ECONOMIC INTELLIGENCE BULLETIN

(16-31st July 2017)

GOVERNMENT OF INDIA
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SUMMARY OF ECONOMIC INTELLIGENCE BULLETIN

Economic Intelligence Bulletin includes abstracts of important economic/commercial/ technical development and reviews as reported in the issues of financial dailies. The Bulletin pertains to the fortnight ending 31st July, 2017.

1. PRICE TREND

1.44 'STEEL PRODUCTION COST TO RISE AS POWER OUT OF GST'

The steel ministry has expressed concerns that cost of steel manufacturing will increase as electricity, being one of the major inputs, has been kept out of the Goods and Service Tax.

The concerns were expressed at a recent meeting of the ministry with the Prime Minister's Office, a government official said.

"Electricity being a major input for steel industry will increase the cost of manufacturing if it remains out of the GST," the official said.

The concerns were also expressed by the steel ministry during the meeting that the Clean Energy Cess of Rs 400 per tonne which was being charged pre GST remains effectively non-cenvatable in the new regime.

Natural gas, one of the inputs used in manufacturing sponge iron/Hot Briquetted Iron, an intermediate product used in steel making, has been kept out of GST purview. Under the previous regime, a partial was available, the official said.

"However, in the new regime, the tax paid on the natural gas is a cost and no input tax credit is available on the same," the official added.

The steel ministry is also of view that royalty is charged on iron ore at 15 per cent of the base price and is yet not cenvatable.

Besides, Forest Development Fee (FDF) and similar charges like contribution in District Mineral Foundation and National Mineral Exploration Trust, which are in the nature of tax, need to be subsumed in GST, the official said.

The steel industry had earlier in the month said that with GST rollout the unorganised players in the sector will have to move to organised form of doing business.

GST, India's biggest tax reform since the Independence --- was rolled out this month, unifying more than a dozen central and state levies.

(FINANCIAL EXPRESS 19TH JULY 2017)

1.45 GOLD CLIMBS TO RS 29,450 ON GLOBAL CUES, SILVER TOPS RS 39,000

Gold prices surged by Rs 230 to trade at six-week high of Rs 29,450 per ten grams at the bullion market on 27th July, taking positive leads from global markets amid increased buying by local jewellers.

Silver reclaimed the Rs 39,000-mark by surging Rs 535 to Rs 39,375 per kg on increased offtake by industrial units and coin makers.

Traders attributed the rise in gold prices to a firm trend overseas where gold rallied to six-week high on rising demand for the yellow metal as the dollar dropped to a 13month low after the US Federal Reserve indicated that it would keep to a slow path of monetary tightening.

Globally, gold rose 0.30 per cent to USD 1,264.31 an ounce in Singapore.

In addition, increased buying by local jewellers to meet retailers' demand at domestic spot markets also supported the upmove in gold, they said.

In the national capital, gold of 99.9 per cent and 99.5 per cent purity climbed by Rs 230 each to Rs 29,450 and Rs 29,300 per ten grams, respectively, a level last seen on June 9. It had lost Rs 180 yesterday.

Sovereign, however, remained flat at Rs 24,400 per piece of eight grams.

(FINANCIAL EXPRESS 28TH JULY 2017)

2. FISCAL POLICY

2.33 I-T SCANNER ON INDIA INC’S VENDORS

The Income-Tax (I-T) department has asked large corporate entities, including multinational firms, to furnish details of employees off the payroll to check whether they are filing tax returns after deduction at source, or TDS.

According to I-T officials, many lawyers, chartered accountants, consultants, and designers — not on the payroll of companies — have not filed I-T returns (ITR), fearing they would have to disclose their full income.

The move is part of the government’s efforts to increase the tax base and nab potential evaders. The deadline for filing returns for the Assessment Year (AY) 2017-18, to track income in the Fiscal Year 2016-17 (FY17), is July 31.

Such professionals who could be potential evaders have been identified through a complete tax profiling, by linking their banks and transaction details.

The tax department, through its non-filer monitoring system, has identified about 13.7 million people with potential tax liabilities who have not filed returns. A preliminary examination of the data has revealed that many third-party vendors in different tax brackets have not been filing returns, while some have been inconsistent in doing so.

