Economy This Week (29th Jan to 04th Feb 2022)

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1. Centre proposes merger of jute corporation with CCI (BL 3/2/22)

- Centre has proposed to merge Jute Corporation of India Ltd (JCI) with Cotton Corporation of India (CCI)
- This merger will create a bigger public sector entity and will help in carrying out procurement of all natural textile fibre
- JCI
    - Set up in 1971
    - Has been the price support agency for procurement of raw jute from growers at the MSP declared by the government
    - The presence of JCI has provided stability to the raw jute prices, protecting interests of the about four million families, engaged in jute farming
- CCI
    - Set up in 1970 under textile ministry
    - Has been undertaking price support operations whenever the prices of cotton falls below MSP
    - There are around 58 lakh cotton cultivators and India accounts for about a fourth of the global output
- Both JCI and CCI are also involved in the commercial purchase operations

2. Govt notifies phase 2 of capital goods scheme (FE 29/1/22)

- The govt has notified the second phase of Scheme on Enhancement of Competitiveness in the Indian Capital Goods Sector
- The objective is to provide assistance for common technology development and services infrastructure
- The govt has made a financial outlay of ₹ 1207 Cr (budgetary support of ₹ 975 Cr and industry contribution of ₹ 232 Cr)
- The govt wants to create strong and globally competitive capital goods sector that contributes at least 25% to the manufacturing sector

3. Ethanol blending programme (FE 31/1/22)

- The ethanol blending has been increased from 5% to 8.1% in a year. However there are issues which need to be addressed to meet the target of 20% blending by 2025 (earlier the target was 2030)
- India imported 185 MT of petroleum of $55 bn in FY21 and a large percentage is used for the transportation and if blending of 20% is achieved then 16 to 18 MT imports would be saved amounting to $4 bn per annum
- For the ESY 2021-22 (Ethanol Supply Year) the govt has targeted 10% ethanol blending and this would require 459 Cr litres of supply (the supply is 302.3 Cr litres in the domestic market)
- As per IEA report, it says that India will find it difficult to meet the 20% target. Even if the 11% is achieved then India will be the third largest ethanol market behind US and Brazil
- Issues in ethanol blending
    - Lack of adequate quality feedstock
    - Sporadic availability of ethanol across the country (feedstock supply is primarily concentrated in sugar producing states)
    - The incompatibility of vehicular technology with blending
- As per the NITI Aayog report on ethanol blending (20%) the fuel efficiency of the four wheelers would come down by 6-7%
- To boost the programme the govt has reintroduced administered price mechanism for ethanol procurement, this has allowed production of ethanol from various feedstock (heavy molasses, sugarcane juice, sugar, sugar syrup, damaged food grains, maize and surplus rice stocks with FCI)

4. Govt swaps ₹ 1.2 lakh Cr G-sec, oil bonds (BL 1/2/22)

- Govt has done a conversion transaction for government securities (G-Sec) and oil bonds with RBI for value of ₹ 1,19,701 Cr
- It involved buying back securities maturing in the next three financial years (FY23, FY24 and FY25) with the ones maturing in later years and this will ease the redemption pressure
- For the FY23, the govt has managed to postpone the redemption of G-Secs aggregating ₹ 63648 Cr, hence the outgo will be less to the extent in FY23
- Oil bonds maturing between 2023 and 2025 were converted into the G-sec maturing in 2030

5. Budget tax breaks can hasten inclusion of govt bonds in global indices (BL 29/1/22)

- The budget is expected to provide relief to the foreign bond investments in India
- The demand is that the govt should withdraw/remove capital gains tax and withholding tax on foreign bond investments
- This may lead to inclusion of the India's sovereign bonds in global indices
- If removed then the Indian bonds will become euroclearable (international security settlement platform) and increase the likelihood of India's bond index inclusion
    - None of the countries listed in the euroclear impose capital gains tax on bond transactions
- The bond managers may start accumulating the govt bonds in anticipation of its inclusion in the index

6. Surety bonds – slow to take off (IE 4/2/22)

- The govt's move to allow usage of surety insurance bonds to be used instead of the bank guarantees is likely to take time
- There are certain issues such as
  - The sector is yet to achieve expertise on risk assessment of suppliers and work contractors
  - There's no clarity on pricing
  - Recourse available against defaulters is not yet clear and same can be said about reinsurance options
- IRDA has already issued the guidelines regarding the issuance of surety bonds but the guidelines do not have anything regarding the above matters
- In the recently concluded budget the FM has announced that the surety bonds will be accepted as a substitute for the govt procurements to reduce the indirect cost for the suppliers and work contractors
- The demand is that the regulators should be bringing changes in the laws such as contract act and IBC to bring surety bonds on par with bank guarantees regarding recourse available to the issuers