January 2019

# Economic Affairs Committee Newsletter

(Monthly update on India's socio-economic developments)

PHD Research Bureau

PHD CHAMBER OF COMMERCE & INDUSTRY

# EAC Newsletter

## January 2019

According to the First Advance Estimates of FY19 by CSO, India's GDP is expected to grow at 7.2% in FY2018 -19 with manufacturing expected to grow at more than 8% which is highly encouraging as it will create employment opportunities for the growing population. Further, IMF expects India's economic growth at around 7.3% in 2019 and growth projections for 2019 and 2020 are 7.5% and 7.7%, respectively. India's economy is poised to pick up in 2019, benefiting from lower oil prices and a slower pace of monetary tightening than previously expected, as inflation pressures eases.

On the macro-economic front, most of the lead indicators are in positive trajectory as the CPI declined to 2.19% in December 2018 from 2.3% in November 2018. The WPI inflation fell to 3.8% in December 2018 from 4.6% in November 2018. The core infra on the other hand registered a growth of 3.5% in November 2018 from 4.8% in October 2018. The gross bank credit registered a growth of 14% in November 2018 from 13.1% in October 2018 which shows uptick in industrial investments. Further, the credit to agriculture and allied activities increased by 7.7% in November 2018 from 8% in October 2018. However, the merchandise export grew by mere 0.34% in December 2018. The IIP registered decline to 0.5% in November in 2018.

On the policy front, the GST Council in its 32nd Meeting held on 10th January, 2019 took major decisions to give relief to MSME (including Small Traders). The limit of Annual Turnover in the preceding Financial Year for availing Composition Scheme for Goods has been increased to Rs 1.5 crore from Rs 1 crore. Further, increase in threshold limit for supplier of goods from Rs. 20 lakhs to Rs. 40 lakhs would benefit the small buinesses which are the backbone of the economy. These measures will further facilitate ease of doing business in the economy which will spur manufacturing growth in the coming times..

Further, the government has constituted 7-Member Group of Ministers to give a boost to the real estate sector under the GST regime. Real estate is a critical economic activity from all economic and social angles including its contribution to national GDP. Going ahead, it is suggested that the rate of GST on health insurance should be reduced to a minimum level of 5% from prevailing 18% rate as this would ensure common people to avail the facility of health insurance at an affordable price.

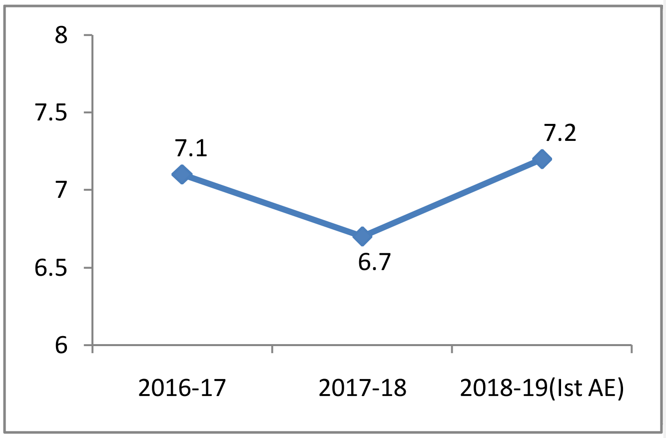
The major highlight in February is the Interim Budget, which would be announced on 1st February 2019. The budget must introduced continuous reforms in agriculture sector to improve farm productivity and income levels, increased disposable income of the middle class vis-a-vis rationalisation of the direct taxes which would give a further boost to the overall economic growth of the country. At this juncture, the economy needs further bold measures to boost the investment environment and to trigger demand growth to the next level. We believe that time has come to rationalise the direct taxes starting from reduction in Corporate Tax to a level of 25% for all corporate tax payers, without any turnover criteria. This will provide a boost to economic growth and would result in widening of the Direct Tax net, enhance collections and promote compliance further. Going ahead, we look forward to a dynamic, inclusive and pragmatic budget on 1st February 2019.

## Contents

# 1. Indian economyso far

## 1.1 Growth

**Gross Domestic Product (GDP) Growth rates (in %)**



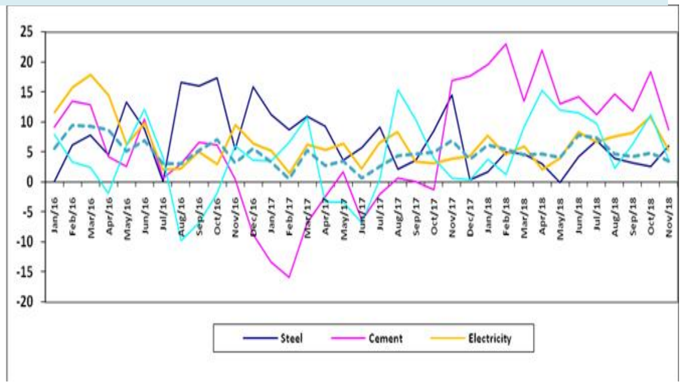

Source: PHD Research Bureau compiled from CSO and MOSPI

**First Advanced Estimates of National Income, 2018-19**

According to First Advanced Estimates of National Income, GDP stands at 7.2% in FY2018 as compared to 6.7% in FY2018. The agriculture sector growth stands at 3.8% in FY2019 from 3.4% in FY2018. Manufacturing sector registered a growth of 8.3% in FY2019 as compared to 5.7% in FY2018. Construction registered a growth of 8.9% in FY19 as compared to 5.7% in FY2018. Growth of Trade, Hotel, Transport, and Communication has been registered at 6.9% in FY2019 from 8.0% in FY2018. Financial, Real Estate and Service registered a growth a 6.8% in FY2019 as compared to 6.6% in FY2018.

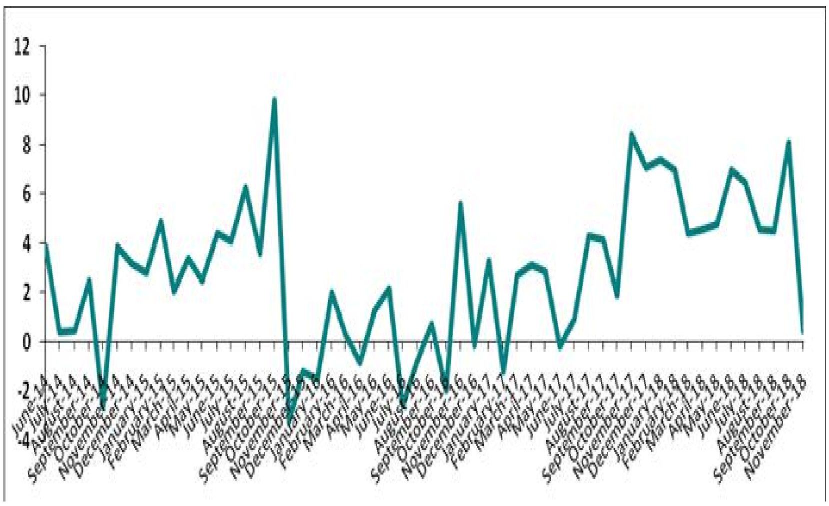
**November 2018 core infra grows at 3.5%-** The core infrastructure grows at 3.5% in November 2018 as against 4.8% in October 2018. The combined index of Eight Core Industries stood at 128.5 in November, 2018. which was 3.5% higher as compared to the index of November, 2017. Cement and Refinery products growth stands at 8.8% and 2.3% respectively in the month of November 2018. In cumulative terms, core infrastructure industries registered a growth of 5.1% as during April – November 2018-19 as against 3.5% during April- November 2017-18.

