SUMMARY

- Goods and Services Tax – Six-tier framework
- India ranks 130th in World Bank Ease of doing Business Rankings
- Index of Eight Core Industries grew faster at 6.6%

Goods and Services Tax – Six-tier framework

The Indian Parliament passed a Constitutional amendment to introduce the ambitious GST (Goods and Services Tax) reform in July. The GST will subsume more than 15 existing state and national consumption taxes with two tax rates, creating a single market across India – and the Government estimate that it will increase GDP by 2%.

The new GST Council – including representatives from central and state governments - has now met and agreed the new structure for the tax. GST will have six rates – 0%, 2 - 4%, 5%, 12%, 18%, 28%.

There will be two standard rates – 12% and 18% - with most goods and services falling under this tier. The lower rates are for essential items while the highest are for luxury and de-merit goods (e.g. Cigarettes and alcohol). With a view to keeping inflation in check, essential items including food (which presently constitute roughly half of the consumer inflation basket), will be taxed at a zero rate. The tax rate for gold and precious metals will be between 2 and 4%, to be decided later.

Coal, luxury and demerit goods will attract a "cess" (additional levy) in addition to the GST – with a sunset clause of five years. The cess will be levied with the goal of creating a revenue pool which will then be used to compensate states for any loss of revenue during the first five years of GST implementation. The government estimates that £5.9bn will be needed in the first year for compensation. The overall tax incidence including cess will be between 40% and 65%.

In terms of implementation, the politics of demonetisation has delayed the passing of key Parliamentary legislation, meaning that rollout will take place after the original deadline of 1 April 2017. The reform must, however, be implemented by 16 September, when the current system of taxation is now due to expire.

India ranks 130th in World Bank 'Ease of doing Business' Rankings

In the World Bank's 2017 'Doing Business' report, India's place has marginally increased to 130 from a revised ranking of 131 last year. Although the World Bank report recognised the concerted efforts made by India, and mentioned specifically that "India has embarked on an ambitious reform path" to list the developments.

The rankings are based on ten parameters — starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. While India improved its ranking with respect to various areas such as – 'getting electricity', 'trading across borders' and in 'enforcing contracts', it slipped some places with respect to 'starting a business', 'dealing with construction permits', 'protecting minority investors' and 'getting credit'. The Department of Industrial Policy and Promotion (DIPP) recently conducted an inter-state ranking, with Andhra Pradesh and Telangana emerging as the leading states favourable for doing business while Gujarat and Maharashtra, ranked third and tenth respectively.

The UK is highly engaged in supporting India on the Ease of Doing Business agenda through the Prosperity Fund - and during the UK Prime Minister's visit to India in November 2016, both Prime Ministers witnessed the exchange of a MoU on EoDB, which set out how we would go further in sharing expertise and best practice. This was followed by the first India-UK Conference on EoDB on 8-9 December in New Delhi, which brought together experts from across UK government departments and agencies to interact with delegates from Indian states and central government.

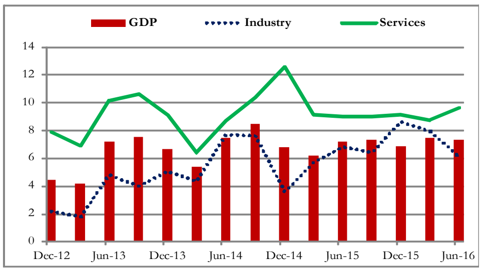
Index of Eight Core Industries grew faster at 6.6%

India's core sectors grew by 6.6% (y/y) overall in October driven mainly by strong growth in the steel refinery products and cement. The growth in the Index of Eight Core Industries was the fastest since 8.5% in April and acceleration from September's 5%. In October, five of the eight sectors registered an annual increase in production. The overall energy component of Eight Core Industries represented by the coal, crude oil, and fertiliser sectors; contracted in October.

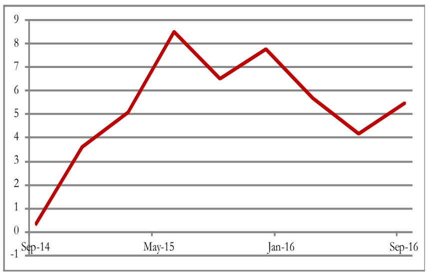
For further information contact: Sakshi.Jain@fco.gov.uk

