

ETW from 26th October to 1st November 2018

- **NRI Bonds (BS 26/10/18)**
 - Two events - impact of US sanctions on Iran and US Federal Meeting - will have bearing on the decision making regarding NRI bonds
 - The GoI and RBI in the final stages of deciding the contours of the bonds. One of the points of discussion has been whether these bonds will be similar to Resurgent India Bonds/India Millennium Deposits issues in late 1990s and early 2000s or the FCNR-B (Foreign Currency Non-Resident Deposit) was launched in 2013, through which \$34 bn was collected
 - Resurgent India bonds were floated in 1998 and issued by SBI
 - The India Millennium Deposits (IMD) were floated by central Govt and issued by RBI
 - Both of the above had an objective of mobilising the savings of NRIs and both raised about \$5 bn
 - But it is yet to be seen if the market has the appetite for these bonds
- **Agriculture Credit (FE 26/10/18)**
 - The experts have said that RBI must give the information related to sector-wise break-up of the agriculture credit
 - As per RBI data, 70% of the agriculture credit is in the form of crop loans and it doesn't have the data related to remaining 30%. The experts fear that loans given to MSMEs and MFIs would have been classified as agriculture credit. Hence they say that there should be a better mechanism to monitor the flow of the credit to ensure that it is used for the right purposes
 - The government last year has exceeded the agriculture credit of ₹ 10 lakh Cr, of which ₹ 6.5 lakh were issued as crop loans (interest subvention of 3%, the farmers will effectively pay 4% rate rather than 7% as charged by banks) and remaining were issued as term loans (no interest subvention)
- **MSP and loan waiver not good (FE 27/10/18)**
 - The market prices of the commodities have fallen below the MSP
 - The congress party has announced that they would provide full loan waiver, which would cost around ₹10 lakh Cr (around 40% of this would go to small and marginal farmers)
 - As per the calculations, the prices fall 20% below the MSP for all the crops except sugarcane, would cost ₹ 175,000 Cr in a full year
 - This plan will also distort the cropping patterns and makes the exports unviable (as the MSP's rise the export prices will also increase)
 - The farmers will be benefited if there is a free market and investment in infrastructure (such as roads, warehousing, irrigation etc)
 - When the farm subsidies have increased from 2.8% of GDP in FY81 to 8% in FY15, the investment by the government has decreased from 3.9% to 2.2% during the same period
- **India and Japan - Currency Swap Agreement (TH 30/10/18)**
 - Both have signed a bilateral currency swap agreement worth \$75 bn
 - A currency swap typically involves the exchange of interest and sometimes the principal in one currency for the same in another currency. The interest payments are exchanged by both the parties on a fixed date through the life of the contract
 - The swap agreement between the two countries earlier was worth \$50 bn

- In June 2008, the swap agreement for a 3 year period worth \$3 bn was signed. The same kind of agreement again was signed in 2012 but for \$15 bn for 3 year period
- In September 2013, Bank of Japan and RBI signed an agreement bilateral swap and expanded the value to \$50 bn from 2012 to 2015

➤ **Sovereign Blue bond (Reuters 30/10/18)**

- The blue bond is part of the third project under the World Bank's South West Indian Ocean Fisheries Governance and Shared Growth Program (SWIOFish3), a project that aims to improve the management and conservation of marine areas and strengthen seafood value chains in the Seychelles
- Are debt instruments issued by the government/development banks to finance ocean based projects which have environmental, ecological and economic benefits
- The idea of blue bonds is similar to the concept of green bonds
- The country Seychelles has become the first country in the world to issue blue bonds
 - The above mentioned country is dependent on the oceanic/marine ecosystem for food, nutrition, tourism and livelihood
 - The fisheries industry contributes significantly to the GDP
 - It employs 17% of the total population
 - Fish products make up to 95% of the exports
- Over the years, there has been a fear that the increased demand for food and exports has led to exploitation of the resource and the government wants to have sustainable fisheries. This transition will require improved governance and better management by the government, which entails expenditure
- Features of these bonds
 - Ceiling of \$15 mn
 - Maturity of 10 years
- Related activities under this program will receive partial World Bank guarantee (worth \$5 mn) and concessional loan from Global Environment Facility (Worth \$5 mn). This will partially subsidize the coupon payments