ECONOMY

GOLD	RUPEE	OIL	SILVER
₹38,970	₹71.81	$60.54	₹45,100

Indian basket as on August 21 2019

SENSEX: 36,472.93 ▼ 587.44 **NIFTY:** 10,741.35 ▼ 177.35 **NIKKEI:** 20,628.01 ▲ 9.44 **HANG SENG:** 26,048.72 ▼ 221.32 **FTSE:** 7,176.29 ▼ 27.68 **DAX:** 11,817.31 ▲ 14.46

International market data till 1900 IST

POLICY WATCH
ARTICLE IV CONSULTATION

IMF takes note of slowdown, 'asks FinMin about revenue targets'

AANCHAL MAGAZINE
NEW DELHI, AUGUST 22

WITH THE Indian economy in a slowdown phase, concerns over revenue shortfall and the resultant impact on country's overall fiscal situation are now being flagged by external agencies. The International Monetary Fund (IMF), as part of its annual Article IV consultations with India, has raised questions regarding the NDA government's revenue targets in the light of the below-trend revenue collections amid the worsening slowdown in the broader economy.

The IMF is learnt to have posed questions to the Finance Ministry on whether the government's revenue targets for both direct and indirect taxes, including Goods and Services Tax (GST) estimates in the Union Budget, appear to be achievable. "The IMF has asked questions whether the revenue targets can be met given that revenue buoyancy will be affected due to the economic slowdown and the corresponding impact on the fiscal math of the government," a senior official said. In its questionnaire sent to the Finance Ministry, the IMF is also learnt to have flagged the roadblocks in the implementation of GST and highlighted the need to further simplify the indirect tax regime.

The questions by the IMF were sent ahead of its meeting with key Finance Ministry officials this week. The questions by the multilateral agency gain significance as they come amid slowing government tax revenues reflecting the weakening of the economic growth rate of the country.

During an Article IV consultation, an IMF team of economists visits a member country to assess economic and financial developments and discuss the country's economic and financial policies with government and central bank officials. The team then reports its findings to IMF management and then presents them for discussion to the Executive Board, which represents all of the IMF's member countries. A summary of the Board's views is then subsequently transmitted to the country's government and then summaries of discussions are released in public.

The IMF is learnt to have posed questions to the Finance Ministry on whether revenue targets for direct, indirect taxes, including GST estimates in Budget, appear achievable

There is progressively a widening gap between the tax revenues and the targets, especially for direct taxes. Net direct tax revenue growth has sharply decelerated to 4.7 per cent for April 1-August 15 this year as against 9.6 per cent growth in April-June and the required annual growth rate of 17.3 per cent, *The Indian Express* had reported Thursday. With the sharply slower revenue growth, the government's direct tax targets are looking out of reach for the second consecutive year.

While the overall gross GST collections seem to be moving closer to the target, the actual figures released by CGA for the April-June quarter do not paint an optimistic picture for Centre's GST revenue. GST revenue collections of the Centre for April-June contracted 5.9 per cent year-on-year to Rs 1.53 lakh crore.

In July-March, the remaining nine months of this financial year, the gross tax revenue collections are required to grow at a run rate of 22.3 per cent and net tax revenue collections are required to grow at a run rate of 29.5 per cent, as per the April-June revenue collections data released by the Controller General of Accounts (CGA).

DEAL TO HELP US FIRM TAP INTO INDIA'S GROCERY RETAIL SEGMENT

Amazon picks up 49% in Future Retail promoter

PRANAV MUKUL
NEW DELHI, AUGUST 22

GLOBAL ONLINE retailer Amazon has entered into an agreement to purchase 49 per cent stake in Future Coupons — the promoter entity of Kishore Biyani-led Future Retail, which operates Big Bazaar supermarkets. This could help the US-based firm to tap into India's household and grocery retail segment.

