SUMMARY

- Fiscal Consolidation
- Monetary Policy remains unchanged
- Core Sector expands on a faster pace
- Goods and Services Tax Roadmap

Goods and Services Tax Roadmap

A Constitutional Amendment to create the GST was passed unanimously by the Indian Parliament on 7th August. This is a big step which has been ten years in the offing. The GST will replace over 15 different state and central taxes with two – Central GST and State GST, creating a single market across India's 29 states. The government estimate that, when fully rolled out, it could increase GDP by up to 2% per annum. The government aims for implementation in April 2017 – this note considers the steps that now need to take place to make this a reality, as well as the likely impact on sectors – and future reforms.

What happens next – Legislation

- Ratification by (at least 15) state legislatures.
- After this, the GST Council will be set up to make recommendations on GST rates and threshold limits. The composition of this council will have representatives of the states and headed by Union Finance Minister Arun Jaitley.
- The GST Council will also need to decide whether the final GST legislation will be a money bill or financial bill – if it is the latter, then the bill will need to be passed by the Upper House as well as the Lower House.
- The Government also needs to pass three different enabling bills – Central GST, State GST, Inter-State GST in the upcoming winter session this year. These bills will outline the different taxes.

What happens next – Implementation

Once legislation has been passed, the GST will need to be implemented by both state and central governments. This means:

- Around 60,000 revenue officials of central and state governments will be trained on GST laws and the Goods and Services Tax Network, by April 2017.
- GST will be administered entirely online. The GST Network (GSTN) has been set up by the centre and states to provide a shared IT framework and services to central and state governments, tax payers and other stakeholders. The GSTN project worth £150m has been assigned to Infosys, India's second-largest software company.

While a GSTN beta version launch for Centre and States is planned for February 2017, companies will have to work on the changes in their IT systems themselves before the rollout in April – which could possibly lead to time crunch and preparedness issues for the industry. Also most of the states have asked GSTN to develop software for the backend function while tax departments of others are building their own technology systems to handle statutory functions. The Tax department under the Ministry of Finance is already conducting training of officials which is expected to be completed in four phases during December 2016-March 2017.

There will be a number of challenges to ensure that GST is successfully implemented – and industries will need to strategize the integration of GST into their operations, including by looking at pricing pattern of products or services, supply chain optimization, warehousing strategies, IT, accounting and tax compliance systems.

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FISCAL CONSOLIDATION

Finance Minister Arun Jaitley's fiscal consolidation roadmap, announced in 2014, targeted a fiscal deficit for 2016-17 of £61.3bn or 3.5% of GDP. However, by the end of the first quarter of 2016-17, the deficit had already reached 61% of this total, in comparison with last year's figures – when 51.6% of the deficit target had been reached. This year the change can be attributed to higher expenditure and subdued realisation of non-tax revenues. Worryingly, the increase in spending seems to have come from revenue expenditure and not capital spending. Planned capital spending was 18% of the full-year estimate, compared with 23% last year. While tax revenue was up, reaching about 15%) of the full-year target compared with 11% in 2015-16; Non-tax revenue was only 7.3% of the full-year target, compared with 18% for April-June last year.

MONETARY POLICY MAINTAINS STATUS-QUO

In its third bi-monthly monetary policy statement for 2016-17, in August the Reserve Bank of India (RBI) announced that it had kept the policy repo rate unchanged at 6.5%. This was due to consumer-prices reaching a 22-month high of 5.7% in June due to increase in food prices, pulses and cereals, leaving little room for Governor Rajan to lower borrowing costs given a target for a 5% pace by March 2017. In July the RBI and Ministry of Finance also issued a notification setting an inflation target of 4% (tolerance of +/- 2%) for next five years under the monetary policy framework.

