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NEWS CLIPPINGS –04-03-2019

Deepening slowdown	The Hindu https://www.thehindu.com/todays-paper/tp-opinion/deepening-slowdown/article26426549.ece

Can the RBI's reduction in borrowing costshelp check the demand slowdown?

India's economy is inarguably slowing, and the latest estimates from the Central Statistics Office disconcertingly point to a deepening slowdown. GDP growth is projected to have eased to 6.6% in the October-December period. With the CSO now forecasting the full-year expansion at 7%, fiscal fourth-quarter growth is implicitly pegged at an even slower 6.5%. At that level, growth would have slowed to a seven-quarter low, giving the incumbent NDA government its slowest pace of annual growth. The data clearly reflect the pain points in the real economy that have been evident for some time now. For one, the farm sector continues to remain in trouble with GVA (gross value added) growth in agriculture, forestry and fishing having slowed sharply to 2.7% in the last quarter, from a 4.2% pace in July-September and 4.6% a year earlier. With rabi sowing showing a shortfall across most crops after a deficient north-east monsoon, and the abiding structural issues that have pushed a multitude of farmers into acute distress nowhere near resolution, it is hard to foresee an early revival in this crucial primary sector. This, in turn, continues to dog demand in the hinterland for manufactured products, from two-wheelers to tractors, and is evident in the consumption spending data. Growth in private final consumption expenditure eased appreciably to 8.4%, from the second quarter's pace of 9.8%.

Manufacturing is another source of concern. The estimates for growth in GVA for the sector put the pace at 6.7%, weaker than the 6.9% posted in the second quarter and a rapid deceleration from the April-June period's 12.4%. The latest Index of Industrial Production (IIP) figures also give little cause for optimism as manufacturing expansion in December slowed to 2.7%, from 8.7% 12 months earlier. RBI Governor Shaktikanta Das had in fact pointedly cited how "high-frequency and survey-based indicators for the manufacturing and services sectors" suggested a slowdown in the pace of activity, to help justify his vote last month for an interest rate cut to bolster growth. That most of the sectors comprising the broader services basket remain becalmed adds to the sense of disquiet. It remains to be seen if the RBI's reduction in borrowing costs helps check the demand slowdown in the fourth quarter, an improvement in investment activity notwithstanding. Gross fixed capital formation, the key metric for investment demand, expanded by a healthy 10.6%, building on the second quarter's 10.2% increase. Still, with military tensions with Pakistan on the boil, a long campaign for the general election ahead, uncertainties looming on the global trade and growth horizons, and little fiscal leeway to tease back momentum through increased spending, the economy appears headed for a period of uncertainty at least till the next government is in place.

'We hope to achieve the revised GST revenue estimate'	The Hindu https://www.thehindu.com/todays-paper/tp-business/we-hope-to-achieve-the-revised-gst-revenue-estimate/article26426547.ece

The financial implication of rate reduction is about Rs. 90,000 crore a year, says the Revenue Secretary

The hit suffered by the exchequer following the income tax rebate announced for individuals with incomes of up to Rs. 5 lakh will be more than offset by the overall growth in direct tax collections, Revenue Secretary Ajay Bhushan Pandey says. On the indirect tax side, he says that the government expects to at least achieve its revised estimate for GST revenue, which is lower than what has been initially budgeted for the year. Excerpts from the interview.

Can you estimate by how much Goods and Services Tax (GST) revenue for the year will fall short of what is needed?

We have done a realistic assessment of how much revenue we are going to get in this year and accordingly we have revised our budgetary estimates for the current year.

In the case of the GST, we have brought down our revised estimates to a lower value as compared to what we had given in our budgetary estimate.

The reason is that during the 1.5 years of GST, we had done lots of adjustments in terms of process as well as rates. The rates have been brought down on many items.

The financial implication of the rate reduction is about Rs. 90,000 crore a year. Based on all these, accordingly for the current year, we have brought down our revenue estimates. And that much we hope to achieve.

Have you been able to estimate the impact on revenues following the I-T rebate given to those earning up to Rs. 5 lakh a year?

We have given a full income tax rebate to those whose total taxable income is less than Rs. 5 lakh a year.

This is basically to provide relief to the people who are in the middle class and particularly those who are earning even in that class. The total benefit that we are going to provide to this class is about Rs. 18,500 crore in a year, so that is the likely impact on our revenues.

Can the government afford this the when GST revenue has already been revised downwards?

If you see our direct tax revenue, there we have increased the revised estimate by Rs. 50,000 crore. And this, despite the reduction in tax rates.

