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ASSOCHAM NEWS & VIEWS

WEEKLY

Highlights

- ⇒ **HIGHLIGHTS OF THE THIRD BI-MONTHLY MONETARY POLICY STATEMENT, 2019-20**
- ⇒ **INDIA'S FOREIGN TRADE: JULY 2019**
- ⇒ **CBDT SIMPLIFIES THE PROCESS OF ASSESSMENT IN RESPECT OF STARTUPS**



THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

CONTENTS**COMMERCE AND INDUSTRY**

COMMERCE AND INDUSTRY MINISTER LEADS A HIGH-POWER DELEGATION TO VLADIVOSTOK	3-4
---	-----

INIDA'S FOREIGN TRADE: JULY 2019	5-7
----------------------------------	-----

FINANCE

CBDT SIMPLIFIES THE PROCESS OF ASSESSMENT IN RESPECT OF STARTUPS	8
--	---

GOVERNMENT ISSUED SCHEME TO PROVIDE A ONE-TIME PARTIAL CREDIT GUARANTEE TO PSBS FOR PURCHASE OF POOLED ASSETS OF FINANCIALLY SOUND NBFCS	9-12
--	------

RBI

HIGHLIGHTS OF THE THIRD BI-MONTHLY MONETARY POLICY STATEMENT, 2019-20	13
---	----

TASK FORCE ON OFFSHORE RUPEE MARKETS SUBMITS REPORT TO THE GOVERNOR	14
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MINISTRY OF COMMERCE & INDUSTRY

Commerce and Industry Minister leads a high-power delegation to Vladivostok

Commerce and Industry Minister, Piyush Goyal led a high-power delegation of Chief Ministers of Haryana, Gujarat, Uttar Pradesh and Goa and about 140 Indian companies to Vladivostok, Russia from August 11-13, 2019. This visit came as a fulfillment of the assurance of Prime Minister, Narendra Modi to Russian President, Vladimir Putin during their meeting in Bishkek earlier this year on the sidelines of the SCO Summit, to explore opportunities for enhancing trade and investment from India to the Far East region of Russia.

About 200 Russian companies, Investment Agencies and Funds took part from the Russian side. Companies interacted separately with identified partners in an expanded B2B format and established contacts for further deliberations. The companies belonged to a wide cross-section of priority sectors, including minerals and rare earth, energy, forestry and timber, healthcare, agriculture and food processing, ceramics, tourism and infrastructure.

The event was the result of collaboration between Invest India and Federation of Indian Chambers of Commerce & Industry on the Indian side, and the Ministry for the Development of the Russian Far East and Arctic under the leadership of Alexander Kozlov and the Far East Investment and Export Promotion Agency on the Russian side.

On August 12, 2019, the companies showcased in different sessions the prospects of mutual collaboration in the promising sectors through presentations. The sessions were attended by the Governors of several regions of the Far East and senior officials on both sides.

In the Plenary Session attended by close to 400 delegates, Russia's Deputy Prime Minister, Yuri Trutnev and Commerce Minister of India underlined the need to diversify and deepen trade links in priority sectors, in order to meet the trade target of USD 30 billion by 2025. Piyush Goyal urged companies on both sides to use this special opportunity to come together to discuss partnerships directly with each other, and to come up with concrete project proposals and substantial outcomes. The Plenary Session culminated with the signing of MoUs between regions of the

Russian Far East and five states of India to expand and strengthen cooperation in the areas of trade, economy, investment, scientific and technical cooperation.

An MoU was signed between Amity University and Far East Federal University to enhance relations and develop academic and cultural exchange in the areas of education and research. An agreement was also concluded on the establishment of the representative offices, the Centre for Yoga, and the Pushkin Centre for Russian Language and cultural studies. Another MoU on skill development was signed between National Skill Development Corporation and Far East Investment and Export Agency.

