ECONOMY

MARKET WATCH

FPIs PUMP IN ₹3,800 CR IN OCTOBER

New Delhi: The markets witnessed a net inflow of over Rs 3,800 crore by foreign portfolio investors (FPIs) in October so far, on the back of steps taken by the government to revive domestic demand coupled with positive global cues. **PTI**

AS ON AUGUST 31, 2019

Credit card outstandings rise 24.4% to ₹97,650 cr against ₹78,499 cr a year ago

5.17 crore outstanding cards in 2018-19, which has increased from 4.70 crore last year

GEORGE MATHEW
MUMBAI, OCTOBER 27

DESPITE THE slowdown in the economy and sluggish credit offtake, credit card outstandings have risen by 24.4 per cent to Rs 97,650 crore as on August 31, 2019 from Rs 78,499 crore a year ago.

According to the data available from the Reserve Bank of India, credit card outstandings have spurted by 71 per cent in the last two years from Rs 57,100 crore in August 2017. While credit card use has increased after demonetisation in November 2016 and the thrust given to digital banking in the past two years, the growth rate has come down in the past five months, according to bankers.

During the five-month period ended August 31, 2019 of the current fiscal year, card outstandings rose 10.6 per cent while the gross bank credit showed a decline of 0.9 per cent and credit offtake by the industry plunged 4.2 per cent, according to the RBI data.

However, growth in outstandings has fallen from 37.4 per cent in the 12-month period ended August 31, 2018 and 14.4 per cent in the five-month period last year amid a demand slowdown in the economy.

There were 5.17 crore outstanding cards in fiscal 2018-19, up from 4.70 crore in the same period of last year. The volume of business through credit cards was Rs 6.07 lakh crore in 2019-20, with 99 per cent of the business accounted by transactions on PoS (point of sale) terminals, the RBI data show.

"Credit cards are used by customers mostly in PoS terminals of shops and establishments. In the case of debit cards, customers use it for cash withdrawals from ATMs," said an analyst with an investment bank.

In August 2019, credit card transactions at PoS terminals were worth Rs 59,601 crore while customers withdrew only Rs 410 crore cash from ATMs using credit cards.

However, debit cards were used to withdraw Rs 287,452-crore cash from ATMs while PoS transactions using debit cards were only Rs 58,040 crore in August, according to the RBI data. If the slowdown in the economy persists, growth in the card business is also expected to decline.

Increasing acceptance of digital payments and availability of better consumer credit data helped register a 22 per cent annual growth in issuance over FY2015-19.

"Credit card loans and spends have grown at a robust pace of 30-35 per cent over the same period. We expect credit card issuance and spends to sustain the growth momentum, given the low penetration levels (4 per cent) compared to debit cards (60 per cent) and savings accounts (120 per cent)," Kotak Research said in a report. Analysts say the card business is a highly profitable business with big margins, as the interest rate can go up to 40 per cent per annum.

"It has a healthy operating leverage but we acknowledge that it is a highly cyclical business. We are probably entering into a slowdown at this point and this could see an impact on growth or profitability. However, we don't think these banks would want to change their strategies for this business given the scale at which they are operating," Kotak said.

"The three frontline private banks (HDFC Bank, Axis Bank and ICICI Bank) along with SBI Cards and Payments dominate this business with 70 per cent share between them. Despite strong growth in issuances, penetration is quite low at 4 per cent, compared to 60 per cent of population for debit cards," it said.

According to the Kotak report, HDFC Bank is the market leader with a 27 per cent share, followed by SBI Card (18 per cent), ICICI Bank (14 per cent) and Axis Bank (13 per cent). Foreign players including American Express and Citi have been losing market share (25 per cent in FY2014 to 13 per cent in FY2019) owing to aggressive growth by the frontline players.

EXPLAINED

Despite boost to digital mode, card usage sees dip

WHILE CREDIT card use has increased after demonetisation in November 2016 and the thrust given to digital banking in the past two years, the growth rate of card usage has come down in the past five months, according to bankers.

