ETW 4th to 10th Feb 2019

- **Regulating the NBFCs (LM 4/2/19)**
  - The NBFCs are regulated by RBI, SEBI, IRDA, PFRDA, NHB, ministry of corporate affairs (nidhi companies), state government (chit funds) etc
  - RBI is regulating over 10000 active NBFCs of which 275 are Systemically Important (SI)
  - DHFL is regulated by NHB (National Housing Board)
  - Worldwide regulating the NBFCs is a hot topic
    - In case of China the recent instability in the market was because of the surge of P2P lending between 2013 to 2016 which was unsupervised. China has tightened the regulation of P2P from 2016 and the number of P2P firms declined from 1500 to 50 by the time the whole process was completed
    - In US the regulation is decentralized multiple organizations are involved
    - In UK it is more centralized by prudential authority and a conduct authority
    - Australia follows a twin peak model wherein the Reserve bank of Australia acts as a lender of last resort and coordinates with Prudential Regulation Authority which supervises banks, insurance companies etc
  - The time has come for India to consider a better regulation of NBFCs with the IL&FS, DHFL issue still afresh. The FSLRC (Financial Sector Legislative Reforms Commission) has already given recommendations regarding this in 2013
    - SEBI, IRDA, PFRDA, FMC (already merged with SEBI) be merged to form UFA (Unified Financial Authority)
    - For taking care of systemic risk it recommended a strong legal framework to the FSDC (FSDC was recommended by Raghuram Rajan Committee in 2008 and would consist of all the regulators, including the government of India. It is charged with coordinating prudential stability)

- **Dangers of cash transfers (TH 5/2/19)**
  - Cash transfers are subject to exclusion of the poor, identification issues, do not ensure accessibility, affordability or even sustained economic security falling real wages
  - The scheme to provide support to the farmers doesn't even mention whether the farmers will be spending the money for agriculture purposes

    - If the cash support replaces, the subsidised supply of goods and services, then the people might be left to the mercy of private players to avail the basic services
    - This may also lead to the state to move away from its responsibility of providing basic services/entitlements to all (In Europe wherever the guaranteed basic income has been implemented, provision of services has increasingly moved towards greater privatisation)

- **<u>Subsidy expenditure to increase (TH 6/2/19)</u>**
    - The data shows that the expenditure incurred in subsidies which was on a declining path has started moving upwards in the revised estimates for FY19 and BE for FY20
    - The subsidy expenditure is making up 9.83% of its total expenditure for FY20, which was 9.65% in the FY19. This may not be a big hike but when seen against the fall from 18.2% (FY13) to 8.15% (FY18) and then a hike in the two following fiscals shows reversing trend
    - This hike has been higher food and petroleum subsidy in the last two budgets i.e. for FY19 and FY20. in FY19 the food subsidies increased by 70.8% and petroleum subsidies by 50.9%
    - The hike in food subsidy is because of hike in the MSP and the one in case of petroleum is because of expansion in the UJJWALA scheme and PAHAL (LPG prices have increased, the number of subscribers have increased and so has been the consumption. The consumption grew by 1.6% and 4.4% in FY13 and FY14, increased to 9.4% post the launch of the scheme)

- **<u>External Benchmarking (BL 6/2/19)</u>**
    - The banks are asking the central bank to delay the implementation of the external benchmarking, which is to be implemented from 1st April 2019 (as per the guidelines issued by RBI all the personal/retail loans with floating rates and floating rate loans to MSME sector be covered under this)
    - The banks are worried that the implementation may bring down the earnings in interest (Net Interest Margins - NIM) when the banks are already grappling with the issue of NPAs. Apart from this, some of the bankers have also stated that the MCLR was introduced in FY17 and needs time to settle; and the monetary policy transmission is happening with it in place
    - Banks also have stated that the new loans would be under a dynamic interest rate policy whereas the deposits collected by the banks would entail same contractual rates
    - The external benchmarks to which the lending rates are supposed to be linked are

        - Policy repo rate
        - 91-day treasury bill
        - 182-day treasury bill
        - Any other benchmark produced by FBIL (Financial Benchmarks India Private Limited)
    - A bank with higher NIM is considered to be more efficient and a higher NIM raises the profitability of the banks

- **<u>Corporate tax reforms (BL 9/2/19)</u>**
    - The FM, in his 2015 budget speech had stated that the corporate tax rates are on a higher side in India (leading to tax evasion) and hence need to be reduced. He had laid down a roadmap to reduce the corporate tax from 30% to 25% in the next four years
    - In the recent times, the corporate tax has been reduced from 30 to 25% but only for those companies/units having a sales turnover of up to ₹ 250 Cr
    - Larger companies which account for large tax receipts for the government, contribute majorly to the production etc have been paying a higher tax rate in 2018 at 35% compared to the 33.99% in 2014. This tax rate is the highest not only amongst the BRICS community but also highest in case of Asia-Pacific countries (Brazil is the other country in this group which taxes corporates at 34%)
        - The surcharge for companies with turnover of more than ₹ 10 Cr was increased from 10% to 12%
        - The Health and Education cess was increased to 4% (earlier the education cess was 3%)
    - The next government should take it on priority basis to reduce the tax burden on these companies so as to revive the investment cycle. The government in the past have done exactly the same for example, the tax rate which was 36.75% (in 2003) was reduced to 32.44% by 2011 (which was increased thereafter)
    - As per a survey done by KPMG, the global corporate taxes have been declining. In 2003, the average was 30.19% which has declined to 20.6% in the recent times. The average in case of Asian countries has declined from 29.42% to 23.03% in the same period
    - If the corporate tax rates are reduced by 5% uniformly for all the companies, then the exchequer would have foregone ₹ 95000 in FY19
    - As per the tax data, 7000 companies have a turnover of more than ₹ 250 Cr
    - The government could, reduce the corporate tax rates, which sometimes may lead to higher compliance and with greater scrutiny the collections could be improved

- **<u>Success of e-NAM depends upon the APMC reforms (BS 8/2/19)</u>**
    - e-NAM was launched in April 2016; the prime objective was to ensure that the farmers/producers get the maximum possible returns by selling their produce to any buyer across the country
    - 585 APMC mandis from 16 states and two UTs have been connected through e-NAM
    - The platform has been used so far only to sell the produce within the states
    - The cross-state sales has been announced between Uttarakhand and Uttar Pradesh; and between Telangana and Andhra Pradesh
    - Some changes that are needed to ensure the success of e-NAM are
        - Single trading license are held valid only in 10 states
        - States have been unwilling to alter the market levies (if done it would lead to loss of revenues)
        - Many mandis have not put in place appropriate sorting, grading, packaging etc infrastructure in place
    - A fundamental fault of the e-NAM has been that it mandates that the business be conducted through APMCs, which are well known for their inefficiencies and malpractices, which may creep into the e-NAM model as well. A way forward would be to allow that trade on e-NAM to be done either through a public or a private market