

Daily Economic News Summary: 3 July 2017

1. GST impact: New tax regime to boost GDP; positive for rating, says Moody's VP William Foster

Source: Financial Express ([Link](#))

Implementation of the GST will be positive for India's rating as it will lead to higher GDP growth and increased tax revenues, Moody's Investors Service said today. "Over the medium term, we expect that the GST will contribute to productivity gains and higher GDP growth by improving the ease of doing business, unifying the national market and enhancing India's attractiveness as a foreign investment destination," Moody's VP (Sovereign Risk Group) William Foster said. The GST will also support higher government revenue generation through improved tax compliance and administration. "Both will be positive for India's credit profile, which is constrained by a relatively low revenue base," Foster said. Moody's has a 'Baa3' rating on India with a positive outlook. The biggest tax reform in independent India was rolled out at the stroke of the midnight — the intervening night of June 30-July 1 — by President Pranab Mukherjee and Prime Minister Narendra Modi. The US-based agency expects improved tax compliance to be driven by incentivisation of tax credits in a GST system. It would also usher in greater ease of compliance through the usage of a common, shared IT infrastructure between the central government and the states; and a reduction in the overall cost of compliance from simplified tax rates, uniform across the country. "We expect the net impact of GST on government revenues to be positive," Foster said.

2. Indian shadow economy to shrink to 13.6 per cent of GDP by 2025: ACCA

Source: Financial Express ([Link](#))

The "shadow economy" in India will shrink to 13.6 per cent of the GDP by 2025, a study by Association of Chartered Certified Accountants (ACCA) said. Shadow economy refers to the production of and trade in goods and services that are deliberately and often illegally concealed from public authorities. The report, titled 'Emerging from the shadows: The shadow economy to 2025', said the shadow economy in India currently represents 17.22 per cent of GDP, totalling about Rs 26,15,800 crore in 2016. "This will fall to 13.6 per cent of GDP by 2025. The global average is expected to fall from 22.5 per cent to 21.39 per cent of GDP over the same period," it

noted. The prevalence of shadow economy activity throws up considerable practical and ethical issues for both business and government, Sajid Khan, Head of International Development at ACCA, said. "The fall in the shadow economy is being driven by the increasing health of the overall economy, such as rising employment and GDP growth," he added. He cautioned that this "success" should not encourage a culture of complacency. "The overall rate of unemployment will (be) a significant driver of the shadow economy, as people struggle to access legal, regulated work.

3. Indians should pay taxes to become developed nation: Arun Jaitley

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

India should have a "new normal" with citizens ready to pay the taxes they need to pay and a new mindset to move from a developing nation to a developed one, Finance Minister Arun Jaitley said here on Saturday. "During the time of demonetisation I have said that India now needs to define the new normal. And the normal is whatever taxes I have to pay, I need to pay," he said, addressing the 'Chartered Accountants Day' organised by The Institute of Chartered Accountants of India. Jaitley said it is time now that India should move from a "developing economy to a developed economy". "To take the country forward this mindset should also become the mindset of a developed economy." The government on Saturday rolled-out the Goods and Services Tax (GST) across the country, the biggest indirect tax reform.

4. New tax structure not higher than VAT: Adhia busts 7 myths on GST

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

Adhia, the architect behind the country's largest tax reform, sought to dispel concerns that if a person makes payment of utility bills by credit cards, the he/she will be paying GST twice."This is completely untrue. Please do not recirculate such message without checking it with authority," Adhia said. India ushered in the Goods and Services Tax (GST) regime on the intervening night of June 30-July 1. A four-tier tax slab -- 5, 12, 18 and 28 per cent -- has been decided with essential items like salt, unpacked food grains, healthcare services being kept zero rated. People have been posting in social media pictures of receipts issued in grocery stores or eateries showing tax deductions as GST, instead of VAT/Service tax earlier. Busting the myth that GST rates are higher than VAT, Adhia said, "it appears higher because excise duty and other taxes which were invisible earlier are now subsumed in GST and so visible now." He reiterated that businesses can continue to do business under GST with provisional ID number and businesses need not wait for Goods and Services Taxpayer identification number (GSTIN). "Provisional ID

will be your final GSTIN number. Start business," Adhia said. He said that businesses need not generate all invoices on computer/ internet only. "Invoices can be generated manually also".

