Economy This Week (9th Mar to 22nd Mar 2020)

1. Low prices and increase in LPG price to reduce the subsidy burden for the govt (BS 14/3/20)

- Lower international crude prices and phased increase in kerosene and LPG is likely to provide relief to the government as the subsidy burden would come down.
- Oil Marketing Companies (OMCs) are passing on the reduction in the government subsidy on LPG by increasing the prices by ₹ 4 every month.
- The subsidy burden on both LPG and kerosene is likely to be around ₹ 35000 Cr (of this ₹ 5000 Cr is for kerosene subsidy).
- For FY19, the petroleum subsidy was ₹ 37397 Cr, which was a sharp increase from ₹ 25552 Cr for FY18.
- LPG is priced on the preceding months' average of the global price.

2. WTO complaint remission of tax scheme gets nod (BS 14/3/20)

- India's exports have contracted for straight sixth months in January 2020.
- The CCEA has approved a WTO compliant scheme for reimbursement of taxes and duties to exporters. This has been done in order to support the dwindling exports.
- This would replace the existing scheme, as scrips are issued to exporters under the Foreign Trade Policy 2015-20 (with introduction of RoDTEP, the benefits under MEIS for the sectors and items would be withdrawn).
- Presently, the GST and customs duty on inputs are either exempted or refunded. However, the GST on some of the inputs and some other taxes are not refunded (VAT on fuel used for transportation, duty on electricity used during manufacturing, etc). These would also be covered under Remission of Duties and Taxes on Export Products (RoDTEP). The taxes such as stamp duty and central excise on fuel used for transportation would also be covered.
- Under RoDTEP, the benefits will be transferred in the form of transferable duty credit or electronic scrip to the exporters (in line with Digital India Scheme).
- The scheme would cost the exchequer ₹ 50000 Cr.
- With refunds and reimbursements of input taxes, India would be moving towards zero rating of exports (refers to zero taxes on inputs of final products).

3. Masks, sanitisers pout under Essential Commodities Act (BL 15/3/20)

- The Central Government has brought masks and hand sanitisers under the Essential Commodities Act 1955 (ECA 1955).
- This has been done in order to ensure that these products are available to customers at the right price and right quantity in the market; this would help in preventing the spread of the COVID-19 infection.
- These have been kept under ECA 1955 till June 30.
- Under the Act, the states and UTs are given the powers to ask the manufacturers to enhance their production capacity.
- The offenders may be punished with an imprisonment of up to seven years.
- The Ministry of Consumer Affairs has also invoked the Prevention of Blackmarketing and Maintenance of Supplies of Essential Commodities Act 1980 (would involve action against those involved in overpricing and blackmarketing of the products).

4. RBI to go for $2 bn dollar swap for liquidity (TH 15/3/20)

- RBI has opened a six-month dollar sell-buy swap window to increase the liquidity in the forex market.
- This would increase the availability of forex in the market.
- The central banker would conduct US dollar - rupee sell-buy swaps worth $ 2 bn on March 16, 2020.

5. Why RBIs LTRO auction saw a weak response (BL 20/3/20)

- Central banks around the world are using various tools to negate the impact of COVID-19. India's central banker has used tools such as Long Term Repo Operations (LTRO) to limit the volatility of the rupee and provide cheaper long term funds to the banks.
- RBI announced the usage of LTRO in its February policy. The objective was to ensure that the long term (one year and three years) funds are available for the banks at a cheaper rate (than what they generally pay to raise similar funds). This would reduce the cost of funds for the banks and in turn, reduce their lending rates.
- With the rupee touching the 75-mark against the dollar and the poor response for the LTRO auction held recently, the RBI has to utilise other tools.
- The first round of auction was held on February 17, second on February 24, third on March 2 and fourth on March 18. In the first three rounds, the response was good as the bids to cover ratio were around 6 to 8 times (amount of bids received against the amount announced), but in the fourth round, the response was weak as the bid to cover ratio was just over one time.
- The utility of these funds vary from bank to bank. Stronger banks may borrow to lend in the market and the weaker banks may borrow at lower interest rate to invest in instruments such as bonds which would fetch them higher returns.
- With the uncertainty of the impact of COVID-19 on the economy, with the credit growth at a low 3%, and with the bond markets taking a knock, banks have less incentive to borrow under LTRO.