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Indian economy estimated to contract by 9.6% in 2020, grow at 7.3% in 2021: UN

PTI | January 26, 2021

The global economy shrank by 4.3 per cent last year, over two-and-a-half times more than during the global financial crisis of 2009

India's economic growth is forecast to be 7.3 per cent in 2021

India's economy is projected to grow at 7.3 per cent in 2021, even as it is estimated to contract by 9.6 per cent in 2020 as lockdowns and other efforts to control the Covid-19 pandemic slashed domestic consumption, the UN has said.

The World Economic Situation and Prospects 2021, produced by the United Nations Department of Economic and Social Affairs (UN DESA), said the world economy was hit by a once-in-a-century crisis a Great Disruption unleashed by the Covid-19 pandemic in 2020.

The global economy shrank by 4.3 per cent last year, over two-and-a-half times more than during the global financial crisis of 2009. The modest recovery of 4.7 per cent expected in 2021 would barely offset the losses of 2020. "The devastating socio-economic impact of the Covid-19 pandemic will be felt for years to come unless smart investments in economic, societal and climate resilience ensure a robust and sustainable recovery of the global economy, the report said.

The Indian economy, which grew at 4.7 per cent in 2019, will contract by 9.6 per cent in calendar year 2020, as lockdowns and other containment efforts slashed domestic consumption without halting the spread of the disease, despite drastic fiscal and monetary stimulus".

India's economic growth is forecast to be 7.3 per cent in 2021, the fastest growing major economy with only China coming in a close second with a 7.2 per cent projected growth rate in calendar year 2021, the report said.

According to the fiscal year estimates released in the report, India's economy is estimated to decline by 5.7 per cent in 2020 and will return to a 7 per cent growth rate in fiscal year 2021, slowing down again to 5.6 per cent in 2022.

The report said economic growth in South Asia in 2021 will be insufficient, at 6.9 per cent, to make up for the losses of 2020, as pandemic hotspots re-emerge and, increasingly, the ability of governments to deal with the multitude of challenges becomes exhausted. The pandemic and the global economic crisis have consequently left deep marks on South Asia, turning this former growth champion into the worst performing region in 2020.

While trade, remittances and investment are expected to pick up in 2021, as much of the global economy moves towards recovery from the widespread lockdown, investment and domestic consumption in many South Asian countries will nevertheless remain subdued owing to the continuing threat of the pandemic and the scarring effects of the crisis, it said.

Regional economic growth for 2022 is forecast at 5.3 per cent, which would allow South Asia to finally exceed its 2019 economic output, albeit only marginally. On the other hand, South Asian countries that are relatively more exposed to global economic conditions, such as Bangladesh and Maldives with their high share of foreign trade and Nepal with its dependence on tourism and remittances, will enjoy a stronger rebound, of about 10 per cent growth in 2021.

Policymakers in South Asia will need to strengthen their efforts to formalise labour markets and strengthen social protection systems to dampen the impact of the crisis on the most vulnerable and improve macroeconomic resilience, the report said. Informal workers, accounting for over 80 per cent of workers in Bangladesh, India and Pakistan have indeed been far more exposed to loss of employment than formal workers during the crisis and South Asia's widespread informality has almost certainly magnified the impact of the pandemic, it noted.

The report said the Covid-19 fiscal response in South Asia has consisted of a vast ad hoc expansion of social assistance and direct cash transfers for the most needy, but this kind of special support is neither sufficient nor sustainable.

By April, full or partial lockdown measures had affected almost 2.7 billion workers, representing about 81 per cent of the world's workforce. By mid-2020, unemployment rates had quickly escalated to record highs: 27 per cent in Nigeria, 23 per cent in India and 21 per cent in Colombia. The report noted that the pandemic exposed how stark inequality affected the ability of people to cope with the economic impact of the crisis.

The report said the livelihood and income impacts have been particularly harsh for about 2 billion informal workers with limited social protection, especially those self-employed in the informal economy. The informal sector accounts for more than 60 per cent of jobs in a number of large developing countries, including India, Indonesia and Mexico.

It also took note that a few of the Sustainable Development Goals have seen some progress, but without sustained action this progress will be fleeting. Ambient water quality improved during lockdowns, for example, in the Yamuna River and Sabarmati River in India. The report said share of services in total value added has risen steadily, from 60 per cent of GDP in 2000 to 65 per cent in 2017. The importance of the services sector has risen sharply in other large developing economies, such as Brazil and India, it said.

