approximately Rs. 3 trillion in refunds of income tax, value-added tax, and GST, and compensation, payments to distribution companies (discoms) in the power sector, fertilizer subsidies, etc.

26. Steep hike in petrol, diesel excise duty-BS

The Centre anounced one of the steepest hikes in duties on petrol and diesel in the recent past, by raising it by Rs. 10 and Rs. 13 per litre, respectively. Retail prices, however, will see no change as the price hike will be absorbed by oil marketing companies against fall in crude prices. Road and infrastructure cess was hiked by Rs. 8 for petrol and diesel and the Special Additional Excise Duty (SAED) was hiked by Rs. 2 per litre and Rs. 5 per litre, respectively.

27. Banks denying loans to MFIs, even for amounts sanctioned- ET

Several banks are declining loan demands by Micro Finance Institutions (MFIs), even for those within the sanctioned limits, which may choke the credit flow in the micro and self-employed segments. While the denial of liquidity sup-port from banks has already made life difficult for the MFIs, the refusal of even sanctioned loans is further crippling them. This could result in lower on-lending to end-borrowers leading to a surge in defaults by them, even after the moratorium is lifted.

28. Lenders recovered money in just 14% of cases resolved by NCLT: Report -HBL

Financial and operational creditors have managed to recover money in just 221 cases, or 14%, of the 1,604 cases resolved by the NCLT till March-end. In the three years ended March 31, there were about 2,170 cases pending before various Benches of the NCLT, taking the overall cases admitted for resolution to 3,774. The NCLT ordered liquidation in 914 cases (57%) while 312 cases (19%) went on appeal and about 157 litigations (10%) were withdrawn. Of the 914 cases where liquidation was ordered, the final report was submitted for just 69. The recovery of loans under IBC drops to 25% from 44%, if we exclude the initial list of 12 large defaulters referred by the RBI, in 2017. Of the 12 large companies that defaulted, Electrosteel Steels, Bhushan Steel, Essar Steel, Alok Industries, Jyoti Structure and JP Infratech were resolved while Bhushan Power is awaiting the final verdict of the Supreme Court. As of March-end, the average time taken for the resolution of cases stood at 410 days (including the days spent under litigation). This is longer than the prescribed 270-day timeframe. The average time taken for the 914 liquidation orders announced to date is 309 days. Among the PSBs, SBI, Bank of Baroda and Bank of India will be the key beneficiaries of default resolution, while ICICI Bank will gain the most among the private sector bankst.

29. RBI says banks can provide accounts to crypto-currency traders: Report - Moneycontrol.

RBI has said that there is no prohibition on banks providing bank accounts to cryptocurrency traders… In March, the Supreme Court had quashed RBI's directive that prohibited entities under its jurisdiction from dealing in digital currencies.

30. Huge scam in YES Bank for many years, says Enforcement Directorate-BS

YES Bank had sanctioned huge amounts of credit to many corporates that were facing significant stress and liquidity issues. YES Bank on March 31, 2019, had put out a credit watch list naming several large corporates/borrowers. These included Reliance Group, Essel Group, Cox & Kings, Dewan Housing Finance, Omkar Group, Radius Develop-er and others. "In this watch list, the bank took a contingency provision of Rs 2,000 crore as a measure of prudent accounting and transparency," said the ED chargesheet.

31. RBI imposes monetary penalty on 4 banks-BL

RBI has imposed a monetary penalty on Citibank (₹4 crore), Bharat Co-operative Bank (₹60 lakh), TJSB Sahakari Bank (₹45 lakh), and Nagar Urban Co-operative Bank (₹40 lakh). Earlier, on Thursday RBI had imposed a penalty of Rs 5 crore on Bank of India and of Rs. 1.2 Cr on Karnataka Bank. The penalties have been imposed for non-compliance of various guidelines of RBI relating to Income Recognition, Asset Classification and Provisioning, Opening of current accounts, obtaining declaration about credit facilities enjoyed with other banks, granting non-fund based facilities to non-constituent borrower etc.

32. SC notice to RBI on plea seeking loan interest waiver during moratorium-Mint

The Supreme Court issued notices to the Centre and RBI on a plea against charging of interest on loans during the moratorium announced in connection with the lockdown. On March 27, the RBI had first announced a 3-month moratorium on all loans (including home and term loans) and outstanding credit card dues for three months. This gave the option to defer loan payments for three months, but it had effectively increased the number of monthly installments as the moratorium does not offer any discount on interest payout.

33. Sarfaesi act boost Co-op banks may now go after NPAs with vigour- BL

The Supreme Court's ruling that the SARFAESI Act will apply to the co-operative banks could help the ailing sector. With the legal backing, these banks will now pursue recoveries of long-pending dues with renewed enthusiasm and reduce their NPAs.

34. Mega FDI plan to focus on faster-pharma approvals- ET

The Department for Promotion of Industry and Internal Trade (DPIIT) plans to put in place a database of all FDI applications, queries from investors and the problems faced by the investors to generate confidence in global investors. It has asked experts and law firms to identify drawbacks and misuse of the country's FDI policy to plug loopholes, and how the beneficial-ownership definition is missing from the FDI law.

