Economy Current Affairs: December 2011- May 2012

Jet Fuel Prices reduced by Rs 312 per kilolitre

State-owned oil companies for the second time in the month of April reduced jet fuel prices by a marginal Rs 312 per kilolitre or kl on 30 April 2012. The price of aviation turbine fuel (ATF), or jet fuel, in the reduction was announced in the wake of a Rs 169.3 per kl cut in rates effected from 16 April 2012.

The reductions are however overshadowed by the steep increases effected in March and early April 2012. ATF rates were increased by 3.2 per cent on 1 March 2012, Rs 1298.88 per kl on 16 March 2012 and by another 2.8 per cent on 1 April 2012. Prior to being increased thrice in the months of March and April, jet fuel was priced at Rs 62,557.12 per kl.

Delhi was reduced by Rs 311.74 per kl, or 0.46 per cent, to Rs 67319.71. In Mumbai, jet fuel is to cost Rs 68,306.21 per kl as against Rs 68630.93 per kl now.

Jet fuel constitutes over 40 per cent of an airline's operating cost and the marginal reduction in prices introduced on 30 April 2012 is expected to take the burden off the cash-strapped airlines.

The three fuel retailers — IOC, Hindustan Petroleum and Bharat Petroleum revise jet fuel prices on the 1st and 16th of every month, based on the average international price in the preceding fortnight.

India's Growth Projection for 2012 lowered to 6.9% by IMF

The International Monetary Fund (IMF) on 27 April 2012 lowered India's growth projection to 6.9 per cent for 2012. The multilateral agency in January projected Indian economy to grow to by 7 per cent for 2012. The slashed growth projection is broadly attributed to the country's poor performance on the front of economic reforms and slowing investment.

The IMF, however, maintained India's growth estimate for 2013 at 7.3 per cent. As per the IMF, the national economy grew by 7.1 per cent last year.

The IMF's growth projection is an indication for the government to expedite the process of economic reforms which has long been victim of the country's internal political clutter. Many of the important reforms are still in the pipeline which needed to be approved as soon as possible. Government should make sure that it is taking adequate majors to boost up the sentiment of investors, who are increasingly getting disenchanted of the future prospects of Indian Economy.

SP's cut India's Credit Rating Outlook to Negative

Standard & Poor's downgraded credit rating outlook for India to negative from stable on 25 April 2012. The cut in credit rating is the reflection of India's widening fiscal and current account deficits.

The negative outlook jeopardises India's long-term rating of BBB-, the lowest investment grade rating, and sent Indian bonds, stocks and the rupee lower.

India has no sovereign global bond issues, but a downgrade would increase borrowing costs for local companies and make it harder to refinance debt, and may have a further chilling effect on foreign investor confidence in the country in general.

India's fiscal deficit widened to 5.9% of gross domestic product in the fiscal year 2011-12, starkly higher than the government's target of 4.6%. The country is performing equally bad on the front of foreign institutional investment as it witnessed a sharp decline in the FII over the past few months. India has drawn nearly 171.8 million dollar FII so far in April 2012 against more than 5 billion dollar in February 2012.

The credit rating downgrading indicates that the government will now have to contemplate seriously over the long-pending economic reforms and push them through as soon as possible.

Timeline for 2G Spectrum Auction extended till 31 August 2012

The Supreme Court of India on 24 April 2012 turned down the union government's plea to grant 400 days to complete fresh distribution of 2G spectrum licenses. The court, however, extended the deadline for the auction of licenses from 2 June 2012 to 31 August 2012 considering that technically it was not possible to analyse the auction by June 1.

The court had on 2 February 2012 ruled that all the 122 licenses allocated to eight operators under the first come first serve policy in January 2008 during the A Raja regime be quashed early June and asked the government to recon duct the license distribution through an open bidding process.

A Supreme Court bench of Justices G S Singvhi and K S Radhakrishnan also held that existing licenses will remain operational till 7 September 2012.

The bench maintained that its 2 February 2012 order cancelling 122 licenses allocated during the tenure of A Raja and would remain operational.

The bench was hearing the Union Government's application, seeking clarification of its direction in the 2 February 2012 judgement which had fixed 2 June 2012 as the deadline, when the 122 2G spectrum licenses, issued in 2008, would stand quashed.

The Union government had on 1 March 2012 moved the apex court stating it would impact over 69 million mobile users as the auction process for spectrum will take at least 400 days. The

Centre had informed the court that the auction process has commenced but it would take around 400 days for it to be completed.

RBI directed Banks to Print MICR and IFSC Code on Passbook

Apex Indian bank, the Reserve Bank of India on 21 April 2012 directed all commercial banks to print the MICR (Magnetic Ink Character Recognition) and IFSC (Indian Financial System Code) code on the passbook and statement of account of the customers. The bank made the printing of MICR and IFSC code compulsory for all the banks.

The banks, under their current practice, provide MICR code on the cheque leaf along with the IFSC code of the branch.

Under the RBI guidelines, MICR code is mandatory for all electronic clearing services (credit and debit) transactions. IFSC code is a pre-requisite for national electronic funds transfer (NEFT) and real time gross settlement (RTGS) transactions.

Govt approved 22 FDI Proposals worth Rs.586.137 crore

The Union government on 20 April 2012 approved 22 foreign direct investment (FDI) proposals, amounting to Rs.586.137 crore ($112.5 million). The proposals were cleared following recommendations made by the Foreign Investment Promotion Board (FIPB) at its meeting on 30 March 2012.

