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## EXPORT-IMPORT-NEWS

### COTTON PRICES SEEN HOLDING FIRM IN 2018 ON SLOW ARRIVALS

Having witnessed a roller-coaster ride in 2017, cotton prices are expected to be range-bound with an upward bias from the current levels in 2018, experts hinted.In the last one month, raw cotton or kapas prices moved up sharply by Rs. 1,000 a quintal from the lows of Rs. 4,300-4,500 in Gujarat markets. The upside is mainly attributed to the political uncertainty and lower arrivals at the mandis inspite of robust crop estimates.On the spot markets in Rajkot, each bale (of 170 kg) of 29-mm cotton was quoted at Rs. 19,459 as on December 22 from Rs. 18,098 quoted a month ago.In 2017, cotton prices saw sharp volatility due to climatic extremities and pest attack in key growing regions of Karnataka, Maharashtra and Gujarat.
**B/L -26/12/17**

### AGRI NBFCS UPBEAT ON WAREHOUSE RECEIPTS

Bank lending to priority sector including agriculture may have witnessed a de-growth in the last couple of years; but agricultural NBFCs (non-banking financial companies) are betting big on warehouse receipt and other agri-financing options.Agricultural NBFCs cater to the entire value chain including farmers, traders, small agro-processing units and joint liability groups. Many of these NBFCs were floated by agri-marketing or warehousing companies, primarily to service their existing clients.According to industry experts, banks and NBFCs put together have lent close to Rs. 35,000 crore against warehouse receipts till date. The industry is projected to grow to Rs. 1 lakh crore by 2020. “This segment is growing exponentially and the introduction of GST will further enhance the potential for overall growth,” Sandeep Sabharwal, CEO, Sohan Lal Commodity Management (SLCM) Group, toldBusinessLine .SLCM Group’s NBFC arm, Kissandhan Financial Services, has a loan book of Rs. 250 crore and the company intends to close it around Rs. 500 crore by the end of this fiscal.Some of the warehousing companies including SLCM, Origo Commodities, StarAgri, Shree Shubham Logistics and National Collateral Management Services among others have already set up agri-NBFCs to tap this segment.
**B/L -27/12/17**

**COSTLIER CANE TO WEIGH ON SUGAR MILLS' EARNINGS**

Despite buoyant production, earnings of sugar mills on an average are expected to fall by 200 to 250 basis points during the current sugar year (October 2017-September 2018), because of the increase in cane prices, a Crisil Research report has said."High prices in SY 2016-17 and higher production in SY 2017-18 is of little cheer to mills because the differential between sugar prices and cost of cane continues to narrow. Cane costs are set to rise by 11 per cent, even as sugar prices moderate marginally in the current year," the report said.Raw material accounts for over 70 per cent of the cost of sugar mills. So, the more the gap between sugar prices and cane cost, the better the margins for mills.The wholesale prices of sugar increased 13 per cent in the previous sugar season. They hit a peak of Rs. 40 per kg in February 17, riding mainly on depletion of inventory in sugar season 2015-16."Sugar prices and closing inventory have an inverse relationship. As inventories remain stable in the current season, sugar prices would correct only marginally," it said.

**B/L -28/12/17**

**SLACK BUYING DRAGS SPOT SUGAR AT VASHI**

Mumbai, December 26Sugar prices at the Vashi market declined by Rs. 10-12 a quintal tracking weak demand amid selling pressure from mills. Naka rates were down by Rs. 10.Traders were optimistic about rise in demand at the start of new month. Arrivals were steady at 57-58 truck loads and local dispatches were at 56-57 loads.On Monday evening, about 20-22 mills sold about 35,000-37,000 bags at Rs. 3,080-3,250 for S-grade and Rs. 3,200-3,350 for M-grade.The Bombay Sugar Merchants Association's spot rates: S-grade Rs. 3,220-3,372 and M-grade Rs. 3,330-3,605. Naka delivery rates: S-grade Rs. 3,220-3,370 and M-grade Rs. 3,260-3,470.

**B/L -29/12/17**

**CHINESE IMPORTS PUSH COPPER TO 3-1/2- YEAR HIGH**

Copper prices leapt to three-and-a-half-year peaks on Wednesday after a jump in China's imports of the metal in November boosted expectations of stronger demand from the top consumer.Benchmark copper on the London Metal Exchange was up 0.9 per cent at $7,190 a tonne. China's copper imports rose to 329,168 tonnes in November, up 19 per cent year-on-year.Aluminium rose 0.5 per cent to an eight-week high at $2,204.5 a tonne. Zinc was up 0.3 per cent to \$3,274; lead added 0.7 per cent to \$2,508; tin was up 0.6 per cent at \$19,645 and nickel was off 1.4 per cent to \$11,960.

