ECONOMIC INTELLIGENCE BULLETIN

(1-15th June 2017)

GOVERNMENT OF INDIA
DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
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SUMMARY OF ECONOMIC INTELLIGENCE BULLETIN

Economic Intelligence Bulletin includes abstracts of important economic/commercial/ technical development and reviews as reported in the issues of financial dailies. The Bulletin pertains to the fortnight ending 15th June, 2017.

1. PRICE TREND

1.36 GOLD RECOVERS ON JEWELLERS' BUYING; SILVER REMAINS WEAK

Snapping its four-day losing streak, gold prices recovered by Rs20 to Rs29,320 per 10 grams at the bullion market on 13th June 2017 on scattered buying by local jewellers even as the metal weakened overseas. Silver, however, remained under selling pressure and dropped by Rs 550 to Rs 39,150 per kg. Traders attributed the rise in gold prices to mild buying by local jewellers at domestic spot markets but a weak trend overseas capped the rise. Globally, gold fell 0.09 per cent to USD 1,264.30 an ounce and silver by 0.59 per cent to USD 16.83 an ounce in Singapore.

In the national capital, gold of 99.9 per cent and 99.5 per cent purity edged up by Rs 20 each to Rs 29,320 and Rs 29,180 per 10 grams, respectively. It had lost Rs 495 in last four days. Sovereign, however, remained steady at Rs24,400 per piece of eight grams.

(FINANCIAL EXPRESS 14TH JUNE 2017)

1.37 OPEC SEES OIL MKT REJIG HAPPENING AT SLOW PACE

OPEC said on 13th June 2017 a long-awaited rebalancing of the oil market was under way at a "slower pace" and reported that its own output in May jumped due to gains in nations exempt from a pact to reduce supply.

In a monthly report, the Organization of the Petroleum Exporting Countries said its output rose by 336,000 barrels per day (bpd) in May to 32.14 million bpd led by a rebound in Nigeria and Libya, which were exempted from supply cuts because unrest had curbed their output.

The boost means OPEC is pumping more than its forecast of average global demand for its crude this year, hindering efforts to reduce a glut. But Libyan and Nigerian output remains volatile, meaning the gain may not last.

OPEC said oil inventories in industrialized countries dropped in April and would fall further in the rest of the year, but a recovery in U.S. production was slowing efforts to get rid of excess supply.

"The rebalancing of the market is under way, but at a slower pace, given the changes in fundamentals since December, especially the shift in U.S. supply from an expected contraction to positive growth," OPEC said in the report.

Oil prices gave up gains on 13th June 2017 after the release of the report to trade toward $48 a barrel, below the $60 level that top OPEC producer Saudi Arabia would like to see and less than half the level of mid-2014.

Under the deal to support the market, OPEC is curbing output by about 1.2 million bpd while Russia and other non-OPEC producers are cutting half as much. With the glut slow to shift, producers agreed in May to prolong the accord until March 2018.

In the report, OPEC pointed to continued high compliance by its members with the supply deal and said oil stocks in industrialized nations fell in April - although they are still 251 million barrels above the five-year average.

Supply from 11 OPEC members with production targets under the accord - all except Libya and Nigeria - averaged 29.729 million bpd last month, according to figures from secondary sources that OPEC uses to monitor output.

That means OPEC has again complied more than 100 percent with the plan, according to a Reuters calculation. OPEC did not publish a compliance number.

OPEC also lowered its estimate of oil supply growth from producers outside the group this year to 840,000 bpd from a previous forecast of 950,000 bpd, following the decision to extend the supply cut deal.

As a result, OPEC raised the expected demand for its crude this year by 100,000 bpd to 32.02 million bpd. That is still below its May output.

The OPEC production figures are for 13 members and do not yet include Equatorial Guinea, which joined last month.