The government cleared Shantha Biotechnics' proposal of Rs.514 crore to increase its foreign equity in Brownfield pharmaceutical sector in order to carry out the activities of research, development, manufacturing and marketing of bio-tech products and other bio-generics.

It also cleared Mahindra and Mahindra's Rs.25.99-crore proposal for setting up a joint venture company to develop, manufacture and provide service support for radar systems and various kinds of defence electronic systems. The government also allowed Springer Editorial Services' Rs 12.87-crore proposal to increase foreign equity up to 100 per cent.

TRAI approved Increase in Processing Fee for Mobile Recharge Coupons

Telecom regulator TRAI on 19 April 2012 approved increase in processing fee for all mobile recharge coupons (top-up vouchers) priced above Rs 20. The government however left the processing fee unchanged for the vouchers below Rs 20. The processing fee is included within the MRP of recharge coupon purchased. The regulator cleared the increase of 50 per cent in the charge through an amendment made to the Telecom Tariff Order (TTO).

It directed all telecom service providers to provide consumers with at least one top up voucher priced at Rs 10 when it noticed that top up vouchers priced below Rs 20 are not available with some service providers.

The order was issued after telecom industry body COAI and AUSPI made written submission to the Telecom Regulatory Authority of India arguing that there have been inflationary pressures over the last three years ever since the ceiling of Rs 2 was prescribed by TRAI. It was also pointed out that COAI that the rising cost of providing services by way of hike in salaries and wages, increased transportation and diesel cost and so in support of raising the fee.

India registered Highest Ever Trade Deficit of $184.9 billion in 2011-12

Commerce Secretary on 19 April 2012 announced that India surpassed the export target of $300 billion for 2011-12. India was able to surpass the trade target of $300 billion despite slowdown in demand in its traditional markets of the US and Europe. Exports increased by 21 per cent to $303.7 billion in 2011-12 powered by a strong growth in petroleum, pharmaceuticals and engineering products.

However, imports surged by 32.1 per cent to $488.6 billion thereby leaving the highest-ever trade deficit of $184.9 billion.

Other sectors which showed healthy performance with respect to export include drugs and pharmaceuticals up 21.9 per cent at $13.1 billion; leather (up 22.5 per cent) at $4.2 billion; electronics (up 9.2 per cent) at $9 billion; cotton yarn and fabric made-up (up 17.4 per cent) at $7.2 billion, readymade garments yarns and fabrics (up 18 per cent) at $13.7 billion and marine products (up 31.4 per cent) at $3.4 billion.

Imports also registered a huge surge with petroleum, oil and lubricants moving up by a steep 46.9 per cent to $155.6 billion largely due to increased prices in international markets. Imports of gold and silver jumped by 44.4 per cent to $61.5 billion while that of coal surged by 80.3 per cent to $17.6 billion.

Union Government decided on 1 million Caps on ECB for Aviation Sector

The Union government on 19 April 2012 permitted companies engaged in the aviation sector to raise working capital resources through the external commercial borrowings (ECBs) route to the tune of $1 billion. The limit for individual airline companies was set at $300 million. This limit can be availed themselves of either in a lump sum or in tranches, depending on the utilisation of the limit during the one year when the facility is available. So far airlines were allowed to raise foreign capital only for import of capital equipment such as aircraft.

To increase access to ECBs, the RBI is likely to relax the average maturity period for ECBs above $20 million from five to three years. The RBI is also expected to notify within a week guidelines for the proposal, which was part of the budget 2012-13.

ECBs, a financial instrument used by the government to facilitate the access to foreign funds by Indian corporations and public sector undertakings totalled $35.90 billion in 2011-12. They are easier and more attractive way to raise the loan than domestic borrowings.

The government also allowed the airlines to directly import jet fuel as actual end users thereby enabling them to escape the state value added tax (VAT), which ranges from three to 33 percent.

Retail inflation shot up to 9.47% in March 2012

As per the government data released on 18 April 2012, retail inflation shot up to 9.47% in March 2012 because of higher prices of milk, vegetables, protein-based items and edible oil products. Retail inflation, based on the Consumer Price Index (CPI) had recorded 8.83% in February 2012. The All-India CPI is prepared in addition to the three retail price indices for agricultural labourers, rural labourers and industrial workers prepared by the Ministry of Labour.

However inflation based on Wholesale Price Index showed only a marginal decline to 6.89% in March 2012. Wholesale price index (WPI)-based inflation fell to 6.89 per cent in March from 6.95 per cent in February 2012. As per the index food inflation rose to a five-month high of 9.94 per cent, compared with 6.07 per cent in February 2012 and deflation in January 2012. Given that the food basket has more weight in the CPI than in the WPI, overall inflation numbers showed a rise in the case of the retail price index.

ECB Norms for Power Sector liberalised

The Union government on 18 April 2012 decided to liberalise the external commercial borrowing (ECB) norms for the power sector. The announcement was made in tune with the announcement made in this respect by the Finance Minister, Pranab Mukherjee while presenting the Union budget 2012-13.

Power sector companies will now be able to use up to 40 per cent of ECB loans to refinance their rupee debt, provided the remaining 60% balance is utilised for investments in new projects. So far, power companies were permitted to use only 25 per cent of the ECB to refinance their domestic rupee-debt loan.