**B/L -30/12/17**

**PRICE PROTECTION AT CENTRE OF DRAFT CONTRACT FARMING LAW**

In an attempt to protect the interest of farmers entering into a contract farming agreement with food processing industry and corporates, the Centre has come out with a new model contract farming Act, which would be circulated among State governments for adoption, following wider consultation with various stakeholders.The draft law suggests all contract farming agreements entered into between buyers and farmers in respective States should be registered with a State-level agency called Contract Farming (Development & Promotion) Authority.Besides, all contract farming deals would be outside the purview of the Agricultural Produce Marketing Committee (APMC) Act, it observes."Contract farming which in essence is a pre-production season agreement between farmers (either individually or collectively) and sponsor(s), transfers the risk of post-harvest market unpredictability from the former to the latter," says the document, dated December 23.The proposed Act puts the onus of professionally managing inputs, technology and pre- and post-harvest infrastructure and services on the sponsor of the contract, according to mutually agreed terms.Both the sponsor and producer are liable to pay damages or compensation in case of a breach of contract, as decided by the authority.

**B/L -31/12/17**

## TRADE NEWS

**GOVT WORKING ON STRATEGY TO BOOST SHARE OF SERVICES EXPORTS, SAYS COMMERCE MINISTER**

The government is working on a strategy to boost share of services in total exports from the country, said Commerce & Industry Minister. The Indian industry needs to identify the markets that they want to export to and the Department of Commerce would work on market access issues there, the Minister said at a meeting on the services sector. Minister further added that the World Trade Organisation (WTO) needed to focus on the most relevant issues in the world today and the mini-ministerial that India would organise in a few weeks' time for top countries will deliberate on such issues. “In my opinion services should be one of the most critical drivers of the growing economy and must be brought to the forefront,” Minister said. The country needs to identify new services which have tremendous export potential such as healthcare and financial services and within that develop new products which could be exported. The Minister suggested that sectors such as IT should look at developing newer markets such as Latin America as markets like the US and Europe were becoming saturated. The services sector contributes 60 per cent of India’s GDP, 30 per cent of India’s exports and just 30 per cent of India’s jobs.

## COMMERCE MINISTRY MULLS REFUND FOR EXPORTERS VIA SINGLE WINDOW

The Commerce Ministry is looking at ways in which the coming Budget can provide further relief to exporters under the Goods and Services Tax (GST) regime. It is discussing with the Finance Ministry the possibility of giving all tax refunds to small exporters via a single window, as also exempting exporters from paying IGST (Integrated GST) on inputs, as is done in many other parts of the world, including Europe, a government official said.

## EXPORTERS’ CONCERN

Export Organisations have been stressing that the refund system under the GST, however efficient, would result in blocking of the capital of exporters in payment of GST from the date of procurement of inputs to exports. “Depending on the duration of procurement of inputs, commercial production of output and its exports, the exporters’ money would be blocked. This is one of the factors blunting the competitive edge of exports,” according to FIEO. While the Finance Ministry has been arguing that the GST regime is such that there is no provision for exemptions, exporters have argued that a large number of countries including Australia, Canada, Malaysia and the EU, provide exemption from VAT/GST on inputs required for export production. Exporters have also made a case for providing all refund for exports to the micro and small exporters at one place. “Instead of separate applications for getting refund of Customs duty under the duty drawback scheme and refund for GST, the proposal is to provide both under a comprehensive duty drawback scheme. We are exploring if it is possible to go for it in the GST regime," the official said. To make refunds speedier for exporters, the Finance Ministry has already said that it intended to operationalise the 'e-wallet' scheme from April. Under the scheme, the Government will credit a notional amount in an exporters' e-wallet based on preceding year's exports and an average GST rate. It would be a running account from which money would be debited when the IGST gets paid and credited again when the proof of export is given.

**INDIAN EXPORTS TO CHINA GOES UP BY OVER 53 PER CENT IN OCTOBER**

India's exports to China registered a sharp increase of over 53 per cent year-on-year to reach USD 1.24 billion in October, but the trade deficit continued to mount, according to data released by the customs. The trade deficit for October stood at USD 3.86 billion. Despite the strains in the bilateral ties, IndiaChina trade increased by 13.56 per cent year on-year to reach USD 6.33 billion in October. Significantly, India's exports to China increased by 53.04 percent year-on-year to reach USD 1.24 billion though the trade deficit continued to grow. The Indian exports to China around the same time last year was USD 0.81 billion, data showed. China's exports to India also continued to grow registering an year-on-year growth of 6.87 per cent to reach USD 5.09 billion. The Indian exports were boosted by natural pearls, precious stones and precious metals, organic chemicals, copper and articles, cotton, including yarn and woven fabric, ores, slag and ash. Since this year, India s exports which were on the decline for a number of years started showing increase. In the first seven months, the exports registered 40.69 per cent year-on-year to reach USD 10.60 billion. However, the trade deficit expanded to USD 44.51 billion in the first seven months despite surge in Indian exports as imports from China continued to increase. Last year, the trade deficit climbed to USD 52 billion in little over USD 70 billion trade. India has been pressing China to open up its pharmaceutical and IT software sectors to expand the base of Indian exports.

