ECONOMIC DIGEST

(December 2019 – January 2020)

1. Pump-priming measures needed for economic growth-

Dr. Manoranjan Sharma-BL

The RBI may have hit pause on monetary easing for fears of inflation, but the issue of delayed and inadequate transmission of the rate cuts into the credit market also needs greater attention The macro-economic slowdown has manifested in the 25-quarter low GDP growth of 4.5% in July-September 2019; the 4.3% growth in gross value added (GVA) in Q2 of 2019-20, vis-à-vis 4.9% in Q1 and 6.9% in Q2 last year; and the slow exports and contraction across sectors, including a weak service sector. Manufacturing sector's contraction by 1% in Q2 (6.9% last year) — on top of an almost flat Q1, 68.9% industry capacity utilisation in July-September (73.6% in April-June) — and the contraction in output in eight core industries in October, for the second consecutive month, cause concern. In H1, the manufacturing sector contracted by 0.2% as against 9.4% last year.

Gross fixed capital formation grew only 1.02% in Q2 (4.04% growth in Q1 and 11.8% in Q2 last year). Extensive blocking of investments in housing — especially the residential segment — as well as roads and telecommunications, together with tapering off and decelerating investment in power and railways have exacerbated the situation.

Inflation mandate

Given the triple whammy of contraction in manufacturing, weak investment, and lower consumption demand, there was room for a sixth successive cut by 25 bps. But the Monetary Policy Committee unanimously voted for status quo on the repo rate at 5.15% because of rising inflation in next two months, and ambiguity about magnitude and proportion of fiscal deficit this year and expenditure stance of the government next year. Monetary Policy Committee unanimously voted for status quo on the repo rate at 5.15% because of rising inflation in next two months, and ambiguity about magnitude and proportion of fiscal deficit this year and expenditure stance of the government next year.

The RBI's retail inflation mandate is based on 4% level (give or take 2%). Retail inflation surged to a 16-month high of 4.62% in October (3.99% in September) largely because of a spike in food prices, which are expected to soften by February 2020. Incipient price pressures are in other food items, like milk, pulses and sugar. The inflation forecast was raised to 5.1-4.7% for H2 2019-20 and 4.0- 3.8% "with risk evenly balanced" for H1 2020-21. In October, CPI inflation was projected at 3.5-3.7% for H2 2019-20 and 3.6% for Q1 2020-21. Simultaneously, India's GDP growth deceleration for the sixth successive quarter to 4.5% in Q2, which makes RBI's task difficult. This year's growth forecast was steeply lowered from 6.1% projected in October policy to 5%. A delayed demand revival, further slowdown in global economic activity and geo-political tensions necessitate the removal of impediments holding back investments. With slashing of the corporate tax, cutting GST tax rates to boost consumer demand is difficult, because of the burgeoning fiscal deficit. Problems in transmission The RBI continued with its

“accommodative” stance but the issue of delayed and inadequate transmission of cumulatively 135 bps rate cuts into the credit market, specifically bank lending rates, needs greater attention. The one-year median MCLR has declined by 49 bps post-February, whereas market-determined interest rates such as the yield on the 10-year benchmark government security fell more than 100 bps in this period. The weighted average lending rate (WALR) on fresh rupee loans sanctioned by banks declined by 44 bps, while the WALR on outstanding rupee loans increased by 2 bps during this period. The transmission mechanism is, however, fraught with several difficulties, such as cost and yield of banks, asset-liability mismatch, modest fall of less than 50 bps in deposit rates, rate of interest in competing saving instruments (for instance, a five-year small savings deposit yields 7.7% whereas a bank deposit with similar maturity yields 6.3% on average), tweaked MCLR rate, etc. There are also issues of debilitated position of NBFCs and stickiness in bank lending rates caused by weaker domestic demand and banks’ caution in lending, because of mounting NPAs and the consequent risk aversion and high cost of funds. The RBI’s direction to banks to link their lending rates to an external benchmark, which is different from the customary practice of basing lending rates on conditions endogenous to banks, is likely to improve transmission. Improved monetary transmission and a quick resolution of global trade tensions could work as growth tailwinds. Of late, the government has initiated several measures — massively slashing corporate tax rates, easing automobile sector issues and setting up a last mile fund for real estate sector to revive the flagging economy. While the downward interest rate scenario is likely to continue, there is a need to provide fiscal impetus to the growth and investment process — what JM Keynes famously called ‘pump-priming’.

