

# **MAJOR ECONOMIC POLICY ANNOUNCEMENTS DURING THE MONTH**

**August 2005**

## **PHD Chamber of Commerce and Industry**

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## PHD CHAMBER OF COMMERCE AND INDUSTRY

### Major Economic Policy Announcements During the Month

#### **India, US Agree to 8 Major Initiatives**

**20<sup>th</sup> July, 2005** Summarizing the results of talks between the Prime Minister, Dr Manmohan Singh, and the US president, Mr George W. Bush, the White House said that both leaders “demonstrated their resolve to strengthen the relationship and establish a global partnership”.

Titled “The United States and India, Strong Global Partners”, it said that building on common values and a mutual vision, the two leaders laid out eight major initiatives, including completion of Next Steps In Strategic Partnership (NSSP), an economic dialogue covering trade, finance, environment and commerce and a dialogue on energy security.

#### **China Revalues Yuan, Ties it to Currency Basket**

**22<sup>nd</sup> July, 2005** China ended its decade-old peg to the dollar and let the yuan fluctuate versus a basket of currencies. The new yuan rate revalues the currency by 2.1 percent to 8.11 per US dollar immediately, the People's Bank of China said on its Web site. Until now, the yuan had been pegged at about 8.3 per dollar.

Malaysia followed China's decision, abandoning its seven-year-old practice of pegging the ringgit to the dollar.

## **Textiles to Come under Vat Ambit from 2006**

**22<sup>nd</sup> July, 2005** All textile items will come under value-added tax (Vat) from the next fiscal year, empowered committee secretary Ramesh Chandra said on Thursday. States have agreed that the rate on textile items will not exceed 4% when it is implemented from April 1, 2006. At present, textile items attract additional excise duty and are exempt from Vat.

## **Cabinet Approves India's Improved WTO Offers, but with Escape Clause**

**25<sup>th</sup> July, 2005** The Cabinet Committee on the World Trade Organization (WTO) has directed the commerce ministry to make its improved services offers at the WTO within the limits of its autonomous liberalization. It has also said that offers should be conditional so that India can withdraw them if it does not get satisfactory offers from member countries especially in Mode 1 dealing in cross-border movement of services (including business process outsourcing) and Mode 4 related to movement of natural persons.

The approval of the Cabinet has cleared the way for India to make Mode 3 offers which would allow WTO members to establish commercial presence in areas like telecom, banking and insurance. However, India will retain the flexibility to withdraw the offers if the Quad countries including the US, EU, Canada and Japan do not reciprocate by coming up with better offers in Mode 1 and Mode 4.

Revised offers will also be made in sectors that have already been covered in the initial offers including business services, construction and related engineering services, health related and social services, tourism and travel related services, maritime services and transport services.

## **RBI Hikes Risk Weights on Loans for Real Estate, Capital Markets**

**27<sup>th</sup> July, 2005** To check unrestricted flow of bank funds to real estate and capital markets, the Reserve Bank of India has increased the risk weights for banks' out standing exposure to these sectors from 100 percent to 125 percent with immediate effect.

Banks will have to set apart more capital in their books as cover to maintain their existing level of lending to these sectors.

## **DoD end for 13 Unlucky PSUs**

**27<sup>th</sup> July, 2005** The Government has decided to abandon the plan for strategic sale of 13 public sector undertakings (PSUs). These include Hindustan Petroleum Corporation Ltd (HPCL), National Building Construction Corporation (NBCC), Engineers India Ltd (EIL), National Aluminum Company (Nalco) and State Trading Corporation of India (STCI).

A Cabinet note prepared by the Department of Disinvestment (DoD) has said that the proposed strategic sale of 13 companies has been 'terminated'.

## **CBDT Spells Out Conditions for Recognition of Stock Exchanges**

**27<sup>th</sup> July, 2005** The legal decks have been cleared for a taxpayer to set off for tax purposes, his profits and losses in 'options' and 'futures' (derivative instruments) contracts in stocks, against gains and losses from other sources of income.

The Central Board of Direct Taxes has now framed a new rule by which the country's stock exchanges would be specifically recognized for this

purpose so that investors trading 'derivative' contracts in these exchanges would enjoy the benefit.

### **Cenvat Credit, ledger Accounts to Monitor Excise Collections**

**30<sup>th</sup> July, 2005** the revenue department has identified several parameters, including utilization of Cenvat credit and payment of excise through cash or personal ledger account (PLA), for monitoring excise payments.

