ECONOMY

MARKET WATCH

FPIs INVEST ₹23,102 CR IN FEB SO FAR

New Delhi: Overseas investors have pumped in a net amount of Rs 23,102 crore in February so far driven by positive sentiment around the budget and RBI's decision to maintain an accommodative stance in the latest monetary policy. **PTI**

RISE BY $3.08 BN IN WEEK ENDED FEBRUARY 21 TO REACH $476.09 BN

Forex reserves touch new high on steady FPI inflows, virus-led crude price slide

ENS ECONOMIC BUREAU
NEW DELHI, FEBRUARY 23

THE FOREIGN exchange reserves rose $3.08 billion in the week ended February 21 to hit a fresh high of $476.09 billion, as India continued to benefit from lower crude oil prices that lowers the import outgo as well as also on account of continued strong inflow by foreign portfolio investors (FPIs).

While the outbreak of coronavirus poses threat to global economic growth, it has also resulted in lower Brent crude oil prices — currently trading at around $58 per barrel, down from over $70 per barrel in the first week of January 2019.

Market participants say that India is a big beneficiary of a lower crude price as crude oil import accounts for around one fourth of the country's annual import bill.

In the current calendar year till date, the forex reserves have jumped at a faster pace and have expanded by $18.6 billion. During this period, not only have crude oil prices ruled at a relatively lower price but the FPI flow has also stood strong.

Since the Budget announcement on February 1, foreign institutional investors have pumped in a net of Rs 23,120 crore into Indian capital markets. Since September 20, 2019, when Finance Minister Nirmala Sitharaman announced a cut in corporate tax rates, FPIs have pumped in a net of Rs 77,173 crore (around $11 billion). In the same period, the foreign exchange reserves have grown $44.4 billion — from $428.5 billion in September 20, 2019 to $476 billion in the week ended February 14, 2020.

This was after the Finance Minister announced a sharp cut in corporate tax rates from 30 per cent to 22 per cent (exclusive of surcharge and cess).

According to data released by the Reserve Bank of India, while the foreign exchange reserves rose by $3.08 billion in the reporting week ended February 7, the rise in reserves was mainly on account of an increase in foreign currency assets that rose $2.77 billion to $441.95 billion.

It is important to note that while there was a sudden spike in global crude oil prices in January following geopolitical tensions between the United States and Iran and the price hit a 8-month high of $70.25 per barrel on January 6, 2020, it fell sharply following the de-escalation of tensions and then the outbreak of the novel coronavirus in China.

While the Brent crude price hit a low of $53 per barrel on February 10, it was trading around $58 per barrel on Friday.

The continued inflow of funds by foreign investors, despite a slowdown in economic growth, has fuelled the rise in forex reserves.

While investor sentiment turned weak after the Budget 2019 announcement in July last year to impose higher surcharge, market participants say that the government's move to reverse this decision relating to higher surcharge impact on FPIs along with a cut in the corporate tax rate in September last played a significant role in turning the investors' mood and draw them to invest in the Indian economy and markets.

While a decline in global crude oil prices has played an important role in keeping India's import bill under check, the impact of the novel coronavirus on China's economy over the next few months is likely to keep the global crude oil prices lower.

EXPLAINED

Reserves expand by $47.5 bn after corporate tax cuts

IT WAS the 21st successive week when forex reserves continued their expansion and grew by $47.5 billion since the week ended September 20, 2019. when the forex reserves stood at $428.57 billion.

The decision to withdraw the higher surcharge on gains from equity for foreign and domestic investors as well as cut in corporate tax rates last year also drew investors to the Indian economy and markets.