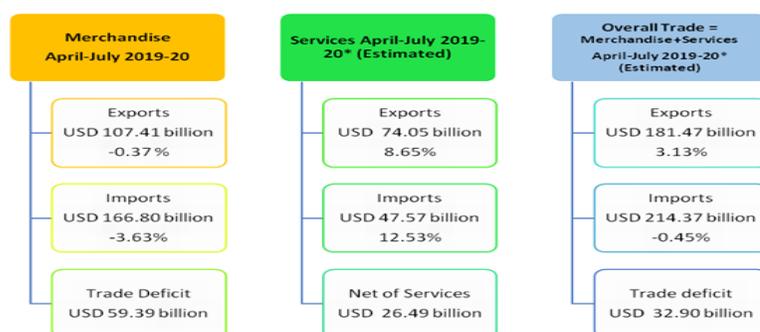
Chief Minister of Haryana, Manohar Lal Khattar delivered his address in Russian language and invited Russian investors to Gurugram and Haryana. Goa Chief Minister, Dr. Pramod Sawant, extended an invitation to Russian businessmen to actively participate in the upcoming 'Vibrant Goa Global Expo and Summit'. Chief Minister of Uttar Pradesh, Yogi Adityanath in his address, emphasized on collaboration in the field of energy, agriculture and food-processing. Gujarat Chief Minister, Vijay Rupani spoke in particular of the possibilities of collaboration in gold and diamond mining, and application of latest technology for utilization of natural resources.

This visit has generated a positive momentum for the enhancement of trade and economic cooperation between India and Russia in the run-up to the 5th Eastern Economic Forum in September, during which Prime Minister Narendra Modi will be the guest of honour on his maiden visit to Vladivostok.

MINISTRY OF COMMERCE & INDUSTRY

India's Foreign Trade: July 2019

India's overall exports (Merchandise and Services combined) in April-July 2019-20* are estimated to be USD 181.47 billion, exhibiting a positive growth of 3.13 per cent over the same period last year. Overall imports in April-July 2019-20* are estimated to be USD 214.37 billion, exhibiting a negative growth of 0.45 per cent over the same period last year.

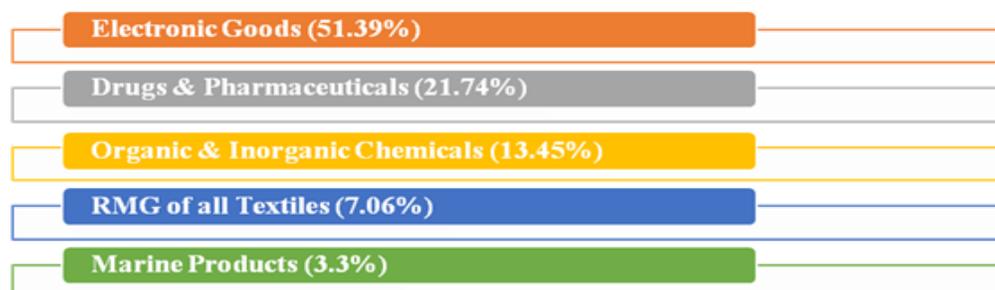


*Note: The latest data for services sector released by RBI is for June 2019. The data for July 2019 is an estimation, which will be revised based on RBI's subsequent release.

EXPORTS (including re-exports)

Exports in July 2019 were USD 26.33 billion, as compared to USD 25.75 billion in July 2018, exhibiting a positive growth of 2.25 per cent. In Rupee terms, exports were Rs. 1,81,190.34 crore in July 2019, as compared to Rs. 1,76,914.60 crore in July 2018, registering a positive growth of 2.42 per cent.

In July 2019, major commodity groups of export showing positive growth over the corresponding month of last year are



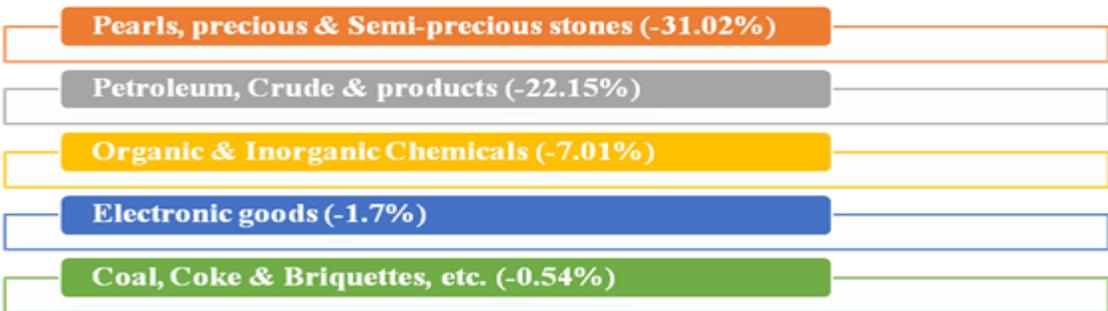
Cumulative value of exports for the period April-July 2019-20 was USD107.41billion (Rs.7,45,174.85crore) as against USD107.81billion (Rs.7,26,842.89crore) during the period April-July 2018-19, registering a negative growth of 0.37per cent in Dollar terms (positive growth of 2.52per cent in Rupee terms).

