

India may seek \$7.5b in extra spending to spur growth

REUTERS, New Delhi

INDIA may seek parliamentary approval to spend about \$7.5 billion more on roads, railways and other public programmes over the next five months, two government sources said, as Prime Minister Narendra Modi looks to spur growth and create jobs.

The new spending, details of which are still being worked out, would come at a time when private investment has plunged, leading to a slowdown.

It would also coincide with the runup to a crucial state election early next year in Uttar Pradesh, Indian's most populous state that is home to more than 200 million people.

At \$7.5 billion, the additional spending would represent about 2.5 percent of the total budgeted so far for the current fiscal year.

The Uttar Pradesh poll is shaping up to be one of the most important tests for Modi's ruling Bharatiya Janata Party, with ramifications both for the smooth functioning of government and his chances of winning a second term in 2019 national elections.

While some of his government's development initiatives, such as electricity, bank accounts and cooking gas, have started reaching people in the country's vast rural hinterland, the administration has struggled to create enough jobs to meet their aspirations.

Modi has promised to create 250 million jobs over the next decade, but Asia's third-largest economy is not growing fast enough to absorb the roughly 1 million young people who enter the job market every month.

Unemployment rose to 5 percent in 2015/16, from 3.8 percent in 2011/12, government data showed.

With private sector investment still failing to take off amid tepid demand and tight credit, Modi is left with little choice but to lean on public spending to fill the gap.

Analysts said additional spending on roads, railways and rural programmes, such as an employment guarantee scheme, could provide jobs to thousands of people.

"Our biggest challenge is to create jobs," a senior finance ministry official said.



A labourer works at the installation site of a new railway track on the outskirts of Agartala, India.

REUTERS

The second source, a senior government official, said the extra spending was needed to fund existing programmes and not oriented toward boosting growth. But he added that without the additional investment, the economy would struggle.

Finance Minister Arun Jaitley is likely to seek parliament's blessing for extra spending next month, the officials said.

The new spending would come after lawmakers approved 209 billion rupees in additional investments in August.

Together, the total extra spending over the budgeted 19.78 trillion rupees expenditure could boost growth by about 0.4 percentage points, the finance ministry official said. India's economy expanded 7.1 percent in the April-June quarter compared with 7.9 percent in the previous quarter.

Jaitley has told officials in his ministry that they need to fund the additional spending without breaching his fiscal defi-

cit target of 3.5 percent of GDP, according to the finance ministry official.

Last year, Jaitley had to impose a small spending cut of 42 billion rupees, despite revenue receipts overshooting initial estimates by nearly 5 percent, to meet the deficit target of 3.9 percent of GDP.

The two officials said balancing the books could be tricky now as well. India's fiscal deficit INFISC=ECI during the five months to August was 76.4 percent of the budgeted target for the fiscal year ending in March 2017, government data showed.

Earlier this month, the government was dealt a setback when an auction of telecom airwaves fell short of internal expectations, leaving a hole of around 150 billion rupees, one of the officials said.

Another source of funds, a 565 billion rupees disinvestment target, is also yet to take off. Government data shows it has so far raised only 31.8 billion rupees.

Further, a hike in the wages of nearly 10 million employees and pensioners has added to the stress on government finances. A recent report by the World Bank warned a shortfall in revenues from stake sales and the spectrum auction could hit public finances.

"If these are not met, there is a risk that growth-enhancing capital and social spending may be cut to meet fiscal targets, or that fiscal targets may be missed," said the report.

But Jaitley's budget team is betting on up to 120 billion rupees in savings in fuel subsidies, a pickup in tax receipts and a windfall gain of about 145 billion rupees from a tax amnesty.

The picture would be clearer by the end of November, as more information becomes available about the disinvestment process and tax collections, the finance ministry official said.

Egypt's Sisi defends 'tough but unavoidable' economic reforms

AFP, Cairo

EGYPT'S President Abdel Fattah al-Sisi has defended what he described as "tough but unavoidable" reforms ahead of a \$12-billion International Monetary Fund loan to revive his country's ailing economy.

