Daily Economic News Summary: 4 July 2017

1. PM Narendra Modi's 3-day visit: India, Israel may create $40-million innovation fund
Source: The Economic Times (Link)

India and Israel are expected to sign an agreement to create a $40 million research and development fund for joint innovation in areas of agriculture, water, energy and technology during Prime Minister Narendra Modi's three-day visit to the West Asian country starting Tuesday. The two countries will contribute $20 million, or about Rs 130 crore, each over five years to the fund called India-Israel Industrial R&D and Technological Innovation Fund, said a top official aware of the development. "This is going to be a good platform for both the countries to come together and is expected to be signed between Israel's Innovation Authority and India's department of science and technology during the PM's visit," said the official who requested anonymity…According to the official quoted earlier, the fund will be used by industry in both the countries for developing collaborative R&D practices and joint product development in areas such as agriculture, energy, water and ICT. Given Israel's lead on Cybersecurity and startups, these areas could also be potential spots for collaboration.

2. Israel looks to boost exports to India amid pending FTA talks
Source: Business Standard (Link)

Israel is eyeing the strong middle class base in India to boost its exports, capitalising on the the momentum generated by the "historic" visit of Prime Minister Narendra Modi, but scepticism persists here due to stalled discussions on a Free Trade Agreement. "India is a key export market for Israel. Tightening relations with India and this historic visit of the Indian Prime Minister will lead, beyond increasing security exports, to growth in trade in goods and services," Israeli Minister of Economy and Industry Eli Cohen said. "The Indian economy is becoming a prime destination for Israeli exports, with its 1.3 billion consumers led by 300 million citizens in the middle and upper-middle class, with purchasing power equal to the middle class of Western economies," Cohen noted. An FTA between the two nations has remained elusive despite negotiations having started around seven years ago. The first round of negotiations were held on May 26, 2010. On a question regarding the long-pending pact, Israeli foreign ministry officials said India was "reevaluating" it, but tried to downplay its significance, saying there are newer developments that will help realise the economic potential between the two countries.

3. India gets good rank on FSB's reform report card to G20
Source: The Economic Times (Link)

The Financial Stability Board (FSB), an international body for global financial system, today listed India among countries that are 'compliant or largely compliant' on implementation of priority area reforms. Ahead of the G20 Summit in Germany to be attended by Prime Minister Narendra Modi, among other world leaders, the FSB today submitted its status report on progress in financial regulatory reforms in various jurisdictions, including India. The report listed India as a 'compliant' jurisdiction with regard to the Basel III reforms in area of risk-based capital and as 'largely compliant' on liquidity coverage ratio. Other countries that have been found to be 'compliant or largely compliant' on these metrics include Argentina, Australia, Brazil, Canada, China, Hong Kong, Indonesia, Japan, Mexico, South Korea, Russia, Singapore, South Africa, Switzerland, Turkey and the US…With regard to the Net Stable Funding Ratio (NSFR), India figured among the countries where "final rule published but not in force, or draft regulation published". On compensation related reforms, India is among the jurisdictions where "all except a few (three or less) FSB Principles and Standards implemented", as per the FSB report. On trade reporting in the over-the-counter derivatives market, India was among the countries where necessary regulatory framework was being implemented.

4. Government mulls leasing out airports, ports and other infrastructure assets to private operators
Source: The Economic Times (Link)

The government is mulling leasing out operational roads, airports, ports and other infrastructure assets to private operators to attract investments and free up funds to step up public investment in greenfield projects. Niti Aayog, the government's think tank, will prepare a list of projects that can be offered to the private sector and move a note for discussion on the issue. Private investment in greenfield infrastructure has almost stalled because of multiple execution risks involved and heavy indebtedness of infrastructure companies. "This (move) will free up capacity and funds for new investments," said a senior government official. "Whatever projects are complete and there is a revenue stream coming, the government must get out of those and put them out in the market on a 'reverse BOT' (build-operate-transfer) basis," the official added. Niti Aayog has already identified state-run companies that the government will exit through strategic or outright sale. The government has also taken an in-principle decision to exit from loss-making and debt-burdened Air India. The focus will now shift to individual projects with staterun agencies that are not up for disinvestment…"There is a huge interest among foreign funds. They are not interested in picking up risk-laden greenfield projects, but brownfield operating ones. This is the right time for India to go for this as PM Narendra Modi's global outreach has tickled their appetite to invest in the country," said Vinayak Chatterjee, chairman, Feedback Infra.