(FINANCIAL EXPRESS 14TH JUNE 2017)

2. FISCAL POLICY

2.25 GOVT MEETS FY17 FISCAL DEFICIT TARGET

The government has met its fiscal deficit target of 3.5 per cent of gross domestic product for 2016-17. From official data issued on 31st May 2017, the deficit in absolute terms was Rs 5.35 lakh crore; the budgeted estimate had been Rs 5.34 lakh crore. As a percentage of GDP (at current prices) of Rs 151.8 lakh crore, that comes to 3.52 per cent. The latest provisional GDP data was also issued on 31st May 2017.

This was achieved in spite of a higher than budgeted capital expenditure for the year. “Encouragingly, tax inflows and capital spending exceeded the revised estimates, thereby offsetting the anticipated shortfall in non-tax revenue. Higher than estimated capital spending has provided a boost to the quality of expenditure, relative to the revised estimates,” said Aditi Nayar, principal economist with rating agency ICRA.

Total expenditure was Rs 19.75 lakh crore; the budgeted estimate of Rs 20.14 lakh crore. Plan spending was Rs 5.72 lakh crore, compared with estimates of Rs 5.84 lakh crore; non-Plan expenditure was Rs 14.03 lakh crore, as against the budgeted estimate of Rs 14.3 lakh crore.

From this financial year, 2017-18, expenditure will be classified into revenue spending and capital spending. A quick calculation shows that capital spending for 2016-17 was Rs 2.9 lakh crore, as against budgeted estimates of Rs 2.79 lakh crore.

Total receipts for 2016-17 were Rs 13.8 lakh crore, compared with budgeted estimates of Rs 14.8 lakh crore. Tax revenue showed a positive trend, partly due to increased compliance after demonetisation. It was Rs 11.02 lakh crore; the budget estimate was Rs 10.89 lakh crore.

Non-debt capital receipts were boosted by divestment returns, the highest so far in a year.

Total non-debt capital receipts were Rs 63,503 crore, compared with budgeted estimates of Rs 56,571 lakh crore. Non-tax revenue was Rs 2.74 lakh crore; the budget estimate was Rs 3.34 lakh crore.

CENTRE'S BALANCE SHEET

Fiscal deficit as % of GDP

	Budget Estimates (BE) for 2016-17 (₹ cr)	Actual for (₹ cr) 2016-17	Actual as % of BE 2016-17
1) Total receipts	**14,80,133**	**14,39,787**	**97.3**
a) Tax receipts	10,88,792	11,02,063	101.2
b) Non-tax revenues	3,34,770	2,74,221	81.9
c) Non-debt capital receipts	56,571	63,503	112.3
2) Total expenditure	**20,14,407**	**19,74,855**	**98**
a) Non-Plan expenditure	14,30,602	14,02,749	98.1
b) Plan expenditure	5,83,805	5,72,106	98
Fiscal deficit (2-1)	**5,34,274**	**5,35,068**	**100.1**

Source: Controller General of Accounts website

(BUSINESS STANDARD 1ST JUNE 2017)

2.26 MINISTRIES GET 60 DAYS TO DECIDE ON FDI PLANS

With the abolition of the Foreign Investment and Promotion Board (FIPB), the ministries tasked with clearing foreign direct investment proposals in the 12 sectors that need government nod would have to take a decision within 60 days, the finance ministry said.

The Cabinet had last month approved the abolition of FIPB, which was the authority clearing foreign direct investment (FDI) proposals for 25 years.

In a memorandum on 6th June 2017, the finance ministry said the Department of Industrial Policy and Promotion, in consultation with the administrative ministries, would come out with standard operating procedures to process FDI proposals and ensure "consistency of treatment and uniformity of approach". A panel led by the secretaries of the department of economic affairs (DEA) and the department of industrial policy and promotion (DIPP) would conduct a quarterly review on the pending proposals.

"Ordinary FDI applications, including those related to non-resident Indian (NRI)/export-oriented unit (EOU), food processing, single-brand retail trading and multi-brand retail trading proposals, should be decided in 60 days," the memorandum said. "FDI proposals by NRIs/EoUs requiring approval of the government will be dealt with by the DIPP and the DIPP will continue to be the administrative ministry for this purpose."

