

ROLE OF CREDIT RATING AGENCIES

Rajiv Kumar, financial services secretary

The role of credit rating agencies needs to be introspected and looked at, as to how entities can remain AAA and can suddenly come eight notches down in a day

Quick View

Nod for 7th pay panel suggestions

THE HRD ministry on Tuesday approved a proposal to extend the 7th Pay Commission recommendations to academic staff of government and aided technical institutions with granting of ₹1,241 crore for the purpose. "This will directly benefit a total of 29,264 teachers and other academic staff of state government funded institutes,"HRD minister Prakash Javadekar said.

IAMAI on revised **FDI** norms

THE INTERNET and Mobile Association of India (IAMAI) Tuesday urged the government to defer the implementation of revised norms for e-commerce companies having foreign investments, as few provisions are unclear and onerous. It said it would not be possible for online retailers to comply with the norm which is related to a 25% cap.

DEC TRADE DATA

Imports contract after 27 months, exports up 0.34%

Trade deficit eases to \$13.1 billion, the lowest since February last year

FE BUREAU New Delhi, January 15

TRADE SLOWDOWN WORS-**ENED** in December 2018, as merchandise export growth plunged for a second straight month to just 0.34% and imports witnessed their first contraction since September 2016.

Trade deficit, consequently, eased to \$13.1 billion in December, the lowest since February last year, showed the data released by the commerce ministry on Tuesday.

Exports rose only marginally to \$27.93 billion in December, against \$27.83 billion a year before, as a contraction in outbound shipments of products — including engineering goods, gems and jewellery and certain farm items — offset a decent increase in those of petroleum products, chemicals and electronics.

This indicates while the



sharp rupee depreciation may have weighed on import demand, the country's ability to exploit the situation to boost exports is far from strong, said analysts. Some analysts feel the drop in imports suggests economic recovery remains uneven. Non-oil and non-gold imports witnessed a 1.86% drop, while such exports rose just 1.08%

in December. Importantly, exports of some farm items dropped oilseeds by 27%, tea by 11%, coffee by 35.3% and fruit and vegetable by 13% — while those of rice inched up by only 1.3%. Even exports of meat, dairy and poultry items plunged by 24.6% in DecemCalling for urgent support

— including higher credit and fiscal incentives — to prop up exports, FIEO president Ganesh Kumar Gupta said sectors such as petroleum, chemicals, plastic & linoleum and garments, which had witnessed high growth in the previous month, recorded slower expansion in December. Exports by all major labourintensive sectors, including gems and jewellery, engineering, leather, certain man-made textiles and agriculture, are now in the negative territory, Gupta added.

24.3% (to \$2.57 billion) and

those of pearls and precious

stones plunged by 28%.

Overall, merchandise exports during the April-December period rose 10.2% to \$245.44 billion, while imports grew at a sharper pace of 12.6%. At \$82.7 billion, overall trade deficit (including services trade) between April and December is estimated to be almost 19% higher than a year before. This will weigh on current account deficit, which is expected to worsen to 2.8-3% of GDP in FY19 by many analysts, compared with 1.9% a year before.

GoM to look into 'composition scheme' for realty sector under GST

FE BUREAU New Delhi, January 15

THE GOVERNMENT ON Tuesday said that a seven-member panel of state finance ministers will consider the proposal of a 'composition scheme' for the real estate sector under the goods and services tax (GST) and recommend a mechanism for the same to the GST Council.

The panel will be headed by Gujarat deputy chief minister Nitin Patel and will also have the finance ministers of Maharashtra, Karnataka, Kerala, Punjab, Uttar Pradesh and Goa as members. The group of ministers (GoM) is tasked with the analysis of GST rate on the sector, including issues in view of the proposal for shoring up the real estate sector.

sition and suggest valuation mechanism.Itwould also examine various aspects of GST on Transfer of Development Rights (TDR) and Development Rights in a joint agreement and suitable model, the statement added.

The panel would also exam-

inclusion/exclusion of land or

any other ingredient, in compo-

of

ine the legality

The GST Council in its recent

Jaitley said the average GDP

meeting on January 10 had decided to set up a GoM after it failed to reach a consensus on a proposal to cut GST rate on real estate to 5% from existing 12% while blocking input tax credit for building. The slowdown in the GST sector was referred to as one of the reasons for subdued GST collections by finance minister Arun Jaitley.

Currently, GST is levied at 12% on payments made for under-construction property or ready-to-move-in flats where completion certificate has not been issued at the time of sale. The effective pre-GST tax incidence on such housing property was 15-18%. GST, however, is not levied on buyers of real estate properties for which completion certificate has been issued at the time of sale.