RISING FOREX RESERVES

WEEK ENDED	FOREX (US$ BN)
Sept 20	428.57
Sept 27	433.59
Oct 4	437.8
Oct 11	439.7
Oct 18	440.75
Oct 25	442.5
Nov 1	446.09
Nov 8	447.8
Nov 15	448.2
Nov 22	448.5
Nov 29	451.08
Dec 6	453.4
Dec 13	454.49
Dec 20	454.9
Dec 27	457.46
Jan 3	461.15
Jan 10	461.21
Jan 17	462.15
Jan 24	466.69
Jan 31	471.3
Feb 7	473.01
Feb 14	476.092

Source: RBI

FINANCE MINISTERS AND CENTRAL BANK GOVERNORS' MEETING

At G20 meet, FM pitches for new international tax system to handle disputes efficiently

ENS ECONOMIC BUREAU
NEW DELHI, FEBRUARY 23

Finance Minister Nirmala Sitharaman (right) during a ministerial symposium on international taxation at the G20 meeting in Riyadh, Saudi Arabia. *via Twitter: @FinMinIndia*

FINANCE MINISTER Nirmala Sitharaman on Sunday called for closer collaboration between international revenue agencies to investigate tax affairs of offenders who cross borders for escaping tax investigation.

Speaking in Riyadh at the first Finance Ministers and Central Bank Governors' meeting held under Saudi Arabia's G20 presidency, she highlighted steps taken by India to deepen corporate bond market and attract foreign portfolio investments in the private debt and government securities market.

"... The international community has a unique opportunity to design a new international tax system to handle the challenges of digitalisation with a cost efficient dispute prevention mechanism," she said while participating in the discussions during the two-day conference, according to a tweet by the Finance Ministry.

Participating in a session on Financial Resilience & Development, she explained steps taken by the government such as removal of capital controls for identified categories of G-sec and increased FPI limit on corporate bond market.

In the Union Budget 2020-21 announced on February 1, Sitharaman had announced several steps to widen and deepen the corporate bond and the government securities market.

The Centre substantially raised investment limit for foreign portfolio investors (FPIs) to 15 per cent of the outstanding stock of corporate bonds from 9 per cent earlier in the Budget.

The Reserve Bank of India had last December raised FPI investment limits in G-sec as well as short-term bonds. The government also proposed to formulate a law for expanding the credit default swaps market.

The Centre also proposed to float a new debt exchange-traded fund (ETF) that will comprise of government securities (G-sec), to enable retail investors — who are so far not investing much in the G-sec market — buy a basket of government bonds through the units in the proposed debt ETF in a seamless manner.

With regard to infrastructure development, the minister suggested G20 nations to refrain from developing any common prescriptive approach since different countries are at varied stages of adoption of technology in infrastructure.

BRIEFLY

Lotteries to attract 28% GST from Mar 1

New Delhi: A 28 per cent GST will be levied on lotteries from March 1, according to a notification. The GST Council had in December last year decided to impose a single rate of 28 per cent on state-run and authorised lotteries.

24x7 customs clearance at sea ports, airports

New Delhi: To facilitate faster clearance of consignments to and from China once coronavirus subsides, a 24x7 customs clearance facility will be available at all sea ports and airports till May 2020. The CBIC has written to all Chief Commissioners (Customs and Central Tax) asking them to work out arrangement and deployment of sufficient number of officers on 24×7 basis at sea ports / Air Cargo Stations / Inland Container Depot / Container Freight Station etc falling in their jurisdiction to tackle any incipient instance of congestion/surge.

'RBI alone can not contain inflation'

New Delhi: Former Reserve Bank of India (RBI) governor C Rangarajan has said the central bank alone can not contain inflation as supply side shocks are needed to be managed by the government. In a paper titled 'The New Monetary Policy Framework – What it Means', Rangarajan talked about the limitations of the RBI's monetary policy in containing inflation. **PTI**

'Reliance Retail tops list of 50 fastest growing global retailers'

Mukesh Ambani-led Reliance Retail has topped the list of '50 fastest-growing retailers globally between FY2013-2018', in Deloitte's Global Powers of Retailing 2020 index