“Such measures are part of the second phase of the tax department’s Operation Clean Money, to bring those who have declared unaccounted cash and deposits after demonetisation under the tax net,” said a senior official of the Central Board of Direct Taxes (CBDT). Sources said the CBDT had set the target of adding 10 million taxpayers in the current financial year (FY18).

Under provisions of Section 194 (C) of the I-T Act, a company has to deduct tax at source at the rate of 10 per cent on payments made to professionals or for technical services, if their bill is ~30,000 or more.

“The efforts of the tax department to expand the taxpayer base are understandable. Tracking TDS is an important tool to check whether people have filed their taxes,” said Sanjay Sanghvi, partner, Khaitan & Co.

During 2015-16, there were only 55.9 million people in the country who paid income tax. Last year, the tax department had added 9.1 million taxpayers, expanding the base to 65 million.

(BUSINESS STANDARD 21ST JULY 2017)

2.34 GST TO HELP MODERATE PRICE GROWTH: UNILEVER

Unilever said softening commodity costs and the new Goods and Services Tax regime in India will moderate the Anglo-Dutch consumer goods major’s price growth by 30 basis points at the global level.

“We expect price growth to moderate,” Graeme Pitkethly, CFO at Unilever, said on 26th July. “There are two reasons for this. First of all, a little less pressure from commodity cost increases in the second half, and secondly, tax benefits from the introduction of GST in India will be passed on to consumers with an impact at the global Unilever level of around 28 to 30 basis points on price in the second half,” he told analysts after the firm reported a rise in underlying sales of 3% in the first six months of the year.

Earlier this week, its Indian unit Hindustan Unilever posted a 6% sales growth with flat volume growth due to trade destocking and reduced buying from one of its largest customer — canteen stores department. However, the maker of Lux soaps and Run detergent said its Indian subsidiary managed through the GST effectively and it expects to recover that volume shortfall in the second half.

“In India, the welcome introduction of the new GST prompted distributors and wholesalers to cut back their stocks during the transition period,” Unilever’s global chief Paul Polman told investors.

In the run-up to the transition, several consumer companies witnessed destocking of inventory across trade channels, although it was more evident at urban markets.

With lower tax of 18% in categories such as hair oil, toothpaste and soaps, consumer goods companies including Hindustan Unilever, Marico and Colgate PalmoliveBSE -0.36 %, have started cutting prices either by discounting the existing stock or increasing the grammage of select products.

Also, companies are not planning price hikes in case of detergents, shampoos and skin-care products, which under GST attract a higher 28% levy.

While several companies are still hand holding vendors, suppliers and distributors to obtain licenses and become GST complaint, retailers are still able to fill just half their shelves due to unavailability of new stock. Most companies expect things to normalise soon and products with slashed prices to hit the market by month-end.

(THE ECONOMIC TIMES 21ST JULY 2017)

2.35 FDI RISES 23% DURING APRIL-MAY

Foreign Direct Investment (FDI) inflows into the country increased 23 per cent in the first two months of the current fiscal from a year ago, commerce and industry minister Nirmala Sitharaman said in a written reply to the Lok Sabha on 24th July.

The cumulative foreign direct investment in April-May was $10.02 billion, or about Rs 64,524 crore, compared with $8.12 billion, or about Rs 52,289 crore, a year earlier. The minister said the government has put in place an investor-friendly policy for FDI and except for a small negative list most sectors are open for 100 per cent FDI.

"The policy on FDI is reviewed on an ongoing basis to ensure that India remains attractive and investor friendly destination… The government has taken a number of FDI policy reforms which are not only bold but historic," Sitharaman said. In 2016-17, the foreign fund inflows aggregated at $60.08 billion, or about Rs 3,86,885 crore, the minister told Parliament.

She said that a fter the abolition of the Foreign Investment Promotion Board(FIPB)

, the work of monitoring of the compliance of conditions, including the past cases approved by FIPB, has been assigned to the concerned administrative ministries.

In a separate reply, Sitharaman also said food processing sector attracted FDI of $182 million during April-May 2017.

"The government reviews FDI policy on an ongoing basis with a view to liberalise and simplify the FDI policy so as to provide ease of doing business in the country leading to larger FDI inflows," the minister said.

