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WEEKLY ECONOMIC BULLETIN

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ITP Division
Ministry of
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Government of India

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India's per capita income to cross Rs 1 lakh in FY17

Rs 1 lakh — that benchmark will be achieved in the next financial year when per-capita income crosses the six-figure mark for the first time.

To be sure, it's the equivalent of just $1,500 but all the same a number that has some significance in a country of 1.2 billion where 12.4% in 2011-12 were living on less than $1 a day, according to the World Bank.

Per capita income at current prices was Rs 93,231 in FY16, up 7.3% from Rs 86,879 in the year before. It stood at Rs 71,050 and 79,412 in FY13 and FY14, respectively.

At that rate of acceleration, per-capita income will exceed Rs 1 lakh in FY17. The Budget for next year, announced by finance minister Arun Jaitley on February 29, assumed a nominal GDP growth of 11%. That would mean a similar rise in net national income and, adjusted for an increase of 1.2% in population, should yield an expansion of more than 8% in percapita income.

"Nominal GDP growth has been an average 11.7% in the past four years, so with a 1.2% population growth, we can expect per capita incomes to exceed Rs 1 lakh in FY17," said Saugata Bhattacharya, chief economist, Axis Bank.

"It would be interesting to check the expenditure surveys to gauge the distribution of the rise across income classes," he added. Per capita income broadly measures quality of life in a geographical region — country, state or city.

It's arrived at by dividing the country's total income by its population. It also needs to be adjusted for inflation to see whether incomes are rising.

"At current prices, per capita income is expected to cross the threshold of Rs 1 lakh in 2016-17, which is encouraging. However, large regional variations and an urban-rural divide in income levels persist," said Aditi Nayar, chief economist at ICRA. If the average amount crosses six figures, it would have taken India almost seven years to double its per-person annual income from Rs 46,492 in FY10.

The increases in per capita income have been driven by urban growth. "Given that agriculture has suffered and the rural economy is under distress, total per capita income has grown largely on the strength of the urban economy," said Crisil chief economist DK Joshi.

"Agricultural incomes have not grown and the rural economy is languishing. Not only are incomes lower in rural areas, but inflation is also higher. In fact, poor states have seen higher inflation."

Jaitley had announced a series of steps in his Budget to spur the rural economy.

Source: The Economic Times

Jaitley defends small-savings rate cut, says move will help growth

Finance minister Arun Jaitley defended the decision to cut interest rates on state-run savings schemes, including the popular public provident fund (PPF), saying it was needed to lower bank borrowing costs and push economic growth.

His defence came two days after the government announced sharp cut in interest earned on a raft of savings schemes, including the Kisan Vikas Patra (KVP) and senior citizen deposits.

"The way economy is moving today, we cannot have a situation where lending rates are going down but deposit rates remain high.

Both are linked," Jaitley said at the BJP's national executive meet in the Capital.

"To make economy more efficient rather than sluggish, the country has to move towards lower interest rates in both."

The decision has drawn strong reactions from not only the Opposition but also from the RSS-affiliated Bharatiya Mazdoor Sangh. Critics said lower earnings on these schemes could force millions of households to shuffle their savings portfolios.

Congress vice-president Rahul Gandhi had on Saturday described the move "as yet another assault on the middle-class".

According to the new structure, investments made in PPF during April 1 to June 30, 2016, will earn 8.1% annually. The current rate is 8.7%. Investments in KVP will earn a return of 7.8%, instead of 8.7%, while senior citizen savings scheme of five years will earn 8.6% interest compared with the existing 9.3%. Jaitley said the PPF interest rate at 8.1% remains reasonably lucrative. Since it is tax free, the effective earnings on PPF is close to 11.12%, he said.

The government announced in February a decision to move to a new system for interest rates on state-administered schemes, making these market-linked. Market rates move in tandem with government bond rates that are on a downward trend now. Under the new system, rates will be revised every quarter, as opposed to the earlier system of an annual review.

"There's an established old formula for the past many years. Government securities interest rate is market-linked, while it offers some subsidy for small savings such as PPF, senior citizens and Sukanya Yojana savings scheme from its own budget," Jaitley said.

"Government takes debt from market and its rates do fluctuate and when interest rates were high, the burden was on the government. Now interest rates on government securities have come down," he said.

Lowing of small-savings rates is expected to allow banks to pass on policy rate cuts by the central bank through lower lending rates. Banks say they are forced to offer high interest rates to depositors to make it more attractive for people to park extra funds with them ahead of post office and other state-run schemes.

