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Economy This Week (16th Jan to 22nd Jan 2021)

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1. Sensex crosses 50000 points (FE 22/1/21)

- Sensex has crossed the 50000 mark in intra-day trades for the first time.
- The foreign portfolio investors have continued to invest in Indian markets. The availability of liquidity in the market has helped this. In January alone they have invested $2.7 bn.
- The stellar performance of the IT companies which have beaten the street estimates also has helped the market rally.
- A couple of consumer-oriented businesses have also reported stronger than expected revenues for the quarter.

2. TReD push (BL 18/1/21)

- Trade Receivables and Discounting System (TReDS) was launched in 2014.
  - It discounts the bills of the seller/supplier and recovers the sum from the buyer at a later date.
  - As per the guidelines, units with a turnover of more than ₹ 500 Cr are to be mandatorily registered in the TReDS, but there has been reluctance from these units.
- As per the MSMED Act 2006, the dues of MSMEs have to be cleared in 45 days.
- TReDS was to function as a game-changer for the MSMEs, which are plagued by delayed payments.
  - As per the UK Sinha Committee on MSMEs, it is processing barely one per cent of the unmet credit needs of the MSMEs (about ₹ 20 lakh Cr).
  - It is handling a turnover of less than ₹ 15000 Cr from about 5.5 lakh invoices.

- Large buyers have been breaching the ceiling of 45 days. This has been found even in case of govt agencies which need to procure at least 25% of their requirements from the MSMEs.
- It is in this situation of lower confidence, that the financiers need to be provided with trade credit insurance (as suggested by RBI).
- For MSMEs, this is a very important avenue of credit as-
  - The formal sources of credit are becoming risk-averse and the informal sources are drying up
  - The NBFC sector is more retail loan driven
  - The MUDRA loans are small-ticket loans
- Sinha panel has recommended reverse factoring to make the TReDS successful. In reverse factoring, the buyer initiates the factoring process in order to ensure certainty of the supplies. The upcoming budget can boost reverse factoring, promoting the participation of the buyers.

3. Special window for big ticket foreign investments likely (BS 19/1/21)

- Govt is planning to create a special window for strategically important investors such as pension funds and sovereign wealth funds that wish to invest ₹ 3000 Cr in a single transaction.
- Such an announcement could be made in the upcoming budget.
- Some strategic investors include Canada Pension Fund, GIC (Singapore), Qatar Investment Authority, Temasek (Singapore) and Abu Dhabi Investment Authority.
- Through this, foreign funds would receive a response by the govt within three days and this window will act as a point of contact between the various ministries and departments concerned. The Department of Economic Affairs would be tracking the status of proposals every 14 days and resolve any irritants.
- As of now the FDI proposals take one to three months for approvals and under the new window, this time could be reduced significantly.
- The move was prompted by a surge of 11.3% foreign capital inflows in the first seven months of the current fiscal. For the period from April to October, the total FDI inflow stood at a record high of $46.82 bn.
- Since 2019, India has attracted $70 bn FDI, twice as much as between 2014 and 2018.

4. DBT scheme for fertiliser subsidy may be rolled out in FY22 (FE 20/1/21)

- Central govt annually incurs a fertiliser subsidy of over ₹70000 Cr.
- The govt is likely to shift to Direct Benefit Transfer (DBT) for delivering fertiliser subsidy to the farmers in FY22.

- As per the estimates, the govt is required to transfer a sum of ₹ 5000 to ₹ 6000 per year to the farmers under this, in addition to the ₹ 6000 annually being transferred on account of PM-KISAN.
- Over 14.6 Cr farmers with a farm size of 1.08 hectares are the intended beneficiaries.
- With DBT-
    - Currently, the farmers with small landholdings are seen benefitting less
    - Discourage rampant and unscientific use of fertilisers
- Subsidy
    - For P&K fertilisers have been fixed from 2010. The subsidy outlay has been reducing from ₹ 41500 Cr in FY11 to ₹ 26369 Cr in FY20.
    - Urea subsidy, on the other hand, has increased from ₹ 24337 Cr to ₹ 54755 Cr.
    - The gas-based urea production costs about ₹ 900/45 kg bag, the farmers get it at a subsidised price of ₹ 242 (70% discount).
- Earlier the govt was planning to provide the subsidy amount paid by the farmer into his bank account, this was junked on a concern that the farmer may find it difficult to make the upfront payment.
- Currently, the govt pays the subsidies to the producers periodically based on the Aadhaar authenticated sales (from 1st April 2018).

