Economy This Week 28th Sep to 4th Oct 2018

- **RBI eases SLR norms (TH, 28 Sep 18)**
  - Has been done in order to help the banks to tide over the present liquidity crunch
  - As a result of this, the rates of commercial papers (CP) has fallen by 30 bps
  - Earlier this month, there was a shortage of liquidity as a result of this the lending rates on CPs jumped by over 100 bps
  - To ease the situation, RBI has infused liquidity through OMOs
  - RBI has allowed the banks to dip into their SLR (Statutory Liquidity Ratio) by allowing another two percentage points to meet their liquidity coverage ratio norms. It means that the banks can carve out up to 15% of their SLR to meet the liquidity norms (earlier it was 13%)
  - SLR is the percentage or proportion of the NDTL (Net Demand and Time Liabilities) that the banks will be holding in the form of cash or government securities

- **10th Agriculture census 2015-16 (LM 2 Oct 18)**
  - 86.2% of the farmers are small and marginal farmers and these own 47.3% of the total crop area
  - Semi medium and medium landholding farmers own account for 13.2% of the farmers and own 43.6% of crop area
  - From 2010-11 to 2015-16
    - The land fragmentation has increased and the holdings continue to be inequitably distributed
    - During this period, the small and marginal farmers grew from 84.9% to 86.2%
    - As per the survey the number of small and marginal farmers are 126 mn. These collectively own 74.4 mn hectares of land averaging 0.6 hectares per farmer
    - The number of small and marginal farmers has has increased by 9 million
    - Operational holdings increased from 138 mn to 146 mn
    - Total area under farming fell from 159.6 mn hectares to 157.14 mn hectares
    - All the farmers put together the average landholding declined from 1.15 hectares to 1.08 hectares
  - **Other points from the census**
    - UP has the highest number of operational holdings followed by Bihar and Maharashtra
    - The highest area under farming is in Rajasthan followed by Maharashtra and UP
    - The proportion of farms that are operated by women increased by 12.8%

- **<u>MSP for winter crops hiked (LM 4 Oct 18)</u>**
    - The government has increased the MSP for winter crops (7 crops) by 50% of cost of production
    - As a result of this, the price of wheat has increased by 6%, that of chana by 5%, lentils by 5.3% and mustard by 5% compared to last year
    - The higher MSP will ensure that the farmer will earn 112% returns on wheat, 75% returns on chana over the production costs
    - This will lead to additional incomes of ₹ 62635 Cr for the farmers

- **<u>Centre to borrow less in H2FY19 (BL 29 Sep 18)</u>**
    - The government has decided to trim/reduce the borrowings by ₹ 70000 cr in the period between October 2018 to March 2019 (H2FY19)
    - The union budget provided for the gross borrowings of ₹ 6.05 lakh Cr of which ₹ 2.08 lakh Cr was borrowed in H1FY19 and in H2FY19 the borrowings will be reduced to ₹ 2.47 lakh Cr (the total borrowing will be ₹ 5.35 lakh Cr)
    - The government has decided to re-introduce the inflation indexed bonds (indexed to CPI)

- **<u>State Finance Commissions (SFC) (BL 4/10/18)</u>**
    - The PRIs (Panchayat Raj Institutions) and ULBs (Urban Local Bodies) are the interface between the state and the people and hence they must be financially as well as administratively strengthened by the state government
    - As per article 243(I) of the constitution, the states will have to constitute finance commission and obtain recommendations from them
    - The 14th FC has provided a devolution of ₹ 287436 Cr for all the local bodies
    - It is worrisome that the states have not been setting up the SFCs once every five years as per the 73rd Amendment act 1992
        - In some states it has been the case that the government has either not accepted the recommendations of the SFC
        - In some states that report has not been tabled at all in the state legislature
        - In some instances, the states though accepted the recommendations, have not implemented them
    - As a result of this there has been a constraint on the finances availability at the local level for the institutions
    - Presently the funds devolved for the ULBs and PRIs by the finance commission are transferred to the treasuries of the states. The 15th FC has to ensure or recommend a mechanism under which the PRIs and ULBs must get the devolved funds in a time bound manner
    - For example, presently there is PFMS (Public Financial Management System) which is operated by Controller General of Accounts (CGA) which monitors fund flow on real time basis (Central non-statutory fund transfers for centrally sponsored schemes, central schemes executed by State governments and flagship schemes such as the Mahatma Gandhi Employment Guarantee Scheme, the Swachh Bharat Abhiyan, the National Health Mission etc)

- Another way of ensuring that the SFC are set up by the states is by 15th FC incentivising these states

- **<u>India needs a better infrastructure financing (BL 4 Oct 18)</u>**
  - The present government has increased the investment in infrastructure such as railways, roads in hopes of revival private sector activity which has not happened but the government's expenditure has shot up
  - In the earlier government they had tried out the PPP model - Public Private Partnership model - wherein the private sector would agree to use subsidised resources to build infra for a state in return for a cut of the revenue. This particular model had collapsed because of
    - Contacts were poorly drafted and implemented
    - Accusations of corruption increased
    - The government failed to satisfy its side of the bargain
    - Huge capital got stuck up in half built infra projects which slowed growth
  - The IL&FS tried a different route wherein it would aggregate the funds for different investors and finance the infrastructure projects but this also led to some issues (such as asset liability mismatch) and let to the downfall of IL&FS. The projects financed by this company got stuck up because of land disputes it suffered a liquidity crisis
  - One of the solutions to such issues of infra financing is to promote the funds such as National Investment and Infrastructure Fund in which sovereign wealth funds of Singapore and Abu Dhabi have invested. Having said so, this will not eliminate the problem of shortage of infra financing
    - The government owns 51% stake in NIIF, which means the investments are limited by the finances of the government
    - The infra needs for India in the next ten years are going to be to the tune of $1.5 tn and the fund is worth $6 bn

- **<u>GST on financial services (ET 2 Oct 18)</u>**
  - Number of banks could end up discontinuing money deposit services through their BCs because of the application of GST on the commission earned by the BCs
  - Presently RBI has imposed a ceiling on the total fees applicable on the remittance services of 1.5% inclusive of taxes
  - The fees will consist of commission for the agent/BC and bank fees for having provided the services
  - The banks pay GST to the government on such fees that they receive but the tax department wants them to collect the GST even on the amount retained by the BCs
  - BCs are not paid any remuneration by the banks as they are not providing any core banking services but digital financial services
  - The argument against this demand has been
    - The BCs earn lesser than the threshold limit of ₹ 20 lakh
    - If tax is collected it would further reduce the earnings of the BCs

        - This goes against the government’s objective to promote financial inclusion

- **<u>Govt imposes tariffs to control CAD - evaluation (29 sep 18)</u>**
    - It is like tinkering at the margins without addressing the structural macroeconomic issues
    - These imports are not going to lead to a big reduction of CAD as the government has admitted that the value of these imports for FY18 was just ₹ 86000 Cr. these constitute just 3% of the country’s merchandise bill for FY18 and already 6 months of this fiscal is over. The reduction in CAD will be marginal
    - The government has increased or doubled the rate to 20% on the white goods, this will be a double whammy as these goods are already costlier because of rupee depreciation
    - 5% tariffs on the ATF, may add problems to the aviation sector which is already reeling under pressure
    - Way forward
        - The government must simultaneously promote the exports while controlling the imports
        - The ITC under GST to manufacturers/exporters has to be expedited. Small exporters are reeling under shortage of capital because of the delayed ITCs
        - Attract the labour intensive supply chains which are moving out of China to countries such as Bangladesh and Vietnam