LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

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News Highlights

NATIONAL

India Exempts Polyester Fibre, Yarn Imports For Export Use From QCO

The Indian government has exempted polyester staple fibre (PSF), filaments and spun yarn imported under the Advance Authorisation Scheme. The quality control orders (QCOs) issued for these products will now no longer be applicable on imports meant for using in goods that are to be exported. Industry organisations including The Southern India Mills' Association (SIMA) has thanked the government for the move.

It is to be noted that after the implementation of QCOs, exporters were facing problems to procure raw materials from global suppliers.

The Ministry of Chemicals and Fertilisers has issued a notification No 16/2024 dated 6.06.2024 in this regard. The user industry will be exempted from QCO for imports of these raw materials for exports after one stage value addition. Consumer industries are bound to adhere to pre-import conditions (using the imported fibres only for export purpose) and also the period for fulfilment of export obligation has been reduced from 18 months to 6 months for all types of MMF imported under Advance Authorisation Scheme.

Ministry of Textiles had already exempted viscose staple fibre (VSF) imported under Advance Authorisation Scheme vide Notification No 71/2023 dated 11.03.2024. It came into effect from the date of the Notification. It is to be noted that textile related raw materials come under two different ministries, i.e. the ministry of textiles and the ministry of chemicals and fertilisers.

SIMA chairman Dr. SK Sundararaman has thanked the government for considering the representations made by the Association. He said that the announcement in this regard has given a relief to the MMF textile products exporters enabling them to improve their export performance that had been significantly affected in the last two years. The Association has been demanding the government to facilitate smooth supply of raw materials at an internationally competitive rate to achieve a sustainable growth rate, both in domestic and export markets.

The Ministry of Chemicals and Fertilisers (Department of Chemicals and Petrochemicals) had implemented QCO for PSF in second half of the last year. As per the order, every user has to purchase the raw materials only from BIS licence holders, both from the domestic and international markets. Though the domestic manufacturers of the said products have obtained BIS licence, the applications submitted by several foreign manufacturers are still pending before the BIS authorities for inspection and approval. This has severely affected the manufacturer-exporters, who are the consumers of speciality fibres and filament yarns and spun yarns, as specified by the buyers, especially the overseas buyers and global brands. The said raw materials are not being manufactured in the country. It has disrupted the smooth flow and availability of MMF raw materials, thereby seriously impacting the export performance of the MMF value chain. There was similar problem in the case of VSF.

Ashish Gujarati, former president of the Southern Gujarat Chamber of Commerce & Industry (SGCCI), told Fibre2Fashion, "Raw materials are always exempted from tariff and non-tariff barriers in India. But the ministries did not specify such provisions for exporters in orders issues for quality standards. They have issued notifications after hue and cry from the industry. Indian exporters were not able to compete in MMF products in the global market. Now, they can procure quality raw materials at competitive prices." He said that the government should consider exempting domestic market also from such quality standards on raw materials. It should implement quality standards on finished consumer products like other countries to ensure quality products in the domestic market.

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India's Central Bank Keeps Policy Repo Rate Unchanged At 6.5%

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI), the country's central bank, at its meeting today decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.50 per cent. Consequently, the standing deposit facility (SDF) rate remains unchanged at 6.25 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 6.75 per cent.

The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.

These decisions of the RBI are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

Giving an assessment of the current situation, the MPC said, “Global economic activity is rebalancing and is expected to grow at a stable pace in 2024. Inflation has been moderating unevenly, with services inflation staying elevated and slowing progress towards targets. Uncertainty on the pace and timing of policy pivots by central banks is keeping financial markets volatile. Equity markets have touched new highs in both advanced and emerging market economies. Non-energy commodity prices have firmed up, while the US dollar and bond yields are exhibiting two-way movement with spillovers to emerging market currencies. Gold prices have surged to record highs on safe haven demand.”

