Daily Economic News Summary: 7 May 2018

1. Rupee Becomes Asia's Worst-Carry Trade After $70 A Bbl 'Crude' Shock
Source: Business Standard (Link)

Oil's advance to the highest since 2014 is squeezing the carry-trade returns on the Indian rupee to a point where they are the worst in Asia. While the nation's nominal yields are the second-highest in Asia, rupee weakness is making the trade unprofitable. Borrowing in dollars to invest in India would yield a negative 3 per cent for the year so far, according to data compiled by Bloomberg. That trade garnered a carry return of 12 per cent in 2017. "Oil's surge may be a reason why the pipeline risk premium concern may be an offsetting factor for an otherwise alluring yield and underlying growth story," said Vishnu Varathan, head of economics and strategy at Mizuho Bank Ltd. in Singapore. "Worries about fiscal slippage and rupee uncertainty could add to the investor being circumspect." Crude prices have jumped 67 per cent since June, touching the $70 a barrel level last seen when Prime Minister Narendra Modi took power four years ago. The cost increase in India's biggest import item widens the nation's current-account and fiscal deficits, and has turned the currency into Asia's worst performer. Further declines in the currency may spur the Reserve Bank of India to consider tightening to keep inflation at its 4 per cent target. Deustche Bank AG and DBS Bank Ltd. are among lenders citing the weak rupee as a key reason for the central bank to raise rates faster than what most analysts are forecasting.

2. Private Players Likely To Help Run EPFO And ESIC Schemes
Source: The Economic Times (Link)

Labour ministry is planning to move to a public-private-partnership mode to run and administer its flagship provident fund and medical insurance schemes that it wants to make universal. The ministry reckons that private intermediaries would be needed as the schemes are scaled up to 10 times to about 50 crore workers, from its current coverage. These schemes are at present run by the Employees Provident Fund Organisation (EPFO) and the Employee State Insurance Corporation (ESIC). A senior government official told ET that the idea is to rope in intermediate agencies, much on the lines of the Pension Fund Regulatory and Development Authority (PFRDA), which manages the National Pension Scheme. Currently, EPFO and ESIC provide v provident fund and medical insurance cover to over five crore subscribers and the schemes are run by the labour minister-led central board of trustees (CBT). The EPFO and ESIC corpus is managed by portfolio managers under the supervision of CBT. The proposed intermediate agencies will work on behalf of the state social security boards and would work in areas of fund management, point of presence, service delivery, benefit disbursement, record keeping and facilitation for enabling the PPP system in administering social security.

3. GST Return Filing Process To Become Simple
Source: Livemint (Link)

The Goods and Services Tax Council (GST Council) on May 4 approved a simpler tax return filing system under the new indirect tax regime and also approved the conversion of the GST Network into a government holding, finance minister Arun Jaitley said after the council met through a video conference. The new return filing form will reduce the compliance burden for taxpayers as they would have to file only one monthly return and invoices have to be uploaded only by sellers. It will be put in place within six months and the transition will be done in a phased manner. As per the transition plan decided by the Council, the existing GSTR 1 and GSTR 3B forms will continue for the next six months. After this period, all taxpayers will need to file one monthly return with composition dealers, while dealers filing no tax returns will need to file only quarterly returns. For six months under the new tax filing regime, taxpayers will be able to avail provisional input tax credit, even if the seller has not uploaded the invoices. However, after this, input tax credit will be available to the buyer only for invoices uploaded by the supplier. The GST Council also decided to covert GSTN into a government-owned company, with the centre and states holding a 50% stake each. At present, 51% stake is held by private entities, valued at Rs5.1 crore, with the centre and the states holding 24.5% each.

4. Modi's Saubhagya Scheme: Power Supply To 3.63 Crore Households To Cost Rs 32,000 Crore To Discoms
Source: Financial Express (Link)

The government's stated plan to provide electricity connections to 3.63 crore households by December this year, if implemented, will raise the power distribution companies' (discoms) supply cost by an annual Rs 32,200 crore or roughly a quarter. Since the discoms aren't recovering their full costs from household consumers, the additional supplies under the Saubhagya scheme could add some Rs 3,800 crore to their annual losses, if all the new ones to be electrified have a consumption pattern like that of the average electrified household. Without the subsidies provided by state governments, the extra losses could even be over Rs 7,100 crore. The gap between cost of power supply and tariff for households is Rs 1.20/kwh (based on audited figures of FY16); in other words the cost is about 30 % higher than the tariff. Since an average subsidy of more than a tenth of the cost is provided by state governments (it is another matter disbursal of these sops is often delayed), the discoms' cost recovery is around 88%. The 12% gap in recovery is mostly attributable to aggregate commercial and technical losses. Having started to implement the Saubhagya scheme, discoms of Uttar Pradesh and Madhya Pradesh are flagging rising rural supply as a key contributor towards the recent rises in AT&C losses, which bucked a general trend. UP itself has a plan to connect 1.3 crore households, while Bihar (31.9 lakh), Odisha (30.8 lakh) and Jharkhand (28 lakh) have also lined up their plans under the Saubhagya scheme.

