ECONOMY

GOLD	RUPEE	OIL	SILVER
₹39,882	₹71.31	$67.29	₹47,910

*Indian basket as on December 25, 2019

SENSEX: 41,558.00 ▼ 17.14 **NIFTY:** 12,255.85 ▲ 10.05 **NIKKEI:** 23,656.62 ▼ 181.10 **HANG SENG:** 28,319.39 ▲ 93.97 **FTSE:** 7,614.92 ▼ 29.98 **DAX:** 13,270.75 ▼ 66.36

*International market data till 1900 IST

EFFECTIVE FROM JANUARY 1, 2020

Home loans set to get cheaper as SBI cuts external benchmark-based rate by 25 bps

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 30

SETTING THE stage for another round of cut in lending rates, State Bank of India (SBI) — the country's largest lender — on Monday announced a sharp cut of 25 basis points in its external benchmark-based rate (EBR) to 7.80 per cent per annum from 8.05 per cent per annum, effective January 1, 2020.

As a result of the move, new homebuyers will now be able to avail themselves of home loans beginning 7.9 per cent, which is 25 basis points lower than the current offering of 8.15 by SBI.

"With this reduction, interest rate for existing home loan customers as well as MSME borrowers who have availed loans linked to External Benchmark Based Rate would come down by 25 bps," said SBI in a statement.

On December 9, SBI reduced its Marginal Cost of Funds-based Lending Rate (MCLR) by 10 basis points.

While EBR is linked to repo-rate, MCLR is based on the banks cost of funds.

Other banks also joined the move to cut rates following SBI's move, Indian Bank announced a downward revision in its MCLR with effect from January 3, 2020. While it revised its MCLR to 7.90 per cent as against the existing 7.95 per cent for overnight tenors, for tenors of one year it would be revised to 8.3 per cent from the current 8.35 per cent, Indian Bank said in a BSE filing.

Other banks and housing finance companies are also expected to follow the move.

While SBI had introduced floating rate home loans from July 1, 2019, the lender had adopted repo rate as the external benchmark for all floating rate loans for MSME, housing and retail loans from October 1, 2019, after the Reserve Bank of India (RBI) mandated all banks to link a certain categories of loans to external benchmark-based interest rate.

The RBI decision came after the regulator noted that the banks were delaying the transmission of reduction in repo rate by the RBI. Repo rate is the rate at which the RBI lends to commercial banks.

Between February and October, the RBI has cumulatively reduced repo rate by 135 basis points but the weighted average lending rate (WALR) on fresh rupee loans sanctioned by banks declined by 44 basis points so far.

While the RBI did not go for another rate cut in its December policy and took a pause, it said, "Going forward, transmission is expected to improve with the introduction of the external benchmark system, as most banks have linked their lending rates to the policy repo rate of the Reserve Bank."

In the past, the RBI has accepted that monetary transmission has remained staggered and incomplete.

A look into the RBI's successive statements show that the transmission in WALR on fresh rupee loans of commercial banks has remained slow. If the transmission was 21 basis points out of the cumulative 50 basis point cut in repo rate in February and April 2019, the RBI in its August statement said that banks reduced their WALR on fresh rupee loans by 29 bps during February-June 2019.

There was been no transmission of the 35 basis point cut in repo rate in August. In its October policy, the RBI said, "As against the cumulative policy repo rate reduction of 110 bps during February-August 2019, the weighted average lending rate (WALR) on fresh rupee loans of commercial banks declined by 29 bps".

EXPLAINED E.

Decision to prompt other lenders to follow suit

A SHARP cut in lending rate by SBI comes despite the RBI taking a pause in its December monetary policy announcement. While it shows that banks are still catching up to the repo rate cuts by RBI, the decision by the largest lender is set to prompt others to follow suit and thereby benefit the existing and new homebuyers.