Trumped other govts on macro indicators: Jaitley

FE BUREAU

New Delhi, January 15

TAKING A SWIPE at "unstable alliances", finance minister Arun Jaitley on Tuesday said the stable and decisive government led by PM Narendra Modi has trumped other governments on macro indicators such as GDP/inflation.

In a facebook blog that highlighted the relationship of a stable government with growth,

growth was 7.3% while inflation was 4.6% during the five years of Modi (FY15-FY19) compared to 6.7% and 10.1%, respectively, under the Congress-led UPA-2 government. The ratio was 6.9% and 5.7% under UPA-1, it noted.

"India, of course, is projected to grow next year at 7.5%. This will conclusively ensure that India, at the end of the next financial year (FY20), could possibly be the fifth largest economyin the world," he said. When Modi came to power, India was the world's 10th largest economy in GDP terms. Now the fifth, sixth and seventh economies, namely the UK, France and India are within a very narrow range. With the kind of transfer of resources to rural India that have been made in the past five years, a huge aspirational class is emerging even there, he said.

From the Front Page

Banks bat for acquiring small merchants as peers for UPI

Ch.No. 401

hotstar

Ch.No. 380(Mum)

Ch.No. 382(Del)

□ JioTV

Ch.No. 386(Mum)

BTVI LIVE streaming is now available on

Ch.No. 427(Rol)

HDFC securities

However, of these, only

between 10-12% are merchant payments, industry players say.

Most merchant UPI transactions are made on e-commerce platforms, with small store fronts remaining out of reach for banks.

Banks say that it is not only expensive for them to tap the very small merchants, but it is also unremunerative in the absence of consumers who are savvy enough to

make QR-based payments using their smartphones. "The question with QR is only as follows: if the merchant accepts QR, the customer on the mobile app should also be able to make the payment.We

ber, having already contracted

by over 31% in the previous

month, while marine exports

ing goods, a prime driver of

export growth in recent

months that also accounts for around a fourth of total

exports, dropped 3.1%, while

gems and jewellery exports fell

19.2%. Petroleum product

exports rose 13.2% to \$4.2 bil-

a 12% drop in crude oil prices

(compared with a year earlier)

prevented imports of petro-

leum products from spiralling

sharply in December (such pur-

chases rose only 3.2% to \$10.67

billion). Imports of gold dropped

As for merchandise imports,

The shipment of engineer-

declined by 7.4%.

lion in December.

haven't reached where China has, where virtually everybody – whether merchant or consumer, is on QR," a banker

government had agreed to pick up the tab for the MDR payable on all debit card, UPI and Aadhaar-enabled Payment System (AePS) transactions up to ₹2,000 for a period of two years with effect from January 1, 2018. It was estimated that the MDR to be reimbursed to the banks in respect of transactions less than ₹2,000 in value would be ₹1,050 crore in fiscal year 2018-19 and ₹1,462 crore in FY 2019-20.

The Reserve Bank of India (RBI) has set up the Nandan Nilekani committee to encourage deepening of digital payments. Industry watchers say the subsidies and discounts are not being channelled quickly enough to the beneficiaries. For example, banks have been accused of delaying reimbursements of merchant discount rates (MDR) to merchant aggregators and acquirers. While the absolute values may be not be large since these are small-value digital transactions — the estimated MDR in 2016-17 was ₹3,000 crore — the delay in reimbursements nonetheless needs to be addressed.

The larger banks appear to be afraid to push digitisation, especially in semi-urban and rural geographies; they have been consistently refusing to raise the inter-change fee installing micro-ATMs. Unless this happens, there is no incentive for lenders that are installing micro-ATMs, experts say.

Sensex surges 465 pts on hopes of rate cut

Earlier, data showed factory output rose 0.5% in November, sharply slower than the 8.4% gain in the previous month.

"Lower inflation was expected given the sharp decline in crude oil and food prices," said Sameer Kalra, president research at Target Investing in Mumbai. "However, crude remains volatile and may lead the Reserve Bank of India to pause and look at data for another quarter before reducing rates. Though it is likely to keep an easing stance with respect to liquidity""Earnings for companies so far is showing revenue growth led by volumes even as margins are contracting. The trend is likely to persist for a couple of quarters

before the companies regain

GTPL

AXISDIRECT

Ch.No. 225(Guj)

pricing power and margins improve," Kalra added.

On a net basis, foreign portfolio investors (FPIs) sold shares worth ₹732.46 crore In December 2017, the on Monday, while domestic institutional investors (DIIs) were net buyers to the tune of ₹527.49 crore, provisional data available with BSE showed.

"Domestic market was buoyed by broad-based buying across all sectors and particularly led by rate sensitive sectors on the expectation of a probable rate cut considering that IIP for November slumped to mere 0.5% while CPI inflation eased for a 6th straight month to 2.19% in December," Paras Bothra, president, equity research, Ashika Group, said.

