Daily Economic News Summary: 1 March 2016

1. Narendra Modi tackles Rs 8 trillion of bad debt by easing rules for buyers

Source: **Live Mint** (Link)

Facing a daunting Rs.8 trillion of stressed assets in its financial system, India is stepping up efforts to tackle an issue that is threatening to derail Prime Minister Narendra Modi's development agenda. In a boost to a Rs.70,000 crore recapitalization programme already under way, the government allowed a single investor to fully own an asset reconstruction company (ARC), making it easier to raise capital. An earlier rule capped the ownership at 50%. ARCs buy bad loans and collateral from lenders, and work on recovery by revamping businesses and assets. *"The industry was constrained so far due to the 50% limit on sponsor's share holding,"* said Siby Antony, chief executive officer (CEO) at Mumbai-based Edelweiss Asset Reconstruction Co., the nation's biggest. His firm will now seek more funds from its parent Edelweiss Financial Services Ltd, he said.

The success of ARCs is crucial to reviving credit growth in the $2 trillion economy as lenders saddled with stressed assets at a 14-year high struggle to clean up their balance sheets. Modi needs the nation's banks to get back on their feet at the earliest to help transform his vision of creating jobs through faster growth into reality. While presenting the federal budget for the year starting 1 April, Modi's finance minister Arun Jaitley eased the ownership rule for ARCs and also signalled he may raise the limit on foreign ownership from 74%. He also allocated Rs.25,000 crore for recapitalization of state-owned lenders for the year starting 1 April, same as the outlay in the current year. ARCs are expecting record business after Reserve Bank of India (RBI) governor Raghuram Rajan set lenders a March 2017 deadline to clean up their balance sheets. He allowed those completing a deal by March to spread losses from the distressed-asset sale over two years.

2. India's manufacturing PMI expands for a second month in February

Source: **Live Mint** (Link)

Indian manufacturing activity expanded for a second consecutive month in February as price cutting boosted both domestic and foreign demand, a business survey showed on Tuesday. The Nikkei/Markit Manufacturing Purchasing Managers' Index held steady at January's 51.1 last month, its second month above the 50 mark that separates growth from contraction after it fell below that level in December for the first time in over two years. Incoming orders expanded at their fastest pace in five months in February, with the sub-index rising to 52.3 from 51.7. Foreign demand also rose, albeit at a slower pace. The increase in demand, however, failed to stoke a significant rise in overall output, which remained virtually unchanged from January. Employment contracted slightly in February, after hovering just above the 50-mark in the previous four months.

3. Government to hike FDI limit in stock exchanges to 15%

Source: **Economic Times** (Link)

The government today said foreign entities would be allowed to own up to 15 per cent stake in domestic stock exchanges, a move that would help boost their global competitiveness. The decision announced in the 2016-17 Budget speech by Finance Minister Arun Jaitley also comes against the backdrop of demand from various stakeholders who have been seeking higher foreign direct investment (FDI) in stock bourses. The finance minister announced FDI policy reforms in insurance, pension, asset reconstruction companies and stock exchanges. Meanwhile, in November last year, capital markets regulator Sebi approved a new set of revised regulations for listing of domestic stock exchanges.

4. Core industries' output grew 2.9% in January

Source: **The Hindu Business Line** (Link)

The eight core industries' output grew 2.9 per cent in January this year. This was much higher than the 2.3 per cent growth recorded in the same month last year. For the April-January 2016 period, eight core industries — which have 38 per cent weightage in IIP — grew 2 per cent, official data released showed.

5. Rs 2.21 Lk Crore Infra Fund to build up pillars of economy

Source: **The Pioneer** (Link)

With a major thrust on revival of infrastructure sector, the Union Budget set aside Rs 2.21 lakh crore, including Rs 55,000 crore for the building of roads and highways. In addition, Finance Minister Arun Jaitley allocated Rs 19,000 crore for Pradhan Mantri Gramin Sadak Yojana in 2016-17 and in all, Rs 27,000 crore after contribution from the States. Allocating a major share to infrastructure, Jaitley said enhanced allocations coupled with reforms and steps will remove obstacles impeding the sector's growth. He said infrastructure is one of the strongest pillars of economy and "exemplary" and "proactive" steps by the Government to remove hurdles have resulted in India awarding highest-ever road contracts in 2015 as well as highest-ever production of motor vehicles which are clearly “signs of growth”.

Total outlay for infrastructure has been put at Rs 2.21 lakh crore for 2016-17, the Finance Minister said adding total allocation for road and rail in 2016-17 is Rs 2.18 lakh crore. However, Railway sources said that the total allocation to the Railways is Rs 45,000 crore which is just Rs 5,000 crore higher than the last allocation. The Railways has to use this fund for constructions of tracks and rail infrastructure which includes the dedicated freight corridors. The Finance Minister said as high as 85 per cent of “the 70 stuck road projects have been put back on track”. These projects entailed an investment to the tune of Rs 1 lakh crore involving 8,300 km, he said.

For highways sector, Jaitley said, an allocation of Rs 55,000 crore has been made while National Highways Authority of India (NHAI) can raise tax-free bonds of Rs 15,000 crore. “The total allocation for the road sector has been Rs 97,000 crore, including rural roads,” he said. A sum of Rs 19,000 crore has been allocated for Pradhan Mantri Gramin Sadak Yojana in 2016-17 and in all, Rs 27,000 crore after contribution from the States. Jaitley also announced that “abolition of permit law will be our medium-term goal in public transport”. He said a new credit rating system for infrastructure will be developed. To bolster ports sector, Rs 8,000 crore has been provided for Sagarmala project. The Minister said to boost mass transport, entrepreneurs will be permitted to play buses on various routes which will be “game changing” in public transport system. Jaitley also said Motor Vehicles Act will be amended.

6. 100% FDI to be allowed in food products produced and marketed in India

Source: **Economic Times** (Link)

In a landmark liberalizing policy in the sensitive multi-brand retail sector, India on Monday allowed 100% foreign investment in processed food retailing provided they are manufactured in India that will help retailers such as Marks & Spencer, Tesco, Walmart and IKEA to set up food-only retail outlets. A senior official at the Ministry of Food Processing and a top commerce ministry official confirmed that move would allow overseas investment in food multi-brand retailing that Minister of Food Processing Industries Harsimrat Kaur Badal had been advocating for in recent months.

By Harsha Hazarika