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In signal to global investors, Govt moves to bury controversial retrospective tax policy

Following the retrospective amendment moved by the UPA government in 2012, tax demands have been raised in 17 cases, including against British telecom company Vodafone and gas major Cairn Energy.

In a move to bury the controversial policy of retrospective taxation, the government on Thursday proposed amendments to the Income-tax Act and Finance Act, 2012 to effectively state that no tax demand shall be raised for any indirect transfer of Indian assets if the transaction was undertaken before May 28, 2012.

The Bill adds that demand raised for indirect transfer of Indian assets made before May 2012 shall be nullified on fulfilment of specified conditions such as withdrawal or furnishing of an undertaking for withdrawal of pending litigation, and furnishing of an undertaking to the effect that no claim shall be filed.

Following the retrospective amendment moved by the UPA government in 2012, tax demands have been raised in 17 cases, including against British telecom company Vodafone and gas major Cairn Energy.

The government has collected Rs 8,100 crore in four cases, including Rs 7,800 crore from Cairn, Finance Secretary T V Somanathan said.

While the move to amend the legislation marks a step in the direction of addressing the long-pending demand of foreign investors seeking the removal of retrospective tax for the sake of better tax clarity, it comes seven years into the tenure of the NDA government — and at a time when the government has suffered reverses in its arbitration cases against Cairn Energy and Vodafone.

In May this year, Cairn initiated the process to seize Indian assets to enforce the $1.2-billion arbitration award it won against the Indian government in its longstanding tax dispute.

In September last year, the Permanent Court of Arbitration at The Hague had ruled that India's retrospective demand of Rs 22,100 crore as capital gains and withholding tax imposed on Vodafone for a 2007 deal was "in breach of the guarantee of fair and equitable treatment" that the company was entitled to in respect of its investments made in mobile telephone business in India.

The Taxation Laws (Amendment) Bill introduced by Finance Minister Nirmala Sitharaman Lok Sabha, "proposes to amend the Income-Tax Act, 1961 so as to provide that no tax demand shall be raised in future on the basis of the said retrospective amendment for any indirect transfer of Indian assets if the transaction was undertaken before 28th May, 2012 (i.e., the date on which the Finance Bill, 2012 received the assent of the President)", the Finance Ministry said in a statement.

It has also been proposed "to provide that the demand raised for indirect transfer of Indian assets made before 28th May, 2012 shall be nullified on fulfilment of specified conditions such as withdrawal or furnishing of undertaking for withdrawal of pending litigation and furnishing of an undertaking to the effect that no claim for cost, damages, interest, etc., shall be filed.

"It is also proposed to refund the amount paid in these cases without any interest thereon."

Indications are that the call to bring the Bill was taken at the highest political level, and that some degree of backchannel negotiations have been concluded with the impacted companies to salvage the situation. The process is learnt to have begun after the arbitration award rulings, with all options being considered to maintain the "sovereign right to taxation", yet provide reasonable opportunity to companies to resolve the issue.

Senior government officials said the country will continue to retain its sovereign right to taxation, and that this move will boost the country's image for investors.

"It was not occasioned by the recent litigation…there are two different objectives for us. One is that there has been a policy of the government to have a predictable tax regime and not to have a retrospective taxation. Objective two is also important, which is, that we don't support the notion of the adjudication of Indian tax law happening through foreign tribunals or legal for a… This is an attempt to find a solution through the sovereign means of Indian law and not through arbitration. This is a balance between those two objectives," Somanathan told The Indian Express.

"This position on retrospective taxation has been the stated position of the government since 2014. These were termed as legacy issues by then Finance Minister Arun Jaitley in 2014. Retrospective taxation was still being seen as a sour point by investors. This move will now boost the image and confidence of investors looking to invest in India," Revenue Secretary Tarun Bajaj told The Indian Express.

"The arbitration cases would have fallen through," Bajaj said. "But this is now a forward looking step by the government. Principal amount will be returned with no interest, approximately totalling Rs 7,000-8,000 crore only if they come forward and comply with the conditions."

Speaking at an event organised by The Indian Express and Financial Times in April this year, Finance Minister Nirmala Sitharaman, when asked about retrospective taxation, had said that the government "don't believe in retrospective taxation… However, when issues are taken at arbitration…which question India's sovereign right to taxation we are worried that it sets a wrong precedent… I want to see how we can best sort this out."

In May, Cairn Energy initiated the process to seize Indian assets and brought a lawsuit in the US against national carrier Air India to enforce the $1.2-billion arbitration award it won in its longstanding tax dispute with the Indian government.

Cairn also filed a lawsuit in France to seize Indian assets in that country — and last month, the company secured an order from a French court authorising the freezing of 20 Indian government properties in Paris valued at over € 20 million.

On Monday, the Finance Ministry confirmed in Lok Sabha the French court's order allowing Cairn to seize Indian assets. In a written reply, Minister of State for Finance Pankaj Chaudhary said: "Arbitral tribunal (which had its seat in the Hague) pronounced its award on 21st December 2020 in favour of Cairn Energy Plc and Cairn UK Holdings Ltd (CUHL). It has asked India to pay Cairn an award amount of $1232.8 million plus interest and $22.38 million towards arbitration and legal costs."