2. Govt. sees nominal GDP at 12.2% till FY25; assuming average inflation of 4%-BS

The Centre is expecting nominal gross domestic product for 2020-21 to grow 10.5% compared with its revised estimates for 2019-20, the data given in the National Infrastructure Pipeline report shows. Nominal GDP for 2020-21 is projected to be Rs 227 trillion, while the estimate for 2019-20 is now seen at Rs 205.37 trillion, from the earlier Budget estimate of Rs 211 trillion.

3. Indian economy likely to grow to $7 trillion by 2030: Deutsche Bank-Good Returns

India’s economy is likely to grow two and half times to $7 trillion by 2030, from about $3 trillion now, making India the world’s third largest economy. This implies that nominal GDP growth is likely to average just over 10% through the next decade. The sharp slowdown in the recent years, despite Indian economy’s promise over the last decade, is not indicative of what is in the store for the next decade. “Despite its promise over the last decade, the Indian economy has slowed down sharply in recent years. That has led some to predict the decade ahead will be one of lower growth and frustration that India’s enormous potential will, yet again, go unfulfilled," the report said. As far as India’s economic growth is concerned, it may remain below potential in the near term. However, ongoing government measures will give major push to its potential in the future. “As economies with significantly higher informal sector employment, such as India, typically have lower per capita income, policies which are aimed at the greater formalisation of the economy should help to accelerate per capita income levels," the

report said. Reforms such as demonetisation and roll out of the GST are likely to play major role in formalisation of the economy and will bear fruits in the next decade. India's bankruptcy law that came into force in 2017 will also help drive growth in the upcoming decade.

4. **Rise in new orders boosts manufacturing PMI to 7-month high in December-BS**

A sudden boost in new orders helped the beleaguered manufacturing sector surge ahead in December even as business optimism fell to a three-year low, with firms remaining spooked by weak market conditions The widely tracked Nikkei India manufacturing Purchase Managers' Index (PMI) rose to 52.7, a seven-month high, from November's 51.2. The rebound in growth comes after October's two-year low PMI performance at 50.6. However, contraction remained entrenched in the manufacturing sector till November. India's overall industrial production fell 3.8% in October, after contracting 4.3% in September, lowest in eight years. the output of eight core sectors of the economy fell for a third straight month in November, contracting by 1.5%. Output had crashed by a record 5.8% and 5.2% over the preceding two months as a broad-based decline gripped most sectors. But for December, PMI painted a favorable picture with factories pumping up production to a 10-month high.

5. **Revival of investment cycle likely to be impacted as large corporates are liquidity rich, says RBI report-BL**

Corporates in the large segment are liquidity rich and thus could have limited liquidity requirements, according to the RBI's financial stability report (FSR). FSR cautioned that this has implications for reviving the investment cycle given their significant share in wholesale credit. The RBI made the aforementioned assessment after examining the characteristics of the balance sheets of two categories of corporates -- very large (aggregate debt above ₹ 5,000 crore) and large (aggregate debt between ₹ 100 crore and ₹ 5,000 crore) were compared. In terms of the financial leverage metric, large corporates steadily deleveraged. With regard to corporates' balance sheet liquidity in both these cohorts, clearly large corporates were liquidity rich, with cash and marketable securities exceeding 40% of onbalance sheet debt in each of the last four years, the report noted. Credit growth in wholesale accounts (aggregate exposure of ₹ 5 crore and above) in the past two years was dominated by very large accounts. The share of very large credit moved up from 30.7% in March 2017 to 33.3% in March 2018 to 38.7% in March 2019. The share of large credit declined from 48.8% in March 2017 to 46.2% in March 2018 to 42% in March 2019.The share of medium credit moved down from 9.8% in March 2017 to 9.7% in March 2018 to 8.9% in March 2019. The share of small credit (₹ 5 crore to ₹ 25 crore) moved up from 10.7 % in March 2017 to 10.9 % in March 2018 but declined to 10.4 % in March 2019.