Positive cues from European and Asian markets also lifted the sentiment.

More tax evasion detected under **GST**

For instance, Gurugram Zonal Unit of the Directorate General of GST Intelligence (DGGI) in September last year arrested two businessmen for issuing fake invoices amounting to ₹450 crore of supplies and ₹79 crore of evasion. These companies issued invoices to fraudulently claim input tax credit (ITC) without actual supply of goods.

"They (the businesses) are involved in issuing fake bills/invoices to each other in which is to be paid to smaller, a circular manner without new-age lenders that are any concomitant movement of goods or payments for such transactions thereby wrongful availing and utilising fake ITC. On verification of corroborated documentary evidences and statements of various persons it was established that there was no movement of goods against the invoices raised," the government said.

Similarly, in two other arrests effected in Delhi last year, the tax department detected aggregate evasion of ₹230 crore. One of the companies was part of the copper industry supply chain while the other produced plastic granules. In the two arrests made by Bengaluru division of GST, fake invoices worth over ₹1,200 crore were found to have been issued by businesses trading in ferrous and non-ferrous metal

Fraudulent dealings in metal industry is nothing new, it existed in the pre-GST regime as well. Experts said that such fraudulent practices are rampant in the metal industry as metal items are more expensive than other

building materials cement.

"Metal is a major compo-

nent of infrastructure costs but its credit is not always available. Thereby there are surplus bills circulating in the market at throwaway prices at any given time," Rajat Mohan, partner at AMRG & Associates, said. Under GST, if a company used steel for building its office it won't be allowed ITC for the purchase but the same is available if it uses the metal in building machinery or plants. So a lot of unusable (for ITC) invoices get generated.

Tax officials also say that their enforcement activities are hobbled by the lack of proper return-filing mechanism as was envisaged at GST's inception. The assessees currently file a monthly summary return GSTR-3B and a detailed GSTR-1 containing outward sales details. The GST Council, after four months launch, suspended GSTR-2 (inward sales details) and GSTR-3 (summary of tax liability and ITC) due to its cumbersome

Large-scale evasion is one of the reasons for floundering GST collections. This is reflected in the average monthly collection of ₹96,700 crore for April-December period this fiscal as compared with the target of around ₹1.1 lakh crore to meet the budget estimate for FY19.

Jaitley flies to US for medical check-up

Jaitley had stopped attending office at the beginning of April 2018 and had even cancelled a scheduled attendance at the 10th India-UK Economic and Financial Dialogue in London.

On August 23, 2018, Jaitley returned as finance minister and in the next few months, he had limited public interaction in order to ward off any infec-

He has been the finance minister in the Modi government right from the time it came to power in May 2014. He, however, was a minister without a portfolio between May 14, 2018, and August 23, 2018.

A Rajya Sabha MP since 2000, he was re-elected to the Upper House from Uttar Pradesh last year. He is also the leader of the House.

Jaitley had undergone a bariatric surgery soon after the BJP government came to power at the Centre in 2014. The surgery, to treat weight gain that he suffered because so far.

of a long-standing diabetic condition, was first performed at Max Hospital, but he then had to be shifted to AIIMS because of complications.

Karnataka CM says govt stable as 2 **MLAs withdraw** support

"I know my strength. My government is stable. Don't worry," said Kumaraswamy, insisting that the withdrawal of support will have no bearing on his government.

"We have heard that two

Independent MLAs want to withdraw support to the government. As Independents, they are free to take any decision they want. They had extended support when the government was formed and one of them was made a minister for a while," said Karnataka deputy chief minister G Parameshwara.

The decision of the two MLAs, who are yet to meet the governor and officially convey their decision, comes when most BJP MLAs are closeted at a resort in Manesar near New Delhi and when there is speculation of the BJP attempting to get Congress MLAs to resign in an effort to reduce coalition numbers in a bid for power.

The Independent MLAs were reported to be with at least five Congress MLAs, who allegedly went missing on Monday. One of the missing MLAs, Anand Singh, however, met Congress leaders on Tuesday morning in Bengaluru and said he was not in touch with the BIP.

"There is no serious concern. A lot of this is media creation and a game being played by a desperate BJP. We are contacting all our MLAs," said Congress leader and observer K C Venugopal after meeting Singh.

While there is no clarity on the identity of the missing Congress MLAs, one of the MLAs, Umesh Jadhav from Chincholi, who was aspiring to be a minister, has been spotted with BJP leaders in Delhi.

Most of the five to seven MLAs whose names are associated with the rebellion are legislators disgruntled over not for finding places in the

coalition government. At least 11 Congress MLAs would have to quit their assembly seats for the BJP which has 104 MLAs to muster the numbers to overthrow the coalition and come

to power.

None of the MLAs, including Independents, have quit