Cairn's lawsuit in the US District Court for the Southern District of New York argued that Air India is controlled by the Indian government to the extent that they are "alter egos", and that the airline should be held liable for the arbitration award.

Following Cairn's lawsuit in the US, a group of foreign investors in start-up Devas Multimedia, who are seeking to enforce a $160-million arbitration award over a failed 2005 satellite deal with the Indian Space Research Organisation's (ISRO) commercial arm Antrix Corporation, moved a US federal court, seeking to take over the assets of Air India to enforce payments.

"This is a big development and will surely put a lot of uncertainty to rest. However, it shouldn't have taken nine years. Even though India has been dragging its feet all these years, it does not come as a surprise since India suffered a series of setbacks in international arbitration on this issue.

Interestingly the government will not pay any interest on refund dues and other costs, which would run into hundreds of millions of dollars in some high-profile cases. One has to see how the taxpayers view this. Overall, this is good and will certainly boost the confidence of taxpayers and help India continue to attract record amounts of FDI," Amit Maheshwari, tax partner, AKM Global said.

(Indian Express, 6/8/2021)

Tap opportunities in post-Covid world to take exports to $400 bn, says PM Modi

Prime Minister Narendra Modi on August 6 called upon the industry and exporters to take advantage of opportunities created in the post-Covid scenario, explore new destinations and expand the export basket to achieve the ambitious target of $400 billion of exports.

Addressing Indian missions and Export Promotion Councils on the country's target of $400 billion of merchandise exports this year, Modi said that four factors, including multifold increase in manufacturing, reduction in logistics cost, and international market for domestic goods, can help boost the country's outbound shipments.

The Prime Minister also suggested the Indian Missions abroad to look at products in their respective countries that India can export.

At present, exports account for 20% of India's GDP and "given the size of our economy, potential, manufacturing and base of services industry, there is a possibility" to increase this share.

In the post-Covid world, there is a debate on global supply chain and in that "we should use all our force" to tap new opportunities.

'Decision to get rid of retro tax shows govt's commitment, policy consistency'

A day after taking the bold decision to scrap all retrospective tax demands and refund money collected, Mr. Modi said the move shows his government's commitment to providing businesses stability of investment climate and policy consistency.

Speaking at a meeting with the industry for boosting Indian exports, Mr. Modi said exporters know the importance of policy stability.

"The decision to abolish retrospective taxation shows government's commitment (to providing stable investment regime) and consistency of policy," he said.

His government had on Thursday introduced in the Lok Sabha a bill to scrap retrospective taxation that has spooked overseas investors and dented the reputation of Asia's third-largest economy.

India lost high-profile arbitrations initiated by companies such as Vodafone Group Plc and Cairn Energy Plc against levy of back taxes and risked its assets abroad being seized to enforce such tribunal awards.

'The Taxation Laws (Amendment) Bill, 2021' was passed by the Lok Sabha on Friday and is expected to be taken up by the Rajya Sabha next week.

"Exporters doing business in various countries know the importance of stability," Mr. Modi said, referring to the decision to abolish retrospective taxation.

The bill provides for the withdrawal of tax demands made on "indirect transfer of Indian assets if the transaction was undertaken before May 28, 2012 (i.e. the day the retrospective tax legislation came into being)." "It is also proposed to refund the amount paid in these cases without any interest thereon," the bill said.

(Hindu Business Line, 6/8/2021)

From Lothal to the horseshoe table: India's maritime journey

Synopsis

It was also the first time that maritime security was discussed under the agenda item of international peace and security. While the council has in the past discussed issues related to piracy and armed robbery at sea, this was the first such holistic discussion.

On August 9, Prime Minister Narendra Modi presided over the United Nations Security Council debate on "Enhancing Maritime Security: A Case for International Cooperation". In more ways than one, this was a historic first.

To begin with, it was the first time that an Indian Prime Minister chaired a meeting of the UNSC. It was also the first time that maritime security was discussed under the agenda item of international peace and security. While the council has in the past discussed issues related to piracy and armed robbery at sea, this was the first such holistic discussion. And finally, to mark the convening of this event by India, the Council adopted a Presidential Statement on Maritime Security — first such UNSC outcome document on the subject — with the unanimous consent of all 15 member states.

The UNSC Presidential Statement reaffirmed that international law, as reflected in the UN Convention on the Law of the Sea, sets out the legal framework applicable to oceanic endeavours. It drew attention to the use of the sea by terrorists, as was the case in the 26/11 Mumbai terror attacks, and called for capacity building and sharing of effective practices to combat such crimes. Further, it took note of the continuing problem of transnational organised crime at sea. It emphasised safeguarding legitimate uses of oceans, the lives and livelihoods of seafarers and coastal communities.

The event saw high-level participation from UNSC member states, with four Heads of State / Government and 10 ministers present. This reflected India's international standing as well as the global stature of our Prime Minister. In his remarks, Prime Minister Modi proposed five principles, as a framework for international cooperation in maritime security. These included the need for removing barriers to legitimate maritime trade; resolving maritime disputes peacefully and in accordance with international law; jointly fighting maritime threats from natural disasters and non-state actors; conserving maritime environment and resources; and promoting responsible maritime connectivity.