Companies are asking for corporate tax rates to be reduced to 25%...

We have a policy, which we had announced in 2015, that the rates of the income tax for the corporates would be brought down to 25% and it has been, over the years, brought down to that level. About 99% of the companies are being taxed at a rate of 25%. Only 1% of the companies are in the range of 30%. Now, we will have to watch for the

revenue trend and then the appropriate decision will be taken in due course. As far as the remaining tax proposals are concerned, they will be considered by the government when the full Budget is presented in July.

Is the GST 2.0 system of invoice matching still on track to begin from April 1, 2019?

The GST Council has already taken a decision that the new return system will come from July 1. The new return system will be a very simplified system. Earlier, we had a system of GSTR 1, GSTR 2, and GSTR 3. Now, in place of that, there will be only one return.

The system will be such that it will require minimum information from the taxpayers so that the compliance burden will be less. At the same time, it will also incentivise self-compliance because the entire design of the GST system is such that it promotes self-compliance rather than someone going and doing inspections and forcing compliance.

What additional information will this new return filing system give?

If you see the design of the new return system, first of all what we have done is that the monthly returns will be applicable to only those who are having a turnover of more than Rs. 5 crore. The smaller taxpayers will be given relief. People with a turnover of between Rs. 1.5-5 crore will file only on a quarterly basis. These are some of the advantages we have given. Only the minimal information, which is required for the system to determine the compliance, has been taken and this was done in consultation with the States and stakeholders.

The new GST return system will require minimum information from taxpayers

Silk cluster work expected to start soon	**The Hindu** https://www.thehindu.com/todays-paper/tp-national/tp-karnataka/silk-cluster-work-expected-to-start-soon/article26427245.ece

Work on the Mysuru Mega Silk Cluster is expected to start soon with bhoomi puja being performed at the site of the project at Belawadi on the outskirts of Mysuru here on Sunday.

A joint venture of the Union and the State governments, the silk cluster is an initiative under the revised National Handloom Development Programme (NHDP) at a cost of Rs. 59 crore. The project was proposed five years ago.

Minister for Sericulture and Tourism S.R. Mahesh and Pratap Simha, MP, gave a start to the Chamundeshwari Mega Silk Cluster.

The cluster proposes to establish state-of-the-art infrastructure facilities for silk weaving and processing for supporting the silk industry in the region.

Besides creating livelihood opportunities for the rural and the semi-urban populace, the cluster is expected to promote sericulture.

The silk cluster is expected to open up job opportunities for the skilled manpower here with many entrepreneurs setting up their units.

Mysuru houses a silk weaving factory which is over a century old and thearea around Mysuru is dominated by sericulture and Mysuru Silk, produced by the KSIC, is well known across the globe.

Economic growth slows to 6-quarter low of 6.6% in Q3FY19	**Business Standard** https://www.business-standard.com/article/economy-policy/statsguru-economic-growth-slows-to-6-quarter-low-of-6-6-in-q3fy19-119030400030_1.html

Sector-wise data shows that growth in Q3FY19 was pulled down largely by agriculture and public administration

India's economic growth slowed down to a six-quarter low of 6.6 per cent in the third quarter of the current financial year, showed data released by the Central Statistics Office (CSO). growth is expected to be marginally lower at 6.5 per cent in Q4FY19.

The CSO also lowered its growth estimate for the full year to 7 per cent, down from 7.2 per cent earlier. This implies that over the past five years, the economy has grown at the slowest pace in FY19

Sector-wise data shows that growth in Q3FY19 was pulled down largely by agriculture and public administration.

Agricultural growth slumped to 2.7 per cent in Q3FY19, from 4.2 per cent in Q2FY19.

Similarly, public administration, which connotes On the other hand, construction continued to grow at a robust pace.

The sector is expected to grow at a robust 9.2 per cent in FY19, up from 5.2 per cent in FY18.

And while growth in manufacturing value added slowed down to 6.7 per cent in Q3FY19, from 12.4 per cent in Q1FY19, the sector is expected to grow at a higher 8.6 per cent in FY19, up from 4.6 per cent the year before.

On the expenditure side, CSO data shows that both private as well as government consumption expenditure slowed down in the third quarter of the current financial year. However, gross fixed capita formation, which connotes investments, continued to grow at a robust pace.

