Economy This Week (11th Jan to 15th Jan 2021)

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1. Budget may try to straighten 'inverted duty' structure (BL 11/1/21)

- The govt in the upcoming budget may try to address and remove some of the remaining inverted duties that discourage value addition.
- It may include the cases where the import duties on imports are higher than the finished goods than the intermediaries, both are same or where there is more than one use for an import which makes it difficult to establish if the inverted duty structure exists (for example, imported plastics when used in electronics, there may not be any inverted duty affect but when the same is used in the plastic industry, the impact of inverted duty structure can be felt).
- The finance ministry had earlier taken various measures to address this issue, but there are some sectors which continue to face this problem even now.

2. Pradhan Mantri Ujjwala Yojana (PMUY) needs to be extended (BL 11/1/21)

- The scheme was launched on 1st May 2016 at Ballia, UP. It has taken a little over 40 months for allocation of 8 Cr connections under this. The scheme started with a target of 5 Cr beneficiaries but later was extended to cover 8 Cr connections.
  - The beneficiaries were selected using 14 parameters for excluding the relatively well-off.
  - Initially, an allocation of ₹ 8000 Cr was made but later with extension, the allocation was increased by ₹ 4800 Cr.
- Air pollution could be the cause of 1,20,000 infant deaths in their first month of life in India, two-thirds of this could be linked to the use of solid fuels.

- According to WHO, India has witnessed about five lakh deaths per year due to unclean cooking fuels before the introduction of PMUY.
- According to experts, having an open fire kitchen is equivalent to burning 400 cigarettes an hour.
- As per the CAG:
    - LPG coverage has increased from 62% in May 2016 to 94% in March 2019.
    - However, the average refilling of PMUY beneficiaries has remained low compared to non-PMUY beneficiaries.
    - The poor financial condition and diversion of domestic cylinders for commercial purposes were seen to be the reasons.
- The scheme has been withdrawn effective from September 2019, although no formal declaration has been made.
- The Parliamentary Committee on petroleum has recommended extension of the scheme to urban and semi-urban slum areas to further the LPG coverage.

3. Disinvestments miss target amid fundraising boom (LM 11/1/21)

- In the past 12 years, the disinvestment targets have been met only in two years.
- The govt so far has raised only ₹ 13844 Cr in this fiscal against a target of ₹ 2.1 tn.
- This marks a new low in the disinvestment revenues and also a low in terms of the proportion of targeted revenues.
- Between April and December, the Indian companies have raised over ₹ 1.7 tn by selling equity in the primary market and disinvestments this year amount to just 8% out of this (the median for this ratio has stood at 49% in the preceding 10 years). In addition to this, another issue has been that of disconnect between the PSU stocks with the rest of the market i.e. the PSU stocks are undervalued compared to their book value when the markets are at record highs (this low valuation of stocks of PSUs has pushed back the stake sales by DIPAM - Department of Investment and Public Asset Management).
- However, the other side of the argument is that it is unfair to judge the government's performance in a year of pandemic.
- It also means that there is fundamentally something wrong with these PSUs. In the last 10 years, the BSE PSU index has fallen by 30% in value whereas the BSE 500 index has risen by about 150%.
- One issue is that these are poorly managed with excessive government interference. Even if these are available at a discounted valuation, the investors may not be enthused about buying the stake in these PSUs.

4. RBI raises concerns over zero coupon bonds for PSB recap (LM 11/1/21)

- Parliament has approved ₹ 20000 Cr for the recapitalisation of banks.
- RBI has raised concerns over the zero-coupon bonds (Recap Bonds) which have been issued by the govt for recapitalising the PSBs.
- There is an ongoing discussion between the central banker and the finance ministry to find a solution.
- The govt initially started issuing bonds which bore coupon rates for capital infusion in the banks from 2017-18 and interest on such bonds was paid to the banks from the very next financial year. Govt to ease the interest flow (has spent over ₹5800 Cr in interest payments in 2018-19, in the next year it ballooned to ₹ 16285 Cr) and also to ease the financial pressure, started issuing these zero-coupon bonds (as Recap Bonds).
- The RBI has raised issues with regards to effective capital infusion done in many of the banks when such bonds are issued. These bonds are issued at deep discounts, hence it is difficult to find the net present value of such bonds.

5. Liquidation far exceeds the companies saved under IBC (LM 12/1/21)

- The number of companies liquidated under IBC has far outnumbered the companies that have been saved under it. The main objective of IBC is to revive or salvage the number of companies which are distressed. This indicates the challenges faced by the Indian economy.
- In almost every quarter, the number of companies ordered to be liquidated is three to four times that of the ones saved.
  - The highest liquidation orders of 155 came in the second quarter of FY20 against 33 resolution plans approved.
  - In the second quarter of FY21, 68 companies faced liquidation against 22 for which resolution plans were approved.
- The number of liquidations could have been higher if not for the National Company Law Tribunal (NCLT), which has been giving opportunities even beyond 330 days to find a solution for the distressed companies. The issue with this is that it will only postpone the problem.
- Reasons for higher liquidation:
  - One of the reasons for higher liquidations is the disqualification under Section 29A (promoters of the distressed company are prohibited from taking part as bidders in the resolution process - unless they pay overdue amount).
  - In addition to this, the inability of the business to stay viable and an inadequate number of buyers.

