**ETW 6th to 12th Dec 2018**

* **RBI monetary policy (TH 6/12/18)**
  + The MPC (Monetary Policy Committee) has decided to
    - Maintain the interest rate or repo rate at 6.5%
    - Maintained the stance of “calibrated tightening”
    - Inflation projection has been reduced sharply (CPI is projected at 2.7 to 3.2% for the second half of the current financial year and 3.8 to 4.2% in the first half of the next financial year, against the earlier projection of 3.9% to 4.5% and 4.8% respectively)
    - Decided to retain the GDP growth rate at 7.4% for FY19 and 7.5% for H1FY20
    - To boost the credit in the market, SLR has been reduced from 19.5% of NDTL to 18% of NDTL, over the next six quarters i.e. reduction of 25 bps every quarter (starting from January quarter 2019)
  + RBI governor has stated that if the upside risks do not materialise then the policy action could be taken in the coming days
  + Sharp decline in inflation projection comes on the back of 30% decline in the crude oil prices in November compared to October
  + Apart from this, RBI has also asked the banks
    - To link the lending rates (floating rates) on loans given to MSEs and retail loans to the external benchmarks
    - Right now, these loans are linked to internal benchmark i.e. MCLR (Marginal Cost of Funds Based Lending Rate), which is an internal benchmark
    - The external benchmarks that have been recommended by RBI are
      * Repo rate/interest rate/policy rate announced by RBI
      * 91 days G-Securities or treasury bills
      * 182 days G-Securities or treasury bills
      * Any other benchmark market interest rate that is produced by Financial Benchmarks India Private Ltd. the banks will have to implement this by April 1, 2019
    - A bank has to use the same benchmark for all the loans issued in a category
    - The move will eliminate the practice of the banks to provide the benefit of lower interest rates to attract new customers whereas the existing borrowers will continue to pay higher interest rates
    - The spread over the benchmark will be decided by the bank and will remain the same/ unchanged throughout the tenure of the loan, unless the borrower’s credit assessment goes lower/worsens
    - The banks are free to give such loans to other borrowers as well
    - The benefit of such move is
      * Transparency in deciding the lending rates
      * The cost of borrowing in long term will become lower for the MSEs
      * Standardisation of the process
      * Ease of understanding for the borrower
* **New Exit policy for road projects (BS 8/12/18)**
  + The government has proposed a new BOT (Variable) model to attract players/developers in the road projects
  + Presently there has been less participation of private developers in the BOT model (Build-Operate-Transfer). Usually in case of this model the private developer is allowed to build the road, operate/collect tolls for 25 years (concession/contract period) and then transfer the ownership to the NHAI
  + Under the BOT (Variable) model, the concessionaire can opt to transfer the ownership of the project to NHAI even before the end of the contract period. The concessionaire will be able to collect higher revenues if the traffic on this route is higher hence he can opt out of the project even before the end of contract period
  + The success of this model is dependent on the successful traffic projections. Hence there is a need of developing a robust system for estimating the traffic
  + Right now the discussion is whether to allow the private developer to exit 5 years or 10 years before the end of the contract period
* **The Income Tax-payers (IT) in India (BS 8/12/18)**
  + The IT payers can be doubled to 120 mn with increase in the formalisation in the economy
  + Right now there have been 68.6 mn IT returns and by the end of the tenure of the present government it is expected to reach 76 mn (the IT base had 38 mn in 2014)
* **Small and marginal farmers get 40% of credit (BL 10/12/18)**
  + Small farmers take small loans of value less than ₹ 2 lakh. As per RBI data, the smaller value loans of less than ₹ 2 lakh comprised 40% of the total credit for FY17. This has dropped from 45% to 40% in the last ten years. The bankers over a period of time have been worried about lending to small farmers because of the announcement of loan waivers, NPAs. Another reason has been that the bankers have been unable to price the loans. Internationally, the bankers charge higher rates of interest on riskier commodities and to farmers based on their repayment history, it cannot be done in India as it is a sensitive issue, hence the bankers keep away from small farmers
