12 NBK announces winner of KD 250,000 in Al-Jawhara's quarterly draw

13 FIs need to embrace FinTech as an exciting opportunity: Al-Bahar

14 NBK Capital acts as Joint Lead Manager for Burgan Bank's $500 million issuance

ALLAHABAD: An Indian shopkeeper selling grains and legums waits for customers at a market in Allahabad on Friday. India's newly re-elected government promised an easing of foreign investment rules and more infrastructure spending in an effort to boost flagging growth rates. — AFP

India raises import tariffs, taxes on superrich

Fiscal deficit target for 2019/20 trimmed to 3.3% of GDP in budget

NEW DELHI: India raised import tariffs on nearly 75 items including gold and automobile parts in its budget on Friday and increased taxes on the rich to help pay for recapitalizing banks and supporting small business in a bid to revive sagging growth. Aiming to restart investment that's at its weakest level in years, the Prime Minister Narendra Modi's government also proposed giving foreign investors a bigger role in India's giant insurance and aviation sectors, which have been tightly controlled for decades.

Finance Minister Nirmala Sitharaman unveiled the proposals while presenting to parliament the budget for the fiscal year ending March 31, 2020, the first since the Hindu nationalist-led government was re-elected in a vote spanning April and May. Modi, boosted by his election victory, has set a target of growing India into a $5 trillion economy by 2024/2025 from $2.7 trillion. A government report on Thursday said this will be done on the back of higher investment, savings and exports in the way China's growth was propelled.

"This budget is setting out a vision, a target, for every sector of our society," Sitharaman said to the thumping of desks in parliament. GDP growth slumped to 5.8 percent in January-March, the lowest in 20 quarters. Growth for the last fiscal year, at 6.8 percent, was also a five-year low. All important indicators of economic activity, like the dipping index of industrial production and plummeting automobile sales, confirmed the slowdown.

But the government did not announce a big jump in public spending, contrary to expectations. Sitharaman said the fiscal deficit for this financial year would be trimmed to 3.3 percent of GDP - which analysts said was likely based on ambitious expectations of higher tax collections.

"Commitment to restrict fiscal deficit at 3.30 percent compared to 3.40 percent is a good intent, but we need to look at the revenue assumptions more closely to draw more comfort," said Joseph Thomas, head of research, Embay Wealth Management in Mumbai. Capital Economics is skeptical about the deficit target. "The fiscal maths don't add up," it said.

Taxes on super-rich

Sitharaman raised import duties on gold and other precious metals to 12.5 percent from 10 percent, and levied an import tax of one rupee per ton on crude oil to boost federal revenue just as global oil prices have softened from their highs. The government also increased local levies on a liter of petrol and diesel by two rupees each, stoking fears of inflation.

The finance minister said the government would provide state-owned banks 700 billion Indian rupees ($10.23 billion) of additional capital that are laden with bad debt which has affected their ability to lend and also spur economic growth. Indian banks and financial institutions, in all, hold bad debt of over 10 trillion rupees. The government raised income tax surcharge on people with an annual income of more than 20 million rupees who make up the top end of Indian society.

Currently, India imposes a 10 percent surcharge where total income is between 5 million rupees and 10 million, and 15 percent on income above 10 million rupees. The new rate will include 25 percent surcharge on income between 20 million and 50 million rupees, and 37 percent on income exceeding 50 million rupees a years.

"This budget is a mixed bag with a significant increase in taxation for the wealthy. Also, the increase in excise duty for petrol and diesel will stoke inflation," said Abhimanyu Sofa, head of research at IIFL Securities Ltd. Sitharaman cut corporate tax rates to 25 percent from 30 percent for companies with an annual turnover of up to 4 billion rupees, from current ceiling of 2.5 billion rupees.

But there was no move forward on the government's long-time goal of across-the-board cutting of corporate taxes - now about 35 percent - to make India more competitive with other countries. In 2018, average corporate tax was 25 percent in China and Indonesia, 24 percent in Malaysia and 20 percent in Thailand, according to KPMG.

