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Indian economy to grow 7.2% in FY18; GST to have positive impact, says World Bank

Having seen a "modest setback" due to demonetisation last fiscal, the Indian economy will claw back to 7.2 per cent growth this financial year and rise further to 7.5 per cent in 2018-19, says a World Bank report.

In its report on South Asian Economy, the World Bank said that "significant risks" to economic growth could emanate from the fallout of demonetisation on small and informal economy, stress in the financial sector and uncertainty in global environment.

Also, a rapid increase in oil and other commodity prices could have a negative implication for the economy, it added.

The country's economic growth is expected to see an uptick at 7.2 per cent this fiscal and further accelerate to 7.5 per cent in 2018-19, the report said.

The growth slowed down to 6.8 per cent in 2016-17 due to a combination of weak investments and the impact of demonetisation, the World Bank said, adding that timely and smooth implementation of the GST could prove to be a significant "upside risk" to economic activity in 2017-18.

As per the report, the economic growth is projected to increase gradually to 7.7 per cent by 2019-20, underpinned by a recovery in private investments, which are expected to be crowded in by the recent increase in public capex and an improvement in the investment climate.

"India's economic momentum suffered a modest setback due to demonetisation, while the poor and vulnerable likely witnessed a larger negative shock. The economy is expected to recover and growth will gradually accelerate to 7.7 per cent by 2019-20," it said.

The demonetisation, the World Bank said, caused an immediate cash crunch, and activity in cash reliant sectors was affected.

The GDP growth slowed to 7 per cent during the third quarter of 2016-17, from 7.3 per cent during the first half of the fiscal.

India's fiscal, inflation and external conditions are expected to remain stable, the US-based multilateral lending agency said, adding that the centre will continue to consolidate modestly while retaining the push towards infrastructure spending.

"Inflation will stabilise, supported by favourable weather and structural reforms. Normal monsoons have so far offset increases in petroleum prices," it said.

Referring to the external factor, it said exchange rate has appreciated, partly reflecting expectations of a narrowing inflation gap between India and the US and limited external vulnerabilities as the current account deficit is expected to remain below 2 per cent of the GDP and fully financed by FDI inflows.

It said challenges to India's favourable growth outlook could stem from continued uncertainties in the global environment, including rising global protectionism and a sharp slowdown in the Chinese economy, which could further delay a meaningful recovery of external demand.

It said there is a great uncertainty about the extent to which demonetisation caused small, informal firms to exit and shed jobs. Also, private investment continues to face several impediments in the form of corporate debt overhang, stress in the financial sector, excess capacity and regulatory and policy challenges.

India on track to knock Britain out of world's top 5 economies: IMF

India will overtake Germany in 2022 as the world's fourth-largest economy and push Britain out of the top five, based on analysis of growth projections by the International Monetary Fund. But the challenges the South Asian nation must surmount to get there are many.

These include executing a wide-ranging overhaul of the tax system, sorting out the biggest pile of distressed assets among major economies, reviving lackluster productivity, substantially increasing employment opportunities, encouraging corporate investment and overcoming a significant infrastructure shortfall.

India's economy is still recovering from a cash ban that sucked out 86 percent of currency in circulation near the end of last year. And then there's the likely near-term disruptions from the implementation of a nationwide goods and sales tax; indeed the government has already missed an April deadline for putting the tax in place and is now working against the clock to meet its new July 1 goal.

While there is little doubt the GST will be beneficial in the long run, economists are concerned about India's banking system and the overall health of its public finances -- both seen as lightning rods for global credit agencies that already rate Indian debt just above "junk'' status.

Bad loans, restructured debt and advances to companies that can't service their debt have risen to about 16.6 percent of total loans, government data show. That spike in bad loans has forced banks to focus on recovering bad debts. As a result, loan growth has fallen to near record lows, posing a challenge to Prime Minister Narendra Modi's government as it seeks to revive investment and boost employment.

Apart from slowing investment, India's labor productivity has been weakening, limiting growth and employment opportunities.

Labor productivity per person employed eased from 10 percent in 2010 to 4.8 percent in 2016 as reforms sputtered. According to the International Labour Organisation, output per worker is projected at $3,962 for India in 2017, a fraction of Germany's $83,385.

