CONTENTS

STATE GOVERNMENT

Government Pushes for Growth of Small Cities

After drawing flak for neglecting the growth of the IT-BT sector in tier-II and tier-III citites, the state government has finally decided to act. The government will provide what is being termed a sectoral push to ring in investments in these neglected urban centres.

Minister for IT, BT and Startups Priyank Kharge said the government was coming out with `specific outreach' programmes to ensure flourishing economies in tier-II and tier-III cities. "We understand the aspirations of people from smaller cities to come and earn a living in the more prominent cities of the state. Despite our best efforts to have large scale IT parks and develop mega infrastructure projects in smaller cities, the policy appears to have failed in attracting people to these smaller towns, "he added.

Now, the department has adopted the `small is beautiful' principle and decided to give only a sectoral thrust in these cities to develop them and capture the people's imagination. Keeping in mind the Animal BT Park Vivarium currently being built on 20 acres in Bidar district, in association with the Karnataka Veterinary, Animal and Fisheries Sciences University, the department has decided to expand the BT sector in the district. Not only will the park provide a fillip to the development of the BT sector in north Karnataka region, it will also help in decentralization of the industry away from Bengaluru.

In the same vein, taking into cognisance the potential of Mangaluru and Udupi, the government will be pushing for the establishment of more startup companies in the coastal belt. Meanwhile, the emphasis will be on growth of startups focussing on automobile ancillary parts in Hubballi, while the atmosphere will be made conducive for pure science and electronics companies in Kalaburagi. Orders have been issued to earmark at least 15-20% of the funds for incubation centres in the vicinity of the four agricultural universities in the state, to aid the development of startup companies in the agrarian sector.

"Once the outreach programmes start taking shape, more people from within and outside the state will come to these cities, "said Kharge.

Source: Times of India August 21, 2016

Government Proposes 5 Sub-Groups as Part of Vision Group

Chief minister Siddaramaiah has suggested setting up five separate subgroups as part of the Vision Group for Industrial Development of Karnataka to address issues ranging from infrastructure bottlenecks to maintaining the state's position as a leading investment destination.

Siddaramaiah, during the first meeting of the group, said the sub-groups should be related to infrastructure development at the state level and for Bengaluru, manufacturing, which includes automobile and aerospace, textiles and garments and electronics and e-commerce.

"I suggest that the Vision Group bring out a comprehensive vision document, which will serve as a guide for future development. This document would include long term strategies, enabling the government to plan and implement at appropriate time intervals, within the next 10 years," he said.

The Bengaluru Vision Group, also called the Bengaluru Blue Print Action Group, includes eminent Bengalureans like NR Narayana Murthy of Infosys, Azim Premji of Wipro, Kiran Mazumdar-Shaw of Biocon, Sachin Bansal of Flipkart, Ramesh Rama nathan and Swati Ramanathan of Janaagraha, as members. The group is headed by Siddaramaiah.

These sub-groups will comprise members within the Vision Group and work out action plan for short-term measures required for further growth in these sectors.

Mazumdar-Shaw, chairperson and Managing Director of Biocon, said she had suggested the government come up with a comprehensive e-commerce policy and appoint Sachin Bansal as the head of the e-commerce group. "He is a natural fit as he knows the pains and opportunities of the sector which has seen huge investments in the past few years" she told STOI. Each sub-group should be chaired by someone who has been associated with the segment and the government needs to adopt a PPP model to implement all the policies, she said. "There is so much to be done but if you do not implement policies, half of the budget remains unutilized," she added.

Source: Times of India August 21, 2016

Minister Promises Adequate Power to New Industries

Energy Minister D K Shivakumar has promised to provide adequate power supply to the new industries in the state.

Shivakumar speaking at a convention said that the government was ready to offer good infrastructure so that more investors choose the state to set up business.

Claiming that the state was self-sufficient in producing power, he said around 5,000 MW was being produced through solar units. The government was encouraging solar power and a mega solar park was coming up at Pavagad in Tumakuru. The new industrial policy for 2014-2019 had been brought out to provide favourable environment for industries. It had also decided to host Pravasi Bharatiya Divas and new industrial estates at 15 places in the state had been planned, he added.

Source: Deccan Herald August 17, 2016

State Ready to Implement GST: CM

Chief Minister Siddaramaiah said that his government has welcomed the passage of the Constitution Amendment Bill in the Rajya Sabha on August 3, paving for introduction of Goods and Services Tax (GST).

Addressing the media Siddaramaiah said the government is "ready" to implement the uniform tax regime once it is rolled out on April 1, 2017.

"It is the UPA government's baby. We had readied the bill. The amendment will pave for 'One Nation, One Tax' concept. We (Karnataka) have been ready from before to implement it," he said.