**BOOST TO TEXTILE SECTOR: GOVT CLEARS Rs 1,300-CRORE PACKAGE**

The Cabinet Committee on Economic Affairs has approved the scheme for Capacity Building in Textile Sector (SCBTS). An official statement said the new skill development scheme covers the entire value chain of the textile sector, excluding spinning and weaving in the organised sector. The scheme will be applicable from 2017- 2018 to 2019-2020 with an outlay of Rs 1,300 crore. It will have the National Skill Qualification Framework (NSQF)-compliant training courses with funding as per the common norms notified by Ministry of Skill Development and Entrepreneurship (MSDE), the statement said. Meanwhile, there was confusion over Cabinet approval of the Consumer Protection Bill, 2017, and withdrawal of the Consumer Protection Bill, 2015, which is before Parliament, following a tweet of the approval by the Press Information Bureau, which was later deleted.

**HOUSE PANEL WANTS GOVERNMENT TO TAKE UP BARRIERS TO MOVEMENT OF PROFESSIONALS ISSUE WITH ASEAN**

A parliamentary standing committee on commerce has asked the government to revoke a review clause in the India-ASEAN free trade agreement to define 'independent professionals' for greater movement of natural persons in the ASEAN region Chaired by Naresh Gujral, the committee has said the agreement has not yielded desired outcomes. "The committee finds that professional qualification, training and other requirements including professional standards have been used as a barrier for movement of accounting services from India, though, the Indian requirements in this regard meet the international standards," it said in its latest report. Citing limitations on national treatment as well as market access limitations imposed by several countries such as visa restrictions, restrictions on the mobility of personnel, impediments to technology and information transfer, buy national public procurement practices, nationality and residence requirements and professional certification/ entry requirements, it asked the Department of Commerce to address them at bilateral or multilateral level. Flagging the problem of grant of visa to IT professionals in Singapore, the panel said it is important that the Singapore authorities remove the obstacles to market access. "In services trade, the committee strongly feels that Singapore authorities may be engaged at the highest level, if needed, on the issue of movement of professionals," the panel said in the report.

**IMBALANCE IN GOODS TRADE**

Citing adverse effect on Indian exports of farm products, textiles, leather, pharmaceuticals and steel, among other items due to the provisions of the India-ASEAN Trade in Goods Agreement, the standing committee asked the department to furnish a note on the assessment of the working of pact and seek better market access for goods in order to have more balanced trade. India's exports to the 10-member ASEAN rose from $25.15 billion in 2015-16 to $31.07 billion in FY’17 while imports increased from $39.91 billion to $40.63 billion. On the decline in exports of agriculture commodities to the ASEAN, the committee stressed on promotion of value addition. "Commodities enjoying comparative advantage in ASEAN countries may be identified and market access at zero duty may be sought for our farmers and agroprocessors," the report stated. Stating that it finds it disconcerting that the steel industry has been put to a disadvantage by the agreement, the panel proposed reciprocity in tariff reduction/elimination by ASEAN countries on Indian steel products should be ensured on account of "broad and sweeping market access given by India". The committee also recommended the commerce department to be vigilant over the safeguard measures imposed by the ASEAN countries on textile exports since it directly affected the country's exports. On the department's submission that the imbalance was mainly due to imports of essential commodities of coal, petroleum and edible oils by India and it would be in a better trade position if these were excluded, the committee said: "If this approach or argument is subscribed, then there was no need for the trade agreement with ASEAN. The import of essential commodities will continue with or without the trade agreements". The panel stated that better market access in terms of higher export has not materialized for India and this was a matter of concern and recommended that India should seek better market access from ASEAN countries especially for those tariff lines which are kept in Sensitive Track and High Sensitive List.