Still, the potential remains. Ranking countries and regions on their gross domestic product, for 2017 and 2022 based on IMF forecasts, India, growing at 9.9 percent a year in nominal terms, will surpass

Germany by 2022 as the world's fourth largest economy, with the U.K dropping out of the top five after 2017.

Some seven decades after independence, India may outshine its former colonial master.

Modi government is rolling out the red carpet for foreign investors like never before

The proposed dismantling of Foreign Investment Promotion Board, which vets proposals involving fund inflows from overseas, is likely to be bundled with related policy reforms.

On top of the list is doing away with prior government approval for investments in most sectors, including single-brand retail, which could see dilution of the 30% domestic sourcing clause.

"Contours of the proposed changes to the foreign direct investment policy are almost ready... Non-strategic sectors should be on automatic," said a senior government official privy to discussions on the matter.

With domestic private investment not picking up, the government is largely counting on foreign funds to speed up infrastructure creation. India needs an estimated $1.5 trillion over 10 years to build infrastructure such as roads, airports and power projects.

The latest round of FDI reforms is aimed at making the process easier for foreign investors.

"The multiple layers in clearance often lead to unnecessary delays," the official said, justifying the decision to put more sectors on the automatic approval route.

Most sectors have automatic approval for investments up to 49%. Government approval is required for investments in sectors such as telecom services, food products retailing, mining and minerals, multi-brand retail and private security agencies.

In most cases, approval is required for investments exceeding 49%, but in some such as multibrand retailing, approval is needed for any level of investment.

In mining and minerals, 100% FDI is allowed but government approval is required. Many of these sectors could be freed up in the policy review.

Top government officials have already discussed details of the new FDI regime and a call will be taken shortly.

The finance ministry, separately, has moved a draft cabinet note for dismantling FIPB.

The proposal to phase out FIPB in 2017-18 was made in the Budget presented on February 1. Finance minister Arun Jaitley said the government had undertaken substantive reforms in FDI policy over the past two years and more than 90% of the total FDI inflows were now through the automatic route.

Jaitley said FIPB has implemented e-filing and online processing of FDI applications and had reached a stage where it could be abolished.

The Department of Industrial Policy and Promotion has been authorised to vet and recommend foreign investment proposals to the finance minister. The government is keen to remove even that layer by

abolishing the need for approvals for most sectors. In such cases, the sector regulators are likely to be charged with ensuring foreign investment is compliant with limits and policy.

RETAIL TO BENEFIT

Foreign direct investment up to 49% in the single-brand retail sector is allowed via the automatic route, without prior approval, but proposals beyond that level require government consent. India allowed 100% FDI in the sector in 2012.

The government is likely to relax the rule and allow investment in single-brand retail under the automatic route.

Single-brand retailers bringing FDI beyond 49% have to adhere to stringent 30% local sourcing norms but sections within the government favour diluting the clause as marquee brands come in completely manufactured form, including packaging.

A call on this would be taken after deliberations as the government is also keen to push manufacturing and job creation in the country.

Equity FDI into India increased 69% to $96.1 billion during October 2014-January 2017 from $57 billion in the July 2012-September 2014 period, commerce minister Nirmala Sitharaman said earlier this month.

FIPB is logical as 90% of the FDI now comes through the automatic route. Besides, sectoral regulation is also strong. The government should allow foreign investment to freely flow in retail. It would help retailers grow and promote foreign investment in manufacturing by mid-size companies.

India's internet economy to double to $250 billion by 2020: study

Driven by ecommerce and financial services, India's internet economy is expected to double from $125 billion to $250 billion - growing from the current 5 per cent to 7.5 per cent of the country's GDP by 2020, a joint report by The Boston Consulting Group (BCG) and The Indus Entrepreneurs (TiE) said recently.

With over 391 million users, India is already the second highest country in terms of mobile internet users.

According to the report titled The $250 Billion Digital Volcano: Dormant No More, the users are expected to grow rapidly to 650 million mobile internet users by 2020.

At the same time, data consumption by 2020 could potentially increase 10 to 14 times.

"Firstly, by 2020, 4G enabled devices are expected to grow six times to 550 million devices, constituting 70 per cent devices in use. Secondly, reliable high speed data is becoming both ubiquitous as well as mass affordable," said Nimisha Jain, a BCG partner and co-author of the report.

