

# Monthly Policy Review

April 2019

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## Highlights of this Issue

### [Retail inflation at 2.86% in Q4 of 2018-19 \(p. 2\)](#)

Consumer Price Index inflation marginally increased from 2% in January 2019 to 2.86% in March 2019. Food prices increased through the quarter, from -2.24% in January 2019 to 0.3% in March 2019.

### [Repo and reverse repo rate reduced to 6% and 5.75% respectively \(p. 2\)](#)

The Monetary Policy Committee reduced the repo rate from 6.25% to 6% and the reverse repo rate from 6% to 5.75%. The RBI decided to maintain the “neutral” monetary policy stance.

### [Supreme Court struck down RBI circular on stressed assets of banks \(p. 2\)](#)

Supreme Court declared that the RBI’s circular was outside the scope of its power. The Circular had sought a uniform 180-day timeline for the implementation of Resolution Plan for stressed assets over Rs 2000 crore.

### [Draft National Urban Planning Framework released \(p. 4\)](#)

The draft framework makes several recommendations such as making the planning process dynamic and participatory, establishing Unified Metropolitan Transport Authorities, and improving municipal financing.

### [RBI released Draft Enabling Framework for Regulatory Sandbox \(p. 2\)](#)

The Regulatory Sandbox will provide a formal regulatory mechanism for encouraging innovations in FinTech. It aims to provide an avenue for regulator to engage with ecosystem and facilitate delivery of financial services.

### [CBDT releases report on profit attribution for taxation of non-residents in India \(p. 3\)](#)

For an objective determination of income of non-residents, a three factor method has been recommended with equal weightage to sales, employees, and assets. A fourth factor, users, has also been proposed for certain cases.

### [IMD released long range forecast for southwest monsoon rainfall 2019 \(p. 4\)](#)

The monsoon seasonal rainfall (June-September 2019 period) is estimated to be 96% of the long period average (LPA), with an error of +/- 5%. Rainfall is considered to be normal if it ranges between 96-104% of the LPA.

Note that the Model Code of Conduct is in place from March 10, 2019 till the completion of elections to the 17<sup>th</sup> Lok Sabha. The government cannot make major policy decisions during this period without prior approval of the Election Commission of India.

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May 1, 2019

## Macroeconomic Development

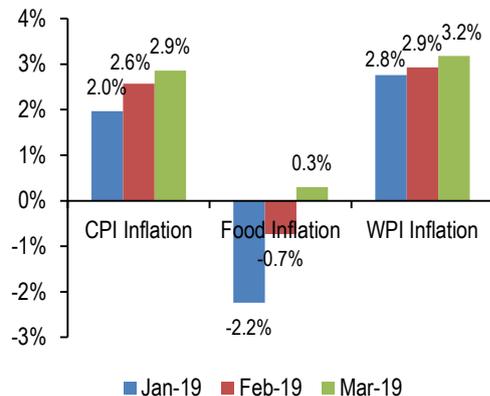
Gayatri Mann ([gayatri@prsindia.org](mailto:gayatri@prsindia.org))

### Retail inflation at 2.86% in the fourth quarter of 2018-19

The Consumer Price Index (CPI) inflation (base year: 2011-12, year-on-year) marginally increased from 2% in January to 2.86% in March 2019.<sup>1</sup> Food prices remain depressed through the quarter with a deflation of 2.24% in January and a marginal inflation of 0.3% in March.

The Wholesale Price Index (WPI) inflation (base year: 2011-12, year-on-year) increased from 2.76% in January 2019 to 3.18% in March 2019.<sup>2</sup> Trends in inflation during the fourth quarter of 2018-19 are shown in Figure 1.

**Figure 1: Inflation trends in Q4 2018-19 (% change, year-on-year)**



Sources: Ministry of Statistics and Programme Implementation; Ministry of Commerce and Industry; PRS.

### Repo and reverse repo rate reduced to 6% and 5.75% respectively

The Monetary Policy Committee (MPC) released its first Bi-Monthly Monetary Policy Statement of 2019-20.<sup>3</sup> The policy repo rate (the rate at which the Reserve Bank of India (RBI) lends money to banks) was reduced from 6.25% to 6% by a majority vote of the members. Two of the six members voted to keep the rate unchanged. Other decisions of the MPC include:

- The reverse repo rate (the rate at which the RBI borrows money from banks) was reduced from 6% to 5.75%.
- The marginal standing facility rate (the rate at which banks can borrow additional money) and the bank rate (the rate at which the RBI buys or rediscounts bills of exchange) were reduced from 6.5% to 6.25%. Further, RBI decided to maintain the “neutral” monetary policy stance.