Post RCEP walk out, Centre to focus more on bilateral trade agreements in 2020

PRABHA RAGHAVAN
NEW DELHI, DECEMBER 30

INDIA'S EXISTING and stalled bilateral free trade agreements (FTAs) slowly garnered more attention from the government this year, even as it was trying to conclude seven year-long negotiations to join the Regional Comprehensive Economic Partnership (RCEP) — the world's "largest" regional trade pact. Despite the country now having backed out of the mega trade deal, its renewed interest on its other trade pacts, several of which have failed to deliver the results expected, has set the tone for its focus in the coming year.

In the words of the Commerce Ministry, Indian industry and services will be competitive and benefit from access to "large developed markets".

This includes forging stronger economic ties with regions like the EU, with which FTA talks were initiated in 2007 but fell through.

"The India-EU FTA, to my mind, is an FTA we must engage in. They are countries where India has a number of products, which we can export, which we can benefit from ... Currently, there is no discussion on the FTA. It was aborted several years ago," Commerce Minister Piyush Goyal said last month. Since India's walk out from RCEP, Goyal has made more statements at different forums about taking forward these discussions.

"I think some progress could be made on EU in the coming year. This also depends on how issues like the EU's push for concessions in agriculture and India's demand for market access for its services sector are resolved," said Durgesh Rai, fellow, ICRIER. "Whether the two can close a deal in the coming year is difficult to say. But, one thing is for certain — our willingness to move forward with EU has definitely increased," he said.

A trade package with the US in the spotlight earlier this year may also be a priority for the government. In October, Goyal said the two countries had "almost resolved the broad contours" of a trade package though nothing has fructified yet.

India and the US have been trying to resolve trade-related issues that caused the Trump administration to withdraw India's benefits under its Generalized System of Preferences (GSP) programme in June, prompting the Modi government to respond with retaliatory tariffs. "There was a lot of expectation that they (the government) were going to take definite steps in the US deal. That, too, doesn't seem to be the case, even though the US talks are the more realistic option out of the government's proposed negotiations at the moment," said Biswajit Dhar, professor at Centre for Economic Studies and Planning, Jawaharlal Nehru University.

"We can see at least some road map or framework or way forward with the EU, but with the US, it is more complicated. It is more political and also depends on how far the other side is able to move on certain issues," said ICRIER's Rai.

India is also keen on revising its existing trade agreements with most RCEP nations, even while it remains firm on staying out of the larger trading pact. "RCEP had become nothing but an India-China FTA, which nobody wants," said Goyal earlier this month.

In September, before India walked out of RCEP, the 10 member states of the Association of Southeast Asian Nations (ASEAN) bloc — a major chunk of the RCEP group — agreed to review their FTA in goods with the country to simplify them for businesses. Officials involved in this review are expected to submit an update at the 17th consultation of ASEAN Economic Ministers to be held next year. This is also crucial as India, currently, has a trade deficit with all RCEP countries because its industries have not been able to take advantage of these FTAs.

It has been pushing for similar reviews with Japan and South Korea, two other RCEP nations, but some trade experts feel that it should also be pursuing fresh FTAs with some of the other remaining countries in the mega trade deal.

"They should try to get FTAs with Australia and New Zealand as well ... so whatever the potential damage we may see from India not joining RCEP can be reduced," said Rai. Meanwhile, some experts feel the government needs to reassure all stakeholders that it can lift the economy out of its current state before moving ahead with trade agreements.

"The RCEP decision was taken two months ago, and, since then there are no signs that the economy has improved," said Dhar. "Hemorrhaging of the manufacturing sector has subsided ... but rating agencies show that the country is still in the middle of a crisis," he said.

"The government had earlier chosen the easier option of monetary policy as a solution, but this kind of supply-side measure didn't have any impact on the economy. What we need now is certain fiscal measures to crack this logjam," he said. Dhar and Rai expect the Centre to be cautious in taking potential trade deals forward in 2020, a sentiment that already seems to be echoed by Goyal.

"I think the lessons to be learnt are that we should never finalise a trade agreement in a hurry, with a timeline like it was done in 2010 or 2011 with Japan, with Korea, with Malaysia, with ASEAN countries," Goyal said soon after the RCEP deal fell through.

"I can assure all of you that going forward, none of the FTAs will be settled in a hurry or will be settled to the disadvantage of Indian industry and exporters," the Minister said in a separate forum earlier this month.