$18.5 billion
RETAIL REVENUE RECORDED BY RELIANCE RETAIL IN FY2018, RISING 88.4 PER CENT FROM ITS FY2017 PERFORMANCE

250
NUMBER OF COMPANIES RANKED BY DELOITTE GLOBALLY IN ITS ANNUAL REPORT BASED ON THEIR REVENUES FOR FY2018

>50%:
PERCENTAGE OF RETAIL COMPANIES AMONG THOSE FEATURED THAT WERE FROM JAPAN

~25%:
PERCENTAGE OF RETAIL COMPANIES AMONG THOSE FEATURED THAT WERE FROM CHINA AND HONG KONG

TOP THREE COMPANIES IN GLOBAL POWERS OF RETAILING RANKINGS:
- Walmart Inc
- Costco Wholesale Corporation
- Amazon

FACTORS THAT MAKE INDIA ONE OF THE GROWING RETAIL DESTINATIONS:
- Young consumer profile
- Increasing dependency on convenience through access to technology and digital platforms

Source: Deloitte/PTI

56th *Reliance Retail's ranking this year in the annual report in terms of revenues, as against 94th the previous year*

55.8%: *Compound annual growth rate recorded by Reliance Retail, thus rising from 6th in FY2017 to 1st in FY2018 in terms of fastest growth*

AGR DUES

Govt officials hold high-level meet, discuss relief measures for telcos

ENS ECONOMIC BUREAU
NEW DELHI, FEBRUARY 23

THE DEPARTMENT of Telecommunications (DoT) on Sunday held a high-level meet, which was attended by officials of the Finance Ministry and NITI Aayog, to explore solutions for the crisis emanating from the adjusted gross revenue (AGR) dues.

Though government officials refused to comment, sources said the meeting was the first in a series and was held to apprise officials across ministries of the crisis at hand and possible solutions which the Centre can look at.

Though nothing emerged from the meeting, sources said the DoT has been asked to prepare a proposal which would then be vetted by the Finance Ministry and subsequently be put up before the Digital Communications Commission.

The government is trying to balance between complying with the Supreme Court's order by which the companies are required to pay up their dues by March 17, and offering financial sops to the operators.

The government has made it clear to the operators that they would have to pay up as it is the apex court's order, but it would try to defer or waive off dues like licence fees and spectrum usage charge. How much and for what period are issues that need to be decided after deliberations, sources said.

The total dues of around 15 operators is to the tune of Rs 1.47 lakh crore but since many have shut down or are undergoing insolvency, the dues owed by the three functional companies — Bharti Airtel, Vodafone Idea, and Tatas — is of Rs 1.02 lakh crore. Of this, around Rs 16,000 crore has been paid till date — Rs 10,000 crore by Bharti, Rs 3,500 crore by Vodafone Idea, and Rs 2,197 crore by Tata Teleservices.

While Bharti Airtel has raised funds and has said it will pay the balance before March 17 after completing its self-assessment exercise, Vodafone Idea has expressed its inability to pay any more and is desperately looking for some relief from the government.

Tatas have said as per their calculation they have paid their full dues, which the government will cross-check through its flash check and in case of any discrepancy will send notices. **FE**

Post-Brexit trade deal with India likely, says City of London official

ENS ECONOMIC BUREAU
MUMBAI, FEBRUARY 23

POST BREXIT, India and the United Kingdom are set to improve trading relationships and there could be a trade deal between the two countries, according to Catherine McGuinness, Chair of the Policy and Resources Committee, City of London Corporation.

"Based on the willingness of both sides, I'm sure there will be a post-Brexit trade deal between India and the UK, but do remember these things take time," she said in Mumbai.

"We've identified a number of areas where the UK and India can work more closely together in innovative financial services — cyber, green and fintech. In fact, our ties are already strong in these areas, and many firms from the UK are already based here. Vice-versa, many Indian firms are in the UK," McGuinness said.

After all, London's expertise perfectly matches India's fast growing market, she said.

"We have also been working for many years to further tighten cooperation between the two countries in insurance, and to assist in the development of India' reinsurance market," McGuinness said.