## Finance

### Supreme Court struck down an RBI circular on stressed assets of banks

Anurag Vaishnav ([anurag@prsindia.org](mailto:anurag@prsindia.org))

Supreme Court struck down a circular issued by the RBI dated February 12, 2018.<sup>4</sup> The circular had laid down a framework for restructuring of stressed assets of over Rs 2,000 crore.<sup>5</sup>

As per the circular, the resolution plan for such restructuring had to be implemented within 180 days from (1) March 1, 2018 for existing defaults, or (2) the date of first default for any subsequent defaults.

The Supreme Court held the Circular to be outside the scope of the power given to it under Article 35AA of the Banking Regulation (Amendment) Act, 2017.<sup>6</sup> The Court reasoned that Section 35AA was proposed by the 2017 Act to authorise the RBI to issue directions only in relation to specific cases of default by specific debtors. It held that the RBI circular issued directions in relation to debtors in general and this was outside their scope of power. The court also held that consequently all IBC proceedings initiated under the RBI circular are quashed.

For a PRS blog on the Court order, see [here](#).

### RBI releases draft enabling framework for Regulatory Sandbox

Anurag Vaishnav ([anurag@prsindia.org](mailto:anurag@prsindia.org))

The RBI released the draft framework for Regulatory Sandbox for public feedback.<sup>7</sup> An inter-regulatory Working Group was setup in 2016 by the RBI to review the regulatory framework of the financial technology sector. It recommended introducing a framework for a regulatory sandbox.

The sandbox provides an environment which allows market participants to test new products, services or business models with customers in a controlled environment. The aim of the sandbox is to enable regulations that will facilitate delivery of low-cost financial products. Key features of the draft framework include:

- **Eligibility:** The focus of the sandbox will be on encouraging innovations where (a) there is absence of governing regulations, (b) easing regulations can be an enabler for the proposed innovation, or (c) the proposed innovation can significantly ease delivery of financial services.

- In view of the above, the draft framework identified an indicative list of innovative products, services and technologies which could be considered for testing under the sandbox. These include retail payments, money transfer services, mobile technology applicants, data analytics, financial advisory services, financial inclusion and cyber security products.
- The draft framework also provided that the FinTech company should be incorporated in India and must meet the criteria of a start-up to be eligible for selection in the sandbox. Further, the entity should have a minimum net worth of fifty lakh rupees as per its latest audited balance sheet. Note that an entity is considered as a start-up if it (i) has been registered for a period of less than seven years, (ii) its turnover has not exceeded Rs. 25 crore for any of the financial years, and (iii) it is working towards innovation, development or improvement of products or processes or services.
- **Timeline of implementation:** The sandbox process will consist of five stages spanning across 26 weeks. The stages include preliminary screening of product, test design, application assessment, testing and evaluation. The implementation will be overseen by the FinTech Unit at the RBI.

Comments on the draft framework are invited till May 08, 2019.

### **CBDT releases report on profit attribution for taxation of non-residents**

*Suyash Tiwari (suyash@prsindia.org)*

The Central Board of Direct Taxes (CBDT) has invited comments on a report on profit attribution to Indian operations for taxation of non-residents in India.<sup>8</sup> Non-residents include: (i) persons residing in India for less than 182 days in a year, (ii) companies not registered under the Companies Act, 1956 or companies with their place of effective management outside India, or (iii) firms or associations with their management situated wholly outside India. As per the Income Tax Act, 1961, non-residents are required to pay tax on the income that they receive or accrue from their operations in India. This income is calculated based on the accounts maintained separately for such operations, or as a certain percentage of turnover, or as deemed fit by the Assessing Officer.

CBDT had constituted a Committee to examine the methodology for profit attribution to

operations of non-residents. Key observations and recommendations of the Committee include:

- **Discretionary powers:** The Committee observed that the Assessing Officers have a wide discretion in determination of income of non-residents. The officers use diverse methods of attributing profits which gives rise to uncertainty and tax disputes. It recommended the use of a uniform rule or an objective method for this purpose.
- **Profit attribution:** The Committee recommended a three factor method using sales, employees, and assets for attribution of profit to an operation, where each factor has an equal weightage. Profit should be attributed to an operation by apportioning the profits derived from India using the three equally weighted factors. Profits derived from India should be calculated as a certain percentage of revenue, which is the higher of: (i) the global operational profit margin, or (ii) two percent.
- **Users:** The Committee observed that users of an operation should also be taken into account for profit attribution in cases where users contribute significantly to profits, e.g. digital companies. Users can be a substitute to assets or employees, and supplement their role in creating profits. It recommended a 10% weightage to users in cases of low and medium user intensity business models with 30% weightage each for the other three factors. For high user intensity business models, it proposed a 20% weightage to users, with 30% weightage to sales and 25% weightage each to employees and assets.

