Economy This Week
23rd Dec 2019 to 5th Jan 2020

Video Link: https://youtu.be/keseDbmHm7c

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1. MDR waiver to hit business model

- The Government has announced that:
    - MDR on transactions done using RuPay and UPI will be waived off from January 2020.
    - All firms with a turnover of over ₹ 50 crore will have to offer RuPay and UPI facility for their customers.
- The Payments Council of India (PCI) has raised flags over the decision of the government to waive off MDR (Merchant Discount Rate - rate charged by the service provider on the merchant, it is usually in the range of 1 to 3% of overall transaction amount) charges on the transactions done on UPI and RuPay (both UPI and RuPay are owned by NPCI).
- PCI has said that this would affect the revenues of the payment companies and make their business model unviable.
- Experts have also warned that this may lead to a withdrawal of the POS terminals which are already set up in the market.

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2. Govt readies curbs on non-essential imports

- The Indian government is setting stricter quality standards for 371 items by March 2020, a move primarily aimed at curbing imports of non-essential items such as toys, plastic goods, sports items and furniture especially from China.
- The proposed rules will also ensure stricter inspection of imports.
- These rules will also help in reducing or narrowing the trade deficit with China.
- Non-essential imports from China count for over ₹ 4 tn a year. India presently has a trade deficit of $53.6 bn with China.
- As of now, there are 370 standards for imports and in the coming days, 5000 standards will be created in the second phase. Such standardisation will also help in domestic production as the domestic producers are often unable to meet high standards.
- This will benefit the domestic consumers also.

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3. Govt may go slow on national minimum wage plan

- Economic Survey has stated that a well-designed minimum wage system can be a potent tool for protecting workers and alleviating poverty, when set at an appropriate level which would lead to compliance. The survey has also noted that higher minimum wages will have little impact on job creation.
- The Government has decided to go slow on the idea of mandatory minimum wages, which is a part of the code on wages.
- The Parliament had passed the code five months ago, but there has been growing opposition to the labour reforms of the government.
- The challenges for setting a national minimum wage are:
    - The working class has opposed the proposed marginal hike.
        - Working class has demanded a higher hike.
        - As of now, the hike proposed is 10% over the existing national minimum wage of ₹ 176 per day (a panel of the Labour Ministry has recommended national minimum value of ₹ 375 per day).
        - There are only four states which are paying wages lesser than the national average.
        - The Maintenance and Welfare of Parents and Senior Citizens Bill 2019 has raised the issue and has stated that there is a need to look into the issue of calculation of minimum wages (as of now 4 people - husband, wife and two children - are taken into account for calculation of minimum wages, the bill says that parents also should be taken into consideration).
    - Increasing the minimum wages could have a negative impact on the companies during a slowdown.

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4. Railways to revamp fares

- The Indian Railways run one of the largest logistics and transportation networks in the world.
- The Railways are mulling rationalisation of fares for both passengers as well as the freight segment.
- The freight rates in railways are high and the objective of this rationalisation is to draw the traffic from the road to the railways.
- This comes after the CAG report which mentions that the performance of the railways has declined with the increase in its operating ratio which stood at 98.44% in 2017-18 (worst in the last 10 years). As per the budget documents, the Railways want to reduce the operating ratio to 95% in FY20.
- Many of the earlier committees have recommended rationalising the tariffs.
- The Railways are incurring losses in the passenger segment as the fares are subsidised and it ends up cross-subsidising the passenger segment by imposing higher tariffs under the freight segment.
- Currently, less than a third of cargo or freight on land is moved through railways.

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5. The positives of rising food prices

- Earlier, the government presented the data of price movements of 22 food items (tracked by the government).
- The retail prices of all these items have increased between January to early December of 2019.
- This is the first time in a very long period where the prices of food items have spiked across the board (the last time this happened was in 2012 and 2013).
- The rise in these prices is a cause of concern for the policymakers as well as households, but on the other hand, is good news for the cultivators or farmers.

- The increase in the market prices is beneficial for growers provided that they are part of the value chain. It's seen that just a fraction of the money paid by the consumer in the market reaches the farmers or cultivators (having said so, the amount that they get in absolute terms with the rise in prices would be substantial).
- With this, it is also expected that food inflation in urban India will lead to a rise in incomes for rural India.
- As per a study by Ramesh Chand of NITI Aayog, a 10% increase in the price realised by farmers directly raises their incomes by 13% and has a favourable effect on the production as well.
