ETW 3rd to 9th June 2019

- **IIP and CPI series to be upgraded (BL 6/6/19)**
  - Govt is planning to bring out a new series for IIP and CPI. The revised aggregates will have base year of 2017-18 and 2019 respectively
  - In the new series there will be some additions and deletions and it is most likely may have the same number of product categories. For a product to be considered under the IIP, three conditions have to be met
    - Market presence for some time
    - At least 5 to 7 units producing the product
    - Product being in the market for sometime
  - The IIP comes with a lag of a month
  - Both are important indicators, more so in case of CPI, which is used as a nominal anchor for monetary policy and is used as a deflator in the national accounts calculation
  - Both are calculated and released by CSO

- **RBI cuts repo rate (TH 7/6/19)**
  - Repo rate fell below 6% for the first time since 2010, with MPC cutting the rates by 25 bps taking the repo rate to 5.75%
  - The decision was unanimously taken to address the growth concerns
  - Along with this stance also has been changed from neutral to accommodative (which means the hike in interest rates is ruled out)
  - The note of MPC has mentioned that the output gap has widened compared to what it was when the previous policy was announced in April 2019
  - To promote the digital transactions, the charges on NEFT and RTGS have been waived off. These charges were imposed by RBI on the banks, which transferred them to customers
  - RBI governor stated that of the 50 bps reduction that was provided in March and April MPC meetings, 21 bps has been transferred to the customers

- **Why interest sops for exports won't work (BL 4/6/19)**
  - About the scheme
    - Government in 2015 announced Interest Subvention Scheme
    - It would be applicable for a period of five years (i.e. till 2020)
    - Under this the exporters will get subsidy on per and post shipment rupee export credit
    - This was renamed as Interest Equalisation Scheme
    - It covers labour intensive sectors and employment generating sectors such as auto components, food processing, handicrafts etc

- The IES scheme did not become very popular among the exporters. The govt estimated the financial implication at ₹ 2500 to ₹ 2700 Cr per year, but for the first three and half years of its implementation the total outgo was ₹ 4829 Cr, which comes about 55% of the utilisation of the scheme. Some the reasons for this are
  - Low export growth which meant low demand for for export credit
  - Implementation of GST
  - Lack of awareness from the banks and exporters
  - High interest rates in India
- To make the scheme more popular the govt made certain changes
  - Increased the interest subvention from 3% to 5% for the exporters from MSME (in Nov 2018) (however the other exporters who were eligible continued to get intervention of 3%)
  - Merchant exporters were allowed to get the benefit of this scheme (earlier only producer-exporters were allowed). The argument of the govt was that these exporters are finding overseas markets and are exporting from MSME sector
- Having said so, the recent changes have not fixed the loopholes/issues plaguing this scheme
  - In its present form it will be classified under the export subsidy scheme of WTO (as per the Subsidies and Countervailing Measures Agreement of WTO, any measure by a govt which is either a financial contribution or revenue foregone and exists for export promotion will be considered as export subsidy). WTO prohibits the export subsidies and if any country is providing it, then it must withdraw/remove them (WTO has a rapid dispute settlement for such issues which is done in 3 months)
  - This was not a problem for India when this scheme was introduced in 2015 as it was under special status for poor countries but it has gradually moved out of this exemption in 2017
  - Other trading partners may challenge this scheme in WTO
- A way out of this could be to extend the scheme to all of the MSME sector which will make it contingent on production, employment creation etc, apart from this it will also ensure capital at Lower cost for the MSME sector

- **<u>Exports from Vietnam and Thailand should be brought under safeguard duty (BL 5/6/19)</u>**
  - Govt has imposed safeguard duties on solar modules imported from China and Malaysia. The safeguard duties of 25% will be applicable for

the first year, which will be reduced to 20% for six months thereafter and to 15% for six more months
- Domestic manufacturers are alleging that the cheaper Chinese modules are getting round tripped into India via Vietnam and Thailand. Hence they want the modules being imported from these two countries to be covered under the ambit of safeguard duties
- Safeguard duties are levies on imports, above and over the existing import duties. These are imposed in case the imports are causing disruption in the domestic market

- **<u>A solar manufacturing policy is needed (TH 6/6/19)</u>**
  - Initially the target was set at 20 GW, later it was raised to 100 GW by 2022. With this emphasis on the solar energy, the generation capacity has expanded, unit costs of solar have fallen
  - India is blessed with abundant of sunlight, it is available for most period of the year, yet India has not become a manufacturer of solar panels. One of the reasons has been cheap imports from China. The imports from China accounted for 90% of the sales in 2017 (which was 86% in 2014)
  - Substituting the imports require human capabilities, technological capabilities and capital in the form of finance
  - Supply chain involves: silicon from silicates > production of solar grade ingots > solar wafer > PV module assembly

- **<u>Abolish Cess and Surcharge (BL 5/6/19)</u>**
  - The cess and surcharge were supposed to be a temporary measure to raise tax revenues. Over the period of time various governments have converted them into a regular feature for income tax payers (both the corporate and individuals). This practice has to be discontinued
    - It is unfair to those who pay taxes compared to those who do not pay
    - It is unfair to the states as the charges collected in the form of surcharges and cesses by the centre are not shared with the states
  - In order to bring some balance, the 14th FC recommended increase in the vertical devolution to the states (from 32% to 42%)
  - The government in order to shore up the revenues (as the tax revenues have fallen) has increased the quantum of cess and surcharge in the last few years
    - 3% education cess has been increased to 4% - Education and health cess

        - P Chidambaram in the budget of 2013-14 had introduced 10% surcharge on individuals, firms and associations with a taxable income of over ₹ 1 Cr. the tax rate has been increased to 15%
        - Individuals with a taxable income of over ₹ 50 lakh and up to ₹ 1 Cr have to pay a surcharge of 10%
        - The surcharge on the incomes of the companies has been increased
    - With the introduction of GST, cesses have been subsumed under it. These cesses are more related to the indirect taxes (means the cesses related to direct taxes still persist)
    - **<u>About surcharges</u>**
        - It is an additional tax that is levied over the existing applicable tax rates. These are usually permanent in nature (cesses are temporary)
        - It is calculated in terms of percentage of the income taxes paid
        - The revenues earned by the centre through surcharge is solely retained by the centre and is not distributed with the states
        - These are used to make the taxation system more progressive
    - **<u>About cesses</u>**
        - It is a tax imposed central govt on tax, for a specific purpose
        - Some cesses are imposed as a percentage of the tax and in some cases it is imposed on value
            - Education and health cess of 4% is imposed on the existing tax rate
            - Swachh Bharat Cess was imposed on 0.5% of the value of the services
        - The revenues earned by the centre through cess is solely retained by the centre and is not distributed with the states