5. Insolvency And Bankruptcy Code Alert: Explicit Bar Likely On Bids By Promoters' Relatives
Source: Financial Express (Link)

The government is set to define the term 'relatives' in the context of persons considered 'related parties' who will be ineligible to bid for stressed assets under the Insolvency and Bankruptcy Code (IBC), sources told FE. Analysts said any such move could make the disqualification of family members of defaulting promoters more explicit, and will likely impact cases like Essar Steel in which Rewant Ruia, son of the company's co-promoter Ravi Ruia, is said to be one of the beneficiaries, and owners of a shareholder of Numetal that has bid for the stressed steel firm. While IBC has already defined 'related party' of a company facing insolvency, it hasn't defined 'related party' (or 'relatives') of those (individuals) who were running such a stressed firm, said the analysts. So even though IBC says 'related party' in the context of a stressed company means "a director or partner of the corporate debtor or a relative of a director or partner of the corporate debtor", among others, it doesn't, at present, say clearly who qualifies to be a relative of a director or promoter. A 14-member committee on the IBC under corporate affairs secretary Injeti Srinivas, in its recently-submitted report, had recognised the absence of a clear-cut definition of “related party in relation to an individual” (or relatives) in the IBC, although it didn’t offer any.

6. GST Will Stimulate Indian Economy In Medium-Term: ADB Chief Economist
Source: Livemint (Link)

Proceeds from the goods and services tax (GST) will continue to grow, enabling India to step up public spending on infrastructure, which would in the medium term result in faster economic growth, Asian Development Bank chief economist Yasuyuki Sawada said in an interview. Sawada said the indirect tax reform along with the lingering effect of demonetization, having temporarily led to a slowdown in growth in the fiscal year ended 31 March 2018 to 6.6% from 7.1% in the year before, will now yield strong revenue growth in the medium term and help higher public investments in infrastructure, energy and information and communication technology. Sawada, who is also director general of the ADB’s Economic Research and Regional Cooperation Department, said India’s economic growth will “bounce back this year and in the next, it will be faster.” “Among the instruments that the government has for stimulating economy, one is public investment, especially in infrastructure to facilitate businesses and consumption. In a domestic consumption driven economy, infrastructure is a precondition for maximizing growth. In order to do this, the government needs funding that is sustainable,” said Sawada, adding that revenue buoyancy from GST will be effective in ensuring this.

7. Corp Affairs Ministry Plans To Collect Passport Details Of Cos' Directors
Source: The Economic Times (Link)

The Corporate Affairs Ministry is considering a proposal to collect passport details of people serving as directors on the boards of companies as part of efforts to prevent fraudsters from fleeing the country, according to a senior official. The proposal assumes significance amid instances of people leaving the country after defaulting on bank loans and siphoning of funds. The ministry, which is implementing the Companies Act, has stepped up efforts to curb illicit fund flows and has already deregistered more than 2.26 lakh firms for not carrying out business activities for long. Corporate Affairs Secretary Injeti Srinivas has said the ministry is considering a proposal to collect passport details of directors of companies. "The passport details at the digital warehouse will help authorities to take timely action and check fraudsters from fleeing the country," he said in a message published in the ministry's newsletter for the month of March

8. Aurobindo Launches $1.6 Billion Bid To Buy Novartis Generics Unit
Source: Livemint (Link)

Aurobindo Pharma Ltd has submitted an initial bid to buy Novartis AG's dermatology generics drug business for about $1.6 billion, two people directly aware of the development said on condition of anonymity. Hyderabad-based Aurobindo Pharma is the only Indian company that has put in a bid for the assets, which includes an array of dermatology brands, production facilities and associated infrastructure, mostly in the US, said one of the two people, both of whom declined to be named. "Aurobindo has already put in a non-binding bid for the asset which has also drawn interest from other suitors which include private equity funds and other drug companies," the person said. "Aurobindo is being advised by Credit Suisse on the transaction." The last date for placing binding bids is 15 June, said the second person cited above. Emails sent to Aurobindo and Credit Suisse were not answered till press time. Novartis is considering a sale of its dermatology generics drugs business under the Sandoz brand as it seeks to sell some of its less profitable businesses, *Bloomberg* reported in November.