Siddaramaiah also said the Congress party had not opposed GST, but had only raised questions about some of the shortcomings in the bill. With Union Finance Minister Arun Jaitley assuring to address the lacunae and to protect the level of rate of taxation, the Congress had welcomed the Bill, he added.

Source: Deccan Herald August 5, 2016

Bengaluru's Police Solution for Traffic: Staggered Working Hours for IT Companies

With six million vehicles choking Bengaluru's roads, the city traffic police have advised the government to ask IT companies to stagger their working hours in order to reduce congestion.

Additional Police Commissioner (Traffic) R Hithendra made an elaborate power point presentation before the government's sub-group on traffic chaired by Chief Secretary Arvind Jadhav. Getting the IT firms to stagger their working hours is one of the options discussed.

Hithendra explained the rationale behind the suggestion. He gave the example of the roads leading to the tech parks near Sarjapur.

"In a stretch of five kilometres on the outer ring road, there are five tech parks and about four lakh cars try to enter the parking areas around 8 am. This is causing a huge congestion," he said.

If the cars enter and leave at intervals spread over two to three hours, it will ease much of the traffic problem on the outer ring road, the Additional Police Commissioner (Traffic) said.

As for Electronics City, the police say the Silk Board junction is the only trouble spot. There is not much problem beyond that because Electronics City is connected by an elevated road.

he IT firms in Electronics City employ about 1.5 lakh workers and the companies there have already implemented both staggered and flexi working hours.

Source: Economic Times August 2, 2016

Karnataka: Government Panel to Look into BRTS

The state government has set up a committee to submit a report on the much-talked-about Bus Rapid Transit System (BRTS), a system that is expected to reduce congestion and increase efficiency of public transport in Bengaluru. The government move came after a meeting of the Vision Group on Industries, where members made a strong pitch for its implementation.

Industries minister RV Deshpande said the committee will be headed by the additional chief secretary, urban development department. The Vision Group on Industries comprises 17 businesspersons, including Wipro chairman Azim Premji and Biocon CMD Kiran Mazumdar-Shaw. The met for the very first time on Saturday.

The BRTS features dedicated lanes, bus-ways and stations aligned to the middle of the road with fast and frequent operations. The Vision Group members hailed the bus-based mass transit system as being cost-effective and easier to implement compared to the Metro.

Chief minister Siddaramaiah proposed five subgroups within the vision group, including one dedicated to look into infrastructure development in Bengaluru. It is a real challenge to bridge the gap between industrial growth and infrastructural quality in Bengaluru, he said. "We're doing our best to add sheen to Brand Bengaluru. Since 2013, the government has provided Rs 5,606 crore to the BBMP to create and upgrade infrastructure. In the current budget, Rs 5,000 crore is made available to Bengaluru.

The four other sub-groups proposed by the CM will focus on infrastructure development at the state-level, manufacturing sector, textile garments and electronics and ecommerce.

Source: Economic Times August 22, 2016

National Electricity Plan by September

A national electricity plan, which provides a road map for the power sector for the next five years, will be ready by next month, Central Electricity Authority (CEA) Chairman S.D. Dubey said.

The national electricity plan, drafted once every five years, would indicate the requirements and the likely scenario for the next five years in terms of power transmission, distribution and generation. It would also include requirement of manpower and funds. The plan would provide a break-up of the projected growth in different forms of power such as thermal, hydel, nuclear, solar and wind energy.

He said an "electrical power survey," which would forecast the power requirements of different States for the next five years, was also being prepared to help provide crucial inputs to the national electricity plan.

Mr. Dubey observed that the increase in the generation of renewable energy, particularly in the southern States, called for efficient management of the power grid as most part of the green energy was being generated during off-peak hours when the demand for power was less.

Source: The Hindu August 23, 2016

AGRICULTURE & FOOD PROCESSING

Role of Private Sector and State Governments in Development of Food Parks

Press Information Bureau
Government of India
Ministry of Food Processing Industries

12-August-2016

Ministry is implementing Mega Food Park (MFP) Scheme to create modern infrastructure for food processing. The Mega Food Parks may be set up by private promoters as well as State Government / its entities / cooperatives.

Under the MFP Scheme, financial assistance is provided as grants-in-aid @50% of the eligible project cost in general areas and 75% of eligible project cost in difficult and hilly areas i.e. North East Region including Sikkim, Jammu & Kashmir, Himachal Pradesh, Uttarakhand and Integrated Tribal Development Projects (ITDP) notified areas of the States subject to a maximum Rs. 50.00 crore per project.

