Cash-ban distress leaves scant room for India budget giveaways

REUTERS, New Delhi

INDIAN Prime Minister Narendra Modi's decision late last year to scrap high-value bank notes has put his finance minister in a bind ahead of the annual budget next month.

Arun Jaitley is under pressure to offer tax giveaways and step up capital and welfare spending to ease the pain from demonetisation, but the economic disruption caused by Modi's jolt has made forecasting next year's revenue outlook a stab in the dark.

While indirect tax receipts grew by an annual 14.2 percent in December, a slump in consumer spending along with a contraction in services and manufacturing suggest the outlook is anything but rosy.

Adding to his dilemma is a delay in launching a new national Goods and Services Tax that would replace a slew of indirect levies.

"It is an unprecedented budget," said a senior government official with direct knowledge of fiscal planning, likening it to navigating in uncharted waters.

Modi's decision in November to scrap 500- and 1,000-rupee notes - 86 percent of the cash in circulation - sought to crack down on tax dodgers and counterfeiters. Yet it has left companies, farmers and households in all sorts of bother.

The International Monetary Fund has trimmed its growth outlook for the fiscal year beginning in April to 7.2 percent from 7.6 percent previously, citing the blow to the cash-reliant economy.

Jaitley plans to deliver his budget on Feb. 1, just before voting begins in a round of regional elections, the biggest in the swing state of Uttar Pradesh.

REUTERS/FILE

People queue outside a bank to withdraw cash and deposit their old high denomination banknotes in Mumbai.

Their outcome will be key for Modi's chances of winning a second term in 2019.

The Supreme Court will on Monday hear a petition calling for the budget to be postponed until after the state polls.

Seeking to shore up support, Modi unveiled incentives to the poor, farmers, women and small businesses in an address to the nation on New Year's Eve.

Jaitley is expected to follow those with tweaks to personal income tax allowances and a cut of perhaps one percentage point in the 30 percent corporate tax rate, said Sandeep Chaufla, a partner at tax consultancy PricewaterhouseCoopers.

The temptation to please voters risks straining public finances and inviting the wrath of investors and ratings agencies who have praised Jaitley for his past fiscal prudence.

With that concern in mind, the government is debating the merits of expanding the size and scope of social security benefits, including the idea of a universal basic income or a targeted jobless allowance.

Funding such a scheme would make it harder for Jaitley to keep his promise to narrow the fiscal deficit to 3 percent of GDP in 2017/18 from the 3.5 percent budgeted this year.

With corporate investments still weak, the finance minister would need to boost public capital spending to stimulate growth.

Proceeds from a new income tax declaration scheme, estimated by officials at up to $22 billion, could help Jaitley meet some spending commitments.

Still, William Foster, a credit analyst at ratings agency Moody's, sees "limited" room to trim the fiscal gap to 3 percent.

Officials at the finance ministry say an expected recovery in consumer spending that accounts for 60 percent of India's $2 trillion economy, as well as better tax compliance, could avert any fiscal slippage.

But much depends on the pace of restoring liquidity to an economy where nearly 90 percent of transactions used to be in cash.

"Any new big-ticket spending is possible only once there is clarity on the revenue front," the government official said.

Russia beats Saudi Arabia as China's top crude oil supplier in 2016

REUTERS, Beijing

Russia overtook Saudi Arabia in 2016 to became China's biggest crude oil supplier for the first year ever, customs data showed on Monday, boosted by robust demand from independent Chinese "teapot" refineries.

Russian shipments surged nearly a quarter over 2015 to about 1.05 million barrels per day (bpd), the data showed, with Saudi Arabia coming in a close second with 1.02 million bpd, up 0.9 percent in 2016 versus the previous year. China is the world's second-largest oil buyer and the fastest-growing major importer.

While Saudi Arabia counts China's state oil firms as backbone clients through long-term supply contracts, China's independent refineries - nicknamed "teapots" due to their smaller processing capacity - saw Russia as a more flexible supplier.