### **Oil PSUs get Government Nod to Sell Cross-Holdings**

**2<sup>nd</sup> August, 2005** The petroleum ministry has given an in-principle approval to the move of the three state-run oil and gas companies- Indian Oil Corporation, Oil and Natural Gas Corporation (ONGC) and GAIL (India)-to offload their crossholdings in each other.

IOC will be the first to offload its 9.61% stake in ONGC worth about Rs.13,000 crore.

### **RBI modifies ECB norms**

**2<sup>nd</sup> August, 2005** The Reserve Bank of India has modified the norms for External Commercial Borrowings with immediate effect. Under the new norms, ECBs with minimum average maturity of five years by non-banking financial companies (NBFCs) from multilateral financial institutions, reputable regional financial institutions, official export credit agencies and international banks to finance import of infrastructure equipment for leasing to infrastructure projects would be considered by the RBI under the Approval Route.

Foreign Currency Convertible Bonds by housing finance companies satisfying specific criteria would also be considered under this route.

### **WTO Meet in October to Decide Fate of Hong Kong Ministerial**

**2<sup>nd</sup> August, 2005** Trade ministers from World Trade Organization (WTO) member countries will meet in Geneva in October in a last ditch attempt to make the Hong Kong ministerial scheduled in December a success.

### **Cabinet clears way for integrated law on food and safety**

**5<sup>th</sup> August, 2005** The Cabinet on Thursday cleared the Food & Safety & Standards Bill for introduction of an integrated food law. The Bill would seek to do away with multiplicity of food laws in the country and bring the sector under a single regulator.

Nine existing laws including the Prevention of Food Adulteration Act and various orders issued under the Essential Commodities Act would be rendered redundant with the enactment of the Bill. Seven other laws would be modified and aligned with the proposed Act to make them more industry friendly.

The new law would fix responsibility on food business operations to ensure that imported and domestic food items are produced, processed, manufactured and distributed in compliance with the provisions of the proposed new law. It would also prescribe civil penalties for minor offences and criminal actions for serious violations.

The Cabinet also approved the Bill to amend the Banking Companies (Acquisitions and Transfer of Undertakings) Act. The amendments would aim at increasing the whole time directors on the boards of

banks from 2 to 4 and restricting the number of shareholder-directors at 3.

### **Banking Act set to change, 4 full-time directors allowed**

**5<sup>th</sup> August, 2005** The Cabinet today approved amendments to the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970/1980 to increase the number of full-time directors from two to four.

Amendments to the Act were among eight Bills cleared by the Cabinet. The amendments to the Banking Companies Act also seek to restrict the number of shareholder directors at three and set up a financial restructuring authority for potentially weak banks. It also seeks to enhance flexibility to the boards of banks and improve corporate governance.

### **PM Advisory Panel Favours Exporters on 'Negative Profits' tax exemption**

**10<sup>th</sup> August, 2005** The Economic Advisory Council to the Prime Minister has come out in favour of the exporting community on the controversial issue of tax exemption of 'negative profits' under Section 80HHC of the Income-Tax Act, 1961.

### **Outdated Exports Declarations Abolished**

**10<sup>th</sup> August, 2005** The Finance Ministry has eased the export documentation procedure to help the exporting community. The Revenue Department has now abolished a number of declarations (relating to various export promotion schemes) that were found to have outlived their utility or were not serving any purpose.

## **Government unveils New Package for SMEs**

**11<sup>th</sup> August, 2005** The Government unveiled a new policy package aimed at stepping up credit flows to the small and medium sector. The package has for the first time clearly defined the medium enterprises (ME) as those units with investment in plant and machinery above the small-scale industry limit and up to Rs. 10 crore.

The package also proposes to make a one-time settlement (OTS) scheme for non-performing assets of banks and a corporate debt restructuring (CDR) mechanism for the SME sector on the lines of what is currently in force for the larger companies.

Public sector banks have been asked to achieve a minimum 20 percent year-on-year growth for funding small and medium enterprises. This could lead to a doubling of credit to the sector from Rs.67, 600 crore in 2004-05 to Rs.1, 35, 000 crore by 2009-10. PSU banks would also be asked to follow a transparent rating system with cost of credit being linked to the credit rating of the enterprise.

## **Procedures for Service Tax Eased**

**11<sup>th</sup> August, 2005** To enhance the service tax assesee base, the government has liberalized the registration procedure for potential taxpayers, by cutting the number of documents to be submitted by them from 21 at present to 11. It has also streamlined the service tax collection and adjudication mechanism, by aligning it with the corresponding central excise rules.

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