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ASSOCHAM NEWS & VIEWS

WEEKLY

Highlights

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⇒ DEA RELEASED THE QUARTERLY REPORT ON PUBLIC DEBT MANAGEMENT – Q1 FY 2017-18 (APRIL-JUNE 2017)

⇒ IMPACT OF DEMONETISATION ON BLACK MONEY, WIDENING OF TAX BASE AND DIRECT TAX COLLECTIONS

THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

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MINISTRY OF COMMERCE & INDUSTRY

Index of Eight Core Industries (Base: 2011-12=100) July, 2017

The Eight Core Industries comprise 40.27 % of the weight of items included in the Index of Industrial Production (IIP). **The combined Index of Eight Core Industries stands at 119.8 in July, 2017, which was 2.4 % higher compared to the index of July, 2016.** Its cumulative growth during April to July, 2017-18 was 2.5 %.

Coal

Coal production (weight: 10.33 %) increased by 0.7% in July, 2017 over July, 2016. Its cumulative index declined by 3.3% during April to July, 2017-18 over corresponding period of the previous year.

Crude Oil

Crude Oil production (weight: 8.98 %) decreased by 0.5 % in July, 2017 over July, 2016. Its cumulative index increased by 0.05% during April to July, 2017-18 over the corresponding period of previous year.

Natural Gas

The Natural Gas production (weight: 6.88 %) increased by 6.6 % in July, 2017 over July, 2016. Its cumulative index increased by 4.9 % during April to July, 2017-18 over the corresponding period of previous year.

Refinery Products

Petroleum Refinery production (weight: 28.04%) declined by 2.7 % in July, 2017 over July, 2016. Its cumulative index increased by 0.7 % during April to July, 2017-18 over the corresponding period of previous year.

Fertilizers

Fertilizer production (weight: 2.63 %) declined by 0.3 % in July, 2017 over July, 2016. Its cumulative index declined by 1.5 % during April to July, 2017-18 over the corresponding period of previous year.

Steel

Steel production (weight: 17.92 %) increased by 9.2 % in July, 2017 over July, 2016. Its cumulative index increased by 6.9 % during April to July, 2017-18 over the corresponding period of previous year.

Cement

Cement production (weight: 5.37%) declined by 2.0 % in July, 2017 over July, 2016. Its cumulative index declined by 3.5 % during April to July, 2017-18 over the corresponding period of previous year.

Electricity

Electricity generation (weight: 19.85%) increased by 5.4 % in July, 2017 over July, 2016. Its cumulative index increased by 5.4 % during April to July, 2017-18 over the corresponding period of previous year.

MINISTRY OF COMMERCE & INDUSTRY

Joint Proposal by India & China in WTO on Aggregate Measurement of Support (AMS)

Recently (on 18 July 2017) India and China jointly submitted a proposal to the World Trade Organisation (WTO) calling for the elimination - by developed countries - of the most trade-distorting form of farm subsidies, known in WTO parlance as Aggregate Measurement of Support (AMS) or 'Amber Box' support as a prerequisite for consideration of other reforms in domestic support negotiations.

This is an important proposal by India and China in view of the ongoing negotiations for the upcoming 11th Ministerial Conference of the WTO to be held in Buenos Aires in December 2017. It counters the efforts by some countries to target the subsidies of the developing countries while letting the developed countries retain their huge farm subsidies.

The joint paper reveals that developed countries, including the US, the EU and Canada, have been consistently providing trade-distorting subsidies to their farmers at levels much higher than the ceiling applicable to developing countries. Developed countries have more than 90% of global AMS entitlements amounting to nearly US$ 160 bn. Most of the developing countries, including India and China, do not have AMS entitlements.

Listing the most heavily and frequently subsidised products by the US, the EU and Canada since 1995, the paper calls for elimination of such subsidies. The numbers reveal that subsidies for many items provided by the developed world are over 50% and some even more that 100% of the value of production of the product concerned, while developing countries are forced to contain it within 10% of the value of production. In other words, while developed Members have access to huge amount of AMS beyond their *de minimis* (these are the minimal amounts of domestic support that are allowed even though they distort trade — up to 5% of the value of production for developed countries, 10% for developing.) in contrast most developing Members have access only to *de minimis* resulting in a major asymmetry in the rules on agricultural trade.

The paper illustrates the adverse effects of concentration of AMS on a few products, which no other proposal in the WTO addresses. Elimination of AMS, India and China believe, should be the starting point of reforms rather than seeking reduction of subsidies by developing countries, some of which like India provide a subsistence amount of about US $ 260 per farmer per annum compared to over 100 times more in some developed countries.