ECB, which totalled $35.9 billion in 2011-12, are considered attractive as cost of raising the loan is lower than that of domestic borrowings. The proportion of ECBs having maturity between 5 to 7 years went up from about 47 per cent in 2007-08 to almost 70 per cent in 2010-11. ECBs for infrastructure sector moved up from 15.2 per cent in 2007-08 to 42.3 per cent in 2010-11.

RBI instructed Commercial Banks to reduce their Exposure to Gold Loan Companies to 7.5%

Reserve Bank of India (RBI) on 17 April 2012 instructed commercial banks to reduce their exposure to gold loan companies to 7.5% of their capital funds from the existing 10%. The directive will impact the gold loan companies such as Muthoot Finance and Manappuram Finance as they will receive less funding. The central bank also set up a working group to suggest ways to deal with the issue.

Banks were directed to reduce their regulatory exposure ceiling in a single NBCFC, having gold loans to the extent of 50% or more of its total financial assets, from the existing 10% to 7.5% of bank's capital funds. The direction was given in the back of a situation when gold loans were growing rapidly and there was a concentration risk.

Banks barred from charging Prepayment Penalty on Floating Rate Home Loans

The Reserve Bank of India (RBI) on 17 April 2012 banned banks from charging a prepayment penalty on floating rate home loans. Banks were barred from charging any fee from a customer who wants to repay an outstanding loan and close the account.

Housing finance regulator National Housing Bank (NHB) had previously barred home finance companies from charging any prepayment penalty. Among banks, State Bank of India was the first to do away with the pre-payment fee on both fixed and floating rate loans. Taking cue nearly 20 banks withdrew the penalty on floating rate loans. However, most lenders continue to charge the penalty on premature closure of fixed rate loans.

RBI also directed banks to minimise the wide variation in rates offered to retail and bulk depositors on deposits with very little difference in maturities. It also mandated that banks offer a basic savings and deposit account to all their customers. These accounts should have some minimum common facilities and not prescribe a minimum balance.

Reserve Bank of India cut the Repo Rate by 50 Basis Points

Reserve Bank of India, the apex Indian Bank, on 17 April 2012, cut the key policy rates for the first time in the past three years. While the repo rate (the rate at which the RBI lends money to banks) was cut down by 50 basis points from 8.50 per cent to 8.00 per cent, the reverse repo rate (normally fixed at a spread of 100 basis points below the repo rate) was reduced to 7.0 per cent.

The marginal standing facility rate, which has a spread of 100 basis points above the repo rate, now stands at 9.0 per cent.

The RBI's move to cut down key policy rates came in the wake of slumping growth which was reduced to 6.1 per cent in the third quarter of fiscal year 2011-12. Headline WPI inflation had moderated to below 7 per cent by end March although there are fears that it will flare up again. The RBI has, therefore, played it safe by projecting an inflation target of 6.5 per cent by March 2013. Its GDP projection for this year is 7.3 per cent.

FDI Inflows into India's Services Sector up by 62% in April-January 2011-12

Foreign direct investment (FDI) inflows into the services sector in India went up by 62% during April-January period 2011-12 on account of unfavourable economic conditions of the western markets.

The financial and nonfinancial services sector attracted FDI worth $4.83 billion during the 10-month period of 2011-12 as compared to $2.98 billion in the April-January period of 2010-11. The trend reflected confidence in India's growth story. It was observed that though the economic growth in India itself declined in 2011-12 to 6.9%, the economy was among the best performing in the world.

Despite taxation and policy issues, the country enjoys the investor confidence as is evident from a 53 per cent increase in total FDI inflows to $26.19 billion during the 10-month period (April-January 2011-12). The sectors that attracted sizeable FDI inflows include drugs and pharmaceutical ($3.20 billion), construction ($2.23 billion), telecommunications ($1.99 billion) and power ($1.56 billion).

Union Cabinet approved a Proposal to set up SPV for GSTN

The Union Cabinet on 12 April 2012 approved a proposal to set up a Special Purpose Vehicle (SPV) for Goods and Services Tax Network (GSTN) to help facilitate the smooth introduction of the new indirect tax regime.

GSTN SPV is to be incorporated as Section 25 not-for-profit private limited company in which strategic control would be held by the Centre. It will provide IT infrastructure and services to various stakeholders including the Centre and states.

The SPV will have an equity capital of Rs 10 crore, with both the Centre and states having stakes of 24.5 per cent each. Non government institutions would hold 51 per cent equity.

Union Cabinet approved Extension of Funding for Swavalamban Scheme

The Union Cabinet on 12 April 2012 approved the extension of funding support for implementing the Swavalamban Scheme under the New Pension System (NPS) from three years to five years for all subscribers enrolled during 2010-11, 2011-12 and 2012-13.

The exit norms of the scheme were also relaxed to enable subscribers under Swavalamban to exit at age 50 instead of 60, or a minimum tenure of 20 years, whichever is later. The Cabinet decided to provide an additional funding support of Rs 2065 crore to the scheme till 2016-17. The cabinet's decision will benefit 70 lakh workers in the unorganised sector.

Cabinet approved Public Procurement Bill

The Union Cabinet on 12 April 2012 approved Public Procurement Bill, 2012 which aims at regulating public procurement of above Rs 50 lakh and provides fair treatment to bidders. The move is aimed at bringing transparency in State purchases.

