ADDED PRESSURE DUE TO GUARANTEED ₹3,000 MONTHLY PENSION FOR 100 MILLION UNORGANISED WORKERS

Finmin Seeks Labour Min Help to Fund Proposed Hike in Minimum EPS Pension

Committee proposal to double minimum pension to ₹2,000 to cost exchequer additional ₹3,000 crore a year

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New Delhi: Having announced guaranteed pension of ₹3,000 per month for 100 million unorganised workers, the finance ministry has asked the labour ministry to see if it could fund the proposed hike in minimum pension under the Employee Pension Scheme (EPS) for its subscribers from its own kitty rather than seeking funds from the Centre.

The move comes in the wake of tremendous pressure being built up on the government to raise minimum pension of EPS subscribers in line with guaranteed pension for the unorganised workers.

A high-powered committee on pension had recommended that the government increase the minimum pension to ₹2,000 from ₹1,000. The move would have benefitted 4 million subscribers, but would cost the exchequer ₹3,000 crore over and above the annual outgo of ₹9,000 crore.

"The finance ministry has written to Employees' Provident Fund Organisation (EPFO) to know what it did to reduce the deficit and whether it could fund the proposed minimum pension hike," a senior government official told ET, requesting anonymity.

"The pension kitty cannot fund this increased pension amount and we will communicate the same to finance ministry soon," the official said, adding that this dillydallying on the part of the Centre has delayed the process. "However, we are optimistic it will come through before the elections," the official said.

ET reported earlier that the recommendations of the committee had been sent to finance ministry for consideration. Following this, the finance ministry has now written back to labour ministry asking if it could fund the scheme.

The high-powered committee had recommended that the minimum monthly pension be raised to at least ₹2,000 per month, provided the central government budgetary support is provided for the same on yearly basis. "Further, it may be considered along with modification of the scheme prospectively to disallow pre-mature withdrawal benefit and fix a minimum monthly contribution," it had further proposed.

The recommendations of the committee will be placed before the sub-committee meeting on Wednesday, following which it will be tabled before the central board of trustees of the EPFO on its next board meeting scheduled for February 21.

Under the Employees' Pension Scheme (EPS), 1995, a minimum pension of ₹1,000 per month is given to pensioners since 2014. However, beneficiaries entitled to the minimum pension do not have to contribute to this pension kitty. Employees are automatically enrolled into the EPS scheme if they are members of the Employees' Provident Fund scheme. Twelve percent of the employees' salary every month goes to the EPF account while 12% of the employer's contribution is divided into 3.67% for EPF, 8.33% for EPS, 0.5% for EDLI and rest for administrative charges. Even the central government contributes 1.16% of the employee's basic salary plus daily allowance.

Trade unions and the All-India EPS 95 Pensioners Sangharsh Samiti have been demanding for long that the minimum monthly pension be raised from anywhere between ₹3,000 and ₹7,500. The recent announcement of a guaranteed pension of ₹3,000 to 100 million unorganised workers has further build up pressure before the EPFO to increase the minimum pension to ensure the scheme stays relevant.

A parliamentary panel had last year asked the government to assess EPS 1995 and consider revision of the minimum monthly pension of ₹1,000 saying the social security benefit was too meagre to fulfil even the basic needs.

The committee proposed that the government undertake an assessment of the pension scheme with particular reference to the right of sustenance of the pensioners, and based on the result consider revision of the amount accordingly.