6. Customs tariffs needs to be rationalised (TH 13/1/21)

- Since the introduction of GST three years ago, the exercise of changing the indirect tax rates has been limited to just the customs duties as GST rates can be changed only by the GST Council. Having said so, in the last three years, no rationalisation has been done in this area and the rates are too diverse.
- The customs tariffs have got 19 rates of duties ranging from zero to 150% in addition to some specific duties.
- Then there are hundreds of exemptions and conditions and lists which make customs duty classification quite complicated. So far there have been no measures taken to remove exemptions in customs which could have generated a lot of revenue for the govt.
- In many cases, the rate difference of 2.5% still exists. The rates should be combined at 150, 100, 50, 25, 15, 10 and 5 percent.
- On the contrary, what has been done is to just either increase or decrease the rates without any sign of simplification (but some are for revenue and some are for protection which is justified).
- The policy of Atmanirbhar can be implemented by increasing the tariffs on consumer goods and not on the producer goods.
- Then there's the issue of inverted duty structure. This is based on the assumption that there is a clear distinction between inputs and outputs. This is true for an industry but not for the whole economy as in many cases, outputs of a company are inputs for another. Hence if item-specific changes are made then the whole tariff will get messed up.

7. How fiscal deficit affects inflation (LM 13/1/21)

- The govt has breached the fiscal deficit (FD) targets for the current fiscal and this gap is bridged by the govt borrowing from the market.
  - With the pandemic, the expenditures have increased and revenues have fallen short.
  - This has led to a ballooning of fiscal deficit to 6 to 7% against the budgeted target of 3.5%.
- FD can lead to cost-push inflation. Govt being a major player in the market for borrowing will exert higher upward pressure on interest rates and higher interest rates increase the production cost, which is passed on to the consumers. The degree of the impact on inflation depends upon the type of expenditure, if it is because of the productive investment, then the impact is lesser, as it takes care of both supply and demand.
- The FD can also help in reviving the sluggish economy when the investment is done in productive assets (employment creation, investment, etc) and when it is because of welfare expenditure, it increases the purchasing power of the poor.

8. Govt may revise norms on closing loss making PSUs (LM 14/1/21)

- The govt is preparing revised guidelines for time-bound closure of the loss-making PSUs and disposal of their assets.
- The revised guidelines are likely to be for prioritising the shutting down of PSUs where all the revival efforts have already failed.
- DIPAM has failed to find strategic investors for Scooters India Ltd, Bharat Pumps and Compressors Ltd, etc. even after inviting expressions of interest.
- As per the current guidelines, an oversight committee in NITI Aayog monitors the implementation of the decision along with the prescribed timelines.
- As per the data:
    - As on 17th March, 70 loss-making CPSEs have incurred a loss of ₹ 3165 Cr.
    - Between August 2013 and March 2020, govt has approved the closure of 21 loss-making CPSEs.
- Some of the problems faced by loss-making CPSEs are:
    - Obsolete plants and machinery
    - Heavy interest burden
    - Resource crunch
    - Low capacity utilisation
    - Low productivity
    - Surplus manpower
    - High input costs
    - Non-remunerative prices, etc
- On the other hand, the govt has also approved the revival of eight CPSEs.

9. Govt to roll out phase 3 of national skill mission (LM 15/1/21)

- The govt has launched phase 3 of the national skill mission (Pradhan Mantri Kaushal Vikas Yojana - PMKVY), after the delay that was caused by the pandemic.
    - The first phase of PMKVY was introduced in 2015 and the second phase in 2016.
    - The training would be provided across 600 districts and the focus will be on providing demand-driven skills rather than supply-driven skills as in the last six years.
    - In phase 3 the district administration will be playing a major role in deciding training demand, job matching and quality monitoring (previously it was done from Delhi).
- Under this, the govt aims to train/skill 8,00,000 people in localised demand-driven skills.
- Govt has allocated ₹ 950 Cr for this.

10. Why India’s start-up ecosystem is in need of policy push (BL 16/1/21)

- The govt in the earlier budget had announced reforms for the start-ups.
    - Turnover of up to ₹ 100 Cr to claim 100% deduction on profit for three consecutive years out of 10 years since their incorporation.
    - Decreed 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 start-ups.
- India
    - Has the highest number of start-ups after the US and China.
    - In 2020 alone, 12 start-ups became unicorns.
- How is India's start-up ecosystem performing?
    - The issues plaguing the start-ups include low internet speed and frequent power outages.
    - Bengaluru is the leading city for start-ups 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 start-up hubs.
    - India lacks local market depth (the ability of the customers to pay good money for the technology), the 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 start-up zones in the top 10 cities

11. 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 startups to raise 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 and 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.