Govt starts talks to boost job creation

SOMESH JHA
New Delhi, 6 October

The National Democratic Alliance (NDA) government has begun a consultation process on policy reforms required to boost employment in the country, at a time when lack of jobs is an area of concern.

In a September 27 letter to industry bodies and labour unions, Labour and Employment Minister Santosh Kumar Gangwar also sought their opinion on increasing the participation of women in the workforce.

"To generate employment at a greater pace, it is necessary for us to understand through you your expectations from the labour and employment ministry to ensure that it becomes convenient to set up new businesses and to help run present enterprises efficiently. This step will play an important role in creating jobs," Gangwar said, in the letter written in Hindi language.

The move comes at a time when the gross domestic product (GDP) growth has slipped to a six-year low of 5 per cent in the first quarter of this financial year (FY20). The central bank also sharply revised the GDP growth estimates for FY20 to 6.1 per cent, from 6.9 per cent.

The latest National Sample Survey Office survey report showed the unemployment rate stood at a 45-year high of 6.1 per cent in 2017-18. Though the government said the data was not comparable with the past figures because of certain changes in design, former National Statistical Commission chairman P C Mohanan, who had approved the survey, had said the data can be compared.

"We urge you to provide suggestions on policy changes required to be done by the ministry of labour and employment on the following subjects by October 15: employment generation and to set up and run new establishments and industrial units; to increase women's participation in the workforce," Gangwar said in his letter.

The female labour force participation rate declined by around 8 percentage points to 23.3 per cent in 2017-18 compared to 2011-12. In the same period, the decline was twice as much for males.

Sources said the labour ministry is looking for administrative as well as legislative steps to give boost to employment, especially among females.

The labour minister will also seek feedback from state governments on these matters through regional meetings which will kick-start from October 22 in Bhubaneswar, followed by Vadodara, Jammu and Kashmir, Kerala and Manipur, a government official said.

"The ministry is in the process of giving shape to the proposed labour codes. At this juncture, it is important for us to understand specifics from both industry and trade unions on job creation. We want to know specifically know which are the policy impediments to employment," the official said, requesting anonymity.

The government is in the process of combining 35-odd labour laws into four codes. While the Code on Wages became a law in August, the other three codes — on industrial relations, social security, and occupation safety health and working conditions — will be sent for the approval of the Union Cabinet later in FY20.

Flexibility in the hire-and-fire policy has been a key demand of trade and industry for at least two decades. The government had put a proposal for allowing more firms to retrench or shut shops without seeking official permission following protest from trade unions.

According to the first draft of the Labour Code on Industrial Relations Bill, the government had proposed allowing companies with at least 300 workers to retrench without seeking official permission. According to the present law, companies with at least 100 workers do not need the government's permission to do so.

The finance ministry has taken a slew of measures to boost economic growth, including a cut in corporation tax rate.

EMPLOYMENT PUSH

- Labour minister Santosh Gangwar has started consultation with industry bodies, trade unions and state governments
- In a letter, Gangwar sought their opinion by October 15 on policy changes required to boost employment and increase women labour force participation rate
- Gangwar will begin regional conferences with state govts from October 22 and seek their opinions
- The ministry is in the process of combining 35-odd labour laws into four codes

CBIC removes GST circular, not confusion

INDIVJAL DHASMANA
New Delhi, 6 October

The indirect taxes board had removed a "controversial" circular that imposed goods and services tax (GST) on post-sale discounts by dealers, but it has done little to clear the confusion around the many issues that arose with the circular.

In June, the Central Board of Indirect Taxes and Customs (CBIC) had issued the circular which said that dealers will have to pay 18 per cent GST on the post-sale discount that they get from the suppliers of goods, if the supplier asks them to pass on the concessions to the end consumer.

The circular came out with different situations where GST should be paid and where it should not.

For instance, imagine that a company sells a car to a dealer for ₹10 lakh and later gives a discount of ₹50,000. In doing so, the firm did not put any obligation on the dealer to pass on the benefit. So, the dealer need not pay any GST on ₹50,000. However, if the company asks the dealer to pass on the benefit to the customer, then the dealer has to pay GST on the entire amount, including ₹50,000.

This had irked industry, particularly the automobile sector, which has already been reeling under the pressure of subdued demand.

The Confederation of Indian Industry (CII) had said this circular violated the cardinal principle of GST that the tax cost is to be borne by the ultimate consumer.

"This principle means that the supply of goods or service should suffer the tax only to the extent of consideration paid by the ultimate consumer," the CII had said, demanding that this provision in the circular be changed.

It said additional discounts are generally given to liquidate the old inventories or push products under weak market conditions.