Analysing the outlook, the MPC said that high frequency indicators of domestic activity are showing resilience in 2024-25. The south-west monsoon is expected to be above normal, which augurs well for agriculture and rural demand. Coupled with sustained momentum in manufacturing and services activity, this should enable a revival in private consumption. Investment activity is likely to remain on track, with high-capacity utilisation, healthy balance sheets of banks and corporates, government’s continued thrust on infrastructure spending, and optimism in business sentiments. In addition, improving world trade prospects could support external demand.

However, risks are evenly balanced as headwinds from geopolitical tensions, volatility in international commodity prices, and geoeconomic fragmentation pose risks to the outlook. Taking all these factors into consideration, real GDP growth for 2024-25 is projected at 7.2 per cent with Q1 at 7.3 per cent; Q2 at 7.2 per cent; Q3 at 7.3 per cent; and Q4 at 7.2 per cent, the MPC projected.

The next meeting of the MPC is scheduled during August 6 to 8, 2024.

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India's medium-term fiscal consolidation likely to get more challenging, Fitch says

India’s medium-term fiscal consolidation, critical to any ratings upgrade, is likely to get more challenging as a new coalition government comes to power, an analyst at Fitch Ratings said on Friday.

Prime Minister Narendra Modi’s Bharatiya Janata Party failed to secure a simple majority in the recently concluded parliamentary elections, forcing him to depend on support from regional parties to form the government. Modi will be sworn in for a third term on Sunday.

”Our expectation is that the government will look to achieve the 4.5% fiscal deficit target by 2025-26,” Jeremy Zook, director – Asia-Pacific sovereigns at Fitch told Reuters in an interview.

However, ”beyond FY26, we have little clarity on where the medium-term fiscal path will go,” he said.

The Indian central bank’s record surplus transfer will help the government in achieving its fiscal glide path, but ”the coalition government could make pursuing more medium-term fiscal consolidation slightly more challenging”, Zook said.

For a ratings upgrade, ”what we’re looking for is a continued fiscal consolidation path and confidence that such a path will put debt on a downward trajectory over the medium-term”, he said.

Fitch would like to see durable fiscal consolidation underpinned by revenue-raising measures that can bring down the debt-to-GDP ratio more firmly over the medium-term from around 82% currently.

Moody’s earlier this week said it expects India’s pace of fiscal consolidation to slow down.

Over the last decade, Modi has focussed on investment-led growth while maintaining fiscal prudence.

Fitch expects capital expenditure to continue to be a key priority for the new government, which is due to present the full-year budget in July.

"The biggest challenge in the next budget will be to see how the government balances capex and social spending with fiscal consolidation," Zook said.

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Flexible approach in managing liquidity to help money market rates

https://m.economictimes.com/news/economy/policy/flexible-approach-in-managing-liquidity-to-help-money-market-rates/amp_articleshow/110806160.cms

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New Central Excise Bill to align with latest GST, customs laws; bring certainty for petroleum, tobacco sectors

In a move that could ease the burden for petroleum and tobacco players in the country, the finance ministry is all set to revamp the old Central Excise Act 1944 with a new Central Excise Bill 2024, aligning it with recent GST and customs laws.

According to the proposed Bill, the Central Board of Indirect Taxes and Customs is pushing for easier access to refunds, reducing interest on delayed payment of duty, clarification in the definition of related persons, and much more.

The new proposed bill is currently out for stakeholder comments before the government formally introduces it in Parliament and seeks approval.

HOW THE NEW BILL IS DIFFERENT FROM THE OLD

Under the new bill, regarding the provisions for special economic zones, the bill proposes not to exempt excisable goods produced or manufactured in Special Economic Zones and brought to any other place in India from duty.

However, under the old excise Act, an exemption from payment of duty is available on all excisable goods produced or manufactured in Special Economic Zones. According to the industry, the draft bill allows the government to provide exemptions to Special Economic Zones by way of notification in the official gazette. This may subsequently prove to be a relief.

Similarly, on the definition of related persons, the new draft adopts it in letter and spirit from the customs law, whereas in the old law, no such definition was available in the existing framework of the Act. Here, too, the industry feels that this will help provide clarity on the taxability of transactions. However, valuation may still pose a challenge, and they expect the government to ease the pain there.

