April-February fiscal deficit touches 135.2% of RE

IN NUMBERS

All figures in ₹ trillion

	2019-20 Revised Estimates	Apr-Feb 2019-20 (% of full-year target in brackets)
Net tax revenue	15.05	11.14 *(74.1)*
Non-tax revenue	3.45	2.63 *(76.2)*
Non-debt capital receipt	0.82	0.51 *(62.6)*
Total revenue	**19.32**	**14.29 *(74.0)***
Revenue expenditure	23.50	21.61 *(91.9)*
Capital expenditure	3.48	3.05 *(87.5)*
Total expenditure	**27.00**	**24.65 *(91.4)***
Fiscal deficit	**7.67**	**10.36 *(135.2)***

Source: cga.nic.in

ARUP ROYCHOUDHURY
New Delhi, 31 March

The Centre's fiscal deficit for April-February came in at ₹10.36 trillion or 135.2 per cent of the full year's Revised Estimates (RE), compared with 134.2 per cent for the same period last year. This was primarily on the back of higher expenditure and lower capital receipts.

The data released by the Controller General of Accounts on Tuesday shows that to meet the RE for 2019-20, the central government will have to garner ₹5.03 trillion in total revenues in March. The month has seen the worst phase of the Covid-19 pandemic so far, and the resultant lockdown.

Unless a highly-unlikely scenario of a massive expenditure cut plays out, the Centre is set to miss the revised fiscal deficit target of 3.8 per cent of gross domestic product (GDP) for 2019-20.

Already, the finance ministry ended the year's disinvestment with proceeds of ₹50,298.6 crore, a shortfall of ₹14,701 crore compared with the revised estimates of ₹65,000 crore.

Meanwhile, the income tax department is likely to see a shortfall of about ₹1.5 trillion in direct taxes for the year, the highest in two decades.

"Further slippage in fiscal deficit ratio cannot be ruled out as fiscal deficit will be higher and GDP (the denominator) will be lower due to the lower GDP growth in Q4. Depending on how the government manages the expenditure, there could be another 0.5 per cent slippage in fiscal deficit ratio," said Madan Sabnavis, chief economist with Care Ratings.

A 0.5 per cent slippage would take the FY20 fiscal deficit to 4.3 per cent of GDP.

Sabnavis said on account of the outbreak, there has already been one fiscal stimulus package of ₹1.7 trillion and additional fiscal stimulus measures can be expected.

"A few factors would help restrain size of the fiscal deficit in March 2020, including the sharp decline in the amount of central tax devolution to be provided to states (at an estimated ₹953 billion in March 2020 from ₹1.6 trillion in March 2019), the enhancement of duties on petrol and diesel announced in the middle of the month, and a likely write back in food subsidy," said Aditi Nayar, principal economist, ICRA. She added that further savings in expenditure are likely.

"In our view, meaningfulness of the revenue and expenditure growth assumptions made in the Union and various state budgets for FY21 has drastically reduced following rapid escalation of the current crisis," said Nayar, looking ahead.

Nayar said the loss of economic activity is expected to dampen tax collections in April-June, and expenditure may rise sharply.

Core sector output at 11-month high

Grows by 5.5% in February, driven by petro production, electricity generation

SUBHAYAN CHAKRABORTY
New Delhi, 31 March

A sudden uptick in petroleum production pushed up the output of the eight core sectors to an 11-month high of 5.5 per cent in February, after January's output was revised to a reduced 1.4 per cent.

Core sector output had contracted for four months till November, with a broad-based decline gripping most sectors. As a result, core sector output in the April-February period dropped to 1 per cent, compared to 4 per cent in the corresponding period last year.

Output rose for the third straight month in February, mainly on the back of growth in refinery products, as well as higher coal production and electricity generation due to the onset of summer. However, experts pointed out that this would reverse in the coming months. "This uptrend is likely to prove to be fleeting, with the lockdown in March 2020 affecting production across sectors," said Aditi Nayar, principal economist at ICRA.