The August policy statement was Raghuram Rajan's final one, with the RBI Governor due to step down on September 4 after a three-year term. Recently the erstwhile deputy governor of the RBI, Urjit Patel has been appointed as the new Central Banker. The RBI is now due to introduce the Monetary Policy Committee (MPC) to fix the benchmark policy rate (repurchase rate) required to contain inflation within the specified target level. On this 6-member committee, the RBI Governor will be the chair with two more representatives from the central bank, while the other three will be chosen by the government on the basis of the recommendations of a search-cum-selection committee. Aside from the RBI Governor, the other RBI member is likely to be the RBI's executive director in charge of monetary policy, Michael Patra.

CORE SECTOR EXPANDS AT A FASTER PACE

The combined Index of Eight Core Industries was 5.2% higher compared to the index of June 2015, up from 2.8% in the previous month, but lower than the four year high of 8.5% in April on the back of overall increase in production except hydrocarbons. Output in the eight core sector industries comprising coal, crude oil, natural gas, refinery products, fertiliser, steel, cement and electricity recorded a cumulative growth of 5.4% during April-June 2016 compared to 2.5% cumulative growth in same quarter last year.

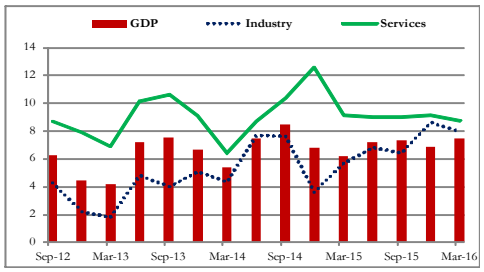
SECTOR	GROWTH RATES Apr-Jun 2015-16	GROWTH RATES Apr-Jun 2016-17
Coal	7.0%	5.4%
Crude Oil	-0.8%	-3.3%
Natural Gas	-4.2%	-6.1%
Refinery Products	4.2%	7.1%
Fertilizers	2.4%	11.0%
Steel	2.1%	3.8%
Cement	1.4%	5.7%
Electricity	2.3%	9.0%

Monthly Economic Report July 2016

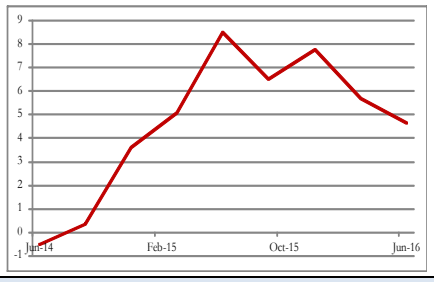
British High Commission New Delhi

GROWTH: *Core Sector expands at 5.2%*

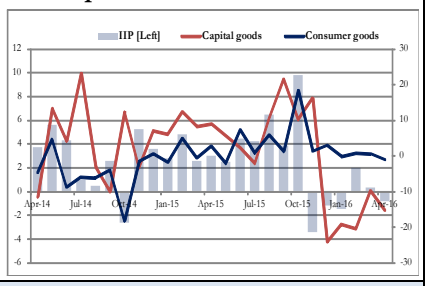
GDP



Projects Under Implementation

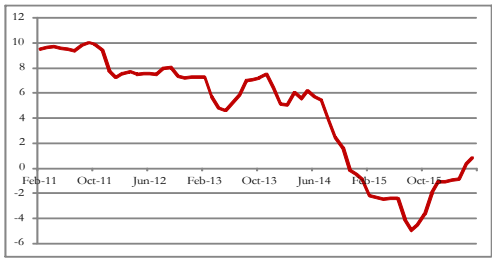


IIP/Capital/Consumer Goods

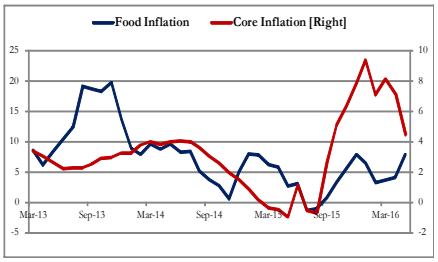


INFLATION: *Food Inflation at 22-month high 7.8%, Consumer Price Inflation at 5.76%*