**Sector wise trend in monthly production (% Growth)**




Source: PHD Research Bureau , compiled from the office of the economic advisor to the Govt. of India

**Recent growth pattern in IIP (% Growth)**

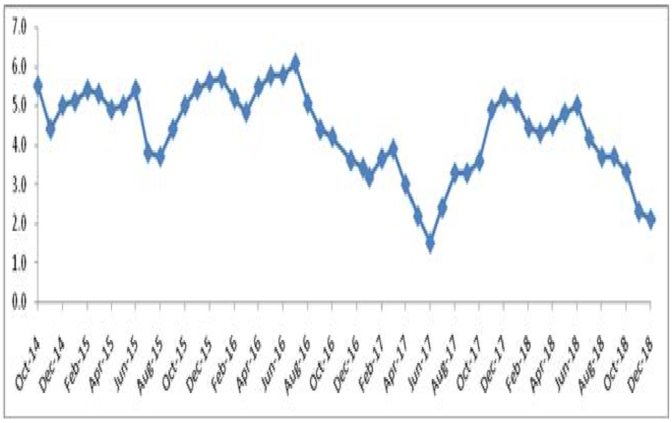


Source: PHD Research Bureau, compiled from CSO

**November 2018 IIP decline to 0.5%-** Growth in industry output, as measured in terms of IIP, for the month of November 2018 declined to at 0.5% as compared to 8.4% in October 2018. The growth in the three sectors mining, manufacturing and electricity in November 2018 stands at 2.7%, (-) 0.4% and 5.1% respectively over November 2017. Primary goods growth stands at 3.2%, capital goods growth stands at (-)3.4%, intermediate goods growth stands at (-)4.5%, infrastructure/construction goods growth stands at 5.0%, consumer durables stands at (-)0.9% and consumer non-durables growth stands at (-)0.6% during November 2018 as compared to the previous year.

## 1.3 Inflation

**Consumer Price Inflation (Combined) (%)**

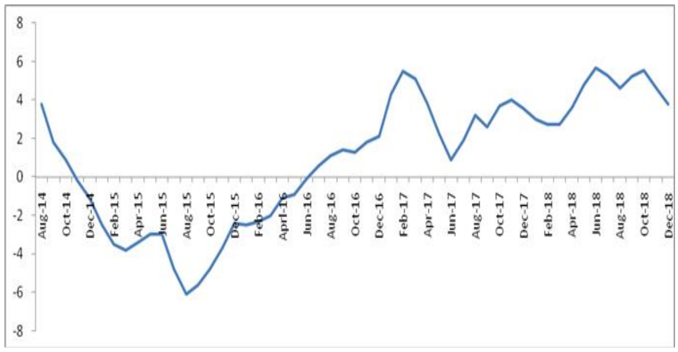



Source: PHD Research Bureau, compiled from CSO

**December 2018 CPI inflation falls to 2.19%-** The all India general CPI inflation (Combined) for December 2018 (Prov.) falls to 2.19% from 2.33% in November 2018. The inflation rates for rural and urban areas for December 2018 (Prov.) are 1.65% and 2.91%, respectively, as compared to 1.71% and 3.12% respectively, for November 2018. Rate of inflation during December 2018 are for fuel and light (4.54%), housing (5.32%), transport and communication (4.30%), education (8.38%) and health (9.02%) etc.

**December 2018 WPI inflation falls to 3.8%-** The WPI inflation falls to 3.8% in December 2018 as compared to 4.64% in November 2018, 5.54% in October 2018, 5.22% in September 2018, 4.62% in August 2018 and 5.27% in July2018. The fall in WPI inflation in the month of December 2018 is attributed to fall in the price of potato (48.68%), Petrol (1.57%) and LG (6.87%). Build up inflation rate in the financial year so far was 3.27% compared to a build up rate of 2.21% in the corresponding period of the previous year. The WPI inflation for manufactured products stands at 3.59% for December 2018 as against 4.21%for November 2018.

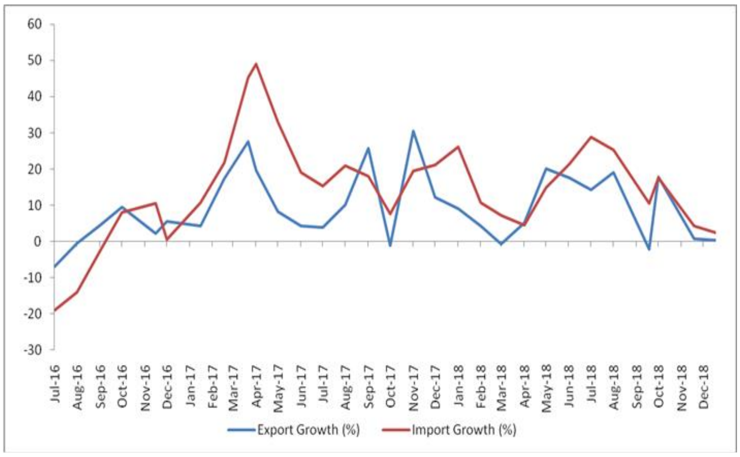
**Trend in WPI Inflation (Y-O-Y)**




Source: PHD Research Bureau, Complied from the office of the Economic Advisor to the Govt. of India

## 1.3 External sector

**Trend in Export-Import Growth (in percentage)**

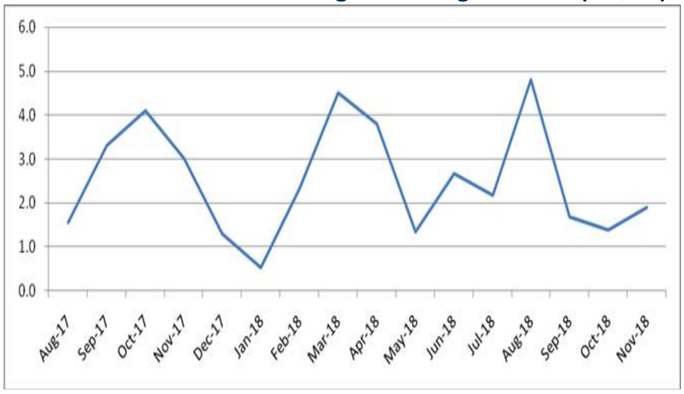



Source: PHD Research Bureau, compiled from Ministry of Commerce

**Merchandise exports grew by 0.34% and imports declined by 2.44% -** India's exports during December 2018 were valued at USD 27.93 Billion as compared to USD 27.83 Billion during December 2017 exhibiting a positive growth of 0.34%. India's imports during December 2018 were valued at USD 41.01 Billion (Rs 2,90,032.95 crore) which was 2.44% lower in Dollar terms and 7.41% higher in Rupee terms over the level of imports valued at USD 42.03 Billion (Rs.2,70,015,44 crore) in December 2017. The major commodity groups of export showing positive growth over the corresponding month of last year are Petroleum Products (13.18%); Organic & Inorganic Chemicals (5.5%); Plastic & Linoleum (20.18%); RMG of all Textiles (2.77%); and Electronic Goods (50.81%).