Among the developing economies, services trade is, however, highly concentrated. Just five economies (China, Hong Kong, India, South Korea and Singapore) accounted for more than 50 per cent of services exports from developing countries in 2017. While India stands out in terms of building competitive services exports, there are also other cases that are worth highlighting like Mauritius and Senegal, the report said

Co-operative federalism has given way to coercive federalism

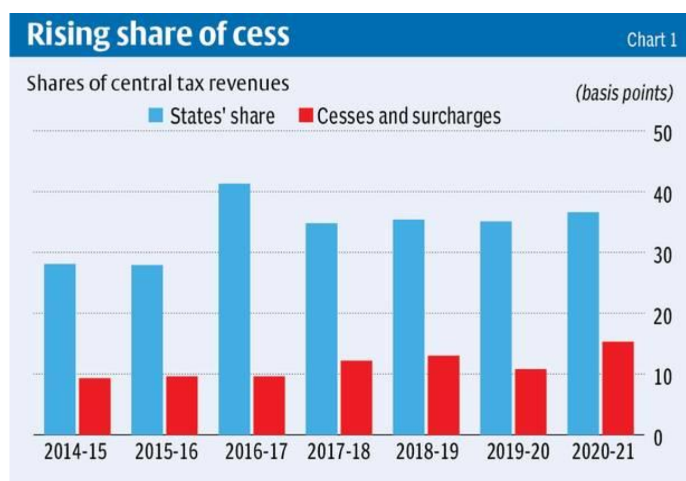
CP Chandrasekhar Jayati Ghosh | January 25, 2021 BUSINESSLINE

Fiscal tangle States and Centre are locking horns over GST compensation. The Central government's cynical and expropriative attitude to the States has worrying consequences for India's future

India's Constitution puts the bulk of responsibility for the basic goods and services to be provided to citizens on to State governments. That is also why it mandated that independent Finance Commissions be appointed every five years to determine the distribution of tax revenues between the Centre and the States.

Successive Finance Commissions (FCs) have also recognised that State governments necessarily require more resources to fulfil their obligations, which is why the share of tax revenues to be devolved to States has been steadily increasing across such Commissions, from 29.5 per cent in the 11th FC to as much as 42 per cent in the 14th FC.

However, while grudgingly accepting the 14th FC's award, which was announced in April 2015, the Modi government moved rather quickly to undermine it. It used the obvious available loophole in the Constitution: while tax revenues are to be shared with the States, cesses and surcharges are exempt. Using this loophole, the Central government has been increasing the share of taxes collected through such cesses and surcharges, and therefore reducing the share of States in the total divisible pool.

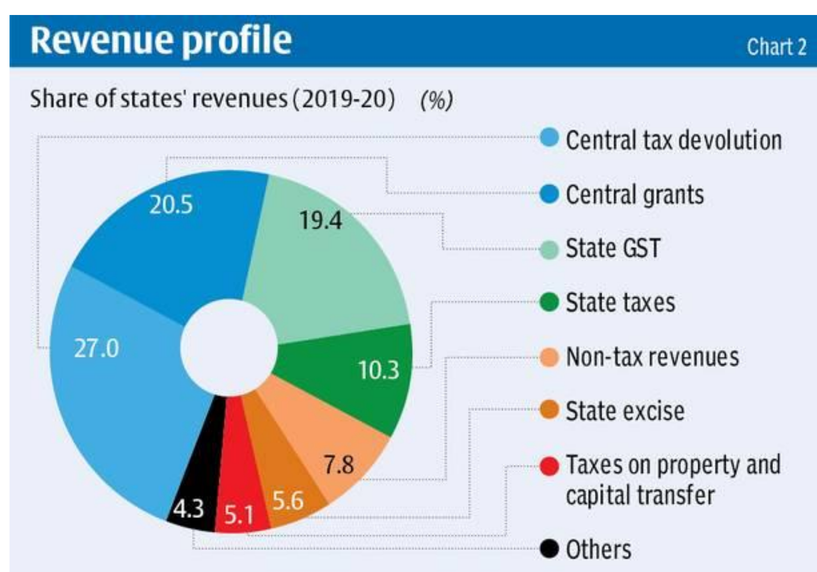


In fact, as Figure 1 shows, the share of the States never reached the mandated 42 per cent even in the peak years of 2016-17; thereafter, it has been suppressed as the Central government moved to redirect its additional resource mobilisation to the cesses and surcharges that it could zealously guard as its own.

