ETW 24th June to 30th June 2019

Move away from farm subsidies (BL 24/6/19)

- Farmers in India get access to huge amount of subsidies on inputs such as fertilisers, electricity, interest subvention on loans, discounted premium on crop insurance, MSP etc. For FY19, Govt has spent around ₹ 2.56 lakh Cr in the form of subsidies to the agriculture sector. This has jumped by 43% compared to what was provided in the last fiscal (around ₹ 1.8 lakh Cr) and in FY20, they are expected to further balloon to ₹ 2.77 lakh Cr
- Since the subsidies are provided in the present form, there is a limitation on the Govt on capital expenditure. It has been seen that less than 50% of the mandis in India have weighing machines, 15% of the APMCs have cold storage facilities
- Another issue with subsidies on the inputs is that it has led to inefficient usage of the resources such as usage of water and electricity has skewed cropping pattern, had an impact on the environment, led to monoculture etc
- There is an increased discussion about replacing the farm subsidies with direct cash transfers
- The cash subsidies will not resolve the issues plaguing the agriculture sector. There are issues related to infrastructure, market efficiency which will affect the earnings
- Completely stopping the subsidies is not possible now, but they can be rationalised. The subsidies given by the Govt to inputs such as urea, power/electricity that have led to certain adverse outcomes, have to be shifted under the DBT (Direct benefit Transfer) to plug the leakages
- What can be done is
  - To link the farm subsidies to the size of the land
  - Not offer them to all the farmers
  - Subsidies should be provided only through DBT
  - Once it’s done, the subsidies should be withdrawn and converted into capital investment in the agriculture sector (the capital investment will have higher impact on the yield and reduction of poverty)
- BJP in its election manifesto has proposed to invest ₹ 25 lakh Cr in the five-year period. This can be done
  - To create a nationwide network of warehouses, with smaller warehouses near the farm gate
  - Setting up of agro-processing centres
  - Providing assaying and grading machinery at mandis etc
- Apart from these
  - There is a need to promote agri-export policy

India and RCEP (TH 27/6/19)

- Leaders of 10 countries are committed to conclude negotiations related to RCEP by end of 2019
- It has even been stated that countries which are not ready to join, can join later and the remaining 13 members should go ahead to form RCEP
- ASEAN which first promoted the idea of RCEP in 2012 is putting pressure on all the other countries to complete the negotiations

- India has been keen to join the group but six years into negotiations, its concerns are still to be addressed
  - Opening its market to countries for cheaper goods such as China and South Korea
  - Ensuring that RCEP countries open their markets for Indian manpower (services)
  - Another sticking point has been India's condition that all the imports have to be tagged with 'country of origin'
- India has a trade deficit with 11 of the RCEP countries

India and GSP (IE 24/6/19)

- Indian exports enjoy GSP benefits provided by countries such as Australia, Russia, Japan etc. The value of the exports to other countries providing GSP benefits was five times compared to the exports under GSP to US in 2018
- US has terminated the GSP benefits to India with effect from June 5
- Indian exports to other countries providing GSP benefits have continued to grow. Indian exports to 28 countries in the EU (providing GSP benefits) rose from $23.9 bn (2017) to $25.6 bn (2018) and was $20.76 bn in 2016
- Among the countries providing GSP benefit to India, exports to EU has been the highest
- In case of US
  - Provided GSP benefits in 1975, with passage of Trade Act
  - India could export thousands of goods under the programme
  - The exports under this programme accounted for 11% of total exports from India to US in 2018
  - Export competitiveness of 1900 products will be hit

Corporate tax highest in India (BS 27/6/19)

- The corporate tax in India is among the highest in the world and has been increasing steadily in recent years
- **OECD has covered 94 jurisdictions in a survey**
  - India has the highest tax rate of 48.3% in 2018, it is double the average global corporate tax rate of 24%
  - The calculation involves corporate taxes, surcharges, cess, dividend distribution tax, any other additional tax
    - Corporate tax
      - Companies with revenue over ₹ 250 Cr is 30%
      - Firms with revenue below ₹ 250 Cr are taxed at 25%
      - Foreign companies attract a tax rate of 40%
    - Surcharge
      - 7% is applicable for domestic companies with taxable income between ₹ 1 Cr and ₹ 10 Cr
      - 12% for taxable income over ₹ 10 crore
      - For foreign companies, the rates are 2% and 5% respectively

- Cess - There is also a 4% health and educational cess
- Foreign companies pay a 50 per cent tax on royalty too
- Dividend distribution tax of 20.56 per cent is applicable

- Impact of high corporate tax rate
  - Make the companies less competitive in the global arena (if the tax rate is lower, companies are incentivised to invest more in the capital expenditure)
  - Makes it difficult to attract investments
  - The higher taxes eat away rise in the incremental rise in profits, reducing financial incentive for the companies to take risk in newer projects

Savings and investments in India (IE 26/9/19)

- The empirical evidence shows that in developing countries there is a positive correlation between savings and growth
- In developing countries such as India, the investments outpace the domestic savings and the gap is bridged by the foreign investments
- The savings have declined from 36.8% of GDP in fiscal 08 to 30.5% in fiscal 2018. it increased marginally in the interim but has been continuously on the decline since 2012
  - The external crisis led to Govt opting for fiscal stimulus which means slowdown in public savings
  - The savings from the household has declined from 23.1% in 2010 to 17.2% in fiscal 2018 (as a result, its share in gross savings fell from 68.2% to 56.3%). The household physical savings fell from 15.9% to 10.3%; financial savings too declined from 7.4% to 6.6%, this is a cause of concern (these were used to fund the gap between the savings and investment in the corporate and public sector)
    - The households are becoming consumption centric
    - Franco Modigliani's life cycle hypothesis says that a youthful population typically tends to consume more than it can earn. It tends to smoothen their consumption over the course of a lifetime. It borrows in the initial working years and saves during the periods of higher income. In india about 70% of the working population falls in this group
  - Added to this the Govt runs a huge revenue deficit which dis-incentivises the savings, keeping the savings rate low
  - The private sector savings has escaped this trend. It has increased from 7.4% (in 2008) to 11.6% by 2018

UK Sinha committee on MSME sector (BS 27/6/19)

- More NBFCs should come on board the TReDS of RBI. TReDS mitigates the risk arising out of non-payment of receivables of MSMEs, which supply to larger companies. As of now banks can take part in this system apart from which few NBFCs also participate (registered and involved in factoring)
- The cap on the loans to MSMEs must be increased. Presently under PSL guidelines, the rate of interest on loans given to MSMEs should not be above 8 percentage points the base rate. Since the 8% margin does not cover many of the costs incurred by NBFCs, they do not prefer to give

loans to MSMEs. The committee has recommended increasing this ceiling to 12 percentage points, which will prompt smaller NBFCs to give loans to MSMEs