RBI Reserves not Needed to Meet Fiscal Deficit Target: FM

Jaitley says govt will take necessary steps to remove difficulties faced by farmers

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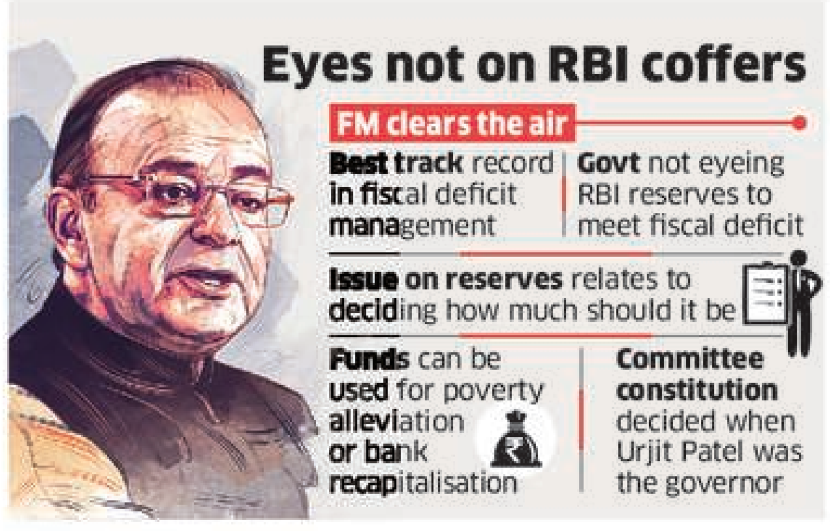

New Delhi: The government does not need the Reserve Bank of India's reserves to meet its fiscal deficit target, finance minister Arun Jaitley reiterated, replying to a parliamentary debate on the supplementary demand for grants.

He also said that the government will take all necessary measures to resolve the difficulties faced by farmers.

Replying to accusations that the government was eyeing RBI's reserves to meet its fiscal deficit, Jaitley said the government had managed its math better than its predecessor. "I do not need RBI's reserves for (meeting) fiscal deficit," Jaitley said.

He said three expert committees had been set up in the past – 1997, 2004 and 2013 – to decide on the RBI's reserves.

"Today, the question is how much economic framework capital the RBI needs," he said pointing out that many central banks have pegged it at 8% of assets, while more conservative ones have it set at 14%, lower than that in India.

"Should it be at 27-28% in India," he asked, adding that the expert committee that's been set up under the leadership of former RBI governor Bimal Jalan will decide on the appropriate level.

In case the current level is considered excessive, the surplus can be deployed elsewhere.

"That money can be used for bank recapitalisation... for poverty alleviation," he said.

He said the decision to set up the committee on the RBI's economic capital framework as well as its composition had been made when Urjit Patel was still governor. Patel resigned in December amid a row between the government and the RBI over various issues.

The second batch of supplementary demands for grants for FY19 for gross additional expenditure of ₹85,948.86 crore, which includes ₹41,000 crore for capitalising public sector banks (PSBs), was later passed by voice vote in the Lok Sabha on Monday.

With regard to concerns expressed by some members over agrarian distress, Jaitley said the government will take all steps to support farmers. It had already raised the minimum support price (MSP), he pointed out.

"Farmers' difficulties be removed–whatever steps are needed, till the last step this government will do. This I would like to say clearly before this house," Jaitley said.

The finance minister said the government had lowered the fiscal deficit and kept inflation and the current account deficit (CAD) under check, while retaining the fastest-growing economy tag for five years. Jaitley said it was only during the current government's tenure that India had become the fastest-growing major economy in the world, ahead of China.

He said demonetisation and the goods and services tax (GST) had helped widen the tax base and allocate more funds for poverty alleviation and social sector programmes. The number of income tax return filers have gone up from 38 million during the previous government to 68.6 million currently, he said. It could double by the end of the five-year term of the current government ending in May 2019.

He said the government had enabled road and power connections to villages and 97% of houses now have toilets.

In the first 100 days of Ayushman Bharat universal health scheme, 700,000 people had availed of free treatment in hospitals, he said. By the second and third year, about 10 million poor will get treatment under the scheme. There is no bigger government-funded health scheme in the world, he said. He blamed indiscriminate lending by banks between 2008 and 2014 for the rise in the bad loans.