**COMMONWEALTH TRADE PUSH**

India may host a Commonwealth trade hub as part of the group's bid to re-invent itself as a more focused body interested in promoting trade and investment in the post-Brexit era. Commonwealth secretary-general Baroness Patricia Scotland, who is currently in the capital to hold talks with the Indian leadership ahead of the meeting of the group's heads of government. "Commonwealth is thinking of a hub in India to promote trade and investment within the Commonwealth, especially among the MSMEs (medium and small enterprises)." Intra-Commonwealth trade, which stood at $592 billion in 2013 and is estimated to touch $1 trillion in 2020, has been on the upswing because of what the Commonwealth secretariat describes as the "Commonwealth Advantage". "Commonwealth has calculated in a study conducted in 2015 that Commonwealth states have an advantage of 19 per cent over other countries when they trade with or invest in each other as they have a common language, mirrored procedures and regulatory systems and legal systems," Baroness Scotland pointed out. "For example, the European Union has some 24 different legal systems in a group of 28 countries, whereas we have the same or similar legal systems in all the Commonwealth nations," Commonwealth Secretary-General added. The study commissioned by Scotland's predecessor, Kamlesh Sharma, said, "Econometric results suggest that when both bilateral partners are Commonwealth members, they tend to trade 20 per cent more, and generate 10 per cent more foreign direct investment than otherwise." India has been focusing on its relationship with the Commonwealth after the UK decided to leave the EU and start work on its own network of trade ties post-Brexit. Since then there had been a flurry of visits by British ministers who have been trying to stitch together a bilateral free trade pact with India. The Commonwealth nations now have a 45 per cent share in India's global trade, up 5 per cent in two years. India's exports to the Commonwealth have come down to $56 billion in 2015 from $71 billion in 2013, while its imports, mostly of gold from Australian mines, have grown to $62 billion.

## DAIRY SECTOR TO GROW AT 15% CAGR TILL 2020 TO RS 9.4 TRILLION: REPORT

India's dairy industry is expected to maintain 15 per cent compounded annual growth (CAGR) over 2016-20, and attain value of Rs 9.4 trillion on rising consumerism, a report said. "India's dairy industry is worth Rs 5.4 trillion by value, having grown at 15 per cent CAGR during 2010-16. Going ahead, the dairy industry is expected to maintain 15 per cent CAGR over 2016-20, and attain value of Rs 9.4 trillion on rising consumerism," Edelweiss Securities said in a report. India has progressed from being deficient in milk production at 20 million MT in 1970 to becoming the world's largest milk producer at 160 million MT, accounting for 18.5 per cent of global milk production. Further, India is expected to emerge as the largest dairy producer by 2020, the report said. The Union government implemented the Central Scheme National Dairy Plan - Phase 1 during 2012-17 to improve productivity of dairy cooperatives through several input activities. Investments by private players in the domestic dairy sector are also expected to further augment milk productivity, it explained. Going ahead, India's milk production is expected to outperform global production and grow at a similar 4.2 per cent CAGR to 185 million MT per annum, and surpass EU to emerge the largest dairy producer by 2020. Interestingly, the country's per capita milk consumption has also been increasing at 3 per cent CAGR as compared to 1 per cent CAGR globally. The report notes that there is huge scope for India's per capita milk consumption to spurt led by growth in value-added products (VADP), which is at 34 per cent of industry versus 86 per cent for the global mature markets like EU, the report said. India has a potential of 15-30 per cent plus growth in VADP like cheese, whey, UHT milk over next few years, it added. Led by rising disposable income, and growing consumer preference for branded and valueadded milk and milk products, investments by organised players also in the sector has been on the rise. The report pointed out that other top milk producing geographies like EU, USA, China, Pakistan are expected to grow their production volumes at 2 per cent growth over 2020, which is lower than India's growth estimates.

**GEMS AND JEWELLERY EXPORTS CONTRACT 4.8 PC IN APRIL-NOVEMBER**

Gems and jewellery exports saw a 4.8 per cent dip at $22.43 billion during AprilNovember this year owing to demand slowdown in major markets, including the US. According to the Gems and Jewellery Export Promotion Council (GJEPC) data, exports stood at $23.56 billion in the same period last year. The labour-intensive sector contributes about 14 per cent to the country's overall export. The drop in shipments is mainly due to negative growth in the export of gold jewellery and gold medallions and coins. Industry experts have demanded support for the industry such as incentives under the Merchandise Exports from India Scheme (MEIS) to boost the shipments. "We have asked for support under the MEIS and immediate resolution of GST (Goods and Services Tax) refund issue. Blockage of working capital due to GST is impacting exports," a GJEPC official, who do not wish to named, said. On December 5, the government extended incentives to sectors such as leather and agriculture with an aim to boost outward shipments that have been disrupted by implementation of the GST. As per the data, gold jewellery shipments during AprilNovember 2017-18 declined by 3.18 per cent to $6 billion. Similarly, export of gold medallions and coins contracted by about 50 per cent. However, silver jewellery exports went up 18.5 per cent to about $3 billion during the period. Shipments of cut and polished diamonds reported a growth of just 1.3 per cent. India’s main export destinations are the US, Europe, Japan and China. America accounts for about one-fourth of the country’s total gems and jewellery exports. On the other hand, import of rough diamonds rose 5.34 per cent to about $12 billion in AprilNovember. Import of gold bars too increased by 5 per cent to $3.24 billion.