MINISTRY OF FINANCE

Status of the Return of SBNs – Reserve Bank of India (RBI) Annual Report 2016-17

The RBI Annual Accounts for 2016-17, at note XI.6.2 *Liabilities of Issue Department – Notes Issued* in para (ii) mentions -

“Until June 30, 2017, SBNs were received by the Reserve Bank either directly or from bank branches/post offices through the currency chest mechanism. Some of these SBNs are still lying in the currency chests. The value of the SBNs received by the currency chests has been credited to the banks’ account on “said to contain basis”. Till such time these notes are processed by the Reserve Bank for their numerical accuracy and authenticity, only an estimation of SBNs received back is possible. Subject to future corrections based on verification process when completed, the estimated value of SBNs received as on June 30, 2017 is Rs.15.28 trillion.”

From the reports/data earlier published by RBI, currency in Rs.1,000 and Rs.500 denomination in circulation was at Rs.15.44 lakh crore. [6857.82 million notes of Rs.1000 and 17165.06 million notes of Rs.500 amounting separately to Rs. 685782 crore and Rs. 858253 crore]. Taking into consideration, the value of SBNs now reported to have been counted, approximately 98.96% of SBNs in value terms have come back to the RBI after demonetization. In other words, only an estimated Rs.16000 crore worth of SBNs have not come back to the RBI so far.

The RBI’s Annual Report at page 125 under *Chapter VIII - Currency Management, in Table VIII.1:* informs that Rs.1,000 denomination banknotes in circulation were only 89 million pieces (value of Rs.8900 crore) as on 31st March, 2017. If these figures are subtracted from the total figure of Rs.16000 crore, then it implies that SBNs of Rs.7100 crore of Rs.500 denomination have not come back to RBI so far. Therefore, Rs.1,000 denomination of value of approx. Rs.8900 crore and Rs.500 denomination of value approx. Rs.7100 crore have not come back to RBI.

As per RBI’s Annual Report at page 127 under *Chapter VIII - Counterfeit Notes and Security Printing VIII.9* informs that during 2016-17, 762,072 pieces of counterfeit notes were detected in the banking system, of which 95.7 per cent were detected by commercial banks. Detection of counterfeit notes was 20.4 per cent higher than the previous year. Barring Rs.100, the detection of counterfeit notes increased across denominations – notably, Rs.500 and Rs.1000 – during 2016-17. The study done by RBI shows that the rate of FICN detected per million pieces of notes processed at the currency chest level at 7.1 pieces for Rs. 500 denomination and 19.1 pieces for Rs. 1000 denomination, which were higher than the rate of detection at the Reserve Bank (5.5 pieces for Rs. 500 and 12.4 pieces for Rs. 1000). At the Reserve Bank’s currency verification and processing system during 20156-16, there were 2.2 pieces of FICNs of Rs. 500 denomination and 5.8 pieces of FICNs of Rs. 1000 denomination for every million pieces of notes processed; which rose to 5.5 pieces and 12.4 pieces respectively during post demonetization period.

MINISTRY OF FINANCE

CBDT extends date for (a) Linking of Aadhaar with PAN and (b) Due date for filing Income Tax Returns and Tax Audit Reports.

To facilitate ease of compliance by the taxpayers, CBDT has extended the date in the following cases:-

i. Aadhaar was to be linked with PAN by 31st August, 2017. The date for linking Aadhaar with PAN has been extended till 31st December, 2017;

ii. The ‘due-date’ for filing Income Tax Returns and various reports of audit prescribed under the Income-tax Act,1961 has been extended from 30th September, 2017 to 31st October, 2017 for all taxpayers who were liable to file their Income Tax Returns by 30th September, 2017.

MINISTRY OF FINANCE

Impact of Demonetisation on Black Money, Widening of Tax Base and Direct Tax Collections

The Government of India launched a concerted drive against black money with Demonetisation being an important step in that direction. Among the main objectives of Demonetisation was the flushing out of black money and also conversion of the non-formal economy into a formal economy to expand the tax base. The impact of Demonetisation on black money, widening of tax base and Direct Tax Collections is summed up hereunder:

A. Impact on black money:

Quantum jump in Enforcement actions based on Demonetisation data:

Searches

· **158%** increase in number of searches (from 447 to 1152 groups)

· **106%** increase in seizures (from Rs. 712 crore to Rs.1469 crore)

· **38%** increase in admission of undisclosed income (from Rs.11,226 crore to Rs. 1,54,96 crore)

Surveys

· **183%** increase in surveys (from 4422 to 12520)

· **44%** increase in undisclosed income detected (from Rs. 9654 crore to Rs. 13920 crore)

Operation Clean Money:

The Income Tax Department launched 'Operation Clean Money'(OCM) on 31^{st} January, 2017 to analyse the data of the persons who deposited large sums of cash and whose returns of income were not in sync with such deposits.