Following the hue and cry, the CBIC recently said: "Numerous representations were received expressing apprehensions on the implementation of the said circular. In view of these apprehensions... the Board... hereby withdraws, ab initio, the circular."

But even after the withdrawal of the circular, the controversy over it has not ended. Experts demanded that a clarification be issued that there would be no GST on post-sale discounts as field officers continue to harass dealers.

Abhishek Jain, partner at EY, said industry expects that with the withdrawal of the circular, the government has accepted the industry's position and this would put an end to the investigations and litigation at the field level.

Also, there is the issue of input tax credit.

ClearTax chief executive officer Archit Gupta said now there is confusion over how the situation of post-sale discounts should be dealt with.

The tax on the original invoice could have still been claimed as input tax credit and be adjusted using the credit note. This is now not perceived so by the withdrawal of the circular, he said.

"The festive season is here, and hence, there is a dire need for the CBIC to come back with a clear message for the businesses and the dealers in the supply chain to deal with the circular," he said.

THE ISSUE

- If a company sells a car to a dealer for ₹10 lakh and later gives a discount of ₹50,000, the dealer doesn't have to pay GST on ₹50,000
- But, if the company asks the dealer to pass on the benefit to the customer, then the dealer has to pay GST on the entire amount, including ₹50,000
- This had irked the industry, particularly the auto sector, which has already been reeling from the pressure of subdued demand
- Experts say a clarification must be issued as field officers continue to harass dealers

Sombre news on global markets

EXIM MATTERS
T N C RAJAGOPALAN

Last week, the trade war shifted to the Atlantic, when the United States (US) announced higher tariffs on $7.5 billion worth of goods, mostly agricultural and industrial products, including textiles, foods, liquor and consumer goods. This followed a ruling at the World Trade Organization (WTO), favouring the US in a complaint regarding subsidies to Airbus by some European countries for making airplanes.

The announcement came when global markets were reeling under reports of a slowing US economy, moves to impeach the US president, uncertainties about Britain's exit from European Union (EU), trade tensions between Japan and South Korea, and a rather gloomy forecast for global trade in a WTO report. That report said merchandise trade volume was expected to grow by 1.2 per cent in 2019, substantially below the 2.6 per cent growth that had been projected in April. Expectedly, the equity markets in India also saw greater volatility and bearish trends.

The WTO report said trade volume growth should accelerate slightly to 2.7% in 2020, while global GDP growth holds steady at 2.3% but that this also depended on easing of trade tensions

The WTO report also said trade volume growth should accelerate slightly to 2.7 per cent in 2020, while global GDP growth holds steady at 2.3 per cent (at market exchange rates), but that this also depended on easing of trade tensions. Trade conflicts pose the biggest downside risk to the forecast; macro economic shocks and financial volatility are also potential triggers for a steeper downturn. Trade-related indicators signal a worrying trajectory, based on global export orders and economic policy uncertainty.

Export and import growth slowed across all regions and at all levels of development in the first half of 2019, went the report.

The latest US-EU spat comes 16 months after the US government launched a trade war with China, accusing it of cheating, theft of intellectual property, currency manipulation and more. Negotiators from the two countries are still trying to find common ground for a deal that will ease the tension. Meanwhile, competitive EU companies that have the economic capacity to replace the US and Chinese firms looked set to gain about $70 billion in trade — about $50 billion in Chinese export and $20 billion in US export — that have traditionally passed between the world's two largest economies, says a report from the United Nations Centre for Trade and Development.

So, the latest US move to hike tariffs on EU products comes at a rather inopportune time for the EU. And, worse might be ahead. The WTO is due to rule in the next six months on whether to allow the EU to impose its own higher tariffs on US-origin goods because of US subsidies to Boeing, a rival to Airbus. It raises the possibility of further escalation of a bruising trade war between the US and its key trade and strategic ally.

For Indian exporters, any slowing of growth in global trade or the economy is not good news. However, any consequent fall in commodity prices can help the government's finances and consumers. So far, there are no indications of India benefiting significantly from the US-China trade war, although recent cuts in corporate tax rates have removed one major factor that deterred global entities from locating their manufacturing or other facilities in India. However, any gains on that account might take time. In the short run, the economy might continue to struggle to cope with the slowdown.

E-mail: tncrajagopalan@gmail.com

YES Bank goes to cyber cell over fake news

PRESS TRUST OF INDIA
New Delhi, 6 October

YES Bank on Sunday said it has lodged a complaint with Mumbai police cyber cell against some fake news and rumours about the bank's financial health on social media.