"The reforms are tough but they're unavoidable to save the economic situation," Sisi said in an interview published on Saturday by state newspapers.

In exchange for the IMF loan, Egypt is expected to adopt drastic reforms to increase public revenues and reduce state subsidies, which make up 7.9 percent of government spending.

Sisi described a "programme for real reforms that aims to provide subsidies to those who deserve them and no one else", promising "protection for those with low incomes".

The former army chief, who became president in 2014 less than a year after toppling Islamist president Mohamed Morsi, also defended the army's participation in large scale projects touted as part of the country's recovery plan.

"The army is playing an important role in development but this role will diminish in the coming years when it will have finished its plan for the reconstruction of state infrastructures," he said.

For decades, the military -- which produced all but one president since 1952 -- has played a key economic role, producing everything from washing machines to pasta, alongside building roads and operating gas stations.

The president also justified military spending including on two Mistral helicopter carriers from France on the need to defend a recently discovered gas field in Egypt's territorial waters.

"We have gas fields more than 200 kilometres (125 miles) off our shores such as the Zohr field and others. We need to be able to secure and protect them," he said.

Italian energy giant Eni in August announced the discovery of Zohr, the "largest ever" offshore natural gas field in the Mediterranean with a potential 30 trillion cubic feet (850 billion cubic metres) of gas in about 100 square kilometres (40 square miles).

"The cost of a Mistral is equivalent to one month's revenues from the Zohr gas field," Sisi said.

Egypt's parliament in August passed a law on value added tax, one of the reforms promised in exchange for the IMF loan, to be set at 13 percent for 2016-17 and 14 percent for the following fiscal year.

The VAT replaces a sales tax of 10 percent, although the government says about 50 services and products will be exempt, including bread.



Workers take a billboard of Samsung Electronics' Galaxy Note 7 off from atop a building in central Seoul, South Korea.

REUTERS

Samsung offers alternative phones to Note 7 to appease India customers

REUTERS

SAMSUNG Electronics Co on Friday offered alternative phones to its India customers who had pre-ordered its flagship Galaxy Note 7 devices, in a bid to appease loyal clients in one of its largest smartphone markets.

The world's largest phone maker has been hit by an avalanche of negative publicity, after being forced to recall millions of the fire-prone Note 7 devices and later scrap the high-end phone altogether.

India is one of the world's largest and fastest growing smartphone markets and a critical one for Samsung as it is the No. 1 player in the nation with a roughly 25 percent market share.

The device that had been set to go on sale in India in early September ended up not getting to any Indian customers after it failed to resolve overheating problems which caused some of the phones to ignite.

The company initially apologised to customers for the delay in the Note 7, and in a release late on Friday it said for those who had pre-booked devices, in lieu of the Note 7 it would offer customers either its Galaxy S7, or S7 Edge devices.

It also offered affected clients a free set of its virtual reality headsets, a free pair of wireless headphones, a voucher worth about \$50, along with a free one-time screen replacement in case of any damage to the new smartphone within a year.

In a separate statement Samsung also questioned analyst estimates on the extent of the impact on revenue in India from the Note 7 debacle.

"We can confirm that contrary to these reports, we are headed for record sales of mobile phones this year," the company said in the statement.

Rosneft, partners to invest around \$12.9b in Essar Oil: CEO

REUTERS

A group led by Russian oil major Rosneft will invest around \$12.9 billion in India's Essar Oil, Chief Executive Igor Sechin told reporters on Saturday.

Sechin said a refinery and port owned by the Indian firm were worth around \$10 billion and \$2.9 billion respectively.

India and Russia signed a deal on Saturday to pave the way for a group led by Rosneft to acquire Essar. Officials from Russian lender VTB, which is giving Essar \$3.9 billion in credit for debt reconstruction, said Rosneft would pay around \$3.5 billion for its stake in Essar, the same amount as European trader Trafigura and Russian fund UCP.

