Daily Economic News Summary: 8 August 2016

1. Auto to benefit most from GST: Moody's

Source: **Business Standard** (Link)

The automobile sector is expected to be the biggest beneficiary of the Goods and Service (GST) tax regime, says ratings agency Moody's in a new report. Though the shift to the new indirect tax regime is positive for both growth and government tax revenues over the medium term, *"the short-term sovereign credit implications will be limited,"* it added. Under the current architecture, companies have to contend with the issue of multiplicity of taxes, which inflates product prices. But under the GST, the problem of the cascading effect of taxes will be addressed. This, according to Moody's, will benefit the automotive industry the most.

While the tax rate is yet to finalised, Moody's expects it to be lower than the multitude of taxes such as sales tax, excise duties, local taxes, and value-added taxes the automobile sector currently pays. Thus, shifting to the new system will reduce final prices of products, spurring consumer demand. Further, the new architecture will also make for swifter movement of goods across states by removing barriers present under the existing regime. *"Swifter truck mobility is also expected to improve utilisation levels and efficiency for freight and logistics operators and warehouses, which will support earnings (profits),"* says Moody's. Though the move is positive for growth, the impact on sectors will vary. *"Despite the expected lower tax rates, it is premature to quantify the precise impact on individual sectors, pending a seamless transition and likely challenges in the interim. The overall impact is likely to vary across sectors,"* Moody's noted.

In the long term, shifting to GST will be a positive for growth, inflation and tax revenues *"by removing a key hurdle to the smooth movement of goods and services, and reducing corporates'* and the government's tax administration costs, thereby improving compliance and raising tax receipts."This as Moody's says supports the sovereign's credit profile. But given that the implementation will take time, as of now the government hopes to implement it by 2017 , the short term sovereign credit implications will be limited it said.

2. GST to benefit Pharma industry

Source: **Live Mint** (Link)

The goods and services tax (GST), India's biggest indirect tax reform, is expected to be beneficial for Indian drug makers in the medium to long run as it aims to simplify tax structure and bring operational efficiency. However, concerns about drug prices, exemptions and compliance remain. *"The details such as what rate is applicable to pharma is not known, but we think the government will be conscious of the fact that essential medicines should have minimum taxes,"* said D.G. Shah, secretary general of Indian Pharmaceutical Alliance, the industry lobby group that represents large domestic Indian drug makers.

Shah welcomed GST saying that it creates a level playing field for pharmaceutical companies and will eventually benefit consumers. *"As far as the health care and pharma industry is concerned, it is expected that the new GST legislation would benefit the consumers by making affordable health care a reality,"* said Ramesh Swaminathan, chief financial officer and executive director of Lupin Ltd, India's third largest drug maker.

3. Govt extends minimum import price on 66 iron, steel products for 2 months

Source: **Live Mint** (Link)

To protect domestic industries from cheap imports, the government has extended the minimum import price (MIP) on 66 steel products for a period of two months as against 173 items earlier. The MIP ranges between $341-752 per tonne. *"MIP for 66 (steel products) is extended till 4 October this year,"* director general of foreign trade Anup Wadhawan said in a notification on Thursday. The steel industry had been demanding for extension of the MIP. When asked why the government has reduced the number of products, an official said: *"We felt that only these 66 products require protection. The commerce ministry is already investigating dumping of certain steel products."*

The 66 products include semi-finished products of iron or non-alloyed steel, flat-rolled products of different widths, bars and rods. To guard domestic steel producers against cheap in-bound shipments, the government in February had imposed MIP, ranging between $341-752 per tonne, on 173 steel products for a period of six months. On ingots and billets, blooms and slabs, the MIP reads $362, $352 and $341 per tonne, respectively.

4. Inflation target of 4% a credit positive for India: Moody's

Source: **Live Mint** (Link)

The Indian government's decision to implement an inflation target of 4% for the next five years will help keep inflation at moderate levels and maintain macroeconomic stability, Moody's Investors Service said on Sunday. *"The Indian government's notification of the inflation target at 4% +/-2% through to 2021 is a credit positive re-affirmation of commitment to keeping inflation at moderate levels. Sustained moderate inflation would contribute to macroeconomic stability and help prevent a repetition of the short marked cycles of the past,"* said Marie Diron, senior vice-president, sovereign risk group, Moody's Investors Service. On Friday, the government formally backed the inflation strategy of the Reserve Bank of India (RBI) by notifying a retail inflation target of 4% with an upper and lower tolerance limit of two percentage points as an anchor for monetary policy. This was in line with the agreement between the government and RBI last year.

5. Germany's ZF Friedrichshafen to set up technology centre in Hyderabad

Source: **Live Mint** (Link)

German car parts maker ZF Friedrichshafen AG is setting up its first technology centre in India in Hyderabad, which will be dedicated to software and mechanical engineering. The centre will support ZF's global development teams while enabling the company to accelerate local product development, a company statement said. It will be fully operational by 1 January 2017 and is expected to have a workforce of 2,500 engineers by 2020. *"This new facility is a significant investment for ZF in India. We are harnessing the skilled talent pool that India has to offer in order to develop superior technology solutions for our global as well as local customers,"* Stefan Sommer, chief executive of ZF Friedrichshafen, said in a statement. Over the years, ZF has been successful in localising high technology products in India, the statement said.

6. Renault to increase exports from India, eyes African market

Source: **Live Mint** (Link)

French auto major Renault is looking to enhance exports from India to neighbouring countries and Africa as it seeks to make the country a manufacturing hub. *"Last month we started exporting Duster and Kwid to Sri Lanka. This month we will be entering Nepal while we also prepare to enter Bhutan,"* Sumit Sawhney, country chief executive officer (CEO) and managing director, Renault India Operations, told PTI.

Not only will the neighboring countries, Renault be looking to tap opportunities in Africa as well. *"We are working on strategy for exports to South Africa, hopefully, it will be finalised soon. Besides, we are looking at other countries in Africa,"* Sawhney said. Even to Brazil, where the company's small car Kwid will be manufactured and sold, Renault will be looking to export components. *"Certain sets of components will be supplied from here in India,"* he said. As per Society of Indian Automobile Manufacturers (SIAM) data, Renault India has exported 441 units so far in the April-June period this fiscal, as against just 56 units exported in the same period last fiscal.

By Harsha Hazarika