9. India Inc Invests Over $4 Bn In South Africa
Source: Business Standard (Link)

As many as 140 Indian companies with operations in South Africa have invested more than USD 4 billion and created 18,000 direct jobs, according to a report released on May 6. The CII-PwC report showcased the contribution of Indian companies beyond foreign direct investment (FDI) in South Africa, including key CSR and skill development initiatives. According to the report, there exists substantial potential for trade growth between the two countries. Exports from India to South Africa include vehicle parts, transport equipment, drugs and pharmaceuticals, engineering goods, footwear, chemicals, textiles and rice. The report noted that value of bilateral trade has increased from USD 2.5 billion in 2003-04 to USD 11.79 billion in 2014-15, a growth of more than 400 in ten years. However, trade between the two countries declined slightly to USD 9.5 billion in 2015-2016. A number of factors explain this decline, including South Africa's credit rating downgrade, policy uncertainty, political and economic uncertainty as well as exchange rate fluctuations, the report said. It projected that Indian business footprint in South Africa is likely to grow further, adding the South African business footprint in India is also expanding with the prospect of great returns for the African companies investing in this market.

10. Finance Ministry Gears Up For Second Round Of PSB Recapitalization
Source: Business Standard (Link)

The finance ministry has begun the process of ascertaining the amount of capital to be infused into public sector banks (PSBs) this financial year as a part of the second round of recapitalisation. The department of financial services has written to public sector banks seeking an update on the implementation of the reforms agenda set out by the Centre, which will become an important parameter for allocating funds to banks. “We have asked public sector banks to update us about the implementation of the 30-point reforms agenda by May 11,” said a senior finance ministry official. While announcing the broad contours of the Rs 2.11 trillion recapitalisation plan for public sector banks, the Centre had chalked out a comprehensive time-bound reforms agenda, EASE (Enhanced Access and Service Excellence). State-run banks were asked to seek approval from their respective boards for implementing the EASE plan. Based on the government’s directive, the Indian Banks Association (IBA) recently floated a ‘request for proposal’ to appoint a consultant by June for measuring EASE. A pre-bid meeting is scheduled on May 7. The consultant will have to set up and validate methodology for measuring the reforms plan and data collection, and do an analysis of the outcomes. The government will bring out a report card on compliance of these measures every year.

11. Air India Sale Fails To Take Off
Source: Business Times (Link)

The Indian government's attempt to sell debt-laden national carrier Air India is in danger of hitting the skids as a key deadline looms with no bidder in sight. Prime Minister Narendra Modi's administration announced in March that it would privatise the beleaguered airline. But the plan has struggled to get off the ground with several prospective buyers ruling themselves out. "Conditions put forth by the government with regards to debt and employee costs are restrictive and have put off investors," aviation expert Amrit Pandurangi told AFP. "The government needs to address the concerns of the private investors if the stake sale is to move forward," the independent analyst added. The government wants to sell a 76 per cent stake in the 86-year-old airline and offload US$5.1 billion of its debt in what would be one of India's biggest ever divestments. However, the proposal has failed to fly with several major airlines, including IndiGo, now India's No 1 airline, and Jet Airways, which said last month that it was out of the running after reviewing government bid documents. Analysts said that the company's large debts and generous pension schemes are putting off buyers. The documents state that the buyer has to purchase all of Air India's six entities, three of which are loss-making. IndiGo said that it was interested only in Air India's international routes and not its loss-making domestic operations.

12. Govt Likely To Notify 8.55% Interest On PF For FY18 This Week
Source: The Hindu, Business Line (Link)

The labour ministry is likely to notify this week the 5-year low 8.55 per cent interest on PF for 2017-18, paving the way for retirement fund body EPFO to credit returns into the accounts of around 5 crore subscribers. The finance ministry has ratified 8.55 per cent rate of interest on EPF for last fiscal. “The labour ministry has sought Election Commission’s approval to notify rate of interest for crediting the same into members’ accounts by the EPFO in view of model code of conduct for Karnataka elections,” a source said. “The nod is expected anytime this week to provide 8.55 per cent rate of interest to the EPFO subscribers,” the source said. The recommendation on the rate of interest by the Central Board of Trustees, the apex decision making body of Employees’ Provident Fund Organisation(EPFO), is sent to the finance ministry for its concurrence. Once ratified, the labour ministry notifies the rate of interest and the EPFO credits the return for the particular year into its members account.