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NEWS BUZZ

Crude Oil Import From Iran To Save $8 Billion

Oil minister, Veerappa Moily says he has worked out concrete measures which could result in saving of around $19-20 billion in current financial year and India can save about $8.5 billion by increasing crude oil imports from Iran. India, which paid about $144.29 billion last fiscal for importing oil, is renewing imports from Iran as unlike imports from other countries it pays the Persian Gulf nation in rupees

Other measures include asking state-owned oil firms to keep crude imports at 2012-13 level of 105.96 million tonnes that will save $1.76 billion in foreign exchange. Also, a mega fuel conservation campaign to limit fuel consumption growth to last year's 4.1% will save another $2.5 billion, he said. India had in 2012-13 imported 13.14 million tonnes of crude oil from Iran, down from 18.11 million tonnes of 2011-12. Iran was till 2010-11 India's second largest supplier after Saudi Arabia but has since slipped to the sixth place.

India's GDP Drops to the lowest in 4 Years

The Gross Domestic Product (GDP) growth of India decelerated even more to 4.4 percent, the slowest rate of expansion in 4 years, i.e., since 2008 economic meltdown. The GDP growth stood at 4.4 % in the first quarter (April-June) of the fiscal year 2013-14. The reason for this drop is poor performance of the manufacturing as well as mining sector. As a result, there is a need for combined action by the Reserve Bank of India (RBI) and the Union Government of India. Central Statistical Organisation (CSO) revealed that mainly mining sector was responsible for bringing down the economic growth of India.

In this sector, the rate of growth was 2.8 percent in April-June quarter in comparison to 0.4 percent in same period during 2012-13 fiscal year. The manufacturing sector also brought down the growth. This was seen at 1.2 percent from 1 percent in same quarter during 2012-13 financial year. Significant decrease was also observed in other sectors such as transport and hotels, power generation as well as construction.

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FSLRC - An Overview

The Financial Sector Legislative Reforms Commission (FSLRC) is a body of Government of India, Ministry of Finance, set up on 24th March, 2011. FSLRC was set up to review the laws governing India's financial system. The need for review of existing financial laws has been underlined to make Indian financial sector more dynamic in an increasingly interconnected financial markets. The main objective of FSLRC is to simplify the regulatory framework of Indian financial markets and to fill in the regulatory gaps.

FSLRC submitted a report to Ministry of Finance on 22nd March, 2013 containing analysis of current regulatory framework of Indian financial system and a draft of Indian Financial Code. It has addressed the following components of financial legal system in its draft and has proposed following recommendations:

- **Consumer Protection:** Consumers of financial services are more exposed to risks than the consumer of ordinary goods and services. The draft code establishes certain basic rights for all financial consumers and proposes to establish a single unified Financial Redressal Agency (FRA) to serve any aggrieved consumer across financial sectors.

- **Micro Prudential Regulation:** The regulators should put in efforts and monitor to reduce the probability of failure of firms. The motivation of Micro Prudential Regulation is rooted in Consumer Protection.

- **Resolution:** In case of financial failure, firms should be wound up in favor of small investors.

- **Capital Controls:** It suggests that all the capital controls are to be implemented by RBI.

- **Systematic Risk:** Some conglomerates operate across different financial systems. In order to coordinate work between different regulatory agencies in their micro prudential regulation, inter-agency coordination is vital. To reduce risk FSLRC has suggested establishing Financial Stability and Development Council (FSDC) as a statutory body. This would ensure decisions impacting multiple sectors can be taken swiftly and can be enforced by different agencies.

- **Development and Redistribution:** Bond markets & similar markets can be developed by gathering and analyzing data at scale of full financial system instead of focusing on one sector at a time. Also, redistribution policies are to be brought under the purview of Ministry of Finance whereas compliance of such policies is to be monitored by the regulatory authorities.

- **Monetary policy:** Along with establishing the independence of Monetary Policies, an accountability mechanism needs to be set up. RBI should be empowered to set up these policies with a goal to achieve price stability.

- **Public Debt Management:** At present the information regarding the onshore and offshore debts of government are fragmented across RBI and Ministry of Finance. It proposes to establish a single agency to manage public debt and to finance the long run public debt at lower costs.