Public Procurement Bill, 2012 aims at regulating public procurement by all ministries and departments of the Union government, Central public sector enterprises (CPSEs), autonomous and statutory bodies controlled by the Centre and other procuring entities. The Bill also proposes absence of price negotiations, except in circumstances that are prescribed, and for which reasons are to be recorded.

CCEA approved Rs 30000 crore Bailout for Air India

The Union government on 12 April 2012 approved Rs 30000 crore bailout for Air India. It was decided that Rs 6750 crore would be infused immediately to meet the airline's working capital requirement and the total of bailout amount would be spread out over a period of 9 years. The Rs 30000 crore bailout package was approved in addition to the equity infusion of Rs 3200 crore already in place.

The government also decided on other issues with an objective of pulling out ailing Air India from its debt burden and enabling it to turn into a profit making venture.

The decisions of the Cabinet Committee on Economic Affairs (CCEA) decided to hive off the engineering services and ground handling business, and go ahead with the induction of 27 new Boeing 787 Dreamliners.

E-filing of Returns compulsory for Individuals with Income above Rs 10 lakh

The Union government on 11 April 2012 made it mandatory for individuals with income above Rs 10 lakh to file their tax returns 2011-12 onwards electronically. E-filing was made compulsory for the person who is an individual, or a Hindu Undivided Family, if his or its total income, or the total income in respect of which he is or it is assessable under the Act during the previous year, exceeds Rs 10 lakh for assessment year 2012-13 onwards. E-filing for such individuals was optional till 2010-11.

Currently business houses with receipts of Rs 60 lakh and professionals with income of Rs 15 lakh are mandatorily required to e-file their return with digital signature.

FIIs permitted to invest 23% in Indian Commodity Exchanges without Government Approval

The updated Consolidated Foreign Direct Investment Policy Document released by the Commerce and Industry Ministry on 10 April 2012. The updated Consolidated Foreign Direct

Investment Policy Document' changed the norms for both non-banking finance companies (NBFCs) and foreign institutional investors (FIIs).

The ministry through the document declared that foreign institutional investors (FIIs) can invest up to 23 percent in Indian commodity exchanges without government approval. The updated Consolidated Foreign Direct Investment Policy Document also stated that import of second-hand capital goods will become tougher.

Composite foreign investment cap of 49 per cent (FDI limit of 26 per cent and FII ceiling of 23 per cent) in commodity exchanges which requires Government/Foreign Investment Promotion Board (FIPB) approval exists currently. However following the upgradation of Consolidated Foreign Direct Investment Policy Document, FIPB nod will be required only for the FDI component, not for FII investment.

ADB projected Moderate Increase in India's GDP to 7% in 2012-13

The Asian Development Bank (ADB) in its flagship annual publication Asian Development Outlook (ADO) released on 11 April 2012 projected moderate increase in growth rate for India to 7 percent in 2012-13. The ADB stated that strong economic performance would depend on the country's ability to push reforms agenda and address issues constraining investments. The government however estimated a growth rate of 7.6 per cent for 2012-13 fiscal.

Moderation in the growth of non-oil imports in 2012-13 and improved economic prospects in the advanced countries in 2013-14 is likely to help the current account deficit to improve to 3.3% in 2012-13 and further to 3% in 2013-14.

ADB mentioned in its publication that number of bills and measures to improve India's investment environment introduced in Parliament are making little progress amidst in the back of insufficient consensus for immediate reforms. However the ADB mentioned the recent rise in the pace of road construction and clearances for power projects was a positive signal and would likely mark increase levels of investment.

Supreme Court dismissed the Review Petitions filed by Seven Telecom Companies

The Supreme Court of India on 4 April 2012 quashed the review petitions filed by seven telecom companies (Videocon Telecommunications, S Tel, Sistema Shyam Teleservices, Tata Teleservices, Unitech Wireless (Tamil Nadu), Etisalat DB Telecom and Idea Cellular), whose license was cancelled by the Supreme Court in its 2 February 2012 verdict.

The Supreme Court bench of Justices GS Singhvi and KS Radhakrishnan dismissed the petition as it found no merit in it. The Apex Court had voided all 122 2G licences allocated by A Raja in January 2009 on first come first serve policy. The court in its 2 February 2012 verdict had held the policy fundamentally flawed and unconstitutional. The court also dismissed the petition of A Raja, prime accused in the 2G spectrum scam.

The Supreme Court, however, accepted the union government's petition to hear in open court the petition filed by the Union government seeking review of its ruling cancelling 122 licences for the 2G spectrum.

Reporting Requirements of the Banks to Monitor Gold Import tightened

The Reserve Bank of India on 3 April 2012 tightened the reporting requirements of the banks. As per the directions issued, banks will have to submit a monthly statement informing the central bank about the quantity of gold imported and mode of payment adopted. The statement is to be filed with the foreign exchange department of the RBI and has to be submitted at the end of March and September.

The directive was issued amidst concerns of huge outflow of foreign exchange on import of gold which is believed to be putting pressure on the India's current account deficit (CAD).

Banks were directed to file a half yearly statement on quantity and value of gold imported by nominated banks, agencies, export-oriented units (EOUs) and special economic zone (SEZs) in gem & jewellery sector, as well as mode of payment. Also they have to file monthly statement on the quantity and value of gold imports by the nominated agencies (other than the nominated banks), EOUs, SEZs as well as the cumulative position at the end of the reporting month.