The data by the Commerce and Industry Ministry, released on Tuesday, showed that production of refinery products rose 7.4 per cent in February, up from the 1.9 per cent growth in January.

Even as the sector has showed a volatile trend in FY20, senior officials had claimed that a solid recovery in production was underway as key refining units, which were earlier closed, had gone live.

Crude oil production, however, continued its downward spiral, continuing the streak of contraction for 17 months. Production reduced by 6.4 per cent — a steeper fall than the 5.3 per cent in January. Experts believe production is linked to oil prices and a higher global value tends to make production more remunerative.

Since the price of a barrel of Brent crude stood between $50 and $54 in February, compared to the present $24, crude oil production was expected to rise further or make lower losses.

Natural gas production also contracted for the 11th straight month, reducing by 9.6 per cent in January.

Elsewhere, in the energy space, coal production saw the highest uptick in output, rising 10.3 per cent, as against the previous month's 6.9 per cent.

The sector saw contraction remaining entrenched till November, following a 24-month growth period up to July. With majority of the power generation in India still thermal-based, overall generation rose 11 per cent, compared to only 3.2 per cent in January.

The beginning of the year saw growth in generation after heavy contraction for 5 months, as sluggishness in manufacturing was understood to have led to a steep fall in power demand.

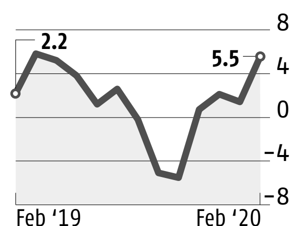
Now, the impact of social distancing and the lockdown is expected to curtail the demand for electricity sharply in the immediate term, experts say.

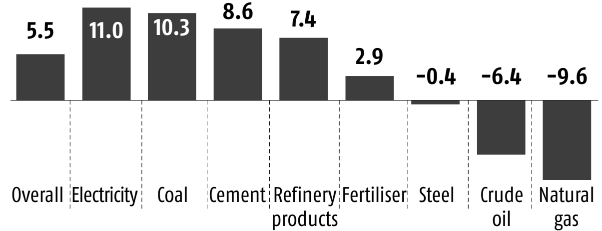
Latest data signals mixed results for the infrastructure segment. Steel production fell 0.4 per cent, after a fall of 1.4 per cent in January, but cement production rose 8.6 per cent, capitalising on the 5.1 per cent rise in the previous month. Both sectors have been in the grips of volatility.

A month after the industrial slowdown caught up with the fertiliser sector, February production bounced back, albeit by a small margin. It rose 2.9 per cent after shrinking marginally by 0.1 per cent in the previous month.

Experts predicted overall industrial production to rise before the Covid-19 outbreak drags it down again. "The healthy growth in core sector industries and turnaround in non-oil merchandise exports would support industrial growth in February, despite the deepening contraction in auto production. On balance, we expect industrial output to record an improved growth of 2.5 per cent in February, before slipping into a Covid-led contraction in March," said Nayar.

According to the data from the Index of Industrial Production, contraction in the manufacturing sector had given way to a 1.5 per cent rise in January. Manufacturing output had shrunk 0.7 per cent in December.





Source: Commerce and Industry Ministry

CHANGES THAT COME INTO EFFECT FROM TODAY

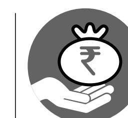
The young generation will get the option to choose a lower tax regime in the 2020-21 fiscal year. However, those who buy mobile handsets have to shell out more as goods and services tax rates on them have been hiked. Though firms will get relief because their refunds are currently piled up (tax on inputs are higher than final products), some hike in prices may still happen

INDIVJAL DHASMANA

APRIL 1, 2020 NEW TAX RULES

GST rates on mobile phones rise to 18% from 12%, which will make these sets expensive, subject to adjustment in input tax credit