Phase 1:

· In the first phase of OCM, **18 lakh suspect cases** were identified through use of data analytics where cash transactions did not appear to be in line with the tax profile of depositors.

· Online verification in these cases was enabled and done in a record time of 4 weeks.

· The success of the first phase was also attributable to the massive taxpayers' awareness and media campaigns on Operation Clean Money launched by the Department.

· The scale of the Operation may be gauged from the fact that **response of 9.72 lakh persons in respect of 13.33 lakh accounts involving cash deposits of around Rs.2.89 lakh crore**, as per pre-defined parameters on sources of the cash deposits was captured by the Income Tax Department within a short span of 3-4 weeks. Online queries were raised in more than 35000 cases and online verification was completed in more than 7800 cases.

Phase 2:

· The Operation Clean money has since moved into the next phase that includes enforcement actions in high risk cases, taxpayer engagement through a dedicated website in medium risk cases and close monitoring in low risk cases.

· The high, medium and low risk cases have been identified through use of advanced data analytics, including integration of data sources, relationship clustering and fund tracking.

· The exercise has also unearthed large number of persons and clusters having suspect transactions. These include **about 14,000 properties of more than Rs.1 crore each** where persons have not even filed Income Tax Returns. The investigations are in progress.

B. Impact on Widening of Tax-base:

· The number of e-returns of Individual taxpayers filed till 5th August, 2017 (due date of filing) increased to 2.79 crore from 2.22 crore returns filed during the corresponding period of last year, registering an increase of about 57 lakh returns (25.3%). This shows marked improvement in the level of voluntary compliance as a result of action taken by the Income Tax Department on the basis of data of cash deposits in the wake of demonetization.

· The total number of all returns (electronic + paper) filed during the entire Financial Year 2016-17 was 5.43 crore which is 17.3% more than the returns filed during FY 2015-16.

· For FY 2016-17, 1.26 crore new taxpayers (return filers + non-filers making tax payments) were added to the tax base (till 30.06.2017).

C. Impact on Direct Tax Collections:

The effect of Demonetization is also clearly visible in the growth in Direct Tax Collections. Collection of Advance Tax under Personal Income Tax (i.e. other than Corporate Tax) as on 05.08.2017 showed a growth of about 41.79% over the corresponding period in F.Y. 2016-2017. Collection of Self-Assessment Tax under Personal Income Tax showed a growth of 34.25% over the corresponding period in F.Y. 2016-2017.

MINISTRY OF FINANCE

DEA released the Quarterly Report on Public Debt Management – Q1 FY 2017-18 (April-June 2017)

Since April-June (Q1) 2010-11, Public Debt Management Office (PDMC) (earlier Middle Office), Budget Division, Department of Economic Affairs, Ministry of Finance, is bringing-out a Quarterly Report on Public Debt Management on regular basis. The Current Quarterly Report pertains to the quarter April-June 2017 (Q 1 FY 18).

The liquidity in the economy remained in surplus, after the demonetization, during the quarter, which kept the yield environment low. However, the cash position of the Government of India (GoI) was somewhat stressed during the quarter, due to mismatch in receipt and payment which is generally seen during the first half of the financial year. To tide over these mismatch in cash flows of GoI, Cash Management Bills of varying durations amounting to Rs. 1,30,000 crore were issued during the quarter. CMBs of Rs. 40,000 crore were reedemed during the quarter itself. Govt. also took recourse to W&M advance from RBI during the spells of cash deficit and drew overdraft briefly during the quarter. However, through cash management guidelines, attempt was made to time expenditure as per receipt trends.

The weighted average maturity (WAM) and weighted average yield (WAY) of the G-Sec issuance made during Q1 FY18 was 14.92 years and 7.01 per cent respectively. During Q1 FY18, Government issued dated securities worth Rs.1,68,000 crore (29.0 per cent of BE), higher than Rs. 1,65,000 crore (28.4 per cent of BE) in Q1 of FY 17. Auctions of both, Government dated securities and Treasury Bills during Q1 of FY18 were held smoothly.