High-speed mobile internet adoption is set to reach 550 million users by 2020, almost 85 per cent of the total mobile internet users, the findings showed.

Average data consumption is projected to reach 7-10GB per user per month by 2020.

"Innovation is what leads to sustainability and sustainable growth in the current entrepreneurship ecosystem will enable India to chart its own success story," said Geetika Dayal, executive director, TiE Delhi-NCR.

India rises two spots to become the 4th largest aviation market

India's record breaking aviation growth continues unabated. The International Air Transport Association (IATA) said the country saw the fourth highest number of passengers taking off in 2016, up two places from the previous year overtaking UK and Brazil.

India had 13.1 crore passengers taking off -- including domestic, international and connecting -- last year. Globally, IATA says, 380 crore passengers took off last year (half domestic, 35 per cent international and 15 per cent connecting), up from 350 crore in 2015. The top three markets - US, China and Japan remained unchanged but there was a shakeup below with India a part of this upheaval.

At this rate, India will so on be at the third spot in terms of number of passengers taking-off by overtaking Japan. In total passenger terms, India saw 15.2 crore passengers flying in 2016, with 9.9 crore flying within the country and 5.3 internationally .

IATA's take-off numbers are at 13.1 crore as it include 9.9 crore domestic flyers, 2.7 crore people flying out of India and only a part of the 2.6 crore international flyers coming to India, who took off to take more flights last year.

However, the growth is coming amid an infra crunch -- especially at busy metro airports -- that is getting worse by the day due to the over 20 per cent rise in traffic that India has been witnessing on a month-on-month basis for almost two years now.

Air traffic congestion has made hovering common at Delhi and Mumbai. These two airports hardly have any free slots available for new flights, with Mumbai completely choked.

US slams India's 'restrictive' policies in foreign investment, trade

The United States (US) has slammed India's trade policies for imposing various sorts of barriers, including registration requirements, product approval norms and restrictions on foreign ownership.

A report on foreign trade barriers by the United States Trade Representative (USTR) came at a time when the country under President Donald Trump is itself facing severe flak for adopting a protectionist stance.

The report criticises restrictions imposed by India on retail trading — either single brand or multi-brand.

It says India requires government approval for retailers selling a single brand of product if foreign ownership is above 49 per cent. Foreign investments exceeding 51 per cent are also contingent on, among other things, a requirement to source at least 30 per cent of the value of products sold from Indian sources, preferably from small and medium-sized enterprises. Although, The Department of Industrial Policy & Promotion's (DIPP) Press Note 12 issued in 2015 allows the government to relax the local sourcing requirement for “state of the art” or “cutting edge” technology, and where local sourcing is not possible.

India permits up to 51 per cent foreign ownership in companies in the multi-brand retail sector, but leaves to each Indian state the final decision on whether to authorise such foreign direct investment (FDI) in its territory. It, however, did not mention the ruling party's objection to foreign investment in multi-brand retail.

It says Indian states have periodically challenged the activity of direct selling (i.e., the marketing and selling of products to consumers away from fixed locations) as violations of the Prize Chits and Money Circulation Schemes (Banning) Act of 1978 (Prize Chits Act), creating uncertainty for companies operating in this sector.

The report says though India "ostensibly" liberalised foreign investment regime in the insurance sector by raising a cap to 49 per cent from 26 per cent, the change was accompanied by a new requirement that all insurance companies be Indian “controlled.”

Foreign investors, it says have expressed concern that the new requirements create a rigid structure that ignores operational realities and will dilute the rights of foreign investors in Indian insurance companies, making additional FDI in the sector unattractive.

As norms relating to "control" are intended to be applied retroactively, these would apply to existing companies with foreign investment regardless of whether foreign investors plan to increase their equity, in addition to companies planning future investment, the report says.

It says although India allows privately held banks to operate in the country, the banking system is dominated by state-owned banks, which account for approximately 72 per cent of total market share and 84 per cent of all Indian bank branches. Most of the other banks are Indian-owned, with foreign banks constituting less than one-half of one percent of the total bank branches in India.

Under India’s branch authorization policy, foreign banks are required to submit their internal branch expansion plans on an annual basis, and their ability to expand is hindered by non-transparent limitations on branch office expansion.

