SUMMARY

- Accommodative Monetary Policy announced
- 100% FDI in E-commerce – The Indian Way
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Accommodative Monetary Policy announced

The Reserve Bank of India (RBI) Governor Raghuram Rajan announced a policy repo rate cut of 25 basis points in its recent monetary policy review. The move fell short of the market's expectation of a 50 basis points rate cut, as the Finance Minister Arun Jaitley stuck to the 3.5% fiscal deficit target for the financial year. Equity market was clearly disappointed with the monetary policy - the benchmark BSE Sensex tanked 516 points (2.03%) most in 2 months to close at 24,883. The RBI had previously cut the repo rate by 125 basis points since last January, but the banks reduced their lending rate by only about 70 basis points.

The governor this time recognised the urgency for easier liquidity — without which any rate reduction by RBI is not transmitted to the end borrower through the banking system. The moves to create additional liquidity are direct and accommodative: Repo rate, the rate at which banks borrow short-term money from RBI, has been lowered by 25 basis points to 6.5%; daily balance on Cash Reserve Ratio – the share of customer deposits that banks have to mandatorily park with RBI — is reduced to 90% from 95%; and the extra interest rate that banks are charged for borrowing over and above their quota under repo is down to 7% from 7.75%. Rajan also softened the penalty on banks for extra borrowing from RBI to step up lending.

Earlier in March the government sharply reduced interest rates on small savings schemes across the board, which also acts as a precursor to overall lending rate scenario. The government is now moving on revising interest rates on such schemes every quarter to align them to market rates.

100% FDI in E-commerce – The Indian Way

The government clarified that 100% foreign direct investment (FDI) is allowed in online marketplaces. The Department of Industrial Policy & Promotion (DIPP) clearly distinguished between online marketplaces as a technological platform for trade facilitation between buyer-seller and inventory based models in which companies own and sell goods.

The government has placed three restrictions on the marketplace platform: it cannot offer discounts, single vendor's share of the volume of trade on the marketplace cannot exceed 25%, and post-sales delivery and customer satisfaction will be the responsibility of the seller. The first restriction is against deep online discounting to protect neighbourhood stores and to end predatory pricing as a clause bars marketplaces from offering discounts on their own and clarifies that discounts have to come from the vendors on the platforms.

Also, restricting single vendor's share can be competitive however it may pose difficulty in sector specific e-commerce sites such as travel. On the flip side, it ends exploitation of grey area in policy by existing online players who follow an inventory-led model or pretend to be a marketplace by routing large parts (well over 25%) of their sales through friendly back-end companies like Cloudtail. With an underlying objective to level the playing field with offline stores, which have witnessed a slump in footfalls corresponding to the increase in e-commerce, the government wants to promote small and medium enterprises and increase their market share in the online space. This will also impact the demand for warehousing and logistics for new players.

So far, India has allowed 100% foreign investment in business-to-business (B2B) e-commerce but none in retail e-commerce i.e., business-to-consumer (B2C).

ECONOMIC INDICATORS

Retail inflation as measured by the Consumer Price Index (CPI) eased to 5.18% in February as food prices rose at a slower pace, while Wholesale Price Index stayed in the negative territory for the 16th month in a row. Though the RBI expects the CPI to decelerate and remain around 5% during 2016-17 with small variations in quarters, it is cautious against uncertainties surrounding this inflation path that could arise from unseasonal rains and the strength of the recent upturn in commodity prices. Also, the RBI pegged Economic growth for FY17 at 7.6%.

BALANCE OF PAYMENTS IN SURPLUS

India's balance of payments swung into surplus at £2.9bn in Q3, reversing a deficit of £607m in July-September. Current account deficit (CAD) narrowed to £5bn (1.3% of GDP) in Q3 of 2015-16 lower than £5.4bn (1.5% of GDP) in Q3 of 2014-15. The contraction in CAD was primarily on account of a lower trade deficit as drop in exports slowed and gold imports declined. Net services receipts moderated on a year-on-year basis largely due to fall in export receipts in transport and financial services, though there has been marginal improvement over the preceding quarter. Private transfer receipts, mainly representing remittances by Indians employed overseas, amounted to £11.2bn, a decline of 6.7% from the preceding quarter.

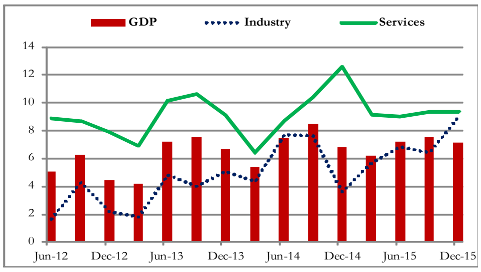
The capital account, on the other hand, got a lift from strong FDI inflows. Net foreign direct investment stood at £7.6bn in Q3 after moderating in Q2 and rose sharply by around 25% against same period in FY15. There was a marginal net outflow of £142m in portfolio investment in Q3 of 2015-16 against net outflow of £2.4bn in the preceding quarter. Non-resident Indian (NRI) deposits moderated significantly in Q3 FY16 over their level in Q3 last year, while portfolio flows and loans (primarily short term credit) remained in the negative.

