

NEWS IN NUMBERS

Divergence in inflation
As wholesale inflation rose in May, the gap between retail and wholesale inflation also widened. While retail inflation rose to 9.87% in June from 9.31% in the previous month, wholesale inflation grew 4.86% from 4.7%. This trend, analysts say, was mainly due to the differing compositions of the inflation baskets



“Even if it is a threat, you have to work”
JAIRAM RAMESH
Rural Development Minister, on his planned visit to Naxalite areas in Jharkhand despite a rebel warning

Subbarao meets FM ahead of global tour

PM, senior colleagues to discuss Mayaram panel report today; Chidambaram briefs Manmohan about economic situation

BS REPORTER
New Delhi, 15 July

Amid talk of sovereign bond issues for foreign markets, the Reserve Bank of India (RBI) Governor D Subbarao met Finance Minister P Chidambaram and other senior ministry officials on Monday for over an hour and discussed various options to arrest sliding macroeconomic numbers and the rupee value against the dollar.

The finance minister, in another meeting, briefed Prime Minister Manmohan Singh about the current macroeconomic situation and his recent visit to the United States.

According to sources, Subbarao rushed to Delhi after he got a call from Economic Affairs Secretary Arvind Mayaram on Saturday. This resulted in the cancellation of the RBI governor's public

engagements in Mumbai. On Monday, Subbarao was scheduled to deliver a keynote address at a seminar on financial inclusion at Maharshi Dayanand College of Arts, Science & Commerce at Parel in central Mumbai and, thereafter, to attend another function at VES Engineering College at Chembur.

Curiously, finance ministry officials said it was the RBI governor who sought an appointment with the finance minister before leaving for London on Wednesday for a lecture. From London, the RBI governor is scheduled to go to Moscow for the G-20 meeting of central bank governors and finance ministers, to be held on July 19 and 20. The finance minister will leave for Jaipur tomorrow to hold the first regional group of ministers on media briefing.

Ostensibly, it was G-20 agenda which was discussed at



RBI Governor D Subbarao after meeting Finance Minister P Chidambaram, in New Delhi on Monday PHOTO: DALIP KUMAR

the meeting, also attended by Economic Affairs Secretary Mayaram, Chief Economic Adviser Raghuram Rajan, and Additional Secretary in the capital markets division K P Krishnan, besides officials from the Budget division.

“I have come to discuss the G20 issues with the finance minister,” said Subbarao. The governor and finance

macro economic issues”. Sources said the meeting deliberated on various options to stem the falling growth numbers and the rupee value against the dollar but no specific decision was taken.

Notably, macro economic parameters have not been showing any sign of improvement. The rupee closed on Monday at 59.89/90 a dollar compared with 59.56/57 on Friday, a depreciation of 0.6 per cent. Industrial production contracted to an 11-month low of 1.6 per cent in May, while retail inflation rose to 9.87 per cent in June from 9.31 per cent in May. Exports, on the other hand, contracted for a second month in a row in June by four per cent.

After the meeting, the finance minister was understood to have met Defence Minister A K Antony. The defence ministry is opposed to the Mayaram panel report on

raising the cap on foreign direct investment (FDI) in defence production to 49 per cent from 26 per cent.

Earlier, the finance minister had said the Mayaram panel recommendations might come up in the Cabinet by the third week of July. The panel had suggested doing away with the minimum cap of 26 per cent and, instead, have a minimum FDI limit of 49 per cent. The recommendations, if accepted, would mean higher FDI cap in media, defence production, insurance (for which a Bill will have to be passed).

The Prime Minister will meet his senior cabinet colleagues on the Mayaram panel recommendations on Tuesday, officials said. The meeting will also take up the concerns raised by the commerce & industry ministry over the increasing number of acquisitions of domestic pharmaceutical companies by foreign companies.

GREEN SHOOTS TRACKER



NEW DATA

TRADE DEFICIT NARROWS



Government efforts to curb gold imports are yielding results. Riding on lower gold imports, India's trade deficit narrowed to \$12.25 billion in June, compared with \$20.1 billion in May, the second-highest. In 2012-13, the trade deficit, widened by gold, oil and coal imports, led to India's current account deficit rising to a record 4.8 per cent of gross domestic product.