Earlier, banks were only required to submit a monthly statement on the number of transactions and value of gold imported by EOUs, units in SEZ\export processing zone and nominated agencies/banks. India is the world's largest importer and consumer of the precious metal.

India's Exports grew by annual 4.2% in February 2012

India's exports grew by an annual 4.2% in February 2012 to USD 24.6 billion. The growth was the slowest in three months. The country is likely to miss the target of USD 300 billion for 2011-12 in the wake of difficult global environment. Export growth slipped to 44.25% in August 2011 from a peak of 82% in July. The export growth had stood at 36.36% in September, 10.8% in October and 3.8% in November 2011.

Exports showed some improvement when it grew by 6.7% in December 2011 and over 10% in January 2012. During the April-February period in 2011-12, exports aggregated to USD 267.4 billion, a year-on-year growth of 21.4% on account of the surge witnessed in the early months of 2011-12 fiscal.

Imports on the other hand grew at a faster rate of 20.6% year-on-year to USD 39.7 billion in February 2012 resulting in a trade deficit of USD 15.1 billion. During the 11-month period (April 2011-February 2012), imports increased by 29.4% to USD 434.1 billion.

RBI released September 2011 Quarterly Statistics on Deposits & Credit

The Reserve Bank of India (RBI) on 3 April 2012 released 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, September 2011'. The release included data related to deposits and credit of scheduled commercial banks including regional rural banks (RRBs) as on 30 September 2011. The data included in the release were based on Basic Statistical Return (BSR)-7 received from all scheduled commercial banks (including RRBs).

Highlights of RBI's Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks

Number of banked centres

- The number of banked centres of Scheduled Commercial banks stood at 35,435. 27,913 of these centres were single office centres and 68 centres had 100 or more bank offices.

Deposits and Credit of top 100/200 centres

- The top hundred centres, arranged according to the size of deposits accounted for 69.6 per cent of the total deposits. Whereas the top hundred centres arranged according to the size of bank credit accounted for 78.5 per cent of total bank credit.

- In September 2010, the corresponding shares of top hundred centres in aggregate deposits and gross bank credit had stood at 68.8 per cent and 78.0 per cent.

- Aggregate deposits of top hundred centres increased by 23.5 per cent in September 2011 over September 2010.

- Annual growth rate of gross bank credit of top hundred centres at 24.3 per cent in September 2011 was higher than the 19.7% growth recorded in September 2010.

- The top 200 centres in terms of aggregate deposits covered 32.4 per cent of reporting offices and 74.5 per cent of aggregate deposits. The top 200 centres in terms of gross bank credit accounted for 31.8 per cent of reporting offices and 81.9 per cent of gross bank credit.

Retail Inflation shot up to Double Digit Mark at 10.32 percent in April 2012

As per official data at the retail level released on 18 May 2012, retail inflation shot up to the double digit mark at 10.32 percent in April 2012 on account of substantial increase in vegetable, edible oils and milk prices.

The retail inflation data showed that the surge in prices of vegetables was the greatest at 24.55 per cent in April year-on-year. Vegetables were followed by edible oils, the prices of which soared by 17.63 per cent while milk products were next in line with a 14.94 per cent increase in prices in April 2012.

As for the protein-rich items such as eggs, meat and fish, the year-on-year increase in prices were at 9.95 per cent. Prices of cereals however went up by a much smaller margin of 3.94 per cent during the month.

Sugar turned dearer by 4.32 per cent in April at the retail level while pulses became costlier 6.03 per cent as compared to the same month of 2011.

Overall prices of food and beverages grew by 10.18 per cent in April. Food inflation based on wholesale price entered into double-digit for the first time in six months. Food inflation grew to 10.49 per cent in April 2012 based on the wholesale price
Clothing, bedding and footwear became costlier by 11.95 per cent and prices of fuel and light grew by 11.40 per cent.

According to the CPI data, inflation rates for rural and urban areas were estimated at 9.86 per cent and 11.10 per cent, respectively, for April while the revised figures for the two segments for March was pegged at 8.70 per cent and 10.30 per cent, respectively.

Inflation based on Consumer Price Index (CPI) in the urban areas surged by 11.10 per cent in April year-on-year, while in rural area it grew by 9.86 per cent.

India's Consumer Price Inflation Figure surged to 10.36 Per Cent in the Month of April

India's consumer price inflation (CPI) surged to 10.36 per cent in the month of April 2012. The CPI figure for the month of February and March stood at 9.47 percent and 8.22 percent respectively. The rising figure is largely driven by a rise in prices of vegetables, eggs and fish products.

Inflation as measured by India's benchmark wholesale price index (WPI) rose to 7.23 percent in April 2012 as prices of food, fuel and manufacturing items went up considerably.

The Reserve Bank of India, which unlike other central banks uses mainly the wholesale price index for monitoring inflation, slashed policy rates by a steeper-than-expected 50 basis points last month to boost a sagging economy.

The unrelenting inflation has left the RBI with very little room to further slash the credit rates. The central bank had cut down the policy rates by 50 basis points in its quarterly review of monetary policy in April 2012. The move was aimed at giving a boost to the flaccid state of economy.

