

Economy This Week (31st Aug to 6th Sep 2020)

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1. Economy contracts (TH 1/9/20)

- The Indian economy shrank by 23.9% for Q1FY21 compared to the same time period a year earlier. It is the worst contraction in decades.
- Economists expect this to contribute to the overall economic growth of the current fiscal.
- The economy is experiencing a vicious cycle, demand hands contracted, the capacity to neutralise this contraction also has contracted equally because of lower tax revenues.
- The overall contraction for the current fiscal is expected to be around 5 to 7% and would be the first of this scale after 1979-80 when the economy contracted by 5.2%.
- Production
 - Agriculture was the only sector recording a modest growth rate of 3.4% (for the last couple of quarters the growth rate has been higher than the GDP growth rate in nominal and real terms). Construction recorded the sharpest contraction of 50%. The trade, hotels, transport and communication services shrank by 47%. Manufacturing shrank by 39%. Mining and quarrying shrank by 23%.
- Expenditure side
 - Private consumption fell by 26.7%
 - Investments (gross fixed capital formation) fell by 47%
 - Exports contracted by 20%
 - Govt. final consumption expenditure grew by 16.4%
- The major burden in the contraction was in the private final consumption expenditure, which has a weightage of almost 60% in GDP.
- The real situation could be bleak as three-fourths of our economy is informal which is not largely captured in GDP data
- The government so far has focused on supply-side reforms and unless they focus on the demand-side, the growth rate may remain in negative territory.

2. GST reforms need a new grand bargain (TH 1/9/20)

- Three years ago, GST was brought into force with an agreement between the centre and states.
- The consent of states to subsume taxes which were under the state was given on the promise of the centre to compensate for the shortfall of tax revenues for five years.
- VAT (Value Added Tax-precursor to GST) also had the provision of compensation but was tapered over a period to ensure that the states will be prompted to participate and also make efforts to collect more taxes.

- With the pandemic, the tax revenues have declined and the expenditures have increased at the central and state levels. The centre has abdicated its promise to compensate with the use of the 'act of god' clause usually used in commercial contracts.
- Why it is wrong:
 - States do not have options like the centre to issue sovereign bonds or loans against the public sector unit shares from RBI.
 - The centre can command much lower interest rates from the market as compared to the states.
 - In terms of public debt, it does not matter for rating agencies, debt markets, etc, whether it is because of the centre or state borrowings.
 - It would have an impact on the trust between the two units of cooperative federalism.
- Way forward - the Australian example:
 - In the case of Australia, for the past two decades, the rates have remained at 10%.
 - 12% GST rate has to cover all the goods which have not been covered in GST as of now. A separate surcharge must be imposed on some of the polluting goods which will go to the states.
 - The 12% rate will also promote compliance.
 - Of this 12%, 10% must be equally shared between centre and states and the remaining 2% must be allocated to the third tier - urban and rural local bodies.

3. Need FTA (Free Trade Agreement) review to begin this year - India to ASEAN (BS 31/8/20)

- India has signed an FTA with [ASEAN](#) effective from 2010.
- India has been asking for a review of the FTA and has pitched for stronger provisions for rules of origin, removal of non-tariff barriers, better market access.
- Last year in September, both sides agreed to review the FTA. There has been a criticism that the FTA has been helping rise in imports rather than benefitting the exports from India.
- Trade with ASEAN has seen consistent growth for Indian exports. In FY19 it stood at \$37.4 bn and came down by 10% in FY20 to \$31.5 bn. In terms of imports, it has come down by 6.6% from \$59.32 bn to \$55.36 bn for the respective time period.
- The imports from the region have been in an upswing since 2018-19 as the Chinese products have been routed through these member countries particularly through Vietnam. Because of the pandemic and India's recent dispute with China, the flows have been restricted.

4. To rebuild and recover (IE 2/9/20)

- For long term growth, there is a need to broaden the consumer base by empowering low and middle-income households or consumers.
- The government cannot spend to revive growth.
 - Temporary incomes will create uncertainty and precautionary savings without any impact on growth.
 - Fiscal situation was very weak even before the pandemic and went on to become worse after that. If the government goes on to borrow from the market then it will affect the yields and also affect the prospects of future investment.
 - It is easy to recommend that the government ignore fiscal prudence and start printing currency notes but the risk-reward ratio is far from being benign.
 - The overall debt is expected to reach 85% and the FD at 12.5% of GDP.
- The fiscal stimulus must be targeted and must have a multiplier effect.
- In the long term, there is a need to broaden the consumption base by creating stable and well-paid jobs.

- Top 20% of the total population accounts for 55% of discretionary consumption and 45% of overall consumption. This narrow consumption base with uncertainty over demographic dividend could dent the investment attractiveness.
- As per PLFS 2018-19:
 - 24% of the workforce falls in regular wage/salary category.
 - Of this, around 70% doesn't have a written contract.
- To make manufacturing easier, there should be focus on making reforms in labour, fewer and quicker approvals, reducing the compliance burden and promotion of export-oriented sectors.
- Most public spending should be directed towards sectors such as roads, railways, infrastructure, healthcare, education, etc. which will help in the rebuilding of the economy.

5. AGR (Adjusted Gross Revenues) dues to be paid in 10 years - SC (TH 2/9/20)

- The Supreme Court has allowed 10 years to the telecom companies to pay the AGR dues to the government.
- The government had proposed a time period of 20 years.
- Even after the part payment, the dues could run up to ₹ 1.43 lakh Cr.
- In October 2019, the court wanted the telecom dues to be paid in 3 months.
- The court has stated that the change in stance is after considering the financial stress and the involvement of the banking sector.
- In addition to this, the court has also stated that the companies will not be allowed to raise any dispute and there shall be no reassessment of the dues.
- 10% of the total AGR dues will have to be paid by 31st March 2021; after that, they'll have to make annual instalments.

6. India imposes anti-dumping duty (BL 4/9/20)

- After some of the domestic manufacturers complained against the imports from China, the government has announced the imposition of anti-dumping duty on ciprofloxacin imports from Chinese manufacturers.
- Anti-dumping duty is imposed when the exporter sells the products at a lower cost in another country compared to the domestic prices.
- The dumping activity affects the domestic manufacturing of the importing country.
- The duty will be imposed for a period of six months unless revoked.

7. RBI alters priority sector lending (PSL) norms (TH 5/9/20)

- The RBI has revised PSL norms to augment funding to segments including start-ups and agriculture.
- Fresh categories eligible for PSL:
 - Bank finance up to ₹ 50 Cr to start-ups.
 - Loans to farmers for installation of solar power plants for solarisation of grid-connected agri pumps and for setting up compressed biogas (CBG) plants have been included.
- Targets prescribed for small and marginal farmers and weaker sections are being increased in a phased manner and higher credit limit specified for Farmer Producer Organisations (FPOs)/Farmer Producer Companies (FPCs).
- Loan limits for renewable energy have been doubled.