Under the guidelines of the MFP Scheme, an important role has been envisaged of the State Government in implementation of the projects, as under:-

i. Providing assistance to Special Purpose Vehicle (SPV) in procurement/purchase of suitable land.

ii. Providing all the requisite statutory clearances including permission for sub-leasing of land by SPV, wherever needed, for setting up the MFP and its components thereof and providing the necessary assistance for Power, Water, roads and other external infrastructure to the project

iii. Providing flexible and conducive labour environment and consider special facilities like exemption of stamp duty, VAT/Sales Tax exemption etc. for the MFP and the units located in the MFP.

iv. Monitor the implementation of project.

v. Nominates a suitable officer to be appointed as Ministry's nominee Director in the SPV.

vi. Providing a fast track single window agency to facilitate clearances and permissions required for the project..

ECONOMIC & CORPORATE AFFAIRS

Issuance of Rupee Bonds to Overseas Investors by Indian Companies

General Circular No: 09/2016

No. 1/21 /2013-CL-V
Government of India
Ministry of Corporate Affairs

5th Floor, "A" Wing, Shastri Bhavan,
Dr R.P. Road, New Delhi

Dated: 03.08.2016

To

All Regional Directors,
All Registrars of Companies.

Subject: Issuance of rupee bonds to overseas investors by Indian companies - Clarification regarding applicability of provisions of Chapter III of the Companies Act, 2013.

Sir,

The Ministry has received references from stakeholders seeking clarity on applicability of provisions of Chapter III of the Companies Act, 2013 (Act) and rule 18 of Companies (Share Capital and Debenture) Rules, 2014 to the issue of rupee bonds by Indian companies exclusively to persons resident outside India in accordance with applicable sectoral regulatory provisions.

2. The matter has been examined in the Ministry in consultation with Reserve Bank of India. The matter relating to issue of rupee denominated bonds to overseas investors is being regulated by RBI as part of ECB Policy framework. It is, accordingly, clarified that unless otherwise provided in the circular/ directions/ regulations issued by Reserve Bank of India, provisions of Chapter III of the Act and rule 18 of Companies (Share Capital and Debenture) Rules, 2014 would not apply to issue of rupee denominated bonds made exclusively to persons resident outside India in accordance with applicable sectoral regulatory provisions as stated above. Necessary changes in Companies (Share Capital and Debenture) Rules, 2014 in this regard are being made.

3. This issues with the approval of the competent authority.

Yours faithfully,

(K.M.S. Narayanan)
Assistant Director (Policy)

FINANCE

Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism

RESERVE BANK OF INDIA

RBI/2016-17/50
DBR.BP.BC.No.8/21.01.003/2016-17 August 25, 20162016

All Scheduled Commercial Banks
(excluding RRBs)

Please refer to the Discussion Paper on the captioned subject issued on May 12, 2016 for comments of the stakeholders. The Discussion Paper proposed a framework for addressing the concentration risk of the banking system arising from its exposures towards a single counterparty.

2. The comments received from stakeholders have been examined and taking into account the views of the stakeholders and prudential aspects of a sound regulation, the final guidelines have been prepared. The guidelines are given in the Annex to this circular and will be effective from April 1, 2017.

3. In addition, clarifications on certain queries on the subject raised by the stakeholders subsequent to issuance of the Discussion Paper can be assessed under the link: https://rbi.org.in/scripts/FS_FAQs.aspx?fn=2.

Yours faithfully,

(Ajay Kumar Choudhary)
Chief General Manager

Definitions:

1. For the purpose of this Framework, the following terms shall have the meaning assigned to them herein below:

(i) Aggregate Sanctioned Credit Limit (ASCL) means the aggregate of the fund based credit limits sanctioned or outstanding, whichever is higher, to a borrower by the banking system. ASCL would also include unlisted privately placed debt with the banking system.

(ii) 'Specified borrower', means a borrower having an ASCL of more than

a. Rs.25,000 crore at any time during FY 2017-18;

b. Rs.15,000 crore at any time during FY 2018-19;

c. Rs.10,000 crore at any time from April 1, 2019 onwards;

(iii) 'Reference date', means the date on which a borrower becomes a 'specified borrower'.

(iv) Normally permitted lending limit (NPLL), means 50 percent of the incremental funds raised by the specified borrower over and above its ASCL as on the reference date, in the financial years (FYs) succeeding the FY in which the reference date falls. For this purpose, any funds raised by way of equity shall be deemed to be part of incremental funds raised by the specified borrower (from outside the banking system) in the given year;

Provided that where a specified borrower has already raised funds by way of market instruments and the amount outstanding in respect of such instruments as on the reference date is 15 per cent or more of ASCL on that date, the NPLL will mean 60 percent of the incremental funds raised by the specified borrower over and above its ASCL as on the reference date, in the financial years (FYs) succeeding the FY in which the reference date falls.

(v) Banking system, means all banks in India including RRBs and co-operative banks and branches of Indian banks abroad.

(vi) Market instruments, shall include bonds, debentures, redeemable preference shares and any other non-credit liability, other than equity.