5. Digital payments rise 55% in FY'17: Watal
Source: The Economic Times (Link)

Digital payments recorded 55 per cent increase in 2016-17 and the trend is likely to continue in the coming years indicating that India is at 'the cusp of revolution' in this area, Niti Aayog Principal Advisor Ratan P Watal said today. The spurt, over 2015-16, came in the financial year during which the government demonetised high value currency. The volume of overall digital payments, Watal further said, recorded a compounded average annual growth rate of 28 per cent from 2011-12 to 2015-16. "These figures are truly reflective of the fact that India today stands at the cusp of a digital payments revolution," he said at an event organised by industry body Ficci. "Due to innovations in digital payment technologies and increasing consumer satisfaction, the growth trends in digital payments are positive and will continue to dominate the payments landscape in India," he said.

6. India, China to account for 50% of new mobile subscribers by 2020: report
Source: LiveMint (Link)

India and China will account for almost half of all new mobile subscribers expected to be added globally by the end of 2020, a new study has found. According to the 2017 edition of 'Mobile Economy: Asia Pacific' report published recently at the 'Mobile World Congress Shanghai', forecasts that India will account for 27% (206 million) and China 21% (155 million) of the approximately 753 million new mobile subscribers by the end of the decade. The Asia Pacific region as a whole is forecast to increase from 2.7 billion unique mobile subscribers at the end of 2016 to 3.1 billion in 2020, accounting for two-thirds of global growth. The report also highlights how the region's mobile industry will be a growing contributor to the Asia's economy and social development over this period – and also play a pioneering role in 5G. “Led by India and China, Asia’s mobile industry will be the main engine of global subscriber growth for the remainder of the decade, connecting almost half a billion new customers across the region by 2020,” said Mats Granryd, director general of the GSMA company, a trade body that represents the interests of mobile operators globally… Subscriber growth in the Asia Pacific region will mean that mobile penetration in the region (as a percentage of the population) will grow from 66% in 2016 to 75% in 2020. However, the diverse nature of the region means that mobile penetration rates vary widely. Asia is home to four of the top five most penetrated markets in the world (Hong Kong, Japan, Singapore and Taiwan), but also some of the least penetrated, such as North Korea. Mobile broadband (3G and above) is now the dominant technology in the region, accounting for more than half of connections for the first time last year.

GST Focus:

7. GST rollout: China says India needs forceful leadership like theirs to implement
Source: Financial Express (Link)

Passing of GST in India is a big step forward but the country needs a “forceful leadership” like in China, the world’s second largest economy, to implement it, a state-run Chinese news agency said today. The long-awaited Goods and Services Tax (GST) finally took effect in India marking the country’s biggest tax reform since its independence in 1947, an article in the state-run Global Times said. “The main questions now are whether the new tax regime can be effectively instituted across the country’s 29 states and how long it will take,” it said. “With demonetisation and the GST, India has been pushing forward with drastic reforms to unify the country’s economy, and there will inevitably be considerable obstacles,” it said. “A forceful leadership, which enabled China to implement policies effectively to achieve rapid economic development since the reform and opening-up, is exactly what India needs to ensure full compliance with the reforms throughout the country,” it said. “Given the fragmented market conditions, the country still lags far behind China in terms of policy execution,” it said. “It goes without saying that the GST is a big step in the right direction, and is expected to bring long-term benefits to the country’s economy,” the article said.