These five principles are a natural extension of India's stated positions on enhancing maritime security. It was in 2015 that the PM had first enunciated the concept of

SAGAR

or 'Security and Growth for All in the Region'. This was followed by his 2018 Shangri-La Dialogue speech in Singapore, where he outlined India's Indo-Pacific Vision. In 2019, the PM launched the 'Indo-Pacific Oceans' Initiative' at the East Asia Summit in Bangkok, proposing seven pillars for cooperation among states in the maritime domain.

With a coastline of over 7,500 kms, comprising 1,200 islands, the oceans have always been central to India's ethos. Our rich maritime history goes back to at least the 3rd millennium BC, when the inhabitants of the Indus Valley civilization engaged in maritime trade with Mesopotamia. The archaeological remains of the world's first dock at Lothal in Gujarat bear testimony to India's prowess as a sea-faring nation even thousands of years ago. Today, almost 90% of India's international trade is through maritime routes. It's in our interest that the sea lanes are rendered as pathways to mutual prosperity and corridors for peace.

India has made its mark as a net provider of security in the Indian Ocean region and beyond, including as a first responder for Humanitarian Assistance and Disaster Relief. India's swift response to recent requests from its neighbours in the western Indian Ocean is in conformity with the PM's vision of both SAGAR and 'Vasudeva Kutumbkam'. The Information Fusion Centre for the Indian Ocean Region (IFC-IOR) in Gurugram has become a hub for maritime information exchange, with several countries deploying liaison officers. The Indian Navy has intensified anti-piracy operations, while also providing training and capacity building assistance to partner countries. Marine pollution control is a new element, where India has responded to calls for assistance by Sri Lanka and Mauritius.

As several speakers at Monday's UNSC debate noted, India's success in steering the council to discuss an issue that had remained outside its consideration represented a remarkable breakthrough. Previous attempts to get the council to deliberate on maritime security did not succeed due to differing perceptions among members, particularly the P-5. Monday's debate did bring out the fault lines clearly. Yet, the council adopted an outcome document in the form of a Presidential Statement by consensus.

India's global stature and its constructive bridging role made the difference, proving that intractable global issues can indeed be progressed.

By successfully hosting this Presidency Open Debate, India has established its credentials as a responsible actor on the world stage. A positive outcome from the first signature event of our Presidency has only strengthened our belief that myriad global challenges can be addressed and resolved through a reformed UNSC, reflective of contemporary realities. And with India taking its rightful place at the famed Horseshoe Table as a permanent member.

(Economic Times, 11/8/2021)

PM Modi calls on India Inc to unleash animal spirits and boost investments

The Prime Minister pledged to do more to ensure greater ease of doing business in India but wanted the private sector to pitch in as well.

Prime Minister Narendra Modi on Wednesday called on corporate India to awaken its animal spirits and boost investments, taking advantage of a raft of reforms undertaken by his government in critical areas ranging from corporate taxation to labour laws. Calling for further bolstering the partnership to realise the goals of self-reliance, Modi said the economy has again gathered steam after a Covid-induced slide. The latest move to junk a 2012 retrospective tax amendment will correct a historical blunder and boost investors' confidence in the country's tax regime, he said at the CII's annual meeting.

Listing out a series of reforms undertaken in recent years, the prime minister said the corporate tax rate has been slashed (to just 15% for new manufacturing units), dozens of offences under the Companies Act have been decriminalised and a maze of complex labour rules have been compressed into just four codes to ensure ease of doing business. The role of the private players in nation-building is being promoted by reducing the overbearing presence of the public sector even in strategic sectors.

The Prime Minister pledged to do more to ensure greater ease of doing business in India but wanted the private sector to pitch in as well.

"The reforms we have brought in are not ordinary; these were talked about for ages but never attempted," he said. In probably a veiled reference to the 1991 reforms in the wake of the balance of payment crisis, which, critics argue, had to be undertaken out of compulsion, Modi said: "We are not undertaking reforms under any compulsion but reforms are a matter of conviction for this government." The GST was stuck for so many years (before its rollout in 2017) because the earlier governments could not muster the courage to take political risks, he said.

Commercial coal mining has been given a leg-up; the space sector has been opened up to the private sector; faceless tax assessment has been introduced; and the red tape that had marred the country's business prospects for decades have been drastically removed. India, which was once apprehensive of foreign investment, is welcoming investments of all types today, the Prime Minister said.

The government or the public sector alone can't catapult research and development activities to the desired level; the role of the private sector is critical in this sector.

After a 7.3% contraction in FY21, the economy is expected to grow at 9-11% in the current fiscal, as the impact of the second wave wanes, according to various estimates. To push growth, the government has budgeted a 30% rise, year-on-year, in capex to Rs 5.54 lakh crore for FY22. In the first two months of this fiscal, budget capex has grown by 14% from a year before, and large CPSEs have also acquitted themselves well in sticking to their investment targets, thanks partly to constant prodding by the government. However, it needs massive private capital as well to drive growth.

The prime minister said the country's start-up eco-system has also matured today. From about 3-4 unicorns 6-7 years ago, India now has about 60 of them. Out of these 60 unicorns, 21 emerged in the last few months. Many of them have diverse interests. Investor response has been tremendous for these start-ups and this signals that the country has extraordinary opportunities for growth, he added.