Scope:

2. This guidelines will be applicable on all single counterparties of Scheduled Commercial Banks (SCBs), except other SCBs, NBFCs registered with RBI, AIFIs (NHB, SIDBI, EXIM Bank and NABARD) and HFCs registered with NHB. Banks should apply their due-diligence while deciding the NPLL for a single borrower in order that borrowers do not circumvent the cut-off ASCL criteria by borrowing through dummy/fictitious group companies.

3. This will come into effect from the financial year 2017-18 onwards. The banking system shall ordinarily keep its future incremental exposures to the specified borrowers within the NPLL, else they will be subject to the prudential measures as detailed below.

Prudential Measures:

4. From 2017-18 onwards, incremental exposure of the banking system to a specified borrower beyond NPLL shall be deemed to carry higher risk which shall be recognised by way of additional provisioning and higher risk weights as under:

(i) Additional provisions of 3 percentage points over and above the applicable provision on the incremental exposure of the banking system in excess of NPLL, which shall be distributed in proportion to each bank's funded exposure to the specified borrower.

(ii) Additional Risk weight of 75 percentage points over and above the applicable risk weight for the exposure to the specified borrower. The resultant additional risk weighted exposure, in terms of risk weighted assets (RWA), shall be distributed in proportion to each bank's funded exposure to the specified borrower.

Explanation: For the purpose of determining exposure beyond NPLL, subscription by the banking system to market instruments shall be included except any subscription made by the banking system to the market instruments issued by a specified borrower in 2017-18 and held within the permissible prudential limits by a bank, as derived from para 5 below.

5. Banks may, at their discretion, subscribe to bonds issued by the specified borrowers (over and above NPLL) in the first year of this framework taking effect, i.e., 2017-18 subject to extant investment guidelines and these being divested in the subsequent three years as per the following milestones:

   (i) Not less than 30 percent by March 31, 2019

   (ii) Not less than 60 percent by March 31, 2020

   (iii) Not less than 100 percent by March 31, 2021.

6. All holdings by a bank of market instruments issued by a 'specified borrower' after the 'reference date' shall be held in the AFS/HFT category and marked to market as applicable thereto. However, banks may, at their discretion, value their holdings of market instruments issued by the specified borrowers in 2017-18 at book value.

7. RBI will review the entire guidelines including the ASCL limits after a year of the guidelines becoming fully implemented, i.e. during FY 2019-20.

Special Advance Authorization under Para 4.04A

Government of India
Ministry of Finance, Department of Revenue
Central Board of Excise & Customs, Drawback Division

Circular No. 37/2016 - Customs
F.No.605/42/2016-DBK New Delhi, dated 13th August 2016

To

Pr. Chief Commissioners/Pr. Directors General

Chief Commissioners/Directors General

Pr. Commissioners/Commissioners

Madam/Sir,

Attention of field formations is drawn to the DGFT Notification No. 21/2015-2020 dated 11th August 2016 which has notified para 4.04A in the FTP 2015-20 providing for duty free pre-import of fabric (including interlining) only under a Special Advance Authorisation Scheme wherein the said fabric gets physically incorporated (making normal allowance for wastage) in goods of Chapter 61 and 62 of ITC(HS) that are physically exported to fulfil the export obligation. In this Scheme, the exporters can also be eligible for All Industry Rates of Duty Drawback as specifically determined by Central Government in which case, for the purpose of value addition norm of para 4.08 of FTP, the value of any other input used on which benefit of Drawback is claimed or intended to claimed has been specified in the DGFT notification as equal to 22% of the FOB value of export realized. However, option to claim drawback determined and fixed by Central Excise Authority (brand rate) under Rule 7 of the Drawback Rules 1995 remains in which case the value of inputs (other than the fabric imported duty free under the Special Advance Authorization) continues to be based on actuals. The notification may be downloaded from dgft.gov.in.

2. To give effect to the Special Advance Authorisation Scheme, the Notification No. 45/2016-Customs dated 13th August, 2016 has been issued providing exemption to fabrics (including interlining) from import duty subject to conditions specified therein. Further, Notification No. 110/2016-Customs (NT) dated 13th August, 2016 has been issued providing, subject to the specified conditions, the alternative All Industry Rates (AIRs) of drawback in the Drawback Schedule for the exports made against the Special Advance Authorisation in discharge of export obligations in terms of Notification No. 45/2016-Customs dated 13th August, 2016. These notifications may be downloaded from cbec.gov.in.