Fiscal Slippage for Past 2 Years Credit Negative: Moody's

Revised 3.4% fiscal deficit target, tax cuts & spending ahead of polls may impact rating

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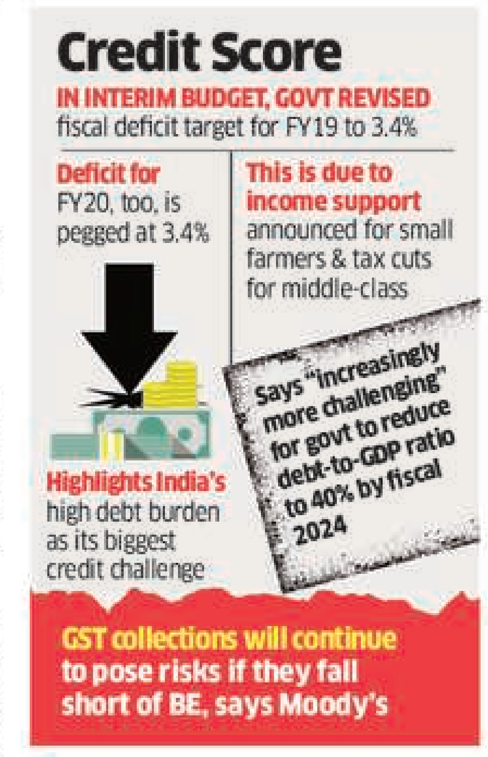

New Delhi: Fiscal slippage from the budgeted targets for the past two years, coupled with tax cuts and spending ahead of the general elections, is credit negative for India, Moody's Investors Service said on Tuesday.

In the interim budget for 2018-19, the government had revised the fiscal deficit target for 2018-19 to 3.4% of the gross domestic product (GDP) from its original target of 3.3%. The deficit for FY20, too, is pegged at 3.4% due to the proposed increase in spending to provide income support for small farmers and introduce tax cut for the middle class ahead of general election.

"Ongoing fiscal slippage from spending and tax cut proposals ahead of election is credit negative for the sovereign," Moody's said in a report. That means it's a factor that can impact the country's credit rating, but there is no change in the outlook as of now.

The ongoing fiscal slippage from the budgeted targets over the past two years, and expectation that the government will face challenges meeting its target again in fiscal 2019, does not bode well for medium-term fiscal consolidation, Moody's said.

The ratings agency expects the direct cash transfer programme for farmers and the middle-class tax relief measures to contribute a fiscal stimulus of about 0.45% of GDP, which will support growth through consumption over the near term, albeit at a fiscal cost.

Highlighting India's high debt burden as its biggest credit challenge that is unlikely to diminish rapidly, Moody's said it is a product of persistent fiscal deficits.

"Over the near term, we do not expect material improvements in the country's public finances, which will remain sensitive to changes in nominal GDP growth," it said.

Moreover, it will become "increasingly more challenging" for the government to reduce India's central government debt-to-GDP ratio to 40% by fiscal 2024 from 48.9% in fiscal 2018, consistent with the Fiscal Responsibility and Budget Management (FRBM) targets, it said. The FRBM roadmap targets fiscal deficit of 3% of GDP by fiscal 2020.

TAX IMPLICATION

The government decision to offer tax rebate to individuals who earn up to ₹5 lakh a year will weigh somewhat on direct tax revenues, Moody's said. Similarly, Goods and Services Tax (GST) collections will continue to pose risks to indirect tax collections if they fall short of budgeted expectations.

Last year, the government had budgeted an increase in GST revenues to 4% of GDP in fiscal 2018 from 2.6% in fiscal 2017. However, the revised estimate is 3.4% of GDP in fiscal 2018 and 3.6% of GDP in fiscal 2019.

"Given ongoing implementation challenges and last year's changes to GST tax rates and exemption limits, we consider this a material risk... Recent adjustments to the GST framework will make collections more challenging," it said.

BANKS, INFRASTRUCTURE

The ratings agency also assigned 'credit negative' to the lack of a formal capital support plan in the interim budget for public sector banks. Also, a lack of discourse for last year's announced merger of three public sector non-life insurers — National Insurance Company, Oriental Insurance Company and United India Insurance Company — creates ambiguity around their merger plan, Moody's said.

