

Economy This week (14th to 20th September 2018)

➤ **Rupee Depreciation – government steps in – five step reforms**

- Allow the companies to raise ECBs
- Manufacturing companies will be allowed to get ECBs up to \$50 mn with a tenure of one year
- Condition on FPIs that their investment in a single corporate entity cannot cross 20% of its corporate bond portfolio will be reviewed
- Withholding tax on Masala bonds would be exempted
- Reforms in masala bonds

➤ **Agriculture - Excess production**

- Though the overall rainfall has been 8% lesser than normal this year, the spatial distribution has been better, as a result of this, the sowing of summer crops has increased from 1046 (FY17) lakh hectares to 1053 (FY18) lakh hectares
- A bumper harvest leads to higher supply of food grains to the market which will lead to reduction of prices
- Though the government announces MSP, only a small amount of the total production is purchased by the government
- The plus side of this situation is that the government will have sufficient stocks in the godowns/warehouses for its public distribution system
- On the other hand farmers revenue will decline
- Right now there are inefficiencies in the market and the present tools are not sufficient to address them

➤ **India and US trade relations**

- In 2017, India imported goods worth \$25.7 bn from US and exported goods worth \$48.6 bn
- Between 2014 to 2017, the trade deficit between US and India has been hovering between \$23 to \$24 bn on annual basis in favour of India
- On the other hand China had a trade surplus of \$375.6 bn against US in 2017. To bridge this the US government has imposed tariffs on imports coming from China and has proposed to impose more tariffs. As a result of this, the solar power sector has forecast a loss of 23000 jobs (as US imports solar panels from US and because of imports there will be a slowdown in this sector)
- The officials have stated that the government this year has to spend \$26 bn more because of higher oil prices

➤ **ICU for exports**

- The gap between exports and imports has widened by 28.5% to reach \$13.7 bn in march 2018 taking the annual deficit to \$87.2 bn

- The incremental service export growth has remained close to zero percent in the past four years. Having said so it has seen an upward trend in the current fiscal year
- Because of internal as well as external factors the programmes have not been performing satisfactorily
- Some of the reforms implemented by the government are
 - In order to promote labour - intensive micro, small and medium enterprises (MSME) sector, the government has increased export incentives by 2% under midterm review of FTP
 - For the manufacturing sector, the Budget unveiled reduction in the income tax rate to 25% for all companies having a turnover of up to 250 Cr
 - The Cabinet approved the Modified Incentive Package Scheme (M-SIPS), which will accept proposals till December this year or up to an incentive commitment limit of ~100 billion
 - The government also is in talks with stakeholders to ease foreign direct investment (FDI) in defence under the automatic route to 51% from the current 49% to boost this sector
- Government needs to incentivize the manufacturing in mobile sector. It has a potential of generating many jobs and India heavily imports the components with minimal exports

➤ GST - dip in revenues

- In the previous meeting the GST council had reduced tax rates on white goods
- The government has introduced tax evasion measures (such as e-way bill system)
- The targeted tax revenues was ₹ 1 lakh Cr per month but this year the tax under the ambit of GST has been collected at an average of ₹ 96705 Cr and there has been a revenue shortfall of ₹ 16473 Cr
- The shortfall of the revenues will affect the financials of the government and also make it very difficult for the GST council to rationalize the tax structure
- The central government is providing compensation for the losses in tax revenues incurred by the states. For FY18, the state of Karnataka has received the highest compensation followed by Punjab, Gujarat, Maharashtra

➤ Cooking and LPG subsidy to jump

- The subsidy on the above is expected to increase by 66% over the budgetary estimates for FY19
- As per the current prices, the subsidy is expected to reach ₹ 41478 Cr against a target of ₹ 24932 Cr
- The LPG subsidy is expected to increase 73% to over ₹ 35257 Cr against a budgeted estimate of ₹ 20377 Cr (subsidy is around ₹ 320.49 per cylinder)
- The kerosene subsidy is expected to increase 36% to over ₹ 6221 Cr against a budgeted estimate of ₹ 4555 Cr (per litre subsidy is ₹ 16.16)
- ONGC and OIL have not contributed to the subsidy on these since June 2015

➤ **Fiscal Deficit (FD) for FY19**

- The government has set a FD target of 3.3% of GDP
- The finance minister has stated that the government
 - Will not cut any Capex
 - Collect excess tax revenue than estimated
 - The disinvestment target of ₹ 80000 Cr will be crossed
- Some of the concerns related to this claim are
 - GST revenue shortage for this FY so far is over ₹ 16400 Cr
 - Disinvestment process has to be speeded up
 - There is no certainty over what will be the outlay in MSP expenditure
 - Increasing oil prices may put pressure on the government to cut the excise duties
 - The subsidy on kerosene and LPG have shot beyond the estimates
 - Election year expenditure is usually higher

➤ **Merger of Dena Bank, Vijaya Bank and Bank of Baroda**

- **Process to be followed in case of merger of Bank of Baroda (BoB), Vijaya Bank and Dena Bank**
 - Proposal first has to be approved by board of directors of all the three banks
 - Government will prepare the amalgamation scheme
 - This has to be approved by the cabinet
 - Then it has to be approved by both the houses of parliament
- **Rationality / viewpoint of the government**
 - With merger of these banks benefits of economies of scale can be utilised
 - The new entity will have a large customer base, asset size will be large, lending base will increase etc
 - The new entity will have asset size of ₹ 14.8 tn
 - The number of branches will be close to 9500
 - CAR will be 12.25%
 - Tier-1 capital will be 9.32%
 - NPAs will be 5.71%
 - It doesn't make any sense for multiple banks owned by the government competing for the same customer

➤ **2 years of Insolvency and Bankruptcy Code**

- There are over 977 companies that have been admitted under the CIRP (Corporate Insolvency Resolution Process)
- Only 34 cases have been successfully resolved
- The issue with this has been that the time limit of 270 days is not being adhered to

➤ **Madhya Pradesh – Bhavantar Bhugatan Yojana**

- It's a price differential scheme implemented by Madhya Pradesh government in 2017 (first state in India to do so)
- Was for eight kharif crops - Soybean, groundnut, sesame, ramtil, maize, moong, urad and tur
- The objectives were
 - Support the earnings of the farmers
 - The state need not procure the food grains
 - The leakages that were present in the procurement system could be overcome
- The farmers are paid compensation under this if their selling price is lower than the MSP. but the compensation paid to them will be dependent on the Modal Price (MP - is the average selling price of the commodity within the state and in the markets outside where it is traded)
- The experts have been critical of the scheme
- How has the scheme fared in Kharif season of 2017?
 - The total registrations were close to 25% of the holdings and for soybean it went up to 50% area under cultivation