3. For the alternative AIRs relevant tariff item has to be suffixed with suffix 'C' or suffix 'D' for the situation when Cenvat facility has not been availed or when Cenvat facility has been availed, respectively, instead of the usual suffix 'A' or suffix 'B'. In the option to claim Brand Rate of duty drawback in terms of rule 7 of the Drawback Rules 1995 with the Special Advance Authorization, the procedure in Annexure 1 with Circular No. 29/2015-Cus dated 16.11.2015 has relevance. However, the exporter shall have to declare the figure '9807' as identifier (in the shipping bill under the Drawback details) followed by the tariff item number of the goods as shown in column (1) of the Schedule and followed by the character 'D'. Based on this, the shipping bill shall be processed for payment of provisional drawback amount equivalent to the Customs portion of these alternative AIRs.

4. The above mentioned DGFT and Customs notifications are effective from 1st September 2016. The CBEC's Systems Directorate is making all the necessary EDI related arrangements for implementation including specifying the appropriate new scheme code that would need to be declared by exporters making exports under the Special Advance Authorization Scheme cum AIR Drawback and these shall be publicized to exporters in advance by the Systems Directorate.

5. Suitable public notices and standing order should be issued for guidance of the trade and officers in terms of this Circular. Difficulties, if any, may be brought to notice of the Board.

(Dinesh Kumar Gupta)
Director

Notification No. 31/2016 - Central Excise

[TO BE PUBLISHED IN PART II, SECTION 3, SUB-SECTION (ii) OF THE GAZETTE OF INDIA (EXTRAORDINARY)]
GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
(CENTRAL BOARD OF EXCISE AND CUSTOMS)

Notification No. 31/2016-Central Excise

New Delhi, the 24th August, 2016

S.O. (E) - In exercise of the powers conferred by sub-section (1) of section 5A of the Central Excise Act 1944 (1 of 1944), read with sub-section (3) of section 3 of the Additional Duties of Excise (Goods of Special Importance) Act, 1957 (58 of 1957) and subsection (3) of section 3 of Additional Duties of Excise (Textile and Textile Articles) Act, 1978 (40 of 1978), the Central Government being satisfied, that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue) No. 22/2003- Central Excise dated the 31st March, 2003, published in the Gazette of India, Extraordinary, Part II, Section 3, sub-section (i), vide number G.S.R.265(E) dated the 31st March, 2003, hereinafter referred to as the said notification, namely: -

2. In the said notification, -

(i) in the opening paragraph, in condition (7), in clause (iv) for the words "bonded premises" the words "premises of the unit" shall be substituted;

(ii) in paragraph (2a), the words "and following the rewarehousing procedure" shall be omitted;

(iii) in paragraph (2b), the words "and following the rewarehousing procedure" and "and by following the rewarehousing procedure" shall be omitted;

(iv) in paragraph 4, for the words "bonded premises" the words "premises of the unit" shall be substituted;

(v) in paragraph 5, for condition (vii), the following condition shall be substituted, namely: -

(vii) the unit shall be required to have a premises for secure storage of goods procured duty free under this notification and the final products manufactured or produced therefrom and the details of the premises shall be declared to the said officer.";

(vi) in paragraph 8, the words "or to debond", "or debonding", "debonding or" and ", as the case may be" wherever they occur shall be omitted.

[F. No. 484/03/2015(Pt. II) – LC]

(Temsunaro Jamir)
Under Secretary to the Government of India

Fifth Set of FAQs under the Income Declaration Scheme 2016 Issued

Press Information Bureau
Government of India
Ministry of Finance

18-August-2016 19:10 IST

The Income Declaration Scheme, 2016 (the Scheme) provides an opportunity to persons who have not paid full taxes in the past to come forward and declare their undisclosed income and assets. Income Declaration Scheme Rules, 2016 (the Rules) were notified on 19.5.2016. Representations have been received from various stakeholders to provide an option to value the immoveable property on the basis of the registered value. After due consideration of the representations, the Rules have been amended to provide that where acquisition of an immovable property is evidenced by a registered deed, an option shall be available with the declarant to declare the fair market value of such property by applying the cost inflation index to stamp duty value of the property.

Further, the fifth set of Frequently Asked Questions (FAQs) providing clarification on various issues under the Scheme has been issued and is available on the official website of the Income Tax Department i.e., www.incometaxindia.gov.in. Some of the important issues clarified therein are as under:

(i) Where loans, creditors, advances received, share capital, payables etc. are disclosed in the audited balance sheet but are fictitious in nature and cannot be directly linked to acquisition of a particular asset, then such fictitious liabilities can be disclosed under the Scheme as such without linking the same with the investment in any specific asset.

(ii) The income declared under the Scheme for an earlier assessment year can be taken into account to explain the related transactions of the subsequent assessment years in assessment proceedings pending before the Assessing Officer provided there is a nexus between the two.

(iii) No adverse action shall be taken against the declarant by FIU or the income-tax department solely on the basis of cash deposits made in banks consequent to the declaration made under the Scheme.