For the teapot plants, authorised to import crude oil for the first time in late 2015, shipments from Russia's eastern ports are easier to process, coming in smaller cargo sizes at a closer proximity.

Russia may be able to maintain the top spot in 2017 as it expands exports of its East Siberian-Pacific Ocean (ESPO) pipeline blend crude. Saudi Arabia, meanwhile, is set to shoulder the lion's share of supply cuts agreed to last year by the Organization of the Petroleum Exporting Countries (Opec) and non-Opec producers.

"Opec cuts means Gulf producers take a hit in terms of market share, even though most of their cuts are to Europe and US ...Russia has an ESPO expansion coming up as well as supplies via Kazakhstan earmarked for China," said Michal Meidan of consultancy Energy Aspects.

State-run Saudi Aramco is expected to look to a new refinery under state-run CNOOC to lift sales.

For December, Russia also held the top spot with supplies up 4.8 percent from the same month a year earlier at 1.19 million bpd. Meanwhile Saudi sales dropped nearly 20 percent from a year earlier to 841,820 bpd, data from the Chinese General Administration of Customs showed.

China's online population reaches 731m

AFP, Beijing

The number of internet users in China -- already the world's highest -- reached 731 million in December, authorities said, as e-commerce drives consumer demand across the Asian giant.

Total internet users rose 6.2 percent from the end of December 2015 and equals the entire population of Europe, the government-linked China Internet Network Information Center (CNNIC) said in a statement Sunday on its website.

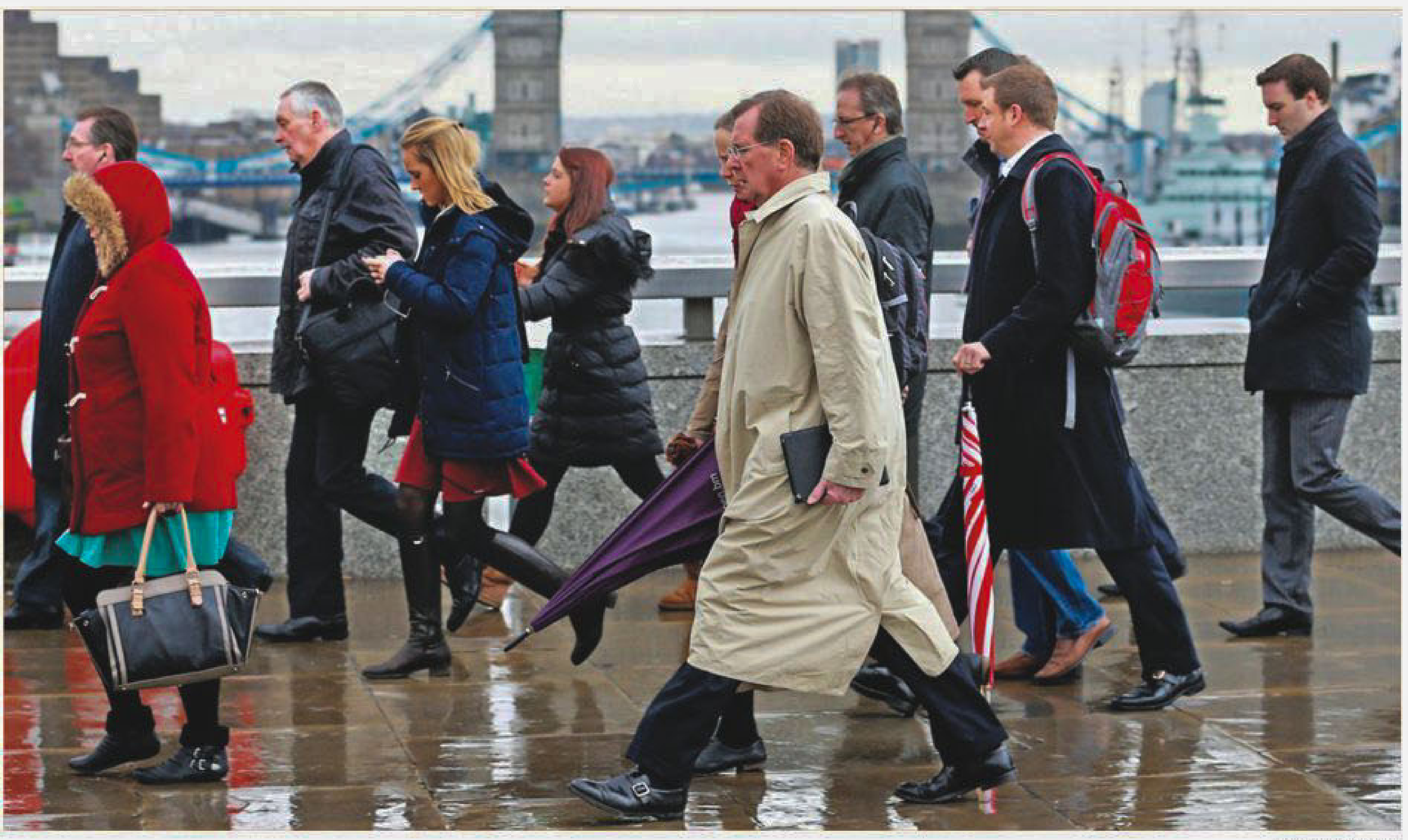
E-commerce is a vital part of the government's efforts to China into a consumer demand-driven economy, although Beijing also imposes strict controls on online content, barring citizens from accessing major websites including Facebook and Google. The government is pushing a so-called "internet plus" project that aims to expand the role of online technology in the economy.