Applications for imports of capital goods or machinery would be handled by the DIPP. Applications involving investments from "countries of concern", requiring security clearance under to the Foreign Exchange Management Act and FDI policy would be processed by the home ministry.

The memorandum set a timeline of four weeks for transfer of all pending applications with the FIPB to the administrative ministries. The DIPP would handle the FIPB portal.

While FDI approvals in most sectors have been relegated to the ministries concerned, those relating to private security agencies would be decided by the home ministry. The DEA would clear proposals of financial services not under a regulator, or where there is more than one regulator or there is a doubt about the regulator, the ministry said.

If FDI applications lack clarity on the administrative department, the DIPP will identify the ministry. The memorandum added the ministry concerned would have to seek Cabinet nod wherever required.

All past and future litigation and liabilities would be handled by the administrative department and about 4,500 reference and record files with the FIPB secretariat would be transferred to the ministries concerned.

(BUSINESS STANDARD 7TH JUNE 2017)

3. IMPORT AND EXPORT POLICY

3.26 COFFEE EXPORTS UP 11.51% IN APRIL

India’s coffee exports grew by 11.5 per cent year-on-year to USD 92.42 million in April this fiscal on account of strong demand in the global markets.

The country had shipped coffee worth USD 82.88 million in April last year, according to the commerce ministry data.

In rupee terms, the exports recorded a growth of 8.22 per cent at Rs 596.17 crore in April.

India mainly ships robusta and arabica varieties of coffee besides instant coffee.

Coffee is one of the most widely traded agricultural commodities in the world. India accounts for about 4.5 per cent of the world coffee production and the industry provides jobs to over six lakh people.

India’s major export destinations include Italy, Germany, Greece, Belgium, Spain and Switzerland.

Coffee output in the 2016-17 crop year is estimated to decline to 3,16,700 tonnes from the record level of 3,48,000 tonnes achieved last year, due to severe drought in some key growing states, especially Karnataka.

The country’s tea exports too grew by 8.25 per cent to USD 49.74 million in April as compared to USD 45.95 million in the same month last year.

India is the world’s second biggest tea producer and also one of the largest consumers.

The country exports CTC (crush- tear-curl) grade tea to countries like Egypt, the UK, and other traditional varieties to Iraq, Iran and Russia.

(BUSINESS STANDARD 7TH JUNE 2017)

4. MISCELLANEOUS

4.48 GROWTH ENTERS SLOW LANE

India’s economic growth fell to 6.1 per cent in the fourth quarter (Q4) of 2016-17 (FY17), primarily because of demonetisation adversely affecting economic activity. This was at least a four-quarter low. The sectors worst affected were construction and financial services.