Consumer Price Index (CPI)

The annual consumer price index (CPI) was brought out into the practice in February 2012. It measures retail prices of major food groups, fuel, clothing, housing and education across rural and urban India.

Commerce Ministry relaxed the Conditions for Sugar Exports

The Commerce Ministry, on 16 May 2012, relaxed conditions for sugar exports by raising the quota to 25000 tonnes from 10000 tonnes.

Both the Food Ministry and the Directorate General of Foreign Trade (DGFT) issued separate notifications related to the decision. Exports were permitted as the country's sugar output is expected to touch 26 million tonnes in 2011-12, higher than the annual demand of 21.5-22 million tonnes.

The notification comes following the Food Ministry’s formal order issued on 15 May 2012 allowing sugar export without any quantitative restrictions.

Indian Rupee plunged to its Historic Low of 54.56 Against the U.S. Dollar

Indian Rupee plunged to its historic low mark of 54.56 against the U.S. dollar on 16 May 2012. At the Interbank Foreign Exchange market, the rupee opened sharply lower at 54.06 and plunged to all time low of 54.56, surpassing the previous all-time low of 54.30 recorded in December 2011. It finally closed at 54.50.

A falling rupee will adversely affect the economy by raising the cost of imports, which in turn will hike the price of important items in the economy. The falling rupee is largely attributed to the factors like swelling trade deficit, which widened to over 10.9 per cent of gross domestic product in the fiscal years 2011-12, and grim economic outlook.

Rupee was not the only currency which fell down amidst the global pressure but many of the major currencies witnessed the same fate as the dollar was viewed by the investors as the safest bet. While Euro hit its four-month low mark, dollar geared up for its highest level since September 2010.

C Rangrajan, the prime minister's economic advisory council chairman advocated the use of India's foreign exchange reserves to keep in check the consistent depreciation of the rupee against the dollar. India has a total of nearly 290 billion dollar as its foreign exchange reserves.

Following Revised Production Estimates Cotton Advisory Board, Centre allowed further Cotton Export

The Union government in the meeting of informal group of ministers chaired by Finance Minister Pranab Mukherjee on 30 April 2012 decided to allow further cotton exports in the 2011-12 marketing year ending September 2012 following the upward revision of production estimate.

The government had in March 2012 lifted the ban on exports but had decided not to issue fresh registration of certificates (RCs). It only allowed shipments for which RCs were already issued before the ban was imposed on 5 March 2012. India exported 113 lakh bales so far in the current cotton season. Prior to the imposition of the ban the government had issued RCs for about 130 lakh bales.

The decision was based on revised production estimates of the Cotton Advisory Board as well as the Agriculture Ministry. As per the decision, there would not be any quantitative restrictions on registration.

The Cotton Advisory Board (CAB) had in April 2012 revised production estimates upwards to 347 lakh bales from 345 lakh bales for the 2011-12 season. It also revised domestic consumption estimates downwards to about 250 lakh bales from 260 lakh bales earlier. The Agriculture Ministry too revised upwards cotton output to 352 lakh bales from 340.8 lakh bales.

State-owned Oil Companies reduced Jet Fuel Prices by Rs 312 per kilolitre

State-owned oil companies for the second time in the month of April reduced jet fuel prices by a marginal Rs 312 per kilolitre or kl on 30 April 2012. The price of aviation turbine fuel (ATF), or jet fuel, in the reduction was announced in the wake of a Rs 169.3 per kl cut in rates effected from 16 April 2012.

The reductions are however overshadowed by the steep increases effected in March and early April 2012. ATF rates were increased by 3.2 per cent on 1 March 2012, Rs 1298.88 per kl on 16 March 2012 and by another 2.8 per cent on 1 April 2012. Prior to being increased thrice in the months of March and April, jet fuel was priced at Rs 62,557.12 per kl.

Delhi was reduced by Rs 311.74 per kl, or 0.46 per cent, to Rs 67319.71. In Mumbai, jet fuel is to cost Rs 68,306.21 per kl as against Rs 68630.93 per kl now.

Jet fuel constitutes over 40 per cent of an airline’s operating cost and the marginal reduction in prices introduced on 30 April 2012 is expected to take the burden off the cash-strapped airlines.

The three fuel retailers — IOC, Hindustan Petroleum and Bharat Petroleum revise jet fuel prices on the 1st and 16th of every month, based on the average international price in the preceding fortnight.

Goa topped the List of States with Highest Per Capita Income

Goa topped the list of the states with highest per capita income in the country with a total per capita income of 192652 rupees.

Delhi with a total per capita income of 1.75 lakh rupees in 2011-12 secured second spot in the list, followed by Haryana with per capita income of 109227 rupees.

The national average was estimated at 38005 rupees in 2011-12 against 35993 rupees in 2010-11. The estimates WERE prepared as per methodology prescribed by the Central Statistical Organisation on the basis of provisional data provided by it and other government sources.

Union Government decided to include Chit Funds under the Chit Fund Act of 1982 in Six States

The Union government decided to include Chit funds, an informal pooling of funds from individuals for lending under the Chit Fund Act of 1982 in six states including Gujarat and Kerala. The decision was meant to help people access the dispute settlement mechanism. Nagaland, Haryana, Tripura, and Arunachal Pradesh are the other states to come under the Act, providing a cushion for small savers who are at the mercy of local operators. Of the six states brought under the central ruling, only Kerala operated under the Kerala Chit Act of 1975. The other five states had no laws to regulate chit fund operators.