Ecotrack- The Month That Was

Economic data released in December shows a strong start to the third quarter of FY19 and a comfortable inflation situation

FACTORIES AND INFRASTRUCTURE

CORE SECTOR - Down again (% annual growth)

May	4.1
Jun	7.8
Jul	7.3
Aug	4.7
Sep	4.3
Oct	4.8
Nov	3.5

COMPOSITE PMI - Near 2-year high (Combined services & manufacturing PMI)

May	50.4
Jun	53.3
Jul	54.1
Aug	51.9
Sep	51.6
Oct	53
Nov	54.5

INDUSTRIAL PRODUCTION - Rebounds to 11-mth high (% annual growth)

Apr	4.5
May	3.8
Jun	7
Jul	6.5
Aug	4.7
Sep	4.5
Oct	8.1

FUEL CONSUMPTION - Mixed signal (% annual increase)

	Petrol	Diesel
Sep	4.2	-0.8
Oct	4.7	6.8
Nov	8.7	-4.8

MONEY AND PRICES

CONSUMER INFLATION - At record lows (% annual CPI inflation)

May	4.87
Jun	4.92
Jul	4.17
Aug	3.69
Sep	3.7
Oct	3.38
Nov	2.33

CREDIT GROWTH - Steady rise (% annual increase)

Jun-08	12.7
Jul-06	12.8
Aug-03	12.7
Sep-14	13.5
Oct-12	14.4
Nov-09	14.9
Dec-07	15.1

DEPOSIT GROWTH - More in banks (% annual increase)

Jun-08	8.4
Jul-06	8.3
Aug-03	8.2
Sep-14	8.6
Oct-12	8.9
Nov-09	9.1
Dec-07	9.7

FISCAL DEFICIT - Out of zone (% of FY19 budget estimate)

May	55.3
Jun	68.7
Jul	86.5
Aug	94.7
Sep	95.3
Oct	103.9
Nov	114.8

FREIGHT AND TRAVEL

RAIL FREIGHT - Steady (% annual increase)

Sep	3.7
Oct	9.6
Nov	5.1

TELECOM SUBSCRIBERS - Slower additions (Net additions, in millions)

July	10.55
Aug	9.85
Sep	2.4

AIR Travel – Boom time (% annual increase)

Sep	18.9
Oct	13.3
Nov	11

VEHICLE SALES - Cars in a slow lane (% annual increase)

	Cars	Commercial vehicles	Two -Wheelers
Sep	-5.6	24.1	4.1
Oct	1.6	24.8	17.3
Nov	-3.4	5.7	7.2

EXPORTS AND IMPORTS

EXPORTS - Stagnant (% annual growth)

May	20.2
Jun	17.6
Jul	14.3
Aug	19.2
Sep	-2.1
Oct	17.9
Nov	0.8

IMPORTS - Growth moderates (% annual growth)

May	14.9
Jun	21.3
Jul	28.8
Aug	25.4
Sep	10.5
Oct	17.6
Nov	4.3

TRADE DEFICIT - Still high (In $ billion)

May	14.6
Jun	16.6
Jul	18
Aug	17.4
Sep	14
Oct	17.1
Nov	16.7

EPFO JOBS NUMBERS - Steady rise (Net additions, in millions)

Aug	0.7
Sep	0.88
Oct	0.83

Source: Govt, RBI, ICRA

Core Growth Slows to 3.5% in November

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CORE SECTORS

The eight infra sectors of coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity, constitute 40.27% of total industrial production

New Delhi: The growth of India's infrastructure industries slowed to a 16-month low of 3.5% in November, brought down by cement, electricity and coal production, data released by the commerce and industry ministry showed Monday.

The previous lowest expansion in output growth of the infrastructure industries was 2.9% in July 2017. Core sector had grown 4.8% in October and 6.9% in November 2017.

The eight infrastructure sectors of coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity, constitute 40.27% of the total industrial production. This suggests a moderation in industrial growth going ahead.

Cumulative growth in the April to November period was 5.1% compared with 3.9% in the year ago period.

Coal output growth dipped sharply to 3.7% in November from 11.3% in October, despite a favourable base effect. Electricity generation rose 5.4% compared with 10.9% in October.

The waning of favourable base effect halted the sustained trend of double-digit expansion recorded in cement output in the last twelve months to 8.8% from 18.4% a month ago.

"The year-on-year growth performance of a variety of early indicators, including the core industries, non-oil merchandise exports and auto production, displayed a broad-based deterioration in November 2018, driven to an extent by unfavourable base effects, partly related to a shift in the festive calendar," said Aditi Nayar, Principal economist, ICRA.

Crude oil and fertiliser production declined 3.5% and 8.1%, respectively, though the pace of decline was slower.

The growth rate in the production of natural gas, refinery products and steel sectors slowed to 0.5%, 2.3% and 6% in November, respectively.

Nayar said IIP growth is likely to display a considerable moderation to a modest 2-3% in November from 8.1% in October, led by manufacturing, mining and electricity.