The complaint has come against the backdrop of its promoters cutting their stake and shares of the company witnessing heavy beating at stock exchanges during the last few days.

"YES Bank has lodged a complaint with Mumbai Police and Cyber Cell against the dissemination of fake news and spread of rumours about the bank's financial health on WhatsApp and other social media platforms," the bank said in a regulatory filing.

The lender has also requested the authorities to form a multi-disciplinary team of experts for detecting the origin of the fake news and assess the short-sell positions, held either directly or indirectly, by such accused persons.

"Over the past few days, some miscreants have been spreading false information and malicious rumours about YES Bank on WhatsApp and other social media platforms to create panic and fear in the mind of its depositors. The messages attempt to portray the bank in poor light and are intended to tarnish the image of the bank in the eyes of its depositors, stakeholders and the general public," the bank said.

STATSGURU

Indian states' fiscal battle

THE RESERVE BANK of India's annual study on state budgets underlines weaknesses in financial position of states.

Many states have fiscal deficit beyond the upper limit of 3 per cent of gross domestic product, laid down by the Fiscal Responsibility and Budget Management framework (*Chart 1*). Moreover, most are laggards in terms of per capita income levels. Owing to the tight revenue and the pressure on exchequer emanating from power utilities and farm sector support (loan waivers and income support), states are being compelled to borrow more (*Chart 2*). The study shows that the aggregate debt level could go beyond 25 per cent of GDP in the current year itself if off-budget guarantees are taken into account. Notice that debt level surged after 2016-17 due to the UDAY scheme for power distribution firms.

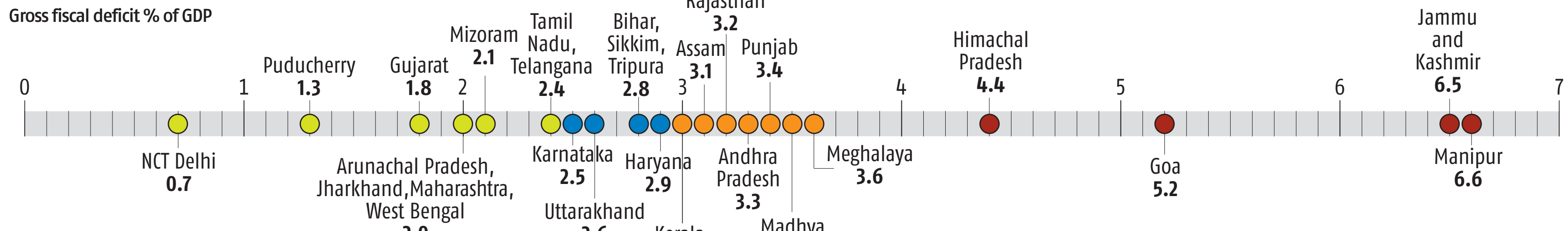
This has put limitations on development-related spending, as interest payments and other compulsory spending is set to grow faster than capital expenditure this year (*Chart 3*). Higher debt levels are associated with lower economic growth, the study shows (*Chart 4*).

To make the debt sustainable, revenues need to grow at 14 per cent per year, higher than what the last three years have achieved. Though revised estimates for 2018-19 show a higher growth, provisional accounts show a drop. Higher budgeted growth in 2019-20 has been dragged down by near stagnation in the financial year to date. The debt requirement is increasingly being catered to by market borrowings (*Chart 6*). But the market for state government bonds is too illiquid to be attractive with trade happening only for less than a third of trading days in several states (*Chart 7*). As a result, foreign investors have stayed away from state government bonds. This financial year, foreign portfolio investors have put money in less than 3 per cent of the available limit to invest (*Chart 8*).