Registered chit funds have to follow rules laid down by the Reserve Bank of India. Industry sources say the legislation will force several unregistered chit funds to shut shop across the country.

Given that the chit funds are not managed professionally, investors face difficulty in getting disputes resolved. As per the estimates projected by the chit fund industry, over 12000 registered chit funds manage in excess of Rs 35000 crore a year. The share of unregistered funds is possibly 80-90 times more than registered funds. The move is expected to bring about level playing field among registered and unregistered chit fund operators and make chit funds a safer product for investors.

A chit scheme generally has a pre-determined value and duration. Each scheme admits a particular number of members (generally equal to the duration of the scheme), who contribute a certain sum of money every month (or everyday) to the ‘pot’. The ‘pot’ is then auctioned out every month. The person bidding lowest sum gets the bid amount.

The initiative to bring chit fund operators under registration is being considered a positive move as it will set systems and processes in the chit fund industry. If chit funds are registered and bound under a central Act, it will improve (legal) the recourse mechanism for investors.

E-Challan and Receipt (ECR) facility launched by Employees' Provident Fund Organisation (EPFO)

Union minister of labour and employment Mallikarjun Kharge inaugurated the E-Challan and Receipt (ECR) facility on 1 May 2012 to bring transparency and accessibility for employers in depositing monthly Employees' Provident Fund or EPF contributions of their workers.

Employers under the ECR service would have to register their organisations online and generate challans for making monthly deposits. They can use these challan for either electronically or physically depositing the Provident Fund or PF contributions to the bank. After the bank confirms the deposit, the concerned regional office's system would be automatically notified and individual members' accounts would get updated.

The claim settlement process would become much easier as under the new initiative, employee details will be added and updated electronically. Also the need of annual accounts preparation at the end of the year can be done away with under this system.

RBI directed Indian Banks to maintain Tier I Capital of at least 7% of their Risk Weighted Assets

The Reserve Bank of India on 2 May 2012 published guidelines for implementation of the new global capital adequacy norms, called Basel III, by March 2018. Indian banks will have to maintain Tier I capital, or core capital, of at least 7 per cent of their risk weighted assets on an ongoing basis. The objective is to strengthen risk management mechanism. As per the guidelines specified by the central bank, commercial banks will have to maintain their total capital adequacy ratio at 9 percent, higher than the minimum recommended requirement of 8 percent under the Basel III norms.

It was decided that scheduled commercial banks (excluding LABs and RRBs) operating in India will have to maintain a minimum total capital (MTC) of 9 percent of total risk weighted assets (RWAs) as against a MTC of 8 percent of RWAs as prescribed in Basel III rules text of the BCBS (Basel Committee on Banking Supervision).

Also, banks were directed to keep a capital conservation buffer of 2.50 percent. It essentially means that banks will have to set aside more capital as buffer to avoid a 2008-like crisis again. On failing to set aside the mentioned capital, the banks will not be able to pay dividend and bonus. The RBI tightened the norms to monitor banks' investments, inter-connectedness and cross-holdings in the financial sector services which are beyond the active regulatory purview of the central bank.

Basel III requires banks to have a higher share of core capital – which is equity and reserves.

Banks will thus require additional Rs 1-1.5 lakh crore over the next six years for doing the same level of business.

The implementation of the capital adequacy guidelines based on the Basel III capital regulations will begin on 1 January 2013. Banks are to attain a minimum Tier I capital ratio of 4.5 per cent by January 2013, 5.5 per cent by January 2014, and 6 per cent by January 2015. The new capital regulations will be fully implemented by 31 March 2018.

Under the existing Basel II framework, banks are required to maintain Tier I capital of at least 6 per cent of their risk weighted assets. Under Basel III, Tier I capital will predominantly consist of common equity, defined as paid-up equity capital, share premium, surpluses arising from sale of assets, other disclosed free reserves, and balance in the profit and loss account at the end of the financial year.

Union Government constituted Inter-Ministerial Group to maximise Coal, Shale Gas exploitation

The Union government constituted an Inter-Ministerial Group (IMG) for developing a coordinated approach for optimal exploitation of coal bed methane (CBM), underground coal gasification and shale gas.

The IMG is to be headed by Planning Commission Member B K Chaturvedi and includes petroleum secretary GC Chaturvedi, coal secretary Alok Perti, ONGC CMD Sudhir Vasudeva, Coal India chairman S Narsing Rao and Reliance Industries CEO P M S Prasad.
The IMG was entrusted the responsibility of recommending a coordinated approach by oil, gas, and coal companies to work together for maximising exploration of hydrocarbon resource potential. ONGC and Coal India have been entrusted the responsibility of providing support on the technical details.

The initiative to appoint the committee was taken amidst reports that oil ministry found a wide variation in CBM prices offered by Reliance Industries and Essar.

Essar has discovered the price for its Raniganj (East) CBM at $4.2 per mmBtu, while RIL has pegged it in the range of over $11 a mmBtu for its two blocks in Madhya Pradesh, oil ministry sources said.

The oil rich states get 10 per cent royalty and 13 per cent value added tax from CBM while the Centre nets 12.5 per cent production-linked payment and 2 per cent central sales tax.