Sustaining high growth with low inflation	**Business Line** https://www.thehindubusinessline.com/todays-paper/tp-opinion/article26427361.ece

If supply-side polices successfully reduce costs and inflation, macroeconomic policy can afford to be stimulatory

The key issue facing India is how to sustain high growth with low inflation. Its post reform growth has been volatile, and aborted by episodes of high inflation. A useful way to think about the problem is to understand how despite Indian output being below potential, as large numbers enter the labour force, it is still running a current account deficit (CAD) in the balance of payments. India is inside its production possibility frontier yet demand is greater than what it can produce domestically.

If bottlenecks in specific sectors limit production and exports, there can be unutilised capacity together with demand that spills over into a CAD. China, a similarly large country with surplus labour, was also inside its production

possibility frontier. Under-valuation of its currency aided an expansion in production of traded goods and of exports that absorbed underemployed labour.

India, however, is dependent on primary energy imports. Depreciation in order to increase exports can raise the import bill and inflation. A big advantage for China was it started its catch-up growth in 1978 with reform that raised agricultural productivity. Low relative food prices are essential for sustained low-inflation growth in populous countries where food has a large share in the consumption basket. Major intermediate commodity imports, such as oil, also contribute to inflation.

China used to export oil but became a net oil importer in 1993. By 2006 it imported 47 per cent of its consumption, and by 2013 became the largest oil importing country. But by then its exports had grown enough to finance imports without materially reducing its current account surplus.

China started its reforms process with a very low share of oil imports, but in India this was high to begin with. India is the third largest oil importer. In 2009-10, crude oil imports amounted to 80 per cent of its domestic crude oil consumption and 31 per cent of its total exports compared to 14 per cent for China.

India's dependence on commodity imports implies limiting depreciation would help contain inflation. A real appreciation may help keep traded goods such as oil and food cheaper. Then on its growth path consumption of both traded and non-traded goods rises but production shifts relatively more towards non-traded goods, as their relative prices rises. India has seen higher inflation in non-traded services such as health and education. Even so, exports have to expand in sectors with potential. India's outsourcing and other service exports helped finance its oil imports.

Even if there is a CAD, better utilisation of resources and expansion of capacity in export sectors may eliminate it without having to reduce aggregate demand. A CAD also implies investment exceeds domestic savings. Financial savings largely fund investments involving goods that are tradeable, while physical savings are invested more in non-traded goods, such as in real estate.

Estimates of physical savings in the household sector are identical to those of investment in the unorganised sector. It follows, then, that if organised sector investment exceeds financial savings, it will have to be financed by foreign savings that is, by running a CAD. In recent years although the savings-GDP ratio has fallen to about 30 as growth slowed, it is household physical savings that have fallen, while household financial savings have recovered from a low of 8 per cent in 2011-12. Savings of non-financial corporations that are held in financial assets have risen. Thus better financial intermediation of domestic savings also reduces the CAD and dependence on volatile foreign capital inflows.

Alleviation of constraints

Constraints in agriculture have been a major factor limiting India's growth. For example, high food inflation triggered macroeconomic tightening and reduced growth after 2011. A large number of subsidies and price distortions were not able to adequately improve food production.

By 2018, however, India seems to have entered a period of structural agricultural surpluses. World political economy also seems to be working to keep oil prices in the $60-70 range, which suits both oil importing and exporting

countries, since it maintains future oil supplies thus reducing volatility. Moreover, with better pass through of oil prices, India's oil intensity has been falling since 2005.

Constraints are being removed but even so specific competitive sectors must be encouraged for the export expansion required to cover the oil import bill, which remains large.

Supply side policies

A constant or mildly appreciating real exchange rate has to be accompanied by focused sectoral and general supply-side measures to improve exports. The WTO bans industry specific subsidies as trade distorting, but developing and LDCs, with per capita incomes of $1000 (in constant US 1990 $) are allowed exemptions. India crossed the threshold in 2017. Therefore its support to traded goods sectors needs to be delivered in ways that do not distort prices.

Targeted and limited direct benefit transfers to farmers, along with measures to improve productivity and marketing are all steps in the right direction. Allowing stable exports in organic and processed foods will also help farmers get better price realisation. It will not be inflationary since world food prices are also likely to remain soft.

Despite the Central and State governments provinding over 60 different types of subsidies to textile exporters, there are complaints about delays and distortions. The government should therefore, in consultation with exporters, shift to other supporting policies some of which can specially benefit textiles and other export intensive sectors. These include export infrastructure, logistics, skilling, technology development and ease of doing business some of which is happening.

