

SUMMARY

- GST Council now in action
- New Governor, Monetary Policy Committee – Policy rate at 6 year low
- Fiscal Deficit Update
- Budget in Feb as opposed to March. Rail budget scrapped

Fiscal Deficit Update

India's fiscal deficit in the April-August period touched 76.4% of Budget estimates for fiscal 2016-17 as against 66.5% of Budget in the same period last year. The high deficit during these months is said to be the result of front loading of spending such as on recommendations of seventh pay commission, to alleviate rural distress etc. and a shortfall in non-tax revenues. According to the consolidation plan, it is planned to achieve an ambitious fiscal deficit target of 3.5% of GDP, from 3.9% last year.

Six months into the fiscal, the government has collected 52.5% of the budgeted indirect taxes and 40% of direct taxes. However, to meet fiscal targets, the response to the government's ambitious telecom spectrum auction (only 40% sale) is likely to impact fiscal balances. While central excise net collections jumped by 46.3% to £22.4bn during April-September from £15.3bn in the year-ago period and recoveries from the income declaration scheme should also help, pressure from lower inflows of non-tax revenues continue.

Finance Ministry claims that any shortfalls will be made up by collections under the recently concluded black money disclosure scheme. The black money scheme is expected to fetch £1.8bn in the current financial year and hasn't been accounted for in the budget, which will be available to fill any gaps. So far the government's disinvestment flows have been robust with nearly £2.8bn already raised against the budgeted £6.9bn. With a number of companies lined up for strategic disinvestment stake sale such as SUUTI (Specified Undertaking of the Unit Trust of

GST Council Now In Action

The Cabinet approved the creation of GST council and its secretariat, after receiving the assent on GST Constitution Bill from the President. The GST Council is a joint forum of the Centre and the States. The big issue facing the council is determining the tax rates and to strike a balance between protecting tax revenues while arriving at a rate that does not hurt the common man. Besides the rates, dual administration between the states and the centre will be one of the most contentious issues. The council is to give its recommendations on the tax rate and other provisions within 60 days.

With the GST Council slated to take vital decisions during its coming meets, the government appointed Mr Arun Goyal as Additional Secretary of the pan India indirect levies' apex body. The Council which is headed by Union Finance Minister Arun Jaitley includes representatives of all the 29 states and 2 union territories.

The first meeting of the newly constituted GST Council saw states like Tamil Nadu and Uttar Pradesh demanding a larger say than one-state-one-vote principle that puts a smaller state on equal footing with a large manufacturing one. While their demand was overruled, consensus also eluded in the meeting over the issue of exemption to dealers from the GST. The GST council finalized the revenue threshold levels below which traders will be exempted from levy of GST.

It was decided that all assesseees with annual revenue below £25,000 will be exempted from GST. The threshold is £12,500 for 11 special category states — the north-eastern and the hill states. Further, the council also finalized the revenue levels for a taxpayer to opt for the compounding scheme. Small traders with revenues of £25,000 - £60,000 can pay a flat tax and do away with unnecessary paperwork. The second meeting of the GST Council agreed on five subordinate legislations dealing with issues ranging from registration to invoicing under the new GST regime.

Discussions on service tax assessment and the formula for calculating compensation to be paid to states (in case of revenue shortfall as an outcome of the GST regime), would be taken up at the next meeting on October 18-20. Also decision on the important GST rate, the government is targeting November 22 for completing major work on deciding tax rate, exemptions and draft legislation by the Council.

India) set to kick off soon, the disinvestment target looks achievable for the first time.

New Governor, Monetary Policy Committee – Policy rate at 6 year low

The newly constituted MPC (Monetary Policy Committee), under the latest regime, unanimously voted to cut the benchmark policy rate by 25 basis points. This time RBI (Reserve Bank of India) Governor Urjit Patel in his maiden monetary policy review brought the policy repo rate at 6 year low to 6.25%. The capital markets welcomed the rate cut; with indices registering an uptick as soon as the policy statement was released. Good monsoons this year has helped bring down food prices, helping consumer price inflation to fall to 5% in August – well within the RBI's target range of 2%-6%.

The MPC appointed by the government – includes three non-RBI members: Pami Dua, Director of the Delhi School of Economics; Chetan Ghate, a professor at the Indian Statistical Institute; and Ravindra Dholakia, a professor at the Indian Institute of Management, Ahmedabad. The other three members are Patel, R Gandhi - RBI deputy governor, and Michael Patra, an executive director at the central bank. Patel can give the deciding vote, in case of a tie among the members.

Budget in February as opposed to March, Rail budget scrapped

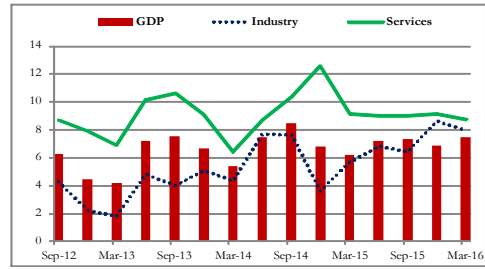
The government will not present a separate rail budget from the next financial year. The Cabinet approved the merger of the rail budget with the general budget along with an in-principle agreement to advance the presentation date of the budget in Parliament from the usual last working day of February. Ending a 92-year-old practice, the amalgamated rail budget and general budget will be announced together in the first week of February (depending on state polls).