5. Jobless growth claims are bit bogus: NITI Aayog Vice-Chairman Arvind Panagariya
Source: Financial Express ([Link](#))

NITI Aayog Vice-Chairman Arvind Panagariya today said the claims of jobless growth are “bit bogus”, as the economy cannot grow at such a rapid pace without adding new jobs and investment. “There are lot of claims that we are experiencing a jobless growth. Big debate is going on about this issue since some time. I think that this kind of assertion is bit bogus,” said Panagariya, speaking at the valedictory function of ‘Textiles India 2017’ at Mahatma Mandir here. “We have been growing at 7 to 8 per cent. And, when you are saying that new jobs as well investment is not happening, then you are claiming that our productivity is growing so rapidly each year with same resources,” he said. “I have never heard about any country where growth of 7 to 8 per cent is happening without new investment or labour. So the claims of jobless growth cannot be logically correct,” said the acclaimed economist. NITI Aayog is focusing on development of India’s vast coastline to generate employment and attract export-oriented firms, as in China, he said.

6. India set to climb up in ease of doing business ranking
Source: The Economic Times ([Link](#))

India has told the World Bank that it has improved processes for granting construction permits sufficiently to pip the current topper, New Zealand, in the next edition of the Doing Business report. Now it takes only 60 days following eight online procedures to get a construction permit in Delhi and Mumbai, which are taken into account for India’s ranking in the annual ease of doing business report, government officials told a team of the World Bank last week. In New Zealand, it takes 93 days and 10 procedures to get a construction permit, officials said. India was ranked 185 among 190 nations surveyed on the parameter of getting a construction permit in the study conducted last year. Until last year it took 164 and 213 days in Mumbai and Delhi respectively to get a construction permit. The number of procedures required was as high as 42 and 29 in the two cities last year. The World Bank had then pointed out that India had not managed to shift online its construction permits system. The World Bank officials will speak to the users in the course of

this week to vet our claims. Radical improvement has been undertaken,” a senior official told ET, requesting not to be identified. The World Bank officials will visit Delhi and Mumbai during the week to gather industry and government feedback. India has been ranked 130 in the 2017 Ease of Doing Business Index, an improvement of just one spot.

7. 10% BCD on smartphones a leg up for Make in India investments

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

Handset makers and contract manufacturers are set to fast track their investments into Make in India, after the government imposed a 10% basic customs duty (BCD) on smartphones, ensuring continuation of incentives for local manufacturing that would boost investment into developing component manufacturing ecosystem in the country. The duty also comes as a relief for several local companies and foreign firms including Foxconn, Flex, Salcomp and iPhone-maker Wistron and even Samsung that have pumped in millions into setting up more than 70 phone and component manufacturing units over the past couple of years. Additional investments worth Rs.1,000 crore have been hanging in the balance, which will now be taken forward. “The investments in the industry were on hold for the past 6-8 months due to huge uncertainty, but now the momentum in the industry which was lost should come back and more and more people will invest in backward integration or components,” said Sunil Vachani, executive chairman of Dixon Technologies, which makes phones for Intex, Panasonic and Gionee. Samsung has already announced its intentions to make India a manufacturing and export hub, with shipments to Europe, Middle East, Africa and elsewhere expected to kick off in 2020. Apple, through Wistron, has also begun to assemble some of its iPhone SE models in the country, with plans to expand it further, which could get a further legup with the BCD, said experts.

8. GST impact on airlines for business class tickets: To get benefits, companies must provide extra information

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

People travelling for business purposes on business class air tickets are now required to submit details about their companies to avail tax benefits under the GST regime. The Goods and Services Tax (GST) framework, which came into effect from July 1, provides for certain input tax credit only on business class tickets and there is no such provision on economy class fares. Air India, Jet Airways and Vistara — the three domestic carriers that offer business class seats — have already

sent out communications to inform passengers that GSTIN details need to be submitted in order to avail the benefits. The GST Identification Number is issued to entities that are registered under the new tax regime. “It is now mandatory for guests travelling for business to add their company’s GST details at the time of booking. To ensure a seamless experience, we request that you inform your guests travelling for business to register on our portal and claim up to 12 per cent back on flights,” Jet Airways said in a communication.