General supply-side measures must focus on building capacity to participate in higher growth and on reducing costs. The current collapse in inflation is partly due to the success of such measures, in addition to the softening of oil prices. For example, GST has reduced transportation and logistics costs for companies, as well as many indirect tax rates.

Demand side policies

If supply-side polices successfully reduce costs and inflation, macroeconomic policy can afford to be stimulatory. Indian catch-up growth was unnecessarily volatile because neglect of critical bottlenecks made supply and external shocks relatively large, while policy rather than smoothing shocks tended to over-react to them.

Inappropriate policies arose from incorrect macroeconomic stabilisation understanding. In a populous country with underemployed labour, sectoral bottlenecks and price shocks can cause inflation even without aggregate excess demand. On the Indian growth path, therefore, as long as focused sectoral and general supply-side measures improve exports and reduce costs, macroeconomic policies have space to stimulate growth and the absorption of under-employed labour. Such stimulus can be effective.

The current structural view on fiscal consolidation as well as pressure from foreign investors reduces fiscal space, puts the onus on monetary policy to stimulate the economy in the current slowdown. As tax collections fall in a slowdown, a mild rise in fiscal deficits is an automatic stabiliser and should be welcomed.

Inverted rules	**Business Line** https://www.thehindubusinessline.com/todays-paper/tp-opinion/article26427379.ece

Restore old GST norms on inverted duty

The Goods and Service Tax law was introduced with the intent to remove cascading effects of various taxes and to have free flow of input tax credits. True to its intent, enabling provisions were also incorporated in the GST legislation wherein refund of accumulated credit on account of inverted duty is permitted unlike Excise Duty/Service Tax legislations. Inverted duty structure means the scenario wherein the inward supplies are being taxed at a higher rate than the outward supplies. Such imbalancing tax structure results into accumulation of tax credits in the hands of the tax payers with no clear foreseen usage. Such issues of the erstwhile regime have been addressed in GST legislation and the manner of determination of eligible amount of refund on account of inverted duty structure has been prescribed.

The refund of accumulated credit will be granted once it is established that the goods or services are covered under inverted duty structure. The intention of the legislation is to grant the refund of accumulated credit resulting on account of procurement of inputs and input services only. However, in April 2018, the relevant provision for granting the inverted duty refund were tweaked to restrict the scope of refund to inputs only and not to input services. Further, in June 2018, the said amendment was given retrospective effect i.e. from the date of implementation of GST, July 1, 2017. The rationale given for restricting the scope of refund is the legislative intent to grant the refund for inputs used in outward supplies only. These amendments have resulted in inconsistency between general principles provided in the GST legislations read with the manner of determination of refund as prescribed.

In view of the retrospective amendment, several assesses who had received the refund of input services were served with notices to return the amount of refund along with interest, resulting in litigation. Also tweaking the provision with retrospective effect has created a lot of financial hardships to taxpayers with blockage of funds as GST credit. Restricting the refund for input services in such occasions will lead to higher costs which ultimately would be borne by consumers at large.

Various representations have been filed to restore the earlier practice of granting refund of input services.

However if we strictly abide by the legal provisions, it appears that draftsman have erred in amending the rules as the legal provision nowhere distinguish between inputs and input services. Further, differential treatment have been accorded in case of refund on account of exports and inverted duty structure even though parent provisions are same for both the refunds.

Such restrictions have direct impact on the Make in India initiatives and ease of doing business since the taxpayer falling under lower tax brackets will be piled-up with ever increasing GST credits.

The ideal solution is to restore the earlier provisions. However, as an interim measure the government should provide the refund on those input services which have direct nexus with the manufacturing activity like labour, job-work etc. In the era of ease of doing business, it is time to reckon that services are inevitable part of manufacturing

activity.

Trade and industry at this juncture need encouragement from the government through efficient and competent tax policies resulting into overall development of the country.

MUDRA: Rs. 1 lakh cr. more has to be lent	The Hindu https://www.thehindu.com/todays-paper/tp-business/mudra-rs-1-lakh-cr-more-has-to-be-lent/article26426537.ece

With less than one month left in the current fiscal, banks will have to work overtime to meet the MUDRA loan lending target of Rs. 3 lakh crore, as only about Rs. 2 lakh crore has been disbursed till February 22.

As on February 22, the total loans disbursed under the Micro Units Development and Refinance Agency Ltd. (MUDRA) scheme stood at Rs. 2,02,668.9 crore versus the sanctioned amount of Rs. 2,10,759.51 crore, said government data. Data from the Finance Ministry said more than 3.89 crore MUDRA loans have been sanctioned so far this fiscal.