6. **Credit growth seen in financial firms**

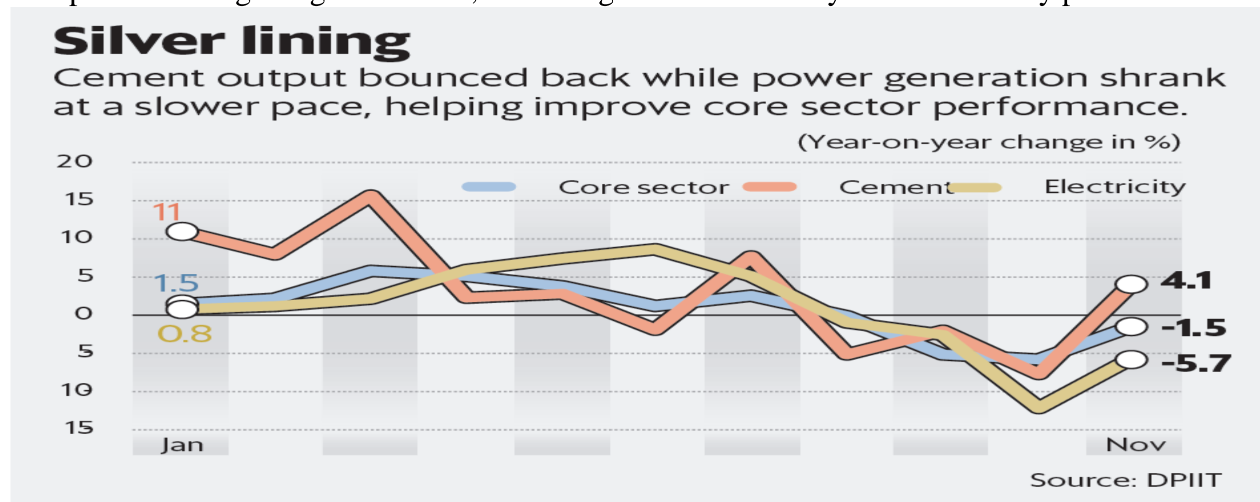
A broad split between financial and non-financial firms shows that credit growth in 2018-19 was dominated by financial firms (non-banking financial companies). The disaggregated credit growth of very large borrowers in the financial sector jumped 47.5 % year-on-year (yoy) in

March 2019 against 22.4 % in March 2018. Within the very large financial firms category, credit growth for public sector undertakings (PSUs) soared 92.9 % yoy in March 2019 against 45.6 % in March 2018. Credit growth for private sector rose 39.5 % yoy against 19.1 %. The disaggregated credit growth of very large borrowers in the non-financial sector rose 19.7 % yoy in March 2019 against 12.2 % in March 2018.

Within the very large non-financial firms category, credit growth for public sector undertakings (PSUs) declined to 43.7 % yoy in March 2019 against 57.9 % in March 2018. Credit for the private sector saw de-growth of 0.5 % yoy against a de-growth of 9.8 %. The FSR said a more disaggregated analysis of very large credit exposures in terms of obligors shows that significant credit growth was driven by a relatively narrow set of firms (161 in March 2019 against 148 in March 2018). Comparing March 2018 and March 2019, out of 148 and 161 firms, respectively, that formed the very large credit offtake, 126 firms were common.

7. Core sectors shrink for fourth straight month-Mint

India's eight infrastructure sectors shrank for the fourth straight month in November at 1.5%, though the magnitude of contraction slowed from 5.8% in the previous month. This is being interpreted as a sign of green shoots, indicating that the economy is on a recovery path.



India's economic growth decelerated to a six-and-a-half-year low of 4.5% in the September quarter on the back of slowing domestic and external demand. The government exceeded its 2019-20 fiscal deficit target by 114.8% during the April-November period. Five of the eight infra sectors reported a drop in output in November. Cement production bounced back to 4.1% growth, recovering from monsoon-related disruptions, while the output of refinery products accelerated to 3.1% in November. The output of coal and electricity sectors shrunk at a slower pace of 2.5% and 5.7%, respectively, in November from the previous month. However, crude oil, natural gas and steel saw their output shrink at a faster pace in November than in October.

The core sector growth numbers for November, though disappointing, have a silver lining as sectors such as cement and fertilizers have registered growth. “There is a mixed picture when it comes to non-energy based industries, which have performed better (than energy-based industries)."

With an improvement in the performance of a number of lead indicators, including core sector industries, auto production and non-oil merchandise exports, factory output could report modest growth in November after having contracted since September. The eight core sectors contribute 40% to the Index of Industrial Production.