ABHISHEK WAGHMARE

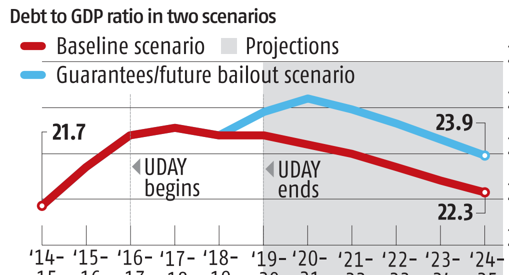
1: SEVERAL STATES ARE IN A DIFFICULT FISCAL POSITION

Gross fiscal deficit % of GDP

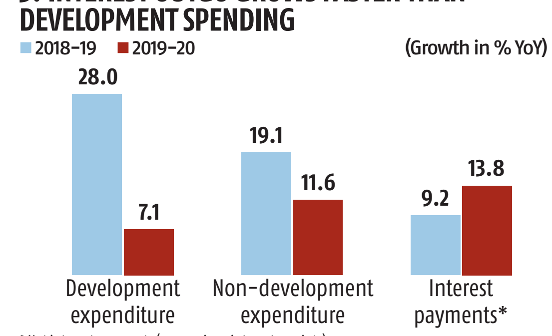


2: OFF-BUDGET LIABILITIES MAKE DEBT UNSUSTAINABLE

Debt to GDP ratio in two scenarios

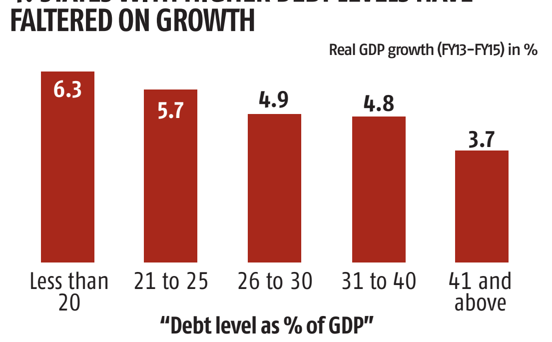


3: INTEREST OUTGO GROWS FASTER THAN DEVELOPMENT SPENDING

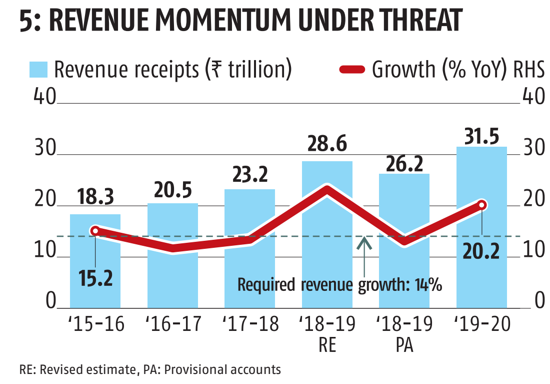


* Net interest payments (gross minus interest receipts)

4: STATES WITH HIGHER DEBT LEVELS HAVE FALTERED ON GROWTH



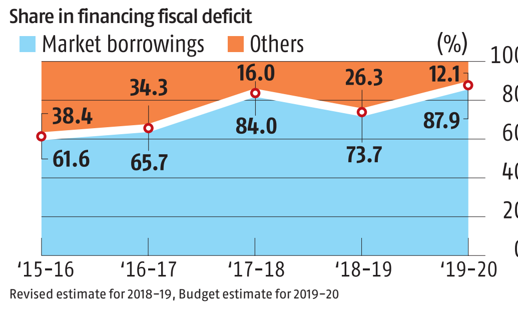
5: REVENUE MOMENTUM UNDER THREAT



RE: Revised estimate, PA: Provisional accounts

6: MARKET LOANS INCREASINGLY FINANCE DEFICIT NOW

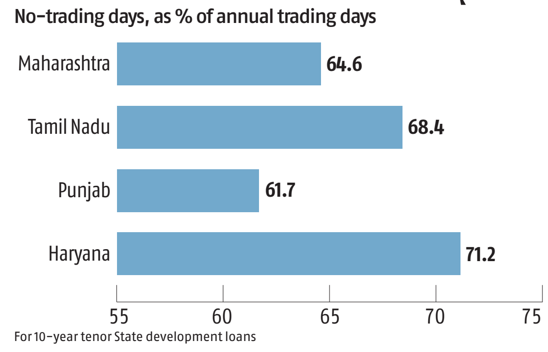
Share in financing fiscal deficit



Revised estimate for 2018-19, Budget estimate for 2019-20

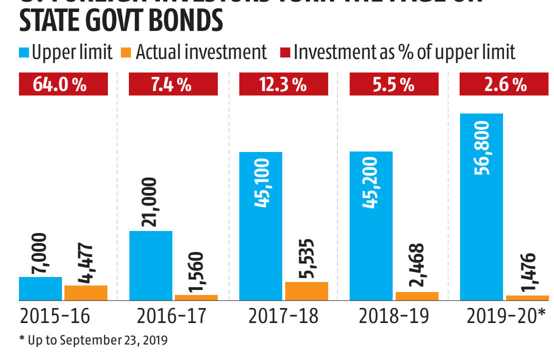
7: STATE BONDS MARKET IS STILL TOO ILLIQUID

No-trading days, as % of annual trading days



For 10-year tenor State development loans

8: FOREIGN INVESTORS TURN THE PAGE ON STATE GOVT BONDS



* Up to September 23, 2019

StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Source: State finances report, RBI; Compiled by *BS* Research Bureau