9. Government’s capital spending up 60%

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

The government has ramped up capital spending by nearly 60% in the first two months of the current financial year, in a bid to perk up investment sentiment and crowd in private investment. Early passage of the budget in March has allowed the government start spending from the beginning of the new financial year in April. In April-May, the government spent Rs 52,536 crore, 58% more than the year earlier period. The fast start to spending has taken the fiscal deficit to 68.3% of the budget estimates against 42.9% last year, but experts say this is not a cause of worry. “In our view, the high revenue and fiscal deficits recorded in the first two months of the year should not be construed as a cause for alarm, as they reflect a robust up fronting of expenditure following the advancement of the union budget said Aditi Nayar, principal economist at ratings firm ICRA. Revenues tend to take time to gather pace, which results in higher fiscal deficits at the start of the year.

10. India’s travel market to reach \$48 billion by 2020: Google; BCG

Source: The Hindu: Business Line ([Link](#))

Indian passenger travel market is projected to grow at 11-11.5 per cent to \$48 Billion by 2020 with the biggest contributor, air travel, expected to grow at 15 per cent to \$30 billion. Hotels will grow at 13 per cent to \$13 billion by 2020 while railways will remain \$5 billion, according to Boston Consulting Group (BCG) and Google India report, ‘Demystifying the Indian Online Traveller’. Additionally, as more people come online, smartphone penetration increases and use of digital payments goes up, the report estimates that India’s online hotel market will grow to \$4 billion with 31 per cent penetration at a CAGR of 25 per cent. Vikas Agnihotri, Industry Director, Google India, said, “India’s domestic travel market is on an acceleration path. One of the key findings of the report is that by 2020, one in three hotel rooms will be booked online — a clear

indicator of the growing importance of digital in travel research, planning and booking. There are several actionable insights for domestic online travel players including the role of mobile and the level of curation and personalisation that Indian travellers are looking for.”

11. Here’s how India can become more integrated in global trade

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

Global commerce has been changing since the late 20th century. Rather than trade finished products, such as cars, countries now exchange parts and components that, together, produce a finished commodity. Facilitated by lower transportation and communication costs, the inputs of production can be sourced from the most economical place. Every country that participates in world trade today has its place in this global value chain. For emerging nations, engaging in global value chains is key to their economic development. According to the United Nations, there appears to be a positive correlation between participation in this system and GDP per capita growth rates. India, with its low labour costs and huge workforce, knows this well. Since the mid-1990s, it has made efforts to increase both trade volume and value-chain engagement. India’s participation in global value chains has risen from 57th place in 1995 to 45th place in 2009, according to the the OECD Trade in Value Added (TiVA) Statistics. Tracking the specific value chains for a country across the globe paints a revelatory picture of its economic integration by sector. In manufacturing, for instance, India is more closely linked to Asia and the Southeast Asian region, especially for electrical and optical equipment. Services, on the other hand, show more integration with western countries such as the United States, the United Kingdom, a few European nations and Hong Kong.

12. The crack team: Those who made GST a reality

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

The brains behind GST: From former economic affairs secretary Shaktikanta Das, who laid the foundation of the GST, to finance minister Arun Jaitley, who piloted the tax reform initiative during the last three years, the Goods and Services Tax was shaped by the involvement of several men and women in the highest echelons of power. Here's a look at the team which helped usher in the landmark fiscal reform: **Arun Jaitley, Finance Minister** piloted the GST legislations, including amendment to Constitution, in the last three years and as first chairman of the GST Council, comprising the union and state finance ministers. **Hasmukh Adhia, Revenue Secretary** - The man who drove GST, often pushing even the states to decide. Now knows GST like the back

of his hand. **Vanaja S Sarna, CBEC Chairperson** - Since April, she has been heading the agency at the Centre which is responsible for the implementation and successful rollout of the new tax regime. **Shaktikanta Das, Former Revenue and Economic Affairs Secretary** - Das was instrumental in pushing GST soon after the Modi government took charge. **Arun Goyal, Additional Secretary of GST Council** - The UT cadre IAS officer was roped in from Project Monitoring Group handling held-up projects to get the new tax regime moving. **Alok Shukla & Amitabh Kumar, joint secretaries (Tax Research Unit, CBEC)** The two men who together work on rates and critical policies on indirect taxes.