DEADLINE FOR VARIOUS MANUFACTURING SEGMENTS

The prime minister has set deadlines for various sectors. He has asked the steel ministry to prepare a road map to raise production on capacity to 300 million tonnes (mt) by 2025, against 120 mt now. An inter-ministerial panel under the textiles secretary has been asked to come up with an action plan to raise textile exports 30 per cent this year in four weeks; a high-level steering group has been asked to come up with the modality to manufacture civilian aircraft. An inter-ministerial group has been asked to come up with the implementation modality for the first pilot project for alternative public transportation in four weeks.



CORPORATE ACTION TECHNOLOGY BOOM IN INDIA

The economic downturn notwithstanding, technology firms are betting on India. Samsung is set to expand its Galaxy S4 range in India. Besides, India is set to record the highest internet protocol traffic growth, with a 44 per cent compounded annual growth rate, between 2012 and 2017, followed by Indonesia (42 per cent) and South Africa (31), a study by the Cisco Visual Networking Index Forecast shows. In Jan-Apr, 9.4 million smartphones were shipped into the country, a rise of 167.3 per cent on an annual basis, said CyberMedia Research's India Monthly Mobile Handsets Market Review, April. During that period, smartphones accounted for 12.8 per cent of the mobile phone market in India.



GOVERNMENT/REGULATOR/JUDICIAL ACTION NEW REGULATOR FOR AVIATION

The government is set to constitute a new regulator for aviation. The Cabinet has approved the civil aviation ministry's proposal to set up an autonomous body, the Civil Aviation Authority, to replace the Directorate General of Civil Aviation. The Bill to establish the new entity is likely to be taken up in the monsoon session of Parliament.

A clarification

Responding to a report published in *Business Standard* on Monday (*Three FDI offers fail transparency test*), MCX has clarified that it is only a coordinator and facilitator to Alexandra Mauritius Ltd's application seeking FIPB's approval for its investment. MCX understands that Alexandra had already furnished the requisite information and it will get in touch with FIPB for any additional information that may be required.

Aircel-Maxis probe stuck in last leg

RUCHIKA CHITRAVANSI
New Delhi, 15 July

The Central Bureau of Investigation (CBI) has sought “financial sanction” from the department of personnel and training in connection with the probe into the Aircel-Maxis deal. The agency had “almost finished” its probe into the matter, which involved Dravida Munnetra Kazhagam leader and former telecom minister Dayanidhi Maran, an official said.

Last week, in a status report presented before the Supreme Court, CBI had said an aspect of the investigation was yet to be closed, and this involved a “financial burden”. A team of investigating officials had visited Malaysia to seek information about the Aircel-Maxis deal. “The agency wants to incur some expenditure outside of India,” said a senior CBI official.

CBI, however, didn't disclose the amount it required and to what purpose.

CBI has received replies to many of its queries from Malaysia. Though the agency has substantial information, it is hopeful of securing additional evidence from Malaysian authorities before finalising the charge sheet in the case. Its probe into the Aircel-Maxis deal has indicated Maxis investments in India breached the permissible limit of foreign direct investments in the telecom sector.

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No Air Surcharge

WHOLESALE PRICE INDEX-BASED INFLATION

June inflation at 4.86%

Subbarao says will factor this in while deciding on rate cut

BS REPORTER
New Delhi, 15 July

The rate of Wholesale Price Index (WPI)-based inflation rose to 4.86 per cent in June, after falling to a 43-month low of 4.7 per cent in May, according to data released by the commerce ministry on Monday. As retail inflation for the month stood at 9.87 per cent, the Reserve Bank of India (RBI) has been caught in a dilemma on easing its monetary stance later this month, analysts said.

“Of course, we will take into account inflation numbers while framing the policy,” RBI Governor D Subbarao told reporters after a meeting with Finance Minister P Chidambaram.

It was mainly primary articles (unprocessed), particularly food, which pushed up inflation despite easing of rate of price rise in manufactured products and fuel items. This means depreciation of the rupee has so far not affected imported inflation. But analysts caution that things would



not be as rosy in the coming months if the rupee continued to remain so low against the dollar.

The rise in inflation was mainly due to a 8.14 per cent rise in the prices of primary articles, against 6.65 per cent in May. Prices of food articles rose 9.74 per cent, against 8.25 per cent in May. The sharpest rise was seen in the case of vegetables — prices rose 16.47 per cent, against 4.85 per cent in May.