  + Loans above ₹ 2 lakh to ₹ 1 Cr accounted for 47% of the disbursals and 13% of the credit disbursals were of the value of more than ₹ 1 Cr
  + More than ₹ 100 Cr were issued to just 210 accounts
  + Majority of these loans at subsidised rates (ROI applicable at 4%) is availed by owners of warehouses/cold storages, manufacturers of fertilisers/farm equipment and food processors
  + Small farmers and PSL
    - Till march 2015, the agricultural loans was loosely defined. As a result of this, though RBI had set a target of 4.5% indirect loans, banks ended up lending more to dealers/sellers of fertilisers, pesticides, seeds and agricultural implements etc
    - Hence RBI in 2015 changed the definition and since then
      * The differentiation of direct and indirect loans has been abolished
      * Of the 18% reserved for the agricultural loans, 8% has to be given to small and marginal farmers
      * Agri credit will involve
        + Farm Credit, which includes Short term crop loans and medium/long term credit to farmers
        + Agriculture Infrastructure
        + Ancillary Activities
* **Govt increases the NPS (National Pension System) contribution (BS 11/12/18)**
  + Basic points about NPS
    - Was launched in 2004
    - it is government sponsored pension scheme
    - Earlier it was for the government employees only but in 2009, it was opened up for all the sections
    - It is managed by PFRDA
    - A subscriber
      * Is allowed to withdraw 60% on retirement and 40% will be converted into an annuity on attaining 60 years
      * Before 60 years, he is allowed to withdraw 20% and remaining 80% will be converted into annuity
      * If the subscriber dies, then the nominee can withdraw 100% of the corpus
    - Within NPS, there are two types of accounts called as Tier 1 and Tier 2
  + Govt has increased its contribution from 10% to 14% and has made the entire withdrawal of the amount on retirement tax free. Earlier the corpus was 20% and now it will be 24%. Taking into account the 1.8 mn employees, the additional burden on the government for FY20 would be ₹ 28.4 bn
  + The individual contribution will continue to remain at 10% of the basic salary and be exempt under the section 80 C of IT act 1961
  + The government is trying to make the NPS more attractive as earlier it was one of the very few social security schemes where the tax treatment was EET, whereas in case of all others it was EEE (such as PPF and EPF). In 2016 budget the FM made withdrawals up to 40% of the corpus tax free
  + Right now of the 100% of the corpus, 40% is mandatorily being deposited in annuity schemes (which is tax exempt) and the subscriber could withdraw 60% of which two thirds was taxable and one third was tax exempt. With the new guidelines, the entire 60% will be tax exempt
* **Power sector and UDAY issues (BL 12/12/18)**
  + The central government on the lines of UDAY in Gujarat, expanded the programme to whole of India
  + The objective was to reduce the financial stress on the discoms and help in their financial turnaround
  + The discoms got on board with transfer of the debt to the state governments
  + The issue has certain teething issues
    - Since the debt of the discoms has been taken over by the state government, their FD has been higher
    - The objective was to reduce the AT&C losses but in 13 of the states where it was implemented, the AT&C losses have increased
    - Though the demand for power is higher, the higher losses are prohibiting the discoms into entering new PPAs
    - It is a peculiar problem. If the discoms sell more, it will incur more losses and the same fate when there's lower demand by the discoms from the gencos
    - The gencos are facing the issues of lower PPAs being signed up and non-payment of outstanding payment by the discomes over ₹ 36000 Cr. As a result of these two the financials of the gencos are under stress and they are unable to service their debt. This will affect the banking sector (₹ 1.7 lakh Cr could soon become NPA) and coal sector
  + Way out
    - The issues plaguing the discoms such as separate feeder lines, pricing, action against the defaulters etc needs to addressed
    - The state officials will have to get the inputs from the officials from Gujarat on the successful implementation
    - The coal production has to be ramped up
    - If possible a rehabilitation package to address the asset issues of the Gencos has to be provided