Non-petroleum and Non Gems and Jewellery exports in July 2019 were USD19.70billion, as compared to USD18.72billion in July 2018, exhibiting a positive growth of 5.28per cent. Non-petroleum and Non Gems and Jewellery exports in April-July 2019-20 were USD79.81billion, as compared to USD78.41billion for the corresponding period in 2018-19, an increase of 1.79per cent.

IMPORTS

Imports in July 2019 were USD39.76billion (Rs. 2,73,579.71crore), which was 10.43per cent lower in Dollar terms and 10.28per cent lower in Rupee terms over imports of USD44.39billion (Rs.3,04,916.76crore) in July 2018. Cumulative value of imports for the period April-July 2019-20 was USD166.80billion (Rs.11,57,232.64crore), as against USD173.08billion (Rs.11,67,617.41crore) during the period April-July 2018-19, registering a negative growth of 3.63per cent in Dollar terms (negative growth of 0.89per cent in Rupee terms).

Major commodity groups of import showing negative growth in July 2019 over the corresponding month of last year are:



CRUDE OIL AND NON-OIL IMPORTS:

Oil imports in July 2019 were USD9.60billion (Rs. 66,056.77crore), which was 22.15 percent lower in Dollar terms (22.02percent lower in Rupee terms), compared to USD12.33billion (Rs.

84,707.59crore) in July 2018. Oil imports in April-July 2019-20 were USD44.45billion (Rs. 3,08,455.32crore) which was 5.69per cent lower in Dollar terms (3.03percent lower in Rupee terms) compared to USD47.13billion (Rs. 3,18,091.98crore), over the same period last year.

In this connection it is mentioned that the global Brent price (\$/bbl) has decreased by 14.02% in July 2019 vis-à-vis July 2018 as per data available from World Bank (Pink Sheet).

Non-oil imports in July 2019 were estimated at USD30.16 billion (Rs. 2,07,522.94crore) which was 5.92per cent lower in Dollar terms (5.76percent lower in Rupee terms), compared to USD32.06billion (Rs. 2,20,209.17crore) in July 2018. Non-oil imports in April-July 2019-20 were USD122.35billion (Rs. 8,48,777.32crore) which was 2.85per cent lower in Dollar terms (0.09percent lower in Rupee terms), compared to USD125.95 billion (Rs. 8,49,525.43crore) in April-July 2018-19.

Non-Oil and Non-Gold imports wereUSD28.45billion in July 2019, recording a negative growth of 2.22per cent, as compared to Non-Oil and Non-Gold imports of USD 29.09billion in July 2018. Non-Oil and Non-Gold imports wereUSD109.19billion in April-July 2019-20, recording a negative growth of 4.67per cent, as compared to Non-Oil and Non-Gold imports USD 114.54billion in April-July 2018-19.

TRADE BALANCE: Trade deficit for April-July 2019-20 is estimated at USD32.90billion as compared to USD39.38 billion in April-July 2018-19.

MINISTRY OF FINANCE

CBDT simplifies the process of assessment in respect of Startups

The Finance Ministry has simplified the process of assessment in the case of Startup entities.

In cases where scrutiny assessments of Startup entities are pending, the CBDT has decided that:

- i) In case of Startup Companies recognized by DPIIT which have filed Form No. 2 and whose cases are under “limited scrutiny” on the single issue of applicability of section 56(2)(viib), the contention of the assessee will be summarily accepted.
- ii) In case of Startup Companies recognized by DPIIT which have filed Form No. 2 and whose cases have been selected under scrutiny to examine multiple issues including the issue of section 56(2)(viib), this issue will not be pursued during the assessment proceedings and inquiry on other issues will be carried out by the Assessing Officer only after obtaining approval of the supervisory authority.
- iii) In case of Startup Companies recognized by the DPIIT, which have not filed Form No. 2, but have been selected for scrutiny, the inquiry in such cases also will be carried out by the Assessing Officer only after obtaining approval of the supervisory authorities.

In addition to the above, the Central Government has further decided to relax Para-6 of the DPIIT notification No.127 (E) dated 19.02.2019 and make it clear that this notification will also be applicable to Startup Companies where addition under section 56(2)(viib) has been made and the assessee has been recognized by DPIIT and subsequently filed Form No. 2. The Circular to this effect in F.No 173/149/2019-ITA-1 of CBDT dated 8th August, 2019, has been placed on www.incometaxindia.gov.in.