Foreign banks also face restrictions on direct investment in Indian private banks. Unlike domestic banks, foreign banks are not authorised to own more than five percent of an Indian private bank without approval by the Reserve Bank of India (RBI). Total foreign ownership of any private bank from all sources (foreign direct investment, foreign institutional investors, and non-resident Indians) cannot exceed 74 per cent.

The report also flayed India's restrictive policies in relation to downlinking. It points out that the policy says international content providers that transmit programming into India using satellite must establish a registered office in India or designate a local agent.

US companies have reported that this policy is overly burdensome.

India also requires that foreign investors having a net worth of Rs 50 million (approximately $800,000), must have an additional Rs 25 million (approximately $400,000) of net worth in order to be allowed to downlink one content channel.

It says there are also a number of limits on foreign ownership in the audiovisual and media sectors: cable networks (49 per cent); FM radio (26 per cent); headend in the sky (74 per cent); direct-to-home

(DTH) broadcasting (74 per cent); teleports (74 per cent); news broadcasting (26 per cent); and newspapers (26 per cent).

The report says foreign accounting firms face obstacles to entering the Indian accounting services sector. Only accounting firms structured as partnerships under Indian law may supply financial auditing services, and only Indian licensed accountants may be equity partners in an Indian accounting firm.

Also, foreign firms face hurdles in legal services. At present, membership in the Bar Council of India (BCI), the governing body for the legal profession, is mandatory "to practice law" in India and is limited to Indian citizens.

It also lambasts India's policies on architecture. It says although Indian companies continue to demand high quality US design for new buildings and infrastructure development, foreign architecture firms find it difficult to do business in India due to the legal environment.

An uncertain Indian legal regime for architectural and related services has resulted in court cases against foreign design firms seeking to work in India and harassment of their potential clients, causing significant losses for US companies, it says.

It similarly criticises India's policies in telecom, digitalisation, and equalisation levy which is an additional 6 per cent withholding tax on foreign online advertising platforms.

The other areas of restrictions criticised by the policy include registration requirements for new cosmetics, package and labelling requirements in food, restrictions on food derived from biotechnology crops, restrictions in dairy products, government procurement policy, import policy and export subsidies.

India remained on the Priority Watch List in the 2016 Special 301 Report by USTR because of "concerns regarding weak protection and enforcement of intellectual property rights (IPR)."

While certain administrative decisions in 2016 upheld patent rights, and certain tools and remedies to support patent holders' rights do exist in India, concerns remain over revocations and other challenges to patents, particularly patents for pharmaceutical products, says the report.

The US also continues to monitor India's application of its compulsory licensing law, it says.

The US trade deficit with India was $24.3 billion in 2016, a 4.2 per cent increase ($970 million) over 2015. US goods exports to India were $21.7 billion, up 1.1 per cent ($237 million) from the previous year.

Corresponding US imports from India were $46.0 billion, up 2.7 per cent. India was US' 18th largest goods export market in 2016.

US exports of services to India were an estimated $18.1 billion in 2015 (latest data available) and US imports were $24.7 billion. Sales of services in India by majority US-owned affiliates were $22.7 billion in 2014 (latest data available), while sales of services in the US by majority India-owned firms were $13.4 billion.

US foreign direct investment (FDI) in India was $28.3 billion in 2015, a 4.4 per cent increase from 2014. US direct investment in India is led by professional, scientific, and technical services, manufacturing, and wholesale trade.

As India remains hard-nosed on its demands, foreign and trade policy gap widens

Countries often join trade negotiations as they consider trade deals 'insurance policies' against friction in bilateral ties. But since many countries do not have congruence in their foreign and trade policies, trade negotiations propelled by geostrategic motives often result in shallow deals limited to marginal increases in market access.

Strategic pressures to conclude trade agreements preclude the possibility of these being comprehensive frameworks for generating meaningful trade and cross-border movement of capital and people. The 16-country RCEP negotiations involving ASEAN, India, China, Japan, Korea, Australia and New Zealand, is a pertinent example.

The RCEP took off for preserving the geostrategic sanctity of the ASEAN-led regional economic order at a time when it was threatened by the TPP. The collapse of the TPP has focused additional attention on RCEP and its economic architecture. Many RCEP members are keen on quick conclusion of the deal in a show of regional solidarity by limiting its ambitions to a common schedule promising more tariff cuts.