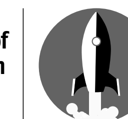
According to new alternative income tax slabs, there is zero tax rate on annual income up to ₹2.5 lakh, 5% on income above ₹2.5 lakh up to ₹5 lakh, 10% on income over ₹5 lakh and up to ₹7.5 lakh, 15% on income over ₹7.5 lakh to ₹10 lakh, 20% on income over ₹10 lakh and up to ₹12.5 lakh, 25% on ₹12.5 lakh to ₹15 lakh, and 30% over ₹15 lakh. The new rates will be available to those who don't avail of some deductions, such as those available under 80C, LTC



The way dividends are taxed. Now, dividends distributed by companies and mutual funds would be taxed at the recipients' end at their individual slabs. Earlier, these were taxed at the company level. So, companies used to deduct over 20 per cent tax after surcharge and grossing up. Mutual funds deducted at the rate of 11.2% for equity oriented-schemes and 29.12% for debt-oriented ones

Employers' contribution to employees' provident fund (EPF), national pension system (NPS) or any other superannuation fund above ₹7.5 lakh in a year would be taxable for employees. This will hit senior employees

Those buying a new house of up to ₹45 lakh will get additional tax deduction of ₹1.5 lakh on interest component of loan in addition to ₹2 lakh that is currently available. The offer was to expire in FY20, but was extended by a year



Employees of start-ups to get deferment of tax on ESOPs by 48 months or until the employees leave the company or when they sell the shares, whichever is earlier. This is aimed at improving the cash flow of employees, so that they won't have to bear the burden of tax on allotment of shares

Sources: Budget papers for FY21, GST Council

Bond, currency markets see high volatility in FY20

ANUP ROY
Mumbai, 31 March

Bond and currency markets witnessed a highly volatile year, as Covid-19 fear brought the markets to a near halt.

While the rupee hit its lifetime low of about 76.30 a dollar, the 10-year bond yields fell to 6 per cent, as Covid-19 led to an unprecedented slide in financial assets worldwide. As yields fall, prices of bonds rise and the vice versa.

The rupee ended the 2019-20 fiscal year at ₹75.6 dollar, and the 10-year bonds yields closed at 6.1 per cent. At the start of the year, rupee and bond yields were at 69.2 a dollar and 7.4 per cent, respectively.

The bonds, in particular, rallied investors' dumped stock to keep their money locked into fixed income. The government, at the end of the year, also allowed foreign investors to invest, without any limits in five specified bonds, maturing between 2024 and 2049.

This may lead to inclusion in global bond index in the coming 12-18 months, HSBC noted. An inclusion in the Bloomberg-Barclays Global Aggregate Index could attract potential flows of $6-7 billion, the bank said in its report. However, it is unlikely to solve the mood immediately for foreign investors who remained net sellers in the bond market.

"While India's potential index inclusion is a positive development in the medium term, it is unlikely to provide any immediate relief in the current environment of foreign liquidation. Foreign investors have withdrawn around $9.5 billion from Indian bonds over the past six weeks," the bank noted.

In sync with other central banks, the Reserve Bank of India (RBI) introduced a number of liquidity infusion measures to compensate for the foreign investors outflows and keep the bond yields soft. The liquidity infusion by the RBI in March itself amounts to ₹6.5 trillion, or just about 3.2 per cent of the gross fiscal deficit (GDP). This includes ₹1 trillion of targeted long-term repo operations (TLTRO) specifically to support the corporate bonds. The yields fell sharply on the corporate bonds.

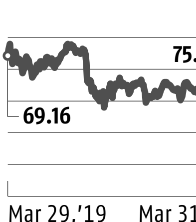
The emerging markets currencies, including rupee, has recovered slightly against the dollar, and going forward, soft oil prices should help rupee. But it is all contingent upon how fast the Covid-19 threat abates.

Taking a firm call on currency is not possible at this juncture, say dealers. For the next week, the rupee should find support between 75.15 and 75.65, dealers say. But a potential dollar rally can upset the maths.

"The LIBOR (London Interbank Offered Rate) is still elevated despite humongous liquidity injection by the US Fed. The stress is not being reflected in the FX markets as of now but is certainly something to keep an eye on," noted IFA Global.

While the RBI has enough foreign exchange reserves to contain a currency volatility, it is also spending a lot of dollars through intervention. For example, in the week ended March 20, the RBI sold $12 billion to stabilise the currency.

