ETW 23rd to 29th November 2018

- **Rupee depreciation and exports (LM 23/11/18)**
  - After reaching a lifetime low of 74.48 against the dollar, rupee is slowly recovering. But it has depreciated by more than 10% against the dollar in this year alone
  - As India is a net importer, this depreciation lead to higher CAD but the thought was that the exports would start fetching better returns (a percentage in rupee depreciation improves margins by 25 percentage points and earnings by 2 percentage points). The analysis has shown that out of top 15 exporting industries, only 5 have been able to get the benefit of this. These sectors (which account for 29% of the total exports) are
    - Jewellery
    - Automobiles
    - Pharmaceuticals
    - Cereals
    - Iron and steel
  - The exports from other 10 sectors may see minimal or no gains, as India's market share of these exports in the global market is very low and currencies of competing countries have also experienced depreciation

- **OMCs recovering the cut of ₹ 1? (TH 23/11/18)**
  - In the month of October, the government had asked the OMCs to cut the diesel and petrol prices by ₹ 1 (the central government had cut the tariff by ₹ 1.50 per litre i.e. central government had reduced the excise duty)
  - As a result of this, the OMCs were expecting lowering in their revenues by ₹ 4000 to 5000 Cr in this financial year
  - The prices of crude since October has fallen by almost 24% but the price of the petrol has fallen by just 8.8%
  - The prices cannot be expected to move in tandem but there should not be such a divergence also. The prices will not be reducing proportionately because from importing to supplying the fuel at petrol bunks there are so many steps in the supply chain and importing crude is a part of it (other steps are shipping, refining, supply and distribution)

- **DBT in power sector (BL 23/11/18)**
  - DBT is being used in more than 430 schemes
  - The DBT in power sector has been proposed by recent draft amendment to the electricity act and national tariff policy
  - The DBT will
    - Help in targeting the consumers
    - The wastage of the scarce public funds can be reduced
    - Incentivise the behavioural change
  - The state governments incur a expenditure of ₹ 1.2 lakh Cr per year as electricity subsidies. 90% of this subsidy goes for agricultural consumers and some sections of residential consumers (there are 2 Cr agricultural connections and 19 Cr residential ones). Most of the beneficiaries are unmetered and the hence the state government ends up subsidizing this consumption and the discoms fall into losses
  - **Issues with DBT in electricity supply**
    - Identification of the beneficiary is difficult, if the consumer is a tenant and electricity connection is in the name of the owner
    - Identification of recipients is also difficult because of joint ownership and in case of inheritance issues

    - The customers may find it difficult to pay the amount upfront and then get the subsidy transferred into the account (as proposed by the government of Rajasthan Scheme)
    - Usually the state governments delay the payment of subsidy. If that happens under this scheme, then it would pose hardships to the consumers
    - The payment mechanism is yet unclear

- **<u>NOFN / Bharat Net (BL 24/11/18)</u>**
  - The project envisages
    - high speed broadband connection to 2.5 lakh villages
    - As per the reports 1.15 lakh villages have been connected
    - The project is scheduled to be completed by March 2019
    - For the project, the government has set up an SPV - BBNL (Bharat Broadband Nigam Ltd)
  - Issues with the project
    - The cost of implementation of this project has been very huge
    - The BSNL and BBNL have not been able to meet the targets set up under the project
    - The connectivity and utilisation of it have not been satisfactory
  - Way forward
    - State governments will have to be involved in the project to ensure support for the project at district and panchayat level
    - The implementation machinery has to be looked into

- **<u>Government to study RCEP impact (BS 26/11/18)</u>**
  - The government has decided to conduct a study into the potential gains or losses to its economy from joining the RCEP
  - The setting up of this study simply implies that the government is anxious over the possible impact of this mega deal
  - The next meet for negotiations will be taking place in February 2019 in Indonesia, followed by ministerial meet in April in Thailand
  - In the August meeting the members have agreed to provide India a time of over 20 years to eliminate tariffs on key items for China, New Zealand, Australia (India doesn't have a free trade agreement)
  - Apart from this, the members have acceded to the demand of India to allow the free movement of skilled professionals under the RCEP
  - The RCEP members have also agreed to allow the Indian government to separately negotiate the exemptions in tariffs that they will be providing to China under RCEP framework
  - On part of India, they have proposed to eliminate tariffs on 80% of products with a margin of 6%, depending on the development of the other country as a part of RCEP negotiations. However, the other members of RCEP want Indian government to abolish duties on 92% of its goods
  - The industry and other stakeholders have been critical of the RCEP as their argument is that India has not been benefited by the earlier FTAs (example with ASEAN, Japan, South Korea etc). Already the trade deficit with China is $63 bn (for FY18, for the same year India's overall trade deficit was $104 bn), this may further increase with India joining RCEP where china is one of the important members
  - India has been vocal against the "early harvest" which means that it wants the agreements on all the three pillars - goods, services and investment - to be implemented as a package and not one at a time, whereas other nations are in favour of implementing an agreement on goods if it is arrived at first (the term early harvest here refers to the process of arriving at agreements on

easily negotiable matters and implementing them earlier and then taking up difficult/contentious issues)

- **<u>Pre-IBC facility (FE 27/11/18)</u>**
  - The Govt is looking into introducing pre-packaged bankruptcy scheme (i.e. pre-IBC window). It will help in cutting costs and time required for resolution process. This will complement the existing framework
  - Such measures are present in countries such as US
  - Seeking resolution through this process is not a compulsion. If the creditors want, then they can opt for IBC framework
  - Under this, the stressed company will prepare a financial reorganisation plan with approval from at least two thirds of its creditors (and shareholders). This has to be done before any creditor approaches NCLT. such a resolution plan has to be placed before the NCLT for approval
  - Since the plan has already been approved by the required number of creditors, it will bypass various required steps under the IBC, thereby reducing the cost and time under the insolvency process
  - As of now under IBC
    - Cases of 382 companies have been resolved
    - 56% of these cases were liquidated
    - Only 13% of the cases found the buyers and the recovery rate has been averaging 45%
    - In many of the cases the deadlines have been missed
  - Issues
    - Various experts have stated that the IBC process is still evolving and the process is being hindered by the cases filed by the creditors. In this scenario introducing this mechanism may be premature
    - This will not involve the resolution professional (who will be involved in evaluating the scrutinising the bids)
    - As per the present proposal, it seems like the promoters would continue to own the company even during the plan phase
    - As per the corporate affairs secretary, the IBC has resolved cases worth ₹ 3 lakh Cr, which means that IBC has been working efficiently. If so then why the need for a pre-IBC framework

- **<u>China, India amend DTAA (FE 27/11/18)</u>**
  - China and India had signed the DTAA in 1994 and have signed a protocol to amend the existing DTAA
  - Such agreements help in preventing tax evasion by allowing exchange of information
  - As per section 90, of Income Tax act of 1961, the government of India can enter into an agreement with a foreign country to avoid double taxation on income, for exchange of information for the prevention of evasion