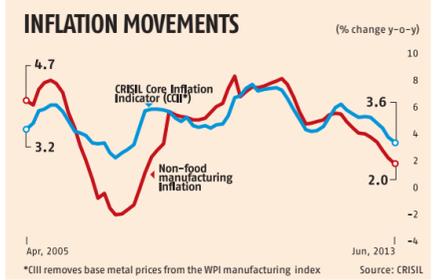
For manufactured items, which have a share of about 65 per cent in the WPI basket, inflation fell to 2.75 per cent, against 3.11 per cent in May.

“We thought higher food prices would be offset by the easing price growth of manufactured goods. However, in the end, it wasn't enough.... The headline figure ticked higher. Higher diesel prices linked to lower fuel subsidies continue to support overall prices,” said Glenn Levine, senior economist, Moody's Analytics.

Core inflation (manufactured items excluding food articles) fell to a 42-month low of 2.1 per cent in June, compared with 2.43 per cent in the previous month. Economists believe this could be a concern. “Core inflation coming down suggests there is absolute lack of demand in the economy, which is a disturbing trend,” said Devendra Pant, director of India Ratings.

Fuel and power inflation stood at 7.12 per cent, against 7.32 per cent in May. Petrol prices fell 7.78 per cent, compared with a 4.43 per cent fall in the previous month. Diesel prices rose 22.7 per cent, compared to 21.1 in May.

The effect of metals



Core inflation, which indicates demand-side pressure on prices, has been falling steadily since the second half of 2012-13. In June, the CRISIL Core Inflation Indicator (CCI), an alternative measure of core inflation, stood at a 45-month low. Non-food manufacturing inflation, the Reserve Bank of India's core inflation measure, fell to a 42-month low in June. The decline in demand-side pressure, as indicated by non-food manufacturing inflation, how-

ever, is being overstated due to a sharp fall in metal prices. In June, metal prices were 2.1 per cent lower than in the year-ago period. While measuring domestic demand-side pressure, metal prices must be excluded, as price movements in metals are largely influenced by the changing global demand. As a result, CCI stood at 3.6 per cent in June (against two per cent non-food manufacturing inflation) and four per cent in May.

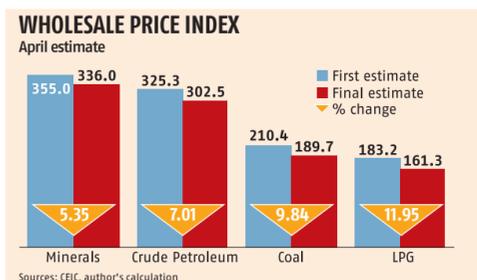
WPI: A poor gauge of inflation

KUNAL KUMAR KUNDU

India released its official inflation data (Wholesale Price Index, or WPI) for June on Monday. Not surprisingly, inflation inched up, though marginally, to a 4.86 per cent annualised rate (a four-month high) from 4.7 per cent in May.

Despite the deterioration, sub-five per cent inflation is what India's central bank should accept any day. The question is should WPI-based inflation be an important input for monetary policy decision? Essentially, it should not.

For starters, WPI is highly volatile. Here, I am not referring to the general volatility of the data, but the marked difference observed (over a fairly



long period of time) between the initial and final estimates. Between January 2010 and April 2013, WPI-based inflation data was revised 38 times; it was scaled up 32 times. For the entire period, the average revision was an upward adjustment

of 0.38 per cent a month. Importantly, the revision takes place after two months, by which time RBI would have already acted upon the data. On numerous occasions, sub-seven per cent inflation rose to well above seven per cent after revision.

The sharp revision within some of the categories in April defies logic and indicates poor quality control over data. In April, the coal price index was finally revised downward by about 10 per cent, while the liquefied petroleum gas (LPG)

price index was scaled down 12 per cent. Though Coal India Limited raised coal prices five per cent in late May, the coal price index for June stood at 189.7, the same as that for May. Even in the case of crude petroleum, while the Indian basket of crude oil in June was, on an average, higher than that in May by about \$300 a barrel, the crude petroleum price index in WPI was actually lower — 304.3 in June compared with 311.4 in May. If these indices are subsequently revised upward, as these should be, WPI inflation for June would stand at above five per cent.