Services Sector Activity Slows in Jan

PMI dipped to 3-mth low of 52.2 but job creation strengthened

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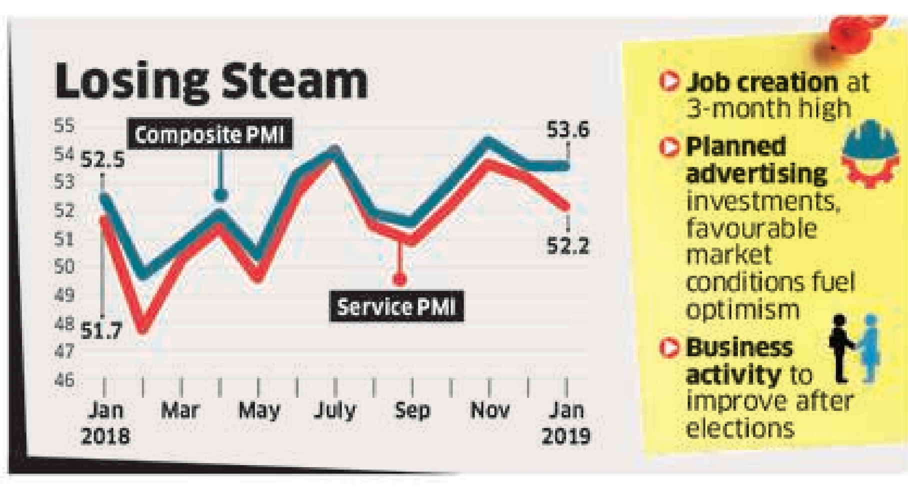

New Delhi: Activity in the country's services sector slowed for the second straight month in January, as new orders icreased at the weakest rate in four months, a private survey showed on Tuesday. Still, services companies increased hiring in the past month.

The Nikkei IHS Markit Services Purchasing Managers' Index declined to a three-month low of 52.2 in January from 53.2 a month before, but remained above the 50 mark that separates growth from contraction for the eighth month.

"There is some sign that growth may run out of steam, in the short term at least, as seen by the weakest improvement in demand for four months and relatively subdued optimism," said Pollyanna De Lima, the principal economist at IHS Markit and author of the report.

The PMI services activity index is based on a survey of purchasing executives of more than 400 service providers in five categories: consumer services, transport and storage, information and communication, financial and insurance and real estate and business services.

A key factor restricting rise in services activity was a softer expansion in new work. Companies noted a moderate increase in sales that was the weakest in four months.

JOBS BOOST

However, services employment continued to expand, with job creation at a three-month high. According to panel members, growth was underpinned by ongoing increase in new businesses and favourable market conditions.

"The good news came from the Indian labour market. Job creation at service providers was among the strongest seen for the past seven-and-a-half years at the start of 2019," said De Lima. "The increasing willingness of companies to hire workers should help reduce still-high levels of unemployment in the country."

A sister survey last week had shown an upturn in manufacturing. A composite index, taking into account both manufacturing and services activity, remained unchanged at December's 53.6, helped by an unexpected acceleration in factory activity.

India's statistics office has pegged services growth for 2018-19 at 7.4%, compared with 7.9% in 2017-18, in the first advance estimates of gross domestic product (GDP) for FY19. It expects the economy to expand 7.2% in the current fiscal year.

Export Growth may Slow to 7.3% in FY19

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New Delhi: The government expects merchandise exports to expand 7.3% to $325 billion in 2018-19, a slower pace than the 9.8% clocked in 2017-18, on muted growth of traditional shipments such as gems and jewellery and engineering goods, apart from a liquidity crunch and global factors.

"Many sectors including marine, agriculture and gems & jewellery are doing poorly. Engineering exports have been impacted due to expensive domestic steel and rubber," said an official who attended a meeting that the commerce department held with exporters and export promotion councils Tuesday in the wake of slowing growth of shipments from various sectors.

Exports were $303 billion in FY18.

As per an official statement, the meeting was held to "discuss various issues being faced by exporters".