35. FM leans on banks & institutions for fund- TOI

The first package in the Atmanirbhar Bharat Abhiyan unveiled by FM Nirmala Sitharaman seems to have leant more on PSBs and institutions, and the outgo from the Budget appears to be minimal. While the ₹3-lakh-crore automatic loan for businesses and MSMEs is backed by government guarantee, the burden will be felt by PSBs. Similarly, the ₹90,000-crore liquidity infusion for distribution companies will be handled by entities such as Power Finance Corporation and Rural Electrification Corporation.

36. Govt plans tax holiday for new investments- BS

India's trade Ministry is proposing a tax holiday for companies bringing new investments as the government explores measures to support the economy amid the coronavirus pandemic. The proposal to give a 10-year full tax exemption to companies making new investment upwards of $500 million is being evaluated by the FM. The plan requires companies to start operations with-in three years from 1st June, and will cover sectors including medical devices, electronics, telecom equipment and capital goods. Another variant of the programme will be to provide a four-year tax holiday to companies that invest $100 million or more in labour-intensive sectors such as textiles, food processing, leather, and footwear. A lower corporate tax rate of 10 % is proposed for the next six years.

37. RBI weighs loan recast proposal- Mint

Lenders are pinning hopes on the RBI's approval of a loan re-structuring scheme for corporates to manage asset quality concerns as the government has agreed to a loan-guarantee proposal for small businesses. The scheme, proposed by the lenders through IBA, is being considered by the Central Bank. Bankers have sought the creation of a bad bank, which will act in tandem with the debt recast programme, if approved. Bankers expect asset quality to take a beating once the moratorium ends. Crisil estimates that bad loans will rise to 11-11.5% by March 2021 from the 9.6% expected for FY20.

38. World Bank approves $1 billion loan to India- BS

The World Bank announced $1 billion in social sector funding for India. The money will go towards mitigating the economic and humanitarian crisis being faced by unorganised workers and migrant labourers impacted by the Covid-19 pandemic. This takes the total commitment from the World Bank towards emergency Covid-19 response in India to $2 billion. A $1-billion support was announced last month to support India's health sector. The new support will be funded in two phases — an immediate allocation of $750 million for the FY21 and a $250-million second tranche that will be made available for FY22.

39. New PSE policy opens all sectors for private firms- FE

The Centre will soon come out with a new policy to privatise all Central Public Sector Enterprises (CPSEs) in non-strategic space and some in strategic sector in order to open all the industries to private players… To minimise wasteful administrative costs, number of enterprises in strategic sectors will ordinarily be only one to four; others will be privatized or merged or brought under holding companies. Currently, there is no clear definition of strategic sector. Strategic areas include arms & ammunition and the allied items of defence equipments, defence aircrafts and warships; atomic energy (except areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries); and railway transport.

40. Coronavirus crisis shakes up realty landscape sharply, housing demand to remain muted-FE

The IMF estimates India's economy will contract, growing by 1.9% only for fiscal 2020-21. But the World Bank estimates that India's growth will be even lower at 1.5%. But private analysts believe the country could register zero growth… the realty sector has been battered by an ongoing economic slowdown, liquidity issues, the NBFC crisis, and the compliance costs of policy initiatives and reforms (demonetization and GST).

Coronavirus crisis has shaken up the realty landscape sharply. On the supply side, multiple issues will arise. Due to supply chain disruptions of key materials such as cement, steel and allied items, prices could be volatile. In turn, these could inflate the price points for homebuyers, further depressing residential sales. Similarly, a short supply of raw materials can trigger greater delays in construction activities and project completion, exacerbating an already bad situation and creating a vicious cycle of sorts. Such conditions can lead to an estimated 30% loss of jobs.

On the demand side, lockdown restrictions will mean lower residential sales. Developers and property consultants are already reporting that calls and queries from prospective customers have dipped sharply. In turn, it has resulted in negligible footfalls even in places where lockdown restrictions aren't stringent… housing demand will remain muted, coupled with a major decline in new project announcements.

The launch of REITs (Real Estate Investment Trusts) – earlier scheduled for a listing this year – could most likely be postponed, exerting further pressure on liquidity for developers. Fresh equity investments are likely to stay subdued. Nonetheless, for institutional investors seeking value purchases, this could be one of the best times to buy because of the depressed property prices. The risk of investment values dropping substantially is relatively low, especially since a black swan event such as COVID-19 has driven property prices to record lows.

ADAPTING TO THE NEW NORMAL

In its latest report ('The COVID-19 Shock to Developing Countries), the UNCTAD has stated that India and China would be least exposed to a recession...Some ways in which the business landscape evolves will comprise an emphasis on localization; putting digital systems in place; making cash the king in running businesses; adopting variable-cost models; ensuring resilience in supply chains and emphasizing agility… During any crisis, companies with heavy debts are likely to find the going tougher. Conversely, companies with robust cash reserves will be better prepared to continue standing on their feet throughout the crisis. Similarly, a variable-cost model will allow developers to sail through more smoothly under challenging times. Then resilient supply chains could help developers continue receiving minimal stocks despite constraints rather than being left without any supplies at all. This is possible via multistate vendors, including local ones. Finally, agility could help companies customize actions. The Centre, States and Regulatory Authorities could announce supportive steps that help both buyers and builders, and other industry stakeholders.

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