



## India Economic News August 2016

## Consulate General of India Munich

### Parliament clears GST, PM says will empower states, end corruption:

Marking a major leap towards enforcing a unified tax regime in the country, Parliament of India approved the constitutional amendment bill on a Goods and Services Tax (GST) in what is seen as the most radical indirect tax reform since Independence. The new tax regime -- the idea for which was mooted in 2003 -- seeks to subsume all central indirect levies like excise duty, countervailing duty and service tax, as also state taxes such as value added tax, entry tax and luxury tax, to create a single, pan-India market.

### What is GST ? 10 Key points:

Here are ten key points about the bill that you need to understand :

1.GST is a uniform indirect tax levied on goods and services across a country. Many developed nations tax manufacture, sale and consumption using a single, comprehensive tax.

2.Central Taxes GST would replace Central Excise Duty, Service Tax, Additional Duties of Excise & Customs, Special Additional Duty of Customs, and cesses and surcharges on supply of goods and services.

3.State Taxes GST would replace VAT, Central Sales Tax, Purchase Tax, Entry Tax, Entertainment Tax, taxes on

advertisements, lotteries, betting and gambling, and state cesses and surcharges.

4.The main objectives of GST would be to eliminate excessive taxation. Central and state agencies often calculate taxes based not on the original cost of the product, but over and above the several layers of tax already levied on the product. This negatively affects the Gross Domestic Product of a nation. GST is also expected to disincentivize tax evasion, lower tax rates, and make business operations easier.

5.The current NDA government and the Opposition disagree over the contents of the GST Bill

6.According to PRS Legislature Research, the 2011 Bill defined GST as any tax on the supply of goods or services, except taxes on the supply of petroleum crude, high speed diesel, motor spirit (petrol), natural gas, aviation turbine fuel and alcoholic liquor for human consumption.

7.The 2011 Bill provided for the creation of the Goods and

Services Tax Dispute Settlement Authority to adjudicate disputes between the Central Government and State Governments on the issues of GST resulting in any loss in revenue, and affecting the harmonized structure of the tax. The 2014 Bill deleted the provision of such an authority.

8.The 2014 Bill defined GST as any tax levied on the supply of goods, or services, except taxes on the supply of alcoholic liquor for human consumption.

9.In addition, the 2014 bill also deleted a provision of the 2011 bill that imposed restrictions on states on taxation of products deemed of special importance in inter-state trade or commerce.

10.It also removes a 2011 provision allowing states to tax the entry of goods into a local area that are for use or sale only to the extent levied by a Panchayat or a Municipality.

### **Online finance facilitation for MSMEs launched by Finance Minister:**

Finance Minister (FM) of India, Mr. Arun Jaitley has launched an online finance facilitation portal for Micro, Small and Medium Enterprises (MSMEs) to facilitate ease of doing business. The online finance facilitation centre will allow the MSMEs to apply for loans from the various banks on the NSIC (National Small Industries Corporation) portal. According to a statement by MSME Ministry, NSIC has signed MoUs (memorandum of understanding) with 33 banks, 14 of whom have agreed to associate with the online finance facilitation portal. FM also launched a MSME databank portal that will provide real time information on various types of the registered MSMEs. The databank will eventually will be used for public procurement purposes by the PSUs (public sector undertakings) from MSMEs.

### **India on 66th spot in most innovative economies, up 15 places:**

India has been ranked 66th in a list of most innovative economies, jumping 15 places from last year, according to a new report by the UN World Intellectual Property Organization (WIPO), which calls for more transparent policies if the country aspires to become a global driver of innovation. In the report, India moved up 15 spots from last year's 81<sup>st</sup> to the current 66<sup>th</sup> in the overall global rankings. The Global Innovation Index 2016, released by the WIPO, Cornell University, and the multi-nation business graduate school INSEAD, said India ranks among the top 50 economies overall in two pillars: Market sophistication, 33, and Knowledge and technology out-puts, 43. The country maintains stable or improved rankings across all pillars, with the most significant improvements in Human capital and research, up 40 spots and Business sophistication, up 59 spots.

### **Government announces team to improve India's innovation ranking:**

Commerce Minister, Ms. Nirmala Sitharaman has announced the Government decision to set a team to advice on how to further improve India's ranking in the global index of countries in the sphere of innovations. While releasing the Global Innovation Index 2016 Report, she informed that the team, which would include members from both government and outside, would go into the report, identify challenges and weaknesses to India's innovation and what the government can do -- where it should step in and where it should step back and away. The ninth Global Innovation Index report this year, India has improved its ranking by 15 places over last year, following five previous years of decline in position.