8. GST launch: Now, Modi to turn his focus to job creation and other key economic reforms
Source: Financial Express (Link)

With a landmark goods and services tax now rolling out across India, Prime Minister Narendra Modi is likely to turn his focus to job creation and other key economic reforms. Further big structural steps, such as revamping India's land acquisition and labor laws, are unlikely to occur before the next national election, scheduled for 2019, as Modi's Bharatiya Janata Party still lacks a majority in the upper house of parliament. Instead, analysts suggest the BJP is likely to focus on creating jobs while it pursues smaller reforms, including on administrative measures, anti-corruption policies and tax evasion. While India remains one of the fastest growing economies in Asia, employment creation was the slowest on record in 2015, with just 135,000 net new jobs in the formal sector of the economy against the 12 million estimated new entrants to the workforce, government data show. Modi's administration will also have to dedicate considerable resources to ensure the success of the new, nation-wide GST, which took effect on July 1 after a midnight launch ceremony and has already caused some economic disruption. "Modi will want to ride on the coat tails of the GST success to make additional progress on the economic reform front," said Michael Kugelman, a senior associate for South Asia at the Woodrow Wilson Center in Washington, D.C. "In particular he's going to be focused on job creation. Modi remains popular in India, but the job issue is one area that could be a political liability for him and his party both in state and national elections."

9. GST reimbursement scheme on fast track, says government
Source: The Economic Times (Link)

The government is looking to expeditiously clear a reimbursement scheme for industries that have lost area-based excise exemption offered as incentives in states such as Himachal Pradesh and Uttarakhand under the new goods and services tax (GST) regime. The Department of Industrial Policy and Promotion (DIPP) has finalised the GST reimbursement scheme, which will shortly be taken up by the expenditure finance committee, two senior government officials told ET. "It is the government's commitment... It will get done," said one official. The GST regime does not allow any tax exemptions and incentives can be offered only by way of tax refunds. To promote industrialisation in special-category and hill states such as Himachal Pradesh, Uttarakhand and those in the North East, manufacturers enjoy benefits under the area-based exemption scheme and are not required to pay central taxes such as excise duty and other state levies. Industry expected the refund scheme to be in place before the GST was rolled out on July 1. Automobile, pharmaceutical and fast-moving consumer goods companies had set up units in such states and the reimbursement scheme is crucial to work out the pricing of their products.

10. Banks dump $15 billion in India tug-of-war with foreigner
Source: LiveMint (Link)

India's $750 billion sovereign-debt market is caught in a tug of war between foreign investors and state-run banks, the biggest holders of the securities. As lenders sold Rs95,200 crore ($14.7 billion) of sovereign bonds last quarter, overseas funds added more than Rs42,200 crore to their holdings of the debt. The dichotomy is stemming from the potential for future gains that the two investor classes see in what has been emerging Asia's best-performing market in the last three months. For global investors like Franklin Templeton's star bond-fund manager Michael Hasenstab, structural reforms by Prime Minister Narendra Modi, relatively high yields and a stable exchange rate make India a "sweet spot" among emerging markets. At home, a central bank nearing the end of its monetary easing cycle and risks emanating from farm-loan waivers are stoking caution after a three-year bond run… Local investors are also worried about a potential increase in debt supply, amid risks that Indian states lining up to rescue indebted farmers will fund a part of such bailouts by borrowing more from the bond market. With their higher yields, securities issued by regional governments could jeopardize the federal administration's borrowing program. While an RBI easing also risks narrowing the spread Indian notes offer over Treasuries, global money managers say the Asian nation's real rates will still remain high in relative terms, and shouldn't cause much harm to its carry-trade potential. Despite falling 231 basis points in the last three years, the nation's 10-year bond yield is still the highest among major regional markets after Indonesia… India has drawn interest "due to its attractive carry, against the backdrop of a firm political mandate, a gradually improving macro story, and a stable currency," said Wontae Kim, a Singapore-based research analyst at Western Asset Management Co., which oversaw $433 billion at the end of March. "Other markets may have higher absolute yields, but there aren't many offering the kind of yields seen in India that also have the steady environment necessary to engender greater investor confidence."