MINISTRY OF FINANCE

Government issued Scheme to provide a one-time partial credit guarantee to PSBs for purchase of pooled assets of financially sound NBFCs

In pursuance of the announcement made in the Union Budget 2019-20 presented by the Union Minister of Finance & Corporate Affairs Smt. *Nirmala Sitharaman*, the Government has issued a scheme regarding partial credit guarantee on 10.8.2019. The Scheme would enable the public sector banks (PSBs) to purchase pooled assets of financially sound NBFCs amounting to Rs. one lakh crore. It is expected that this measure would provide liquidity to the NBFC Sector and, in turn, enable them to continue to play their role in meeting the financing requirements of the productive sectors of economy including MSME, retail and housing.

It may be recalled that the Union Minister of Finance & Corporate Affairs Smt. *Nirmala Sitharaman* in her Budget Speech for the Union Budget 2019-20 had made the following announcement to support fundamentally sound Non-Banking Financial Companies (NBFCs) in getting continued funding from banks:

“For purchase of high-rated pooled assets of financially sound NBFCs, amounting to a total of Rupees One lakh crore during the current financial year, Government will provide one time six months’ partial credit guarantee to Public Sector Banks for first loss of up to 10%.”

The details of the Scheme launched in this respect are as below –

Name of the Scheme: 'Partial Credit Guarantee offered by Government of India (GoI) to Public Sector Banks (PSBs) for purchasing high-rated pooled assets from financially sound Non-Banking Financial Companies (NBFCs)/Housing Finance Companies (HFCs)'.

Objective: To address temporary asset liability mismatches of otherwise solvent NBFCs/HFCs without having to resort to distress sale of their assets for meeting their commitments.

Validity of the scheme: The window for one-time partial credit guarantee offered by GoI will open from the date of issuance of the Scheme by the Government for a period of six months, or till such date by which Rupees One lakh crore assets get purchased by banks, whichever is earlier.

A. Operational Guidance:

- (i) The assets shall be purchased by banks at fair value.
- (ii) Assets to be assigned by NBFCs/HFCs must be rated by Credit Rating Agencies (CRAs) accredited by Reserve Bank of India (RBI).

(iii) One-time guarantee provided by the Gol on the pooled assets will be valid for 24 months from the date of purchase and can be invoked on the occurrence of default as outlined under heading 'D' below. The guarantee shall cease earlier if the purchasing bank sells the pooled assets to the originating NBFC/HFC or any other entity, before the validity of the guarantee period.

(iv) The purchasing banks may have service level agreements with the originating NBFCs/HFCs for servicing, including administration of the individual assets.

(v) The NBFCs/HFCs can have the option to buy back their assets after a specified period of 12 months as a repurchase transaction, on a right of first refusal basis.

B. Eligible NBFCs/HFCs:

(i) The NBFCs registered with RBI under the Reserve Bank of India Act, excluding those registered as Micro Finance Institutions and Core Investment Companies.

(ii) HFCs registered with National Housing Bank (NHB) under the National Housing Bank Act.

(iii) The CRAR of NBFCs/CAR of HFCs should not be below the regulatory minimum (*i.e.* 15% for NBFCs and 12% for HFCs) as on 31.3.2019.

(iv) Their net Non-Performing Asset should not be more than 6% as on 31.3.2019.

(v) They should have made a net profit in at least one of the last two preceding financial years (*i.e.* FY 2017-18 and 2018-19).

(vi) The NBFCs/HFCs should not have been reported under SMA category by any bank for their borrowings during last one year prior to 1.8.2018.

(vii) Micro Finance Institutions and Core Investment Companies are not covered under the Scheme.

C. Eligible assets:

i. Assets originated up to 31.3.2019 will only be eligible under this scheme.

ii. Assets should be standard in the books of NBFCs/HFCs on the date of sale.

iii. The pool of assets should have minimum rating of 'AA' or equivalent at fair value prior to the partial credit guarantee by Gol.

iv. Each account under the pooled assets should have been fully disbursed and security charge should have been created in favour of the originating NBFCs/ HFCs.

- v. NBFCs/HFCs can sell up to a maximum of 20% of their standard assets as on 31.3.2019 subject to a cap of Rs. 5,000 crore at fair value. Any additional amount above the cap of Rs. 5,000 crore will be considered on *pro rata* basis, subject to availability of headroom.
- vi. The underlying assets should represent the debt obligations of a homogeneous pool of obligors and individual asset size in the pool is capped at Rs. 5 crore (*i.e.* asset pool should be sufficiently granular).
- vii. Originating NBFCs/HFCs cannot assign the following assets under this Scheme:
 - a) Revolving credit facilities;
 - b) Assets purchased from other entities; and
 - c) Assets with bullet repayment of both principal and interest.