Retail sales of passenger vehicles in India grew just 1% year-on-year to 257,271 units in November, after the worst festival season sales in nearly five years. on-oil merchandise exports grew 2.5% in November, led by electronic goods, engineering goods and pharmaceuticals, even as overall exports contracted 0.3% during the month.

The Business Inflation Expectations Survey of 1,200 companies by IIM Ahmedabad showed early signs of improvement in sales perception. In November, around 68% of the companies in the sample reported that sales were “somewhat or much less than normal" compared to 76% that reported so in October.

After reducing policy rates five consecutive times by a cumulative 135 basis points, the RBI opted for a pause in its December monetary policy review, given the sharp increase in retail inflation and weak monetary transmission from its earlier rate cuts. Retail inflation quickened to 4.6% in October, propelled by a surge in food prices.

Earlier last month, RBI pared its growth forecast to 5% for 2019-20 from its October estimate of 6.1%, citing weak business and consumer sentiment. “While improved monetary transmission and a quick resolution of global trade tensions are possible upsides to growth projections, a delay in revival of domestic demand, a further slowdown in global economic activity and geopolitical tensions are downside risks," said RBI.

8. India's current account improves as trade deficit shrinks-Reuters

India’s current account deficit narrowed in the September quarter of the fiscal year as the trade deficit shrank, but the momentum may not be sustainable. The current account deficit declined to 0.9% of gross domestic product in the second quarter of the fiscal year ending March 2020 from 2.9% in the same period a year ago. On a quarterly basis, it shrank from 2 % of GDP in the June quarter. The deficit measures the difference between the value of a country’s imported and exported goods and services. “The contraction ... was primarily on account of a lower trade deficit at $38.1 billion as compared with $50.0 billion a year ago”

The trade deficit stood at $12.12 billion in November compared with $16.67 billion a year earlier. The “trade deficit is lower primarily because imports have fallen at a faster rate than exports due to weak manufacturing activity and lower imports of raw materials and capital

goods. The current account deficit stood at $6.3 billion in the September quarter versus $19 billion a year ago. The merchandise trade deficit narrowed to $38.1 billion from $50.0 billion. Balance of payments, the difference between the current account and capital account, stood at a surplus of $5.1 billion in the September quarter compared with a deficit of $1.9 billion a year ago. However, the narrowed from $14 billion seen in the June quarter.

Net inflow on account of external commercial borrowings stood at $3.2 billion compared with $2.0 billion last year. Net foreign direct investment was largely unchanged at $7.4 billion. Private transfer receipts, mainly representing remittances by Indians employed overseas, rose to $21.9 billion, up 5.2% from a year ago. “Both the critical components of foreign exchange reserves - exports and FDI - have not shown any improvement Y-O-Y. On the other hand, portfolio inflows (hot money) and ECBs (debt capital) have increased significantly. This kind of improvement is not sustainable,” L&T’s Nitsure said.

9. Govt retains interest rates on small savings-BS

The government has kept interest rates on small savings schemes intact for January-March 2020, compared to those during October-December 2019, contrary to what the RBI and banks had advised. Depositors are, however, likely to cheer the decision. “On the basis of the decision of the government, the rates of interest on various small savings schemes for the fourth quarter of 2019-20... shall remain unchanged from those notified for the third quarter,” said an office memorandum by the DEA in the finance ministry. At present, fixed deposits up to 10 years offered by SBI draw an interest rate of 6.25. However, the public provident fund, or PPF, and national savings certificate deposits fetch 7.9%, which are also tax-free in nature. In fact, specific schemes such as the one for the girl child — Sukanya Samridhi Account Scheme — attracts an interest rate of 8.4%. Recently, SBI Chairman Rajnish Kumar had said that banks could not go beyond a threshold to reduce deposit rates, which are linked to the lending rates while some economists said the amount collected through small savings schemes is just 10% of the incremental bank deposits. This should also be considered while gauging the impact of small savings schemes on bank deposits.

