

## Economy This Week (22nd April to 5th May 2019)

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#### 1. Capital account convertibility

This news item is taken from Business Standard (26th April 2019).

- The deputy governor of RBI Mr B P Kanungo has argued in favour of revisiting India's capital control regime so that the Indian companies are allowed to invest in overseas market
- Complete convertibility is allowed under the current account whereas RBI imposes restrictions in terms of converting rupee into dollars under the capital account
- Such investments will add to value enhancement, asset acquisition (oil fields, coal fields etc) and will also help in securing the energy needs of the country
- For the full capital account convertibility three things are needed
  - Price stability
  - Fiscal stability
  - Stability of financial institutions
  - We are yet to achieve the stability under all these three parameters for example, Fiscal deficit at all the government levels need consolidation. It is desirable to attain growth with lower inflation rate and with fiscal prudence

#### 2. 15th FC to pitch for more powers to local bodies

This news item is taken from Business Standard (24th April 2019).

- The FC may recommend giving more powers to panchayats and urban local bodies and for this may recommend higher property tax rates. The ToR (Terms of Reference) does not have anything related to this but the FC may speak extensively on this
- It is also likely to recommend performance based incentives (recommended by 13th FC but omitted by 14th FC) for the states, under this the states will be evaluated based on certain parameters and incentives will be allocated
- One of the ToRs is related to awarding performance based incentives based on various parameters. Some of the parameters have been opposed by many states. FC may recommend incentives based on parameters such as effectiveness in capital expenditure, efforts made by them in deepening GST, progress in increasing revenues etc
- Though many ToRs have been given to the 15th FC, it is required to give recommendations only on those mandated under the constitution
  - To recommend horizontal and vertical devolution formula
  - Principles governing grant in aid
  - Measures to augment the consolidated fund of the states

#### 3. Import duties on ICT products

This news item is taken from Business Standard (25th April 2019).

- India in 2017 imposed a tariff of 10% on some of the ICT products (including mobile phones) and later increased it to 15%, the duty on mobile phone was further increased to 20% in the last year's budget. These decision has been protested by many trading partners
- Five more countries -US, Canada, Chinese Taipei, Thailand, Singapore - have sought permission from DSB to join consultations held by EU with India on its decision to impose import duties on the ICT (Information and Communications Technology) sector
- Indian side so far has held that it hasn't violated any rule by imposing the import duties
  - Most of the goods that have been identified by EU did not even exist in 1996
  - These have not been covered under the pact - ITA
- Earlier EU has alleged that India's import duties on ICT products are in excess of rates it has committed to at the WTO. As per the commitments under the Information Technology Agreement of 1996 (ITA 1996), India is supposed to apply zero percent duties on the identified items
- If these consultations do not yield any kind of result then, EU may ask for a panel to settle the dispute

#### 4. RBI forex swap auction

This news item is taken from The Hindu Business Line (24th April 2019).

- The second round of dollar-rupee buy/sell auction was conducted by RBI. There were 255 bids worth \$18.65 bn against a notified amount of \$5 bn
- Though the banks stayed away, but the companies and NBFCs saw it as a good opportunity to lower hedging costs compared to the secondary market (cut off premium was 838 paisa as against 776 paisa the last time)
- In the first round the liquidity infused was ₹ 34874 Cr (conducted on March 26, 2019)
- The forex reserves of RBI will increase to \$415 bn
- The companies raising dollars through external commercial borrowings will find this route cost effective as the hedging costs in the secondary market are higher
- RBI has said that it would buy bonds worth ₹ 25000 Cr in May to infuse liquidity

#### 5. GST Anti-Profiteering

This news item is taken from Business Standard (1st May 2019).

- In order to ensure that the benefits of reduction in GST rates are transferred to the consumers in the market, National Anti-profiteering Authority has been set up
- It has been provided under section 171 of CGST and SGST
- The authority can take up the cases through complaints or suo motu
- The guidelines does not have framework to differentiate between profit and profiteering
- There is a sunset clause of two years for this authority. The government is mulling of extending the timeline as the GST rates in the future might be changed which might need such authority to ensure the passage of such benefit to the consumers