96% Households Get Electricity, Rest likely to be Linked by Jan 26

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New Delhi: The government has connected about 96% of households across the country with electricity supply and hopes to take power lines to the rest by January 26, officials said.

The government had initially targeted March 31, 2019, as the deadline for taking electricity lines to all households in the country that sought a connection. It later said the target would be met three months earlier, by December 31.

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Work in some regions has been delayed because of reasons such as legal tussle over a tender, recent assembly elections and difficulties in working in areas affected with Naxal violence, they said.

The official website that monitors progress in providing electricity, the Saubhagya dashboard, showed that government has electrified 95.72% households, while 4.28% or 10,68,160 were left to be energized in Rajasthan, Karnataka, Assam, Chhattisgarh, Meghalaya and Arunachal Pradesh.

Uttar Pradesh, which hosted close to half of the targeted unelectrified households, has achieved 100% electrification, a statement issued by the power ministry said.

Since launch of the Saubhagya scheme, 74.4 lakh willing households have been electrified and the state government has declared saturation of all 75 districts. The state has launched a door-to-door campaign for any left out unelectrified households, it said.

Steel, Wood Items Exporters Concerned over China Increasing VAT Refund

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SAFETY MEASURE

This is a cash support that China is using to protect itself from any tariff increase by the US

New Delhi: Exporters of steel, wooden items and machinery products have raised concern over China increasing the refund on value added tax (VAT) on these products without raising the actual tax.

Beijing has increased the export tax rebate on around 400 "electromechanical and cultural" products including steel bars, nuts, bolts, safety pins, rivets, photo frames and wooden products to "improve the export tax rebate policy" in the last few months.

India competes with China on certain items and exporters here would feel the pinch, people in the know of the development said.

"This is a cash support that China is using to protect itself from any tariff increase by the US," said an official.

Beijing has increased the export tax rebate rate for multi-component integrated circuits, non-electromagnetic interference filters, books, newspapers and other products to 16% from the earlier rate of 13% or 15%. On bamboo carvings and wood fans, the benefit has been raised to 13% from zero earlier. The export tax rebate rate on safety pins has been raised to 9% compared with 5% before.

Ajay Sahai, CEO of Federation of Indian Export Organisations expects Indian exports of these products to be worth $30 billion across Asia, Africa and Latin America, which could get affected in the next few months as the Chinese administration's new incentives will show effect with a lead time of 2-3 months.

"This is a dangerous trend and will hurt our small-scale exporters. Besides incentivising newer markets for its exporters, China is also protecting them from any shocks in case the US decides to increase tariffs," Sahai said.

The official said that this kind of incentive will encourage Indian manufacturers in China to export more from that country instead of making more in India.

Non-subsidised LPG Cylinder to Cost ₹120 Less

Our Bureau

New Delhi: State-run oil firms will cut the price of non-subsidised LPG by ₹120 per cylinder from January 1 as the landed price of imports of the scarce fuel has fallen because of lower international rates and a stronger rupee, which has also helped retail petrol prices to fall to the lowest in a year.

"Accordingly, the upfront cash payment by the consumer of domestic LPG will also reduce by ₹120.50/cylinder. Domestic LPG consumer will now be required to make upfront cash payment of ₹689.00/cylinder in place of ₹809.50/cylinder," Indian Oil said on Monday.

The government bears a subsidy of ₹194 per cylinder, which is transferred to the bank account of cooking gas consumers after they purchase a new cylinder.

After the subsidy, the effective price to consumers will reduce by ₹5.91/cylinder from ₹500.90 in December to ₹494.99 for the month of January 2019. The reduction is on account of GST impact on decrease in price of Non-Subsidised LPG.

Indian consumers have gained from a sharp fall in global crude oil prices, which touched $86.7 per barrel in early October but tumbled to $50 in the past week but has risen to $54.7 on Monday.

Petrol prices, which had crossed ₹90 per litre in Mumbai and seemed heading for ₹100 per litre a few months ago, have fallen between ₹15 to ₹20 a litre in different parts of the country, depending on local taxes. Diesel prices have also fallen substantially, although not as much as petrol. This is because of international petrol prices have declined more sharply than diesel.

Crude oil prices rose by a third between January and October on concerns of a supply squeeze following US sanctions against OPEC member Iran, which is a major crude supplier. But the US decision to allow major importers including India to keep buying Iranian crude for some time led to a collapse in the oil market.

On Monday, the international benchmark Brent crude rose more than $1 on Monday but most analysts expect oil prices to remain low in the months ahead. They may rise around May, when the US would decide whether India and other major buyers of Iranian crude would continue to be exempted from sanctions if they buy oil from Tehran.