By the current year, the share of these in total tax collections is estimated to be more than 15 per cent, a massive increase from the pre-Modi years.

GST and States

In this period a further centralising tendency occurred with the introduction of the Goods and Services Tax (GST), which effectively denied State governments any ability to raise their own revenues, other than through sales taxes on alcohol and excise duties on fuel, which are exempt from GST. As a result, States are now dependent on the Centre for nearly half of all of their resources, as shown in Figure 2. And because the GST rates are also not in their hands, they have no control over more than two-thirds of their revenues.



This became an even more serious matter for State governments during the pandemic, when their revenues plummeted, to a greater extent than they did for the Central government for many States.

Lockdown impact

After invoking the centralising National Disaster Management Act to declare a national lockdown without consulting or informing States, the Centre then proceeded to avoid any fiscal or other obligation to deal with the pandemic or the consequences of its own actions. The Centre left it largely to the State governments to deal with the additional health and security measures required, as well as the need to compensate for the economic distress, and somehow assist the recovery of livelihoods in whatever ways they could.

This is when the dues they were already owed by the Centre, in the form of the agreed and legislated GST compensation, would have been absolutely critical in plugging the gaps. (As a reminder, when the GST was introduced, the Centre had committed to compensating States to ensure that the tax revenues accruing to them would increase by 14 per cent every year for 5 years, to be paid out of a fund created by bringing in a GST compensation cess.)

But the Centre has been tardy about paying this, delaying the promised bi-monthly payments.

Compensation woes

Even when the lockdown started, the States had not been paid the compensation due for the period December 2019 to March 2020. Once the lockdown led to collapsing economic activity and declining tax revenues, the Centre denied the States their full legal dues of the GST compensation cess, claiming that it had not received sufficient funds through the cess.

This was disingenuous at the least. The Comptroller and Auditor General of India (CAG) had already found that the Union government in the very first two years of the GST implementation wrongly retained Rs.47,272 crore of GST compensation cess that was meant to be used specifically to compensate States for loss of revenue, and directed it to other purposes!

Because of the backlog and the further decline in tax collection, the estimated shortfall in GST compensation for 2020-21 is Rs.2.35-lakh crore (with only Rs.65,000 crore likely to be collected against the projected

Rs.3-lakh crore). But the Centre simply refused to meet its legal obligation, which it could easily have done by borrowing and repaying the amount through future cess collections.

Instead, after some back and forth, the Finance Minister proposed a complicated arrangement whereby the States would borrow a smaller amount (Rs.1.1-lakh crore) from the Centre. It would involve a back-to-back arrangement whereby the Centre (which can borrow at lower rates than the States) would lend directly to the States. All this only to avoid this amount being shown in the books as expenditure by the Centre, so as to avoid a larger fiscal deficit in the budgetary accounts.

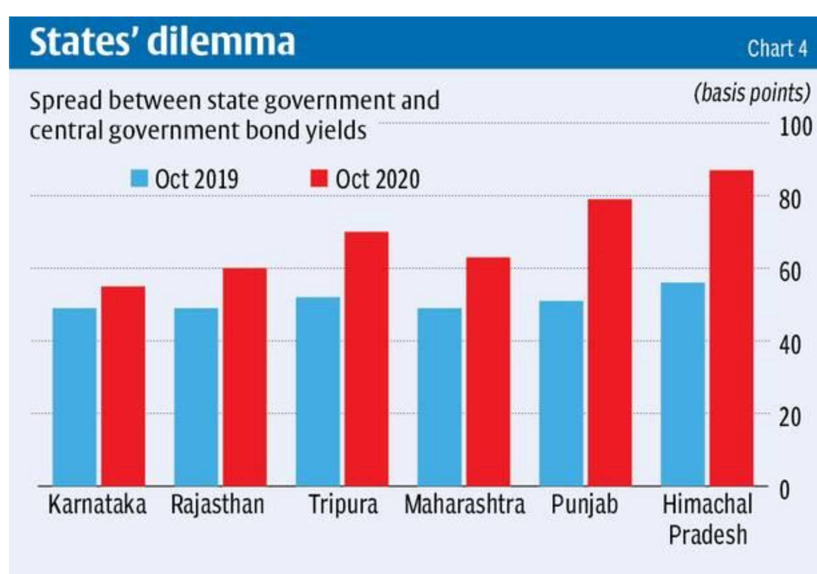
Consider the farcical nature of the plan: the Centre owes the States money; but instead of paying up, it lends the States some part of what they are owed from the Centre. Even this is being seen as a concession, because earlier the Finance Minister had offered only to allow the States to borrow the amount from the market.