TRADE BALANCE IN 2018-19

Region	India's Trade Balance in 2018-19
US*	16.86
UK*	1.75
New Zealand*	-0.25
EU (excluding UK)*	-3.01
Japan	-7.91
Australia*	-9.61
South Korea	-12.05
ASEAN	-21.85
China	-53.58

All figures in $ billion

**India currently does not have an FTA with these regions.*

Source: Ministry of Commerce and Industry

POLICY WATCH
SUSTAINABLE DEVELOPMENT

NITI Aayog set to take up financing exercise with 'historically backward' states

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 30

Bihar and Jharkhand were among the worst performers in terms of their progress towards achieving these SDGs, as per the SDG India Index 2019 report

GOVERNMENT THINK tank NITI Aayog plans to conduct a financing exercise with states that have been "historically backward" in development to ensure that India can achieve its Sustainable Development Goals (SDGs) on time.

"There is consensus on all levels that unless these States make significant progress, India will find it challenging to achieve its SDG targets on time. NITI Aayog has started working closely with these States, enabling them in establishing SDG monitoring systems and supporting them in forging partnerships for building institutions, capacity, knowledge and convergence," stated the body in its SDG India Index 2019 report.

Bihar, Jharkhand, Arunachal Pradesh, Meghalaya, Uttar Pradesh and Assam were among the worst performers in terms of their progress towards achieving these SDGs, shows the report.

NITI Aayog has already begun estimating the financial cost of achieving "key" SDGs in collaboration with the International Monetary Fund, stated the report. "As the next step of the collaboration, SDG financing exercise with select states is planned. Special attention is being given to the adoption, implementation, monitoring and financing of SDGs in states, which have been historically backward in development," it stated.

"A comprehensive capacity building programme for the States, UTs, and local governments is being designed in partnership with the UN system. The training modules will extensively cover developing SDG monitoring framework, identifying and designing indicators, localisation, and dashboards," it added.

The SDG India Index 2019 report, which evaluates the progress of states and Union Territories on social, economic and environmental parameters, found that India has managed to improve its average score on the back of improvements in five goals. However, it has stated that two goals — nutrition and gender — continued to be problem areas and demand special attention. In nutrition, food wastage and loss due to inefficient supply chain management remain a "major" concern, according to the report.

"While significant levels of food losses occur upstream, at harvest and during post-harvest handling, a considerable quantity of food is lost or wasted during the distribution and consumption stages. Such food could be salvaged by timely withdrawing it from the distribution network, aggregating it and then redirecting it to the people in need," stated the report.

"Challenges remain for wider adoption of climate-adaptive sustainable agriculture practices, new technology as well as agricultural development plans involving large swathes of land by small farmers, who often lack assets and resources and constitute more than 82 per cent of all farmers," it added.

Crimes against women stood at around 3.60 lakh in 2017, with the crime rate increasing to 57.9 then, as against 56.6 in 2014, according to the report, which adds that "several" legislations have been enacted towards reforms to ensure gender rights and equality.

Several challenges still remain in achieving gender equality, including an "acute" data gap for gender equality in several sectors, especially for transgender people, stated the report. Other issues include declining female labour force participation, which currently stands at 17.5 per cent, and is characterised by aspects like a gender wage gap across sectors as high as 50-75 per cent.

The agriculture sector still has the "largest" share of women, and a "large" proportion of the population involved in informal employment also consists of women "with little or no social protection".

There is also inequality in women's access to and ownership of land. "In rural India, while 75 per cent of rural women workers are engaged in agriculture, women's operational landholding is only 13.96 per cent. The absence of land ownership limits their access to inputs, seeds, fertilisers, credit and agricultural extension services," as per the report.

India will be presenting its second Voluntary National Review during the United Nations' High Level Political Forum in July 2020.

