Economy This Week (8th April to 21st Apr 2019)

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1. Inflation target should be reviewed

This news item is taken from Business Line (19th April 2019).

- As per the economic advisor to PM, the new government should review whether the CPI or core inflation should be taken as the measure to decide the monetary policy
- The current inflation target of keeping inflation at 4% will end in march 2021
- This year the food prices have fallen and RBI has cut the interest rates
- One of the issues has been the unpredictability of the food inflation in the recent times. It has been found that the inflation forecasts have not been accurate
- To maintain the inflation target, RBI keeps the interest rates higher which in turn will have a limiting effect on the growth

2. India in talks with Netherland to amend bilateral tax treaty

This news item is taken from LiveMint (8th April 2019).

- India is in the process amending its tax treaties with trading partners as it has been found that these treaties in many cases have been misused
- India has amended the tax treaties with Mauritius and Singapore in 2016 (DTAA) to plug the loopholes. As per this, on the sale of shares of Indian companies, the capital tax will be levied by Indian government from 1st April 2019 (there was a transition period of two years given - FY18 and FY19)
- Now it is negotiating a treaty with Dutch government for the amendment of tax treaty especially focussed on the concept of taxing capital gains. As per the present provisions in DTAA, whenever a Dutch company sells the shares of Indian company, it escapes the capital tax in India. The treaty favours the investors from Dutch when compared to those from Singapore or Mauritius but having said so, the economic substance requirement is higher in case of the former compared to latter countries. The provisions of economic substance ensure that the benefits go to only the genuine/legitimate investors

3. Long way to go for exports

This news item is taken from Business Standard (17th April 2019).

- The exports have increased in the month of march but having said so, the overall exports for the fiscal reached $331 bn, much below the target of $350 bn set by commerce department. It has been the same in the last fiscal where the target was $310 bn and exports were $302 bn and a fiscal previous to that the target was $300 bn and exports were worth $275 bn
- Some of the causes are
  - Issues with GST, which is leading to shortage of credit/liquidity crunch
  - Global trade scenario - trade wars

- The global growth has slowed down (was 5.25% in 2017 and 4% in 2018)
- Growing competitiveness from smaller countries
- Govt has been imposing tariffs to control the imports, which has led to increase in the cost of production for the manufacturers (import tariffs have been announced six times in the last one year over 500 goods such as telecom equipment, textiles, electronics etc)

- Exports of engineering goods which has earned a fourth of these foreign exchanges has stagnated for the past two years. Last fiscal it earned $92 bn and this fiscal $83 bn
    - Severe liquidity crunch
    - Rising steel and rubber prices
    - Effect of trade war
- Despite China being engaged in a trade war with US, Indian exports to China have not increased by much (rice and fruits)
- The second largest group of exports - jewellery - has been stuck by the scam and volatility of gold prices has affected the exports
- It is the apparel sector - third largest group - which is a cause of concern. The sector has been victim of a decline in overseas demand, particularly from major markets such as UAE. the decline in demand is because of increase in the competitive exports from countries such as Bangladesh, Vietnam

4. Fertiliser subsidy DBT on cards

This news item is taken from Business Standard (20th April 2019).

- Earlier the govt had introduced DBT in fertiliser on pilot basis in 2016 and to pan India in 2018. Under this the subsidy is being paid to the producers/manufacturers
- Govt is in the process of introducing DBT in fertiliser sector wherein the subsidy amount will directly be credited to the accounts of the farmers
- To implement this, the land database created under PM Kisan will be used to transfer benefits of PM Kisan and fertiliser subsidy into the accounts of small and marginal farmers
- The issue faced will be that same amount cannot be transferred into the account of all these farmers as the fertiliser consumption will vary

5. Why leeway under IBC eludes many MSMEs

This news item is taken from Business Standard (20th April 2019).

- Govt amended the IBC in 2017 (inserted section 29A) to keep out the errant borrowers from buying back the company from the creditors
- Keeping in mind the issues faced by the MSME sector, the provisions were relaxed and the owners of MSME units could buy them back under the insolvency code only if they were not declared as wilful defaulters. This was done in order to widen the pool of eligible bidders under IBC
- Section 240A has been inserted, which states that certain provisions of 29A would not apply to the resolution of MSMEs
- The narrow definition given under the MSME act 2006 has been a stumbling block for these units
    - Threshold of investment for a micro unit is up to ₹ 25 lakh
    - Threshold of investment for a small unit is up to ₹ 5 Cr
    - Threshold of investment for a medium unit is up to ₹ 10 Cr

Many units are unable to meet this criteria as a result are unable to get the relief under section 29A under IBC (under the Companies Act 2013, it is possible to classify a company as a small company if the turnover is up to ₹ 100 Cr)

There has been a proposal to shift from the current definition based on investment in plant and machinery to a definition based on turnover

- There is an urgent need to look into this as the MSME units may not have the requisite competitiveness to attract large number of buyers as in other larger companies