The number of people who go online through cellphones has reached 695 million, or 95.1 percent, as computers lose their appeal, according to the CNNIC. Online consumption has become an increasingly important part of the economy, the statement said, adding that its contribution to GDP growth is gradually increasing.

As of December 12, the number of people in China who used online payments had reached 475 million, up 14.0 percent year on year, according to the CNNIC.

In one example of the growing power of China's online shoppers, consumers spent $17.8 billion in e-commerce giant Alibaba's biggest online shopping promotion on November 11 last year, more than twice the five-day desktop sales from Thanksgiving through Cyber Monday in the US last year.

Morgan Stanley, Citi plan Brexit job moves



REUTERS/FILE

Leading financial firms warned for months before last June's Brexit referendum that they would have to move some jobs if there was a leave vote.

REUTERS, London/Frankfurt

US banks Morgan Stanley and Citigroup have identified many of the roles that will need to be moved from Britain following its exit from the European Union, sources involved in the process told Reuters.

Morgan Stanley, which bases the bulk of its European staff in Britain, will have to move up to 1,000 jobs in sales and trading, risk management, legal and compliance, as well as slimming the back office in favour of locations overseas, according to one source.

Citigroup, which already has a large banking unit in Dublin, will need to shift 100 positions in its sales and trading business, sources with knowledge of the matter said.

Leading financial firms warned for months before last June's Brexit referendum that they would have to move some jobs if there was a leave vote, and have been working on plans for how they would do so for the past six months.

More details are starting to emerge after Prime Minister Theresa May confirmed Britain would leave the European single market, ending banks' hopes they might retain "passporting" rights that let them sell their services across the EU out of their London hubs.

HSBC and UBS said on Wednesday they could each move about 1,000 jobs out of London.

A spokesman for Morgan Stanley said no decisions had been taken with regard to its Brexit plans.

"Our focus is on ensuring that we can continue to service our clients whatever the Brexit outcome," he said. "To that end, we continue to evaluate what changes we may need to make to our business".

A spokeswoman for Citi declined to comment. Morgan Stanley currently bases the vast majority of its European staff in Britain, employing around 6,000 people there. It has relied on passporting out of London to service it clients elsewhere in the EU.

In order to continue certain businesses such as trading European securities it will need to shift those operations to a licensed entity in the regional bloc.