Regarding interest on delayed payment of duty, the new draft states that the rate of interest on delayed payment of duty cannot exceed 18% per annum, in line with the GST law. In the old law, the rate of interest on delayed payment of duty ranged from 10% to 36%. The industry claims this may prove to be a substantial relief to taxpayers.

On refunds, the proposed Central Excise Bill 2024 stipulates that the limitation to apply for a refund should be one year. However, in the old law, the limitation period to apply for refunds is two years. Sources in the government say the motive is to encourage taxpayers to seek refunds sooner so that the government can process them early, which will, in turn, help taxpayers with their working capital.

Regarding demands and recovery, the new draft Central Excise Bill 2024 aims to set the time limit for this at three years to serve notice to the taxpayer. In the old law, there was no such time limit. This helps both the government and taxpayers by providing certainty within this timeline.

The industry had often alleged that the government could pick any year and issue a notice under the existing law, but with the new proposal, the government will be bound to assess cases of evasion and non-payment within a three-year time limit. The industry feels this would provide clarity regarding the initiation of proceedings against the assesses.

EXPERTS SPEAK

Meanwhile, hailing the proposed new Central Excise Bill, Rajat Bose, Partner at Shardul Amarchand Mangaldas & Co., says, "The bill has been drafted keeping in mind the limited applicability of the law in respect of specific goods that are leviable to Central Excise duty such as certain tobacco and petroleum products. Moreover, this bill will help in removing outdated and redundant provisions following the introduction of the Goods and Services Tax (GST)."

"The bill intends to borrow the concept of ‘related persons’ from the customs law. With respect to the limitation, the time limit for claiming a refund by an assessee is proposed to be one year, whereas earlier it used to be two years. The tax authorities may get three years to raise demands," it added.

Expressing similar sentiments, Mahesh Jaising, Partner at Deloitte, says, "The Central Excise Bill 2024 introduces several key changes aimed at modernizing and streamlining India's excise framework. Notably, the Bill does not automatically exempt excisable goods produced in Special Economic Zones (SEZ) and export-oriented units, emphasising the need for specific government notifications for exemptions."

"The replacement of CENVAT credit with a new section on Central Excise Duty credit, along with detailed conditions and restrictions for its utilization, reflects a significant shift towards efficiency. Additionally, the transfer of unutilised credit balances as transitional credit is a pragmatic move to ensure continuity."

"The extension of the time limit for recovery of duties from two years to three years and the reduction of the time limit for claiming refunds from two years to one year indicate regulatory oversight. Overall, these changes signal the government's intent to create a more predictable and business-friendly excise regime."

It remains to be seen how soon the government will take the bill to Parliament and get the new provisions up and running for the industry.

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Public sector banks pin hopes on new Govt for higher PLI for employees

Public sector banks pin hopes on new Govt for higher PLI for employees - The Economic Times (indiatimes.com)

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Labour shortage hits Tiruppur apparel units as migrant workers who went home to vote not willing to return

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ASEAN FTA review: Govt seeks more industry inputs to raise demand pitch

To sharpen its negotiating stance with the ten-member ASEAN , the Commerce Department has sought more inputs from various industry and export promotion bodies on items where deeper tariff concessions can be demanded ahead of the next round of negotiations on the ASEAN-India FTA review in Indonesia next month, sources said.

"Commerce Ministry officials are meeting industry and export body representatives to get their views on the items to focus on for greater market access. Other inputs, include those related to non-tariff barriers, are also being solicited," the source told *businessline*.

The India-ASEAN FTA, formally known as the ASEAN-India Trade in Goods Agreement (AITGA), has resulted in disproportionate gains for the ASEAN countries which India wants to correct through the review.

In 2023-24, India's trade deficit with the bloc widened to $38.46 billion from $7.5 billion during the implementation of the agreement in 2010. India exported goods worth $41.2 billion to the region while its imports were valued at $79.66 billion.

New Delhi is seeking greater market access for its goods, more flexibility in determining rules of origin (ROO) for products through product specific rules, and redressal of non-tariff barriers, to address its growing trade deficit with the bloc, sources have said.

