ETW 25th Feb to 3rd mar 2019

- **Banking Recapitalisation (BL 25 Feb 2019)**
  - The government is pumping in the taxpayer's money into the PSBs in the form of recapitalisation
  - The government infused ₹ 90000 Cr in FY18 and has allocated ₹ 48239 Cr for 12 PSBs this fiscal
  - Some of the issues/concerns with such measures are
    - The government on one hand infused the capital into the banks and RBI on the other did away with loan restructuring measures, which increased the provisioning for the bad loans eating away the capital that was infused
    - The NPAs have been higher, the banks are taking large haircuts under IBC etc which have been eating into the revenues of the banks
    - Govt had bifurcated the banks into weaker (those under PCA) and strong banks (those not under PCA) for providing the capital. 40% of the capital infused was given to the banks falling in the second category, in a bid to revive credit growth
    - This time the entire capital has been given to 12 PSBs to ensure that they don't breach the PCA triggers and maintain minimum regulatory norms. This is a short fix which won't provide any kind of structural benefit to the banking sector
    - There is a need to revive the credit growth as it has been seen that
      - The banks' RWAs have come down in recent times. One of the reasons for this is that the banks have reduced their credit exposure to risky sectors
      - The reduction has been seen even in relatively healthy banks such as Bank of Baroda and SBI, which means even these banks are shying away from lending in riskier sectors
      - The loan books of PSBs (contributing two thirds of lending) has shrunk

- **US, Canada may object the restrictions on pulse imports (BL 25/2/19)**
  - The government had imposed quantitative restriction on the import of pulses so as to ensure
    - That the farmers receive remunerative prices for their produce
    - The pulses were not trading lower than the MSP
    - The government had huge buffer stock of pulses
  - Various member countries have questioned India's commitment to the free trade under WTO with imposition of such restrictions

- Member countries such as US, Canada are deliberating of raising this issue
- Once the objection is raised, India will be justifying its stand, if the member countries are not satisfied with the explanation then a dispute will be filed at the Dispute Redressal Body under WTO
- Earlier there has been an objection filed at WTO against the government's policy of giving higher market price support for five varieties of pulses under the MSP

- **<u>India's pulses programme under WTO lens (2/3/19)</u>**
  - Countries such as US, Canada, Australia have served a counter-notification alleging that the subsidy given was much higher than what is permitted
  - India has argued that
    - The calculation of MPS by US is faulty
    - The subsidy for pulses is given to ensure nutrition supply for 195 mn people
  - If it is proven that subsidies are beyond the permissible cap, then India will be asked to discontinue the subsidies, failing which penalties may be imposed on India
  - India along with many other developing countries have demanded that there should be no capping food procurement subsidies. There is yet to be a permanent solution for this
  - Earlier also counter notifications have been served to India related to its subsidies given for cotton, rice, wheat and sugar
  - US and Canada have also alleged that
    - India has failed to report the data on total production value
    - Has reported the subsidies in dollars rather than in rupees
    - Has reported the volumes procured/purchased by the government as eligible production

- **<u>Lower GST in housing (IE 26/2/19)</u>**
  - GST council in its 33rd meeting has approved to reduce the tax rate on real estate projects
    - For under construction properties the rate has been slashed from 12% to 5%
    - The effective tax rate on affordable housing projects will be levied at 1% (from earlier 8%) and for non-affordable from 12 to 5% (earlier the tax rates applicable for affordable and non-affordable was 12% and 18% respectively)
    - Having said so, the developers will not be given the ITC (Input Tax Credit)
    - The new rates will be effective from April 1, 2019

- Affordable housing (definition has been redone to link cost with carpet area)
  - Properties costing up to ₹ 45 lakh will be considered affordable
  - Properties with carpet area of 90 sq mt in metro and 60 sq mt in non-metro will be considered affordable
- The ready to move in homes do not attract any GST and buyers prefer these homes compared to under construction projects because they are worried about the dodgy promises of the developers and failure to provide a quality product on time. Hence the reduction in GST rates is not going to improve this. Apart from this, the withdrawal of ITC (Input Tax Credit) may prompt the developers to not transfer the rate cut to the buyers

➢ **<u>Need to create jobs (BL 28/2/19)</u>**

- UNFPA (United Nations Population Fund) has conducted a survey on Demographic Dividend in India
  - Large number of population is getting added to the working age group of 15 to 59 years and there is a real and urgent need for creating employment opportunities
  - The rate of growth of population is declining. The decadal growth rate between 2001 to 2011 was 17.6% (which is 3.9% percentage points lower compared to the period of 1991 to 2001)
  - The TFR (Total Fertility Rate) has fallen to 2.1 (except in 7 states - where it is 2.3. Even in these states the TFR is declining at a faster pace)
  - Despite the slowing rate of growth, the population in India is expected to keep growing till 2060 to 166 Cr after which it is expected to start declining (the increase in the population despite slowing growth rate is referred to as Population Momentum)
  - The addition to working age group will be 390 mn between 2001 to 2031
- The population dynamics perspective needs to be incorporated in policy making and programme planning, especially in skill development and employment generation programmes
- Such analysis should be conducted at the state level also

➢ **<u>CPSU Scheme - 12 GW solar energy (LM 1/3/19)</u>**

- CCEA recently has approved a VGF of ₹ 8580 Cr to expand the existing 1000 MW CPSU Scheme under the National Solar Mission, taking the cumulative to 12000 MW

- The VGF will be applicable only in those projects which are using domestically manufactured cells and modules
- The domestic manufacturers are finding it difficult to compete with the cheap solar imports. In FY18 the imports are valued at ₹ 24700 and has registered a growth of 15% Y-o-Y. Though the imports in this year have declined (40% in the first 9 months), it has more to do with the lower capacity addition than with sourcing from domestic market and imposition of safeguard duties
- Three hurdles troubling the domestic manufacturers are
  - The industry needs to expand rapidly to cater to 3 GW average capacity addition envisaged under the CPSU scheme
    - The developers prefer to import the modules despite the safeguard duty
  - The technology used to manufacture cells in India is outdated. Upgrading means higher costs
  - Of the 1 GW that was already allocated, the CPSUs have not been enthusiastic as NTPS accounts for 700 MW out of the commissioned 800 MW capacity (NTPC is driven by its goal to diversify its generation portfolio by 2022 and aims to have solar capacity of 10 GW)