10. Govt. sets up committee to bring consistency among economic indices-Mint

A broad-based “Standing Committee on Economic Statistics" set up by the government under former chief statistician of India Pronab Sen will seek to bring consistency among various government economic indices. The 28 member committee which consists of experts from both within and outside the government will meet for the first time on 6 January. “The broad mandate is taking stock of all economic statistics. The basic idea is to maintain consistency between various data sets. It is important because data is collected using various definitions and you can’t put them together," Sen said. The new committee has been tasked with looking into datasets such as the Periodic Labour Force Survey, the Annual Survey of Industries, the Annual Survey of Services Sector Enterprises, the Annual Survey of Unorganised Sector Enterprises, Time Use

Survey, Index of Service Production, Index of Industrial Production, Economic Census and other surveys or statistics brought before it. Sen has been vocal against the government's recent controversial decisions including effort to suppress the employment and consumption data. Sen had earlier said "when the statistical system is throwing up bad news, the government either suppresses it or tries to discredit it. It is impacting not only the credibility but also the morale of the statistical system. You have been consistently questioning the professionalism of your statisticians. That's a much more serious matter."

11. Shrinking Credit Pool-Telegraph

The amount of incremental financial credit available to the commercial sector of an economy is an indication of its health. The lower the increment, the more sluggish the demand from business, reflecting a low level of economic activity. It also reveals the poor health of the credit market and its institutions like banks and non-banking financial institutions. This year, the incremental bank credit has only been to the tune of Rs 80,000 crore for the period, April 1 to December 6. This is indeed strikingly lower than the incremental credit figures of Rs 5.4 lakh crore and Rs 1.7 lakh crore during FY19 and FY18, respectively. For the period, April to September 2019, the financial credit to the commercial sector actually shrank by Rs 52,971 crore. For the same period during 2018, there was an expansion of Rs 3.66 lakh crore. ICRAhas predicted an overall decline of 40-45 % in the incremental bank credit for the whole of FY20. Bank credit had experienced steady growth in the past two years mainly due to new infrastructure projects and real estate growth. Infrastructure companies and non-banking financial companies had led the demand for credit. This demand has petered out, with much of the debt likely to go sour. The banks have lowered their risk appetite and are shifting to relatively stress-free retail lending to consumers. However, consumer spending has slowed down too, leading to a lower demand for credit. Just when banks were trying to prune down their non-performing assets, the economic slowdown has led to the creation of another round of bad credit. Weak growth impulse, slow credit off-take, sporadic default-events, such as the crisis in the IL& FS, along with the fear of irregularities, such as those that afflicted the Punjab and Maharashtra Cooperative Bank, have made banks reluctant to lend.

The banking system is rather weak at the moment. A large dose of recapitalization will be required. The market impact of the merging of public sector banks will still take some time to fully play out. Technology and payment systems are being revamped. The financial sector is, therefore, in the middle of a transition and is far from being competitive by international standards. At this juncture, the economic slowdown is likely to add to the woes of this sector. The RBI needs to increase regulatory caution without actually stifling risk-taking by banks. Relying on banks to stimulate the economy will be futile. Most of the problems in this sector are the consequences, and not the proximate causes, of the slowdown.

12. Worst not over yet, RBI forecasts NPAs will rise-Mint

RBI has cautioned that the asset quality of scheduled commercial banks (SCB) may worsen next year owing to changes in the macroeconomic scenario. The RBI also warned that there remains an inherent risk of “froth"—conditions that precede a market bubble—building up in the system due to excess liquidity. Citing factors such as an increase in slippages and declining credit growth, bad loans of SCBs as a percentage of total loans is expected to increase to 9.9% by September 2020 from 9.3% in September 2019. This marks a revision of its projection made six months ago, when it had said that the percentage of bad loans was expected to come down by March 2020. RBI governor warned against unbridled interest rate cuts, which he said could cause a “cobra effect"— when a well-intentioned solution ends up worsening the problem. “The challenge is to ensure transmission of monetary policy impulses to the advantage of real economies and not to aid build-up of froth in financial markets. We need to be mindful of the cobra effect," said Das. The RBI has cut policy rates by 135 basis points so far this year. Multilateral trade and evolving geopolitical uncertainties may continue to have repercussions across financial markets globally.

13. As moratorium ends, NPAs may rise in January-ET

Non-performing assets in the wholesale book is expected to rise from January, as an increasing proportion of the loan book comes out of moratorium. Nearly Rs 70,000 crore worth of advances to infrastructure developers would be out of a stipulated moratorium period in January, according to India Ratings. Some of these exposures may turn delinquent, as cost of funds have risen, and liquidity is tight. These NBFCs are large lenders to developers. A third of developer loan book of NBFCs was under moratorium where interest payment was happening, but principal payment was to start from January. Delinquencies may increase on these accounts on a case to case basis. “The principal moratorium is estimated at 50-70% of assets for some non-banks, going as high as 90% in some, as per Crisil. With the moratorium period of these facilities gradually coming to an end, we expect the asset quality to come under pressure. There has also been an increase in softer delinquencies for nonbanks in the current fiscal reflecting the build-up of stress. Most lenders are wary of developers because of unsold inventory. While banks have slowed down their exposure to developers, NBFCs have aggressively expanded in this segment. NBFCs saw over 30% increase in loan book till 2017-18.