**INDIA'S PLASTICS EXPORT POISED TO CROSS USD 8 BILLION MARK IN FY’18**

The Plastics Export Promotion Council (PLEXCONCIL) is confident that India's plastics exports will cross USD 8 billion mark due to the positive growth trend. "The current trend in India's plastic exports seems highly encouraging and we are confident of crossing plastics exports to cross USD 8 billion mark in FY18 showing a 6 per cent increase from USD 7.56 billion in FY17. India's plastic exports to United States, the largest destination, continues to tread higher and nearing the coveted USD 1 billion mark," PLEXCONCIL Chairman said.. During the first half of FY18, cumulative value of India's plastics exports witnessed a positive growth of around 9.5 per cent amounting to USD 3.49 billion as against USD 3.19 billion during the same period last year. "Council is working with the government on a strategy in order to increase the country's plastic exports as the global export market for plastics of USD 800 billion presents a huge opportunity. The Council has taken up all important issues post the GST-era, with the concerned Ministry for remedial action in terms of fast tracking of IGST refunds; exemption of merchant exporters from GST on procurement against bond, clear procedure for third party exports under the GST regime; using of Chapter 3 incentive scheme scrips & advance authorization for debit of full import duty and restoring of export benefits to export oriented units," Council said. During September 2017, India exported plastics worth USD 630.93 million, up 17.3 per cent from USD 538.01 million in September 2016. The country exported plastics to 185 countries in September 2017. United States, China and Italy were the top three buyers of plastics from India. To increase its global footprint, the industry has added countries like Sao Tome, Belize, Samoa, French Polynesia, Guadeloupe, South Sudan, Micronesia, Lao People's Democratic Republic, Bermuda, Cayman Islands, and Grenada. Plastics exports to these countries were valued at USD 0.18 million in September 2017.

## BANKING/GST

### GST: NOW, TAXPAYERS CAN OPT FOR MONTHLY OR QUARTERLY RETURNS FILING

Goods and Services Tax Network (GSTN), the IT backbone of the new tax regime, has put a new function on its portal to allow taxpayers choose the frequency of filing GSTR 1 form on a quarterly or monthly basis. Taxpayers with an annual aggregate turnover up to Rs. 1.5 crore in the previous financial year or anticipated in the current financial year can avail themselves of the option of filing quarterly returns. GSTR 1 summarises all the sales of a taxpayer. This has been done as per decision taken in the 23rd GST Council Meeting. After giving their option, taxpayers can file GSTR 1 for the relevant return periods, the Goods and Services Tax (GST) Network said in a statement. It further said that taxpayers who opt for quarterly filing will have to select the last month of the quarter from the drop down menu. Further, all taxpayers who opt for monthly filing can now file GSTR 1 form from August onwards till November. Filing of returns for the previous month is mandatory. GSTN has been set up to provide IT infrastructure and services to the central as well as state governments, taxpayers and other stakeholders for implementation of the GST, which came into force on July 1 this year.

### E-SEALING, BOON TO EXPORTERS

The Income Tax department is taking maximum efforts to provide exporters the IGST refunds on time, said Chief Commissioner of Customs and Central Excise, Kochi. Speaking at an interactive session organised by FIEO, Chief Commissioner said electronic sealing facility for exporters has been introduced to enhance the ease of doing business. The earlier provision of sealing of container under the supervision of Central Excise authorities will now be replaced with e-sealing procedure for speedy clearance of export goods. Commissioner of Customs, Kochi, also interacted with exporters. The objective of the session was to update the exporters on refunds and e-sealing.

## NO ADVERSE IMPACT OF GST ON FOREIGN TOURIST ARRIVALS, SAYS GOVERNMENT

There was no adverse impact of the Goods and Services Tax (GST) rollout on foreign tourist arrivals (FTAs) in the country, Union Tourism Minister informed Parliament. In a written reply in the Lok Sabha, Minister said FTAs grew by 13.9 per cent in the JulyNovember period this year, as against the corresponding period last year. The GST was rolled out by the Centre on July 1, 2017. "The number of FTAs in India, during July November 2017, was 41.16 lakh, as compared to the 36.14 lakh during July November 2016, registering a double-digit growth of 13.9 per cent. As such, no adverse impact of the implementation GST was seen in tourist arrivals," the minister said. This year, till November, most tourists had arrived in the country via the Delhi port, followed by Mumbai, Haridaspur, Chennai and Bengaluru, Minister added. Replying to another query, Minister said FTAs during January-November, 2017 were 90.01 lakh as compared to the 77.83 lakh during the same period in 2016, registering a growth of 15.6 per cent. While most of the foreign tourists came from Bangladesh, the United States, the United Kingdom, Canada and Malaysia also accounted for a number of them, Minister added

## INDIA INC COMES TO GRIPS WITH GST

The implementation of the Goods and Services Tax was expected to help India Inc in three ways. One, segments that faced serious competition from unorganised segments were expected to benefit with the spread of the tax-net under GST. Two, tax incidence was expected to move lower as companies claimed input tax credit (ITC) on services and other payments that were not available for deduction earlier. Three, logistics expenses of many companies were expected to drop due to the decline in transit time as the number of check-points reduced and consolidation of warehouses took place with the new tax rollout. The transition to GST was, however, far from smooth for corporates as confusion over transition credit that could be claimed on inventory carried over from the prior regime caused de-stocking in many segments, such as consumer durables and furniture. Many companies halted production in the two to three weeks of June to prevent inventory getting carried over. This saw revenues of some companies decline in the June quarter of FY18. However, India Inc seems to have regained its mojo in the September quarter with companies regaining momentum in sales volume.