**ECBs Stand at USD 1.9 billion During November 2018-** Indian firms have raised about USD 1.9 billion through external commercial borrowing (ECBs) by automatic and approval route in November 2018 as against USD 1.4 billion in October 2018. The borrowings stood at USD 3.02 billion in November 2017. India has received gross ECBs worth around USD 359 billion between FY2001 and FY2019 (till November 2018). The lion's share in ECBs during the month of November 2018 is held for On-lending/Sub-lending by about 37% of the total borrowings followed by general corporate purpose by around 35% and working capital purpose at about 16%.

**External commercial borrowings since August 17 (US$bn)**

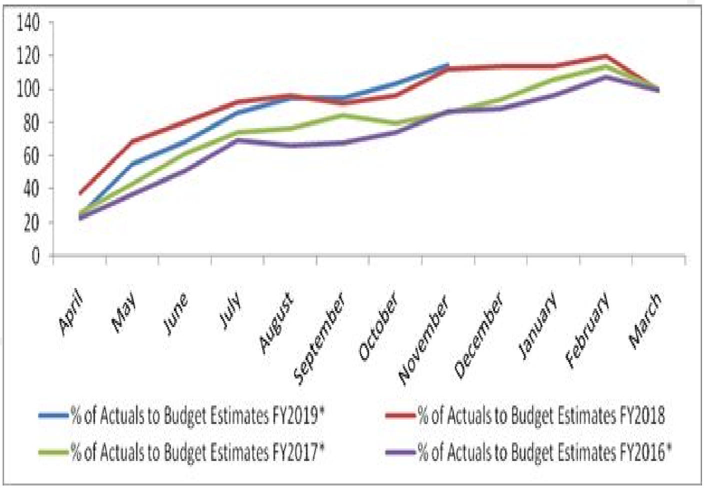



Source: PHD Research Bureau, compiled from RBI, Note: ECB contains both automatic and approval routes

## 1.4 Fiscal scenario

**November 2018 fiscal deficit stands at 114.8 % of actual to BEs -** The gross fiscal deficit of the central government stands at 114.8% of the actual budget estimates (BEs) at the end of November 2018 as compared to 112% of the actuals to budget estimates in the corresponding period of the previous year. The primary deficit was registered at 759.9% of the actuals to budget estimates at the end of November 2018 as compared to 1288.9% of the actuals to budget estimates during corresponding period of the previous year. The revenue receipts at the end of November 2018 of the central government stands at 50.4% of the actuals to budget estimates as compared with 53.1% of the actuals to budget estimates at the end of November 2017.

**Differentials in use of fiscal deficit space at the end of October 2018 vis-à-vis October 2017 (in %)**

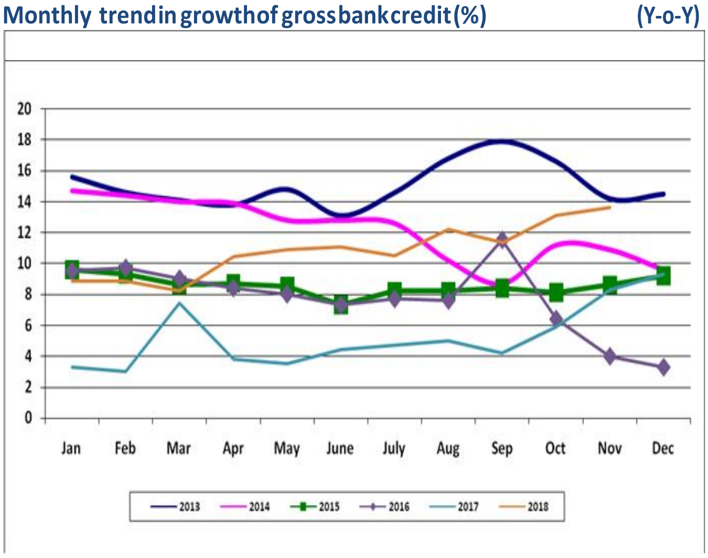



Source: PHD Research Bureau, compiled from Government of India Accounts, Government of India

## 1.5 Monetary Scenario

**Gross bank credit grows at 14% in November 2018 -** Gross bank credit grows at 14% in November 2018 as against 13.1% in October 2018. The gross bank credit growth stands at 8.5% in November 2017. 2017. On a year-on-year (y-o-y) basis, non-food bank credit increased by 13.8 in November 2018 as against 13.4% in October 2018. Credit to agriculture and allied activities increased by 7.7% in November 2018 as against 8% in October 2018. Credit growth to infrastructure, textiles, chemical and chemical products and all engineering accelerated. However, credit growth to basic metal & metal product, cement & cement products, gems & jewellery and paper & paper products contracted/decelerated.

**Monthly trend in growth of gross bank credit (%) (Y-o-Y)**




Source: PHD Research Bureau, compiled from RBI

Trade & Investment Facilitation Services TIFS

# Trade and Investment Facilitation Services (TIFS)

## Single Window Facilitation and Procedural Facilitation

**Trade and Investment Facilitation Services (TIFS)** is a vital component for international trade and investment community. It is envisioned to facilitate firms across the globe for trade and investments in India while simultaneously meeting India's rapidly growing appetite for new markets to enhance trade and investments.

Considering the thirst of the Nation to place India at the forefront of Global Economic Architecture, PHD Chamber of Commerce and Industry launched a specialized desk on Trade and Investment Facilitation Services (TIFS) on 31st March 2017. TIFS is an information and advisory hub to provide requisite and detailed information to facilitate national and international business firms to invest in India; advising them on prospective business opportunities in India in general and in States and promising sectors in particular.

### Vision of TIFS

We aim to make India a US$ 100 billion (per annum) investment destination in the next five years and to enhance India's trade trajectory to the higher level. We envisages US$ 1000 billion merchandize trade (exports and imports) and US$ 500 billion services trade (exports and imports) per annum in the next five years.

### Geographical Area

TIFS covers pan India from Jammu Kashmir in the North to Tamil Nadu in the South and from Gujarat in the West to Arunachal Pradesh in the East.

### Three role dimensions

1. **Information role:**
Serving as a key link to all information centres on all national and regional/local regulations and clearances. This includes maintaining or having direct and easy access to such information. This also means constant updating of such information.

2. **Catalyst role:**
Providing facilitative advisory services to help overcome key obstacles and strengthen key positive enablers for enhanced trade and investments. This includes providing information or "leads" on opportunities that would benefit international business community to invest in India.

3. **Networking role:**
Effective networking with relevant Indian and overseas agencies and leveraging of such networks in the direction of risk mitigation and enhancing trade and investments.

