ETW 16th to 29th Sep 2019

- **Why higher crude prices are a problem for India (LM 23/9/19)**
  - The crude prices though have stabilised for now; they're still costing more i.e. the prices are hovering at $65 per barrel which is 7% higher than what it was before the attack on Saudi's oil facilities
  - Since the oil prices include a risk premium, with this attack the risk premium would increase leading to higher import cost for India. Since the cost increase is because of the supply side factor, it could continue for higher duration. This will have an impact on the net oil importers as it would worsen CAD (Current Account Deficit), compress profit margins and cause CPI inflation
  - For importing country such as India, every time the crude prices increase by $10 per barrel
    - CAD increases by $12 to 14 bn per annum
    - Portfolio investors are discouraged from coming into countries with such vulnerability
  - For India this is an inopportune time as its exports are already affected by the trade spats going on, manufacturing activity is sluggish, there is an economic slowdown, investments levels are low etc

- **Govt to peg MGNREGA wages (TH 18/9/19)**
  - The centre is planning to inject more money in the rural economy by linking the wages under MGNREGA to inflation
  - With this it hopes that the wages would be revised and increase the purchasing power and revive the rural demand
  - Some economists have questioned whether linking the wages to a better index would provide better benefit as it has been seen that the wages under MGNREGA are lower than the market rates
  - National average under MGNREGA is ₹ 178.44 per day, which is much lesser than the minimum wage of ₹ 375 as recommended by the Labour Ministry panel
  - The MoSPI and Labour Bureau has informed the rural development ministry

that they are in the process of updating CPI-AL and CPI-R

- The CPI-AL is used for revising the MGNREGA wages. This has not been revised for more than three decades and rural consumption patterns have changed drastically. The food items have been given the highest weightage in the basket and in recent times it has been seen that the consumers in the rural part are spending lesser proportion on food and more on others such as health and education

- **<u>Waiting for reforms (TH 16/9/19)</u>**
    - Govt has presented third round of reforms on Saturday
    - The latest reform in tax benefit for the exports will incur an expenditure of ₹ 50000 Cr in the government's revenue
    - ECB norms would be eased to make it easier for the Indian real estate companies to tap funds from abroad
    - In case of real estate there is a lack of demand and major supply side issues, it is doubtful if the present reforms will be able to revive the flailing sectors
    - Without any structural reforms such as land reforms and labour reforms it is difficult to understand how the reforms announced by the govt would be addressing the slowdown in the economy

- **<u>GST rationalisation will have to wait (IE 24/9/19)</u>**
    - With the announcement of corporate tax cut, the possibility of rate cut for automobiles under GST was ruled out
    - The GST Council chose to ignore the demand of the automobile sector considering the revenue implications
    - Considering the state of the Indian economy and lower tax collections, the GST rate cuts announced were modest
    - Despite being more than two years since the GST was introduced, the systemic issues still persist for example the introduction of receipt matching system is yet to be done which has led to huge demands for input tax credit from shell companies
    - Added to this there is the issue of compensation. The states have been promised to be compensated for their revenue loss for a period of five years.

With the growth slowing down it is important for the govt to ensure that there are sufficient funds to ensure that the states are compensated and adequate funds are available in the fund

- With the corporate tax rates being cut, revenues of the states will get affected. In this situation the states will not accept any of the suggestions to lower the GST rates. Hence for rationalising the GST structure will have to wait a bit longer

After tax cut, fiscal crisis reaches states' doorstep (BS 24/9/19)

- Because of the revenue slowdown and the corporate tax rate cut announced by the govt, the state governments are either going to cut down their expenditures or end up with higher fiscal deficit
- Tax revenues of 16 major states has contracted by 7% in the first four months of this fiscal. Some states (five) have had an increase in tax revenues, but this increase is small
- With the recent announcements in corporate tax rate cut the total tax revenue foregone is around ₹ 1.45 lakh Cr (corporate taxes are a part of the divisible pool) and since the states get 42% of this in devolution, the states will have to forego around ₹ 60000 Cr
- On the other hand, though majority of this is foregone by the centre, it can recover it from various other sources such as through surcharges and cesses
- This doesn't mean that centre is in clear. The GST revenues have grown only 6% so far compared to last year and the centre has put in place compensation framework in case the GST revenues for the states do not increase by 14% compared to the previous year. This means the centre has to make up for the GST revenue shortfall for the states
- Added to this the recommendations of the 15th FC are awaited. Hence there would not be any changes in the GST rates for some time in the coming days