D. Invocation of Guarantee:

The purchasing bank can invoke the Gol guarantee if the interest and/or instalment of principal remains overdue for a period of more than 90 days (*i.e.* when liability is crystallised for the underlying borrower) during the validity of such guarantee, subject to the condition that the guarantee is for the first loss up to 10 per cent.

E. Reporting and claims:

1. There should be a process of real time reporting of such transactions by the banks to Gol and to get the information on remaining available headroom for purchase of such pooled assets. The Department of Financial Services (DFS), Ministry of Finance would obtain the requisite information in a prescribed format from the PSBs and send a copy to the budget division of DEA.
2. Gol shall settle such claims by the banks within 5 working days from the date of claim.
3. Upon recovery of the accounts for which the purchasing bank had invoked the Gol guarantee and received the claim from Gol, the guarantee amount, or the amount recovered, whichever is lower, should be passed on by banks to the Gol within 5 working days from the days of receipt in its books, subject to the condition that in case the guarantee amount is lower than the recovery shortfall the gap would be filled by the bank receiving the guarantee, but when the recovered amount is higher than the guarantee amount, than the excess over the guarantee amount would be kept by the bank.
4. Any loss crystallised up to 24 months is eligible for claim from Gol under the Scheme, provided such pooled assets are not (a) bought back by the concerned NBFCs/HFCs or (b) sold by the purchasing bank to other entities.

F. Guarantee Fees:

NBFCs/HFCs will pay a fee equivalent to 0.25% per annum of the fair value of assets being purchased by the bank under this Scheme to Gol (must be routed through the purchasing bank).

G. The NBFCs/HFCs whose assets are sold under this Scheme shall undertake the following:

1. It should rework the Asset Liability structure within three months to have positive ALM in each bucket for the first three months and on cumulative basis for the remaining period.
2. At no time during the period for exercise of the option to buy back the assets, should the CRAR go below the regulatory minimum. The promoter shall ensure this by infusing equity, where required.

RESERVE BANK OF INDIA

Highlights of the Third Bi-monthly Monetary Policy Statement, 2019-20

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (August 7, 2019) decided to:

- **reduce the policy repo rate under the liquidity adjustment facility (LAF) by 35 basis points (bps) from 5.75 per cent to 5.40 per cent with immediate effect.**

Consequently, the reverse repo rate under the LAF stands **revised to 5.15 per cent**, and the marginal standing facility (MSF) rate and the **Bank Rate to 5.65 per cent**.

- The MPC also decided to maintain the accommodative stance of monetary policy.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Download Link: [Third Bi-monthly Monetary Policy 2019-20.PDF](#)

RESERVE BANK OF INDIA

Task Force on Offshore Rupee Markets submits report to the Governor

The Task Force on Offshore Rupee Markets, set up by the Reserve Bank of India in [February 2019](#) and chaired by Smt. Usha Thorat, former Deputy Governor, RBI, submitted its [report](#) to the Governor on 30th July, 2019. The Task Force was set up to examine the issues relating to the offshore Rupee markets in depth and recommend appropriate policy measures while factoring in the requirement of ensuring stability of the external value of the Rupee including measures for incentivising non-residents to access the onshore foreign exchange market.

The Task Force interacted with representatives of various banks, financial institutions, large corporates in India and abroad, foreign portfolio investors, asset managers, industry bodies, experts and practitioners.

The key recommendations of the Task Force are:

- (a) To extend onshore market hours to improve access of overseas users;
- (b) To permit Indian banks to freely offer prices to global clients around the clock;
- (c) To enable Rupee derivatives (settled in foreign currency), to be traded in the International Financial Services Centers (IFSC) in India, to begin with on exchanges in the IFSC.
- (d) To allow users to undertake forex transactions up to USD 100 million in OTC currency derivative market without the need to establish underlying exposure.
- (e) To facilitate non-residents to hedge their foreign exchange exposure onshore by:
 - i. Establishing a central clearing and settlement mechanism for non-resident transactions in the onshore market;
 - ii. Implementing margin requirement for non-centrally cleared OTC derivatives and allowing Indian banks to post margins abroad;
 - iii. Aligning the tax treatment of foreign exchange derivatives with that in major international centres; and
 - iv. Centralising the KYC requirements across financial markets with uniform documentation requirement.

Yogesh Dayal
Chief General Manager