

Daily Economic News Summary: 7 June 2018

1. Monetary Policy: Costlier Loans On RBI Hike

Source: Financial Express ([Link](#))

With most banks having already upped their lending rates over the past week, the 25-basis-point increase in the key repo rate to 6.25% by the Reserve Bank of India (RBI) on June 5 was merely more affirmation money is becoming costlier. For consumers corporate and individual loans are turning more expensive, unfortunate given the economic recovery is a very shallow one. The 7.7% year-on-year GDP growth in Q4FY18 was driven almost entire by government spending with the private sector playing only a small role. While the RBI may have articulated a ‘neutral’ stance which would leave it enough headroom to move either way depending on data, bond markets sold off after the announcement, anxious about the higher inflation forecasts. The yield on the benchmark closed the session 7.92%, up 9 basis points over June 6 closing, a three-year high. It was not clear why equity markets rallied since economists say more rate hikes are on the way and that can only harm corporate India already grappling with high raw material costs. RBI governor Urjit Patel said a neutral stance leaves all options open, pointing out and other central banks also do the same. Patel explained there was no tension between a rate hike and maintaining a neutral stance, saying the monetary policy committee felt there were enough uncertainties to keep to the neutral stance and yet respond to the risks to the inflation target that have emerged in recent months.

2. Flying High: Udan May Soon Link Tourism Centres

Source: Financial Express ([Link](#))

After attempting to provide remote and small places with air connectivity through its regional connectivity scheme (RCS) called Udan, the civil aviation ministry now wants to extend it to major tourism centres like Khajuraho in Madhya Pradesh, Hampi in Karnataka and Agra in Uttar Pradesh, among others. All in all the ministry is looking at connecting around 20 tourist destinations through the RCS. Under RCS or Udan, fares are capped at Rs 2,500 for an hour-long flight for 50% of the seats while the balance seats can be sold at market rates. Routes are bid out to private air operators and the ministry of civil aviation provides a viable gap funding (VGF) for

the 50% seats where fares are capped. Under the routes on the tourist network, the VGF will come from the tourism ministry and not the civil aviation. Other aspects of the Udan scheme will continue like the usual commercial airlines paying a small levy to sustain such below cost operations.

3. Fast-Track Promotions, Higher Pay In Offing For ‘Star’ PSU Staff

Source: The Hindu, Business Line ([Link](#))

In a concerted effort to attract and retain talent, public sector firms are taking a relook at their policies to provide better salaries and perks to top performers and employees in research and development as well as human resource management. Accordingly, the Department of Public Enterprises (DPE), which is the nodal agency for state-owned firms, has set up two committees to look at better promotions and incentives for such employees. “Central PSUs have to operate in a competitive environment where they have to go toe-to-toe with private sector companies. Over the years, we have found that most youngsters prefer joining the private sector which offers more lucrative salaries,” noted an official, attributing this as the main reason for the move. The discussions had started at a recent CPSE (Central Public Sector Enterprises) Conclave addressed by Prime Minister Narendra Modi, where the heads of several PSU expressed concern over recruiting and retaining employees with good qualifications and experience. They also pointed to the need to resill and upskill their staff.

4. Commerce Ministry Sets Up Panel To Make SEZ Policy Compatible With WTO Rules

Source: Livemint ([Link](#))

The commerce ministry has set up a committee headed by Bharat Forge chairman Baba Kalyani to make its special economic zone (SEZ) policy compatible with World Trade Organisation (WTO) rules after the US challenged India’s export subsidy programme at the multilateral trade body. “The group will evaluate the SEZ policy, suggest measures to cater to the needs of exporters in the present economic scenario and make the SEZ policy WTO compatible, suggest course correction in SEZ policy, make comparative analysis of the SEZ scheme and dovetail the SEZ policy with other similar schemes. The Group is required to submit its recommendation in 3 months’ time,” commerce ministry said in a statement. The US on 14 March challenged almost

India's entire export subsidy regime in the WTO including the merchandise exports from India scheme; export oriented units scheme and sector specific schemes, including electronics hardware technology parks scheme; special economic zones; export promotion capital goods scheme; and a duty-free imports programme for exporters.

5. President Nod To IBC Ordinance: Home-Buyers Are Now Financial Creditors, Can Initiate Insolvency

Source: Financial Express ([Link](#))

With President Ram Nath Kovind's assent to an ordinance on June 6, home-buyers will now be recognised as financial creditors under the insolvency law and promoters of micro, small and medium enterprises (MSMEs) will be allowed to bid for their stressed firms if they are not wilful defaulters. The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2018, also allows for the withdrawal of a case after admission by the adjudicating authority, but not without the approval of 90% of creditors, the government said in a statement. To encourage resolution rather than liquidation, the voting threshold for approving a resolution plan has been trimmed to 66% from 75% earlier. For routine decisions, the voting threshold is fixed at 51%. Pure-play financial entities like banks would be exempted from the disqualification provision on account of holding stake in or acquiring stressed firms earlier. "A resolution applicant holding an NPA (non-performing asset) by virtue of acquiring it in the past under the IBC, 2016, has been provided with a three-year cooling-off period, from the date of such acquisition. In other words, such NPA shall not disqualify the resolution application during...the three-year grace period," the government said in a statement.

