RBI should continue with Rajan's policies on inflation: Moody's

New Delhi, Aug 15

GOVERNOR Raghuram Rajan's policy of tight leash on inflation has shown results and the Reserve Bank should continue with similar policies and communication going forward, Moody's Investors Service has said.

Moody's Investors Service senior vice-president, sovereign risk group, Marie Diron said credibility and effectiveness of monetary policy are factors which impact India's sovereign ratings.

Moody's has a 'Baa3' rating on India, with a positive outlook. "In the last two years, India's inflation has fallen to more moderate levels, likely in part because of more credible monetary policy that has anchored inflation expectations.

"We expect the RBI to continue with similar policies and communication, showing commitment to achieve its inflation target," Diron said.

A monetary policy with tight leash on inflation is important especially in India, where in the past inflation has risen to very high levels, negatively affecting growth and investment prospects.

RBI governor Raghuram Rajan demits office on September 4. Critics have attacked him for keeping interest rates high and accused him of stifling growth

Rajan, who demits office on September 4, has been pilloried by his critics for keeping interest rates high and has also been accused of stifling growth.

Rajan had challenged these critics to show how inflation is "very low" before accusing him of "being behind the curve" in his focus on containing price rise than on growth.

Consumer price index or retail inflation rose by 6.01% in June, the fastest pace in 23 months and it is expected that the implementation of the new Goods and Services Tax (GST) may push up inflation further.

Diron also said inflation targeted monetary policy enhances transparency and is suited for India's specific economic and institutional structures.

"In India, inflation targeting has likely contributed to enhancing the transparency and predictability of monetary policy, two important elements to foster its credibility and effectiveness," she said.

Diron said with around half the consumption basket consisting of food, whose prices are less predictable than others, India's inflation will continue to face periodic upside risks.

"If credible, monetary policy can contribute to preventing food-driven spikes in inflation from spilling over to other prices and wages," she said.

The government, in consultation with the RBI, has set an inflation target of 4 per cent within a band of (+/-) 2% for five years to 2021.

The next monetary policy on October 4 is likely to be decided by a six-member interest rate setting panel, instead of the present practice of RBI governor deciding the interest rate.

The Monetary Policy Committee (MPC) will set interest rates by majority, with a casting vote for the central bank governor in the event of a tie.

Out of six members of MPC, three will be from RBI — the governor, who will be the ex-officio chairperson, a deputy governor and an executive director.

The other three members will be appointed by the central government, on the recommendations of a search-cum-selection committee, which will be headed by the cabinet secretary.

PTI

Gold imports plunge 52.5% to $4.97 bn in April-July

New Delhi, Aug 15: Gold imports more than halved to $4.97 billion in the first four months of the current fiscal, which is expected to keep a lid on the current account deficit.

The sliding prices of the precious metal in both global and domestic markets are seen as a contributory factor for the 52.5% decline.

Gold imports stood at $10.47 billion in April-July of 2015.

The in-bound shipments contracted for the sixth consecutive month in July by 63.65% to $1.07 billion, according to commerce ministry data.

The contraction in imports helped narrow trade deficit to $7.76 billion last month as against $13 billion in July 2015.

India is one of the largest gold importers in the world and the imports mainly take care of demand of the jewellery industry.

India's CAD narrowed to 1.3% of GDP in the third quarter of 2015-16 as against 1.5% in the same period of the previous year, primarily due to a lower trade deficit.

With an aim to monetise gold lying idle in households and temples, the government netted 3.1 tonnes of the metal under the sovereign gold bond scheme since its launch in November.

As per the data, silver imports too went down by 80% to $54.58 million in July as against $277.6 million in the same month last year.

PTI

Fear of CBI bizarre; apply wisdom in funding NPAs: Panel to banks

New Delhi, Aug 15: Finding banks working under the fear of CBI and CVC "bizzare", a parliamentary panel has asked lenders to take decision on financing of stressed assets as per their "own wisdom" and on the basis of the project's viability.

Finding that total NPAs of ₹2.6 lakh crore may go up to ₹4 lakh crore on account of defaulting infrastructure projects, the parliamentary standing committee on transport, headed by Kanwar Deep Singh, also recommended that banks can be empowered to make recovery of bad debts.