"Since the ASEAN countries, too, are seeking more market access for their goods as part of the review despite India's attempt to level the uneven field, our negotiators have to pro-actively demand lower duties wherever there is a scope. That is why Commerce Ministry officials are holding meetings with the industry so that there is a better understanding of what it wants," the source said.

The ten-member ASEAN includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar and Cambodia.

Review of AITGA

India had been asking for a review of the AITGA for a long time as its trade deficit with the bloc widened significantly since the trade pact was implemented in January 2010.

Four meetings of the `joint committee' for the review of AITIGA have already taken place while the fifth is scheduled in Jakarta on July 29-31, 2024.

In the earlier meetings, India sought product specific rules (PSRs) in ROO determination so that the requirements could be relaxed for high value items where the value addition is low. ROO are the criteria to determine the origin of a product and establish if it qualifies for duty cuts under a FTA. PSRs can be introduced in the ROO chapter for relaxing rules for certain items where meeting the prescribed ROO is difficult.

In the India-ASEAN FTA, the ROO calls for value addition of 35 per cent whereas for certain industries, like gems and jewellery, the value addition that takes place is less than 10 per cent because the raw material is of high value.

Under the AITGA, both sides agreed to progressively eliminate duties on about 75 per cent of goods and reduce tariffs on around 15 per cent of goods. However, the commitments made by the ten ASEAN countries varied considerably. While an open economy like Singapore committed to almost 100 per cent elimination, countries like Indonesia and Vietnam offered much less.

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GDP to grow less than 7% in FY25: Economists

India's Gross Domestic Product (GDP) may expand less than 7% in the current financial year due to external headwinds, statistical effect of a high base and technical factors, economists said.

On Friday, the Reserve Bank of India (RBI) raised India's GDP growth projection by 20 basis points (bps) to 7.2% for FY25.

Most of the ten economists FE spoke to feel the GDP growth would be below 7% in FY25 with some even pegging it at 6.5%.

"We expect GDP growth of 6.5% this fiscal, even as there could be some upside there if growth in net indirect taxes doesn't slow as much as we anticipate," said Abhishek Upadhyay, senior economist, ICICI Securities Primary Dealership.

Upadhyay expects gross-value-added (GVA) to grow at 6.8% in FY25 and sees the possibility of GDP growth undershooting the former, in the backdrop of an "adverse base" and subsidy bill stabilising at the lower level.

In FY24, the country's GVA had grown 7.2%, while the GDP had grown 8.2%. The sharp 100 bps gap between the two was mainly a consequence of higher collection of indirect taxes as compared to previous years, and a substantial decline in subsidy expenditure. In FY24, subsidy expenditure had contracted 22% on year.

Moreover, the low deflator had also pushed up real growth in FY24, which may not be the case in the current fiscal, economists said. The wholesale inflation (WPI) averaged at (-)0.7% in FY24 as against 9.6% in FY23, which was why the deflator turned out to be unusually low last year.

Meanwhile, in the current fiscal, some moderation is expected with softer growth in companies' profit and a pick-up in input cost, said Gaura Sen Gupta, chief economist at IDFC FIRST Bank. "Also, urban demand, which has been robust in FY24, is expected to be moderate in FY25 with softer urban wage growth," she said.

Madhavi Arora, lead economist at Emkay Global, said that the FY25 growth outcome will see "cyclical headwinds" in the form of restrictive net fiscal impulse; fading commodities-led terms-of-trade benefits; tighter lending standards; and weaker exports.

The June RBI monetary policy statement has said a revival in private consumption, sustained momentum in investment activity, above-normal southwest monsoon, and optimism in business sentiments is likely to support growth in FY25.

However, headwinds from geopolitical tensions, volatility in international commodity prices, and geoeconomic fragmentation, however, pose risks to the outlook, the RBI noted.

The private final consumption expenditure (PFCE) growth had come in at 4% in FY24, lower than 6.8% in FY23. A lower PFCE growth meant that the GDP growth in the previous fiscal was driven by investment (investment grew 9% in FY24 against 6.6% in FY23).