**GOVERNMENT EXTENDS DEADLINE FOR SELLING PRE-GST STOCK WITH REVISED MRP TILL MARCH 31, 2018**

The government has extended the deadline for sale of pre-GST stocks with stickers of revised maximum retail price (MRP) till March 31, 2018, Minister of Consumer Affairs, Food and Public Distribution has said. "In the last GST council meeting, GST rates were revised for about 200 items. For pre-gst stock, we have allowed pasting of stickers with revised MRP till March 31, 2018," Minister said. When the goods and service tax (GST) was implemented on July 1, the government had allowed marketers to display details of the revised MRP on pre-GST stocks by way of stamping, putting sticker, or online printing. The department of consumer affairs has been receiving requests from the industry to extend the deadline so it is easier to liquidate preGST stocks. "It is also a matter of awareness for consumers, so they can be aware of price reduction after GST," said a senior government official. Govt had earlier warned that manufacturers who will not display revised MRP of prepackaged commodities, will face strict action.

**RBI WARNS AGAINST FURTHER DOWNSIDE RISK FOR BANKING AND ECONOMY**

Reserve Bank of India has warned against further downside risk for the banking sector as asset quality concerns are far from over while it said the deleveraging in the heavily indebted parts of the corporate sector and slow credit growth may delay country's economic revival. The regulator said "any extension of forbearance to banks on stressed assets should be viewed as a larger responsibility of the regulator to dovetail the interests of both the lenders and borrowers." "The Reserve Bank has been prudent enough to adopt a 'carrot and stick' approach while devising these regulations which has also ensured that the borrowers have maintained their 'skin in the game," the central bank said in its Financial Stability Report released. Stressed asset ratio of bank stood at 12.2% while gross bad loans slipped to 10.2% as on September 30, 2017 from 9.6% at the end of March. RBI's stress test suggests the ration may deteriorate further to 10.8% in March 2018 and to 11.1% by September 2018. "The overall risks to the banking sector arising from asset quality concerns continue to persist," RBI deputy governor said. "While the ongoing deleveraging in the heavily indebted parts of the corporate sector and muted credit growth in the public sector banks pose a risk to growth, the decisive recapitalisation move by the government could provide the much needed fillip to private investment going forward. If we keep our financial system, especially, the banking sector, in good shape, we can catch the tail winds of the external conditions," RBI said. In the Report on Trend and Progress of Banking in India 2016-17, the central bank said banks need to regain their role as principal financial intermediaries to enhance credit flow and revive the investment cycle. It prodded banks to be more proactive in shaping up future business plans, innovating as well as filing insolvency proceedings against defaulters. The RBI also noted that the impairment crisis in domestic banks has also highlighted certain basic deficiencies with regard to the appraisal of long term projects with a significant gestation time. A significant part of such projects undertaken were consortium lending with appraisals being carried out by professional merchant bankers with built-in conflict of interest (since they were paid by the borrowers). "Banks can take advantage of the IBC (Insolvency and Bankruptcy Code) to clean up their balance sheets...

Instead of waiting for regulatory directions, banks can file for insolvency proceedings on their own to realise promptly the best value for their assets," RBI said. The central bank has also highlighted the need to strengthen due diligence, credit appraisal and post-sanction loan monitoring to minimise the risks. A strategic coordination between conventional banks and new players like small finance banks, payments banks and also FinTech entities may be order of the day, given India's relatively low credit penetration. RBI said the Financial Resolution and Deposit Insurance Bill, 2017 introduced in the Lok Sabha on August 10, 2017 is also expected to address the moral hazard problem associated with various forms of government guarantees.