"The committee finds it bizzare that the banks work under the fear of CBI and CVC... Banks should take a decision on its own whether a particular NPA is to be financed or not and it should be done on the bank's own wisdom under the permissible capacity of the banks," the panel said in a report which was tabled in Parliament last week.

The panel suggested that bank should see viability of the project — whether lending some more money will give their due returns. "Every decision if taken in a transparent way and approved by a Committee consisting of more than two officials based on laid-down principles, there should not be any cause for fear of investigation by CVC, CBI and other enforcing agencies," it said.

Noting that model concession agreement of NHAI was not acceptable to banks, it said that the agreement may be circulated to all the banks and financial institutions and the input and feedback received may be incorporated. "Every effort may be made to ease out the bad debts. It is good that the RBI has already taken steps for converting debts into equity and the contractors are allowed to get out of the projects in case of a default. Need for higher government allocation is also emphasised and the banks NPA may be supported by government allocation," it said.

"For example, in case of a default, the banks may be allowed to take over the entire company," it said.

PTI

NPS: PFRDA lowers minimum contribution to ₹1,000 per year

New Delhi, Aug 15: To encourage more people to join the National Pension System, regulator PFRDA has substantially lowered the minimum annual contribution to ₹1,000 to keep the account active.

Earlier, a subscriber had to contribute at least ₹6,000 in a financial year (April-March) to keep the Tier-1 account running.

NPS is structured into two tiers. Tier-I account is the non-withdrawable permanent retirement account into which the accumulations are deposited and invested as per the option of the subscriber. Tier-II is a voluntary withdrawable account.

In case of Tier-II account, which is a savings account, the regulator has decided to waive the requirement of annual minimum contribution of ₹250 and minimum balance of ₹2,000 at the end of a fiscal year.

As a one-time measure, the Pension Fund Regulatory and Development Authority (PFRDA) has also decided to unfreeze all the existing accounts in which the subscriber had failed to maintain minimum contribution and balance requirements.

All the subscribers whose accounts were frozen can now make contribution to their NPS account.

"With a view to encourage the access of NPS to all segments of the society including the unorganised sector, it has been decided to reduce the requirement of minimum contribution to keep the NPS Tier I account active, from ₹6,000 to ₹2,000," PFRDA said in a circular.

PFRDA said the NPS Tier II savings account has capacity to earn higher returns.

"Even though, the minimum balance requirement for keeping the account active has been reduced the subscribers are advised to contribute to their Pension Account (PRANs) as much as possible so as to get a decent pension and live dignified life post retirement," the regulator said.

Benefits or pension under NPS is based on the contributions made, the vesting period and returns generated thereon.

PTI

British millennials are 'collateral damage' from pension gap

London, Aug 15: Britain's millennials, already suffering for the economic mistakes of the past, now face the prospect of having to pay for the country's future.

Pension-fund liabilities in the UK increased to a record 1 trillion pounds ($1.3 trillion) after the Bank of England's interest-rate cut this month, hurt by quantitative easing and razor-thin yields. It's Britain's version of what Duquesne Family Office LLC Chairman Stanley Druckenmiller calls "Generational Theft" in the US.

Plunging bond yields have caused pension liabilities to balloon and it could get even worse because the BOE will probably reduce interest rates further this year, according to a survey of economists by Bloomberg. Deficits for defined-benefit pension funds already rose by more than 40 percent in the two months through July, following the vote to leave the European Union and the central bank's subsequent decision to increase quantitative easing, according to consulting firm Mercer.

'Reluctant' savers

"The Bank of England clearly believes that the effect on our pension system is acceptable long-term collateral damage" to prevent a short-term recession, said David Blake, professor of pension economics at London's Cass Business School. Younger workers will "have to save more – which they appear reluctant to do -- or be prepared to work much longer."

The increased bond-purchase program has had a relatively limited impact on pension deficits, according to the minutes of the BOE's Monetary Policy Committee meeting on Aug. 3. While the fund managers have to move into riskier assets, that helps to support the economy, Governor Mark Carney said Aug. 4.

"That makes it less likely that we will have a very long period of high unemployment, low output, and very low interest rates," Carney said. The BOE declined to comment further.

Money managers, however, appear to be unwilling to offload their higher-yielding gilts because they're worried about generating enough returns to pay their members. The BOE last week failed to find enough investors who were prepared to sell their longer-maturity gilts, a slice of the credit market dominated by pensions and insurers.