(Financial Express, 12/8/2021)

Trade secy Subrahmanyam: $1 trillion goods exports by FY28

Synopsis

Subrahmanyam, who was speaking at an event organised by the Confederation of Indian Industry (CII), said the government is likely to announce refund rates under key tax neutralisation schemes for the exports sector by Friday.

India will fast-track free trade agreements (FTA) with at least half a dozen nations, including the UAE, UK, Australia, Canada and the EU, over the next few months, in line with its revamped foreign trade strategy, commerce secretary BVR Subrahmanyam said on Wednesday. He also said that India could clock $1 trillion in merchandise exports and $700 billion in services exports by 2027-28.

Subrahmanyam, who was speaking at an event organised by the Confederation of Indian Industry (CII), said the government is likely to announce refund rates under key tax neutralisation schemes for the exports sector by Friday.

(Business Standard, 11/8/2021)

Limited trade pact with US deferred: Working with US on market access issues, says Piyush Goyal

Goyal was apprising exporters of the opportunities on the FTA front that they can reasonably expect over the short-to-medium term and manage their expectations accordingly and boost exports.

The US has hinted that it no longer wants a "limited" trade deal with India that was negotiated for months under the Trump administration and was to cover products with annual bilateral trade of about $13 billion.

Addressing top representatives of over a dozen export promotion councils and others at a meeting in Mumbai on Thursday, commerce and industry minister Piyush Goyal said: "The US, as of now, has kind of indicated that they are not looking for a new trade agreement. But we look at working with them on market access issues on both sides. That will also be a big opportunity for our export sector."

The talks on market access issues will likely cover non-tariff barriers, mutual recognition agreements and quality standards of imported products.

The US is India's largest export market, having made up for outbound shipment of almost $52 billion in FY21.

However, Australia has shown interest in hammering out an early-harvest deal with India soon, which will possibly be followed by similar pacts with the UK and the UAE, the minister said, as he elaborated on the government's efforts to expedite talks with key economies to forge fair and balanced trade ties. Broader free trade agreements (FTAs) involving a vast number of tariff lines can be taken up with these economies once the early-harvest deals are clinched.

Addressing concerns of exporters over the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme, the minister said certain sectors (steel, pharma and chemicals) had to be kept out of its ambit this fiscal due to funds constraint. However, going forward, if there is any issue, the government could have a relook at it.

Goyal said he had already urged the finance ministry to set up a panel, either under former commerce secretary GK Pillai who headed the RoDTEP panel or somebody else, to look at any issue that may arise out of the operationalisation of the RoDTEP scheme, including requests of special economic zones or export-oriented units that felt left out of the refund programme.

However, the minister made it clear that both RoDTEP and RoSCTL (for garments and made-up exporters) are fully WTO-compatible, and are not incentive programmes (like the MEIS).

As for trade deals, Goyal exuded confidence that once a deal with the UAE is signed, the stage will be set for similar pacts with other west Asian nations. India is looking at a trade pact with Israel as well. Trade negotiations with Canada could resume after elections are over there later this year.

However, the FTA negotiations with the EU, expected to resume later in 2021 after a gap of about eight years, could be a time-consuming process, he said, as the Bloc has 27 members with different interests. Though the EU has lost some sheen after Brexit, it still remains an important market for India. The EU, including the UK, was India's largest destination (as a trade bloc) in FY20 (before the pandemic struck), with a 17% share in the country's overall exports. Importantly, the UK accounted for 16% of India's $53.7-billion exports to the EU in FY20.

Goyal was apprising exporters of the opportunities on the FTA front that they can reasonably expect over the short-to-medium term and manage their expectations accordingly and boost exports.

"Our effort is to ensure focus on countries where we have significant potential, where we can compete better and where market size is significant," he said, as he asked exporters to strive hard to achieve the lofty FY22 merchandise export target of $400 billion.

The minister also told the exporters that the country has revamped its FTA strategy. These pacts are being formulated after a comprehensive interactive process with domestic industry to ensure that "FTAs are fairly and equitably crafted". "At the same time, FTAs cannot be a one-way traffic, we also need to open our markets, if we want a larger share in foreign markets. So, we need to identify areas where we can withstand competition. We can sort out FTAs fairly quickly, if the areas where we have the ability to compete internationally can be identified, as part of a collective effort," he said, according to an official statement.

The minister impressed on all export promotion councils (EPCs) to take immediate and effective steps to rise to the challenge of achieving the merchandise export target of $400 billion for FY22 from $291 billion in FY21. He has also set a lofty target of $2 trillion for both goods and services exports by FY30.

"We need to maintain the export momentum for the next 8 months, with $34 billion exports per month to achieve this target. The goal is ambitious, but possible if all including EPCs and their members work together," he said.

To help ramp up exports, the commerce ministry will have two dedicated divisions for the services sector alone, Goyal said. Currently, one joint secretary looks after the services sector, in addition to his other responsibilities at the ministry.

(Financial Express, 20/8/2021)

FTAs could up exports of auto components and textiles: India Inc's top CEOs

Synopsis

Focussing on cost and ease of doing business, market access via trade treaties, technology and quality issue and supporting Brand India for manufacturing, the Steering Committee for Advancing Local Value-Add and Exports(SCALE committee) suggested that a sustained effort be maintained to reduce disabilities for domestic businesses.