Directorate General of Hydrocarbons (DGH) drafted Policy on Exploitation of Shale Gas

The Directorate General of Hydrocarbons (DGH) drafted a safe as well as encouraging policy on exploitation of shale gas that is seen as the new hope for fuelling India's burgeoning appetite for hydrocarbons. DGF drafted the policy in the wake of the CAG's strictures against the DGH and the Petroleum Ministry on violations in the KG-D6 contract.

The draft policy does not permit cost recovery and hence profit sharing — the two features that came under criticism by the CAG in its audit report. However it banks on production-linked payment (PLP) as the Centre's share from the discovery.

The draft stated that the PLP would be a fixed percentage of revenue receipts from the shale gas or shale oil sold from the contract area, net of royalty on a monthly basis. Royalty would be in line with what is prescribed in the Oilfields (Regulation & Development) act. The PLP quoted at the time of the bidding for blocks assumes significance as it would carry the maximum 60 per cent weight for deciding the award of the block. The total investment quoted for completing the promised minimum work programme would get 40 per cent weightage. As a fiscal incentive, the contractor will be exempt from PLP payment for the first five years from the start of commercial production or from the date of entering the development and production phase, whichever is earlier.

The maximum period of PLP exemption would be 10 years from the date of signing of the contract and will not be extended under any circumstance since it is an incentive for faster development.

As per the policy, the explorer will be given the freedom to market shale gas within India on an arm's length basis, with shale oil marketing following the prevailing norms of the New Exploration Licensing Policy. The other incentive proposed in the draft is customs duty exemption on the import of goods and materials for exploration and exploitation of shale gas or oil.

The blocks are to be awarded through open international competitive bidding with up to 100 per cent equity participation by foreign companies. The operating firm in a consortium would be the one which has minimum 25 per cent equity. The contract would be for 30 years with the first five years kept for exploration, appraisal and evaluation of the prospect and its feasibility.

RBI raised Interest Rate Ceiling on NRI Deposits in Foreign Currencies by up to 3%

The Reserve Bank of India (RBI) on 4 May 2012 raised the interest rate ceiling on NRI deposits in foreign currencies by up to 3%. The interest rate ceiling on Foreign Currency Non-Resident FCNR (B) deposits of banks was raised from 125 basis points (bps) (1.25%) above the corresponding LIBOR or swap rates to 200 bps for maturity period of one year to less than three years, and to 300 bps for maturity period of three to five years. The RBI's measure was aimed at checking flight of foreign currency in the wake of continued fall in the value of the Indian rupee.

The Indian banks will from now on be able to offer higher interest rates on NRI deposits in foreign currency. The central bank deregulated interest rates on export finance, a development that would help exporters to freely raise money in foreign currency without any limit on interest ceilings. The measures adopted by the central bank are aimed at arresting the declining value of the Indian rupee which closed at Rs53.47 against a dollar. For one-year, LIBOR (London Inter-Bank Offered Rate) stood at 1.0472%. LIBOR is world's most widely used benchmark for short-term interest rates.

Reserve Bank of India also decided to allow banks to determine their interest rates on export credit in foreign currency with effect from 5 May 2012.

Competition Commission of India constituteded Eminent Persons Advisory Group

The Competition Commission of India (CCI) formed an Eminent Persons Advisory Group (EPAG) on 7 May 2012. The group is constituted to provide CCI inputs and advice on issues impacting markets and competition, among others.

The group comprise Infosys founder N.R. Narayana Murthy, former Comptroller and Auditor General V.N. Kaul, former Deputy Governor of Reserve Bank of India Rakesh Mohan, Biocon Chairman and MD Kiran Mazumdar-Shaw, former Director, of IIM-Ahmedabad Bakul Dholakia, former Chairman of CERC S.L Rao, former Vice-Chancellor of NLSIU, Bangalore N.L Mitra.

The group will hold its maiden meeting on July 2012. The Group will have interaction/meetings with the Commission two to three times a year.

Indian Export Figure grew by 3.2 per cent in April 2012

The Indian export registered a moderate growth of 3.2 per cent in April 2012 at 24.5 billion dollar. The lower export growth rate largely reflects the declining demand of goods globally. The import over the same period of time also plunged which translated into reduced trade deficit at 13.2 billion dollar.

As per the provisional figures released by the Commerce Secretary, Rahul Khullar, exports in April, the first month of the fiscal 2012-13 amounted to 24.5 billion dollar. Imports for the month grew by 3.8 per cent to 37.9 billion dollar.

The lowering export figure is largely attributed to the serious demand problems and constraints in the Western markets, particularly in Europe, which is passing though its worst economic crisis.

Inflation Figure for April 2012 surged to 7.23 Per Cent

India's overall inflation for the month of April 2012 swelled to 7.23 per cent. The rising figure owes to higher prices of food items, manufactured goods and fuels. The Wholesale Price Index (WPI) was at 6.89 percent in March 2012. The inflation figure for February was also revised to 7.36 per cent from 6.95 per cent earlier.

The inflation in overall food items accelerated by 10.48 per cent as prices of vegetables jumped by 60.97 per cent, milk rose by 15.51 per cent and the cost of eggs, meat and fish surged by 17.54 per cent.

The rising inflation figure poses a great challenge before the RBI, which has been under consistent pressure to cut down the policy rates to accelerate the shrinking growth. The persistent high inflation, however, provides RBI with very little space to take any bold step on rate cut. Practically, the RBI could not go for policy rates cut until the inflation does not come below the comfort level.