(THE ECONOMIC TIMES 25TH JULY 2017)

3. IMPORT AND EXPORT POLICY

3.31 INDIA IMPORTED COAL WORTH OVER RS 1 LAKH CRORE IN FY'17

India, the third largest coal producer in the world, imported 190 million tonnes of the fuel worth over Rs one lakh crore in 2016-17 fiscal, Parliament was informed on 20th July.

Minister of State for Coal Piyush Goyal in a written reply to Lok Sabha said 190.95 million tonnes (provisional) of coal valued at Rs 1,00,231.3 crore was imported in the last fiscal.

The minister further said in 2015-16, 203.9 million tonnes (MT) of coal valued at Rs 86,033.8 crore was imported, while in 2014-15, the import stood at 217.7 MT worth Rs 1,04,506.6 crore.

In 2013-14, the country imported 166.8 MT of coal worth Rs 92,329 crore, the minister said. The gap between demand and supply, Goyal said, cannot be bridged completely as there is insufficient domestic availability of coal and power plants designed on imported fuel will continue to import for their production.

(FINANCIAL EXPRESS 21ST JULY 2017)

4. MISCELLANEOUS

4.60 'INFLATION TO RISE NOTICEABLY IN SECOND HALF OF 2017'

Retail inflation in India is expected to rise "noticeably" from 'trough' in June to 4.4 per cent in the second half of this year, driven mostly by food prices and the base effect, says a Nomura report.

According to the Japanese financial services major, although inflation has bottomed, in the medium term it is expected to see a significant uptrend and rise above the RBI's target.

"In India, we expect CPI (Consumer Price Index) inflation to rise well above the Reserve Bank of India's mid-point target (4 per cent), with core inflation rising to 6.3 per cent in 2018, led by rural wages, minimum support prices(MSP), a closing output gap and the supply demand cobweb model of food prices starting to kick-in," said Nomura.

(BUSINESS STANDARD 26TH JULY 2017)

4.61 GDP GROWTH IN LAST 2 YRS OF UPA RULE BELOW PROJECTIONS: NITI

The actual performance of India's economy during the last two years of the UPA government (2012 -13 and 2013-14) was worse than the 'policy logjam' scenario witnessed in the 12th Five Year Plan,

In its appraisal of the 12th Five Year Plan (2012-17), the Aayog said that when measured at factor cost, the real GDP growth under the old methodology turns out to be 4.5 per cent in 2012-13 and 4.7 per cent in 2013-14.

"Because the Twelfth Plan projections were based on the old series, it may be reasonably concluded that at least in 2012-13 and 2013-14, India has performed worse than the 'policy logjam' scenario," the Aayog said.

However, according to the revised GDP series, the economic growth stood at 5.6 per cent and 6.6 per cent in the last two years of the UPA rule.

(BUSINESS STANDARD 26TH JULY 2017)

4.62 INDIA'S CRUDE STEEL PRODUCTION DIPS TO 7.9 MT IN JUNE

India's crude steel production declined marginally by 1.1 per cent to 7.9 million tonnes (MT) in June, according to the latest report by World Steel Association. The output was eight mt in the same month last year, it said.

However, the domestic production in the first six months of 2017 increased by 5.3 per cent to 49.48 MT over 46.9 MT in the same period of 2016, the data said.

Global steel production for the 67 countries reporting to World Steel Association (worldsteel) was 141 MT in June this year, registering an increase of 3.2 per cent over 136.6 MT in June 2016.

For the first six months of 2017, global steel production stood at 836.0 MT, up 4.5 per cent from 799.9 MT in the same period of 2016.While Japan produced 8.3 MT steel in June, a fall of 4.3 per cent from the year-ago period, the US produced 6.7 MT, down 1.7 per cent from 6.8 MT earlier.

The crude steel capacity utilisation ratio of the 67 countries in June 2017 was 73 per cent. This is 1.4 percentage points higher than June 2016. Compared to May 2017, it is 1.3 percentage points higher, it said.

India has overtaken the US to become the world's third largest steel producer and the country is now looking to bag the second spot from Japan.

Steel Minister Chaudhary Birender Singh had earlier said that India is heading towards becoming the second largest steel producer in the world.

(BUSINESS STANDARD 27TH JULY 2017)