"Amazon has agreed to make an equity investment in Future Coupons Limited for acquiring a 49 per cent stake comprising both, voting and non-voting shares," Future Retail said in a release to the exchange. The company did not disclose the financial details of the deal. Further, as part of the agreement, Amazon has been granted a call option, which allows Amazon to acquire all or part of the promoters' shareholding in Future Retail and is exercisable between the third and tenth years, in certain circumstances, subject to applicable law, the company said. In March this year, Future Retail had approved the issuance and allotment of 3.96 million warrants to Future Coupons, and the conversion of warrants can be exercised at any time during the period up to 18 months from the date of allotment.

The deal comes barely over a year after another US retail giant Walmart picked up controlling stake in an Indian retailer — Bengaluru-based e-commerce firm Flipkart. Walmart purchased majority stake in Flipkart for $16 billion. The deal between Amazon and Future Group is part of the former's strategy to leverage India's offline grocery and household segment. Last year, Amazon, along with private equity firm Samara Capital, picked up stake in Aditya Birla group's food and grocery retail chain, More.

FINANCIAL DETAILS NOT DISCLOSED

- **Amazon has agreed to make an equity investment in Future Coupons Limited for acquiring a 49% stake comprising both, voting and non-voting shares, Future Retail said in a release to the exchange**
- **The deal comes barely over a year after another US retail giant Walmart picked up controlling stake in Flipkart. Walmart purchased majority stake in Flipkart for $16 billion**

In 2017, Amazon had purchased 5 per cent stake in department store chain Shoppers Stop.

Currently, the Indian retail market is dominated by the unorganised retail accounting for about 88 per cent of the total retail market while organised market is valued at about $95 billion, only about 12 per cent of the sector. E-commerce stands at about $24 billion, accounting for about 25 per cent of the organised market or 3 per cent of the total retail market in India. India's organised retail penetration is much lower compared with other countries, such as the US which has organised retail sector penetration of 85 per cent.

According to a report by CARE Ratings, food & grocery segment accounts for over 88 per cent of sales in the unorganised sector but only 2-3 per cent in the e-commerce sector, thus having a huge potential for e-retailers to expand further into the segment.

In 2017, the erstwhile Department of Industrial Policy and promotion (DIPP) had approved Amazon's proposal to invest about $500 million to build out a food retail business.

Thursday, Amazon India announced launch of Amazon Fresh store — which will allow customers get daily essentials delivered in two hours — in Bengaluru. The development comes amid intensifying competition between Amazon and Walmart-owned Flipkart. Both the players are betting aggressively on the online grocery space.

The Amazon Fresh store will serve a complete grocery experience across fruits and vegetables, dairy, meat, ice-creams, and dry grocery with 2-hour delivery slots powered by Prime Now from 6 AM to midnight on Amazon.in, the company said in a statement. The deliveries are powered by Amazon's Prime Now service which was earlier available only on the separate Prime Now app, it added. The Prime Now app will continue to serve customers in Delhi-NCR, Mumbai, Bengaluru and Hyderabad, it said.

"With Amazon Fresh, customers can experience the convenience and speed of ordering daily essentials on Amazon.in. Now, customers can order the freshest fruits and vegetables as well as everyday grocery and get it within 2 hours. We are starting this service in Bengaluru and will soon roll this out to customers in other cities," Amazon India director - category management Siddharth Nambiar said.

FPI NET OUTFLOW IN AUG: ₹4,253 CR; FOREX RESERVES AT RECORD $430.57 BN

Rupee drops 4.25% in three weeks, Reserve Bank keeps off

Rupee among worst hit globally since US Fed rate cut; South African, Brazilian units top

SANDEEP SINGH
NEW DELHI, AUGUST 22

AFTER IT fell 26 paise to close at 71.81 on Thursday, the Indian Rupee has now lost Rs 2.93, or 4.25 per cent, against the dollar in August. With this, the domestic unit figures among the biggest losers in the global currency market since the US Federal Reserve — while announcing its first rate cut in a decade on July 31 — stated that it was just a "mid-cycle adjustment". The announcement took emerging markets by surprise as they earlier expected that a dovish stance would result in fund inflow in their respective countries.

While the Rupee lost 4.25 per cent against the dollar over the last three weeks, only two major emerging economies saw their currencies decline more than that. The Brazilian Real and South African Rand have fallen 5.56 per cent and 6.4 per cent respectively in the same period.