The Public Debt (excluding liabilities under the 'Public Account') of the Central Government provisionally increased by 3.6 per cent (provisional) in Q1 of FY 18 on Q-o-Q basis. Internal debt constituted 93.0 per cent of Public Debt as at end-June 2017 while marketable securities accounted for 83.2 per cent of Public Debt. About 26.6 per cent of outstanding stock has a residual maturity of up to 5 years at end – June 2017 or 5.3 per cent of outstanding stock will mature every year over the next five years, which implies that rollover risk in the debt portfolio continues to be low.

G-Sec yields witnessed a volatile trend during the quarter but yields softened at the end of quarter. Yields hardened during Apr 2017 due to factors such as, cautious mood ahead of 1st Bi-monthly monetary policy of RBI for 2017-18 which maintained a hawkish stance and RBI deciding to maintain the status quo on its key policy rates, but narrowed key policy rate corridor around Repo rate to ±25bps [± 50bps earlier]. Incidences of devolvement of G-Secs on PDs, issuance of T-Bills of near 1 year term under MSS, wave of debt waivers announced by few States, which may lead to higher State borrowing, OMO sales by RBI, cut in SLR from 20.50% to 20% lowering the requirement of banks to hold G-Secs, geo-political issues etc. also contributed to the hardening of the yields from 6.65% at the beginning of the quarter to 6.99% during the quarter (May 2, 2017) . The trading volume of Government securities on an outright basis during Q1 FY 18 increased by 2.65 per cent over the previous quarter.

Full Quarterly Report on Public Debt Management is also attached here with for ready reference.

RESERVE BANK OF INDIA

RBI released 2017 list of Domestic Systemically Important Banks (D-SIBs)

In addition to the SBI and ICICI Bank, which continue to be identified as Domestic Systemically Important Banks (DSIBs), the Reserve Bank of India has also identified HDFC Bank as a D-SIB, under the same bucketing structure as last year. The additional Common Equity Tier 1 (CET1) requirement for D-SIBs has already been phased-in from April 1, 2016 and will become fully effective from April 1, 2019. The additional CET1 requirement will be in addition to the capital conservation buffer.

The updated list of D-SIBs is as follows-

Bucket	Banks	Additional Common Equity Tier 1 requirement as a percentage of Risk Weighted Assets (RWAs) for FY 2017-18	Additional Common Equity Tier 1 requirement applicable from April 1, 2018 (as per phase-in arrangement)
5	**-**	0.50%	0.75%
4	**-**	0.40%	0.60%
3	**State Bank of India**	0.30%	0.45%
2	**-**	0.20%	0.30%
1	**ICICI Bank**	0.10%	0.15%
	HDFC Bank*	-	
• D-SIB surcharge for HDFC Bank will be applicable from April 1, 2018.			

Background:

The Reserve Bank had issued the Framework for dealing with Domestic Systemically Important Banks (D-SIBs) on July 22, 2014. The D-SIB Framework requires the Reserve Bank to disclose the names of banks designated as D-SIBs every year in August starting from 2015 and place these banks in appropriate buckets depending upon their Systemic Importance Scores (SISs). Based on the bucket in which a D-SIB is placed, an additional common equity requirement has to be applied to it. In case a foreign bank having branch presence in India is a Global Systemically Important Bank (G-SIB), it has to maintain additional CET1 capital surcharge in India as applicable to it as a G-SIB, proportionate to its Risk Weighted Assets (RWAs) in India.

The higher capital requirements are applicable from April 1, 2016 in a phased manner and will become fully effective from April 1, 2019. The additional common equity requirement for different buckets over the four year phase-in period is as under:

Bucket	April 1, 2016	April 1, 2017	April 1, 2018	April 1, 2019
5	0.25%	0.50%	0.75%	1.00%
4	0.20%	0.40%	0.60%	0.80%
3	0.15%	0.30%	0.45%	0.60%
2	0.10%	0.20%	0.30%	0.40%
1	0.05%	0.10%	0.15%	0.20%

Based on the methodology provided in the D-SIB Framework and data collected from banks as on March 31, 2015 and March 31, 2016 respectively, the Reserve Bank had announced State Bank of India and ICICI Bank Ltd. as D-SIBs on August 31, 2015 and August 25, 2016 respectively. Current update is based on the data collected from banks as on March 31, 2017.

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