GROWTH: *Core Sector growth grew at 6.6%*

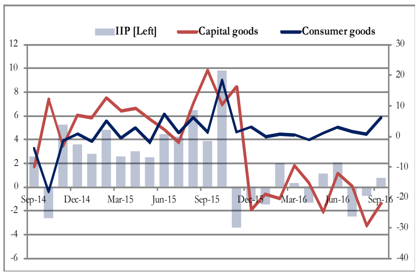
GDP



Projects Under Implementation



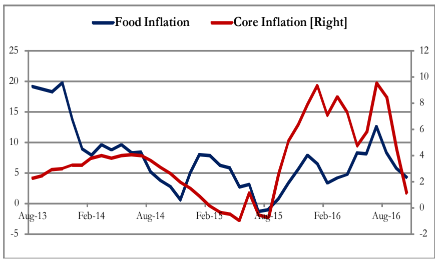
IIP/Capital/Consumer Goods



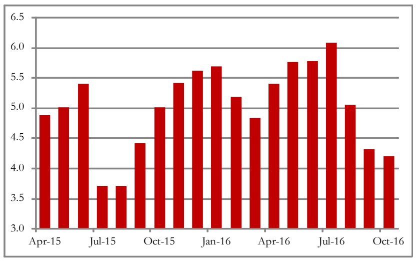
INFLATION: *Wholesale Price Inflation at 3.2%, Consumer Price Inflation at 3.6%*

Wholesale Price Index (% y/y)

Food vs. Core Inflation (% y/y)

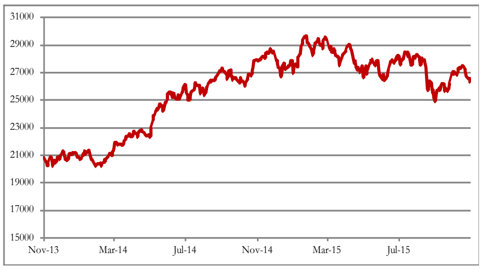


Consumer Price Index (% y/y)

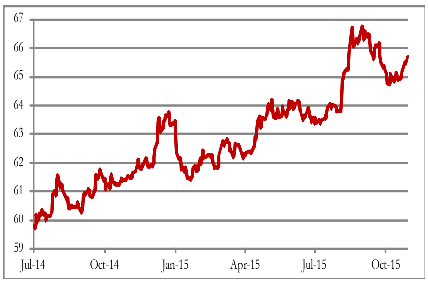


MARKETS: *Government securities yield continue to fall; especially after demonetisation*

SENSEX



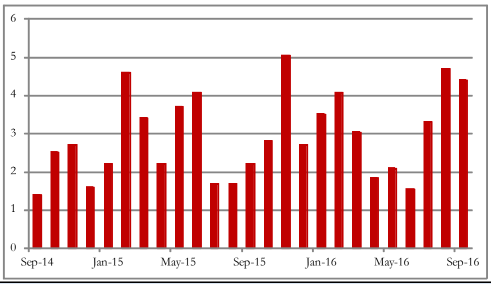
USD/INR



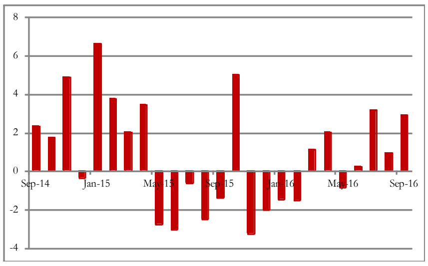
10yr Govt. Securities yield (%)

EXTERNAL: *A trimmed balance of payments snapshot*

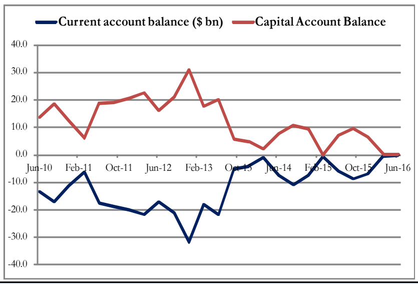
FDI ($ Bn)



FII ($ Bn)

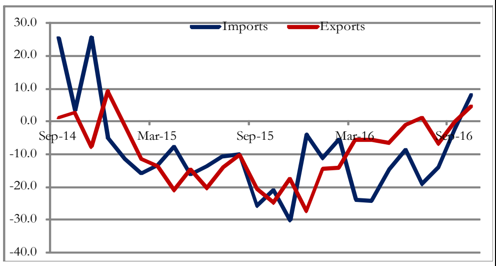


Current vs. Capital A/c ($ Bn)

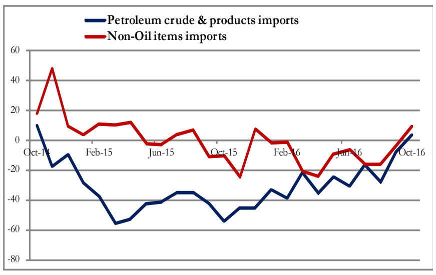


TRADE: *Trade deficit increases; while Imports and exports increase year-on-year*

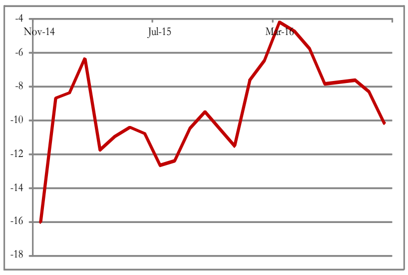
Export/Import Growth (% y/y)



Imports- Oil and Non Oil (% y/y)



Trade Balance ($ Bn)



For further information contact: Sakshi.Jain@fco.gov.uk