ETW 11th to 17th Feb 19

- **PSBs reduce risk weighted assets (RWAs) (BL 11/2/19)**
  - RBIs regulations mandate that the capital held by the banks must be pegged with the risk profile of the borrowers (higher the risk, higher the capital). The central banker has allocated different risks weights to different types of loans i.e. in case of loans to central government the risk weightage is 0%, in case of commercial real estate it is 100%
  - RBI in its recent monetary policy review has tweaked the norms of risk weights on the loans given to NBFCs in order to improve the capital ratios of the banks
  - In the last one and half years, the PSBs have consolidated their books by reducing the exposure to risky assets and more importantly they have reduced their RWAs by a faster pace compared to the decline in loans, which means that the banks are moving or lending to the safer and less risky loan assets
  - Between September 2017 and December 2018, the RWAs for most of the PSBs have declined by 15 to 20%
  - In the nine months before December 2018, the RWAs in PSBs have fallen in the range of 6 to 13%
  - The drop in RWAs with recapitalisation provided by the government has improved the Tier 1 capital ratio of the banks

- **The deficit problem (IE 11/2/19)**
  - Nearly 18.5% of the FD, will be financed by borrowing from NSSF (National Small Savings Fund). It has increased from 2.5% in FY14 to 12.6% in FY17 to 18.5% in FY20
  - Apart from this, NSSF has already invested ⍰ 70000 Cr and ⍰ 65000 Cr in FY17 and FY18 respectively in FCI
  - This indicates that the centre is opting more towards non-market borrowings for meeting its own deficits
  - Good outcomes form such practice is that
    - The pressure on the Govt to borrow from the market will come down
    - Diversification of the borrowings
    - There is also lower pressure on the private sector
    - NSSF has to invest somewhere, investing in securities backed by the government is a better option

- Having said so, the issues related to such borrowings is that, it has increased by a fast pace in the recent times and stands at 8.2% of GDP for FY18. apart from this, the other issues is that the centre has to cough out interest on such borrowings in the coming fiscal

- **<u>CAG report on sharing GST revenues (BS 13/2/19)</u>**
  - IGST revenues
    - Has stated that the transfer of GST revenue to the states has not happened as per the provisions of the GST law in FY18
    - The IGST law provides of distribution of the revenue between centre and state. Of the undistributed revenue, half will be given to the states and half will be transferred to the consolidated fund of the centre
    - Of the revenue collected by the centre in the form of taxes (including GST), 42% has to be again given to the states, as per the recommendations of the 14th FC
    - In FY18, the centre transferred around ₹ 68000 Cr of the undistributed IGST funds to the states. This comes at around 38.5% of the amount
  - ₹ 94000 Cr collected towards funding higher education was not utilised for the purpose
  - Various ministries and departments saved ₹ 2.5 tn on account of reduced expenditure, this represents poor budgeting and non-allocation of funds for other departments

- **<u>GST reforms needed (LM 12/2/19)</u>**
  - GST was implemented two years; the supporters have stated that it has
    - Reduced the number of indirect taxes
    - Eased the inter-state transportation etc
  - On the other hand, certain expert have pointed out the issues such as
    - Online invoice making for every transaction
    - Multiple monthly filing of returns
    - Implementation issues
    - Issue of e-way bills
    - One third of GDP is not covered so far
  - The original outcomes that were promised were

        - GDP growth to jump by 1.5% to 2% on account of efficiency gains, lower logistics costs, impact of access to a large national market to MSMEs
        - Lower inflation on account of removal of cascading impact
        - Revenue buoyancy on account of higher compliance (expected revenue increase was 14% per annum, so far it has been around 8%)
    - Way forward
        - Include all the items such as petrol, diesel, real estate etc under GST. This will lead to expansion of tax base and also improve the GST collections. Apart from this, the RNR (Revenue Neutral Rate) can be 12% with higher revenues (presently it is 18%)
        - Zero rate the exports (which is the practice around the world). Presently the exporters pay the tax, which is refunded later, this system imposes certain problems on the exporters
        - Eliminate the e-way bill system and have GST registered logistics company as a part of the triangle (suppliers and buyers). This would make receipt matching easier. Apart from this, it would also not require any kind of vehicle checking, inspections etc
        - Lower rate of 12% will lead to more compliance and revenue buoyancy. This would also reduce the tax burden on the poor (spend majority of their income on consumption)
    - 2% of the 12% be carved out for third tier of governance (this would require a constitutional amendment)

- **PM-KISAN Challenge (TH 14/2/19)**
    - More than 50% of the workforce is employed directly or indirectly in the agriculture sector. The recent droughts, ad hoc export-import policies, inefficient markets etc have ensured that the farmers do not receive right prices, added to this the agriculture sector has not grown consistently in the last 5 years
    - The objective of the PM-KISAN is to boost rural consumption and helping poor farmers but this needs proper strategy and implementation, it is unlikely to have huge impact
    - Some of the issues raised are

- The poverty lines for India stand at ₹ 32 and ₹ 47 for rural and urban areas as per the recommendations of Rangarajan Committee. When compared against ₹ 17 a day under the above scheme, it will not be sufficient for the farmer to sustain a day. Hence any scheme implemented by the government should at least take into consideration this point for example under Rythu Bandhu scheme, the government of Telangana provides ₹ 4000 per acre per season and in case of KALIA scheme of Odisha, ₹ 5000 per farmer family is provided for five seasons
- The cash transfers need to be indexed to local inflation, as there is price rise. A case in point is the direct benefit transfer done in Rajasthan for kerosene was insufficient as the market prices increased substantially
- Identification of beneficiaries is difficult as the land records are not complete and updated
- A joint study done by NITI Aayog and Union government regarding the cash transfers for food subsidy (Puducherry, Chandigarh; Dadra and Nagar Haveli) has found that
    - 50% of the people received less cash
    - 17% have received more than they were entitled for
    - More than 40% of the money transferred could not be verified to have reached the beneficiaries
- The guidelines are not clear about the process to be used for transfer, issues of grievance redressal etc (states find it difficult to resolve the complaints and curb corruption)