## Strategic Collaborators of TIFS

TIFS work in close coordination with Trade Consulars of different countries as well as international trade and business community and international chambers of commerce. Further, for facilitating and providing information on procedural requirements, TIFS also work in close coordination with the government both at the central and the state level as well as industry associations in India.

- Trade Consular's of different countries
- Government including Central and State
- Industry Associations
- International Trade and Business Community
- International Chambers of Commerce
- International Consulting Firms

## How TIFS work in assisting investors?

It is envisaged to be the first-point-one-stop reference for potential investors from around the world. Our team of domain and functional experts provides sector-and state-specific inputs, and hand- holding support to investors. We assist with location identification, expediting regulatory approvals, facilitating meetings with relevant government and corporate officials among others. For instance, if an investor A from Germany wants to invest USD 100 million in a textile business in India.

- A team of trained staff will be associated with the task for maintaining a physical helpdesk and provide the investor with all the help required regarding the relevant approvals to set up a business and information related to investment areas across India.
- Facility to set up meetings of the investors with Government officials for specific investor queries, both at the state government and central government level.
- Regular updates on various economic developments in India in general and sector specific in particular.
- Updates on state level developments related to policy amendments, sectoral developments, taxation mechanism, infrastructural, etc.
- Updates on Foreign Direct Investment norms, Foreign Trade Policy, etc.

## TIFS undertakes the following activities

i. Through regular research and networking with Government bodies, Entrepreneurs, Industry associations, Embassies/Consulates, Investment delegations, etc., the TIFS gather information on possible trade and investment opportunities in various sectors of the Indian economy.

ii. TIFS advises prospective traders and investors, national and international, in their process of filing applications and helping them meet other procedural and regulatory requirements. For this purpose, information on specific trade and investment guidelines at the state and central level is provided by TIFS.

iii. TIFS provides information at a broad level to international investors about possible potential joint venture partners in India. If TIFS is aware of any Indian parties interested in formation of Joint Ventures (JVs) with some global partners, such information is made available to interested investors.

iv. In case of requests made by individual investors to undertake specific research assignments, financial analysis or due diligence of any specific joint venture partner or Mergers & Acquisitions (M&A) targets, TIFS provides adequate resources to carry out such requests on an agreed cost.

v. In a nutshell, TIFS increases understanding amongst national and international investors on the promising investment areas and requirements and regulations for making investments. Facilitates in dealing with the Government in application procedures amongst the national and international Investors. Reduce lead time in investment processes and procedural transactions.

## Registration

Registration is open to both Indian and foreign entities.

**ANNUAL REGISTRATION FEE**

| Indian Entities | Foreign Entities |
|---|---|
| Rs. 2500* | USD 100* |

Registration fees is for your registration with TIFS program to receive updates on Trade and Investment scenario regularly for 1 year from the date of registration. However, for your specific queries consultancy charges would vary from case to case basis for facilitation services on detailed projects and exhaustive research studies.

* Inclusive of all taxes.

## For details, contact:

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## 2. Major Policy Pronouncements

**Relief to MSME sector: Major Decisions taken by the GST Council in the 32nd Meeting-** The GST Council in its 32nd Meeting held on 10th January, 2019 at New Delhi took major decisions to give relief to MSME (including Small Traders). Following are the highlights: the limit of Annual Turnover in the preceding Financial Year for availing Composition Scheme for Goods shall be increased to Rs 1.5 crore, there would be two Threshold Limits for exemption from Registration and Payment of GST for the suppliers of Goods i.e. Rs 40 lakhs and Rs 20 lakhs, among others. A Composition Scheme shall be made available for Suppliers of Services (or Mixed Suppliers) with a Tax Rate of 6% (3% CGST +3% SGST) having an Annual Turnover in the preceding Financial Year up to Rs 50 lakhs.

**7-Member Group of Ministers (GoM) constituted for boosting the Real Estate Sector under the GST regime-** In pursuance of decision in the 32nd Meeting of GST Council held on 10th January, 2019 at New Delhi, a Groupof Ministers (GoM) for boosting the Real Estate Sector under the GST regime has been constituted. Shri Nitin Patel, Hon'ble Deputy Chief Minister, Government of Gujarat, will be Convener of this group. The Terms of Reference (ToR) for boosting Real Estate Sector under GST regime shall be as follows: Analyse tax rate of GST, Examine and suggest ways for Composition Scheme or any other Scheme, for boosting Real Estate Sector, Examine various aspect of levy of GST on Transfer of Development Rights (TDR), Examine and suggest any other aspect relevant to boost Real Estate Sector. The GoM for boosting Real Estate Sector under GST regime may invite officers from the Centre and the States, as may be required. The Conveners of Law Committee and Fitment Committee will assist the GoM. The Secretary for the GoM for boosting the Real Estate Sector under GST regime shall be Shri Manish Sinha.

**RBI announces the New External Commercial Borrowings (ECB) Framework -** RBI has decided in consultation with the Government of India, to rationalise the extant framework for ECB and Rupee Denominated Bonds in light of the experience gained to improve the ease of doing business. The new framework is instrument neutral and would further strengthen the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework. The salient features of the new framework are as under: Merging of Tracks I and II as "Foreign Currency denominated ECB" and merging of Track III and Rupee Denominated Bonds framework as "Rupee Denominated ECB", all entities and recognised lenders eligible to receive FDI, Minimum Average Maturity Period (MAMP) for different period according to all ECBs, manufacturing sector, utilised for specific purposes, Late Submission Fee (LSF) for delay in Reporting.

**Government releases revised list of defence items requiring industry license and items requiring license for manufacturing -** The list of Defence items finalized by Department of Defence Production, Ministry of Defence, will require licence for manufacturing under Industries (Development and Regulation-IDR) Act, 1951 are released by Ministry of Commerce & Industry, Government of India. In addition, the list of arms and ammunitions as notified by MHA (Ministry of Home Affairs) vide Notification No. S.O. 6203 (E) dated 14th December 2018 under Arms Act, 1959, as amended by MHA from time to time, will require licence for manufacturing and/or proof testing under Arms Act, 1959 are released by the Government.

**RBI releases Financial Stability Report December 2018-** The Reserve Bank of India has released the eighteenth issue of the Financial Stability Report (FSR). The FSR reflects the collective assessment of the Sub-Committee of the Financial Stability and Development Council (FSDC) on risks to financial stability, as also the resilience of the financial system. The Report also discusses issues relating to development and regulation of the financial sector.

**RBI constitutes Expert Committee on MSMEs-** Considering the importance of the MSMEs in the Indian economy, it is essential to understand the structural bottlenecks and factors affecting the performance of the MSMEs. It has, therefore, been considered necessary that a comprehensive review is undertaken to identify causes and propose long term solutions, for the economic and financial sustainability of the MSME sector. It was announced in the Fifth Bi-Monthly Monetary Policy Statement for 2018-19, dated December 5, 2018 by RBI, that they will constitute an Expert Committee on Micro, Small and Medium Enterprises. Accordingly, RBI has formed the said Committee under the Chairmanship of Shri U.K. Sinha, Former Chairman, Securities and Exchange Board of India.