(iv) The period of holding of assets declared under the Scheme shall be taken on the basis of the actual date of acquisition of such asset and not from 1.6.2016 as clarified earlier.

National Committee on Trade Facilitation Constituted to Develop the Pan-India Road Map for Trade Facilitation

Press Information Bureau
Government of India
Ministry of Finance

12-August-2016

Consequent to India's ratification of the WTO Agreement on Trade Facilitation (TFA) in April 2016, the National Committee on Trade Facilitation (NCTF) has been constituted The establishment of the Committee is part of the mandatory, institutional arrangement of the TFA. This prime, inter - ministerial body on trade facilitation will be chaired by the Cabinet Secretary. Its Secretariat will be housed within the Central Board of Excise and Customs (CBEC), in the Directorate General of Export Promotion, New Delhi.

The defined objective behind setting up the NCTF is to have a national level body that will facilitate domestic co-ordination and implementation of TFA provisions. It will play the lead role in developing the Pan-India road map for trade facilitation. It will be instrumental in synergizing the various trade facilitation perspectives across the country and will also focus on an outreach programme for sensitization of all stakeholders about TFA.

In consonance with its significant mandate, its composition and structure is holistic. It has a three tier structure with the main national committee that will be the pivot for monitoring the implementation of the TFA. There will be a steering committee below it that will be chaired by Member, Customs, CBEC and which will be responsible for identifying the nature of required legislative changes as well as for spearheading the diagnostic tools needed for assessing our level of compliance to the TFA. It will have the responsibility to form and monitor the working of adhoc working groups of experts that will deal with specific trade facilitation issues. Detailed Terms of Reference for each level of the Committee are contained in the order itself.

The composition of the NCTF is inclusive at the national committee level which will comprise of Secretaries of all key Departments involved in trade issues like Revenue, Commerce, Agriculture, Home, Shipping, Health etc. It will also have Chairman CBEC, Chairman Railway Board, and Director General Foreign Trade as Members. Major trade associations like CII, FICCI, and FIEO etc. are also its Members. Joint Secretary, Customs, CBEC will be its Member Secretary. The total membership stands at 24 and the Committee can co-opt any representatives from the State Governments on relevant issues. The steering committee will be a core group having 15 members from various Ministries and trade bodies.

MONETARY POLICY STATEMENT

Third Bi-monthly Monetary Policy Statement, 2016-17

Date : Aug 09, 2016

Monetary and Liquidity Measures

On the basis of an assessment of the current and evolving macroeconomic situation, it has been decided to:

- keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.5 per cent;
- keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liabilities (NDTL); and
- continue to provide liquidity as required but progressively lower the average ex ante liquidity deficit in the system from one per cent of NDTL to a position closer to neutrality.

Consequently, the reverse repo rate under the LAF will remain unchanged at 6.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 7.0 per cent.

Assessment

2. Since the second bi-monthly statement of June 2016, several developments have clouded the outlook for the global economy. Across advanced economies (AEs), growth in Q2 of 2016 has been slower than anticipated, and the outlook is still mixed. Headwinds in the United States from declining inventory investment were offset somewhat by strong payroll numbers. In the Euro area, the re-emergence of stress in some parts of the banking sector and the Brexit vote increased uncertainty. In Japan, downside risks have intensified in the form of a stronger yen, deflationary risks and contracting industrial production, triggering monetary and fiscal stimuli.

3. Among emerging market economies, activity remains varied. GDP growth stabilised in China in Q2, on the back of strong stimulus. Manufacturing activity was weak in July due to adverse weather and subdued export demand, although smaller firms recorded an uptick in new orders. Recessionary conditions are gradually diminishing in Brazil and Russia, but the near-term outlook is still fragile due to policy uncertainties and soft commodity prices.

4. World trade remains sluggish in the first half of 2016. International financial markets did not anticipate the Brexit vote and equities plunged worldwide, currency volatility increased and investors herded into safe havens. Since then, however, equity markets have regained lost ground. Currencies, barring the pound sterling, have stabilised, with the yen appreciating the most on risk-on demand as well as the announcement of fresh stimulus. Yields on government bonds have fallen further and the universe of negative yielding assets is expanding at a fast pace, reflecting high risk aversion and expectations of further monetary accommodation by systemic central banks. Crude prices, which had risen to an intra-year high in May on supply disruptions, remain volatile. Other commodity prices, barring those of precious metals, remain soft due to weak demand.

5. On the domestic front, several factors are helping to support the recovery. After a delayed onset, the south west monsoon picked up vigorously from the third week of June. By early August, the cumulative rainfall was 3 per cent higher than the long period average, with more than 80 per cent of the country receiving normal to excess precipitation. Kharif sowing strengthened after a lacklustre start, particularly with respect to pulses. Barring cotton, jute and mesta, sowing of all crops is currently above last year's acreage. These developments engender greater confidence about the near-term outlook for value added in agriculture. The target for kharif production set by the Ministry of Agriculture appears within reach.