'Govt may breach fiscal deficit target in FY20'

The government might breach the fiscal deficit target this financial year amid drop in the revenue mobilisation, as per Dun & Bradstreet's Economy Forecast

NEED FOR FISCAL STIMULUS has increased even as the government finances remain "strained"

CORPORATE LIABILITIES are already higher, as per the report. The balance-sheets of corporates, government, banks and households remain constrained or weak and revenue collection will play an important role

Revenue collection will thus be important for the government to implement a fiscal stimulus. To do that, tax reforms are needed. GST should be simplified further, and direct tax collections should increase

OPTIMISM OF INDIA INC remains clouded and cautiousness among investors has increased over the various graft and compliance related issues in the financial sector

ON THE PRICES FRONT, the report said food inflation is expected to remain higher, given the supply disruptions as crops have been damaged in many states, exerting upward pressure to the CPI inflation

RETAIL INFLATION is likely to remain in the range of 6.3-6.5 per cent and WPI inflation to be in the range of 2.1-2.4 per cent during December 2019, respectively

REASONS

- Drop in revenue mobilisation of the government
- Likelihood of additional expenditure by the Centre

TARGET

The government has set a 3.3 per cent fiscal deficit target for the current fiscal

EFFECT OF BREACHING DEFICIT

Given the resource constraints, increase in fiscal deficit might lead to crowding out of private investments

Source: Dun & Bradstreet/PTI

IGST refunds worth ₹1.12 lakh cr paid to exporters: CBIC

ENS ECONOMIC BUREAU
NEW DELHI, DECEMBER 30

THE FINANCE Ministry said on Monday IGST (Integrated GST) worth over Rs 1.12 lakh crore has been refunded to exporters and only Rs 3,604 crore is pending with the Customs department.

The Central Board of Indirect Taxes and Customs (CBIC) said while the focus is on quick disbursal of pending refunds to exporters, data analytics has been used to identify "risky" exporter entities, which take input tax credit (ITC) fraudulently and monetise it by paying IGST and taking refund thereof or taking refund of the accumulated ITC.

"Exporters have already been paid IGST (Integrated-GST) refund of over Rs 1.12 lakh crore and over 83,500 exporters have been benefitted by these refunds. This shows that the government's efforts to fast track refunds under the GST, especially to exporters are yielding results," it said.

IGST is a tax levied on all inter-state supplies of goods and/or services.

IGST is applicable on any supply of goods and services in both cases of import and export from India.

The CBIC added refunds of only Rs 3,604 crore are pending; of about 1.85 lakh exporters, 6,421 (about 3.4 per cent only), including some "star exporters", have been identified as risky and hence red-flagged.

"Even some of the 'star exporters' are not traceable," it added.

The risky exporters are being subject to KYC and verification process before the grant of refund. The verification, so far, has revealed that 1,241 exporters are not traceable at their given addresses, which include 8 'star exporters'.

In addition, adverse verification reports have been received in the case of 399 exporters, which also include 4 'star exporters'.

The Commerce Ministry gives 'star' status to exporters on export performance of the last three financial years.

As per the CBIC, since the introduction of GST in July 2017, 77 per cent of India's exports have been under Letter of Undertaking, which are unaffected by the verification exercise being done by its officials.

"Even in respect of the exporters identified as risky, the government is taking all necessary steps to expedite the verification," said the CBIC.

At the same time, the government remains concerned about the misuse of the facility of ITC credit and refunds by few unscrupulous exporters, it added.

Export of goods or services is treated as a zero rated supply. An exporter supplies goods or services or both after paying the amount of IGST and can claim a refund of the amount of tax paid on such goods or services or both.

PENDING REFUNDS

₹3,604 cr

The CBIC added refunds of only Rs 3,604 crore are pending; of about 1.85 lakh exporters, 6,421 (about 3.4 per cent only), including some "star exporters", have been identified as risky and hence red-flagged. The Commerce Ministry gives 'star' status to exporters on export performance of the last three financial years

CBDT extends PAN-Aadhaar linking deadline to Mar 31, 2020

New Delhi: The last date for the mandatory linking of the Permanent Account Number (PAN) with Aadhaar has been extended till March 31 next year, the Central Board of Direct Taxes said on Monday. The earlier deadline was December 31.