**Government extends Credit Linked Subsidy Scheme for MIG till 31st march, 2020-** Ministry of Housing & Urban Affairs, Government of India has extended the Credit Linked Subsidy Scheme (CLSS) for MIG (Middle Income Group) by another 12 months i.e. till 31.03.2020. The key aim of new Credit Linked Subsidy Scheme for the Middle Income Group (CLSS for MIG) is to meet the aspirations of young professionals and entrepreneurs of Middle Class Segment. CLSS for MIG scheme, launched originally for 12 months till 31.12.2017, covered beneficiaries of MIG seeking housing loans for acquisition/ construction of houses (including re-purchase) from Banks, Housing Finance Companies and other such notified institutions. The proposal for extension of the Scheme was considered based on the inputs from various stakeholders in the month of October, 2017 and was accorded approval for extension by 15 months i.e. up to 31.03.2019.

**RBI allows for one-time restructuring of existing loans to MSMEs-** Micro, Small and Medium Enterprises (MSMEs) form an important component of the Indian economy and contribute significantly to the country's GDP, exports, industrial output, employment generation, etc. Considering the importance of MSMEs in the Indian economy and to facilitate meaningful restructuring of MSME accounts that have become stressed, RBI has decided to permit a one-time restructuring of existing loans to MSMEs that are in default but 'standard' as on January 1, 2019, without an asset classification downgrade.

**Exchange rate of foreign currency relating to imported and export goods notified**- In exercise of the powers conferred by section 14 of the Customs Act, 1962 (52 of 1962), and in supersession of the notification of the Central Board of Indirect Taxes and Customs No.99/2018-CUSTOMS (N.T.), dated 20th December, 2018 except as respects things done or omitted to be done before such supersession, the Central Board of Indirect Taxes and Customs hereby determines that the rate of exchange of conversion of each of the foreign currencies specified in column (2) of each of Schedule I and Schedule II annexed hereto, into Indian currency or vice versa, shall, with effect from 4th January, 2019 be the rate mentioned against it in the corresponding entry in column (3) thereof, for the purpose of the said section, relating to imported and export goods.

**Cabinet approves Continuation of Umbrella scheme for "Family Welfare and Other Health Interventions" during 2017-18 to 2019-20-** The Cabinet Committee on Economic Affairs, chaired by the Hon'ble Prime Minister Shri Narendra Modi, has given its approval for continuation of five schemes under the "Umbrella Scheme for Family Welfare and Other Health Interventions" during the Fourteenth Finance Commission period 2017-18 to 2019-20. An overall outlay of Rs. 2381.84 crore for the scheme will be spent during the Fourteenth Finance Commission period 2017-18 to 2019-20 and would be funded 100% by Central Government Budgetary support.

**Cabinet approves Amendment to the Trade Unions Act, 1926 to make provisions regarding Recognition of Trade Unions**- The Union Cabinet chaired by Hon'ble Prime Minister Shri Narendra Modi has approved Amendment to the Trade Unions Act, 1926 to make provisions regarding Recognition of Trade Unions. The approval will facilitate recognition of Trade Unions at Central and State level, ensure true representation of workers in the tripartite bodies, check on the arbitrary nomination of workers representatives by the Government and Reduce litigations and industrial unrest.

**Cabinet approves MoU between India and Australia on the safety in Mines, Testing and Research Station-** The Union Cabinet, chaired by the Hon'ble Prime Minister Shri Narendra Modi, has given its approval for signing a Memorandum of Understanding (MoU) between Directorate General of Mines Safety (DGMS), Ministry of Labour and Employment, Government of India and Department of Natural Resource Mines and Energy, Queensland Government, Australia through the Safety in Mines, Testing and Research Station (SIMTARS) and will become operative from the date of signing and remain in effect for three years. The MoU will help in implementation of risk based safety management system, providing training, conference, seminar , setting up occupations safety and health academy and national mine disaster centre, and modernising R&D laboratory of DGMS.

**Cabinet allows inclusion of merchant exporters under Interest Equalisation Scheme (1ES) for Pre and Post Shipment Rupee Export Credit-** The Cabinet Committee on Economic Affairs, chaired by the Hon'ble Prime Minister Shri Narendra Modi, has given its approval to the proposal of the Department of Commerce for including merchant exporters under the Interest Equalisation Scheme (IES) for Pre and Post Shipment Rupee Export Credit by allowing them interest equalisation rate of 3% on such credit for export of products covered under 416 tariff lines identified under the scheme. These products are largely in Agriculture, Textiles, Leather, Handicraft, machinery, etc. The proposal will entail benefits of around Rs 600 crore to exporters on interest equalisation, for the remaining period of the scheme.

**Cabinet approves recapitalisation of Export-Import Bank of India-** The Union Cabinet, chaired by the Hon'ble Prime Minister Shri Narendra Modi, has approved the recapitalization of EXIM Bank. The details are Issuance of Recapitalization Bonds by Government of India to the tune of Rs.6,000 crore for capital infusion in Export Import Bank of India (Exim Bank). The equity will be infused in two tranches of Rs. 4,500 crore in FY 2018-19 and Rs.1,500 crore in FY 2019-20 respectively. The Cabinet also approved an increase in the authorized capital of Exim Bank from Rs. 10,000 crore to Rs. 20,000 crore. The recapitalisation bonds will be on the lines issued to Public Sector Banks. The infusion will give an impetus to anticipate new initiatives like supporting Indian textile industries, likely changes in Concessional Finance Scheme (CFS), likelihood of new LoCs in future in view of India's active foreign policy and strategic intent.

**Cabinet approves ex-post facto approval for Agreement on the facilitation of visa arrangements signed between India and Maldives-** The Union Cabinet, chaired by the Hon'ble Prime Minister Shri Narendra Modi, has given its ex-post facto approval to the Agreement on the facilitation of visa arrangements signed between India and Maldives signed in December, 2018. The Visa Facilitation Agreement signed during the visit of Maldivian President to India aims to further deepen people to people exchanges between the two countries making it easier for Maldivian and India nationals to travel to each others' countries for tourism, medical treatment, education as well as business and employment. The Agreement provides for 90-day visa free travel for tourism, medical and limited business purpose and also provides for easy conversion of such visa free entry to medical visa as well as visas for dependents of students and those pursuing employment in each other's territories.

**Cabinet approves first-ever three way merger in Indian Banking with amalgamation of Vijaya, Dena and Bank of Baroda-** The Union Cabinet chaired by Hon'ble Prime Minister Shri Narendra Modi has approved the scheme of amalgamation for amalgamating Bank of Baroda, Vijaya Bank and Dena Bank, with Bank of Baroda as the transferee bank and Vijaya Bank and Dena Bank as transferor banks. The amalgamation will be the first-ever three-way consolidation of banks in India, with the amalgamated bank being India's second largest Public Sector Bank and will help create a strong globally competitive bank with economies of scale and enable realisation of wide-ranging synergies.

## 3. Other key developments

**India's economy is poised to pick up in coming years:** IMF World Economic Outlook, January 2019- The global expansion has weakened. Global growth for 2018 is estimated at 3.7% despite weaker performance in some economies, notably Europe and Asia. Further global growth is projected at 3.5% for 2019 and 3.6% for 2020. India's growth is estimated at 7.3% for 2018 and growth projections for 2019 and 2020 are 7.5% and 7.7%, respectively. India's economy is poised to pick up in 2019, benefiting from lower oil prices and a slower pace of monetary tightening than previously expected, as inflation pressures ease.