Another factor that led to a decline of emerging market currencies was a sharp decline of Chinese Yuan Renminbi on August 5, when it breached the 7 to a dollar mark as trade war fears grew further between the United States and China. The development hit the global market sentiments and led to decline in currencies. Yuan Renminbi has fallen 2.9 per cent in August and the Russian Ruble and Mexican Peso has lost 3.12 per cent and 3.04 per cent. By comparison, the developed market currencies have remained stable. While Euro gained 0.01 per cent in August, British Pound was up 0.35 per cent against the dollar in the same period.

In India, foreign portfolio investors (FPIs), who turned negative in July 2019 — following the government's budgetary announcement of imposing a surcharge — continued to remain net sellers in the market. While they invested a net of Rs 6,488 crore in the debt market in August, they pulled out investments worth Rs 10,815 crore from domestic equities, thereby resulting in a net outflow of Rs 4,253 crore in August.

CHANGES IN VARIOUS UNITS SINCE JULY 31

	Jul 31, '19	Aug 22, '19	Change in Aug
INR	68.88	71.81	4.25
Chinese Yuan	6.884	7.0839	2.9
*Brazilian Real	3.813	4.0251	5.56
Euro	0.903	0.9029	-0.01
Indonesian Rupiah	14017	14220	1.45
*Mexican Peso	19.13	19.7124	3.04
Phillipine Peso	50.99	52.35	2.67
Russian Ruble	63.66	65.646	3.12
*South African Rand	14.25	15.16	6.39
Malaysian Ringgit	4.127	4.188	1.48
British Pound	0.822	0.8191	-0.35

Data available for these currencies as of August 21

A Care ratings report said that depreciation of 3 to 4 per cent could be expected for the year as global factors would continue to weigh heavily on the currency as well as FPI flows.

Alongside the global pressure, the ratings agency said, "Uncertainty on the growth path of the Indian economy has also weakened sentiment that has affected the Rupee. The Reserve Bank of India has revised its growth forecast for FY20 downward from 7 per cent in the June 2019 meeting to 6.9 per cent in August 2019 meeting," said Care Ratings. It added that as the future of exports remains uncertain this year, it has only added to the declining sentiment.

Experts say that stable Brent crude oil prices have offered great relief to the Indian currency as a spike in crude oil prices would have led to a sharper depreciation of rupee and fund outflow by FPIs.

It is, however, important to note that the RBI has not been seen intervening in a bid to arrest the decline of rupee despite a 4.25 per cent fall in rupee in a matter of three weeks. The forex reserves that stood at $429.6 billion at the end of week ended July 26, rose to $430.57 at the end of week ended August 9, 2019.

A market expert said that since all emerging economy currencies are losing against dollar, there is not much need to intervene as of now. By comparison, last year in September-October when the rupee fell to a low of over $74 against the dollar in line with rising crude oil prices and fund outflow by FPIs, the RBI was seen to be intervening to arrest the volatility.

Investor sentiment dips as stimulus package hope fades

ENS ECONOMIC BUREAU
MUMBAI, AUGUST 22

BULLS FACED a major setback Thursday amid indications that the government may not come out with a stimulus package for sectors hit by the slowdown. The weakening rupee, which hit its lowest level in eight months, and lacklustre global cues further weighed on investor sentiment.

The 30-share BSE Sensex plunged 587.44 points, or 1.59 per cent, to finish at 36,472.93, while the broader NSE Nifty slumped 177.35 points, or 1.62 per cent, to 10,741.35. The rupee, meanwhile, fell to an eight-month low of 71.81, losing 26 paise against the US dollar as plunging equities and sustained foreign fund outflows weighed on sentiment.

The market took note of the statement of Chief Economic Advisor KV Subramanian that the Indian economy does not need a fiscal stimulus to tackle the ongoing economic slowdown. "Policymakers need to be careful while deciding on any fiscal stimulus as a way to boost economic growth," he said, adding, "we can't expect the government to intervene every time some sectors go through sunset. Not all sectors are doing bad, some are doing well."