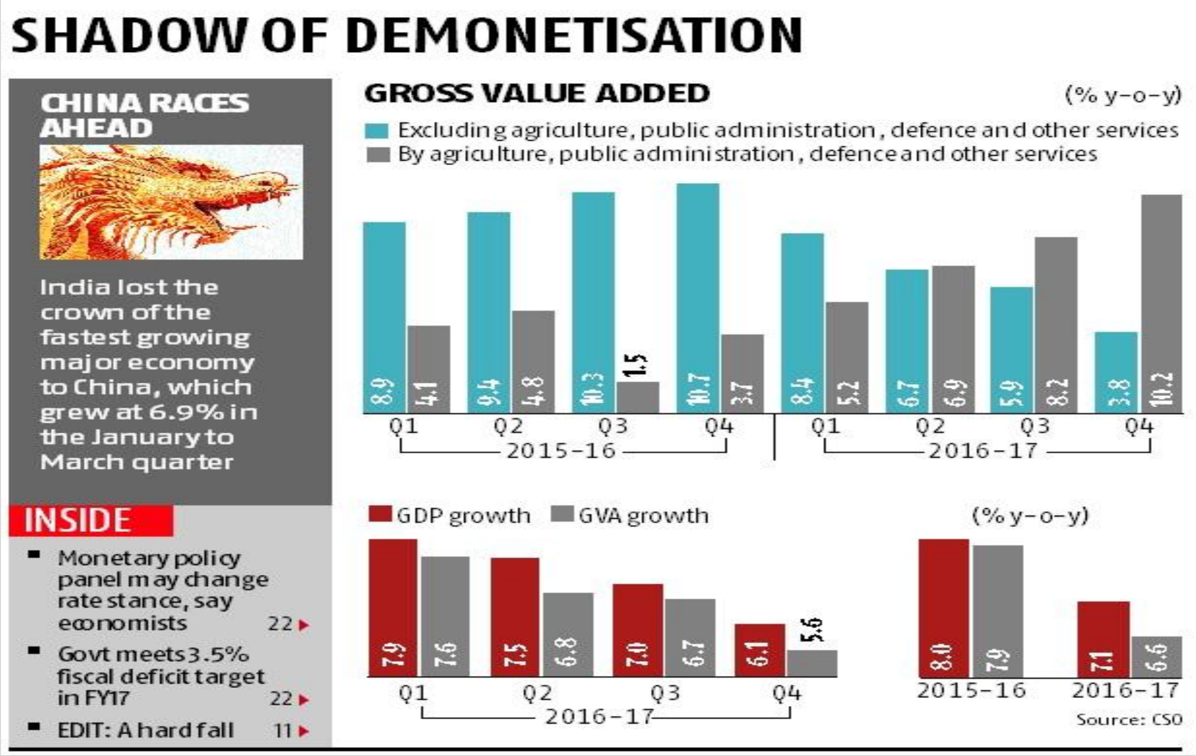
Without indirect taxes, growth figures would be more dismal. Gross value added (GVA), the difference between gross domestic product (GDP) and net indirect taxes, grew by only 5.6 per cent in Q4 — the lowest in at least eight quarters, according to official figures released on 31st May 2017.

The effect of demonetisation was evident in the figures, with growth being pushed primarily by agriculture and government spending. In Q4, excluding agriculture and government spending, GVA grew a mere 3.8 per cent, down from 8.4 per cent in Q1.

In FY17, economic growth was at a three-year low of 7.1 per cent. The previous year, it was 8 per cent.

Economists now expect the Reserve Bank of India (RBI) to change its monetary stance, even if it does not cut the repo rate. The monetary policy committee will meet on June 7. Chief Economic Advisor Arvind Subramanian said demonetisation had a temporary impact. “According to both the IIP (Index of Industrial Production) and the National Income Accounting data, deceleration has been happening since July,” he said.

Prime Minister Narendra Modi had announced the banning of the old Rs 500 and Rs 1,000 notes on November 8 last year.



(BUSINESS STANDARD 1ST JUNE 2017)

4.49 INDIA GDP GROWTH TO REMAIN FLAT AT 7.1% IN 2017-18: HSBC

India's economic growth is expected to remain flat at 7.1 per cent in current fiscal as investment is still weak and government spending might not be as high given the fiscal consolidation, says an HSBC report.

According to the global financial services major, the GDP growth momentum is show slowing since mid-2016 and this trend is expected to continue going forward.

"Looking ahead, our below-consensus view is that growth will remain flat at 7.1 per cent in 2017-18," HSBC Chief India Economist Pranjul Bhandari said in a research note.

According to official data, India's growth rate slipped to 6.1 per cent in the January-March quarter and 7.1 per cent during 2016-17.

The slowing momentum in GDP growth rate is expected to continue as investment is still weak, while government spending may not remain as high given the fiscal consolidation path and the rise in exports over the last few months are showing some signs of moderation.