6. Industrial production picked up in May on the back of manufacturing and mining, following a contraction in the preceding month. The uneven performance of industrial output reflects the lumpy and order-driven contraction of insulated rubber cables, a component of capital goods. Excluding this item, industrial production rose at 3.0 per cent in the current financial year. In fact, capital goods production excluding insulated rubber cables expanded by 8.0 per cent. Nonetheless, the prolonged sluggishness in the capital goods sector is indicative of weak investment demand. The rate of contraction in consumer non-durables slowed, pointing to some revival in rural demand. On the other hand, the pace of growth of consumer durables has been stable and buoyed by urban consumption demand, although it eased in May on base effects. Barring the contraction in natural gas and crude oil on account of structural bottlenecks, the core sector has been resilient as of 2016-17 so far, and should support industrial activity going forward. There are some signs of green shoots in manufacturing too, with purchasing managers and the Reserve Bank's industrial outlook survey indicating a pick-up in new orders, both domestic and external. Business confidence is also looking up in recent months, though the Reserve Bank's survey for March 2016 suggests that capacity utilisation, seasonally adjusted, is still weak.

7. Service sector purchasing managers polled the thirteenth successive month of expansion in July on the basis of a sharp acceleration in new business. Business expectations remained optimistic on better economic conditions and planned increases in marketing budgets. High frequency indicators of service sector activity are still, however, emitting mixed signals, although a larger number of indicators are in acceleration mode in Q1 of 2016-17 than in the preceding quarter. Automobile sales across most segments, railway, port and international air freight traffic, foreign tourist arrivals, and domestic air passenger traffic are providing the underlying momentum for the upturn. The gradual improvement in the services sector is getting broad-based.

8. Retail inflation measured by the headline consumer price index (CPI) rose to a 22-month high in June, with a sharp pick-up in momentum overwhelming favourable base effects. The rise was mainly driven by food, with vegetable inflation higher than the usual seasonal rise at this time of the year. Sugar prices also firmed up due to a decline in domestic production after two successive years of drought. While pulses inflation started moderating, prices of pulses have been rising again since April after a short-lived correction in the previous quarter. Inflation pressures are also incipient in cereals. These developments fed through into households' inflation expectations three months ahead, reversing the decline seen in the last two quarters.

9. Fuel inflation remained subdued, mainly due to sustained deflation in prices of liquefied petroleum gas. Excluding food and fuel, inflation eased across major sub-groups. Further excluding petrol and diesel from transport, inflation fell below 5 per cent for the first time since the introduction of the combined CPI. Softer inflation readings were recorded across services constituents in health, education, personal care and effects, and other categories of household consumption. Rural wage growth has been rising albeit moderately, driven up by wages of agricultural labourers. On the other hand, staff costs in the organised sector were relatively restrained.

10. Liquidity conditions eased significantly during June and July on the back of increased spending by the Government which more than offset the reduction in market liquidity because of higher-than-usual currency demand. The injection of durable liquidity through purchases under open market operations (OMOs), amounting to ₹ 805 billion so far, also helped in easing liquidity conditions, bringing the system-level ex ante liquidity deficit to close to neutrality (albeit without seasonal adjustment). Accordingly, the average daily liquidity operation switched from net injection of liquidity of ₹ 370 billion in June to net absorption of ₹ 141 billion in July and ₹ 405 billion in August (up to August 8). The Reserve Bank conducted variable rate repos and reverse repos of varying tenors in order to manage evolving liquidity conditions, with a more active use of reverse repos to manage the surplus liquidity. Reflecting the easy liquidity conditions, the weighted average call rate (WACR) and money market weighted average rate remained on average 15 basis points below the policy repo rate since June. Interest rates on other money market instruments such as certificates of deposit (CDs) and commercial paper (CPs) have also declined in both the primary and secondary markets.

11. In the external sector, merchandise export growth moved into positive territory in June after eighteen months. This upturn was reasonably widespread, covering chemicals, marine products, handicraft, plastic, rice, electronic and engineering goods. On the other hand, imports continued to decline, albeit at a slower pace than in recent months. While lower crude oil prices continued to compress the POL import bill, domestic demand for gold remained muted, with domestic gold prices trading at a discount vis-a-vis international prices. Non-oil non-gold imports continued to shrink, pulled down by coal, fertilisers, ores, iron and steel and machinery and transport equipment. Cumulatively, the trade deficit narrowed in Q1 of 2016-17 on a year-on-year basis. Net receipts on account of services remained flat in April-May 2016, with net outflow under communication services and sluggish software earnings. While the pace of foreign direct investment inflows slowed in the first two months of 2016-17, net portfolio flows were stronger after the Brexit vote, notwithstanding considerable volatility characterising these flows. The level of foreign exchange reserves rose to US$ 365.7 billion by August 5, 2016.