The Reserve Bank of India has cut the key policy rate by 1.25 percentage points in the past year while banks have passed on the benefit to borrowers by lowering lending rates by just 0.70 percentage points.

Middle-class Indians rely on small investments offered at post offices for social security and parking surplus cash.

Total outstanding deposits in small savings schemes stand at over Rs 9 lakh crore. Indians have been parking more than Rs 50,000 crore annually as additional savings in these instruments over the past three years. The government depends on this pool of money, also called the National Small Savings Fund (NSSF), to finance part of its budget.

Source: Hindustan Times

Cisco to invest US$100 million in India over two years

Joining the league of global technology giants who are making a beeline to invest into the booming India startup ecosystem, US networking major Cisco has committed $100 million over the next 18 to 24 months.

The series of investments will include $40 million that will be used to fund early-stage and growth-stage companies in the country, and train around 250,000 students by 2020.

The rest of the funds will go towards opening six new innovation labs and three centres of expertise, apart from collaborating with universities and making other investments for skill development, Cisco announced on Friday in the presence of its executive chairman John Chambers.

Cisco will collaborate closely with state governments on strategic initiatives, it said. "India is well positioned to lead in digitisation," said Chambers. India may have been slow to adopt technology but it is leapfrogging now as compared to other Asian countries, he said.

"The entire economy is burgeoning because of digital economy," said Chambers who met Prime Minister Narendra Modi. He praised the government's flagship projects of Make in India, Digital India and Start up India.

Dinesh Malkani, president at Cisco India and SAARC, said the company has expertise in areas such as security, cloud, and the Internet of Things which it can lend to emerging companies. "There is a lot of scope for development in IP driven technology software companies in India," he said.

The $143-billion firm has over 10,000 people in India. It is also setting up a manufacturing base in Pune to locally make products to "support the Digital India vision" and aims to eventually make it an export hub.

Chambers backed India's move to approach the World Trade Organisation (WTO) on visa issues, but said elections are an "emotional" time for the US and stressed that one will have to be "little patient" on resolution of these issues.

"Middle class in America has not seen economic appreciation for the last 15 years so when people talk about job loss or global trade agreements or H1-B immigration issues, it's an emotional time in an election year. So I very much understand. I think it's a logical move by India to bring this to the WTO and say how do you address that," he said.

Earlier this month, India had filed a complaint in the WTO against the US decision to impose high fees on temporary working visas. "Over time, I am a huge believer in immigration, I am a huge believer of bringing in talent from around the world," Chambers said. Asked about the issue of net neutrality, Chambers said he was a supporter of the principle as everyone should have access to the Internet. He also highlighted that regulations need to be in sync with the changes in technology. "Regulators and law makers have to understand that the decisions that they make today can't be the decisions that they would have made few years ago... They have to be educated about the implications and eventual fallouts... Governments and regulators and industry will have to come together and work together on this," he said. Several technology majors are investing in India.

In February this year, Oracle global chief Safra Catz announced a $400 million expansion of their India facility, a host of incubation centres for startups and an extensive training programme to groom young talent in the country.

Source: The Economic Times

Easing norms for exim trade

The Central Board of Excise and Customs has developed an 'integrated declaration' to incorporate all the information required for import clearance by various government agencies into the electronic format of the bill of entry.

This is to be filed electronically at a single entry point, the Customs Gateway.

Separate application forms required by different agencies such as the Drugs Controller, Textile Committee, etc, would be dispensed with.

This important step to provide the importers a single point interface for clearance of imported goods will go online from April 1, for consignments to be cleared under the Indian Customs EDI Systems but not for clearance of imported goods in the manual mode.

The integrated declaration has a portion to capture the text of different types of declarations, undertakings and letters of guarantee, etc, in the form of statements. These statements have been standardised and codified. While giving the integrated declaration, the importer can specify the statement codes and printed copies of the bills of entry will contain the corresponding standardised texts.

The integrated declaration has a separate section on particulars of supporting documents to be provided with the bill of entry. The importer or his customs broker can also provide details of the supporting documents using this section. CBEC is in the process of procuring information technology infrastructure to capture digitally signed copies of the supporting documents. Once this is implemented, the need to provide hard copies of supporting documents will be dispensed with. The latest instructions (dated March 15) follow the CBEC's earlier circulars dated March 31, 2015, and February 3, 2016, regarding implementation of the 'Indian Customs Single Window Project' to facilitate trade.