(BUSINESS STANDARD 5TH JUNE 2017)

4.50 FMCG SHRUGS NOTE BAN AS SALES VOLUME GROW 6% IN JAN-MARCH

Fast-moving consumer goods (FMCGs) shrugged off note ban, posting a six per cent year-on-year (y-o-y) sales volume growth during the March quarter. The Rs 3,20,000-crore domestic sector, which is the fourth-largest in the world, grew two percentage points faster than the same quarter last year, data from Kantar Worldpanel show.

Growth in the sector was led by food and beverages (F&B), which grew six per cent y-o-y during the quarter, followed by household care, which grew five per cent in sales volume. Growth in personal care, which includes dispensable items like deodorants, face wash, and fairness creams, remained lower at four per cent y-o-y. Growth in personal and household care was the same as that recorded a year ago. F&B grew six per cent y-o-y this quarter and four per cent y-o-y during the same quarter last year.

The government had declared old Rs 500 and Rs 1,000 notes illegal on November 8, 2016, resulting in a cash shortage that lasted up to the early part of the March quarter. But, FMCG sector looks unaffected, data from Kantar suggest.

After growing five per cent y-o-y during the December 2016 quarter, the FMCG market started the year on a positive note, with seven per cent growth rate during January, again led by F&B. In February, however, household care items outpaced other categories with five per cent sales volume growth. Personal care segment, which faced severe headwinds during the December 2016 quarter with growth dipping to two per cent, revived in March 2017 quarter.

FMCG players ITC, Hindustan Unilever Limited (HUL), and Nestlé posted healthy growth during the quarter, which helped the market expand its size. HUL's (largest non-cigarettes FMCG player) revenue grew 6.4 per cent and ITC's non-cigarettes FMCG business posted 6.5 per cent growth in revenue. F&B player Nestlé's domestic sales went up 9.7 per cent backed by strong sales volume growth in the March quarter. Britannia's net sales surged over six per cent y-o-y in the March quarter.

However, performances of some other key players were not as impressive as those with a wider portfolio. Coca-Cola's (the country's largest carbonated drinks maker) volume sales shrunk by low single digit and PepsiCo felt the note ban, too. Even diversified FMCG firm Dabur India's net sales suffered a 4.8 per cent dip, although sales volume grew 2.4 per cent. Emami's net sales declined marginally by 2.1 per cent in March quarter.

Most firms faced challenges during the first three months of the year, which resulted in no price hikes for most products. However, increased input costs after the rollout of goods and services tax (GST) may again lead to disruption in the sector, executives from many FMCG companies said.

(BUSINESS STANDARD 8TH JUNE 2017)

4.51 WPI FOR MAY WELL BELOW 3% MARK, HOPES OF RATE CUT IN AUG RISE

India’s wholesale inflation slipped below 3% during May as compared to 3.85% in April, raising hopes of a rate cut by RBI in its next Monetary Policy Review Meeting. The Wholesale Price Index (WPI) or wholesale inflation for the month of May stood at 2.17%, down 1.68% from 3.85% in April. In May, the all commodities index fell 0.4% in comparison to April.

With monsoon proceeding as forecasted, inflation is expected to come down further in the coming months, which could trigger a rate cut from RBI during its next Monetary Policy Review Meeting on 2 Aug.

"Going ahead, there could be a moderation in inflation in coming months with expectations of normal monsoons. Upside risk to inflation could emerge from movement in the global oil prices. We are expecting the WPI inflation to remain in the range of 3-4% for next couple of months," Care Ratings said.

The wholesale inflation rate, measured by the WPI, is a marker for price movements in bulk buys for traders and broadly mirrors trends in shop-end prices. The government has revised the base year for Index of Industrial Production (IIP) and WPI from 2004-05 to 2011-12.

"The revision in the WPI inflation rates would affect the GDP and GVA deflators and may be a precursor to a revision in growth rates for recent years, particularly for those sectors for which nominal earnings or value addition data are deflated using the WPI," ICRA said.

(FINANCIAL EXPRESS 14TH JUNE 2017)