

Economy This Week (18th Sep to 24th Sep 2021)

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1. GST Council meet - no compensation for states after June (BL 19/9/21)

- GST council has decided to use the compensation cess collected between July 1st 2022 to 31st March 2026 for servicing debt that has been raised to meet the revenue shortfalls.
 - The Centre has borrowed ₹ 1.1 lakh Cr in FY21 and ₹ 75000 Cr in the current fiscal.
- This may mean that there would be no compensation for the states after June 2022.
- The [GST council](#) has decided that it is not the right time to bring petrol and diesel under GST.
- The e-commerce operators (ECOs) dealing with food delivery will now be responsible for paying GST.
 - At present, it is the restaurants that collect and pay GST
 - It is not a new tax
 - A similar process will also be followed in the case of companies providing services for the transport of passengers
- The council has decided to change the inverted duty structure on footwear and textile from January 1.
 - Under the inverted duty structure, the duty on inputs is higher than the duty on outputs
 - This will result in refunds by the government
 - This will block the revenues for companies

2. Aviation ministry pitches for reduction of VAT on ATF (BL 20/9/21)

- The ministry is asking the states to reduce the state VAT on aviation turbine fuel (ATF) down to 1 to 4%.

- As per the ministry, the states earn on an average ₹ 2500 to ₹ 3000 each under these taxes. The aviation sector in recent times has come under a lot of stress and if the VAT is reduced, it would provide relief and help the stakeholders.
- The tax collected by states under VAT is a very small amount but because the fuel charges account for around 50% of the total operational cost, the reduction would be a good move.
- The ATF supplied to domestic airlines attracts a central excise of 11% and it is 2% for scheduled commuter airlines from regional connectivity scheme airports.
 - The ATF sold to foreign-owned airlines and Indian airlines operating in international sectors is exempted from the duty.
 - In addition to this, the states also impose VAT which varies from one state to another.

3. End of doing business rankings (TH 21/9/21)

- The [World Bank Group](#) has scrapped the Doing Business Report.
- This was announced after its commissioned study to look into ethical issues flagged in preparing the report for 2018 and 2020.
- It is alleged that the CEO of the World Bank has exerted pressure on the internal team working on the report to falsely boost China's rank by falsifying and doctoring data.
- Importance of the ranking:
 - Many countries showcase it to reflect improved market-friendly policies
 - The govt uses these rankings to compare against global practices and counter criticism
 - They can also be used for political purposes
- Peruvian economist - Hernando DeSoto - theory claims that secure property rights with minimal state intervention are a precursor for a free market to flourish.
- The data is collected as per the statute laws and not as per the practice.
- India's rankings have improved post-2014 but the success is absent at ground level in terms of -
 - GDP growth rates
 - Net FDI inflow
 - Fixed investment as a percentage of GDP has declined

Read more on the [Ease of Doing Business Report](#) in the linked article.

4. Single window portal for investors launched (BL 23/9/21)

- A single window portal has been launched by the central govt - **National Single Window System (NSWS)**.
- This will serve as a one stop shop for investors for approvals and clearances.

- The portal hosts approvals across 18 central departments and nine states; and another 14 central departments and 5 states will be added by December 2021.
- NSW:
 - NSW will provide end to end facilitation.
 - All relevant information will be provided.
 - Promote transparency, accountability and responsiveness in the ecosystem.
 - Clearances at the Centre and State levels.
 - Put in and track the status of applications.
 - Provide pre-investment advisory to new businesses, and share information related to land banks.
 - It seeks to address information asymmetry, duplication of information submitted across platforms and authorities, and inefficient tracking of approvals and registration faced by investors.

5. Banks seek PSL tag for retail, infra (ET 23/9/21)

- Banks have asked for extending the PSL tag for infrastructure and retail trade.
- This comes amidst the banks struggling to meet the PSL targets.
- On the other hand, the premium over the PSL Certificates (PSLCs) has risen by almost 200 basis points.
- At present 8 sectors are covered under PSL and commercial lenders will have to ensure that they meet the target of 40% of ANBC.
 - As per the latest data by RBI, the SCBs have reached the target while the foreign and private sector banks have fallen marginally short of the target.
- Within these 8 sectors, there are various sub-categories and the banks are unable to meet these targets, hence there is a need to identify new potential sectors.
 - Most of the big lenders end up purchasing the PSLC to meet the targets (today the RRBs are supplying these PSLCs and the sponsoring banks end up purchasing them from these).

6. A flawed calculation of inflation (TH 23/9/21)

- Inflation
 - With the rise in inflation, the expenditures of the households are affected. With more than 94% of the workers in India in the unorganised sector, higher [inflation](#) adversely affects these poor households.
 - WPI and [CPI](#) for the last four months have been over 10% and 6% respectively.

- Data collection in the month of April and May 2020 were affected because of the pandemic and the strict lockdown. Though unlock measures were taken in June and July, normalcy had not yet returned. Hence the inflation for the same period this year does not reflect the true picture.
- CPI measures retail and [WPI](#) measures wholesale price inflation. The consumption varies from one group to another, hence the inflation rate which is a single number does not represent any of the categories.
- During the pandemic, the consumption patterns would have changed specially of the poor and middle-class households. This means that the CPI needs recalculation which has not been done.
- The services which account for over 55% of the GDP are not represented under WPI and underrepresented under CPI (40%).
- During the pandemic, healthcare costs have increased, travelling out and tourism has been affected. This has not been accounted for. Similarly, the cost of education also has gone up.
- The demand for essential and nonessentials have declined. In a vicious cycle, this slows recovery and employment generation. It also affected the government revenues and increases the deficit. Govt now will be forced to cut expenditure, let's say welfare expenditure, aggravating poverty and lowering demand.
- Factors causing inflation:
 - Govt has increased taxes on energy products.
 - Causes inflation
 - It is indirect hence affects the poor more
 - International factors such as higher demand, issues with the supply of crude oil, etc. have also contributed to inflation.
 - The weakness of the rupee has also added to the inflation.

7. End farm subsidies over \$10 bn in 3 yrs - India to WTO (ET 24/9/21)

- India has proposed that subsidies for food security programmes should be allowed without any limit and members who have provided trade-distorting farm subsidies beyond \$10 bn should be phasing them out in 3 years.
 - India has also pointed that 7 members within EU, Japan, the US, Russia, Switzerland, Canada, Norway account for more than 96% of the global entitlement of the trade-distorting farm subsidies (Final Bound Total AMS) and the remaining members account for less than 4%.
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