A committee comprising India Inc's top CEOs have argued that India's proposed Free Trade Arguments (FTAs) could help increase exports of auto components and textiles.

Focussing on cost and ease of doing business, market access via trade treaties, technology and quality issue and supporting Brand India for manufacturing, the Steering Committee for Advancing Local Value-Add and Exports(SCALE committee) suggested that a sustained effort be maintained to reduce disabilities for domestic businesses.

Headed by former M&M MD, Pawan Goenka, the committee is working on improving exports of 24 products that have been identified by them. He said that the government must focus on addressing cost issues, related to land, power and capital, and scale, which in turn helps in lowering cost disabilities.

He added that businesses can be made more competitive in the global markets by addressing concerns related to infrastructure and logistics, labour flexibility. Strengthening MSMEs could also help in lowering costs for companies.

The committee put up a presentation at a meeting between industry players and the Minister of Commerce, Piyush Goyal. In the meeting, on Monday, the committee suggested a push to the "China plus one" strategy. This would help to pull in foreign investment and would also position India as an export hub.

Piyush Goyal agreed with most of the points stated, and said that the government is working towards certain points already. The committee added that with the FTAs in place, auto components could be the biggest gainer across markets like the UK, US and the EU.

Besides that, treaties with the UK, EU, Asean, South Asia and the US could benefit textiles. ACs and drones could also gain in four markets each.

(Economic Times, 25/8/2021)

Pandemic hits India's prospects to become $5 trn economy by FY25: Economist

Asked what fiscal measures are necessary to support households in distress, he said that they have two basic needs: minimum subsistence and accessible health care.

It is highly unlikely that India will become a USD 5 trillion economy by 2024-25 due to the slowdown caused by the COVID-19 pandemic, University of Massachusetts professor Vamsi Vakulabharanam has said.

Moreover, Indian economy will be smaller for a considerable period of next year compared to its size in 2019, Vakulabharanam told PTI in an interview.

Vakulabharanam said while Covid-19 is certainly the most important factor for economic slowdown, what is notable is that India's decline is much steeper than what other developing countries and the global economy witnessed over the last year.

"As of now, the current Indian GDP is less than USD 3 trillion. If this has to jump to USD 5 trillion in four years, the economy has to grow higher than 13 per cent per annum, on the average," he said.

In 2019, Prime Minister Narendra Modi envisioned to make India a USD 5 trillion economy and global power house by 2024-25.

"Even in the best of scenarios, this is highly unlikely," Vakulabharanam, co-director, Asian Political Economy Program at University of Massachusetts Amherst(USA) said.

According to him, even if everything goes according to current growth projections by the RBI and IMF, Indian economy will be smaller for a considerable period of next year than it was in 2019.

The IMF and the RBI have very recently revised the growth rates downward. As per the latest CSO estimate, the economy contracted by 7.3 per cent last year, and as per the latest RBI estimate, the economy will grow by 9.5 per cent this year.

Asked what fiscal measures are necessary to support households in distress, he said that they have two basic needs: minimum subsistence and accessible health care.

"In the wake of this unprecedented crisis in the Indian economy, the government should have taken up drastic measures to support the poor households on both these counts," Vakulabharanam said.

On high inflation, he said the current higher level of inflation is not a matter of serious concern for the economy.

"Since much of the inflation is coming out of supply slowdowns and lower capacity utilization, boosting aggregate demand ought to be the main concern of the government," he said, adding that if this leads to a rise in inflation in the short-run, that should not worry the government.

Vakulabharanam, however, noted that it is important to protect the poor from inflation in essential commodities, so the government should undertake proactive measures to ensure that the poor are not hurt in the short-term.

(Financial Times, 17/8/2021)

Low outlay: RoDTEP scheme has exporters worried

Scheme brings predictability & wider coverage, but caps benefits

The government on Tuesday notified tax refund rates under the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme that will cover as many as 75% of tariff lines, ending months of uncertainties over the actual coverage and magnitude of relief under the programme. The rates will be in the range of 0.3-4.3% of the freight-on-board value of the exported products.

However, while the programme will cover 8,555 products (tariff lines), over a thousand more than the Merchandise Exports from India Scheme (MEIS) that it has replaced, the allocation for it is less than a half of what was the government's annual outgo under the MEIS.

Of course, both the schemes are not strictly comparable (the MEIS was an incentive programme). But the RoDTEP roll-out will effectively reduce the benefits for most exporters, as they gear up to take advantage of a resurgence in global trade in the aftermath of the pandemic.

The steel, pharma and chemicals sectors have been kept out of the RoDTEP ambit, commerce secretary BVR Subrahmanyam said, given that exports from these sectors are faring relatively well. This has upset exporters of these products. Similarly, engineering goods firms, accounting for about a fourth of merchandise exports, have complained that taxes embedded in primary input (steel) are not factored in the RoDTEP rates for them. This will make it difficult for them to realise the ambitious $107-billion engineering goods export target for FY22, according to EEPC India chairman Mahesh Desai.

The government has now allocated Rs 19,400 crore for both its tax refund schemes — Rebate of State and Central Taxes & Levies (RoSCTL) scheme for garment and made-up exporters and RoDTEP for most others — to cover obligations from January 2021 to March 2022. For FY22 alone, the allocation could be around `17,000 crore, higher than the budgetary outlay of Rs 13,000 crore, a source said.