## ECONOMY

### GOVERNMENT COMMITTED TO GROWTH REVIVAL, FISCAL CONSOLIDATION, SAYS FINANCE MINISTRY

The government is committed to growth revival by increasing public investment while maintaining fiscal deficit target of 3.2 per cent for the current fiscal, says a finance ministry study. The fiscal policy of the government and hence the budget 2017-18 has been guided by the twin macro-economic need of reviving growth momentum while being committed to fiscal consolidation, said the Fiscal Responsibility and Budget Management (FRBM) quarterly statement at the end of first quarter of 2017-18 prepared by the finance ministry. During the first quarter (April-June) of 2017-18, the growth rate of GDP was subdued at 5.7 per cent as against 7.9 per cent in the corresponding quarter of 2016-17. Despite fall in growth rate in first quarter, gross tax revenue receipts grew by 15.2 per cent over corresponding period of previous fiscal, which is higher than budgeted growth rate of about 11 per cent for a year, it said. “Government’s firm commitment for growth revival by increasing public investment and reviving public demand is visible in substantial increase in expenditure over corresponding period of previous year,” it said. At the end of June 2017, total expenditure in nominal terms was higher by Rs 1,38,899 crore than the corresponding period of the previous fiscal, and as a percentage of Budget Estimate (BE), it was 4.4 percentage higher, it said. The increased pace of expenditure may also be seen in the context of an advancement of budget cycle which was undertaken as major budgetary reform in 2017-18 budget, it said. “At the end of the first quarter of 2017-18, deficit as a percentage of BE was higher as compared to corresponding period of previous fiscal. This may be seen mainly in the context of higher pace of expenditure,” it said. With improvement in macro-economic parameters and streamlining of GST regime, it said, higher resource mobilisation in the later part of the year is expected. Measures initiated by government for expenditure management and fiscal prudence etc are also underway and incremental benefits may accrue in later part of the financial year, it added.

## BRIGHTER GROWTH PROSPECTS FOR INDIA BY FY’20 AND BEYOND: HSBC

India's growth prospect is likely to see a slowdown in the next two years followed by recovery in the medium term, with 2019-20 GDP expected at around 7.6 per cent, says a report by HSBC. According to the global financial services major, India's growth story has a two-part narrative. The first is a slowdown and gradual recovery in the short run, likely over 2017-18 and 2018-19 as key sectors revive from disruptions related to the implementation of the goods and services tax (GST). The subsequent narrative is of brighter growth prospects in the medium term (2019-20 and beyond), HSBC said in the report adding that "we forecast growth at 6.5 per cent, 7 per cent and 7.6 per cent over 2017-18, 2018-19 and 2019-20 respectively".

In the medium term, GST alone may add 40 bps to GDP growth through productivity gains, it noted. The report further said "if the other side of India's twin balance sheet problem - overleveraged companies- lingers for longer, the pace of the investment revival and GDP recovery could suffer". Moreover, inflation may begin to rise as growing consumer demand hits the wall of supply-side constraints, it noted. Regarding India's current account deficit (CAD), HSBC said it is set to widen to 1.7 per cent in 2017-18 and to 1.9 per cent in 2018- 19, and then reach 2.1 per cent in 2019-20 led largely by rising imports of oil and items such as electronic goods and smartphones, reflecting changing consumer preferences domestically. "On the fiscal front, there are upside risks to the central government's 3.2 per cent deficit target emanating from lower-than-budgeted nominal GDP growth, a lower-than- budgeted RBI dividend, and a higher seventh pay commission bill," it noted.

**INDIAN ECONOMIC INEQUALITY WIDENED SINCE 1980: REPORT** Deregulation and opening-up reforms in India since 1980s have led to substantial increase in inequality so much that top 0.1% of earners has continued to capture more growth than all those in the bottom 50% combined, said the World Inequality Lab in its World Inequality Report 2018, released. "In 2014, the share of national income captured by India's top 1% of earners was 22%, while share of top 10% of earners was around 56%. Top 0.1% of earners has continued to capture more growth than all those in the bottom 50% combined," the report said. The bottom 50% now has about 15% share in the total income. "This rising inequality contrasts to the 30 years following the country's Independence, when income inequality was widely reduced and the incomes of the bottom 50% grew at a faster rate than the national average," it added. According to the report, since 1980, the richest 1% captured twice as much as the poorest 50% of world population. In other words, since 1980, 27% of all new income worldwide was captured by the richest 1%, while the poorest 50% captured only 13% of growth. The report was coordinated by economists Facundo Alvaredo, Lucas Chancel, Thomas Piketty, Emmanuel Saez and Gabriel Zucman. "These figures are brought into sharp contrast considering the top 1% currently represents 75 million individuals while the bottom 50% represents 3.7 billion individuals," it said, adding that there have been large shifts in the ownership of capital. "The combination of privatisations and increasing income inequality has fueled the rise of wealth inequality—within countries and at global level, private capital is increasingly concentrated among a few individuals," Saez, coordinator of the report, said. On a caution note, the report said that the global income and wealth inequality will steadily rise if countries continue to follow the same trajectory they have been on since 1980, despite strong growth in emerging countries. "By 2050, the share of global wealth held by the world's 0.1% richest (representing 7.5 million individuals today) be equal to that of the middle class (3 billion individuals)," it had warned. The report says tackling global income and wealth inequality requires important shifts in national and global tax policies. "Educational and wage-setting policies and corporate governance need to be reassessed in many countries while ensuring data transparency," it said. "The government needs to invest in the future to address current income and wealth inequality levels and to prevent further increases."

