BYJU'S
The Learning App

Economy This Week (25th Dec to 31st Dec 2021)

TABLE OF CONTENTS

1. States may pitch for reverting to old GST rates on textiles (BL 26/12/21)

- The states are expected to raise the issue of new GST regime on the textiles which is to come into effect from 1st January 2022
- As per the decision taken by the GST council a uniform 12% rate will be applicable on various textile products (including readymade garments) from 1st January
    - Until now GST rate in case of ready-made garments
        - If the MRP was below ₹ 1000 then 5%
        - If the MRP was above ₹ 1000 then12%
- Concern
    - There is an inverted duty structure in textiles and footwear
        - The GST council did this as the tax on input was higher than the tax on output (finished goods), which will result into higher refunds for the industry, revenue out go for the govt and customers not benefitting
    - This additional GST burden would lead to closure of around 1 lakh small sized units and render 15 lakh unemployed

2. ELECTRONIC GOLD RECEIPST ARE SECURITIES (BL 27/12/21)

- The finance ministry has specified that the Electronic Gold Receipts (EGR) as securities under the Securities Contracts (Regulation Act) 1956
    - Gold exchanges were announced in the 2021-22 budget
    - EGR is an electronic receipt on the deposit of underlying physical gold
    - EGRs can be held for any number of years as they will have perpetual validity
    - The holder on discretion can submit these receipts and withdraw the underlying gold from the vault
    - The EGR will have trading, clearing and settlement features just like any other securities

- The gold exchanges will come under regulation of SEBI and Warehouse Development Regulatory Authority would be strengthened to set up commodity market ecosystem
- EGR trading will attract securities transaction tax and GST
- Vault managers
    - Regulated by SEBI
    - Will be registered with SEBI
    - Functions
        - Will have to accept deposits
        - Storage and safekeeping of gold
        - Issuance and withdrawal of EGRs
        - Grievance redressal and periodic reconciliation of gold

- The SEBI has already approved setting up of gold exchanges, wherein the EGR will be traded. The denomination for trading of EGR and conversion of this into gold can be decided by the stock exchanges with the approval of SEBI
    - To lower costs of withdrawal of gold from the vaults, the EGRs will be made "fungible" and "interoperable" between vault managers
- This will now allow for the trading of such instruments on any new gold exchanges that may come up
- These can be traded on a new segment created under the existing markets also wherein the EGRs will be held in demat form and can be converted into physical gold when the need arises
- Benefits
    - Efficient and transparent price discovery
    - Investment liquidity
    - Assurance on the quality of gold etc

3. Budget – SEZs to get a new lease of life (FE 28/12/21)

- Govt is considering providing certain relief measures to the Special Economic Zones (SEZs) including
    - Freedom to sell in domestic market at lower duties
        - SEZs have sold goods worth ₹ 50033 Cr in domestic market in FY21 (lower than ₹ 53831 Cr in FY20)
        - If the govt provides certain relaxation their domestic sales may increase
    - Easier exit for loss making units
        - Space transfer policy is also being looked into wherein SEZs making losses can exit easily and recover some amount by selling the infrastructure to another investor
    - Relaxation of extant norms
        - The ministry of commerce is working out on a mechanism to enable partial derecognition of the existing SEZs so that areas that are no more in demand can be utilised for other purposes

- SEZs were once considered as drivers of economic growth but have been losing the sheen on account of govt adopting the sun set clause as per which those units set before 30th June 2020 would be provided with phased income holiday for 15 years
- The govt has reduced the corporate tax rate on the newly set up manufacturing units to 15% and wants to promote the SEZs again
- As of September 2021
    - 427 formal approval
    - 267 are operational
    - Have employed 2.36 mn people

4. Expect inflation indexed annuities soon (TH 29/12/21)

- The savers worried about the impact of inflation on their retirement savings would be able to purchase products providing indexed returns (linked to price rise)
- PFRDA is working with IRDAI to provide such option to its members
- For a lot of members the annuity income remains constant over their lifetime
- The returns are after accounting for inflation and tax will be very low

5. Govt notifies new rules for direct selling industry (ET 31/12/21)

- The direct sellers sell their products to the consumers through network of distributors or multi-level marketing (and not through the traditional retail channels)
    - The retail size of direct selling industry has been valued at ₹ 22500 Cr or about $3 bn in 2020 with a YoY growth of 28.3%
- Govt has brought in new rules – Consumer Protection (Direct Selling) Rules 2021 – for the direct selling industry which aims to separate the legitimate players from Ponzi scheme operators
    - Has banned the direct sellers from promoting pyramid and money circulation schemes
        - They must declare that they are not involved in any pyramid scheme or money circulation scheme
    - Direct sellers must have at least one physical location as their registered office within the country
    - The sellers must have a grievance redressal mechanism
    - To safeguard the interests of the consumers these sellers will have to provide the details of the goods and services they are selling, prices, credit terms, terms of payment, return, exchange policy, refund policy and after sale service
    - States to set up a mechanism to monitor or supervise activities of direct selling entities
- These rules have been notified by the Ministry of Consumer Affairs, Food and Public Distribution
- The sector provides livelihood to more than 7 mn, of which over 50% are women
- The players must comply with the rules in 90 days

6. For exit, anchors now have to wait for 90 days after IPO (BS 29/12/21)

- SEBI has tightened the norms for the public share sales
- Anchor investors
    - They will have to lock in their investment for 30 days for the 50% of the portion allocated to them and for the remaining a lock in period of 90 days will be applicable
- There will be restriction on investors holding over 20% stake to sell a maximum of 50% of their shares through offer for sale
- Both of the above are implemented to reduce the volatility after the listing process

7. Govt asks banks to lend only on Negotiable Warehouse Receipts (ET 31/12/21)

- The farmers and businesses can store their produce in a warehouse and take a loan against these (this is available if the warehouses are registered with the Warehousing Development Regulatory Authority – WDRA)
- As of now only about 10% of the warehouses are registered as the banks are continuing to extend the pledge finance against the local warehouses receipts or storage receipts
- The govt has asked the banks to provide loans only against the e-NWRs
    - This will encourage the warehouses to seek registration under WDRA
    - Help in rapid development of the warehousing ecosystem
- This year RBI has increased the loan limits for the banks' lending against the NWRs and e-NWRs from ₹ 50 lakh to ₹ 70 lakh per borrower
    - Will provide more flow of credit to farmers

8. RBL bank – RBI moves to allay fears as RBL bank stocks tank (LM 28/12/21)

- The market prices of the shares plunged by 23% after RBI decided to name its nominee to the board
- This decision of RBI has raised concerns about the well-being of the bank
- RBI has assured to the investors that the financial health of the bank remains stable and that there is no cause for concern
- The regulator has stated that
    - Bank is well capitalised
    - It's financial position remain satisfactory
    - The bank has maintained a CAR of 16.33%
    - Liquidity coverage ratio stands at 153%