Importantly, much to the dismay of exporters, the scheme won't be an open-ended one. As per the notification, projected remissions for each year will have to be managed within the approved budgetary outlay. The budgetary allocation will be fixed by the revenue department in consultation with its commerce counterpart.

Exporters have already cautioned that any inadequate remission will compound a Covid-induced liquidity crunch and erode their competitiveness in the global market when demand from key economies is reviving.

Nevertheless, many exporters have hailed the notification, saying it, at least, signals predictability in the country's tax refund regime for them.

The RoDTEP scheme is supposed to reimburse various embedded levies (not subsumed by the goods and services tax) paid on inputs used in exported products to make exports zero-rated.

The government had allocated Rs 39,097 crore for MEIS in FY20, before drastically reducing it to Rs 15,555 crore for the first three quarters of FY21 in the wake of the pandemic.

Under the MEIS, the government used to offer eligible companies scrips in the range of 2-5% of the freight-on-board value of their exports, higher than the RoDTEP refund rates.

The government had initially wanted to replace the RoSCTL with the RoDTEP scheme and budgeted an outlay of Rs 13,000 crore to cover both in FY22. But it junked the plan last month when it extended the validity of the RoSCTL by over three years.

In late July 2020, the government set up a committee under former commerce secretary GK Pillai to recommend RoDTEP rates. The panel's report was then vetted by the departments of revenue and commerce.

After a roller-coaster ride last fiscal, exports have now crossed the pre-Covid (same months in 2019) levels for five straight months through July, suggesting that a trade recovery is taking roots on the back of improved economic growth prospects in key western markets.

Already, the government has set a lofty merchandise export target of $400 billion for FY22, against $291 billion last fiscal.

Welcoming the notification, A Sakthivel, president of the exporters' body FIEO, said the much-awaited rates will "help in easing the liquidity of the exporters, ensuring predictability and stability, thus helping competitiveness of exports over a long-time horizon".

(Financial Express, 18/8/2021)

Resilient demand keeps driving India's world-beating growth

Synopsis

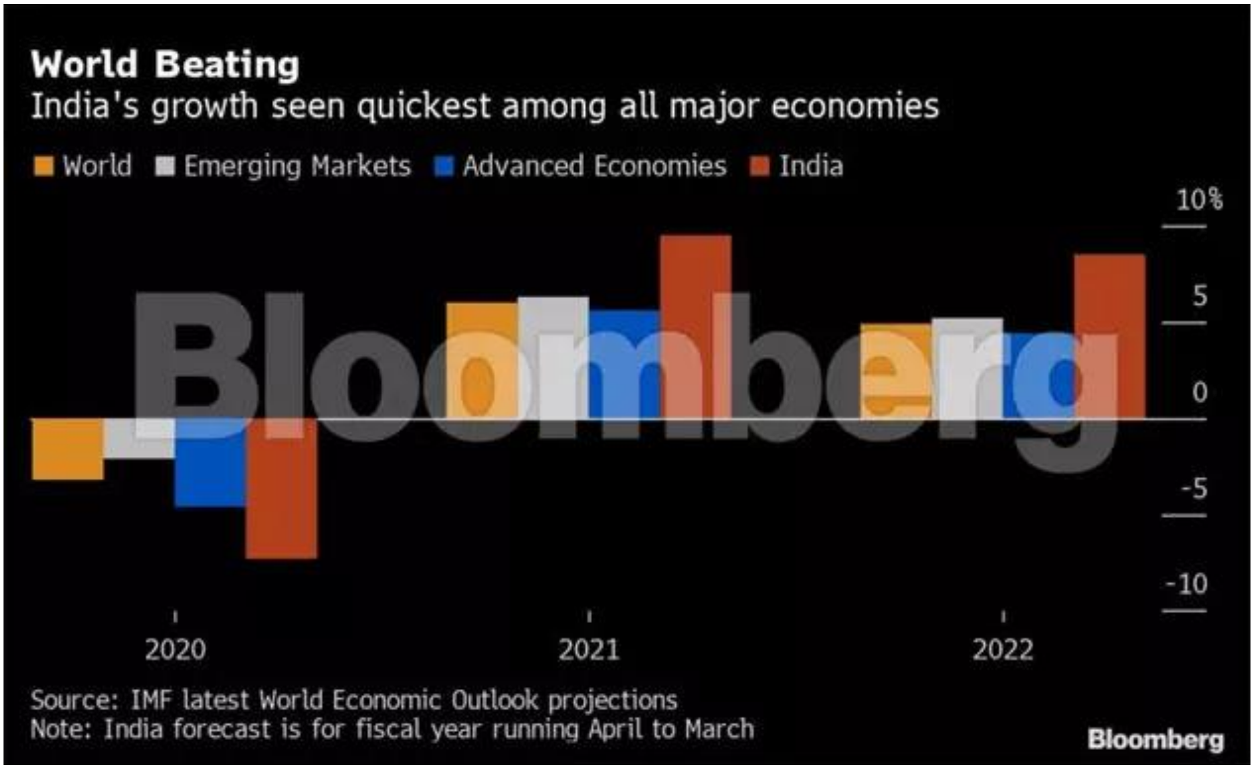
The big pop, however, will likely obscure a slowing from the previous quarter, caused by activity curbs to stem the second wave of the virus. While the government doesn't report an official quarter-on-quarter figure, Bloomberg Economics estimates the economy slumped sequentially, contracting 12% from the January-March period.