"We can also assist in making insurance easier and clearer to understand here, with a view to increasing penetration of the market in India," she added.

Moreover, India's Insolvency and Bankruptcy Code has led to greater work between the legal sectors, and with UK investors.

McGuinness said UK insuretech firms can also support the Indian government's initiatives, providing digital platforms that can connect micro-insurers, insurers, policyholders, and intermediaries and increase insurance take-up.

"Two examples that come to mind are disaster & climate change insurance and cyber, both of which the City specialises in."

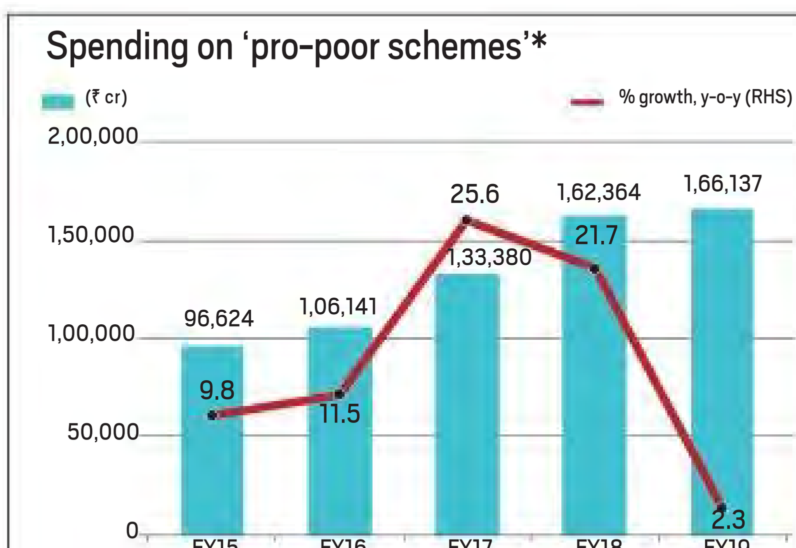
The UK-India bilateral trade stands at over £20 billion. Financial services accounts for a small but growing proportion — £440 million — but there is plenty of room to grow our relationship in this area, particularly in areas like cyber, green finance, fintech and insurance, she said.

The government support on both sides remains strong, and work is already underway to strengthen ties through the ongoing UK-India Joint Trade Review, the only of its kind that the UK has with any other country, and one which will lay the framework for the future trade partnership.

Slowdown effect: Expenditure on 'pro-poor schemes' plunges between FY17 and FY19

PRASANTA SAHU
NEW DELHI, FEBRUARY 23

Spending on 'pro-poor schemes'*



*As identified by FE, such expenditures are to rise 39% on year in FY20 (RE), thanks to PM-Kisan; excluding PM-Kisan, such expenditure growth in FY20 was muted at 6.2%; ^PM-Kisan pushes pro-poor schemes' budget to ₹2,30,810 crore in FY20; excluding the scheme, it is ₹1,76,440 crore

THE SLOWDOWN in economic growth has undermined the government's ability to augment expenditure on schemes meant for redistribution and welfare of the poor and the disadvantaged.

While there isn't a clear segregation of 'pro-poor schemes' in the Budget, an analysis by *FE* identifying items of expenditure with purposes of welfare/uplift of the poor showed that growth of such spending nosedived from a robust 25.6 per cent in FY17 and 22 per cent in FY18 to just 2.3 per cent in FY19. GDP expansion rate fell from 8.2 per cent in FY17 to 7.2 per cent in FY18 and to 6.8 per cent in FY19.

Had the election-bound Modi 1 government not opted for a fiscal slippage of 0.5 per cent to introduce the income support scheme PM-KISAN Samman Nidhi (PM-KISAN) in February 2019, the growth in pro-poor spending would have remained constrained in FY20 also. The budget for PM-KISAN in FY20 is Rs 54,370 crore (revised estimate) and Rs 75,000 crore in FY21.