**ISMA cuts India's 2018-19 sugar production estimates to 307 lakh tones-** Indian Sugar Mills Association (ISMA) has lowered India's 2018-19 sugar production estimate by 2.5% to 307 lakh tonnes from first advance estimate of 315 lakh tonnes issued in October 2018. Till 15th January 2019, 510 sugar mills in the country have produced 146.86 lakh tonnes of sugar, compared with 135.57 lakh tonnes produced on the corresponding date of last year.

**Old thermal power generation capacity of 8,000 MW phased out-** Around 8,000 MW of old thermal power generation capacity has been phased out till now and will be replaced by cleaner options such solar energy in a bid to clean up the power generation sector. The Centre is focused on augmenting the available resources, including land at the project sites.

**The Government of India and JICA sign Loan Agreements on Japan's Official Development Assistance Loan to India-** The Loan Agreements between the Government of India and JICA, under Japanese Official Development Assistance Loan Program were signed by Dr. C.S. Mohapatra, Additional Secretary, Department of Economic Affairs, Ministry of Finance, Government of India and Mr. Katsuo Matsumoto, Chief Representative, JICA, New Delhi on Japanese Official Development Assistance Loan for the following: Project for the Construction of Chennai Peripheral Ring Road (Phase 1) for JPY 40.074 billion (Rs.2470 Crore approx.) with aim to contributing to mitigation of Traffic Congestion and promoting Regional Economic Development and Program for Japan-India Cooperative Actions towards Sustainable Development Goals in India for JPY 15.000 billion (Rs.950 Crore approx.) with aim to supporting India in achieving SDGs by 2030.

**Launch of Sino-Indian Digital Collaboration Plaza-**The Sino-Indian Digital Collaboration Plaza (SIDCOP), an initiative to bring Indian IT companies and Chinese enterprises closer to each other on a single AI enabled platform has been launched on 10th January 2019. This is a partnership by National Association of Software and Services Companies (NASSCOM) with Municipal Governments of Guiyang and Dalian. A Joint Venture comprising of one Indian and Chinese company has been tasked with the running of the platform.

**India likely to surpass UK in the world's largest economy rankings: PwC-** India is likely to surpass the United Kingdom in the world's largest economy rankings in 2019. As per the PwC report, while the UK and France have regularly switched places owing to similar levels of development and roughly equal populations, India's climb up the rankings is likely to be permanent. The report projects real GDP growth of 1.6% for the UK, 1.7% for France and 7.6% for India in 2019.

**National Government launches Global Housing Technology Challenge to build houses in shorter time-** Union minister Hardeep Singh Puri launched the Global Housing Technology Challenge (GHTC) among stakeholders, a move aimed at introducing best technologies that seek to construct houses in a shorter period of time with lower cost. Under the initiative launched by the Pradhan Mantri Awas Yojana-Urban (PMAY-U), the government will hold 'grand expo-cum-conference' in March where stakeholders will showcase their best technologies to build houses.

**India among the top ten developing economies stimulating global trade in creative goods-**The global trade in creative goods is an expanding and resilient sector, according to a new report released by United Nations Conference on Trade and Development (UNCTAD). The creative industries – which include architecture, arts and crafts, marketing and advertising, media and publishing, research and development, software, computer games, and other core creative work – are the lifeblood of the creative economy. The second edition of the periodic Creative Economy Outlook: Trends in International Trade in Creative Industries by UNCTAD examines the global picture and also features 130 country profiles with reported creative goods and services trade data. India's creative goods exports nearly tripled from $7.4 billion in 2005 to $20.2 billion in 2014. Creative services exports stood at $54 billion led by Telecommunications, computer, and information services, which stood at $52.3 billion.

**Global trade negotiations: US accuses India and China of eating into poorer nations' relief-** The US has accused India, China and other emerging economies of claiming rights and using exemptions from commitments meant for poorer nations in global trade negotiations. According to US, India used its status as a developing member to press for continued exemption from its commitments of some USD30 billion in input subsidies, a rule intended to address development for some of the poorest farmers in the world.

**India signs customs treaty with Netherlands to push business with Europe-** India and European economic major Netherlands recently signed Customs Treaty which will boost trade ties between the two countries through an efficient management of customs rules. According to Mr Menno Snel, Netherlands Finance Minister, more efficient cargo can pass borders, whether in the Port of Rotterdam or Mumbai – or the airport of New Delhi, the more time and money is saved.

**Forex reserves rise to USD397.35 billion due to core currency assets, gold value-** The forex reserves continued its upward march and increased by USD1.267 billion to USD397.351 billion in the week to January 11, 2019, aided by a rise in core currency assets and value of gold. Foreign currency assets rose by USD1.087 billion to USD371.379 billion.

**India's debt up 50% to Rs 82 lakh crore in last four and a half years-** According to the 8th Edition of the Status Paper on Government Debt, total liabilities of the government has increased 49% to Rs 82 lakh crore in the last four-and-half years. The huge surge in government's debt has been propelled by 51.7% growth in public debt from Rs 48 lakh crore to Rs 73 lakh crore in the four-and-half year period, which in turn was driven by 54% rise in internal debt to about Rs 68 lakh crore.

**1.37 crore Rural Homes completed since April 2014-** In partnership with States, the Ministry of Rural Development has completed 1.37 crore Rural Homes since April 2014. The government up five times to nearly 65 lakh completed homes in 2018-19.

**Accelerated growth in India: World Bank's Global Economic Prospects: Darkening Skies, January 2019 Report –**Global growth is projected to moderate from a downwardly revised 3 percent in 2018 to 2.9 percent in 2019 and 2.8 percent in 2020-21, as economic slack dissipates, monetary policy accommodation in advanced economies is removed, and global trade gradually slows. India's GDP is forecast to grow by 7.3 percent in FY2018/19 and 7.5 percent thereafter. Private consumption is projected to remain robust and investment growth is expected to continue.

**Cotton spinners' record healthy recovery in profits as export demand surges-** According to an ICRA report, the surge in export demand for cotton yarn during the initial few months of the current financial year has helped the domestic spinners record a healthy recovery from the multi-year low profitability reported during FY2018 amid multiple headwinds.

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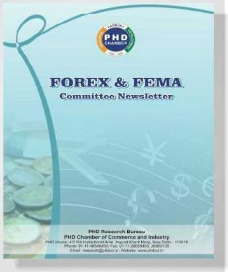
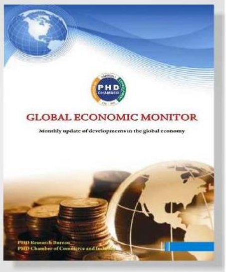



Forex Committee Newsletter provide a broad view of developments related to forex affairs of our economy such as rupee movement, forex reserves, regulatory developments, stock markets behaviour, interest rate scenario, commodities overview and key macroeconomic indicators etc.