Present	Proposed	Functions
RBI	RBI	Monetary Policy, regulation and supervision of banks, regulation and supervision of payment system.
SEBI FMC IRDA PFRDA	United Financial Agency (UFA)	Regulation and supervision of all non-bank and payments related markets.
Securities Appellate Tribunal (SAT)	FSAT	Hear appeals against RBI, UFA and FRA.
Deposit Insurance and Credit Guarantee Corporation (DICGC)	Resolution Corporation	Resolution work across entire financial system.
New Entities	Debt Management Agency	An independent Debt Management Agency
	Financial Redressal Agency (FRA)	Consumer Complaints

• **Contract, trading and Market Abuse:** It lays down the legal foundation for contracts, property and security markets.

Despite strong support from the financial sector there are certain criticisms of the draft code which are as follows :

• The changes proposed by FSLRC are so major that it might not be implemented. For example the proposal to formulate a Super Regulator. Most regulators would end up in turf wars and there would be gaps.

• The call to cut back few powers of RBI that has enjoyed this special status since inception will face huge resistance.

• Instead of improving the existing laws in the Indian financial sector the commission has tried to change the whole system altogether.

Salvaging the Rupee

-Steps Taken By RBI

The RBI ,the Central Bank of India, has been taking various measures to shore up the currency. The various measures and its implications and challenges have been discussed below:

1. To spur growth RBI can reduce the Repo rate.

Repo rate: The rate at which the RBI lends money to commercial banks is called repo rate. So the banks can easily borrow money from the RBI whenever they are short of fund. This money can be supplied into the system for developmental activities.

2. RBI can reduce the CRR and the SLR to supply more funds into the system.
Cash Reserve Ratio (CRR): It is the minimum amount of the cash balance (reserve) that the bank needs to park with the RBI.
Statutory Liquidity Ratio(SLR) :It is the minimum amount of the reserve asset that the banks need to maintain with the RBI. The assets can be fixed or liquid assets.

As per the latest reports, these moves are still in contemplation.
RBI's counter argument is that the people's higher purchase of goods prompted by lower interest rates would only help push prices at this moment and thus cause hike in inflation.

3. Credit availability for gold imports has been tightened.
The RBI has ruled out any credit transactions for imports unless they were intended to make jewellery for export.

4. The RBI has tightened the norms for gold imports by linking them to exports.
The RBI has asked the importers to retain 20 percent of the gold they import in customs-bonded warehouses, and will only be able to buy in more after exports equivalent to 75 percent of the retained amount have been shipped.

The above two measures have been taken to reign in the widening Current Account Deficit (CAD) due to the large amount of gold being imported by India.

5. The RBI has reduced the amount of dollar resident Indians can take out of the country from $2,00,000 to $75,000 in a financial year. Indian companies have to seek RBI's permission if they want to invest any amount beyond their net worth abroad. Earlier, a company could invest as much as four times its net worth in an overseas venture.
This measure has been included to control the flight of dollar out of India.

6. In order to attract inflow of foreign currency, the RBI has simplified rules governing investments by non-resident Indians (NRIs) in portfolio investments like equities and debt.

7. NRE deposits with reference base date of July 26, 2013, and having maturity of three years and above, mobilized by banks will be exempt from maintenance of CRR and SLR. Thus the banks have been encouraged to attract more foreign currency through NRE accounts.

8. RBI has been given freedom to the banks to offer interest rates on NRE deposits without any ceiling. As a result, many banks have hiked the interest rate offered on the NRE deposits. For e.g.: a) Federal Bank has hiked its non-resident external (NRE) term deposit rates in the three-year and above bucket to 9%, which is higher than the 8.75% offered on identical domestic deposits.

b) South Indian Bank has also hiked its NRE max deposit rate (three to five years) to 9.5% while interest rate on domestic term deposit of three and up to 10 years fetches 8.75%.
The above three measures will help route the investment from NRIs through the NRE accounts.

9. RBI has relaxed external commercial borrowing (ECB) norms and allowed companies to use the overseas debt to pay for import of services, technical know-how and licence fee as part of capital goods imports.
External Commercial Borrowings (ECB): The foreign currency borrowings raised by the Indian corporates from confirmed banking sources outside India are called "External Commercial Borrowings"

10. RBI will provide dollars directly to state oil companies in its latest attempt to shore up the rupee. State-run companies are the biggest source of dollar demand in markets - worth $400 million to $500 million daily - and directing them to a special window is meant to reduce pressure on the rupee.

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