According to RBI data, the volume of business through credit cards was Rs 6.07 lakh crore in 2019-20, with 99 per cent of the business accounted by transactions on PoS (point of sale) terminals.

FIRMS TAKING STEPS TO MITIGATE DAMAGE

For British and EU businesses, Brexit is happening already

ASSOCIATED PRESS
LONDON, OCTOBER 27

Many businesses have decided they can't wait for a Brexit agreement, which now seems like it could be delayed again

MYLANDS PAINT, founded 135 years ago, has survived two World Wars, the Great Depression and the end of the British Empire by adapting its products and practices. So when it was faced with the economic upheaval threatened by Britain's departure from the European Union, CEO Dominic Myland wasn't going to wait for politicians to resolve the impasse that has kept the nation hanging for three years.

The firm, which made the blackout paint that obscured London bridges during World War II and supplies film and TV productions such as *Harry Potter* and *Game of Thrones*, has increased stocks of raw materials and moved extra product to a distributor in Germany in case of border checks. If delivery delays become the norm, it may have to set up a whole new company on the continent, Myland said. "We are very close to opening a depot close to the center of mainland Europe (from) which we can supply a lot of our European customers," Myland said.

"That's more of a strategic long-term plan for us anyway, but we may accelerate that process because of the fallout from Brexit if it gets very tricky to export goods." As politicians squabble over how and when Britain will leave the EU, Brexit is already reshaping the economy. Many businesses have decided they can't wait for a Brexit agreement.

Initially planned for March, it was pushed back to October 31 and now may not happen before January. So companies are shifting investments, creating new supply chains and stockpiling goods to mitigate any damage that would occur from leaving the EU, with or without a deal on trade terms. Adding to their difficulties, business groups say they aren't getting enough help from Prime Minister Boris Johnson's government. The British Chambers of Commerce says Johnson's government has only fully answered five of 36 "business-critical" questions its members must have answered before they can plan for a no-deal exit.

Issues where information is still needed include what access British manufacturers will have to European markets, the mechanism for resolving disputes with firms based in the UK and whether companies will be able to move skilled workers between the UK and Europe. That uncertainty is making it difficult to plan.

Among small businesses that believe Brexit will affect them, just 21 per cent have prepared for the fallout and 63 per cent say they are unable to prepare, according to a survey by the Federation of Small Businesses released September 27. "The Brexit clock may appear to stop from time to time, but for firms it keeps ticking," Carolyn Fairbairn, director general of the Confederation of British Industries, said last month.

"Until a deal is agreed, companies will continue to divert billions of pounds from productive investment to no-deal preparations, and international investors will continue to question if the UK is a stable, open place to do business." The toll on the British economy is becoming clear. Investment in the auto industry effectively stopped in the first half of this year as concern about a no-deal Brexit makes it harder for carmakers to respond to changes in the sector like the shift to electric vehicles.

The Society of Motor Manufacturers and Traders says firms made just 90 million pounds ($110 million) of new investments in the six months through June, compared to an average annual total of 2.7 billion pounds ($3.4 billion) over the previous 7 years.

More broadly, 64 per cent of manufacturers say they have taken a financial hit during the past two years as they struggle to prepare for an unknown trading environment after Brexit, according to research published last week by Make UK, and the law firm Squire Patton Boggs.

'Louis Vuitton owner offers to buy US jeweller Tiffany & Co'

GREG ROUMELIOTIS
NEW YORK, OCTOBER 27

LOUIS VUITTON owner LVMH has approached Tiffany & Co with an acquisition offer, people familiar with the matter said on Saturday, at a time when the US luxury jeweler grapples with the impact of tariffs on its exports to China.

LVMH, which has for years has been looking for ways to expand in the US market, submitted a preliminary, non-binding offer to Tiffany earlier this month, one of the sources said.

Tiffany has hired advisers to review LVMH's offer but has not yet responded to it, and there is no certainty that it will negotiate a deal, one of the sources added.

The exact price that LVMH was offering to buy Tiffany, which has a market capitalisation of $11.9 billion, could not be learned.