This is possible only because of the extremely unequal power relations between Centre and States. While some States are still holding out for their rightful dues, most have fallen in line, out of sheer desperation because of the need to pay salaries and keep their governments even minimally functional.

Rise in loans

As Figure 3 indicates, this process, which began in late October, led to significant increases in loans disbursed by the Centre (which are almost entirely to the State governments). Even so, the amounts provided fall well below the States' needs, especially given the continuing economic slowdown and loss of livelihood.

The power imbalance between Centre and States comes not only from the fact that the Centre can control borrowing by the States under the Constitution; it is also due to the fact that in financial markets, the States typically face worse conditions and their debt is more expensive. Furthermore, the pandemic has worsened the conditions they face in bond markets. Figure 4 provides data for just a few States, which indicates the extent to which the spread between the yields on bonds they issue and the Central government's bonds have increased over the past year.



In this situation, given the unashamedly intransigent attitude of the Centre, most States have seen no option but to comply. But this is not a sustainable situation.

And it has completely eroded any trust between Centre and States, which is essential for functioning federalism.

Far from the "co-operative federalism" that was promised, it appears that this coercive fiscal pressure may undermine the basis of any federalism at all.

No plan to withdraw Rs.100, Rs.10 and Rs.5 banknotes from circulation: RBI

Our Bureau - Mumbai | January 25, 2021 BUSINESSLINE

The Reserve Bank of India (RBI), on Monday, clarified that it has no plan to withdraw the old series of Rs.100, Rs.10 and Rs.5 banknotes from circulation in near future

In a tweet, the central bank said: "With regard to reports in certain sections of media on withdrawal of old series of Rs.100, Rs.10 and Rs.5 banknotes from circulation in near future, it is clarified that such reports are incorrect."

After the demonetisation exercise, whereby the legal tender status of Rs.500 and Rs.1,000 denomination banknotes of the Mahatma Gandhi Series was withdrawn between November 10, 2016, till December 30, 2016, there have been rumours on and off about the central bank withdrawing Rs.2,000 denomination notes.

As per RBI annual report, in 2019-20, the volume as well as value of Rs.2,000 bank notes in circulation declined by about 17 per cent year-on-year. The data on indent and supply of banknotes shows that there was no printing of Rs.2,000 bank notes in 2019-20 (April-March).

In value terms, the share of Rs.500 and Rs.2,000 bank notes together accounted for 83.4 per cent of the total value of bank notes in circulation at end-March 2020, with a sharp increase in the share of Rs.500 bank notes.

In volume terms, Rs.10 and Rs.100 bank notes constituted 43.4 per cent of total bank notes in circulation at end-March 2020, the report said.

In January 2018, the RBI said that it had come to its notice that in certain places there was reluctance on part of traders and members of public to accept Rs. 10 coins due to suspicion about their genuineness.

The central bank then clarified that it puts into circulation, the coins minted by mints, which are under the Government of India. The Reserve

Bank requested members of the public to continue to accept coins of Rs.10 denomination as legal tender in all their transactions without any hesitation.

PMC Bank revival: Phased deposit withdrawal likely for customers

K Ram Kumar Mumbai | January 25, 2021

THE HINDU BusinessLine

Potential investors include the Centrum Group-BharatPe combine and the UK-based Liberty Group

Harried depositors of the scam-hit Punjab and Maharashtra Co-operative (PMC) Bank may be allowed to withdraw deposits in a phased manner, spread over 4-5 years, if it gets revived by an equity investor/ group of investors.

Such a move will assure the investor of a relatively stable liability base (deposits) even as the new management goes about mobilising fresh deposits, in all probability under a new brand name, according to sources aware of the modalities of the revival plan.

While the principal withdrawal could be in tranches of either 20 per cent of outstanding deposit each year over the next five years or 25 per cent over the next four years, existing depositors are likely to be allowed unfettered access to the accrued interest.

"If depositors can withdraw the interest on deposits, they can get on with their lives.

"Senior citizens, who depended on interest income on deposits to meet monthly expenses, have faced untold misery ever since the Bank was put under RBI Directions in September 2019," said a depositor.