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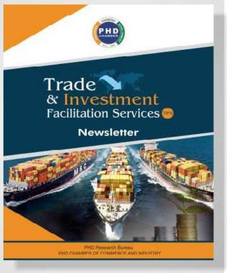


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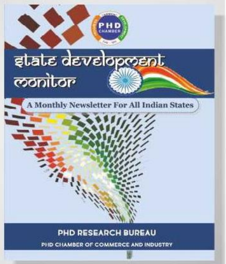


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**Major Ports register positive growth of 3.77% during April to December, 2018-** The major ports in India have recorded a growth of 3.77% and together handled 518.6 million tons of cargo during the period April to December, 2018 as against 499.7 million tons handled during the corresponding period of previous year. 7 MoUs were signed between Indian and Australian Institutions in the 4th Australia-India Education Council Meeting (AIEC)- In the 4th AIEC meeting held on 29th June 2018 at Adelaide, Australia, progress on the four key thematic areas was reviewed –(i) Higher Education, Research and Student Mobility, (ii) Quality Assurance and Qualifications Recognition, (iii) Skills, and (iv) Schools. A total of 7 MoUs were signed between Indian and Australian Institutions. There is growing collaboration between Australian and Indian Institutions on joint research projects and PhD programmes in areas of mutual interest.

**Credit growth of private and non-PCA banks surges-** Despite concerns, credit growth of the scheduled commercial banks (SCBs) improved across all bank groups between March and September 2018, according to the Reserve Bank of India's (RBI's) latest Financial Stability Report. Credit extended by all SCBs grew 13.1% at the end of September 2018, while that by private sector banks (PSBs) grew at a robust 22.5%.

**FPIs pulled out Rs 83,000 cr in 2018 on oil prices, weak rupee, Fed hikes-** Overseas investors pulled out over Rs 83,000 crore from the capital markets in 2018, after pouring in a record Rs 2 trillion in the preceding year, on the back of rate hikes in the US, rise in global crude prices and rupee depreciation. Moreover, the flows are expected to be range-bound in 2019 as FPIs may continue with a cautious stance until there are concrete signs of economic recovery and certainty over the formation of a stable government after the general elections.

**Over 3-fold jump in imports of gems and jewellery from US-** The US has beaten traditional large suppliers like Belgium, Russia, Africa and the UAE to emerge as the second-largest exporter of gems and jewellery to India this fiscal, after Switzerland. In April-October 2018, India imported these products worth USD5.1 billion from the US, a massive 218% jump from USD1.6 billion a year before.

**Freight rates in January come off up by to 2%-** Despite an increase of Rs 2 per liter in the price of diesel over the last 10 days, truck rentals have come down by 1.5-2%. An increase in freight rates can be considered as a good proxy for broad-based growth in economic activity in times of stable inter-modal mix given limited barriers to adding supply.

**India pips China in FDI inflows for the first time in 20 years-** For the first time in two decades, India has been getting more foreign investment than its neighbor China. In 2018, India saw more than USD38 billion of inbound deals compared with China's USD32 billion, buoyed by stable fundamentals, a bankruptcy code and fresh opportunities in sunrise sectors.

**Coal demand zooms, while supplies struggle to keep pace-** India's domestic coal supplies will continue to struggle to meet the zooming demand in the next fiscal year too. According to NITI Aayog, the country's total coal demand will rise to 991.35 million tones in the current financial year (2018-2019). This is 9.13 per cent higher than the 908.40 million tone demand reported in FY18. Domestic production is also on the rise. In the current year, during April-November, 2018, coal production across India was 433.90 million, with a growth rate of 9.8% over the corresponding period of the last financial year.

**India's over USD3 billion oil & gas imports from US will bridge trade deficit-** India has imported oil and gas worth over USD3 billion from the United States (US) in 2018 which will help bring down the trade imbalance significantly. The country, however, will continue to import oil from Iran and there is no correlation between India's purchase from its Islamic neighbour and the US.

**Year ended 2018: NPAs of Indian banks surged past Rs 10 trillion-** In the March 2018 quarter, the gross non-performing assets (NPAs) of Indian banks surged past Rs 10 trillion. There are many economic reasons for this NPA pile-up, but the numbers ballooned after the central bank's February 12 circular. The circular said if a loan is not serviced for 90 days, it is in default and recovery proceedings can be started against it.

**62% of SEZs are operational and have created 20 lakh jobs-** The Ministry of Commerce and Industry data show that 230 out of the 373 Special Economic Zones (SEZs) in India are operational and have provided employment to as many as 20 lakh people. In Chhattisgarh, Odisha, Punjab and Chandigarh all approved SEZs are operational while among four States which have more than 50 approved SEZs, Tamil Nadu tops the chart of operational SEZs with 75% of its SEZs functioning without any hitch. Tamil Nadu has 52 SEZs of which 39 are operational.

**Industry demands 5% GST on all sports goods-**Sports goods manufacturers demanded a lower GST of 5% for the sector from the existing 12-18%, noting that the government had promised to keep the new tax rates similar to earlier VAT rates.

**Government eases power exports to neighbouring nations-** The government has removed restrictive riders which discouraged neighbouring countries to buy power from India's spot power markets. Also, it barred plants with Coal India fuel linkage or captive mines from selling power outside India, a move that could help imported coal-based units in the private sector to have a larger pie of the markets in neighboring countries.

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## In a nutshell

During the last few years, government has undertaken a plethora of reforms for each and every segment of the population starting with Make in India, Implementation of GST being the foremost and perhaps the biggest tax reform since independence. At the global charts, the Indian economy is looking remarkably attractive due to its performance in the last five years. The improvement in the Ease of Doing Business from 142nd in 2014 to 77th in 2019 is the significant outcome of the diligent efforts of the government towards improving the business environment in the economy.

To bolster the industrial sector further, land reforms such as increase in the lease period and creation of land banks for the use of industry should be strengthened. Further reforms in labour laws and an emphasis on productivity are required to facilitate the manufacturing firms to enhance their competitiveness, although "Tenure Employment" is a great step forward. Further reforms in rural infrastructure logistics and a cold chain would help in increasing the level of food processing and rural entrepreneurship. These would lead to increased participation in the global agriculture and food exports. Infrastructure sector has a huge untapped potential and could be the main driving force for achieving double digit economic growth. To facilitate further infrastructural development, strengthening of integrated public transport projects such as roadways, railways and waterways would reduce the logistics and time costs to businesses and enhance employment creation.

The government must also focus on twin merit goods of education with skill development and basic health with safety with a longer term vision. For all the above sectors to come of age, India needs to be a more tax compliant nation. For this reason, it is time to invest in Big Data analytics to ensure that all potential tax payers pay all the taxes that they should be paying.