The sources asked not to be identified because the matter is confidential. LVMH declined to comment, while Tiffany did not immediately respond to a request for comment. *Bloomberg News* reported earlier on Saturday that LVMH was holding talks with Tiffany. LVMH, which is behind fashion brands like Christian Dior as well as the Veuve Cliquot champagne, has stood out for several years as one of the top performers in the retail industry, where not all labels are benefiting to the same degree from booming Chinese appetite for branded goods.

Tiffany, on the other hand, has not been as resilient. Beyond the tariffs that have been triggered by the trade war between the United States and China, a lower Chinese domestic sales tax has also contributed to double-digit decreases in its sales to Chinese tourists in the US and in other destinations.

High-end brands have also long relied on Hong Kong as a major shopping hub which draws visitors from mainland China in particular, and four months of pro-democracy demonstrations are starting to take their toll.

Earlier this month LVMH, which has a market capitalisation of 194 billion euros ($215 billion), beat sales forecasts for the third quarter despite unrest in Hong Kong. In August, Tiffany reported quarterly earnings that beat analysts' expectations, thanks to a drop in marketing costs. **REUTERS**

The IMF in figures: Debtors vs creditors

THE INTERNATIONAL Monetary Fund's current debtor-creditor balance gives the United States an outsized weight in the voting, which translates into Washington holding roughly 25 times the voting power of Argentina, the bank's biggest debtor. On October 18, the Fund announced it was delaying changes to its shareholding structure to as late as December 2023.

This was a big win for the US, which was opposed to increasing the voting power of China and other emerging economies. IMF members last altered quotas in 2010, agreeing to increase China's and other emerging markets' voting power, but the changes were not implemented until 2016, in part due to approval delays by the US Congress

The IMF, created in 1945, is an organisation of 189 countries. Its primary purpose is to ensure the stability of the international monetary system.

HERE IS HOW THE CREDITORS AND DEBTORS STACK UP

VOTING POWER

The US represents the largest voting bloc on the IMF board

The US	16.5%
Japan	6.2%
Germany	5.3%
France	4%
The UK	4%

THE BORROWERS

The IMF has a total of $102.8 billion credit outstanding, of which by far the most is extended to Argentina

Argentina	$43.9 billion
Egypt	$11.8 billion
Ukraine	$9.4 billion
Greece	$9.2 billion
Pakistan	$6.4 billion

CRUNCH TIME

POVERTY ON THE RISE IN ARGENTINA

In Argentina, the implementation of the IMF's program has all but cost President Mauricio Macri a shot at reelection, as austerity measures are blamed for a rise in poverty

PROTESTS IN EGYPT

Egypt signed a three-year, $12-billion deal with the Fund that ends next month. Protests last month in Cairo were sparked in part by Egyptians' anger at the government for its austerity measures

'FUEL POLITICS' IN ECUADOR

In Ecuador, days of violent protests against an IMF-backed law that cut expensive fuel subsidies forced the government to backtrack and reinstate them

IMF'S PURSE STRETCHED

The IMF's $250 billion crisis fund, the New Arrangements to Borrow, created a decade ago, was due to expire in 2022. On October 18, the Fund said its 189 member countries had agreed to maintain its $1 trillion in total lending resources. The move will "preserve its role at the center of the global financial safety net," said Lesetja Kganyago, IMFC chairman

Despite Centre's push, 'most sugar mills can't produce ethanol'

ABBINAYA KUZHANTHAIVEL
NEW DELHI, OCTOBER 27

ONLY 175 sugar mills can produce ethanol out of the 530 in operation across the country, according to the Indian Sugar Mills Association (ISMA). In June 2018, the government decided to provide interest subvention on loans for new and expanded ethanol production capacities. This was done to increase ethanol production capacity in the country.

The Department of Food and Public Distribution has approved 260 ethanol projects on subsidised loans, for which the sugar factories have to tie up with banks. However, the distilleries should comply with 'zero discharge' norms, as several mills have been either fined or ordered for closure by the Central Pollution Control Board or the National Green Tribunal in the past.