After June, however, Indian banks can participate in offshore markets through their foreign branches. That opens up a whole new avenue for the RBI to intervene in such markets. This, according to currency dealers, can fix the exchange rate volatility to a great extent, currency dealers say.



Interest rate on small savings slashed

INDIVJAL DHASMANA
New Delhi, 31 March

Your money in small savings schemes, such as public provident fund (PPF), would fetch you much lower rates of return in the first quarter of 2020-21.

This is because the government went for one of the steepest cuts of up to 1.4 percentage points in these interest rates to facilitate banks to lower their rates.

The move came days after the Reserve Bank of India (RBI) announced 75 basis-points cut in policy rate.

The popular public provident fund (PPF) scheme will now fetch 0.8 percentage points lower interest rate at 7.1 per cent against the current 7.9 per cent.

Similarly, national savings certificate will now yield 6.8 per cent rate of return, down 1.1 percentage points from 7.9 per cent.

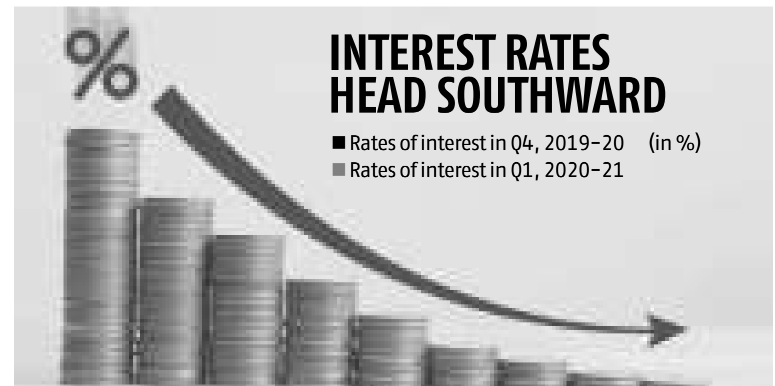
Monthly income account will see one percentage point cut in returns at 6.6 per cent against 7.6 per cent at present. Even senior citizens will get 1.2 percentage points lower return as their scheme — Senior Citizens Savings Scheme – will earn 7.4 per cent against 8.6 per cent. In time and recurring deposits, the steepest cuts of 1.4 percentage points were made in one year, two-year, three-year time deposits and five-year recurring deposits.

Savings scheme will earn four per cent interest rate, the same as the present. Given the RBI's mandate is to keep inflation at an average four per cent, the real interest rate here will be zero per cent.

Devendra Pant, chief economist at India Ratings, said the move will reduce the gap between what banks give as deposit rates and earnings from small savings scheme, which would help in low interest regime in the country.

However, PPF is still an attractive option, giving 7.1 per cent interest income that is tax free. "It is still one of the best risk-free schemes, if not the best," Pant said.

PPF still gives 0.85 per cent higher returns than what State Bank of India (SBI) offers at its five-year fixed deposit rate at 6.25 per cent. Five-year fixed deposits in small savings scheme fetch 6.7 per cent. On the other hand, the Centre would get cheaper funds to finance its fiscal deficit. It is the Centre which mostly draws funds from the National Small Savings Fund.



INTEREST RATES HEAD SOUTHWARD

■ Rates of interest in Q4, 2019-20 (in %)
■ Rates of interest in Q1, 2020-21

Scheme	Q4, 2019-20	Q1, 2020-21
Savings deposit	4.0	4.0
One-year time deposit	6.9	5.5
Two-year time deposit	6.9	5.5
Three-year time deposit	6.9	5.5
Five-year time deposit	7.7	6.7
Five-year recurring	7.2	5.8
Senior Citizen Savings Scheme	8.6	7.4
Monthly Income Account	7.6	6.6
National Savings Certificate	7.9	6.8
Public Provident Funds Scheme	7.9	7.1
Kisan Vikas Patra	7.6*	6.9**
Sukanya Samridhi Account Scheme	8.4	7.6

*Will mature in 113 months **(will mature in 124 months)

Source: Finance Ministry

Govt cuts natural gas price by 26% for first half of FY21

SHINE JACOB
New Delhi, 31 March

The government on Tuesday cut the domestic natural gas price for the April-September period to $2.39 per million British thermal unit (mBtu), the lowest in six years since the Narendra Modi government introduced the new pricing formula in November 2014.