Currently, deposit withdrawals are capped at Rs. 1 lakh per depositor for the entire duration of the Directions.

Potential investors

Potential investors who have submitted expression of interest (EoI) to invest in the Bank include the Centrum Group-BharatPe combine and the UK-based Liberty Group.

RBI is likely to announce the name of the investor who will steer the fortunes of the Bank before the extended validity period of its Directions ends on March 31, 2021.

If PMC Bank revives with the help of an investor, it can serve as a template for the revival of other distressed urban co-operative banks.

The Directions against PMC Bank were necessitated as RBI came across a nexus between borrowers (promoters of a real estate group) and some Bank officials, with the alleged fraud/ financial irregularities pegged at about Rs.4,355 crore.

Conversion into SFB

AK Dixit, PMC Bank's Administrator, in a letter to customers and stakeholders, said: "As you are aware, the bank had issued EoI on November 03, 2020, inviting investors for revival/ reconstruction of PMC Bank.

"Initially, four investors had shown their interest. Further process has been undertaken by three of them."

As per the EoI, subsequent to commencement of the normal day-to-day operations, it will be open for the investor(s) to convert the bank into a Small Finance Bank by making an application to RBI.

"The investor(s) should ideally bring in the capital required for enabling the bank to achieve the minimum required capital to risk weighted assets ratio (CRAR) of 9 per cent.

"However, the investors may explore the option of restructuring a part of deposit liabilities into capital/capital instruments," the EoI said.

The bank may also approach the Deposit Insurance and Credit Guarantee Corporation (DICGC) for its support for payment up to Rs. 5 lakh (insured

deposits) to depositors under the provisions of the DICGC Act, 1961, it added.

According to the EoI, PMC Bank was having total deposits of Rs. 10,727.12 crore, total advances of Rs. 4,472.78 crore and gross NPA (non-performing assets) of Rs. 3,518.89 crore as on March 31, 2020. Further, the share capital of the bank is Rs. 292.94 crore. However, the bank registered a net loss of Rs.6,835 crore during 2019-20 and has a negative net worth of Rs. 5,850.61 crore.

UCO Bank hopes to come out of RBI's PCA framework: CEO

Our Bureau - Kolkata | January 25, 2021 BUSINESSLINE

Posts net profit of Rs.35 crore in Q3

Having posted improvement in asset quality and profitability for four subsequent quarters starting March 2020, UCO Bank is hopeful of coming out of the Prompt Corrective Action (PCA) measure of the Reserve Bank of India.

According to Atul Kumar Goel, MD and CEO, UCO Bank, now that the bank has been able to adhere to all four parameters required to come out of PCA for four subsequent quarters, it has urged the RBI to consider taking it out of the framework.

Improvement in profitability

Riding on the back of a higher net interest income, UCO Bank registered a net profit of Rs.35 crore for the quarter ended December 31, 2020, compared to a net loss of Rs.960 crore during the same period last year.

On a sequential basis, net profit was up by nearly 17 per cent from Rs.30 crore during the quarter ended September 30, 2020.

Net interest income grew by 14 per cent to Rs.1,408 crore during the quarter under review compared with Rs.1,237 crore in the same period

last year. Operating profit was up by 10 per cent at Rs.1,334 crore (Rs.1,210 crore).

Other income was up by 16 per cent at Rs.864 crore (Rs.743 crore).

The percentage of gross non performing assets (NPA) to total advances declined to 9.8 per cent during the quarter under review against 19.45 per cent in the same period last year. Net NPA came down to 2.97 per cent (6.34 per cent).

Provision coverage ratio improved to 91.22 per cent during the quarter under review against 83.71 per cent in the same period last year.

Total deposits increased by seven per cent to Rs.20,2421 crore, while advances grew by around three per cent to Rs.11,6797 crore.

Despite a marginal decrease in yield on advances and a higher cost of funds, the bank has witnessed a growth in net interest margin to 2.86 per cent (2.62 per cent), said Goel.

The bank's capital adequacy ratio stood at 12.08 per cent.

"We are comfortable on the capital front till March 2021. We have board approval to raise around Rs.3,000 crore and we are looking for an opportune time to raise around Rs.1,000 crore via QIP. We are in the process of appointing merchant bankers for the same," he said.

On Monday, the bank's scrip closed at Rs.13.08, up by 1.55 per cent on the BSE.

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