Economy This Week (13th Feb to 19th Feb 2021)

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1. Fresh round of operation twist on 25th February (LM 16/2/21)

- RBI will be simultaneously selling and buying G-secs worth ₹ 10000 Cr under Open Market Operations (OMO).
- RBI will purchase securities maturing in 2025, 2029 and 2033 and sell short-dated securities maturing in November this year and in February 2022.
- The yield rate on the 10-year G-sec was trading at 6.01%, RBI has tried to keep it below 6% to aid govt borrowing.
- So far in this fiscal, the central banker has made purchases of G-secs of ₹ 4.07 tn and OMO purchases of State Development Loans of ₹ 30000 Cr.

2. RBI to issue 40 year bond (BS 13/2/21)

- RBI will be issuing new 40-year benchmark bonds.
- These would be the highest tenured bonds issued by the govt.
- Such bonds were first issued in 2015 and the govt had raised ₹ 1 tn from such issue. After this, another set was issued in 2019 and this raised ₹ 83462 Cr.
- In 2020 also, the govt has issued ₹ 2 tn worth of such bonds.
- Now, these bonds will be used to raise ₹ 7000 Cr and will be part of a ₹ 31000 Cr borrowing programme to be done using four securities.
- These 40-year bonds are illiquid in the market as these are bought by insurance companies and pension funds, which hardly trade in the secondary market.

- These are popular with banks and other traders as these are generally traded later in the market and are held under 'held to maturity'.
- It also means that the govt repayment liability in the future will be much higher.

3. IIP and CPI (TH 13/2/21)

- Retail inflation has slowed to a 16-month low of 4.06% in January.
  - Because of a sharp deceleration in food prices. The consumer food price index rose by just 1.89% for the month of January (was 3.4% in December 2020).
  - Inflation has registered a growth rate of over 6% for six months from June to November.
  - However, the core inflation was 5.7% closer to the levels in the month of December.
- Industrial production has rebounded with a growth of 1% in December aided by increased electricity and manufacturing, it is a piece of good news as in November, the IIP registered a negative growth rate of 2.1%.
  - The rebound was led by a 5.1% jump in electricity production and a 1.6% in manufacturing output.

4. Govt backs merger of 2 tax slabs GST (LM 19/2/21)

- The central govt is in favour of merging 12% and 18% GST slab rates into one slab. This has been demanded by many states and also backed by the 15th Finance Commission.
- Currently India has 4 slabs - 5%, 12%, 18% and 28%. In addition to this,
  - There are special rates of 0.25% and 3% on precious stones and metals
  - There is a cess applicable on demerit goods such as automobiles, tobacco, aerated drinks
- GST which subsumed many taxes (central and state) and cesses was supposed to be a revenue-neutral exercise but over a period of time there have been GST cuts that have reduced the revenue and the rationalisation is expected to correct this (even the 15th FC has recommended getting back to revenue neutrality).
- The 15th FC has recommended:
  - Merging 12% and 18%
  - Operating with a three-tier structure - merit rate, standard rate and demerit rate of 28 to 30%
  - Minimise tax exemptions
- This needs to be done as the states
  - Are unable to collect higher tax revenues
  - Compensation is set to end in June 2022

5. Five job surveys (LM 18/2/21)

- Govt is set to conduct five major job surveys, which are expected to be completed by the next eight months.
- With this, the National Employment Policy is set to see a revival.
- The five surveys are on industrial establishments, professionals, migrants, domestic workers and transport sector.
- These surveys are expected to be broad-based with large sample sizes.
- The survey will also include gig workers which will help the policymakers to form a comprehensive policy for both formal and informal segments and also social security and welfare measures.
- The national employment policy (NEP) may also incentivise employers to promote a job creation environment.

6. P - Note investment surge is no cause for concern (BL 19/2/21)

- P-Notes are receipts that are issued by FPIs against the money that they receive for purchasing stocks on behalf of their clients. These instruments are not registered in India, hence the real identity of the beneficiary investor is not revealed to regulatory authorities here.
  - About 10000 FPIs are registered with SEBI.
  - FPIs' total Assets Under Management (AUM) exceed $55 bn and P-notes account for less than 2% of this.
  - Nearly a third of this FPI originates from Luxembourg, Singapore and Mauritius.
- The investments through P-notes (Participatory Notes) have surged to ₹ 87000 Cr (31-month high) as of December 2020.
- In 2020 the inflow through this has shown a growth of 30% in value.
- In FY21 India received a total FPI of $35 bn which is the highest in any financial year and also the highest for any developing country.
- Post the budget this inflow has increased with overall inflows in February exceeding $3 bn.

7. Fuel prices and GST (LM 19/2/21)

- The central govt has indicated that it would be bringing natural gas under the ambit of GST, it is expected to reduce the price of natural gas and rescue it from the cascade of taxes, also help in moving India towards the natural gas economy. Apart from this if more natural gas is consumed it will reduce the impact on the environment.

- Though no time period has been set yet, this could bolster the move to bring all the hydrocarbons under GST.
- The fuels such as petrol are price inelastic which makes them an easy target for the govt to impose taxes and collect higher revenues.
- The retail price of petrol in Delhi is ₹ 89.
    - Base price - ₹ 31.82
    - Excise - ₹ 32.9
    - State VAT - ₹ 20.61
    - Dealer's margin - ₹ 3.68
- The idea of increasing the taxes on petrol and diesel to collect higher revenues took shape after shale gas was produced in the USA and this led to a drop in international crude prices.

8. New five year FTP (BL 15/2/21)

- The new FTP is likely to come up with new guidelines for e-commerce companies and encourage exporters to use online platforms for increasing their business.
- It will help domestic companies to go global and those already in business to reach out to more buyers in the global market.
- It is expected to boost the govt's 'one district one product (ODOP)' initiative and also promote the exports of Geographical Indications (GI) products.
    - Under ODOP each district in the country will be
        - Converted into an export hub
        - The product in the region which has high export potential will be considered
        - The bottlenecks will be addressed
        - This will help exporters to scale up production
        - It will help them find potential buyers outside India
    - In the initial phase, 106 products from 103 districts have been identified across 27 states.
- Govt is also looking at the proposals given for Cross Border e-Commerce Zones (CBEC) comprising e-commerce players, third party payment agencies, logistics providers, etc.

9. Incentivise states disinvestment in PSEs (TH 14/2/21)

- The 15th Finance Commission (FC) chairman has mooted the idea of central govt incentivising the states for:
    - Clearing their financial position under fiscal deficit
    - Bringing off-budget liabilities above board
    - Taking up disinvestment

- Central govt in the recently concluded budget has stated its fiscal deficit at 9.5% which is a positive development, the same should be done by the states also.
- The centre should promote the same at the state level so that investor confidence in the Indian economy will improve.