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## ARTICLES

### EXPECTS 2018 TO BE A GOOD YEAR FOR EXPORTS: EEPC INDIA CHAIRMAN

KOLKATA: The year 2018 is expected to be a good year for exports on back of global trade boom, feels Ravi P Sehgal, who has taken over as the new chairman of the EEPC India, the apex organisation of the country's engineering exporters.

"The global trade is heading into a boom , as we usher in 2018 which promises to be full of opportunities and growth for the Indian exporters, making it imperative to add competitive pricing and technological strength to our exports," Sehgal said in a release issued by EEPC on Wednesday.

"The good news is that , as the IMF has outlined, that the global trade has grown at a faster clip than the overall world output growth, as the US, Eurozone , Japan and China are witnessing a resurgence in economic activity. All these markets are very important destinations for the Indian export basket, including the engineering goods , which are among the largest contributors to the country's export consignments," said Sehgal who is also the managing Director of Carnation Industries Limited.

The new EEPC India chairman said while the robust growth in world trade would be a theme in 2018, and which needs to be fully exploited by India, there is a need to be on a guard against increasing protectionism in the top economies.

"EEPC India will work actively with the commerce ministry to engage with the US, Britain and the EU to sort out any policy issues that may act as barriers to our shipments," he said.

Sehgal also said that he would seek cooperation and support from the finance ministry to immediately resolve exporters' issues relating to piling up of refunds of the GST. "We have to ensure that our exporters should not miss out any global opportunity for the sake of cash flow. This is possible only when the GST glitches are removed".

Cumulative value of Indian exports for the April-November 2017-18 period was $196.48 billion as against $175.41 billion registering a growth of 12.01%. Growth in November was even more impressive at 30% while the engineering exports increased by over 43% during the month.
**-ET**

**INDIA'S STEEL EXPORTS RISE IN 2017 AS CHINA'S PLUNGE**

Mumbai: In March 2017, India's beleaguered steel industry achieved what had been unthinkable even a few months ago. The country's iron and steel exports during the month were more than double their imports.

The enormity of this development can be gauged from the fact that exactly a year earlier, in March 2016, India's iron and steel imports were about three times their exports and local steelmakers were pleading with the government for protection.What brought about this turnaround? While a lot of the credit for it was rightly given to the government's decision to protect the domestic industry by imposing a minimum import price (MIP), anti-dumping duty, etc. on steel imports, an important factor was also the fact that Chinese steel exports had started plunging.

Data sourced from the International Trade Centre (ITC) reveals that starting January 2017, Chinese steel exports have been dropping by at least 25% year-on-year every month.

With the Chinese export blitzkrieg of the previous two years slowing steel prices all over the world recovered from a slump, giving a much-needed respite to Indian steelmakers too.China's apparent steel consumption in the first six months of the year increased by 9-10%, bringing comfort to the steel industry, Seshagiri Rao, joint managing director and group CFO of JSW Steel Ltd, told analysts in August.

"On the top of this, their exports have come down by 28%," he added. What the slowing of Chinese exports also did for Indian steel makers was open up overseas markets that were until now the fiefdom of the Chinese.

For instance, while China's exports to South Korea—by far its biggest market—dropped over 16% (y-o-y) to just over 3 million tonnes (mt) in the April-June quarter of 2017, India's exports to the country surged by over 20% to 0.63mt.

While China's exports to Vietnam, similarly, dropped over 41% (y-o-y) in the April-June quarter of 2017; India's exports to the South-east Asian country surged by 329% (y-o-y) during the quarter, ministry of commerce data shows. Companies including JSW Steel saw record jumps in their exports during the first six months of 2017.

The share of exports in JSW Steel's sales in the January-March quarter of the year, for instance, jumped threefold from the year-ago period to 36%, before moderating to 23% in the April-June quarter, which was still a four percentage points jump from the year-ago period.

The company, however, attributed this more to poor domestic demand. An analysis by Mint of steel trade data since January 2016 also reveals that India's steel exports are more or less negatively correlated to China's exports and its own imports. In other words, the growth of India's steel exports are as dependent on a fall in Chinese steel exports as they are on a fall in India's own steel imports.

And with India's imports rising once again on a year-on-year basis in the last few months, there are chances that the good work of the first half of 2017 might get undone going forward.

What's required to stop this from happening, according to Rao of JSW Steel, is for the government to relook at the safeguard measures currently in play.That's because the anti-dumping duty on steel gets triggered only when the import price is below $489 per tonne, which is irrelevant at current international price levels that are significantly higher for most grades.

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