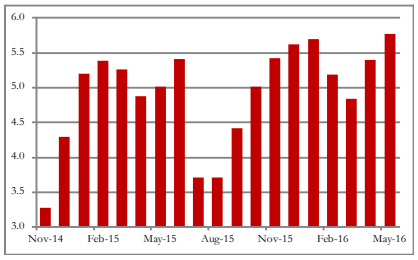
Wholesale Price Index (% y/y)



Food vs. Core Inflation (% y/y)

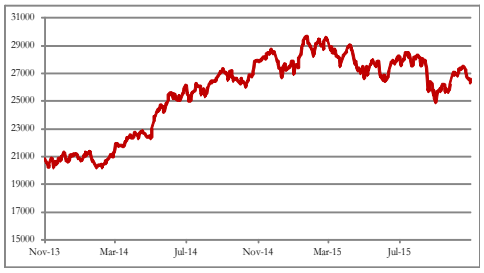


Consumer Price Index (% y/y)

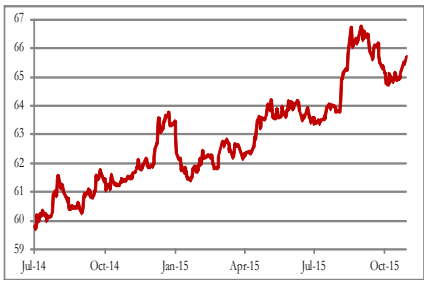


MARKETS: *Volatile capital and foreign exchange market due to global economic implications*

SENSEX



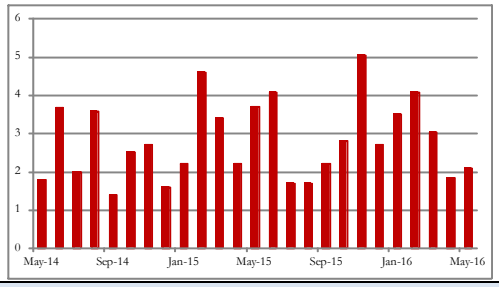
USD/INR



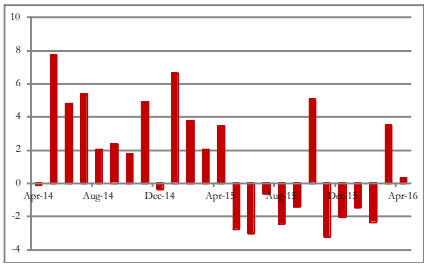
10yr Govt. Securities yield (%)

EXTERNAL: *FIIs trim exposure*

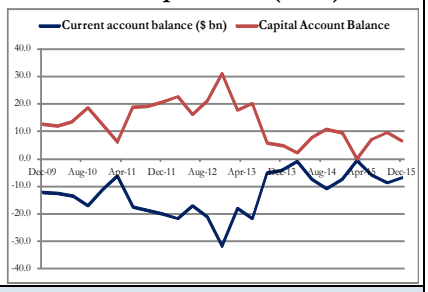
FDI ($ Bn)



FII ($ Bn)

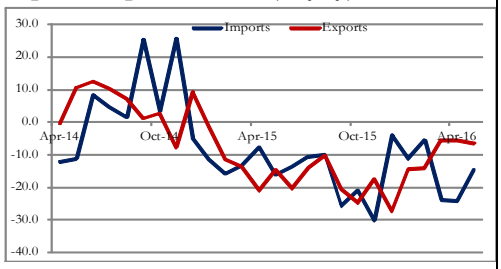


Current vs. Capital A/c ($ Bn)

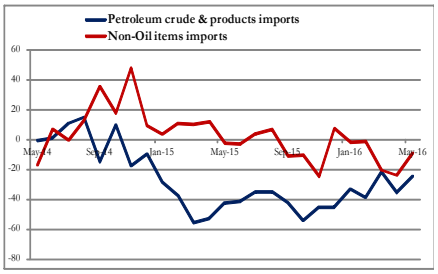


TRADE: *Imports improved y/y while Exports maintain upward trend*

Export/Import Growth (% y/y)



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



Trade Balance ($ Bn)