Comments are invited till May 18, 2019.

### **RBI permits Foreign Portfolio Investors to invest in Municipal Bonds**

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Foreign Portfolio Investors (FPIs) may now invest in Municipal Bonds, subjected to limits set for FPI investment in state development loans.<sup>9</sup> Municipal Bonds are debt instruments issued by a Nagar Panchayat, Municipal Council or Municipal Corporation. The current limit for investment in state development loans is 2% of outstanding stocks of securities.<sup>10</sup>

The measure is taken to broaden access of non-resident investors to debt instruments in India. Previously, FPIs were permitted to purchase securities such as dated government securities, treasury bills and credit enhanced bonds.

## Housing and Urban Affairs

*Prachee Mishra (prachee@prsindia.org)*

### Draft National Urban Planning Framework released

The Ministry of Housing and Urban Affairs released the draft National Urban Planning Framework (NUPF), 2018.<sup>11</sup> The NUPF is structured along two lines: (i) 10 core philosophical principles of urban planning, and (ii) these principles are then applied to ten functional areas of urban space and management. The framework provides recommendations on these functional areas. Key recommendations include:

- **City planning:** Master plans should be dynamic and complemented with a strategic, action-oriented plan, and be linked to budgets. The plan must be developed with coordination and negotiation between agencies of land use, transportation, infrastructure service provision and economic development. The planning exercise should be participatory and embrace diverse resident views, including women, youth and immigrants.
- **Urban finance:** States should set norms for cities to meet their revenue expenditure from own revenue and earmark a minimum amount for capital works. Where services can be measured and beneficiaries are identifiable, user charges should be assessed and collected.
- **Urban governance:** Fragmentation of functions at the municipal level must be fixed by codifying the roles of Mayors, Commissioners, and Councils. The principle of subsidiarity should be used to devolve funds, functionaries and functions to different levels (ward committees/area sabhas, municipal and regional level).
- **Transportation:** A Unified Metropolitan Transport Authority, with an overarching transport vision, must be created across all towns. It should also have the authority to make decisions on traffic flow planning, which is currently under the control of the traffic police.
- **Housing:** A national housing stock must be created under the NUPF in collaboration with the Ministry of Rural Development, and as per the guidelines of Pradhan Mantri Awas Yojana. Different types of property rights must be evaluated against multiple ends: (i) enabling market exchange, (ii)

securing tenure, and (iii) protecting against market-induced displacement. State policies should be designed to deliver and manage rental housing.

Comments on the draft framework are invited till May 31, 2019.

## Agriculture

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### IMD releases long range forecast for southwest monsoon rainfall 2019

The India Meteorological Department (IMD) released its first long range (seasonal) forecast for southwest monsoon rainfall in 2019.<sup>12</sup> The monsoon seasonal rainfall (June-September 2019 period) is estimated to be 96% of the long period average (LPA), with an error of +/- 5%. Rainfall is considered to be normal if it ranges between 96-104% of the LPA. LPA is the average rainfall in a region during the period 1951 to 2000, which is 89 cm for the country as a whole.

In 2018, the southwest monsoon rainfall was estimated to be 97% of the LPA, whereas the actual rainfall was 91% of the LPA.<sup>13</sup>

## Home Affairs

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### Ministry suspends trade along Line of Control

The Ministry of Home Affairs issued orders to suspend trade along the Line of Control (LoC) in Jammu and Kashmir, with effect from April 19, 2019.<sup>14</sup> Note that LoC trade takes place through two trade facilitation centres in Baramulla and Poonch districts of Jammu and Kashmir for facilitating exchange of goods between local populations across the LoC. The decision was taken based on reports received by the central government that trade routes were being exploited for funnelling illegal weapons and narcotics.

### AFSPA withdrawn from four police stations of Arunachal Pradesh

The Ministry of Home Affairs has withdrawn the application of the Armed Forces (Special Powers) Act, 1958 (AFSPA) from the jurisdiction of four police stations.<sup>15,16</sup> These

police stations are: (i) Balem and Bhalukpong districts in West Kameng district, (ii) Seijosa in East Kameng district, (iii) Balijan in Papumpare district. Following the withdrawal, the Act will apply to three districts of Arunachal Pradesh and the jurisdiction falling within four police stations in the state.

## Fertilisers

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### Cabinet approves extension of the New Urea Policy 2015

The Cabinet Committee on Economic Affairs approved the extension of the New Urea Policy

2015 from April 1, 2019, till further orders.<sup>17</sup> The New Urea Policy was released in May 2015.<sup>18</sup> The policy seeks to increase indigenous urea production, promote energy efficiency in production, and reduce the subsidy burden on the central government.