### **German firm ZF to set up technology centre in Hyderabad:**

German auto-component manufacturer **ZF Friedrichshafen AG** will set

up in Hyderabad its India Technology Centre, which will be dedicated to software and mechanical engineering. This will be the company's first technology centre in India and it will support its global development teams while enabling the company to accelerate local product development. To be fully operational by January 1, 2017, the facility is expected to have a work force of 2,500 engineers by 2020. At present, around 13,800 engineers are currently working in R&D with ZF globally. ZF's global research and development network consists of more than 100 development locations, including 17 main development locations.

### **Major ports on renewable energy drive:**

India's Shipping Ministry has announced its keenness to promote renewable energy by installing solar and wind power systems at all major ports in the country. According to a statement, the Ministry of Shipping said it aims to set up 90.64 MW of solar energy capacity at twelve major ports. It also said 70 MW of wind energy

capacity will be set up at Kandla, V.O.Chidambaranar Port and Kamarajar ports. The ports have started the process of setting up the renewable energy projects using their profits. A total of 6.94 MW of solar projects have already been commissioned with Visakhapatnam port leading the way with 6.25 MW. The other ports in which solar projects have been commissioned are Kolkata Port, New Mangalore Port, V.O. Chidambaranar Port and Mumbai Port. The remaining solar power projects will be commissioned phase wise and are expected to be completed by 2017. These projects are a part of the Green Port initiative launched by the Ministry.

### **India ranked world's top exporter of information, communication technology:**

India has been ranked the world's top exporter of information and communication technology in a UN agency report that recommended that the country leverage this lead to innovate in emerging areas where biology and materials sciences intersect with

computing. Overall, India has improved its position in the latest Global Innovation Index (GII) released in Geneva by the World Intellectual Property Organisation (WIPO) in partnership with the Confederation of Indian Industry (CII). India ranked 8th in the world for producing graduates in science and engineering and showed the most significant improvements in human capital and research moving up 40 places to 63. WIPO, a specialized agency of the UN, worked also with Cornell University and INSEAD, the international business school, to prepare the ninth edition of the index. In a nod to India's "jugaad" tradition of innovation, the report said that its culture of "frugality and sustainability" can help it capture global markets. To leapfrog into the emerging areas that combine biology, computing and material sciences, the report recommended that the industry double its research and development (R&D) investment and the government provide R&D grants to industry.

## 7 Indian companies among top 200 carbon clean firms:

Seven Indian companies have made it to a carbon-clean list of 200 largest companies worldwide ranked by their total clean-energy revenues. The list is topped by Japan's Toyota Motor followed by Germany's Siemens AG. The ranking has been done by 'As You Sow and Corporate Knights'. Among Indian companies are Suzlon Energy at 68 rank for its wind farms, Bharat Heavy Electricals Ltd at 106 for its wind electric generators and solar cells, and Tata Chemicals at 114 for chemicals for biodiesel, solar energy, and fuel cells. Thermax Ltd is at 139 and Exide Indus at 153 for electric storage batteries. Besides, IDFC Ltd is at 155 for its green infrastructure financing and Havells India at 166 for energy meters. The Carbon Clean 200 (Clean200TM)-a list of the 200 largest companies worldwide was created based on their total clean energy revenues.

## Goldman Sachs positive on Indian economy:

According to global investment bank, Goldman Sachs, a better than average monsoon, rise in urban demand due to pay hikes for government employees and pensioners, and policy reforms by the government could lead to 7.9 per cent gross domestic product (GDP) growth in India this year. This compares to a GDP growth forecast of 7-7.5 per cent for 2016-17 in the government's Economic Survey. Goldman Sachs says a favourable fiscal and monetary policy, passage of key reforms and continued foreign direct investment (FDI) were all in tandem. Passage of the goods and services tax (GST) Bill, government approval of the inflation targeting framework and the naming of a new Reserve bank (RBI) governor was mentioned by Goldman Sachs for painting a "positive" picture for the trajectory ahead. With Urjit Patel to take over as RBI's next head, the central bank might continue its anti-inflationary stance and keep key policy rates on hold for the rest of the year, it felt. However, it warned that a

faster pace of rate increases by the US Federal Reserve, concerns about Chinese growth and unpredictable capital flows constituted key risks to growth.