But a hurried deal for safeguarding strategic insurance might be difficult to sell to domestic constituencies of many members who would be unconvinced with its economic prospects. Indeed, this is where for a RCEP member like India foreign and trade policy priorities sharply diverge.

At RCEP, India is unwilling to yield ground on tariffs till it is assured of easier movement for its professionals. The Indian resistance can be traced to the disappointment with outcomes of earlier FTAs with RCEP members. India has several FTAs with many RCEP members. These include goods and services FTAs with ASEAN and bilateral trade deals with Singapore, Malaysia, Japan and Korea. Most of these FTAs initiated in the last decade were motivated by India's desire to integrate deeper with Southeast Asia and become an important strategic actor in the Asia-Pacific.

India's geo-strategic ambitions were complemented by several Southeast Asian countries that yearned for a more 'active' India in the region for counterbalancing a rising and assertive China. Trade and economic cooperation was the most virtuous way for realising India's geo-strategic ambitions. Indeed, as India and many of its 'suitors' from the region began working on trade agreements, simultaneous diplomatic initiatives saw India becoming dialogue partner of the ASEAN and a member of the East Asia Summit.

India's existing FTAs with RCEP members have increased India's trade with the region. However, Indian industry has not been favourably disposed to these FTAs. It has held the view that these FTAs have largely increased imports into India rather than increasing Indian exports to regional markets. This could be partly true, given that large cross-border businesses like automobiles have set up assembly bases in India and are extensively importing parts and components from the region.

At the same time, the fears of the Indian industry could be exaggerated as studies point to limited use of most FTAs given lack of greater knowledge about them on part of businesses. Nonetheless, Indian

industry has remained largely cynical about prospects of India's FTAs with the region with the impression extending to RCEP as well.

From a negotiating perspective, it is important for India to ensure that RCEP does not become another deal that fails to enthuse domestic constituencies. India's negotiations for market access suffer from the handicap that in several industries, particularly farm products, Indian tariffs still remain bound at higher rates than those in the region. Many of these products figure in sensitive or negative lists of India's tariff commitments in existing FTAs with Southeast Asia thus leaving considerable room where countries from the region can demand tariff cuts from RCEP.

ASEAN and other members are pressing for a composite tariff schedule at RCEP that would eliminate more than 90% tariffs on traded goods. For India, this implies slashing tariffs on the sensitive lists. It would enhance criticisms of India's FTAs primarily facilitating imports. Greater market access by slashing sensitive tariffs is acceptable only if India is granted equally meaningful reciprocal access elsewhere. And this is where India's demand for greater mobility for its professionals assumes significance.

Some of India's FTAs with the region, such as the services agreement with ASEAN and the bilateral FTAs with Singapore and Malaysia, have provisions for movement of professionals. But these have not produced the mobility that India expected. This is not surprising since ASEAN, as a region has made little progress on movement of people within itself. Notwithstanding the near-term goals of the ASEAN Economic Community and a common ASEAN market, seamless movement of people remains a major problem. Regional negotiators therefore are unwilling to commit on the Indian demand.

Despite joint business groups like the India-Malaysia CEOs forum urging for reciprocal movement of professionals, it is an issue where most RCEP members are on the same page and unwilling to commit on market access for skilled labour. But India's posture remains hard, as it feels let down by the region in its commitments on this subject in the existing FTAs. It rues the fact that its tariff concessions have not been reciprocated by similar concessions for professionals, particularly in the FTA with ASEAN.

For several past FTAs with the region, geo-strategic compulsions prevailed on India's trade negotiators to concede and compromise on demands. But RCEP negotiations are proving to be different till now. The political drivers of 'Act East' haven't been successful in softening India's tough stand. Indeed, notwithstanding harmonious external relations, RCEP exposes the deep rift between India and Southeast Asia on trade that, while always perceived, was never so conspicuous. The rift symbolises the divergence between India and most of the Asia-Pacific region on trade issues. Trade liberalisation, for most of the region is confined to negotiating 'at the border' market access by chopping tariffs. For India, however, trade liberalisation extends to deeper 'beyond the border' access for its skilled people. This is a gap that foreign policy imperatives can hardly hope to bridge.

source: Financial Express