5. Too big to fail list (FE 20/1/21)

- SIBs are subjected to higher levels of supervision to prevent disruption in the financial services, in the event of a failure.
- RBI issued the framework for dealing with SIBs in 2014.
- The additional Common Equity Tier-1 Capital was introduced along with the capital conservation buffer.
    - The additional CET-1 requirement as a percentage of Risk-Weighted Assets for the SBI is 0.6% and for other two banks, it stands at 0.2%.
- These banks enjoy advantages in funding markets and expect govt assistance in times of financial distress.

6. Govt likely to set up DFIs to meet infra funding needs (LM 19/1/21)

- In the upcoming budget, govt is likely to merge many of the existing entities to create a mega Development Finance Institution (DFI).
- This is to meet the long term funding needs of the new, stalled and under-construction infrastructure projects which are worth over ₹ 100 tn.

- There is a need for larger DFIs as there is a huge requirement of financing the infra projects, in addition to this it will also lead to multiplier effects on other sectors.
- These projects have a long gestation period and the commercial banks are not suited for such lending.

7. Why India's startup ecosystem is in need of policy push (BL 16/1/21)

- The govt in the earlier budget has announced reforms for the startups.
    - Turnover of up to ₹ 100 Cr to claim 100% deduction on profit for three consecutive years out of 10 years since their incorporation
    - Deferred tax payment on ESOPs by five years or till the employee leaves the company or when they sell their shares (whichever is earliest)
    - Proposed to provide early life funding for the startups
- India
    - Has the highest number of startups after the US and China
    - In 2020 alone 12 startups became unicorns
- How is India's startup ecosystem performing?
    - The issues plaguing the startups include low internet speed and frequent power outages
    - Bengaluru is the leading city for startups but travel to and from the airport will take up more than half a day (not the case for other hubs such as Kuala Lumpur, Bangkok, etc.)
    - Lesser paperwork and involvement of public sector companies in the innovation ecosystem also set apart these startup hubs
    - India lacks local market depth (the ability of the customers to pay good money for technology), propensity of local businesses to go for serious acquisitions and market which can absorb a billion-dollar IPO and also accept the loss-making companies
- Way forward
    - Introduce high-speed internet
    - Power outage free startup zones in the top 10 cities

8. PM announces ₹ 1000 Cr seed fund for startups (FE 17/1/21)

- PM has announced a startup seed fund of ₹ 1000 Cr at Prarambh Start-up India International summit.
    - It marks the 5th year anniversary of Startup India (launched on 16th Jan 2016).
- This will enable the startups to raise the initial funding.
- In the coming days, the govt is expected to help the startups raise debt funds by providing guarantees.

- India has the third-largest number of startups i.e. more than 41000 and of these more than 5700 are in the IT sector, 3600 in the health sector, nearly 1700 in agriculture.
    - 10 startups have turned unicorns in 2020 against 9 in 2019.
- Through the GeM portal, the startups have been given the opportunity to participate in government tenders at par with other companies.
    - Over 8000 startups are registered on the portal and have conducted a business of over ₹ 2300 Cr.

9. Airport privatisation (FE 17/1/21)

- The committee appointed by the govt has dropped the proposal of the ministry which would have restricted the number of private airports that the private developers are allowed to bid for under the Public Private Partnership (PPP) model.
- The committee has stated that there are not enough number of private players in the market and putting a cap on participation would be delaying the airport privatisation.
- The earlier proposal was to limit the number of bids to two during a round of auction.

10. Faceless penalty scheme to help boost transparency, compliance (LM 18/1/21)

- The govt has notified the Faceless Penalty Scheme (FPS), this comes after the govt implemented Faceless Assessment and Faceless Appeal Scheme.
- Under the FPS, all the penalty related proceedings will be conducted digitally and without any human interface.
- The tax officials can impose penalties on the taxpayers under various provisions of the Income Tax Act of 1961. The penalty orders issued its review and proceedings related to it shall be conducted through digital means, which includes
    - Issuing of show cause notice or initiating penalty proceedings
    - Obtaining any information or evidence from the taxpayer
    - Conducting the verification of the above
- The scheme will be managed through the National Faceless Penalty Centre (NFPC).
- Under this, there will also be Regional Faceless Penalty Centres (RFPC).
- The taxpayer will not be required to appear either personally or through an authorised representative before the income tax authority. However the taxpayer may request for personal hearing, such hearing shall be conducted through video telephony
- This is expected to -
    - Weed out human errors and human interactions which may sometimes lead to harassment of taxpayers.

- Cases to be decided on merit rather than any subjectivity and bias. Earlier the penalties on the taxpayers were imposed on the discretion of the tax officer.