Monthly Economic Report September 2016

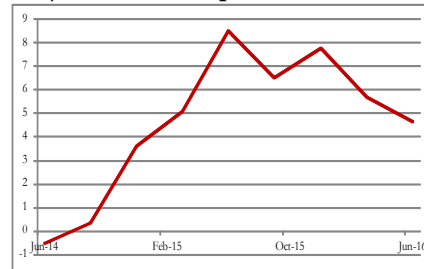
British High Commission New Delhi

GROWTH: Core Sector growth slips to 5-month low at 2.8%

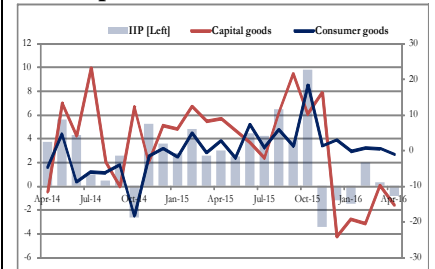
GDP



Projects Under Implementation

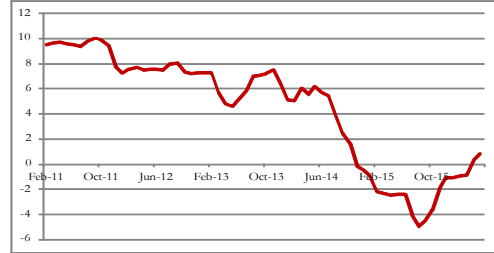


IIP/Capital/Consumer Goods

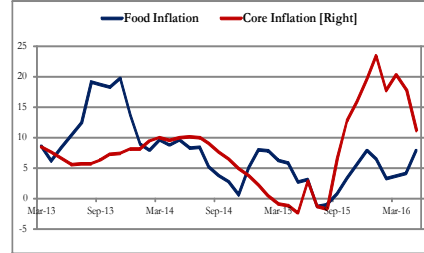


INFLATION: Food Inflation at 22-month high 7.8%, Consumer Price Inflation at 5.76%

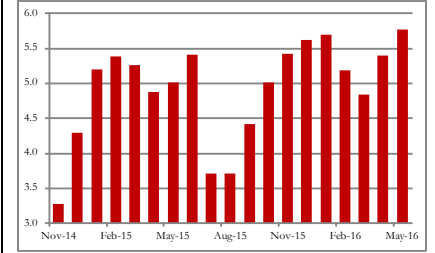
Wholesale Price Index (% y/y)



Food vs. Core Inflation (% y/y)

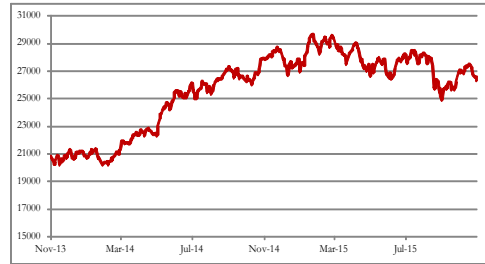


Consumer Price Index (% y/y)



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

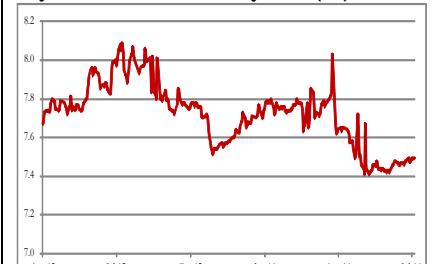
SENSEX



USD/INR

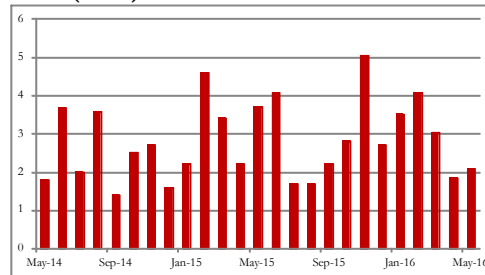


10yr Govt. Securities yield (%)

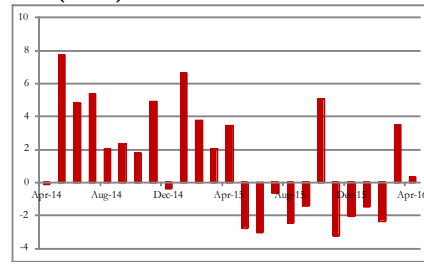


EXTERNAL: FIIs trim exposure

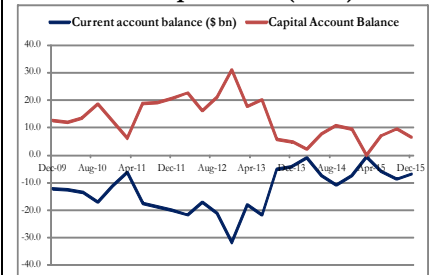
FDI (\$ Bn)



FII (\$ Bn)

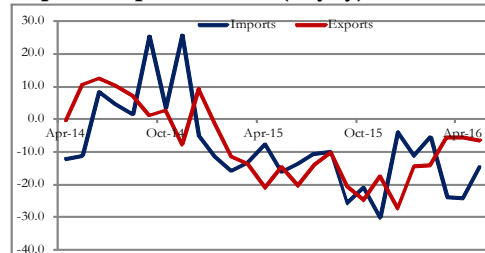


Current vs. Capital A/c (\$ Bn)

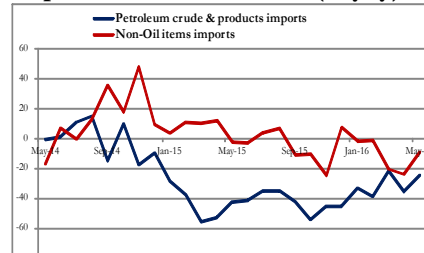


TRADE: Imports improved y/y while Exports maintain upward trend

Export/Import Growth (% y/y)



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



Trade Balance (\$ Bn)