The economic toll from a deadly second wave of Covid-19 that swept through India last quarter doesn't appear to be as bad as feared, with analysts still seeing the nation pulling off the world's fastest growth this year.

A better-than-expected manufacturing performance and a milder hit to services, combined with a robust pace of vaccinations, have helped keep the annual growth outlook for the economy steady at 9.2%, according to a Bloomberg survey. That pace is the same seen in a poll last month and the quickest among major economies.

"The economic damage appears to be less than previously expected," said Rahul Bajoria, chief India economist at Barclays Bank Plc. "With the second outbreak brought under control, a rapid recovery appears underway," he said.

Data due later Tuesday will likely show gross domestic product grew 21% in the three months through June from a year ago, according to the median of 45 estimates compiled by Bloomberg, mainly as a bounce back from last year's crash.



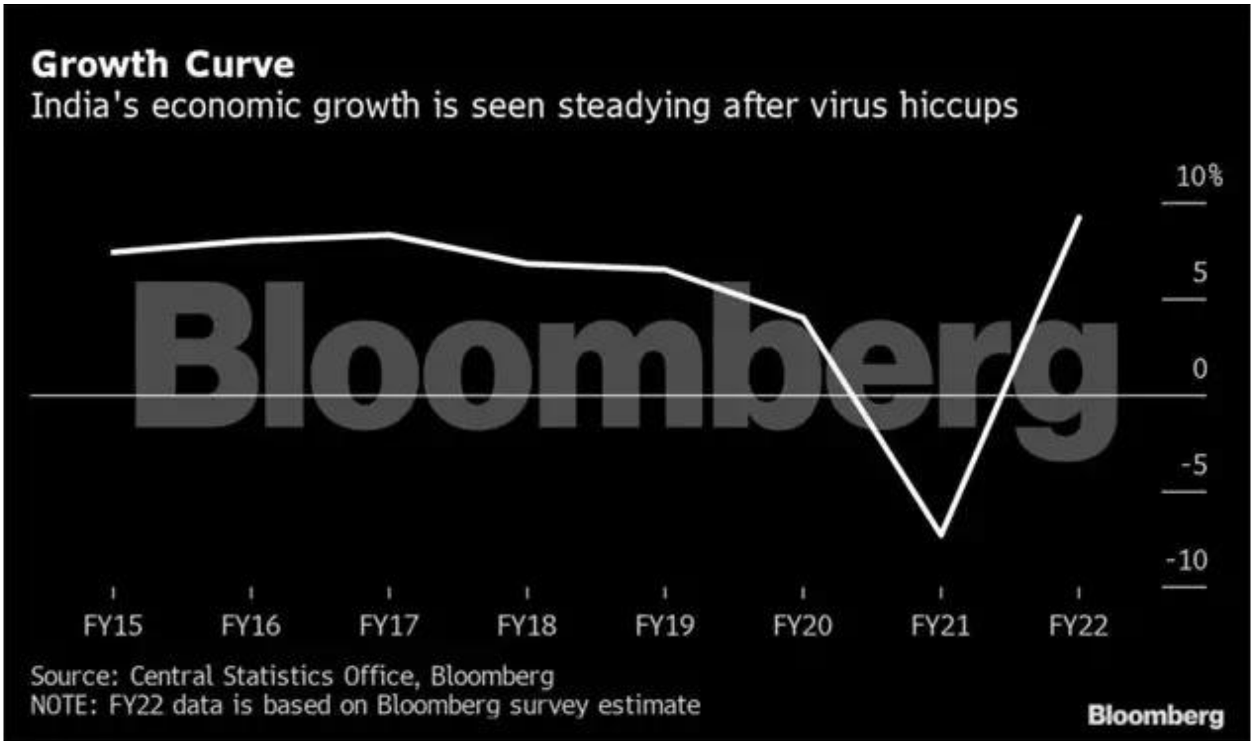
The big pop, however, will likely obscure a slowing from the previous quarter, caused by activity curbs to stem the second wave of the virus. While the government doesn't report an official quarter-on-quarter figure, Bloomberg Economics estimates the economy slumped sequentially, contracting 12% from the January-March period.

"There is some pent-up demand but there is also a fair amount of scarring in the Indian economy," Raghuram Rajan, a professor at the University of Chicago Booth School of Business and former governor of the Reserve Bank of India, told Bloomberg TV. The poor and small businesses "are going to be stressed entities and their demand is going to be much more limited as we come out of the pandemic."

In recent months, India's annual growth forecast has gone from being upgraded to double digits to slashed by the steepest rate amid uncertainty about Covid's devastation on the economy. But recent data from high-frequency indicators have shown the impact of pandemic restrictions were less severe than last year, with demand staying resilient.

Factory managers in India saw a surge in activity in July, reflecting a pick up in new orders, while a similar survey of services' purchasing managers showed the sector was inching back toward expansion. Exports, which account for nearly a fifth of the economy, have been growing for the past eight months signaling strong global demand.

