

Economy This Week (20th Nov to 26th Nov 2021)

Economy is an important part of the [UPSC prelims](#) and mains exams; this series titled ‘Economy This Week’ has been initiated to address the need to read and analyse economic articles in various business-related newspapers. The round-up of the Economy/Business section news for 20th Nov to 26th Nov 2021 is given below. Business news is essential for IAS exam preparation.

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1. NITI Aayog to undertake study on relevance of export promotion bodies (BL 20/11/21)

- NITI Aayog has proposed to undertake a study to analyse the role and significance of export promotion councils (EPC) in promoting international trade.
- This is being done as it believes that the exporters are increasingly of the opinion that these lack dynamism.
 - They believe that these councils lack in international marketing strategies and measures to promote India’s brand image in the global market.
 - This has hurt India’s exports performance.
- The study will be done to analyse the relevance of these councils.

2. Time to redefine grain storage (BL 20/11/21)

- India’s food production has reached 308 mt (a 300% increase).
- This has led to a problem of surplus/plenty as it is finding it difficult to store this.
- In addition to this, agriculture production is currently being supported by the [Minimum Support Price \(MSP\)](#) and the procurement regime.
 - Govt during 2020-21 has procured 99 mt of food grains at MSP
 - The total stock of food grains is estimated to be 110 mt by end of 2020-21

- Almost all of this is stored in conventional warehousing (around 100 mt) and remaining under the shades in the open (resulting in estimated losses of up to 4 to 6% i.e. 5 to 7 mt)
- In order to address the issue of losses, it is important to shift towards more mechanised and scientific storage.
- In western agriculture, the storage is done under silos.
 - These are cost-effective, help in bulk storage and efficient logistics.
 - A silo of 50000 tonnes capacity is likely to cost ₹ 84 per tonne, conventional warehousing will cost about 4 to 5 times this.
 - They can store to the capacity of 25000 to 50000 tonnes and beyond.
 - The operational costs are low because of the large scale.
 - The requirement of labour is low as they are mechanised and help in rapid handling.
 - They also help in protecting from vagaries of nature, spillage and rodents.
- Silos with a large capacity are being developed by the private sector and recently an action plan for the construction of steel silos through PPP mode has been announced.
- Issues:
 - These will promote efficiency **as long as they are near the railroads**.
 - The developers will require a long stretch of land to build connectivity to railroads which will add to the cost of production.

3. Banks need a tight framework (BL 21/11/21)

- PM has asked the bankers to invest in ideas thrown up by the startups.
- Start-up financing is nothing but venture capital financing and this has never been a part of banking activities.
 - PSBs are currently not allowed to fund equity investments in startups.
 - At most, they are allowed to set up vehicles that will allow the debt funding.
- The startups need to be supported by the banks and this requires a comprehensive framework by the central bank.
- The framework needs to cover aspects such as -
 - NPA recognition
 - Treatment of startup failures, etc
- Unless such a framework is announced, the PSBs which are mostly into asset-based lending will not be venturing into startup lending.
- There has to be a mechanism wherein the commercial activities of the PSBs are ring-fenced from their venture funding efforts.
 - One way is to encourage the banks to set up their own venture funding entities.

4. Govt now to focus on effective MSP mechanism (BS 22/11/21)

- The govt has aligned its paddy procurement to the average yield in a district.
- It has made it mandatory for all the states to upload the land records and this will be integrated into the central database.
- It has also laid down some of the parameters that the procurement portals of the state government will have. Each of the state governments' portals will have to be integrated with the centralised system through which it can be monitored centrally how much has been procured from each field and whether the MSP has gone into the bank account of the farmers or not.
- Way forward
 - Procurement under the PM Annadata Aay Sanrakshan Abhiyan procurement of pulses and oilseeds are done. This can be extended to cover other crops.
 - The scheme has three Components - Price Support Scheme, Price Deficiency Payment Scheme and; Private Procurement and Stockist Scheme
 - Under the scheme, procurement is capped at 25% of production in the state, which could be extended up to 40%

5. NaBFID to start operations with loans to 190 projects (TH 24/11/21)

- The National Bank for Financing Infrastructure and Development (NaBFID) is likely to start lending operations with 190-200 projects in sectors such as railways, roads, energy sector.
- The institution is aiming to catalyse investments in the fund starved infrastructure sector.