"The due date for linking of PAN with Aadhaar as specified under sub-section 2 of section 139AA of the Income-tax Act, 1961 has been extended from December 31, 2019 to March 31, 2020," the department tweeted. This is the eighth time that the CBDT has extended the deadline for individuals to link their PAN with Aadhaar. **PTI**

BEFORE THE DEAL, US CORN, SORGHUM, WHEAT FACED ADDITIONAL TARIFF OF 10% ON SHIPMENTS TO CHINA

How China tariffs on US commodities stand after Phase 1 trade deal

REUTERS
BEIJING/SINGAPORE, DEC 30

CHINA AND the United States recently agreed terms of a Phase 1 trade deal under which the United States reduced some tariffs and Beijing cancelled retaliatory duties that were scheduled to take effect on December 15.

Before the deal, US corn, sorghum, wheat, undenatured ethanol and refined copper cathodes had faced an additional tariff of 10 per cent on shipments to China. Propane, cotton, aluminium scrap, copper scrap and rare earth magnets were all set for an additional 5 per cent duty.

CRUDE OIL

China imposed a 5 per cent tariff on US crude oil shipments from September 1, the first time US oil had been targeted since the trade war between the world's top two economies started more than a year ago. The 5 per cent tariff was not affected by Sunday's deal.

China, the world's biggest crude importer, has sharply lowered US shipments from a record high last year. Chinese customs data showed imports in the first 10 months were halved year-on-year to 146,275 barrels per day.

PROPANE

China removed an additional 5 per cent tariff on US propane shipments which was set to take effect from Dec. 1. A 25 per cent duty that China imposed on US propane on Aug. 23, 2018, remains in place. Chinese firms process US propane into petrochemicals such as propylene. Imports last year were worth an estimated $2 billion.

LNG

China imposed a 10 per cent punitive tariff on US LNG shipments in September 2018, raising it to 25 per cent in June. LNG duties were not affected by the deal. Imports of the super-chilled fuel in the first 10 months of 2019 shrank 87.2 per cent on the year to 258,955 tonnes, as per Chinese customs.

MEG

China imposed tariffs of 25 per cent on US methanol and MEG in June this year. These were not affected by the deal.

SOYBEANS

No additional duty had been scheduled to come into effect on Dec. 15. A 25 per cent tariff on soybeans in July 2018 had halted all buying by commercial buyers, but Chinese crushers went back to the US market following a trade truce in December last year. An additional 5 per cent duty came into effect in September. The Chinese government has given tariff exemptions to some US soybean imports.

PORK

American pork faces total import duties of 72 per cent after including the 12 per cent "most-favoured nation" tariff. These duties were not changed in Sunday's deal, but China is expected to boost US meat imports. An outbreak of African swine fever in China has decimated the world's largest pig herd and sent domestic pork prices soaring to record levels. Total import tariffs on US pork will go down to 68 per cent in the new year, when tariff rate cut on frozen pork shipments takes effect

SCRAP METAL

An additional duty of 5 per cent on US aluminium scrap, which was to go into effect on Dec. 15, has been cancelled. The material was already affected by an initial 25 per cent tariff in April 2018, following by another 25 per cent increase in August 2018. Shipments to China were down only 17.3 per cent year-on-year in the first 10 months of 2019, but those of US scrap copper, subject to a 25 per cent tariff since August 2018, crashed by 76.6 per cent over the same period.

RARE EARTHS

China, which this year raised the prospect of restricting rare earth exports to the United States but has not announced any formal measures, removed the extra 5 per cent tariff on imports of US permanent rare earth magnets from December as part of the Phase 1 deal. There has been a 25 per cent tariff on US rare earth ore imports since June 2019.

Deal to be signed soon, indicate US, Chinese representatives

Washington: The White House's trade adviser on Monday said the US-China Phase 1 trade agreement would likely be signed in the next week, but said confirmation would come from US President Donald Trump or the US Trade Representative.

White House trade adviser Peter Navarro, in an interview on *Fox News*, cited a report that Chinese Vice Premier Liu He would visit this week to sign the deal, but did not confirm it. "Washington has sent an invitation and Beijing has accepted it," the *South China Morning Post* on Monday quoted a source as saying. **REUTERS**