It envisages lodging import or export documents at a single point and obtaining permissions from other regulatory agencies (such as animal or plant quarantine, drugs controller, textile committee, etc) online, without the importer/exporter having to separately approach these.

The single window would, thus, provide the importers/exporters a single point interface for customs clearance of import and export goods, thereby reducing interface with government agencies, dwell time and cost of doing business, says CBEC. In another useful circular, CBEC has clarified that the newly introduced provision for deemed conclusion of proceedings against 'other persons' in a showcause notice will apply to persons on whom no demand of duty is envisaged. And, will be contingent upon the person to whom a showcause notice has been issued paying all the dues of duty, interest and penalty.

The finance ministry has brought the Customs (import of goods at concessional rate of duty for manufacture of excisable goods) Rules and the Central Excise (removal of goods at concessional rate of duty for manufacture of excisable and other goods) Rules into effect from March 16, instead of April 1 as notified earlier.

Further, the requirement of submission of security for availing the benefit under the said rules has been done away with. These new rules reduce the time for payment of differential duty on unutilised goods from six months under the earlier rules to three months. And, simplify the procedures by doing away with permissions and prescribing only an intimation to the authorities.

These instructions and changes signify important steps towards overall ease of doing business.

Source: Business Standard

WB, railways to collaborate for pension funds: Suresh Prabhu

The Indian Railways is in talks with the World Bank (WB) to create a new fund, in which both would be core investors and approach different financial institutions for long-term investments.

Speaking at the CNBC TV18-Mint Infra Interministerial event, railway minister Suresh Prabhu said, "Under this, World Bank would be the core and initial investor and we are also going to invest some money. Then we would together try to access different pension funds and others because such big investors look for profiles which exactly matches Indian Railways as we are a constant revenue stream as well as a long-term revenue stream. So, perennial flow of money would be available for their investments."

"Money is not a problem for the next two years. We had met financial investors in London and during the roundtable meeting, they clearly said they are willing to fund the idea.

Creating such a fund is important as it assures long-term funding," Prabhu said.

Prabhu said the railways' debt-to-asset ratio is one of the lowest, compared with China or European countries. "The railways has propensity to consume debt of a much larger magnitude," he said, adding that big investments for railways cannot come from normal revenue streams.

Source: Livemint

Govt eases taxation norms for bonds, debentures held by cos

Seeking to simplify the procedure and promote ease of doing business, the tax department has said capital gains tax will be computed from the date of acquisition of financial instruments like bonds and debentures and not from the date of their conversion into shares.

Tax experts said the notification issued by the Central Board of Direct Taxes (CBDT) would facilitate mergers and acquisitions and promote investments.

According to experts, it will also put an end to litigation between tax authorities and companies with regard to the date of acquisition for the purpose of computation of capital gains tax.

CBDT in a notification said that "in the case of a capital asset, being a share or debenture of a company, which becomes the property of the assessee... there shall be included the period for which the bond, debenture, debenture-stock or deposit certificate was held by the assessee prior to the conversion".

There have been disputes on this front, with the revenue authority insisting that the date of conversion of debentures into shares was a relevant date while the assessees wanted that the capital gains should be computed from the period of acquisition of the financial asset.

KPMG (India) Partner Tax Vikas Vasal said this clarification is a welcome move and will avoid disputes on the period of holding for determining capital gains.

"The clarification will help in mergers and acquisitions, besides promoting ease of doing business, wherein various instruments are issued to meet the requirements of the investors," Vasal said.

"There will also be greater certainty about taxation based on the period of holding of the specified financial instruments, which had been a subject of litigation between revenue department and assessee."

Nangia & Co Managing Partner Rakesh Nangia said such measures of the government to reduce tax litigation without significantly impacting the revenue collection would lead to "a tax-simplified India".