Monthly Economic Report March 2016

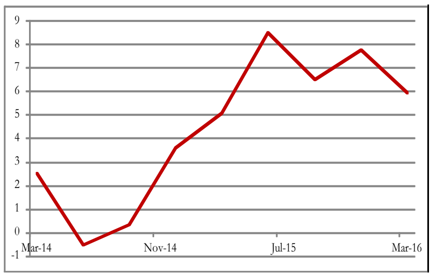
British High Commission New Delhi

GROWTH: *Industrial Production remains in negative zone, on lower capital output.*

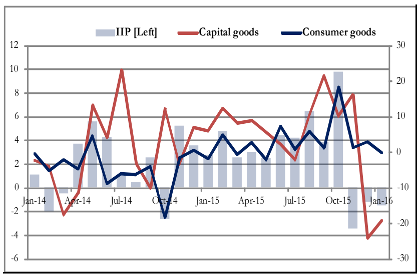
GDP



Projects Under Implementation



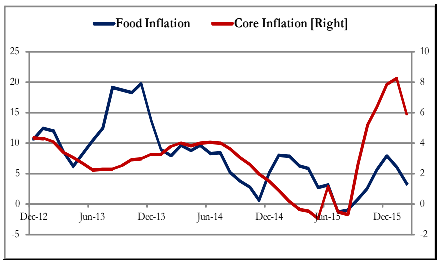
IIP/Capital/Consumer Goods



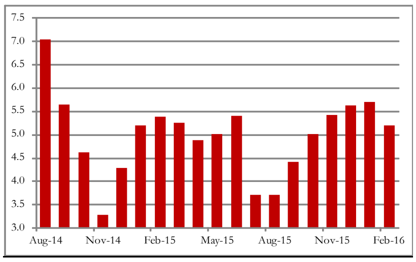
INFLATION: *Wholesale and retail inflation falling on account of food prices.*

Wholesale Price Index (% y/y)

Food vs. Core Inflation (% y/y)

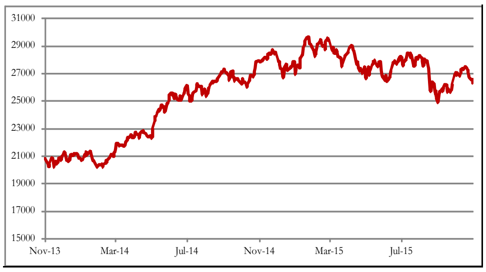


Consumer Price Index (% y/y)

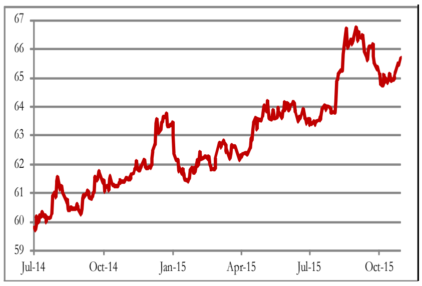


MARKETS: *Capital Market responds negatively to Monetary Policy review in April.*

SENSEX



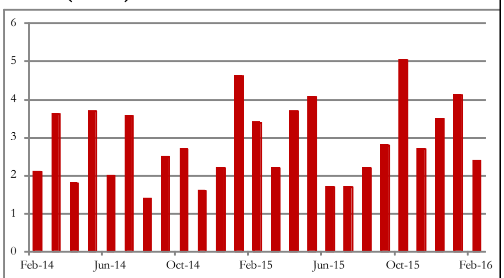
USD/INR



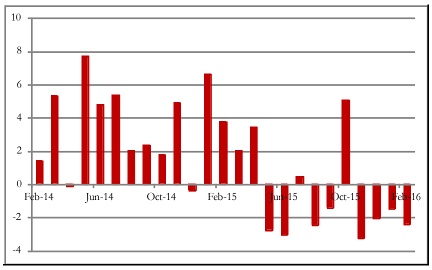
10yr Govt. Securities yield (%)

EXTERNAL: *FIIs continue to trim exposure*

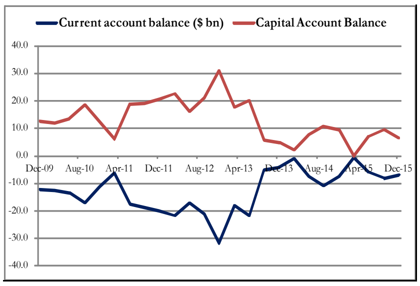
FDI ($ Bn)



FII ($ Bn)

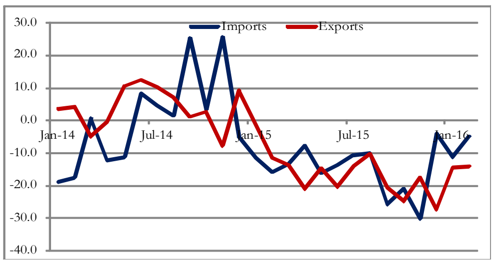


Current vs. Capital A/c ($ Bn)

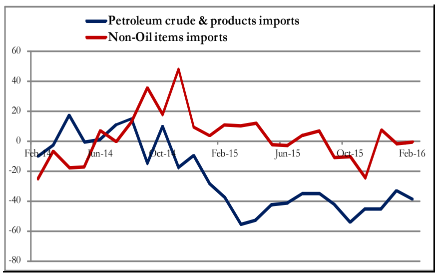


TRADE: *Lower Trade Deficit due to slower fall in Exports and decline in gold imports*

Export/Import Growth (% y/y)



Imports- Oil and Non Oil (% y/y)



Trade Balance ($ Bn)