Subramanian said using taxpayers' money to bail out companies going through a 'sunset' phase will create moral hazards and such a step is an anathema to the market economy.

Power Secretary Subhash Chandra Garg, who was the Finance Secretary till July, also said low interest rates and availability of credit to private sector are better tools than a fiscal stimulus. Garg's assessment that India's GDP growth in the first quarter of the current fiscal could be in the range of 5.5-5.6 per cent further affected the market morale. The GDP growth in the fourth quarter of the last fiscal came in at 5.8 per cent, caused by slowdown in key sectors like agriculture, manufacturing and industry.

These comments dashed hopes of some sort of a stimulus package from the Centre to boost growth and revive flagging consumer sentiment, analysts said.

Vinod Nair, head of research, Geojit Financial Services, said, "Despite Sebi relaxing FPI norms and likely stimulus from the government to push the economy, the market continued its descent. The outlook for auto, consumption and realty are still cloudy."

Ajit Mishra, vice president—research, Religare Broking, said, "The recent fall is a result of growing uneasiness among the participants as they're keenly awaiting some action from the government to boost the market sentiment."

According to the minutes of monetary policy committee released on Wednesday, RBI Governor Shaktikanta Das had said economic activity has shown signs of further weakening since the last MPC meeting in June 2019.

Globally, markets were jittery ahead of comments from Federal Reserve chairman Jerome Powell at Jackson Hole, Wyoming, US. Shanghai Composite Index and Nikkei ended on a positive note, while Hang Seng and Kospi settled in the red. Equities in Europe were trading lower in their respective early sessions.

E. EXPLAINED
Market movement hinges on govt steps

WITH MANY sectors facing slowdown and growth declining, stock markets were expecting a package from the government to stimulate demand and revive the economy.

Investors are now nervous as senior officials are opposing a stimulus package. The big worry is: will the slowdown deepen further? How will the government tackle the slowdown? The movement of the market will hinge on government measures.

India's fiscal scene never better in 300 yrs: Murthy

PRESS TRUST OF INDIA
GORAKHPUR, AUGUST 22

INFOSYS co-founder N R Narayana Murthy on Thursday said India has for the first time in 300 years an economic environment that breeds confidence and optimism that its poverty can be eliminated.

"For the first time in 300 years, we have an economic environment that engenders confidence that we can indeed overcome our poverty and create a better future for every Indian," said Murthy, addressing the fourth convocation function of the Madan Mohan Malaviya University of Technology (MMMUT) here at Gorakhpur. Describing the present state of economy, Narayana Murthy said, "Our economy is growing at 6 to 7 per cent this year. India has become the software development centre of the world. Our foreign exchange reserve has crossed 400 billion dollar. Investor confidence is at a historic high."

Murthy also spoke of a "parallel India", "steeped into poverty, illiteracy, ill health and malnutrition" and co-existing with a developed one and emphasised upon the government's obligation to create an entrepreneur-friendly business environment to tackle the malady.

'Even a stimulus package can't help economy much'

Financial conditions have deteriorated despite the four repo cuts and there is a need for a fiscal stimulus, which may not yield much results due to fiscal constraints, a Bank of America Merrill Lynch report warns

5.8%: India's GDP expansion in the March quarter, which was at a five-year low; number for June quarter will be announced next week

>10%: Percentage of decline in equities markets since June, attributed by Bofa-ML to the "lack of any fiscal stimulus in the budget has been one of the big reasons for this sell off"

1.10 % points: Cumulative reduction by RBI in its key rates in four successive rate cuts since

SIGNS OF TIGHTENING FINANCIAL CONDITIONS:
- Falling stocks
- Overvalued rupee
- Higher volumes in the US dollar-rupee market

February, in addition to changing direction of policy to be more 'accommodative'

$10 bn: Funds that government plans to raise in October from sovereign bond sale in overseas market, as per media reports

Tax holiday only for startups with turnover up to ₹25 crore: CBDT

ENS ECONOMIC BUREAU
NEW DELHI, AUGUST 22

ONLY STARTUPS with turnover of up to Rs 25 crore will continue to benefit from tax holiday provisions specified under the country's income tax regulations, clarified the Central Board of Direct Taxes (CBDT) on Thursday.

