

## Economy This Week (13th Aug to 19th Aug 2022)

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 13th Aug to 19th Aug 2022 is given below. Business news is essential for IAS exam preparation.

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#### 1. RBI paper on MCLR (BS 13/8/22)

- Marginal Cost of Funds Based Lending Rate (MCLR) leads to better pass through of policy rate changes compared to the previous base rate regime
- Under MCLR, an increase in 100 bps in policy rates leads to a rise in 26-47 bps in the weighted average lending rate of banks compared to 11-19 bps during the base rate regime
- However the paper has noted that none of the lending rate regimes have met the expectations
- The interest rates were deregulated by RBI in 1994
  - RBI mandated internal prime lending rate
  - In 2003 it was replaced with benchmark prime lending rate
  - In 2010 it was replaced with base rate regime
  - As there were concerns over transparency and inclusion of arbitrary elements in

calculation of PLR and BPLR, in 2016 RBI introduced the MCLR

- Under this the banks were asked to calculate the marginal cost of funds based on a formula prescribed by RBI to reduce the discretion of the banks/lenders
- However the banks were allowed some discretion in other elements/factors

## 2. Essential commodities act invoked (TH 13/8/22)

- Centre has invoked the Essential Commodities Act 1955 (ECA) in order to contain the price rise in tur dal
- Tur dal prices are rising mid-July and there are also reports of traders creating artificial supply scarcity
- The centre has asked the states to monitor and verify the stocks which is available with the traders
- Govt is holding 38 lakh tonnes of pulses to augment stocks available in the market

## 3. Competition commission wants to act tough on cartels (BL 16/8/22)

- India is planning to introduce leniency plus programme - a new cartel detecting tool
  - In the competition act 2002 there's already a leniency programme (lesser penalty rule) - which will reduce the penalty on a company participating in a cartel when it provides sufficient information about the cartel that they're in
- This would be encouraging the companies which are already under investigation on cartelisation charge to report other cartels unknown to the regulator
- It is one the changes proposed in the competition (amendment) bill 2022
- This will save time and resources of the CCI (Competition Commission of India) and will result in faster markets corrections
- Such a regime is already present in countries such as Brazil, US, UK, Singapore

## 4. India won't make a sovereign vow on future digital tax (BS 18/8/22)

- India along with many other countries have objected to the proposal that will make sovereign commitments of not introducing any digital services tax such as equalisation levy in the future. This is expected to further delay the implementation of global tax deal
- The member countries have stated that such commitment would be constraining the future law making powers of sovereign jurisdictions
- The reason behind this stance of India along with many other countries is that the US has so far

not signed the Pillar two agreement and doesn't seem to be in favour of pillar one. In such cases the developing countries do not want to have binding commitments which is against their sovereign right

### 5. Cabinet approves enhancing ECLGS corpus by ₹ 50000 Cr (BS 18/8/22)

- Cabinet has approved extension of Emergency Credit Line Guarantee Scheme (ECLGS) by ₹ 50000 Cr to ₹ 5 tn
- The additional amount will be earmarked for entities in hospitality and related sectors
  - Other sectors have recovered faster but the entities in hospitality and other related sectors have been experiencing subdued demand
- This additional guaranteed cover will help in faster recovery in the hospitality sector as well
- ECLGS
  - Was announced as a part of Atma Nirbhar package in 2020
  - Under this the banks are provided with 100% guarantee against any losses suffered by them due to non-repayment by borrowers
  - As of august loans over ₹ 3.67 lakh Cr have been sanctioned
  - Finance Minister in the budget had announced extension of ECLGS

### 6. Centre restores farm loan interest subsidy (TH 18/8/22)

- The union cabinet has decided to restore the interest subvention on short term agriculture loans to 1.5% for all financial institutions
  - The centre had stopped interest subvention in may 2020
  - Banks covered will be - PSBs, private sector banks, small finance banks, regional rural banks, cooperative banks, computerized primary agriculture cooperatives for lending short term loans up to ₹ 3 lakh to the farmers
- This would mean additional budgetary provision of ₹ 34856 Cr for the period of 2022-23 to 2024-25
- This is because the RBI has increased repo rate leading to agriculture loans becoming costlier (the rate of interest on short term agriculture loans is 7%)

### 7. Centre says no to urea MRP revision (BL 17/8/22)

- Government has declined the proposal to revise the Maximum Retail Price (MRP) for urea
- The cost price of urea has increased by 50 to 80% in the last year and because of that 40% of

subsidy amount allocated for the current fiscal has been exhausted in the first three months itself

- Cost of urea has reached nearly ₹ 45000 per tonne from ₹ 25000 - ₹ 30000 per tonne last year
- The rising cost of natural gas has pushed up the cost
- For the current fiscal govt has allocated ₹ 63000 Cr as subsidy for urea and ₹ 42000 Cr for nutrient based fertilizers
- Currently there are 32 urea units out of which 30 use natural gas and remaining two use naphtha
- The last price revision was done 12 years ago
  - Currently for a bag of 50 kgs the MRP is ₹ 268 and for 45 kgs its ₹ 242
  - The cost includes ₹ 354 per tonne as a dealer margin for private traders/PSUs/Cooperatives and ₹ 50 per tonne paid to retailers for acknowledging the receipt and reporting the stock in mFMS (iFMS) as additional incentive
- For urea
  - The govt statutorily fixes the MRP
  - MRP is exclusive of the taxes and charges towards neem coating

#### 8. UK travellers can enjoy UPI transactions (BS 19/8/22)

- NPCI International Payments Ltd (NIPL) has entered into a partnership with payment solution provider - PayXpert
- This will now make the UPI available for usage in the United Kingdom. The Indian travellers can use the UPI to make real time payment
- The payments initially will be made using QR code

#### 9. Inflation target breach - RBI committee will meet to draft report (IE 19/8/22)

- Monetary Policy Committee will be convened to discuss the report that RBI has to submit to the government, this will be to explain to the govt why the headline CPI inflation rate has remained over 6% for three consecutive quarters
- The government amended RBI act of 1934 to introduce Monetary Policy Framework Agreement (MPFA) in 2016
- As per the framework, if in three consecutive quarters, the inflation remains over 6% level than the central banker has to submit a report to the central government
  - The inflation rates for January - March quarter was 6.34% and for the April - June quarter was 7.28%
  - For July it was 6.71%
  - Though RBI will be knowing the inflation rate for the quarter ending in September by

- October 12, the inflation outlook published by it has pegged the rate at 7.1%
- Whether to make the report public, is decided by the government

