RBI Leaves Key Rates Unchanged

The Reserve Bank of India (RBI) chose to maintain status quo at its mid-quarter review of monetary policy. The Governor kept rates steady. He also chose to leave the cash reserve ratio, or the amount that banks park with the central bank, undisturbed at 4.25% of their demand and time deposits. Repo rates remain unchanged at 8% while the reverse repo rate remains unchanged at 7%. Stock markets reacted with great disappointment to the RBI move. The RBI said that the GDP growth is evolving along the baseline projection of 5.8% for 2012-2013 set out in the second quarter review. The headline inflation has been below its projected levels over the past two months. It said, "The decline in core inflation has also been comforting. These emerging patterns reinforce the likelihood of steady moderation in inflation going into 2013-2014, though inflation may edge higher over the next two months." The RBI said that while money supply (M3) growth remained below its indicative trajectory because of lower deposit growth, non-food credit growth rose above the indicative trajectory of 16% suggesting some pick-up in economic activity. In a clear signal that the focus of the monetary policy will now shift to growth, the RBI said, "recent inflation patterns and projections provide a basis for reinforcing our October guidance about policy easing in the fourth quarter."

(***Source:*** *http://www.thehindubusinessline.com)*

Government Mulls Tax Breaks for Equity Investment

The government and regulators are discussing fresh tax benefits for investment in equities in an attempt to wean away individuals from parking funds in gold. The proposal is to take subscription into equity-linked savings schemes (ELSS) out of the ₹1 lakh deduction limit provided under Section 80C of the Income-tax Act, 1961 and create a separate window like the one for infrastructure bonds. ELSS is a mutual fund scheme that invests in equities and comes with a three-year lock-in period, aimed at de-risking the exposure of retail investors who are not equipped to deal with direct investments into the market. The instrument gets investors exemption from payment of long-term capital gains tax. A source familiar with the discussions on boosting investments in financial products said "there have been preliminary talks" and they may form part of the steps to discourage individuals from parking funds in gold that is expected to be finalised in time for the next Budget. A final decision is yet to be taken.

(***Source:*** *www.financialexpress.com)*

Indian Economy to Grow Slowly for another Year

The Indian economy has at least another year of poor-quality GDP growth ahead of it, even if the pace of expansion is somewhat faster than the 5.5% expected for 2012. The quality of growth will disappoint because a much-needed pickup in investment is not yet on the horizon. The credit cycle is still weak; state-owned banks are hobbled by bad loans. For investors, it means cash-rich consumer goods makers may be superior bets in 2013 than credit-dependent infrastructure and capital goods companies. Consumption will remain well-supported by strong rural wage growth and government subsidies on food, fuel and fertilisers. Despite all the talk about the urgency of fiscal consolidation in India, public spending will remain high, as it tends to do in pre-poll years. And that will put more cash in people's wallets. Domestic consumption will also get a boost from an improvement in exports. Global demand conditions will probably not deteriorate any further in 2013, and that will drive a steady recovery in India's manufacturing output, leading to job creation and wage growth. The surge in industrial production in October is a welcome signal.

(***Source:*** *http://www.financialexpress.com/news)*

Limit Trade Orders within 10% of Prevailing Share Price: NSE

With an aim to check systemic risk from erroneous trades, the National Stock Exchange (NSE) has asked brokers to restrict their trade orders within 10% of the prevailing price of shares and other securities. The proposed move, which would come into force from 24th December, follows market regulator Securities Exchange Board of India, (SEBI) directives regarding pre-trade controls that where necessary after 900 points flash crash in benchmark Nifty due to erroneous trade. The flash crash, that happened on 5th October, 2012 had halted trading for about 15 minutes, also wiped out nearly ₹10 lakh crore of investor wealth. "It is hereby notified that as per revised operating policy, the dynamic price bands shall be 10% for stocks on which derivatives products are available and stocks included in indices on which derivatives products are available," NSE said in a circular.