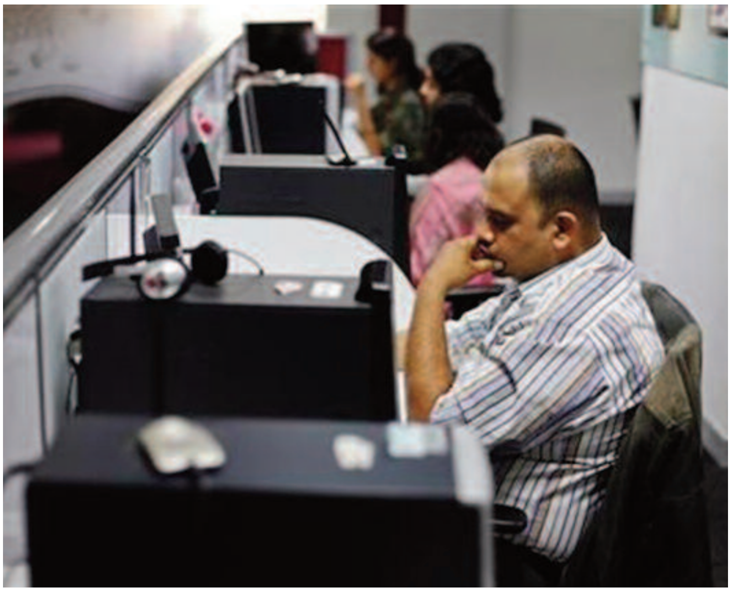
"Predictability and certainty in tax laws infuse the much-needed confidence in taxpayers, both domestic and foreign, and shall have a ripple effect on the growth of Indian economy as a whole," he said.

Source: Press Trust of India

India aims to capture 20% market share in Internet of Things: Nasscom

India aims to capture 20% market share in Internet of Things (IoT), an emerging sector which would be worth $300 billion by 2020, a top Nasscom official said on Saturday.

The Internet of Things is driving the fourth wave of industrial revolution dramatically alerting manufacturing, energy, transportation, medical and other industrial sectors while emerging worldwide, vice president of Nasscom (Industrial Initiative) K.S. Vishwanathan told reporters in Coimbatore.



As the global IoT business is expected to touch $300 billion by 2020, India aims to capture 20% market share in another five years, he said.

Vishwanathan was in Coimbatore to launch Nasscom IoT Centre of Excellence, a joint initiative of Government of India, Department of Electronics and Information Technology (DEITY) along with TCS, Intel, Amazon Web Services and FORGE Accelerator.

Depending on the success of Coimbatore hub, it was proposed to launch such centres in Pune, Baroda and Hyderabad, even as a pilot project was underway in Bengaluru, he said. To a query on the pace of setting up startups in view of additional tax being levied on them, Vishwanathan said, "nearly 1,000 startups are being added every year in India, which stands third in the world in terms of numbers and will continue to grow."

Source: Press Trust of India

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National CAD narrowed down to 1.3% of GDP in Dec quarter: RBI

India's current account deficit (CAD) narrowed to 1.3% of GDP in third quarter of the fiscal as against 1.5% in the same period last year, mainly on account of lower trade deficit.

"India's CAD at $ 7.1 billion (1.3% of GDP) in Q3 of 2015-16 was lower than $ 7.7 billion (1.5% of GDP) in Q3 of 2014-15 and $ 8.7 billion (1.7% of GDP) in the preceding quarter," Reserve Bank of India said.

While releasing the Balance of Payments data during the October-December quarter of 2015-16, it said the contraction in CAD was primarily on account of a lower trade deficit ($ 34 billion) as against in Q3 of last year ($ 38.6 billion) and $ 37.4 billion in the preceding quarter.

On a cumulative basis, the CAD narrowed to 1.4% of GDP in April-December from 1.7% in the corresponding period of 2014-15, on the back of the contraction in the trade deficit.

RBI further said net services receipts moderated on a year-on-year basis largely due to fall in export receipts in transport and financial services, though there has been a marginal improvement over the preceding quarter.

Private transfer receipts, mainly representing remittances by Indians employed overseas, amounted to $ 15.8 billion, a decline from their level in the preceding quarter as well as from a year ago.

The central bank also said that after moderating in second quarter, net foreign direct investment again picked up and stood at $ 10.8 billion in third quarter.

"Non-resident Indian deposits moderated significantly in Q3 of 2015-16 over their level in Q3 last year as well as the preceding quarter," RBI said.

Foreign exchange reserves (on a BoP basis) increased by $ 4.1 billion in third quarter of 2015-16.

During April-December, there was an accretion of $ 14.6 billion to foreign exchange reserves (on a BoP basis) compared with $ 31.3 billion in the corresponding period of 2014-15.

RBI also said there has been a marginal net outflow of $ 0.2 billion in portfolio investment in third quarter of 2015-16 as against net outflow of $3.5 billion in the preceding quarter and "equity outflows in Q3 were almost offset by inflows into the debt segment".

Source: Press Trust of India

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