

## Economy This Week (1st Jun to 15th Jun 2021)

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#### **1. GST rates on covid related items slashed till Sept 30th (ET 13/6/21)**

- The GST Council has decided to reduce the GST rates on covid related items - medicines, oxygen concentrators, testing kits, hand sanitisers - to 5%. It has however left the rates on vaccines unchanged at 5%.
- The [GST Council](#) has agreed to many of the recommendations given by the group of ministers (GoM).
- The GoM had recommended lowering the rates till the end of August but the committee has given it till September 30th.

#### **2. Monetary Policy (TH 5/6/21)**

- RBI has left the benchmark rates (policy rate or repo rate) unchanged at 4% and has affirmed that it would continue with its accommodative policy stance until it is necessary to revive and sustain growth.
  - This will help in maintaining the yield rates, which will also help the govt which has huge borrowings to do.
- It has also cut the GDP estimate by 100 bps to 9.5%.
- Covid 19 infections and fatalities have impaired the nascent economic recovery that was taking place, however, the impulses of growth are still there in the economy.
- The projection for retail inflation has been raised to 5.1% for FY22.
- The retail inflation stood at 4.3% for April which has provided some space for policymaking. However rising trends of crude oil prices, commodity prices are concerning.
- If the policies were made in terms of insulating prices of essential food commodities from supply-side disruptions, this would counter the inflationary pressures.
- Concerns:
  - RBI's role is limited to increasing liquidity, fiscal policy support is needed (govt needs to front-load its capex).
  - Despite RBI pushing liquidity, the banks' lending has not increased substantially.
  - [Inflation](#) risks are being downplayed - RBI on one hand says that the global crude oil prices are seeing an uptick and this will lead to increased logistics costs but argues that weak demand conditions will temper the pass-through effect. However, it has also argued that there would be demand revival in the second half of the current fiscal.

### 3. RBI may use money managers to boost forex reserves yield (ET 10/6/21)

- RBI is likely to engage external financial consultants to manage part of the \$600 bn forex reserves.
- It is being looked into to improve the yields on the reserves.
- Many global institutions are said to have approached the central bank and no formal announcement has been made so far in this regard. This is a serious option being looked into by the central banker in line with the global trends.

- India's forex reserves are expected to reach \$600 bn this week. This will provide higher import cover but also pose balance sheet management challenges to RBI in the global market where the interest rates are at record lows.

#### **4. WPI may be rebased with base year of 2017-18 (BS 7/6/21)**

- Wholesale Price Index (WPI) is likely to be rebased with the base year of 2017-18 (current base year 2011-12) and there is also a possibility of bringing fresh items (such as green tea, solar electricity, sanitisers, brown rice, etc.) in the basket to capture emerging consumption patterns.
  - WPI was launched in 1974.
  - The commodity basket was classified into five groups with 78 items.
  - It has undergone revision seven times.
  - **Read more on the [Wholesale Price Index](#) in the link.**
- The items basket is expected to almost double from 697 items to 1196 items as per the draft report prepared by Working Group for Revision led by Ramesh Chand.
  - Food weightage is expected to increase from 24% (including primary articles and manufactured segment) to 27%
  - Fuel and power may go down from 13% to 11%
- The High Level Panel (HLP) has also recommended releasing six business services price indices - banking, insurance, securities, air transport, telecom and railways.
- The wider product basket will be to capture changing consumption patterns.
- Though CPI is used for retail inflation, because of its much longer history, WPI is still the most widely followed measure of inflation.
  - It is used as a deflator of nominal macroeconomic aggregates to make the GDP figure as precise as possible.
  - Is also used for fiscal, trade and other important policy decisions.

#### **5. Half of IBC cases end in liquidation (BS 1/6/21)**

- Around half of the cases that were closed by the lenders in FY21 under [IBC](#) have ended up in liquidation and only around 13% of the cases have been resolved.
  - Higher case under liquidation means the amount recovered by the bank will be a minuscule amount.
- As of March this year, banks have closed 2653 cases.
- In 16% of the cases, the companies were handed back to the promoters, who managed to pay their dues under Section 12A of the Insolvency Act.
- Around 23% of the closed cases are either under review or in appeals.
- Of the total 4376 cases, 2653 were closed while the rest are ongoing.
- In addition to higher liquidation outcomes, another worrying trend for the lenders is that the haircut on resolved cases rose to 60% from the average of 55% in the previous years.
  - In March 2021 quarter, it was as high as 74%.
- Around 79% of the ongoing cases have crossed the 270-day mark since the admission of the case, thus liquidation in these cases may be higher in the coming days.

## 6. Minimum wage conundrum (BS 10/6/21)

- The govt has set up an expert committee and has given the mandate of fixing the minimum wages for different regions.
  - It will be a six-membered committee.
  - Headed by Ajit Mishra.
  - The committee will also propose national floor wages for all the categories of work and the wages paid to these workers cannot be below this.
  - However, the panel has been given a time period of three years, which means the implementation of minimum wages could be delayed.
- The rationale for setting up a second committee is not clear as it had already set up a committee under Anoop Satpathy in January 2017 and the committee had submitted its report in 2019.
  - Recommended minimum wage at ₹ 375 per day or ₹ 9750 a month as of July 2018
  - Suggested that minimum wages were not a subject of skill or occupation
  - Recommended introducing additional house rent allowance for urban workers

- Besides the national wage, it recommended different minimum wages for different regions to account for the local factors (cost of living varies in different states)
- The report hasn't made much impact as the govt increased the minimum wage only marginally in 2019.
- Issues:
  - If the floor wage is set too high, it will deter the employers to hire more and instead use more capital intensive techniques for production and if it is set too low then sustenance of the workers would be difficult.

