

## Daily Economic News Summary: 5 June 2017

### **1. Manmohan Singh's GDP prediction post note ban has come true, says Congress leader Jaipal Reddy**

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

Former Prime Minister Manmohan Singh's prediction that demonetisation would lead to a fall in the GDP growth rate has come true, senior Congress leader S Jaipal Reddy said here today. "He (Singh) spoke in Parliament only for six minutes where he said there will be a decline of one or two per cent in the national production rate. "A decline of one per cent means, if we look at the overall picture in India, there will be a decline of Rs 1.50 lakh crore in production. The government figures released the day before yesterday said there was a decline of one per cent in the national production rate," he said. Prime Minister Narendra Modi had described demonetisation as a revolution and claimed that the people would be plagued with difficulties for a period of only 50 days, but the decision forced crores of people to return to their villages from the big cities, Reddy claimed, adding, "Farmers could not even sow the crops." The Congress leader, who was speaking at a 'Meet the Press' event organised by the Press Club of Hyderabad, said his party, however, was in favour of digital transactions.

### **2. India slips to 45<sup>th</sup> spot in IMD's World Competitiveness list**

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

India has been ranked 45th, down four notches from last year, in terms of competitiveness in the annual rankings compiled by IMD which saw Hong Kong topping the list. US was "pushed out" of the top three slots while Hong Kong consolidated its dominance of the annual rankings for the second year in the list compiled by the International Institute for Management Development's (IMD) World Competitiveness Center. Switzerland and Singapore were ranked second and third respectively, with the USA at the fourth spot -- its lowest position in five years and down from third last year. The Netherlands completed the top five, jumping up from eighth last year. Others in the top 10 list include Ireland at 6th, Denmark 7th, Luxembourg (8th), Sweden (9th) and UAE at 10th. As India slid, China improved its position by seven places to 18th, thanks to its dedication to international trade...Meanwhile, for the first time this year, the IMD World Competitiveness

Center also published a separate report ranking countries' digital competitiveness. At the top of the digital ranking is Singapore, followed by Sweden, the USA, Finland and Denmark, while the bottom five are Indonesia, Ukraine, Mongolia, Peru and Venezuela.

### **3. India's GDP growth rate to remain flat at 7.1% in 2017-2018: HSBC**

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

India's economic growth is expected to remain flat at 7.1 per cent in the current fiscal as investment is still weak and government spending might not be as high given the fiscal consolidation, says an HSBC report. According to the global financial services major, the GDP growth momentum has been slowing since mid-2016 and this trend is expected to continue going forward. "Looking ahead, our below-consensus view is that growth will remain flat at 7.1 per cent in 2017-18," HSBC Chief India Economist Pranjul Bhandari said in a research note. According to official data, India's growth rate slipped to 6.1 per cent in the January-March quarter and 7.1 per cent during 2016-17. The slowing momentum in GDP growth rate is expected to continue as investment is still weak, while government spending may not remain as high given the fiscal consolidation path and the rise in exports over the last few months are showing some signs of moderation...Regarding price rise, HSBC noted that a negative output gap is expected to keep inflation at low levels and the Reserve Bank is likely to acknowledge this in the upcoming policy review meet.

### **4. Successful demonitisation will help up to revenues in long run: World Bank**

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

Successful demonetisation will help in raising revenues on sustained basis as more and more people will come under the tax net, says a World Bank report. During 2016-17, India generated additional tax revenues as unreported cash identified both through the amnesty scheme and demonetisation were brought under the tax net. Gross tax revenue, including states' share, surpassed budgeted target (of 10.8 per cent) at 11.3 per cent, which was mostly due to higher-than-expected excise collections on petroleum products. Even though, demonetisation had only a neutral effect on direct taxes, which fell within the budgeted target of 5.6 per cent of the gross domestic product (GDP), it said."Going forward revenues may increase permanently

if demonetisation is successful in raising the amount of income reported to tax authorities," World Bank said in a chapter titled 'India's Great Currency Exchange' in its latest 'India Development Update'. On November 8, Indian government had pulled out old Rs 500 and Rs 1,000 currency notes from circulation with immediate effect, which accounted to almost 86 per cent of cash in circulation. The World Bank report is of the view that demonetisation has the potential to accelerate the formalisation of the economy.

#### **5. Foreign investors with modern technology welcome in steel sector**

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

The government has welcomed foreign investors with modern technology to set up steel plants in India as the country aims to increase the output to 300 million tonnes (MT) by 2030. "If somebody comes with a new technology with any joint venture or some company from abroad wants to put their plant they are also welcome," Steel Minister Chaudhary Birender Singh told PTI. "The ministry is quite open to this. Any transfer of technology will be welcomed. May be they can have joint ventures, they can have MoUs," the minister said. The government aims to more than triple the crude steel output in the country from current 97 MT to 300 MT. "In such a situation they would be coming with a new technology....In this sector even 100 per cent FDI is allowed. So they have all their funds utilised for that. That means this would also serve to have sufficient FDI...Our target by 2030 is 300 MT. We are going to create this capacity," the minister said. In 2016-17, India's crude steel production was at 97.385 MT, registering a growth of 8.5 per cent over the year-ago period. SAIL and ArcelorMittal have already inked a pact to set up a Rs 5,000-crore auto-grade steel plant. The joint venture is in final stage and is progressing fast. It will produce high-end steel based on latest technology.