### **India and Germany join hands on skill agenda, Germany contributes Rs 22.6 crore (euro 3,00,000) for Skill Development in India:**

Further deepening their collaboration in the area of skill development, India and Germany, an agreement was signed between the Ministry of Skill Development and Entrepreneurship (MSDE) and (German International Cooperation (GIZ), to initiate a new project focused on adapting elements of the German dual system in select industrial clusters in India. This new project will run for three years starting August 2016 with a budget of EUR 3,000,000 (22.6 Crores INR) in three selected clusters, which include the Automobile cluster in Maharashtra and Electronics cluster in Bangalore. The project will be implemented under the umbrella of the 'Joint Memorandum of Understanding (MoU) in the

field of Skill Development and Vocational Education and Training (VET)', signed during the Indo- German intergovernmental consultations on 5th October 2015 in New Delhi. The two countries have agreed to deepen their collaboration in a number of specific areas including: curriculum development, research and sharing of best practices, training of trainers, and establishing cooperative workplace based skill training programmes in three industrial clusters.

### **Province of British Columbia successfully issued an Indian Rupee denominated bond:**

The Province of British Columbia successfully issued an Indian Rupee denominated bond (with a 3 year term and a yield of 6.62% yield semi-annual) on the London Stock Exchange, making BC the **first sovereign** to issue Masala Bonds in the Indian offshore market. The bond proceeds were immediately reinvested in Masala Bonds issued to BC by India's HDFC Bank. Masala bond is a term used to refer to a financial instrument through which Indian entities

can raise money from overseas markets in the rupee, not foreign currency. These are Indian Rupee denominated bonds issued in offshore capital markets with a view to shield issuers from currency risk and instead transfer the risk to investors buying these bonds. In a way masala bond is a step to help internationalize the Indian rupee. Investors in these bonds will have a clear understanding and view on the Indian rupee risks. Therefore, a stable Indian currency would be key to the success of these bonds. Since the investors in a masala bond will bear the currency risk, they demand a currency risk premium on the coupon and hence borrowing cost for Indian corporates through this route would be slightly higher. It may still be cheaper if one considers the currency risk. Though raised in Indian currency, these bonds will be considered as part of foreign borrowing by Indian corporate and hence would have to follow the RBI norms in this regard. Under the automatic route, companies can raise as much as \$750 million per annum through Masala bonds. Success of

masala bonds would demonstrate overseas investors' confidence on Indian currency. In other words, successful issue of these bonds by Indian corporate would imply faith on country's macroeconomic fundamentals and the central bank's role in currency management.

### **Government lauds 7.9 per cent GDP forecast by Goldman Sachs for 2016-17:**

The Central government has lauded global investment banker Goldman Sachs for awarding a growth forecast of 7.9 per cent for the Indian economy in the current fiscal, riding on an improved monsoon, key reforms and increased FDI inflows. The forecast by Goldman Sachs is above the consensus expectations of 7.5 per cent. The International Monetary Fund (IMF) in May had retained the forecast of 7.5 per cent for India's GDP (gross domestic product) growth in 2016-17. Moody's Investors Service in August had forecast the real GDP growth for India at around 7.5 per cent for FY2017. A pick-up in infrastructure investment and



easing in FDI (foreign direct investment) restrictions in the defence, aviation, retail and e-commerce sectors was also hailed by Goldman Sachs. India had clocked an overall growth rate of 7.6 per cent in the previous fiscal, with the growth rate accelerating to 7.9 per cent during the January-March period this year on strong manufacturing growth. The Finance Ministry and NITI Aayog insisted that Indian can reach an 8 per cent growth rate in the current fiscal if the monsoon was good this year against the previous two years of consecutive drought.

**Govt. plans 50 new airports in three years to boost connectivity:**

India, the fastest growing aviation market in the world, is set to get 50 new airports in the next three years as part of a plan to boost regional connectivity, and of these, at least 10 will become operational over the next one year, according to Civil Aviation Minister, Mr. Ashok Gajapathi Raju. The government, he added, will support newer entrants in the

aviation space by “light hand-holding”. To give wings to the ambitious regional connectivity plan, the Government will take up some of the so-called ghost airports through a yet-to-be-finalized viability gap funding plan. India has more than 30 non-operational airports and more than 400 airstrips dating back to World War II. The regional connectivity model will be based on viability. The new civil aviation policy cleared by the Union cabinet on 15 June aims to take flying to the masses. Analysts said using existing non-operational airports and airstrips to boost regional connectivity is a positive move provided the reach is backed by operational efficiency of the airlines.

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***For queries contact:***

***Mr. Asheesh Gupta, Consul (E & C), Consulate General of India, Widenmayer Strasse 15, 80538 Munich, Germany.  
Email: [cpic@cgimunich.com](mailto:cpic@cgimunich.com) , Web: [www.cgimunich.com](http://www.cgimunich.com)***