Daily Economic News Summary: 6 June 2017

1. FM Arun Jaitley says GST will change the rules of the game
Source: Financial Express (Link)

Union Finance Minister Arun Jaitley has said that the Goods and Services Tax (GST) will benefit India immensely. The minister told ET Now that India has a very complex indirect tax structure and after the GST Bill is implemented the rules of the game will change. Jaitley said, "GST will completely change the rules of the game, India will become a single entity, a person won't pay tax-on-tax, there will be a free flow of goods and services across the country after the GST is implemented". The Minister added that the streamlining of taxes will help aid GDP growth. The Finance Minister was speaking after the GST Council formalised the rates for several products. The Finance Minister also added that there is no real reason to delay the rollout of the bill. Jaitley while speaking to CNBC-TV18 said that the objective of the GST is to reduce taxes and to reduce the tax burden on people. The minister told CNBC-TV18 that the government deliberately did not keep a blanket rate on products. The minister said that GST is a real system and not a complex system. He added that the tax rates on various products have been decided to keep the end user in mind, saying that the government has kept food in the zero category.

2. India signs $39 million pact with World Bank for Assam project
Source: The Economic Times (Link)

India today signed a USD 39.2 million (over Rs 251 crore) loan agreement with the World Bank for the 'Citizen Centric Service Delivery' project in Assam. The programme size is USD 49 million, of which USD 39.2 million will be financed by the Bank and the remaining amount will be funded out of the state budget, the finance ministry said in a statement. The programme's duration is 5 years, it added. According to the statement, the objective of the project is to improve access in the delivery of selected public services in Assam. The Project adopts an integrated approach to improve access and accountability. Loan agreement was signed by Raj Kumar, Joint

Secretary, and Ministry of Finance, on behalf of the Government of India and Hisham Abdom, Manager, Operations (India) on behalf of the World Bank.

3. Govt considering to further relax FDI in defence sector
Source: Financial Express (Link)

The government is considering to further relax foreign direct investment norms in the defence sector with a view to attract more overseas inflows. The issue was discussed in a meeting convened by the department of defence production. "The meeting was attended by industry chambers including CII and FICCI. The ministry asked the stakeholders to suggest what more needs to be done in the FDI policy to attract foreign investors," sources said. Currently FDI up to 49 per cent is permitted in the sector through automatic route and beyond that up to 100 per cent via government nod is permitted. Industry experts have stated that foreign investors seek assured orders before setting up manufacturing unit in any country. In India, government is the only procurer of defence equipment. Besides, export of defence products from India is also very regulated. In 2016, the government relaxed FDI norms in several sectors including defence. India imports 70 per cent of its military hardware from different countries. As per the policy, foreign investment up to 49 per cent has been permitted in the defence sector through automatic route, and beyond that limit through government route on case to case basis, wherever it is likely to result in access to modern and state-of-art technology.

4. Big boost to Modi: India surpasses China to secure top position on ease of doing business, says study
Source: Financial Express (Link)

India has surpassed China to secure the top position among 30 developing countries on ease of doing business, according to a study that cited India's rapidly expanding economy, relaxation of FDI rules and a consumption boom as the key drivers. The 2017 Global Retail Development Index (GRDI), now in its 16th edition, ranks the top 30 developing countries for retail investment worldwide and analyses 25 macroeconomic and retail-specific variables. India's rapidly expanding economy, easing of foreign direct investment (FDI) rules and a consumption boom are the key drivers for India's top ranking in the GRDI. The GRDI, titled 'The Age of Focus', ranks China in second place. Despite its slower overall economic growth, the market's size and the continued evolution of retail still make China one of the most attractive markets for retail investment…India's retail sector has been growing at an annual rate of 20 per cent. Total sales surpassed the USD 1 trillion-mark last year and the sector is expected to double in size by 2020. Rapid urbanisation and a growing middle class with higher income levels is driving up consumption across the country, the consultancy group said. The government's continued support to relax FDI regulations in key areas of the retail sector have provided further boost to its growth, it noted. In the past year, the government has allowed 100 per cent foreign ownership in B2B e-commerce businesses and for retailers that sell food products. India's retail sector has also benefited from the rapid growth in e-commerce. It is projected to grow 30 per cent annually and reach USD 48 billion by 2020. Retailers have been quick to seize the opportunity with 86 per cent of e-commerce dominated by pure-play online retailers in 2016.

5. India eyes loopholes in WTO norms to continue with export subsidies
Source: The Hindu: Business Line (Link)

In what could be crucial for ensuring export growth in the coming years, the Centre is exploring certain "grey areas'' in World Trade Organisation (WTO) rules to see if it can continue with its export subsidy schemes for some more time despite the fact that India will cross the low-income threshold this year. "The WTO rules say that when a member's per capita gross national income (GNI) crosses the $1,000 threshold for the third consecutive year, it is no longer eligible to give export subsidies. "But what is unclear is whether India will be entitled to an eight-year phaseout period that is allowed under certain conditions. If there exists such a possibility, we may very well demand it," a government official told *BusinessLine*. With the Foreign Trade Policy (FTP) 2015-20 up for a mid-term review later this month, the Directorate General of Foreign Trade (DGFT) has asked the Trade Policy Division of the Commerce Ministry to examine the WTO rules minutely to see if India can make a case for an eight-year phaseout period for its subsidy. India's GNI crossed the $1,000 mark for 2013 and 2014, according to figures released by the WTO's Committee on Subsidies and Countervailing Measures…Once the Trade Policy Division gives its views on the matter, the DGFT will plan its actions accordingly. But the DGFT is making a strong case for asking the WTO for the eight-year phaseout period, as it does not want to make drastic changes in the existing export incentive schemes. "Exporters were promised certain schemes for five years when we very well knew that India's status was about to change at the WTO. To keep their trust and ensure continuity we have to try and see that the schemes continue at least till the end of the FTP period," the official said…"Given the state of our exports and economy at the moment, it would rock the boat considerably if export incentive schemes have to be discontinued or changed," the official added…India's exports declined for two consecutive fiscals (FY15 and FY16) but managed to post a marginal increase of 4.71 per cent to $274.64 billion in FY17. The recovery, however, is fragile, as the growth is over a low base and the global demand situation continues to be grim.