Launch of PM-KISAN, however, resulted in continued slow growth in conventional pro-poor schemes; such spending stood at Rs 1.76 lakh crore in FY20, up just 6.2 per cent from Rs 1.66 lakh crore in FY19. The budget estimate for pro-poor schemes, excluding PM-KISAN, is just 2.5 per cent in FY21. Of course, if expenditure on PM-KISAN is included, the annual growth in pro-poor spending would be 39 per cent in FY20 and 11 per cent in FY21.

Given major expenditure items like interest payments, establishment, Finance Commission grants, which are not amenable to immediate pruning and the commitment to overall fiscal discipline, the additional fiscal space for acceleration of pro-poor spending could be created only by curbing expenditure on explicit subsidies like food and fertilisers by rationalisation and better targeting. **FE**

China braces for inevitable big hit to economy from coronavirus: Xi

REUTERS
BEIJING, FEBRUARY 23

POLICY ADJUSTMENTS TO BE STEPPED UP

- **China will step up policy adjustments to help cushion the blow to the economy from a coronavirus outbreak that authorities are still trying to control, President Xi Jinping was quoted as saying on Sunday**
- **The situation is showing a positive trend after arduous efforts but there is no room for "weariness and relaxed mentality" among officials, state television quoted the Chinese President as saying**

CHINA WILL step up policy adjustments to help cushion the blow to the economy from a coronavirus outbreak that authorities are still trying to control, President Xi Jinping was quoted as saying on Sunday.

Chinese policymakers have rolled out a raft of measures to support an economy jolted by the virus, which is expected to have a devastating impact on first-quarter growth.

The situation is showing a positive trend after arduous efforts but there is no room for "weariness and relaxed mentality" among officials, state television quoted the president as saying.

"At present, the epidemic situation is still severe and complex, and prevention and control work is in the most difficult and critical stage," Xi said.

"The outbreak of novel coronavirus pneumonia will inevitably have a relatively big impact on the economy and society," Xi said, adding that the impact would be short-term and controllable.

The outbreak, which has infected nearly 77,000 people and killed more than 2,400 in China, is one of the most serious public health crises to confront Chinese leaders in decades.

"For us, this is a crisis and is also a big test," Xi said.

China's economic growth may show a sharp slowdown in the first quarter, probably dipping to 3 per cent or even lower from 6 per cent in the previous quarter — which was the weakest pace in nearly 30 years, economists estimated.

Some forecasters also say there is a growing risk the economy could contract in the first quarter from the previous three months, as factories have been slower than expected to resume production due to shortages of staff and raw materials.

Low-risk provinces should focus on restoring work and production in an all-round way, provinces with medium-level risks should aim for an orderly work resumption, while high-risk regions should focus on epidemic controls, Xi said.

He highlighted the importance of fighting the epidemic in the capital Beijing, which has recently required people arriving from elsewhere in China to be quarantined at home for 14 days.

"The safety and stability of the capital is directly related to the overall work of the party and the state," Xi said.

The government would step up policy support to help achieve economic and social development targets for 2020, the Chinese President said.

China would maintain a prudent monetary policy and roll out new policy steps in a timely way, he said, adding the government would also study and roll out phased tax cuts to help tide small firms over difficulties.

The government would also take steps to support flexible employment and help college graduates to find jobs, Xi added.

G20 finance heads see modest growth pickup, to monitor virus

Riyadh: Finance leaders of the world's top 20 economies expect economic growth to pick up modestly this year and next on loose monetary policy and easing of trade tensions, and vowed to monitor the effects of coronavirus outbreak.

The G20 finance ministers and central bank heads faced a sober presentation by the International Monetary Fund, which predicted the epidemic would shave 0.1 percentage points off global growth.

"Global growth is expected to pick up modestly in 2020 and 2021. The recovery is supported by the continuation of accommodative financial conditions and some signs of easing trade tensions," the communique from the financial leaders said. "We will enhance global risk monitoring, including of the recent outbreak of COVID-19. We stand ready to take further action to address these risks," the statement said. **REUTERS**