"Savers in pension funds are being forced into ultra-low yielding securities, which will inevitably post losses over the medium term," Mark Dowding, a partner at BlueBay Asset Management LLP, said on Monday. "This is not a healthy situation."

Companies that run defined-benefit pension funds are also starting to worry. Postal-service operator Royal Mail Plc said last week it may not be able to keep its program running beyond 2018. That's because its annual contributions could more than double to over 900 million pounds.

'Toxic combination'

"The growing pressures from a slump in U.K. yields will be an increasingly prevalent discussion around the boardroom table of many corporates," Bloomberg Intelligence analysts Jonathan Tyce and Arjun Bowry said in a report last month. "The toxic combination of falling interest rates and rising longevity has more than tripled the aggregate deficit," they wrote, citing data from pension consultant Hymans Robertson.

As many as 1,000 defined-benefit plans are at serious risk of insolvency in the UK, meaning they may not be able to pay members' pensions in full, the Pensions Institute and Cass Business School said in a December report. The deficit at the U.K. plans is estimated to have risen about 73 percent to 408 billion pounds in the 12 months through July, according to the Pension Protection Fund, which compensates workers when companies become insolvent and have a shortfall in their defined-benefit plans.

The protection fund "may need to adopt facets of its American cousin, the Pension Benefit Guaranty Corp., to address growing pension deficits," Tyce and Bowry wrote in a note on Wednesday. "These include the ability to claim up to 30 percent of a business's net worth and to proactively engage early with weaker employers directly."

Bloomberg

Study: India's exports better placed in product diversification

New Delhi, Aug 15: India's exports are better placed in terms of product diversification as top ten export products account for 58% of total shipments, says a study. The study by an industry body analysed concentration of top 10 export products for major economies, including Hong Kong (89%), Republic of Korea (86%), Japan (77%), the UK (71%), Germany (70%), the USA (68%), Netherlands (63%) and France (60%).

Higher the percentage of the country, the more it is concentrated to exports of few products and lesser the percentage of the country, the more diversified it is in terms of export diversification of its products.

India has consistently diversified its export products as concentration of top ten export products was 60% in 2010 and 58% in 2015, noted the analysis conducted by PHD Chamber of Commerce. However, notwithstanding the diversification of export products, India's export growth trajectory has showed lacklustre performance due to slowdown in demand in the destination countries.

"Although things are improving in logistics and export infrastructure front, the cost of credit to exporters is still high as compared to its competitors in the international market," PHD Chamber of Commerce and Industry president Mahesh Gupta said.

As world economy witnessed slowdown in demand, all top export countries posted negative growth in 2015 except France. In Netherlands export growth was (-17%), Italy (-13%), Germany (-11%), the UK (-9%), Republic of Korea (-8%), the USA (-7%), Hong Kong (-5%), China (-3%) but positive in France at (1%), the study pointed out.

PTI

CSR spend: Govt tweaking form for annual filing

New Delhi, Aug 15: The government is amending the form for furnishing annual financial statements under the companies law as part of efforts to ensure that CSR spending figures are reported in a proper manner.

The corporate affairs ministry, which is implementing the Companies Act, is in the process of making amendments to AOC-4 XBRL form — which is used to submit annual financial statements. Xtensible Business Reporting Language (XBRL) is used for communicating financial and business data electronically. In a communication to stakeholders, the ministry said "AOC-4 (XBRL) for filing annual financial statements is being amended to include mandatory CSR/ CARO related details". CSR refers to Corporate Social Responsibility while CARO stands for Companies (auditor's report).

Companies would be required to submit their financial statements in the revised form, expected to be made available next month, in respect of financial years starting on or after April 1, 2014. The amended form would help in carrying out data extraction related to CSR spending in a more easier an efficient manner, an official said.

Proper extraction of data can help in better analysis about CSR expenditure by companies. Certain class of entities are required to shell out at least 2% of their 3-year annual average net profit towards CSR activities under the Companies Act, 2013. CSR norms came into effect from April 1, 2014. Companies having a turnover of at least ₹1,000 crore, minimum net worth of ₹500 crore and those having net profit of ₹5 crore or more in a financial year are required to comply with CSR norms.

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