### **7. Consumer inflation quickens to 6.3% (TH 15/6/21)**

- Retail inflation (CPI) has hit a six-month high of 6.3% in May resulting from higher fuel and edible oil prices. These also have resulted in pushing up the WPI to a record high of 12.94% (WPI in May 2020 had contracted 3.37%).
- The retail prices have seen a sharper rise in rural areas - from 3.75% in April to 6.5% in May. In the case of urban areas the rise is from 4.7% to 6% in respective months.
- At the wholesale level, the fuel and power inflation has risen from 9.75% to 37.6% (almost quadrupled) between March and May. It is also significantly higher than 20.9% registered for April.
- The high rate in the case of WPI is also because of:
  - Base effect
  - The rise in prices of crude petroleum, mineral oils and manufactured products

### **8. PMFBY - Beed model (IE 11/6/21)**

- Govt has implemented the [Pradhan Mantri Fasal Bima Yojana \(PMFBY\)](#) since 2016 under which the govt is aiming to provide insurance for farm losses against inclement weather.
- However, there have been issues such as delays in claim settlement, failure to cover localised weather events, stringent conditions for claims, etc.

- In the case of Maharashtra, farmers predominantly depend on the monsoon and their crops are affected either by lower rainfall or excess rainfall. Hence the scheme implemented by the insurance companies has been a cause of concern - compensation paid out has been very close or higher than the premium collected leading to losses for insurance companies.
- **Beed model:**
  - Beed district is located in the drought-prone Marathwada region.
  - Because of uncertainty over rainfall leading to crop losses, govt has been finding it difficult to get bids from insurance companies.
  - The state govt along with the state-run Agriculture Insurance Company has implemented the scheme.
    - Under this, the company will be providing a cover of 110% of the premium collected.
    - If the compensation exceeds the premium collected then the state govt would provide the excess amount and if the compensation paid was lower, the insurance company would keep 20% of the amount as handling charges and reimburse the rest to the state govt.
    - In the last Kharif season, the district reported a premium collection of ₹ 803 Cr (of this ₹ 8 Cr was paid by the farmers and the rest was borne by the state govt). The claims amount was ₹ 8.6 Cr and thus the insurance companies reimbursed the state with over ₹ 630 Cr and kept over ₹ 160 Cr with itself as handling charges.
    - In a normal season, the state govt is expected to get back the money which can be used as a corpus to fund the scheme for the subsequent year.
  - The state govt of Maharashtra is pushing for this model:
    - As in most of the years, the claims to premium ratio is low
    - The profits of the insurance companies are low
    - The state govt gets the reimbursement and will reduce the provisioning of funds in the next year

## 9. Franklin Templeton - debt mismanagement (BL 8/6/21)

- Franklin Templeton Asset Management Company (FTAMC) has been found guilty by SEBI of wrongful conduct and causing loss and hardship to the investors of its six debt schemes.
- SEBI has asked FTAMC to return nearly ₹ 460 Cr it had collected as management and advisory fees from the investors of the debt schemes since June 2018 with 12% interest.
- SEBI has banned FTAMC from launching any new debt schemes for two years and imposed a fine of ₹ 5 Cr on the fund house.
- Under the SEBI laws, disgorgement (return of fees) can be ordered in case of gains made from illegal or unlawful activities.
  - FTAMC had entered into terms of investment that were ambiguous
  - Valuations were not done as per set methods
  - There were several incorrect disclosures

#### **10. RBI approves hike in ATM interchange fee (LM 11/6/21)**

- Interchange fees are the charge paid by the bank that issues the card (issuer) to the bank where it is used (acquirer) to withdraw cash. This charge is divided between the acquirer and the company that is maintaining the ATM.
- The interchange for a non-financial transaction has been hiked from ₹ 5 to ₹ 6 with effect from 1st August 2021.
- RBI had set up a committee headed by V G Kannan to review the ATM charges and the report was made public in July 2020.
  - Committee had recommended using population as a metric for calculating ATM charges.
  - Suggested an increase in free transactions at ATMs in all centres with a population of less than 1 mn (based on 2011 census; to be reviewed from time to time) from 5 to 6 free transactions per month. For the centres with a higher population, it recommended retaining the same number.
  - For centres with a population below 1 mn, the interchange fees for financial transactions should be increased from ₹ 15 to ₹ 18 and for non-financial transactions from ₹ 5 to ₹ 8.
  - For centres with a population of over 1 mn, the interchange fees should be increased from ₹ 15 to ₹ 17 and for non-financial transactions from ₹ 5 to ₹ 7.

- The last time interchange fees were increased was in August 2012 and charges payable by customers were increased in August 2014.
- Customers are eligible for five free transactions (financial and non-financial) every month from their own bank ATM and three free transactions (metros and non-metros) in the case of ATMs owned by other banks.

### 11. Protect PPAs to recharge investments in renewables (FE 11/6/21)

- The central govt has so far infused liquidity of over ₹ 1.25 lakh Cr to enable the discoms to clear the dues of the generators. Despite this, a large number of renewable energy producers in many states remain to be paid.
  - The situation in Andhra Pradesh is alarming as the state govt is insisting on the renegotiation of the old solar and wind PPAs (Power Purchasing Agreement) against the recently discovered price through competitive bidding.
  - Electricity falls in the concurrent list.
  - The Andhra Pradesh HC has ruled that enforcement of PPAs between discoms and renewable energy generators was beyond the authority provided to the centre by the Electricity Act 2003.
  - Such an order is likely to drive many of the smaller renewable energy producers into bankruptcy and this is expected to affect investments.
  - The govt should bring in an ordinance to provide relief to the generators, since the validity of the ordinance is just six weeks, this calls for a review of the policy framework by the centre.
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