China producer prices rise for first time in nearly 5 years

REUTERS, Beijing

CHINA'S producer prices unexpectedly rose in September for the first time in nearly five years thanks to higher commodity prices, welcome news for the government as it struggles to whittle down a growing mountain of corporate debt.

Official inflation data on Friday also showed a pickup in consumer prices, helping to ease investors' concerns about the health of the world's second-largest economy after disappointing trade numbers on Thursday rattled global markets.

Corporate China sits on \$18 trillion in debt, equivalent to about 169 percent of gross domestic product (GDP), according to the most recent figures from the Bank for International Settlements. Most of it is held by state-owned companies.

"An uptick in inflation, if sustained, would be good news for China's ability to service its overhang of corporate debt," Bill Adams, senior international economist at PNC Financial Service Group, said in a note.

"With low interest rates keeping debt service costs in check and producer prices rising, the outlook for Chinese industrial profits is improving."

The producer price index (PPI) rose 0.1 percent in September from a year earlier, the National Bureau of Statistics said.

While the gain was slight, it was the first time producer prices have expanded on an annual basis since January 2012, and came a bit earlier than the year-end timeframe that



A vegetable vendor counts his money at a market in Beijing, China.

REUTERS/FILE

some analysts had expected. Producer prices had edged up on month-on-month basis over the summer. Analysts polled by Reuters had predicted a decline of just 0.3 percent on-year, after a drop of 0.8 percent in August.

China's factory prices have been falling since March 2012, and more than four years of producer price deflation have squeezed industrial companies' cash flow.

Profits at roughly a quarter of Chinese companies were too low in the first half of this year to cover their debt servicing obligations, as

earnings languish and loan burdens increase, according to a recent Reuters analysis.

However, a construction boom, fueled by a government infrastructure spending spree and a housing rally, have helped boost prices for building materials from steel to copper in recent months, while coal prices have jumped as the government tries to shut excess mining capacity.

Prices of ferrous metals, non-ferrous metals and coal mining together rose 4.1 percent on-year, a key factor in the PPI turning positive, the statistics bureau said.

Volkswagen to pay \$175m to US lawyers suing over emissions

REUTERS, Washington

VOLKSWAGEN AG, in another step to move past its costly diesel emissions cheating scandal, has agreed to pay \$175 million to US lawyers suing the German automaker on behalf of the owners of 475,000 polluting vehicles, two people briefed on the agreement said on Friday.

In August, the lawyers in the class action litigation sought up to \$332.5 million in fees and costs for their work in a \$10 billion settlement that gives US owners of 2.0 litre polluting cars the ability to sell back their vehicles to Volkswagen (VW).

The latest deal with the lawyers means VW now has agreed to spend up to \$16.7 billion to compensate US owners and address claims

from states, federal regulators and dealers arising from the "Dieselgate" scandal.

The amount to be paid out to lawyers was first reported by Reuters on Friday.

The resolution of legal fees clears another hurdle as the world's No. 2 automaker looks to resolve all of the outstanding aspects of a scandal that disrupted its global business, hurt its reputation and led to the ouster of its chief executive officer last year.

VW in September 2015 admitted using sophisticated secret software in its cars to cheat exhaust emissions tests, with millions of vehicles worldwide affected. The cheating allowed VW's US vehicles sold since 2009 to emit up to 40 times legally allowable pollution levels.

The \$175 million includes attorneys' fees and other costs, according to the sources, who

spoke on condition of anonymity.

Lawyers for the owners of polluting vehicles and a spokeswoman for Volkswagen declined to comment.

Lead plaintiff lawyer Elizabeth Cabraser, who is part of a committee of 22 lawyers overseeing the owner suits, said in August the amount sought in attorneys fees was far less than the "judicially established benchmark" for class actions of approximately 25 percent of the settlement amount.

US District Judge Charles Breyer on Tuesday is set to hold a hearing in San Francisco on whether to grant final approval of the vehicle owners' settlement announced in June, which would be the largest-ever automotive buy-back offer in the United States. Breyer must also decide whether to approve the legal fee agreement.