As specified in Section 80-IAC of the Income Tax Act, 1961, these startups will receive deduction for "100 per cent of income" for three out of seven years from the year of its incorporation, the Board said in a statement. The clarification comes following confusion over a Department for Promotion of Industry and Internal Trade (DPIIT) notification in February stating entities with turnovers of up to Rs 100 crore would be considered to be startups. All startups recognised by DPIIT do not automatically become eligible for the deduction under this section, said CBDT.

Clarification on Section 80-IAC of I-T Act

"A startup has to fulfill the conditions specified in Section 80-IAC for claiming this deduction. Therefore, the turnover limit for small startups claiming deduction is to be determined by the provisions of Section 80-IAC of the I.T. Act and not from the DPIIT notification," stated the release. CBDT said there is no contradiction in DPIIT's February 19 notification and Section 80-IAC because the notification "clearly" mentions that a startup shall be eligible to claim deductions under this section "only if" it fulfills certain conditions.

"Therefore, the turnover limit for eligibility for deduction under section 80-IAC of the I-T Act, as per the DPIIT's notification is also Rs 25 crore," it stated.

Section 80-IAC defines eligible start-ups as those incorporated on or after April 1, 2016 with a turnover not exceeding Rs 25 crore in the year of deduction. These startups are also required to have a certificate from the Inter-Ministerial Board of Certification.

Powell, under pressure, likely to stick to 'mid-cycle' message

REUTERS
JACKSON HOLE, AUGUST 22

US FEDERAL Reserve Chair Jerome Powell comes to this year's meeting of central bankers in Jackson Hole, Wyoming, caught between discord within the US central bank over appropriate monetary policy and mounting outside pressure for more interest rate cuts.

In navigating that divide, Powell is unlikely to use his keynote speech on Friday at the Kansas City Fed's annual economic symposium to veer much from the message he sent last month after the Fed cut rates for the first time in a decade: That the move was a "mid-cycle adjustment" and not the start of a rate-cutting cycle.

He will likely nod to the possibility that trade tensions, which have escalated since the July 30-31 policy meeting, may worsen a global economic slowdown and ultimately make more US rate cuts necessary. But he is expected also to try to ensure he is not seen as bowing before repeated attacks from President Donald Trump for not easing policy further, or caving to a bond market where investors appear to be heavily betting the Federal Open Market Committee will end up doing so.

"We cannot rule out this year's Jackson Hole being another fundamental shift in policy as it has been in years past," UBS economists wrote in a note earlier this week. Since last August's annual central bank gathering in Grand Teton National Park, Powell has faced an increasingly difficult terrain both politically and economically. Last week, Trump called Powell "clueless" and urged the Fed to reduce borrowing costs.

2 Fed officials see no case for cut

Jackson Hole: Two Federal Reserve officials have said they see no need for an interest rate cut widely expected next month by markets. Kansas City Fed President Esther George and Philadelphia Fed President Patrick Harker said the US central bank currently does not need to deliver more stimulus to the economy. **REUTERS**

Factories show signs of trouble

REUTERS
WASHINGTON, AUGUST 22

ACTIVITY IS contracting in the US manufacturing sector but the number of Americans filing applications for unemployment benefits fell last week, signs that factories are suffering from a global slowdown even as the broader labour market remains healthy.

IHS Markit on Thursday said its Flash Purchasing Managers' Index (PMI) for manufacturing fell to 49.9 earlier this month from 50.4 in July, pointing to a contraction in the sector for the first time since September 2009. Readings below 50 point to reductions in activity.

Meanwhile, initial claims for state unemployment benefits dropped 12,000 to a seasonally adjusted 209,000 for the week ended August 17, the US Labor Department said in a separate report.

The decline was sharper than expected.

Treasury yields, which climbed after better-than-expected manufacturing data in Europe boosted risk sentiment, pared gains following dismal U.S. manufacturing data.

Benchmark 10-year notes were down 5/32 in price to yield 1.5927 per cent, up from 1.577 per cent late on Wednesday.