Policy Stance and Rationale

12. The recent sharper-than-anticipated increase in food prices has pushed up the projected trajectory of inflation over the rest of the year. Moreover, prices of pulses and cereals are rising and services inflation remains somewhat sticky. There are early indications, however, that prices of vegetables are edging down. Going forward, the strong improvement in sowing on the back of the monsoon's steady progress, along with supply management measures, augers well for the food inflation outlook. The prospects for inflation excluding food and fuel are more uncertain; if the current softness in crude prices proves to be transient and as the output gap continues to close, inflation excluding food and fuel may likely trend upwards and counterbalance the benefit of the expected easing of food inflation.

In addition, the full implementation of the recommendations of the 7th central pay commission (CPC) on allowances will affect the magnitude of the direct effect of house rents on the CPI. On balance, inflation projections as given in the June bi-monthly statement, i.e. of a central trajectory towards 5 per cent by March 2017 with risks tilted to the upside, are retained.

13. Looking ahead, the momentum of growth is expected to be quickened by the normal monsoon raising agricultural growth and rural demand, as well as by the stimulus to consumption spending that can be expected from the disbursement of pay, pension and arrears following the implementation of the 7th CPC's award. The passage of the Goods and Services Tax (GST) Bill augurs well for the growing political consensus for economic reforms. While timely implementation of GST will be challenging, there is no doubt that it should raise returns to investment across much of the economy, even while strengthening government finances over the medium-term. This should boost business sentiment and eventually investment. The current accommodative stance of monetary policy and comfortable liquidity conditions should also provide a congenial environment for the reinvigoration of aggregate demand conditions. However, successive downgrades of global growth projections by multilateral agencies and the continuing sluggishness in world trade points to further slackening of external demand going forward. Accordingly, the GVA growth projection for 2016-17 is retained at 7.6 per cent, with risks facing the economy at this juncture evenly balanced around it.

14. Risks to the inflation target of 5 per cent for March 2017 continue to be on the upside. Furthermore, while the direct statistical effect of house rent allowances under the 7th CPC's award may be looked through, its impact on inflation expectations will have to be carefully monitored so as to pre-empt a generalisation of inflation pressures. In terms of immediate outcomes, much will depend on the benign effects of the monsoon on food prices.

15. In view of this configuration of risks, it is appropriate for the Reserve Bank to keep the policy repo rate unchanged at this juncture, while awaiting space for policy action. The stance of monetary policy remains accommodative and will continue to emphasise the adequate provision of liquidity. Easy liquidity conditions are already prompting banks to modestly transmit past policy rate cuts through their MCLRs and pro-active liquidity management should facilitate more pass-through.

16. It may be recalled that the refinements to the liquidity management framework effected in April 2016 were intended to smooth the supply of durable liquidity over the year using asset purchases and sales as needed, and progressively lower the average ex ante liquidity deficit in the system to a position closer to neutrality. The Reserve Bank intends to continue with this strategy, with the intention of closing the underlying liquidity deficit over time so that the system moves to a position of structural balance. As regards the management of the imminent FCNR(B) redemptions, the Reserve Bank has been frontloading liquidity provision through open market operations and spot interventions/deliveries of forward purchases. The Reserve Bank will continue with both domestic liquidity operations and foreign exchange interventions that should also enable management of the FCNR(B) redemptions without market disruptions. With a view to further front-loading the provision of liquidity, it has been decided to conduct an open market purchase auction on August 11, 2016. Details are being announced separately.

17. The fourth bi-monthly monetary policy statement will be announced on October 4, 2016.

Alpana Killawala
Principal Adviser

LABOUR / INDUSTRY & COMMERCE / AVIATION

Commerce and Industry Minister to form a Dedicated Group to Accelerate India's Innovation

Press Information Bureau
Government of India
Ministry of Commerce & Industry

15-August-2016

Commerce and Industry Minister Smt. Nirmala Sitharaman said that a dedicated group will be formed to identify & implement expeditiously steps government can take to accelerate further India's innovation. Addressing the function at the launch of the Global Innovation Index report 2016 in New Delhi she said it is possible to do more and the country is thirsting to move forward.

India has improved its innovation ranking in GII to reach 66th position from its last year's rank of 81st, this improvement in the rank for India comes after 5 years of continuous drop in its ranking. Switzerland, Sweden, the United Kingdom, the United States of America, Finland and Singapore lead the 2016 rankings in the Global Innovation Index, released jointly by Cornell University, INSEAD, World Intellectual Property Organization (WIPO) and AT Kearney.
