Economy This Week (27th July to 2nd Aug 2020)

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1. Drop in mandi arrivals stoke hoarding concerns (BL 27/7/20)

- The arrivals in mandis have been significantly lower this year. Only around 5 to 7 bags out of 10 of grains, pulses and spices have come to the market in the last six months.
- Analysis has shown that there is a large quantity of unaccounted floating stock in many agri commodities.
- As per the third advance estimates given by the Ministry of Agriculture, production across crops has been higher but with lower arrivals coming to the markets, something seems to be amiss.
- Reasons for the decline:
  - Because of the disruption caused in the supply chain, farmers have been selling directly to the buyers bypassing the mandis.
  - Increased procurement under the MSP compared to last year.
  - Increased food consumption in rural areas with reverse migration.
  - In order to address increased demand in rural areas, the farmers are stocking more.
  - There's fear that traders and intermediaries may be stocking up the food grains and this may lead to a spike in the market prices in the next couple of months. This may see the return of the Essential Commodities Act, 1955 (ECA, 1955).
- Apart from this, the sales of agri commodities outside the mandis may increase with the implementation of the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Ordinance 2020. However, there is a need to track who buys these agri commodities and where they are stocked.

2. High wastage keeps food firms from ploughing export benefits (BS 28/7/20)

- India is one of the largest producers of food grains and the value of the food market is around $900 bn but by all accounts, the total food processing is lower than 10%. As a result of this, value addition is low and food exports remain dismal.
- As a percentage of GDP the agricultural exports for:
  - India is at 2%
  - Brazil is around 4%
  - Argentina is 7%
  - Thailand is 9%
- The only exception for India is milk whose processing level stands at 35%. This is because of the fact that cooperatives, private sector participation have led to more competition. Having said so, much of what is processed is consumed in the domestic market leaving hardly anything to export.
- Issues:
  - Modernisation of agriculture is very low, this results in high wastage at the farm gate and beyond.
  - High preference for home-cooked food means lower demand for preserved food.
  - No national character for our food habits and it changes from region to region.
- Way forward

- Increased storage capacity at the village level. This will reduce food loss at the village level and help the rural population to be self-reliant.
- Good storage will also help in ensuring staggered sales of food grains in the market. This will promote food processing and exports.
- Robust domestic food processing industry.

3. Digging deeper (TH 29/7/20)

- Centre has paid out the GST compensation for the states after 4 months from the end of the fiscal.
- The states were guaranteed to be compensated for their revenue losses for the first five years, with the shift to the new GST regime. For the calculation of the GST revenue losses, the government would be taking up the 2015-16 tax revenues as the base with an assumption that they would be growing at an annual rate of 14%. For paying the compensation, the government has imposed a compensation cess on some of the items (luxury and sin goods) which are falling under the 28% slab.
- With the economic slowdown, the compensation cess collected has been lower than the compensation to be paid out to the states. Last year this gap stood at ₹ 70000 Cr and for this year it is expected to be much higher with the continued impact of the pandemic on the economic activity and people deferring their consumption especially of luxury items.
- The gap in cess was to a certain extent bridged by the surplus collected in earlier years and the rest was taken from the Consolidated Fund of India.
- The centre and states need clarity on their finances to fight COVID effectively.

4. Govt favours diverting MEIS funds to PLI scheme in select sector (31/7/20)

- The Merchandise Exports from India Scheme (MEIS) cost the government around ₹ 43500 Cr for FY20 (was ₹ 20232 Cr in FY16). The NITI Aayog has called for using these funds in the PLI Scheme (Production Linked Scheme) instead. But these have to be used in sectors which have a core competency and have export potential.
- The Revenue Department has argued that the scheme is not yielding expected results (with exports not growing) but the financial burden for the government has been bulging. The exports have moved from $310 bn in FY15 to $313 bn in FY20.
- MEIS was framed in 2015 by merging five reward schemes. Initially, the exporters were given duty credits at fixed rates - 2%, 3% and 5%. In the new scheme:
  - The coverage was increased (product lines).
  - The rates of incentives were also increased.
- Various experts have stated that a sudden axing of this scheme may spell doom for various exporters who had factored it in while planning and committing for exports in the current fiscal.
- In another case, the government had already decided to discontinue the scheme as it violates WTO norms and had announced Remission of Duties and Taxes on Export Products (RoDTEP).