#### **6. Financial institutions feel that Monetary Policy Committee will hold rate cut**

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

The Monetary Policy Committee of the Reserve Bank of India may keep the cost of funds unchanged at its scheduled meeting this week, but members are likely to lower their forecast on inflation and retain the option of cutting rates toward the latter half of the year if consumer prices

remain muted. An ET poll of 21 financial institutions showed that most respondents expect the central bank to hold headline rates. Yet a change in sentiment is quite palpable. Two months ago, some participants had even foreseen a tightening of rates as restraining likely inflation had topped the central bank's agenda. Now, however, they believe that the RBI commentary would be softer, and the committee's tone would signal the bank's intent to retain the policy option of rate reductions in the coming quarters. "The RBI may cut its inflation forecast by half a percentage point amid cooling inflation and falling prices," said Jayesh Mehta, MD and country treasurer at Bank of America Merrill Lynch. "Lower consumer prices have fanned speculation about a fresh rate reduction. The RBI is unlikely to spring any surprise now, but a rate action may come around September, as the central bank can then take into consideration the whole impact of this year's monsoon." The MPC is scheduled to meet on June 6 and 7. For FY18, the RBI has projected inflation to average 4.5 per cent between April and September, and 5 per cent in the latter half, with the risks balanced along the inflation trajectory.

#### **7. No IGST on imports under export promotion schemes**

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

Keen to give a leg-up to exports, the Goods and Services Tax Council has provided outright exemption to imports under various export promotion schemes, including special economic zones, from Integrated GST. However, no exemption has been provided for a number of telecom and IT products that do not face countervailing duty now. Exemption for these products under GST regime was sought by Apple. A number of IT and telecom products do not face any basic customs duty as India has committee to exempt these items under the Global Information Technology Agreement. India went a step further and removed countervailing duty, levied in lieu of central excise duty, to encourage telecom manufacturing in the country. Apple was keen on extension of CVD exemption under the GST regime. "Exemption from IGST on imports by SEZ units and developers for authorised operations will be available," a notification said. Re-import of goods exported under any claim of export promotion schemes such as drawback, reimport of cut and polished precious stones sent abroad for treatment would not face Integrated GST, which will be equal to central and state GST.

### **8. India to take up road and highway projects abroad: Minister Nitin Gadkari**

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

The government is planning to launch a dedicated international subsidiary of the National Highways Authority of India (NHAI) to take up roads and highway projects abroad, particularly in South Asia. Simultaneously, India is also looking forward to setting up joint ventures (JVs) for road construction in neighbouring countries. Union Transport Minister Nitin Gadkari said his ministry was considering a proposal to launch "NHAI International" for undertaking roads and highway construction projects abroad. Experts say that such a subsidiary could be in the form of a special purpose vehicle (SPV) which will collaborate with foreign companies to bag international projects. The minister said India is keen to participate in road construction in neighbouring countries like Iran, Nepal, Bhutan, Bangladesh, Myanmar and Sri Lanka through joint ventures...On the domestic front, the minister has set his sights on achieving a target of construction of 40 km of roads per day in the next year or so...As per various estimates, India has one of the longest road networks across the world at over five million kilometres. The network consists of national highways, state highways, major district roads and rural roads.

### **9. Govt renews pledge to Paris pact, environment**

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

Connecting people to nature. That is the theme the UN has chosen for the World Environment Day this year. This is how the UN suggests we celebrate it. It “implores us to get outdoors and into nature, to appreciate its beauty and its importance, and to take forward the call to protect the Earth that we share”. But, as the UN website admits, billions of people living in rural surroundings do directly connect to nature. So, this is a call to the rest. That implies, in India it is an entreaty to about 30 per cent of the population living in urban zones. But the Union environment, forests and climate change minister, Harsh Vardhan, took a step beyond the UN theme and said, “The real sentiment behind World Environment Day should not be restricted to a single day, but must pervade every moment of the day, till the World Environment Day next year.” The minister, just recently taking over the reins after the demise of the erstwhile minister Anil Madhav Dave, is yet to meet the media as part of the NDA government’s three-year out reach. But a senior official in the ministry says that one of the key achievements of the government in this sector has been to simplify the regulations and processes for the four kinds of green clearances.

The ministry had cleared more than 1,000 projects and another 1,200 were in line for clearance, he said. This, the ministry projects, add up investments worth Rs 7.4 lakh crore and will generate employment for more than 250,000 people. The numbers could not be independently verified. He added, “India is the most honest in terms of commitment for respected issues related to the environment, fight against pollution, preservation of biodiversity, forest, nature, river and everything.” This commitment towards environment beyond the large marquee projects of the Prime Minister though is contested by critics.

#### **10. Solar irrigation: India’s farmers can sell electricity and save groundwater**

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

A 72-year-old farmer, Parmar is one of six farmers who have formed the world’s first solar irrigation cooperative in Dhundi village in Gujarat’s Kheda district, about 90 km from Ahmedabad. The Solar Pump Irrigators’ Cooperative Enterprise (SPICE), which began operating in May 2016, not only made a switch from diesel to solar pumps but also adopted net metering—selling excess power to the local electricity utility. Members now have an incentive to save power and curtail their groundwater use, as any leftover power is sold to the Madhya Gujarat Vij Company Limited (MGVCL), the local power utility, thereby creating a parallel revenue stream. The pump owners will use 40,000 kWh/year for irrigation, and sell the remaining 45,000 kWh/year to the grid, earning Rs 3,00,000/year. By December 2016, the six members had together earned more than Rs 1,60,000 from sale of surplus energy to MGVCL. “The selling of power to the grid attaches an opportunity cost to the power that is being generated by the solar pumps, which otherwise would be free power,” Neha Durga, a consultant with IWMI-Tata Water Policy Program, told **IndiaSpend**. “So even if farmers use the pumps for 100 days of the year for irrigation, for the other 200 days the grid is getting green power. At the same time the farmers now have an incentive to economise on their energy as well as water use.”