The ethanol requirement for the country stands at 330 crore litres for 10 per cent blending with petrol in 2019-20 (Dec-Nov), against which the mills contracted for 245 crore litres of supply, but have supplied only 175 crore litres till mid-October 2019 — achieving an average blending rate of 5.5 per cent for the country as a whole.

The National Biofuels Policy 2018 has allowed the production of ethanol from different raw materials, including cane juice, corn, and damaged and surplus foodgrains. The Centre has fixed remunerative prices for ethanol made from cane juice, B-heavy molasses, C-heavy molasses and damaged grains under the Ethanol Blended Petrol Programme for the forthcoming ethanol supply year, commencing December 1. Oil Marketing Companies have invited bids for a demand of 511 crore litres of ethanol.

Abinash Verma, director general at ISMA, said: "It is strongly recommended that all mills should take advantage of the opportunity and set up ethanol production capacities, as this will give them the much-needed flexibility to control surplus sugar production and divert the same towards ethanol instead. The millers then need not worry too much about fluctuating cane production, sugar prices or inventory build-up of unsold sugar."

Verma said mills have been improvising to meet the standards of the CPCB and the NGT. Despite attempts by the government to improve ethanol production, many mills are apprehensive about the huge investment required to upgrade their current facilities or set up new ones.

"In an ideal case, if all 260 projects, which have been approved for subsidised loans for new distilleries or for expansion, were operational we could expect additional ethanol production capacities worth 250 crore litres. That could help us in producing and giving 550-600 crore litres in a couple of years. We can then start looking at 15 per cent blending levels for the country, and start planning to achieve government's target of 20 per cent blending by 2030. There will be enough feedstocks for these levels, especially when we look at sugarcane juice as a viable option." said Verma.

Verma added ISMA estimates that ethanol production from all feedstocks could reach 550-600 crore litres of ethanol in next 2-3 years. With the subsidy on loans being provided by the government, mills need to respond by setting up capacities to not only start producing ethanol and improve cash flows and profitability, but also develop flexibility and reduce surplus sugar production.

EUROPE AND JAPAN HAVE NEGATIVE INTEREST RATES

Globally, central bankers look for solutions amid growing concern over negative rates

With interest rates close to or below zero, asset purchases are the main policy tool

REUTERS
WASHINGTON, OCTOBER 27

THE WORLD'S most powerful policymakers are struggling to alleviate the pain of a slowing global economy with few levers left to pull and growing concern that one of them, negative interest rates, is creating problems of its own.

In an ideal world, elected officials would pull more of the weight with fiscal programs and structural reforms that would improve growth and allow interest rates to rise. But over three days of conversation here, the dilemma has become clear: Whether it is the US-China trade war, tightfisted spending in Germany, or the drawn-out Brexit, broader government policies are moving in the other direction - driving central bankers to mount further rescue efforts, and likely leading to even more negative yielding debt.

"We still have tools which could be used as necessary," said Bank of Japan Governor Haruhiko Kuroda. "I don't think the effect of monetary policy has declined significantly or materially." Still, Kuroda said that a prolonged low interest rate situation could have "side effects on the financial system. You have to be careful." Negative interest rates are now a fact of life in Europe and Japan, and multiple other countries including the United States are lowering their target policy rates.

"It is not really clear how we are going to get out of this," Stanford University economics professor John Taylor said at a meeting of the Institute of International Finance.

He spoke at a central banking panel that showed just how much the landscape has shifted in the

Negative interest rates are being used in Europe and Japan. Meanwhile, the US is lowering its target policy rates. Bank of Japan Governor Haruhiko Kuroda has said a prolonged low interest rate situation could have 'side effects on the financial system' and one needs to be 'careful'. *Reuters*

decade since the 2007 to 2009 financial crisis. Far from debate over whether unconventional policies are appropriate or not, the discussion is now about whether traditional central banking can even survive — or whether oddities like negative rates have become self-reenforcing, and whether central banks will need to begin overtly financing government programs to get the fiscal spending that may provide an exit from them.