Low growth in private consumption was a sign of rural distress. Consumption in rural areas remains tepid largely due to negative growth in real rural wage, high rural inflation, and shortfall in crop output due to below-normal monsoon. Data from the Centre for Monitoring Indian Economy (CMIE) showed that real rural wages contracted in 25 of the 27 months to February 2024, suggesting that the recovery in the hinterland could take longer than expected.

This year, however, economists and policy makers are optimistic of a rise in rural consumption due to above-normal monsoon.

“In the backdrop of revisions in past data as well as optimism around monsoon-led improvement in the agriculture sector, a 7-7.2% growth for India looks quite attainable”, said Achala Jethmalani, economist, RBL Bank.

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GLOBAL

PFAS Threat In Water From Areas Near Bangladesh Textile Units: Study

Perfluorinated alkylated substances (PFAS), called ‘forever chemicals’, were found in 27 of 31 surface water samples (87 per cent) in a survey of water samples from areas near textile manufacturing centres in Bangladesh.

In 18 samples (58 per cent), PFAS that are listed for global elimination under the Stockholm Convention were detected.

In 19 samples (61 per cent), PFAS were detected above proposed European Union (EU) regulatory limits for surface water.

Several samples were found with very high PFAS levels. One sample contained PFAS at more than 310 times above a proposed EU regulatory limit. That sample also had the highest levels of globally-banned perfluorooctanoic acid (PFOA) and perfluorooctane sulfonic acid (PFOS) at more than 1,700 times higher than a current Dutch advisory limit for PFOA and more than 54,000 times higher than a current Dutch advisory limit for PFOS.

The study also includes data on PFAS in clothing purchased from retailers in Bangladesh. PFAS were detected in all five clothing items tested, including clothing for men, women and children.

One item contained PFOA, which is banned globally and prohibited for use in consumer products in countries, including Bangladesh, which have ratified the Stockholm Convention amendment on PFOA.

The textiles industry should phase out the use of PFAS, and policymakers should develop a comprehensive, class-based ban on the production and use of PFAS, including polymeric PFAS, the study suggested.

The survey was carried out by the Environment and Social Development Organisation (ESDO) a non-profit and non-government action research organisation in Bangladesh, along with IPEN, a Sweden-registered global network forging a healthier world where people and the environment are no longer harmed by the production, use and disposal of toxic chemicals.

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ICE Cotton Remains Positive Amid Weaker Dollar And Crude Oil Rally

ICE cotton remained almost positive and noted some gains in most of the contracts. Traders were waiting for US cotton export sale data which turned out to be little disappointing. However, rally in crude oil and weaker dollar index provided support to the cotton market.

According to trade analysts, US cotton July contract settled 100 points higher at 75.44 cents per pound (0.453 kg). It was the third consecutive trading session when the contract witnessed upward trend. December contract settled up 9 cents at 73.60 cents on Wednesday.

Dollar index was down yesterday which supported cotton prices. Dollar index eased as central banks have started reducing interest rates. The European Central Bank has reduced rate by 0.25 per cent to 3.75 per cent. The US Federal Reserve may also take a similar decision. Crude oil was above more than two per cent which made cotton purchase more attractive.

Yesterday major trading was seen in July month, as it was the last session of options expiry. The final trading volume was 53,605 contracts. Cleared contracts for the previous day were 45,272. Certified Stocks yesterday began at 129,146 bales, slightly increased by 1,156 bales in new certifications. Around 3,531 bales were awaiting review.

For the week ending May 30, 2024, net Upland sales for the 2023-24 season totalled 138,700 RB (running bales), marking a decrease of 38 per cent from the previous week and 34 per cent from the prior 4-week average. There was no overall change in fundamentals. No major triggers were available, as the market now focused on WASDE report due next week.

On Friday, ICE cotton July 2024 was traded 0.06 cent lower at 75.38 cent per pound. Cash cotton was traded at 71.69 cent (up 1.00 cent), October (new crop) contract 75.57 cents (up 0.47 cent), December 2024 contract 73.63 cents (up 0.03 cent), March 2025 75.43 cents per pound (up 0.01 cent) and May 2025 77.41 cents (up 0.42 cent).

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