14. Bank credit grows 7.1% and deposits increase 10%, reveals RBI data-BS

The pace of year on year growth in commercial bank credit more than halved to 7.1% at end fortnight (Dec 20, 2019) from 15.11% a year ago. Between December 6 and December 20, lenders disbursed Rs 12,519 crore, taking outstanding of scheduled commercial Rs 99.47 trillion, according to RBI data. On the other hand, the deposits in the same period increased 9.09% to Rs 130.08 trillion by the end of December 20. However, in the fortnight between December 6 and December 20, the deposits declined by 0.7%. Bankers said that with private investment practically coming to a halt, there was little demand for corporate credit. While activity may

show an uptick in the second half, it will hardly compensate for the extended slowdown seen since the beginning of the year. The retail segment is showing steady growth, but it is not in a position to make up for the slump in the industry segment. Housing loan segment showed a 9.9% growth during the eight-month period ended November 30 this financial year, as against 10.6% in the same period of last financial year, even as the total non-food credit growth decelerated sharply from 5.3% to 0.5% during the eight-month period. Total outstanding housing loans increased by Rs 1,14,636 crore to Rs 12,74,747 crore as on Nov. 22, 2019.

15. **Extend deadline for inter-creditor pacts: Banks to RBI-ET**

Leading banks have written to RBI asking it to extend the deadline for signing inter-creditor agreements (ICAs) by another three months so that cases close to resolution are not referred to the National Company Law Tribunal (NCLT) as the January 7 deadline approaches. Banks are willing to make the additional 20% provision that breaching the deadline entails but want the window of resolution open until the March 31 financial year end to avoid the value destruction that they say would follow by taking the NCLT route as prescribed by the IBC. The ICA mechanism was established in order to arrive at a resolution plan within a specific period (30+180 days) for bad loans without entering the NCLT process. Lenders need to come up with an ICA resolution plan for loans worth Rs 3 lakh crore by January 7— the deadline for most stressed accounts — failing which they have to make a 20% provision and refer cases to the NCLT within 30 days. “Value destruction happens when cases are sent to NCLT.” Resolution plans under the ICA framework are taking longer than anticipated because banks and non-bank lenders such as mutual funds and insurance companies are at loggerheads. With creditors unable to agree on buyers or the restructuring mechanism, it’s taking several weeks to arrive at any consensus. The delays will eat into bank earnings.

16. Sitharaman launches common e-auction platform for assets attached by banks-Mint

FM Nirmala Sitharaman launched eBkray, an online platform to increase the transparency in auctioning of assets attached by banks. The platform is equipped with property search features and navigational links to all PSB e-auction sites, provides single-window access to information on properties up for e-auction as well as facility for comparison of similar properties, and also contains photographs and videos of uploaded properties. As on 27 December, a total of 35,000 properties were uploaded on the platform by Public Sector Banks (PSBs). PSBs have attached assets worth over ₹ 2.3 lakh crore in the last three fiscal years. "There has been information asymmetry when bank attached assets are auctioned which will come to an end with the launch eBkray," Sitharaman said while launching the platform. Toxic assets in banking sector have been at the epicentre of the stress in the economy. Extensive reforms carried out by the government have helped banks reduce bad loans. The GNPAs of PSBs have declined from ₹ 8.96 lakh crore in March 2018 to Rs. 7.27 lakh crore in September 2019, with their provision coverage ratio rising to their highest level in seven years and banks returning to profitability, with as many as 13 banks reporting profits in the first six months of the current financial year.