6. Cooperative Banks Could Soon Get A Tag Of Small Finance Bank

Source: Livemint ([Link](#))

The Reserve Bank of India (RBI) will soon come out with a scheme for conversion of urban cooperative banks (UCBs) into small finance banks, deputy governor N.S Vishwanathan said. The central bank has received demand from some quarters to allow this conversion, he said. "We will come out with a detailed scheme on conversion from urban cooperative banks into small finance banks," he told reporters after RBI's second bi-monthly monetary policy announcement. A high powered committee on UCB, chaired by the then deputy governor R. Gandhi, had recommended

the voluntary conversion of large multi-state UCBs into joint stock companies as also other UCBs, which meet certain criteria, into small finance banks. RBI plans to encourage more players to participate in and promote pan-India payment platforms so as to give a fillip to innovation and competition in the sector. A policy paper in this regard will be put out for public consultation by 30 September 2018, RBI policy document said. With the maturing of the retail payments market, it is important that the concentration risk in retail payment systems is minimised from a financial stability perspective, it noted. With regard to problems faced by the visually challenged in conducting their day to day business with Indian banknotes, it said technological progress has opened up new vistas for making Indian banknotes more recognizable.

7. Cabinet Decisions: Govt Offers Another Sweetener To Sugar Industry, Clears Sick Psus Package

Source: Financial Express ([Link](#))

The Cabinet Committee on Economic Affairs (CCEA) on June 6 approved a package for the sugar sector comprising Rs 4,440 crore in loans to mills to expand ethanol production capacity and Rs 2,507 crore as aid in the form of interest subsidy on the loan and carrying cost of creating a buffer stock to help the mills clear cane arrears that have risen to a staggering Rs 22,000 crore. Including an output-linked subsidy of Rs 5.50 per quintal to farmers for cane supplies (with potential cost of Rs 1,540 crore to the exchequer) that was approved by the CCEA in May and the current loan, the total financial considerations in all these decisions stand at Rs 8,487 crore. FE had reported these proposals, along with fiscal implication for the government, on May 23. The Cabinet and the CCEA approved a slew of other proposals, including using land parcels with public sector units that are being wound down to build affordable housing, revising up the remuneration of postmen that will benefit 3.07 lakh employees, and building a six-lane bridge over the Ganga. While the salary revision for postmen will cost the government Rs 1,258 crore in 2018-19, the construction of the 9.9-km-long bridge across the Ganga at Phaphamau in Allahabad will cost the exchequer Rs 1,948 crore.

8. Businesses Not Under GST To Get 180 Days To Pay Back Their Loans

Source: The Economic Times ([Link](#))

In a temporary relief to small businesses not registered under the Goods and Services Tax, the Reserve Bank of India on June 5 extended loan repayments deadline to 180 days from the due date without being classified as a non-performing asset. This latest announcement comes after the regulator's April diktat which had allowed GST registered MSME borrowers with a turnover of up to Rs. 25 crore to delay loan repayments by 180 days. "Having regard to the input credit linkages and associated issues, it has now been decided to temporarily allow banks and NBFCs to classify their exposure, as per the 180 day past due criterion, to all MSMEs with aggregate credit facilities up to the above limit (up to Rs. 25 crore), including those not registered under GST," the RBI said. The central bank has been facing demands that it remains lenient on the medium and small enterprises as it is the biggest employer and is facing severe pressures from the implementation of the GST which has disrupted the economic landscape in which they operate. MSME accounts which were standard as on August 31, 2017 and where outstanding credit till January 31, 2017 did not exceed Rs. 25 crore will be eligible for the relief, the regulator stated. As per the current norms, banks and NBFCs classify an account as non-performing if they fail to repay a loan within 90 days.

9. No Rollback Of Decontrol In Diesel And Petrol Pricing: Dharmendra Pradhan

Source: Business Standard ([Link](#))

Union petroleum minister Dharmendra Pradhan ruled out any rollback in deregulation of petrol and diesel prices. However, he said the government would protect the interest of common people and not let petroleum price go very high. Speaking to reporters on his government's four years' achievements, Pradhan said, "We cannot go on reforms (in the sector). There is no question of rollback on deregulation." The government would take a holistic view on retail fuel pricing. Besides global oil prices, tax and volatility in exchange rates played a role in fuel pricing. Pradhan said the government was in favour of including all petroleum products under the goods and service tax (GST) ambit but a view would need to be taken by the GST Council. Currently, five products, petrol, diesel, ATF, crude oil and natural gas, are outside the GST purview which leaves the oil companies with a disadvantage on input tax credit. The minister, who took a meeting of public

sector oil companies on the issue of price rise last week, did not comment when asked whether oil producing companies like Oil and Natural Gas Corporation and Oil India would be asked to bear the subsidy burden.