“The recovery from the second wave has been faster with activity indicators recovering lost ground in less than three months compared to 10 months in the first wave,” said Gaura Sen Gupta, an economist with IDFC First Bank. “High frequency growth indicators show that the economic cost of the lockdowns was lower.”



The milder hit to the economy coincides with India’s vaccination rate picking up pace over the last few weeks. And there’s room for further improvement, given that the country has managed to inoculate only just over 10% of it’s population -- a key vulnerability given risks from a possible third wave of infections.

India started seeing a swift recovery in June and July-September quarter has so far been very good, Shubhada Rao, founder at QuantEco Research in Mumbai, said in an interview to Bloomberg TV. But risks loom in the form of an impending third wave and if monsoon continues to disappoint, she added.

The threat from the pandemic has also kept the nation’s central bank from unwinding its ultra-easy monetary policy, with Governor Shaktikanta Das last week reiterating that policy makers wouldn’t reverse course suddenly despite mounting inflationary pressures.

Prime Minister Narendra Modi plans to complement the monetary stimulus with fiscal measures. His government aims to raise 6 trillion rupees ($81.9 billion) by leasing out state-owned infrastructure assets over the next four years to fund new capital expenditure without further widening the budget deficit.

(Economic Times, 31/8/2021)

India's GDP growth accelerates to 20.1% in Q1FY22 on low base

The rebound came despite the drag from the deadly second wave of the coronavirus, which forced states across India to reimpose localised lockdowns.

Indian economic growth touched a record high in the quarter through June, reflecting a very weak base last year, a rebound in consumer spending, and improved manufacturing in spite of a devastating second wave of Covid cases, government data showed on Tuesday.

Gross domestic product rose 20.1% in the three-month period, compared with a record contraction of 24.4% in the same quarter a year earlier.

"GDP at Constant (2011-12) Prices in Q1 of 2021-22 is estimated at Rs 32.38 lakh crore, as against Rs 26.95 lakh crore in Q1 of 2020-21, showing a growth of 20.1 percent as compared to contraction of 24.4% in Q1 2020-21. Quarterly GVA at Basic Price at Constant (2011-12) Prices for Q1 of 2021-22 is estimated at Rs 30.48 lakh crore, as against Rs 25.66 lakh crore in Q1 of 2020-21, showing a growth of 18.8%," said Ministry of Statistics & Programme Implementation in a statement.

The rebound came despite the drag from the deadly second wave of the coronavirus, which forced states across India to reimpose localised lockdowns and stop mobility completely from late April to early June.

But unlike during the nationwide lockdown last year, repeat state-level lockdowns had a less pronounced impact on the economy as they left more room for consumers to spend.

This is India's fastest growth since official quarterly data started being released in the mid-1990s, which is up sharply from 1.6% in the previous quarter, but a bit slower than the Reserve Bank of India's 21.4% projection.

"The GDP figures for the first quarter came in marginally weaker than our expectations (21.7% growth). However, economic activity has been reviving since July and has picked up momentum. As vaccination pace picks up we expect the momentum to pickup further, although remain wary on the evolution of delta variant cases," Upasna Bhardwaj, senior economist, Kotak Mahindra Bank told Reuters.

D K Srivastava, Chief Policy Advisor, EY India, said: "The overall real GDP growth in Q1FY22 at 20.1% could not make up for the large contraction of (-)24.4% in the corresponding quarter of the COVID year resulting in a lower real GDP magnitude by a margin of Rs 3.3 trillion as compared to the Q1FY20 level. The positive news from the output side came from agricultural and electricity, gas, water supply et. al. sectors which did relatively well as compared to even their 1Q 2019-20 levels. On the demand side, a positive outcome is noticeable in exports. The main disappointment comes from the contribution of the government sector, both from the demand and output sides."

The period from April-June 2021 had less stringent lockdown norms than in the same period of 2020. These partial lockdowns were mainly regional in nature. Besides, a steady growth in exports as well as robust performance of agricultural sector is expected to give a push to GDP growth.

"The lockdown instructions in various States were duly considered by the National Statistical Office. The impact on economic activities and the data collection mechanisms owing to COVID-19 pandemic has an effect on the Quarterly GDP estimates also. The impact of these measures on overall economic activity are embedded in source data," said National Statistical Office.

According to the NSO data, gross value added (GVA) growth in the manufacturing sector accelerated to 49.6 per cent in the first quarter of 2021-22, compared to a contraction 36 per cent a year ago.

Farm sector GVA growth was up at 4.5 per cent, compared to 3.5 per cent earlier.

Construction sector GVA grew by 68.3 per cent compared to 49.5 per cent contraction earlier. Mining sector grew by 18.6 per cent, as against a contraction of 17.2 per cent a year ago.

Electricity, gas, water supply and other utility services segment grew by 14.3 per cent in the first quarter of this fiscal, against 9.9 per cent contraction a year ago.

Similarly, trade, hotel, transport, communication and services related to broadcasting grew by 34.3 per cent compared to 48.1 per cent contraction earlier.

Financial, real estate and professional services grew by 3.7 per cent in Q1 FY22 compared to a contraction of 5 per cent.

Public administration, defence and other services grew at 5.8 per cent during the quarter under review, compared to (-) 10.2 per cent a year earlier.

(Business Standard, 31/8/2021)
