

Economy This Week (5th Oct to 11th Oct 2020)

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1. GST council extends compensation cess beyond 2022 (BL 6/10/20)

- The centre has decided to extend GST cess collection beyond 2022. This would be used to pay the interest on market borrowings that the states have been asked to consider.
- Compensation cess is imposed on new motor cars, aerated drinks, pan masala, tobacco products, etc.
- The compensation cess rates vary from product to product.
- The time period till which cess is levied is not clear and the proposal now is to extend it up to 2 years beyond 2022.
- The funds collected will be used to repay the borrowings planned in FY21 to meet the compensation shortfall.

2. Natural gas marketing (TH 8/10/20)

- The Cabinet Committee on Economic Affairs (CCEA) has approved natural gas marketing reforms to standardise the procedure for its price discovery.
- It has allowed the affiliate companies to participate in the bidding process. This is expected to increase the competition.
- Only if the affiliate companies are there, then this would require a rebidding process.
- The policy will grant marketing freedom to Field Development Plans of those blocks in which production sharing contracts already provide pricing freedom.

3. Masala bonds gain currency after a pause (BL 8/10/20)

- Masala Bonds (MB):
 - Is a form of external commercial borrowings (ECB).
 - Were launched by the government and IFC in 2014-15.
 - The objective was to contain account deficit, reducing rupee volatility, attracting long-term funds for infrastructure projects and internationalising the rupee.
 - The term 'masala' is used to indicate that these are Indian rupee-denominated bonds just like the case of Dim sum bonds (China), Baklava bonds (Turkey).
- Despite being corporate-friendly, the adoption of these remains low compared to the ECBs.
- The money raised by Indian corporates in recent years has come down, ₹ 30620 Cr (FY17), ₹ 18600 Cr (FY18) and ₹ 5900 Cr (FY19).
- The demand for such bonds in the foreign market has come down because of the rupee volatility and decreasing coupon rate (rupee has slipped from 64 to 66 against the dollar in 2016-18 to 68-70 in 2018-20).

4. India to contract by 9.6% for FY21 (LM 9/10/20)

- World Bank (South East Asia Focus Report) has estimated a contraction of 9.6% for FY21 against the earlier estimate of 3.2%. This reflects the impact of the nationwide lockdown and the income shock experienced by households and small companies.
- In addition to this, the bank expects the market to rebound with a growth rate of 5.4% for FY22 (assuming COVID-related curbs and restrictions are completely lifted and the base effect).
- However, there is substantial uncertainty about-
 - The course and duration of the pandemic.
 - The time households and companies will take to come to terms with the lifting of the lockdown.
 - A new round of countercyclical fiscal policy.
- The report states that the impact of covid-19 has materialized against the backdrop of enduring fragility in the financial sector, slowing overall growth and limited fiscal buffers.
- Assuming that the combined deficit of states is contained at 4.5%, the overall deficit is projected to rise to 12% in FY21. In addition to this, the public debt is expected to remain elevated at 94% (in FY23).

5. MSP guarantee won't solve the problems of Indian farmers (LM 9/10/20)

- With the government passing the Farmers Produce Trade and Commerce (Promotion and Facilitation) Act 2020, there are concerns about MSP. The fear is that the government may stop providing [MSP](#).
- The law has not made any such mention and the government so far has not made any changes to its position on the procurement of food grains by FCI.
- The farmers are concerned that the FCI may procure from traders who have purchased these food grains at a cheaper cost from open markets (as there are no commissions and taxes).
- In this context, many of the opposition parties are demanding the government to guarantee MSP procurements. This demand has gained traction as it remains to be the only visible and accessible form of state support to agriculture.
 - Though MSP is announced for 23 crops, the procurement is centred around rice and wheat.
 - The government has procured more than what is mandated under buffer stocks. Such a huge procurement puts a financial burden on the centre and creates inflationary pressures by withdrawing the essential food grains from the market.
 - The procurement of rice is mainly done in the top seven states and that of wheat from the top five states. Such skewed procurement practices might also cause environmental imbalances (farmers continue to grow rice despite the consequences of water and soil depletion).
- With the demand in the market becoming lower in the coming days (weaker economy and higher import costs), the MSP is unlikely to provide a solution for the low price realisation of most agricultural produce.

6. RTGS to be available 24*7 (BL 10/10/20)

- Real Time Gross Settlement (RTGS) - used for large value fund transfers - will be available 24*7 (round the clock) from December.
- Right now it is available for customers from 7 am to 6 pm on all the working days.
- Objectives:

- Facilitate in developing international financial centres.
 - Supporting ongoing efforts aimed at global integration of Indian financial markets.
 - Provide wider payment flexibility to domestic corporates and institutions.
 - In December last year, the National Electronic Fund Transfer (NEFT) was made round the clock and with that, the number of transactions has increased.
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