6. India-US commit to linking economies across sectors (TH 24/11/21)

- US and India have convened the Trade Policy Forum after four years.
 - Forum has resolved to take the relations to the next high level and also discussed potential targeted tariff reductions.
 - They have committed to integrating their economies across sectors so as to harness the untapped potential.
 - Have decided to activate the working groups of the Trade Policy Forum (TPF) on agriculture, non-agriculture goods, services, investment, intellectual property. These would meet frequently to address issues of mutual benefit to both parties.
 - Objective to have tangible benefits to the farmers and businesses of both countries by resolving outstanding market access issues.
- India has sought restoration of [GSP](#) benefits and this would be benefiting industries from both sides in integrating their supply chain efficiency.

- The forum also discussed negotiating the [Social Security Totalisation Agreement](#) which will allow the workers from both sides to move their retirement savings.

7. Pointers that India is witnessing a K-shaped recovery (TH 25/11/21)

- A V-shaped recovery is characterised by an acute decline and a quick recovery in the economy.
- India definitely has seen a recovery but it can be hardly referred to as a V-shaped recovery as the pandemic has ravaged and affected different sectors and socio-economic groups in different ways and the recovery that is observed is more of a K-shaped one than V-shaped.
 - The incomes of the middle and lower-income households have at best remained constant and there's tremendous pressure on the sustainability of these households.
 - As per CMIE, over 50 lakh people have lost their jobs in October, which means their consumption of non-essential goods will be limited.
 - Combine this with high rates of inflation in the case of food items.
 - [MGNREGA](#) which acts as a proxy for the informal sector has seen a reduction of 34% in its allocation, which reduces the flow of income to the households that are heavily dependent on it.
 - The effect of this can be seen in growth and consumption in specific industries.
 - Two-wheelers
 - Sales are expected to decline between 3 to 6% in 2021 (on a weaker base for 2020)
 - The sales will be lowest in seven years
 - Entry-level models are the most affected and on the other hand premium car/premium two-wheeler sales have been unaffected by the pandemic
 - Festival season was expected to rectify this but it has not happened
 - The govt taxation policies continue to be regressive, wherein more emphasis is on the indirect taxes, placing a higher incidence on the destitute.
 - Govt has raised and maintained higher taxes on fuels and on the other hand, cut the corporate tax rates.
 - Hence it makes sense that there has been a decline in the sales of two-wheelers. In European economies, the governments have prioritised the middle and lower-middle class to provide stimulus as they tend to spend a larger portion of their income.
 - The recovery in the stock market has been phenomenal but it should be remembered that only about 5% of India invests in equities.
 - Hence the govt should focus on welfare schemes and make taxation more progressive.

8. New wage rate index released (BS 25/11/21)

- Ministry of Labour has released a new Wage Rate Index (WRI) with the base year of 2016.
- This will replace the old series with the base year 1963-65.
- This has been done to enhance the coverage of the index and make it much more representative.
 - Has increased the scope and coverage in terms of the number of industries, sample size, occupations under selected industries, weightage of industries, etc.
 - The weighting diagram has been prepared from the result of the Occupational Wage Survey - 7th round.
 - 37 industries have been covered - 30 from manufacturing, 4 from mining and 3 from the plantation sector.
- The revision is expected to have an impact on the minimum wages and national floor level wages along with other parameters.
- The revised WRI series would be compiled twice a year as on 1st January and 1st July every year.

9. Bring in three rate GST structure (TH 26/11/21)

- Govt can rationalise the GST structure without losing revenues.
 - The recommendation is to rejig the 4 slabs - 5%, 12%, 18% and 28% - into three slabs - 8%, 15% and 30% as per the NIPFP.
 - This gains significance as the govt has set up a group of ministers headed by Karnataka CM to rationalise the GST structure to shore up the revenues.
 - The tax rates have been modified/changed since the launch bringing down the revenue-neutral rate from 15.5% to 11.6%.
 - The merger of 12 and 18% into anything lower than 18% would lead to revenue losses as more than 40% of taxable turnover falls under the slab of 18%. This has to be offset by increasing the other slabs.
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