<sup>1</sup> “Consumer Price Index Numbers on Base 2012=100 for Rural, Urban and Combined for the month of March 2019”, Press Release, Ministry of Statistics and Programme Implementation, April 12, 2019, [http://mospi.nic.in/sites/default/files/press\\_release/Press%20Statement\\_2.pdf](http://mospi.nic.in/sites/default/files/press_release/Press%20Statement_2.pdf).

<sup>2</sup> “Index Numbers of Wholesale Price in India (Base: 2011-12=100): Review for the month of March, 2019”, Press Information Bureau, Ministry of Commerce and Industry, April 15, 2019.

<sup>3</sup> “First Bi-Monthly Policy Statement 2019-20”, Press Release, Reserve Bank of India, April 18, 2019, [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=46838](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=46838).

<sup>4</sup> Dharani Sugars and Chemicals Ltd. vs. Union of India (UOI) and Ors, 2019 (5) SCALE629, [https://www.sci.gov.in/supremecourt/2018/42591/42591\\_2018\\_Judgement\\_02-Apr-2019.pdf](https://www.sci.gov.in/supremecourt/2018/42591/42591_2018_Judgement_02-Apr-2019.pdf).

<sup>5</sup> Resolution of Stressed Assets – Revised Framework, Press Release, Reserve Bank of India, February 12, 2018, <https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=11218&Mode=0>.

<sup>6</sup> The Banking Regulation (Amendment) Bill, 2017, <https://www.prsindia.org/billtrack/banking-regulation-amendment-bill-2017>.

<sup>7</sup> Draft Enabling Framework for Regulatory Sandbox, Press Release, Reserve Bank of India, April 18, 2019, [https://rbiidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/EFRA\\_RESADC108A0A98E146479C6D39D36EA5A76A.PDF](https://rbiidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/EFRA_RESADC108A0A98E146479C6D39D36EA5A76A.PDF).

<sup>8</sup> F. No. 500/33/2017-FTD.I, Central Board of Direct Taxes, Department of Revenue, Ministry of Finance, April 18, 2019, [https://www.incometaxindia.gov.in/news/public\\_consultation\\_notice\\_18\\_4\\_19.pdf](https://www.incometaxindia.gov.in/news/public_consultation_notice_18_4_19.pdf).

<sup>9</sup> Investment by Foreign Portfolio Investors (FPI) in Debt – Review, Notifications, Reserve Bank of India, April 25, 2019, <https://rbiidocs.rbi.org.in/rdocs/notification/PDFs/NOTI17632250E0B16FF499893CB9D2A55359D93.PDF>.

<sup>10</sup> Investment by Foreign Portfolio Investors (FPI) in Government Securities Medium Term Framework, Notifications, Reserve Bank of India, March 27, 2019,

<http://rbiidocs.rbi.org.in/rdocs/notification/PDFs/NT152CA2766B3B4734D7893EF6457A419AF3F.PDF>.

<sup>11</sup> Draft National Urban Planning Framework (NUPF), 2018, Ministry of Housing and Urban Affairs, [https://smartnet.niua.org/sites/default/files/resources/nupf\\_final.pdf](https://smartnet.niua.org/sites/default/files/resources/nupf_final.pdf).

<sup>12</sup> “Long Range Forecast of the 2019 Southwest Monsoon Rainfall”, Press Release, India Meteorological Department, Ministry of Earth Sciences, April 15, 2019, [http://www.imd.gov.in/pages/press\\_release\\_view.php?ff=20190415\\_pr\\_451](http://www.imd.gov.in/pages/press_release_view.php?ff=20190415_pr_451).

<sup>13</sup> “End of Season Report for the 2018 Southwest Monsoon”, Press Release, India Meteorological Department, Ministry of Earth Sciences, November 2, 2018, [http://www.imd.gov.in/pages/monsoon\\_main.php](http://www.imd.gov.in/pages/monsoon_main.php).

<sup>14</sup> “Suspension of LoC Trade between J&K and POJK”, Press Information Bureau, Ministry of Home Affairs, April 18, 2019.

<sup>15</sup> S.O. 1494(E), Ministry of Home Affairs, April 1, 2019, <http://egazette.nic.in/WriteReadData/2019/201394.pdf>.

<sup>16</sup> S.O. 5020(E), Ministry of Home Affairs, October 1, 2018, <http://egazette.nic.in/WriteReadData/2018/190334.pdf>.

<sup>17</sup> “Cabinet approves extension of duration of New Urea Policy-2015 for existing gas based urea unit”, Press Information Bureau, Cabinet Committee on Economic Affairs, April 15, 2019.

<sup>18</sup> “Approval to comprehensive New Urea Policy 2015”, Press Information Bureau, Cabinet, May 13, 2015.

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