Foreign role in insurance, retail

The government said 100 percent foreign ownership will be permitted for insurance intermediaries and local sourcing norms will be eased for FDI in retailers selling a single brand. India currently allows foreign direct investment in single-brand retail but mandates investors to source locally 30 percent of the value of good purchased. At present, India allows 49 percent foreign ownership through the automatic route in the insurance sector, which is worth billions of dollars and has been tightly controlled for decades for fear of a backlash from the unions.

"It is high time India gets fully integrated into the global value chain of production of goods and services but also becomes part of the global financial system to mobilize global savings mostly institutional in insurance, pension, and sovereign wealth funds," Sitharaman said.

But economists say scaling up Asia's third largest economy in rapid fashion will need bold reforms including freeing up land and labor markets, which Modi shied away from in his first term for fear of political backlash. Capital Economics said in a note that reaching that target "is dependent in large part on achieving real GDP growth of 8 percent a year, which we think is unlikely."

Land and labor reforms are difficult in a democracy like India and it seems unlikely Modi will risk drawing the ire of his Bharatiya Janata Party voters that gave him a huge re-election mandate. Sitharaman set an ambitious target of sale of stakes in state-run companies to 1.05 trillion rupees ($15.33 billion) from 850 billion rupees raised in the previous fiscal year.

A plan to sell the national carrier Air India has failed for lack of buyers and in the last couple of years the government has reached its target by selling its shares in one state-run firm to another in a sleight of hand. Indian shares fell on Friday as Sitharaman proposed increasing the minimum public shareholding in listed companies to 35 percent from 25 percent, threatening a wave of new issuance.

But bonds and the rupee firmed after the government trimmed this year's fiscal deficit target and said some of its borrowing would be made offshore. — Reuters

Erdogan sacks Turkey central bank governor amid rate tensions

ANKARA: President Recep Tayyip Erdogan has sacked the governor of Turkey's central bank and replaced him with his deputy, a presidential decree said yesterday, after months of tension with the government over high interest rates. Murat Cetinkaya, who was appointed to the role in April 2016, has been replaced by Murat Uysal, according to the decree published in the official gazette, which gave no official reason for the change.

There had been recent speculation that Cetinkaya could be replaced amid disagreements with the government on cutting interest rates. Erdogan has repeatedly railed against high interest rates and called for them to be lowered to stimulate growth.

He once called high rates the "mother and father of all evil". Turkey's main interest rate is 24 percent after the bank under Cetinkaya made an aggressive rate hike of 625 basis points last September following a currency crisis in August. Last month, Erdogan said the current rate was "unacceptable", promising to find a solution as soon as possible.

"I agree on the independence of the central bank but let me put it very clearly that I am against interest (rate) policies and above all, high interest rates," he said.

'Adventurist path'

Erdogan's ruling Justice and Development Party (AKP) has built its success on Turkey's strong growth, with supporters boasting of progress in living standards during the Turkish leader's 16 years in office - first as prime minister and then president. But the weakening economy contributed to the AKP losing Ankara and Istanbul in recent local elections, in what was a stinging rebuke to the ruling party in power since 2002.

Economic columnist Ugur Gurses said that the central bank chief was sacked with the goal of lowering rates. "As I predicted, Ankara is swiftly taking an adventurist path after losing the election," he wrote on Twitter.

"The goal of removing the central bank governor is clear: print money and lower the interest (rate) but the governor cannot be sacked except for the reasons specified in its law. A presidential decree is not above law." The central bank's next policy meeting is scheduled to be held on July 25.

The new governor Uysal said he would continue to use monetary policy tools "independently" while remaining focused on ensuring price stability as his "main aim", according to a central bank statement.

Uysal, who had served as deputy governor since June 2016, will hold a press conference in the coming days, the bank said. The change of central bank chief came after markets closed on Friday.

Disputes with US

Turkish inflation fell to 15.72 percent in June-the lowest rate in nearly a year-from 18.71 percent in May, official statistics showed on Wednesday. The opposition Republican People's Party (CHP) spoke out against the removal of Cetinkaya, with spokesman Faik Oztrak accusing the president of interfering in the independence of the central bank. "Those who do this have lost the right to say 'trust in our economy'. The Turkish central bank is a hostage in the hands of the Palace. Full stop," he wrote on Twitter.—AFP

ANKARA: In this file photo, Turkey Central Bank Governor Murat Cetinkaya looks on during a hand over ceremony. — AFP