"We have got to make it easier for politicians to run fiscal policy when monetary policy is essentially not operating well," said former Federal Reserve vice chair Stanley Fischer, now a senior adviser with investment management firm BlackRock. Conversation at the International Monetary Fund and World Bank meetings this week was dominated by two concerns - a global economic slowdown driven by "policy shocks" that might have been avoided, and the risks to pension funds, banks, and overall financial stability posed by the roughly $15 trillion, estimated by the IMF, in bonds that now pay a negative interest rate.

With easier monetary policy being used to dampen the impact of the trade war and other risks, some analysts worry about the moral hazard of central bankers underwriting the very policies they feel are slowing growth.

"There is a kind of benign view that central banks are just kind of doing their best to offset the damage done by one set of policymakers in one side of the government," said Brian Coulton, chief economist at Fitch Ratings. "There is a real danger in misplaced faith in the capacity of central banks to fix all these growth challenges." Yet they may have no choice.

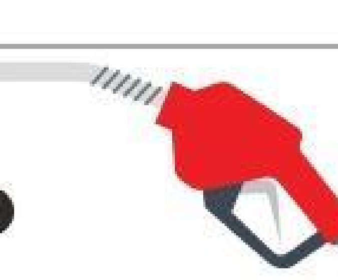
IMF economists slashed their forecasts for global growth to the slowest pace since the 2008-2009 financial crisis, ahead of the conference, setting the tone for a somber mood. In a communique issued on Saturday, the IMF's steering committee said member countries should "employ all appropriate policy tools, individually and collectively, to mitigate risks."

With interest rates close to or below zero, asset purchases are now the main policy tool for some central banks. The ECB, for example, has cut its key rate to a record low of minus 0.5 per cent and launched an indefinite bond buying program that will likely keep it in the market for years to come.

"The risks surrounding the euro area growth outlook remain tilted to the downside," outgoing ECB President Mario Draghi said at the IMF meeting on Friday.

"The Governing Council continues to stand ready to adjust all of its instruments." Beyond the euro zone, the United States and Japan, other nations are also easing rates. The Russian central bank, which has been cutting rates this year as economic growth slowed and inflation waned, will be ready to act "more decisively" when cutting interest rates, Governor Elvira Nabiullina said.

Ukraine central bank Deputy Governor Kateryna Rozhkova said the bank intends to cut the key policy rate gradually. While lower rates support growth, the consequence of ultra-accommodative policy is that it can breed higher risk taking, as investors search for yield, said experts.



'India's September oil imports at 3-yr low'

The country's oil imports fell to its lowest in more than three years in September to 3.82 million barrels per day (bpd), the data obtained from industry and shipping sources showed

235,000 bpd The amount by which India's oil consumption rose on average during 2014-18, nearly a fifth of the global total

170,000 bpd The amount by which the growth could moderate to in 2019, due to an economic slowdown

13 MONTHS The period of time after which Saudi Arabia replaced Iraq as India's top oil supplier

OIL IMPORTS drop below 4 million bpd for the first time since June 2016 in September 2019; about 18.7 per cent lower than in August and down 8.4 per cent from a year ago

THE FALL in oil imports limited India's fiscal deficit for September, but it also potentially points to a general economic and industrial slowdown

REASON BEHIND LOWER OIL IMPORTS:
- Refinery turnarounds as refiners have to supply Euro VI fuels in the country from an April 1 deadline
- Heavy rains
- Slower industrial and construction work

7% The amount by which Indian refiners' crude oil processing declined in September from a year ago

830,500 bpd Oil supplied by Saudi Arabia to India in September, compared with 821,000 bpd supplied by Iraq

$0.75/barrel: The rate by which Saudi Arabia has cut its September official selling price (OSP) for its Arab Light grade for Asia, compared to a $0.40/barrel reduction in Iraq's Basra Light

UNITED ARAB EMIRATES The country emerged as India's third biggest supplier in September after a gap of seven months, knocking Nigeria into fourth place, a position held by Venezuela in August; it was the fifth biggest oil supplier in August