(***Source:*** *http://economictimes.indiatimes.com)*

Difficult to Meet Tax Targets on Subdued Profits: Government

The government has said it would be difficult to achieve the corporate tax, customs and excise mop-up target as projected in the Budget because of subdued corporate profits. "On the tax revenue side, the trend growth in the mid- year is lower than estimated... The reason for under achieving target is due to macroeconomic environment being under stress," Chief Economic Advisor Raghuram Rajan said. "While the targets may be achieved in taxes on income, other than corporation tax and service tax, achieving targets in Corporation tax on the Direct tax side and Customs and Central Excise duty on the Indirect tax side is somewhat difficult given the trend so far," Rajan added. He was briefing reporters on the Mid-Year Economic Analysis that was tabled in the Parliament. Net direct tax collection during the April-November period this fiscal grew 15.04% to ₹ 2,70,731 crore, with nearly three-fifth coming from the corporate sector. The net corporate tax collection, stood at ₹1,62,897 crore during the eight months ending November 2012.

(***Source:*** *http://www.business-standard.com/india/)*

India Lost $123 billion in Black Money in a Decade

India lost a whopping $123 billion in black money in 2001-2010, making it the eighth largest victim of illicit financial outflow, a US-based research and advocacy organisation said in a report. However, India's black money loss of $123 billion in 10 years is far less than China, which, according to the report, suffered a loss of $2.74 trillion during the same period (2001 to 2010), followed by Mexico ($476 billion), Malaysia ($285 billion), Saudi Arabia ($201 billion), Russia ($152 billion), the Philippines ($138 billion) and Nigeria ($129 billion). India is the eighth largest victim of black money losses, said the report 'Illicit Financial Flows from Developing Countries: 2001-2010,' released by Global Financial Integrity (GFI). India is the only South Asian country to figure in the top 20 list of such nations. In 2010 alone, the Indian economy suffered $1.6 billion in illicit financial outflows.

(***Source:*** *Press Trust of India)*

Bank Mergers to be Kept out of Competition Watchdog Purview

Mergers of banking companies are proposed to be kept out of the ambit of the Competition Commission of India (CCI). The Government is likely to stick to its initial proposal in the Banking Laws (amendment) Bill 2011 of exempting mergers of banking companies from the applicability of Competition Act. No changes to this initial proposal will be made when Finance Minister P Chidambaram moves amendments to the Banking Laws (amendment) Bill on Thursday, official sources said. Simply put, all mergers in the banking industry will come only under the ambit of RBI. One need not wait for any approval from the Competition Commission in the case of bank mergers if the Bill in the current form is enacted into law. Finance Ministry was earlier toying with the idea of dropping this initial proposal so as to bring certain mergers of banking companies within the CCI ambit.

(***Source:*** *http://www.economictimes.com)*

Clarity on Retrospective Taxation of Indirect Transfers Soon: FM

Finance Minister P. Chidambaram has said the government would soon announce changes in the tax framework to bring about clarity on the retrospective taxation of indirect transfers but refused to give out any details. The changes would have implications for the I-T department's over ₹20,000 crore tax demand on Vodafone for its acquisition of Indian company Hutchison Essar in 2007. "Discussion is over. Drafting in going on. Decision has been taken.. Once the drafting is complete, it will come to me," finance minister P Chidambaram said in a clear indication that the government was looking to unveil the necessary changes in the taxation structure soon.

(***Source:*** *http://www.expressindia.com)*

FIIs Pitch for Reduction in Withholding Tax Rates

Foreign institutional investors have pitched for a reduction in the withholding tax rates on their investments in Indian debt and simplification of know your customer norms to attract foreign capital into the country. "FIIs gave their feedback on improving inflows into the debt and equity markets... They made suggestions on reduction in withholding taxes for wider array of instruments and also sought," a finance ministry official said after a meeting called by his ministry. A 10% withholding tax is applicable on foreign investment in debt, which investors want halved, said an executive with an investment firm who attended the meeting.

(***Source:*** *www.timesofindia.com)*