**The lead economic and financial indicators so far…**

| S. No | Components | October 2018 | November 2018 | December 2018 |
|---|---|---|---|---|
| 1. | IIP Growth | 8.1% | 0.5% | - |
| 2 | Export Growth | 17.8% | 0.8% | 0.34% |
| 3 | WPI Inflation Y-O-Y growth | 5.28% | 4.6% | 3.8% |
| 4 | CPI inflation (combined) | 3.31% | 2.3% | 2.19% |
| 5 | Gold (10 GRMS) | 31698^ | 30240^^ | 31566^^^ |
| 6 | Crude Oil (1 BBL) | 4869^ | 3597^^ | 3172^^^ |
| 7 | BSE Sensex | 34442^ | 36194^^ | 36068^^^ |
| 8 | Exchange rate average (INR/ 1 USD) | 73.45^ | 69.58^^ | 69.76^^^ |
| 9 | Repo rate | 6.5% | 6.5% | 6.5% |
| 10 | CRR | 4% | 4% | 4% |
| 11 | 10 year Bond yield | 7.7334% | 7.2731% | 7.5327% |
| 12 | Base rate | 8.85% - 9.45% | 8.95% - 9.45% | 8.95% - 9.45% |

Source: PHD Research Bureau compiled from various sources, ^ Data pertains to 31st October 2018, ^^Data pertains to 30th November 2018, ^^^Data pertains to 31th December 2018;

## India: Statistical snapshot

| Indicators | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 |
|---|---|---|---|---|---|---|
| GDP at FC - Constant prices (Rs cr) | 9817822 | 10536984 | 11381002 | 12189854 | 13010843##^ | 13951849+& |
| GDP at FC-Constant prices growth YOY (%) | 6.4* | 7.5* | 8* | 7.1@# | 6.7 ##^ | 7.2+& |
| Agriculture growth | 5.6 | (-)0.3 | 0.7* | 4.9@# | 3.4 ##^ | 3.8+& |
| Industry growth | 4.2 | 6.9 | 8.2 | 5.8@# | 5.5 ##^ | 7.8+& |
| Services growth | 9.5 | 9.8 | 7.9 | 7.9@# | 7.9 ##^ | 7.3+& |
| Consumption (% YOY) | 4.7 | - | - | - | - | - |
| Private consumption (% YOY) | 6.8 | 6.2 | 7.3 | 7.2 | - | - |
| Gross domestic savings as % of GDP | 30.5 | 30.6”’ | - | - | - | - |
| Gross Fixed Capital Formation as % of GDP | 33 | 32.3 | 31.2 | 29.5 | 7.6##^ | - |
| Gross fiscal deficit of the Centre as a % GDP | 4.5 | 4.1” | 3.9 | 3.5 | 3.5@* | 3.5^* |
| Gross fiscal deficit of the states as a % GDP | 2.5 | 2.3” | - | - | - | - |
| Gross fiscal deficit of Centre & states as a % GDP | 6.7 | 6.6” | - | - | - | - |
| Merchandise exports (US$Bn) | 312.35 | 310.5 | 261.14 | 274.64 | 29.11&&$ | 27.93^^^^ |
| Growth in exports (%) | 3.98 | (-)1.2 | (-)15.9 | 4.7 | (-)0.66&&$ | 0.34^^^^ |
| Imports (US$Bn) | 450.94 | 447.5 | 379.59 | 380.37 | 42.80&&$ | 41.01^^^^ |
| Growth in imports (%) | -8.1 | -0.59 | (-)15.3 | (-)0.17 | 7.15&&$ | 2.44%^^^^ |
| Trade deficit (US$Bn) | 138.6 | 137 | 118.46 | 46.42 | 13.69&&$ | 13.08^^^^ |
| Net invisibles US$Bn | 115.0 | - | 107.9^^ | - | - | - |
| Current account deficit US$Bn | 32.4 | 26.8^^ | 22.1^^ | 15.2^^* | 13.5 ##^ | 19.1+&& |
| Current account deficit as % of GDP | 1.7 | 1.3 | 1.1^^ | 0.7^^* | 1.9 | 2.9+& |
| Net capital account US$Bn | 33.3^^ | 11.8 | 23.2 | 14.9^^* | -` | - |
| Overall balance of payments US$Bn | 15.5^^ | 6.9 | - | - | - | - |
| Foreign exchange reserves US$Bn | 304.22 | 316.2 | 355.56~~ | 367.9~~~ | 424.36~~$ | 393.4~~~ |
| External debt - Short term US$Bn | 89.2`` | 86.4``` | 83.6&&& | 88^^* | 97.6&^ | - |
| External debt - Long term US$Bn | 351.4`` | 376.4``` | 398.6&&& | 383.9^^* | 415.8&^ | - |
| External debt - US$Bn | 441`` | 462``` | 480.18&&& | 472^^* | 513.4 &^ | - |
| Money supply growth | 13.2 | 11.1&& | 11.3&&&& | 6.3^^ | 9.8&&^ | 10.6%$## |
| Bank credit growth | 14 | 8.6 | 9~~~~ | 7^^ | 8.2** | 14.0%$# |
| WPI inflation | 5.7# | 2.1 | (-)0.85^^^ | 1.33 | 2.47&&$ | 3.8^^^^ |
| CPI inflation | 9.8 | 6.4 | 4.83^^^ | 4.5 | 4.28&&$ | 2.19^^^^ |
| Exchange rate Rs/US$ annual average | 60.68 | 61.14 | 66.43@@ | 64.39^^ | 65.04@@$ | 71.28@@@ |

Source: PHD Research Bureau compiled from various sources, *Data pertains to Provisional Estimates o f Annual National Income 2016-17 from MOSPI, ” Handbook of Statistics of Indian Economy 2014-15 from RBI, “’ Data pertains to Annual Report of RBI 2013-14, *@Data pertains to Budget Estimates of 2017-18, ’’ Data pertains to GVA at Basic Prices at constant prices for Q3 2015-16, ”’Data pertains to the new Series Estimates from economic survey 2014-15. ^^Data pertains to India’s Balance of payment for 2015-16 from RBI, ^^^Data pertains to March 2016, ``India’s external debt end Dec 2013 from RBI, ``` Data pertains to end Dec 2014 from RBI, # Dat a pertains to Mar 2013, ~ Data pertains to 2014-15 from the Economic Survey,^^* Data pertains to FY 2016-17 ~~Data as on week ending 25th March 2016 from RBI, ~~~ Data as on 11January 2019 from RBI, && Data pertains to March 2015, &&& External debt at end December 2015 (Quick Estimates), @@ Data pertains to 13th April 2016 from RBI, ^^^^Data pertains to December 2018, @@@ Data as on 24th January 2019 from RBI, &&&& Y-o-Y Growth of Money Supply, 2015-16 from RBI. # Data pertains to end March 2017, compiled from RBI, ** Bank credit growth as on March 2018 &&^ as on June 2018.@# GDP growth and agricultur e growth is as per Provisional Estimates of Annual National Income, 2016-17and Industry and service growth is from Office of economic advisor, #*^Data perta ins to Q3 2017-18, ##^ Data pertains to Provisional estimates of GDP for 2017-18, ^* pertains to the budget estimates of FY19, @* data pertains to budget estimates of 2018-19, &^ pertains to data at end December 2017, &&$data pertains to March 2018, @@$ data as on March 28, 2018, ~~$ Data as on end March 2018 from RBI, &&^ as on 16 March 2018, %$#Data pertains to November 2018, +&Data pertains to 1st AE FY2019, %$##Data pertains to 4 january 2018, +&&Data pertains to Q1 FY2019.

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