The source said that given the bank already had a trading licence in Frankfurt, it was likely to move most of these jobs there despite some of the city's other drawbacks.

"We don't like Frankfurt but that's the only place to go," the source said. "Culturally, it's not a vibrant city".

The source added that US regulators were expected to discourage US banks from moving to countries with a poor country credit rating such as Ireland and Spain. James Gorman, chairman and chief executive of Morgan Stanley, told analysts this week that Brexit was "a moving chessboard".

"We like the UK, we like the rule of law in the UK, our aspiration is to keep as much of our business there as possible," he said.

"But to the extent we have to comply with, obviously, the Brexit rules, we'll be putting a headquarters somewhere in continental Europe and that will have some implications going forward".

Investment banking roles, such as merger and acquisition bankers, are expected to be able to stay in London.

Britain seeks interventionist approach to drive post-Brexit industrial revival

REUTERS, London

BRITAIN is to adopt an interventionist approach to balancing its heavily services-based economy for the post-Brexit era, aiming to reinvigorate industrial production and stimulate investment in technology and R&D.

Unveiling her long-awaited 'Modern Industrial Strategy' on Monday, Prime Minister Theresa May will demand closer collaboration within key industries in exchange for government support on regulation, trade and research.

The focus on industry and the shift to a governmental hands-on approach challenges the traditional Conservative laissez-faire ideology championed by former prime minister Margaret Thatcher.

May will ask businesses to work together to tackle industry-specific challenges, citing examples of successful collaboration that have helped attract overseas investment from the likes of carmaker Nissan, and enabled aerospace firms such as BAE Systems to develop a competitive edge.

In return she will pledge to reciprocate with 'Sector Deals' that address regulatory barriers, look at how trade and investment deals can be used to increase exports, and support the creation of new institutions to provide leadership, drive innovation or boost skills.

"The modern industrial strategy will back Britain for the long term: creating the conditions where successful businesses can emerge and grow, and backing them to invest in the long-term future of our country," May said in an emailed statement prior to the announcement.

The outline of the strategy - expected to range across economic, regional, education transport and digital policy - will be set out in a 'Green Paper' consultation document due to be published later on Monday, seeking input from industry.

"Today's Green Paper signals a more ambitious approach to securing growth and preparing for the inevitable pressures that will accompany Brexit," said Paul Everitt CEO of the aerospace trade body ADS.

REUTERS

Britain's Prime Minister Theresa May, *right*, speaks on the BBC's Andrew Marr Show in London on Sunday.

The government also listed 10 strategic pillars behind its strategy such as skills development and improved procurement.

Since coming to office weeks after Britain's vote to leave the EU last year, May has pushed the once-unfashionable concept of industrial strategy to the top of her agenda, creating a new government department to lead the project, and chairing a top-level cabinet committee on the subject.

It comes as Britain's impending exit from the EU threatens to undermine the financial services sector, with several banks planning to shift thousands of jobs abroad because they fear they will lose access to the EU market.

May said last week that Britain would be withdrawing from the single market, and seeking a free trade agreement with the EU instead - a path critics have described as 'Hard Brexit'.

"The idea that the government can have any reasonable strategy for British industry while recklessly withdrawing from the single market is laughable," said Don Foster, business spokesman for the rival and pro-EU Liberal Democrat party.

"It's like the manager tying their team's bootlaces together while telling them they have a plan to win the match."

Under the banner of building an economy that distributes wealth more evenly, following decades of industrial decay in parts of Britain, the plan seeks to protect the economy from the risk of leaving the EU and address a mood of disenfranchisement that drove many voters to back Brexit.

The government said early work had been done on sector deals for a number of industries: life sciences, ultra-low emission vehicles, nuclear and creative industries. But it said it would work with any sector that could "organise behind strong leadership to address shared challenges and opportunities."

May will present the full proposals, including plans to boost the teaching of technical skills and mathematics, and a 556 million pound boost for infrastructure projects, at a specially-convened cabinet meeting in Northwest England.