

Daily Economic News Summary: 25 January 2017

1. Donald Trump invites Narendra Modi to US as he hails India ‘a true friend’

Source: Live Mint ([Link](#))

US president Donald Trump late on Tuesday night described India “a true friend and a partner in addressing challenges around the world” and said he looked forward to hosting Prime Minister Narendra Modi in the course of the year. In his first telephone call to Prime Minister Narendra Modi, Trump and Modi “discussed opportunities to strengthen the partnership between the United States and India in broad areas such as the economy and defence,” a White House statement said. “They also discussed security in the region of South and Central Asia. President Trump and Prime Minister Modi resolved that the United States and India stand shoulder-to-shoulder in the global fight against terrorism,” said the statement. The Indian government did not give a readout of the conversation between the two leaders but Modi in a series of posts on Twitter said he had a “warm conversation with President @realDonaldTrump late last evening.” “President @realDonaldTrump and I agreed to work closely in the coming days to further strengthen our bilateral ties,” Modi said.

2. Modi’s budget holds key to burnish outlook for India stock flow

Source: Live Mint ([Link](#))

Foreign investors’ renewed interest in Indian equities faces a big test as Prime Minister Narendra Modi’s government prepares to present the Union budget. Investors say the first stock inflows from overseas in more than a month could accelerate if the 1 February budget unveils steps to boost spending to stimulate growth that’s forecast to slow to a three-year low. On the other hand, a move to end a tax break on equity gains or a levy on foreigners will once again sour the sentiment for India just when the markets are facing uncertainties over Brexit and US President Donald Trump’s economic policies. “The market has a limited appetite for surprises,” said Mihir Vora, who helps oversee about \$6 billion as chief investment officer at Max Life Insurance Co. “We’ve withstood demonetisation and other unanticipated events such as a new policy regime in the US. Any changes in tax treatment or rules for foreign investors will impact sentiment.” Global funds last week bought \$101 million of shares amid signs the cash crunch from Modi’s shock currency

ban is easing, and as the government put on hold a proposal to tax indirect transfers of assets held by foreign investors. The inflows follow \$4.3 billion of withdrawals since November, the highest among eight Asian markets tracked by *Bloomberg*.

3. India, UAE to ink deals today; Crown Prince pays visit as R-Day guest

Source: Business Standard ([Link](#))

India and the UAE are expected to ink a strategic agreement on Wednesday to elevate their relationship to a comprehensive strategic partnership, providing for greater cooperation in areas such as defence and security. Briefing media in New Delhi on Tuesday as the Crown Prince of Abu Dhabi Sheikh Mohammed Bin Zayed Al Nahyan visited the country, Secretary Economic Relations Amar Sinha said that his visit will further strengthen defence and security cooperation between the two countries. The crown prince, who arrived in India on a three-day visit on Tuesday, would be a chief guest in this year's Republic Day parade. The crown prince will be accorded ceremonial reception at the forecourts of the Rashtrapati Bhawan on Thursday.

4. Impose tax on cash withdrawal above Rs 50,000 panel on digital payments suggests to PM Modi

Source: Economic Times ([Link](#))

A high-level committee on digital payments has suggested a tax to discourage cash transactions, a cap on the maximum allowable limit for large-size cash transactions and a complete abolition of charges on card payments to incentivise digital transactions. Some of these recommendations of the Chandrababu Naidu-headed committee of state chief ministers could find a mention in the upcoming Union Budget on February 1. The recommendations seek to make digital transactions more cost effective and attractive than cash transactions. The committee has suggested a banking cash transaction tax on transactions of Rs 50,000 and above. The panel wants a cap on large cash transactions but has not mentioned any threshold. The committee also wants the merchant discount Rate (MDR) – the charge levied on transactions, to be abolished.

5. I-T department to target Indian MNCs avoiding tax

Source: ([Link](#))

The income tax department has unveiled the final guidelines to determine if an entity can be considered an Indian resident and taxed here and has made them effective from April 1, 2016 (FY16), dashing the hopes of industry, which expected their implementation from the next financial year. Indian multinationals that have set up arms overseas to raise funds or expand business and foreign companies that outsource high-end critical functions in India to contribute to their global value chain will face tighter scrutiny if they are effectively managed in India. The Central Board of Direct Taxes released the 10-page final guidelines on Tuesday that will help determine the place of effective management (POEM) of companies, applicable from April 1 of the current financial year. The apex direct taxes body made it clear that the objective is to catch those avoiding taxes. "The intent is not to target Indian multinationals which are engaged in business activity outside India. The intent is to target shell companies and companies which are created for retaining income outside India although real control and management of affairs is located in India," the CBDT said in a statement.

By Rajnee Narula