17. Forensic auditors in a fix over Data Protection Bill, seek exceptions-BS

The Personal Data Protection Bill, 2019, has thrown up a fresh set of challenges for forensic auditors, who want the proposed law to carve out exceptions for their services, which entail accessing personal data such as bank details, emails, and medical insurance. A forensic audit requires a deep inspection of the auditee company's records by accessing its hard drives, laptops, and desktop computers. The data on the hard drive contains both official and personal information, which forensic auditors have to sift through to find what they are looking for. The data protection Bill, introduced in the Lok Sabha in the winter session, says, "Personal data shall not be processed, except on the consent given by the data principal at the commencement of its processing." Personal data should not be processed by any person, except for any specific, clear and lawful purpose, and the burden of proof that consent has been sought from the person for use of his or her data lies with the person processing the data. While processing such data, the employer needs to take formal consent from the individual for carrying out procedures such as the digital evidence recovery exercise — forensic imaging of electronic devices. "Formal consent may impact the element of secrecy that such procedures might involve. Additionally, on the basis of a preliminary reading of the Act, it also appears that individuals have the right to withdraw consent, which has the potential to hamper any corporate investigation.

18. Banks instructed to clear pending vigilance cases against officials, says FM-BL

CBI would in the coming days hold meetings and workshops with bank officials at the general manager level and vigilance officers to sensitise them about the practices adopted by the investigation agency. "Some of the misgivings the bankers had in their minds have been explained by the CBI director himself. In the coming days CBI together with banks will have detailed discussions and workshops so that they (CBI) can explain", Sitharaman said. Going forward, the FM also plans to bring the enforcement directorate, income tax department, customs and DRI officials before the bank chiefs so that the bankers' concerns are thrashed out and economic activity is not stifled by absence of credit decision making. The latest Government move is significant as it is widely believed that the current economic slowdown is both an outcome of demand slowdown and bankers' reluctance to make credit decisions owing to fear of the 3Cs—CBI, CAG & CVC.

19. PSBs may adopt cash flow model, ditch asset-based funding- Newzz.in

PSBs, starting with the SBI, are looking to update their corporate lending practices from the present asset-based funding model to the one that is more reliant on measured cash flow statements. The matter was discussed during the Indian Banks' Association meeting in December. JPMorgan CEO Madhav Kalyan has been enlisted to head a committee to deliberate on the same. Under the new model, to avail working capital loans, companies will be required to provide banks with their cash flow statements on a frequent basis. It would be a significant move as PSBs cover over 55 % of the loan market. While the SBI proposed the mechanism in order to check the misuse of borrowed funds and enable banks to gauge entities' ability to service loans

on time, it has been taken into consideration by the industry. The asset-based model has been deemed flawed as these do not help companies settle loans whereas cash flows showcase a clearer picture. The new method would also allow banks to prioritise their fund deployment as small businesses often draw smaller amounts due to late vendor payments, while big companies with large distribution supply usually have prompt payments and hence surplus finance from banks.

20. Tracing the trajectory of the evolving MSME sector: Here's what they need from a reliable financial partner-ET

In the last two decades, the growth curve of the Indian economy has been largely controlled by MSMEs… Significantly, the MSME sector continues to drive India's fortunes despite being marred by various factors such as lack of adequate capital, infrastructural hurdles, inadequate digitalisation, scattered markets, absence of compatible financial partners, and statutory clearances among others. The export from these enterprises is gradually heading north, indicating why an impetus to the sector will only trigger a multiplier impact on economic growth. This trajectory of growth explains how the sector is also shouldering the country's magnanimous vision to become a five trillion-dollar economy by 2024-25.
Even though in the initial stages, the MSME industry faced problems with cash flows and GST compliance, the bumpy roads are now behind these enterprises. Many MSME businesses are moving towards a formal economy which is clear from the increase in the tax-payer base. This is not only giving them more visibility but also sprouting new opportunities in the market. This formalisation of the sector and the subsequent need for transparency in accounting procedures means that MSMEs today need an agile financial partner that can cater to their needs and help them explore new opportunities in the global market. The sector is relentlessly work-horsing to tap the demand in the local and global markets and are also acting as a potential job creator in times of a currency slump.

21. Businesses with Rs 50 crore annual revenue to be penalised for not providing RuPay, UPI-BT

Businesses with turnover worth over Rs 50 crore will need to mandatorily provide UPI (Unified Payments Interface) and RuPay payment platforms to customers or merchants for making online payments, the government has said. Those failing to provide these facilities will be penalised. These platforms are offered by the National Payments Corporation of India (NPCI) and IBA to boost digital payments in India. The ministry said a section, 271DB, has been introduced in the Finance Act, which provides for levy of penalty of Rs 5,000 per day in case of failure to provide these platforms. The penalty will be applicable from February 1, 2020.

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