The rate for gas produced from difficult fields will be $5.61 mBtu on gross calorific value basis. This ceiling price will be applicable for deepwater, ultra-deepwater, and high pressure-high temperature areas, including the under-development fields of Reliance Industries in KG-D6 block in Eastern Offshore.

On the other hand, the price of the majority of natural gas produced in the country, including by companies like Oil and Natural Gas Corporation and Oil India, will be up 26 per cent to $2.39 a unit for the six months, up from $3.23 a unit for the October 2019 to March 2020 period, according to a notification by the Petroleum Planning and Analysis Cell (PPAC).

For the October-March period, the price for difficult field was at $8.41 per mBtu. Earlier the lowest price is the last six years was $2.48 a mBtu for the period of April-September 2017.

After coming to power in 2014, the Modi government had scrapped a pricing formula suggested by a panel headed by C Rangarajan, based on the average of netback price that LNG exporters to India got and the rate commanded by global gas producers. Instead, a new pricing was introduced in November 2014, based on the average rate prevailing in exporting countries like the US, the UK, Canada, and Russia.

"The new pricing will definitely make exploration unviable for domestic producers. With international prices coming down, the government should have considered a lower cap to boost production. Anything below $3 a unit will make it difficult for producers," said a senior executive of a private sector oil and gas major.

DOWNWARD CURVE
($/mmbtu)

Period	Gas price	Ceiling*
Oct17-Mar18	2.89	6.30
Apr-Sept18	3.06	6.78
Oct18-Mar19	3.36	7.67
Apr-Sept19	3.69	9.32
Oct19- Mar20	3.23	8.43
Apr-Sept20	2.39	5.61

*The cap price for difficult fields, when implemented from April 2016

Source: PPAC

Non-food loan growth declines to 7.3% in Feb

ABHIJIT LELE
Mumbai, 31 March

The pace of non-food credit dispensed by Indian banks decelerated to 7.3 per cent in February, from 13.2 per cent in the year-ago period.

The slump in credit was evident across industry, agriculture, and the services sector. However, the retail loans segment was an exception, with slight acceleration to 17 per cent in February 2020 as against 16.7 per cent in February last year, according to RBI data.

Bankers said the tepid credit off-take was a reflection of the prolonged economic slowdown. The lockdown has led to severe disruption, adversely impacting loan demand further, in March 2020. Normally, growth in the last month of the financial year gains traction as businesses and corporates increase use of credit limits before closing books.

Credit growth to industry decelerated to 0.7 per cent in February 2020, from 5.6 per cent in February 2019. Within industry, credit growth to 'beverage & tobacco' accelerated.

Credit to industry segments such as 'mining & quarrying', 'food processing', 'chemical & chemical products', 'textiles', 'basic metal & metal products', 'engineering', and 'leather & leather products' contracted in February 2020.

Credit growth to the services sector — which is manpower intensive — decelerated sharply to 6.9 per cent in February 2020, from 23.7 per cent in February 2019, the RBI said. The pace of loans given to non-banking financial companies dipped to 22.5 per cent from 47.5 per cent.

Govt extends FTP, other export benefits by a yr

The government on Tuesday extended the existing Foreign Trade Policy 2015-20, including fiscal incentives for goods' exports by one year till March 2021, amid the coronavirus outbreak and the lockdown to contain the virus spread. The commerce ministry said that in view of the "unprecedented current situation" arising out of the Covid-19 pandemic, it has decided to continue relief under various export promotion schemes by granting extension of the existing policy by another one year.

Currently, tax benefits are provided under the Merchandise Export from India Scheme for goods and the Services Export from India Scheme). **PTI**