The author is a Delhi-based independent economist

Clause holds up India-Mauritius tax treaty review

NAYANIMA BASU
New Delhi, 15 July

The India-Mauritius Double Taxation Avoidance Agreement (DTAA) review is stuck over differences between the two sides on the type of limitation of benefits (LoB) clause to be inserted in the tax treaty.

The Mauritius government has suggested a “different type” of an LoB clause under the Double Taxation Avoidance Convention (DTAC) than what India has with Singapore. “Every LoB is not the same. There are various types of LoBs. There can be an LoB where expenditure can be on an annual basis,” Rama Sithanan, chairman of

International Financial Services Ltd, told *Business Standard*. He is former finance minister of Mauritius.

The Indian government, however, wants the LoB provision in the India-Mauritius DTAA to be similar to what it has with Singapore.

An LoB clause in the India-Singapore tax treaty requires investors coming into India through Singapore to incur a minimum expenditure of \$200,000 in the Southeast Asian nation and have a track record of two years to get treaty benefits. The proposal on the LoB clause was given by Mauritius in March this year, during the previous meeting of the joint working group, set up

in 2006 and assigned to review several clauses of the treaty signed in 1982. The revision of the DTAC is a long-pending issue and the government is under pressure for early conclusion of the deal. Article 13 on capital gains of the India-Mauritius DTAC provides for taxation of capital gains arising from alienation of shares only in the investor's country of residence.

The Indian side proposed to amend the treaty to provide source-based taxation of such capital gains to retain our tax base. The Indian side proposed to limit the practice of “treaty abuse” by incorporating an LoB clause in the treaty. Officials in the Ministry of

External Affairs said the previous two meetings of the joint working group had shown “some movement” towards commercial substance. “Mauritius has, to a certain extent, understood our genuine concerns on the matter and is willing to act to address them. There has been forward movement on information exchange.”

Both sides have recently finalised but are yet to sign the Tax Information Exchange Agreement (TIEA) outside the DTAA. It is expected the TIEA would be signed during the upcoming visit of the Mauritius' Finance Minister Xavier Duval. The Mauritian government, which is under the Indian public scanner on concerns over round-tripping of investments and large-scale money-laundering, is taking several measures to arrest such incidences in order to establish itself as a credible financial hub.

UP, Bihar foodgrain allocation to soar

SANJEEB MUKHERJEE
New Delhi, 15 July

Bihar and Uttar Pradesh would be the top two in the increase of annual foodgrain allocation among states in line with the National Food Security Ordinance, promulgated earlier this month. Rajasthan is the third.

According to an internal assessment of the food ministry, shared with chief ministers recently, Tamil Nadu, Kerala, Jammu & Kashmir and Himachal Pradesh will see a massive reduction in their annual grain allocation. The assessment was based on the estimated percentage of people to be covered under the ordinance in each state.

Bihar and Uttar Pradesh together send 120 members to the Lok Sabha of the total of 543 elected ones. The assessment shows states where legislative Assembly polls are due in the next few months stand to gain the most from the ordinance. The assessment says annual

allocation of foodgrain to Bihar will rise by 110.2 per cent as compared to average annual offtake under the Targeted Public Distribution System between 2009-10 and 2011-12, from 2.66 million tonnes to 5.6 mt. Annual allocation to Uttar Pradesh will go up 47 per cent as compared to this offtake of three years, from 6.55 mt to 9.63 mt. Rajasthan's annual quota is to rise by 52 per cent. Tamil Nadu's annual quota will fall 32 per cent, from 3.78 mt to 2.57 mt. That of Kerala will come down by the same percentage, from 1.34 mt to 0.91 mt. Jammu and Kashmir's annual allocation will fall almost 40 per cent.

The note showed 80.7 per cent of UP's rural population and 61.25 per cent of the urban one will be covered. In Bihar, it would be 86.7 per cent and 73.2 per cent, respectively.

In Tamil Nadu, 65.25 per cent of the rural population will come under the ambit, as will 42.7 per cent of the urban one.

POLL FEEDING

State	Expected allocation*	Increase/decrease (%)**
Top gainers		
Bihar	5.60	110.16
Rajasthan	3.01	52.60
Uttar Pradesh	9.63	47.00
Top losers		
Jammu & Kashmir	0.45	-40.00
Tamil Nadu	2.57	-32.00
Kerala	0.91	-32.00

*According to the food security ordinance (million tonnes); **As compared to average offtake under the public distribution system between 2009-10 and 2011-12. Source: Food ministry officials