6. 'New GST guidelines have eased compliance bruden'
Source: Financial Express (Link)

With the changes made in the rules related to return filing and transition stocks by the GST Council, the process has been significantly untangled, leading to a smoother transition to the new taxation regime with better compliance, industry sources and other stakeholders said. "Under the new rules related to filing returns, the businesses will not be required to match claim of input tax credit with the taxable value. The new rules will only require the GST identification number (GSTIN) of the supplier and recipient, invoice and debit note number and tax amount to be matched," PwC said in a note. The changes are particularly beneficial to electronic commerce operators. "It seems the government has understood the practical problems which sellers were facing in the states where currently data is shared with VAT departments and is attempting to simplify compliance for sellers," a spokesperson of the all India online vendor association said.

7. India's electricity requirement seen soaring 37% in 5 years
Source: Financial Express (Link)

Electrical energy requirement is expected to grow by 37% in five years, according to the 19th electric power survey (EPS) report released by the Central Electricity Authority (CEA). The country needs 1,566 billion units (BUs) of energy in FY22, the report said. Energy requirement in FY17 was close to 1,143 BU, reflecting an annual growth of 2.6%. According to the 18th EPS published in 2011, energy requirement in FY17 was expected to be 1,355 BU. The electrical energy requirement on an all-India basis during FY27, FY32 and FY37 has been assessed as 2,047 BU, 2,531 BU and 3,049 BU, respectively. The report also added that the expected peak demand in FY22 would be 226 GW. However, it may be noted that the previous EPS had seen a peak demand in FY17 at 199.5 GW, 25% lower than the actual peak demand in the same period. The current installed power generating capacity in the country is nearly 329.3 GW. The peak electricity demand has been estimated as 226 GW, 299 GW, 370 GW and 448 GW during FY22, FY27, FY32 and FY37, respectively. Speculations of an additional requirement can come as a ray of hope for the power industry, which is currently mired in a low-demand scenario. This has led to power plants operating at low plant load factors (PLFs) which makes it difficult to service debts. The average PLF for thermal power plants across the country was 59.8% in FY17.

8. 'India First' policy shuts China bidders out of Gail pipeline projects worth Rs 3,000 crore
Source: The Economic Times (Link)

The government's 'India first' policy for official procurement has ejected Chinese companies from pipeline projects worth Rs 3,000 crore being built by state-run Gail India Ltd, giving a big boost to domestic steel firms and carrying forward Prime Minister Narendra Modi's 'Make in India' mission. Indian steel firms are poised to win orders worth tens of billions of dollars without losing business to Chinese supplies which they find suspiciously cheap. A spokesperson for Gail India said the guidelines for domestic preference are being imposed on all tenders that have not been opened so far. All future tenders will impose this condition. Government sources said that preference for Indian firms is likely to be extended beyond the steel and power sectors. The government is already studying more ways to give preference to Indian firms without violating international commitments, sources said.

9. RBI will take 'lot of time' to count old notes deposits: Finance Minister Arum Jaitley
Source: The Economic Times (Link)

Indicating that it may take long for the people to know the actual deposits received in old notes post-demonetisation, Finance Minister Arun Jaitley on Monday said there can be no timeline as the RBI has to count deposits in the range of Rs 14-15 lakh crore. "Let us be very clear, the Reserve Bank of India (RBI) has to count every currency note and you are now thinking in terms of lakhs of crore of rupees. You are in the range of Rs 14-15 lakh crore which the RBI has to count. Each counterfeit note will have to be removed and the RBI has to come out with an exact figure," Jaitley told CNBC TV18. "They have hired more machines, and the moment the RBI completes that exercise, it will come out with that number. How can you give a timeline to RBI? You must trust the institution. "They have a huge apparatus in place counting each currency note. So, if you are counting Rs 14-15 lakh crore of currency, it is obviously going to take a lot of time," he added. Declaring demonetisation as one of the greatest steps taken in the country, Jaitley said that to weed out black money and corruption was the prime issue for the government.

10. May services sector growth fastest in seven months
Source: Business Standard (Link)

Services, the dominating sector of the Indian economy, grew at the fastest rate in May since October 2016, more than neutralising the tepid rise in the manufacturing sector, according to the widely tracked Nikkei purchasing managers' index (PMI) survey.The sector also saw new jobs being created at the highest rate in almost four years, which cushioned the fall in the number of new jobs created in manufacturing. If growth in the services sector continued at this rate, the country's economic growth would be higher in the first quarter of the current financial year than in the previous quarter, said the author of the report. However, there were downside risks to the growth trajectory, the author said. India's economy grew at least at a four-quarter low of 6.1 per cent in January-March 2017, due to the impact of demonetisation. Even then, the author expects the Reserve Bank of India (RBI) to cut the repo rate as underlying growth is still weak…The Nikkei India Composite PMI Output Index, which maps both the manufacturing and services sectors, managed to stay positive. It reached a seven-month high of 52.5 in May from the 51.3 seen in April.