Economy This Week (12th August to 18th August 2019)

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1. 15th FC may cut devolution to states marginally (BS 12/8/19)

- The devolution to the states is 42% as per the recommendation of the 14th FC. The 15th FC is expected to reduce this marginally. Added to this, the capital expenditure incurred by the centre in the form of defence and internal security could be kept separate from its overall tax revenues. If done a new devolution formula may be applied. This would also reduce the transfers to the states
- The 14th FC, had raised the devolution to the states to 42% from 32% which was fixed for the period from 2015 to 2020
- 15th FC is expected to submit its report to the govt on November 30. It was given an extension to examine if a separate mechanism for funding defence and internal security ought to be set up
- General view is that the centre's revenues have come under stress with implementation of GST and any devolution over 42% would be a burden on the govt. Apart from this another rationale has been that, the states get funds in other forms (revenue deficit grants, disaster funds, state specific grants etc) and cumulatively it would cross more than 50% of the divisible pool. Then there is also a transfer of ₹ 3.5 tn which centre incurs in the form of centrally sponsored schemes.

2. Start-Ups can issue shares with DVRs (BS 17/8/19)

- SEBI (Securities Exchange Board of India) in June had issued the framework for filing the shares with DVRs
- With the government amending the provisions of the Companies Act, start-ups and technology companies can issue shares with DVRs. the entrepreneurs would be losing the ownership of their companies when they raise funds from investors, with this change it would be averted
- This will help the entrepreneurs to retain control over the company and also raise equity capital
- Another important change that has been done by the government is removing the provision related to companies needing to have distributable profits for three years, in case they wanted to issue shares with DVRS.
- The cap on differential voting rights shares has been revised from existing level of 26% to 74%.

3. Renewable Energy (TH 15/8/19)

- India has set a target of having renewable energy capacity of 175 GW by 2022. This is a step in the right direction, which will reduce dependence on fossil fuels, generate employment opportunities, promote focus on environmental protection etc
- However, the question is whether the government has put right efforts to take advantage of the extremely favourable cost conditions of the renewable energy
- The cost of generating renewable energy has been steadily declining and presently is comparable to

the cost of generating electricity from fossil fuels. Taking advantage of this, countries such as China and Brazil have performed much better than India in terms of generating renewable energy

- **China**
  - In the period between 2014 to 2017, China added 207.2 GW of renewable energy capacity, six times compared to India (33.3 GW)
  - In the same period, China added 105.5 GW of solar energy capacity compared to the addition of 14.3 GW by India
  - In the same period the countries such as Japan, US have added twice the solar energy capacity
- The cost of generating solar energy has come down over a period of time, but India has not been able to leverage this like other countries
- Added to this, recently Indian government has imposed safeguard duties on imports of SPVs (Solar Photo Voltaic). Apart from this depreciation of Indian rupee against the US dollar has increased the cost of these imports
- Another issue of concern has been India's increasing dependence on fossil fuels, which is contradictory to the policy of promoting renewable energy policy. The main objective of promoting renewable energy generation is to replace fossil fuels, but in the case of India
  - The coal demand has increased by 9% to 1 billion tonnes for the year ending march 2019
  - Coal features among top five imports, with imports rising from 166 mn tonnes in 2013-14 to 235 mn tn in 2018-19
- Issues with coal
  - It is the dirtiest fuel. The carbon emissions are almost twice the emissions from natural gas, and also much higher than those from petroleum
  - As per study conducted by CSE (Centre for Science and Environment)
    - Coal fired thermal power plants of India most inefficient and polluting in the world
    - More than 75% of these plants do not comply with the govt regulations

4. Samarth Scheme - textiles sector (BL 15/8/19)

- The government is implementing 'Samarth' - Scheme for Capacity Building in Textiles Sector (SCBTS) from 2017-18 to 2019-20 to meet the skill requirements of textiles industry
- The scheme aims at skill development of 10 lakh youth by 2020 with a projected outlay of ₹ 1300 Cr
- State governments would nominate agencies which will be imparting the skill training to these workers. Once skilled these would be provided jobs in the industry
- 16 states have signed the pacts/MoUs with ministry of textiles to partner with it for skilling about four lakh workers.
- About three fourths of the workers in the textiles sector are women and 70% of the beneficiaries of the MUDRA loan are women.

5. Banks and ARCs differ on bad debts (BS 16/8/19)

- The ARCs (Asset Reconstruction Companies) and the banks are not on the same page on the issue of resolution of bad assets
- The banks want to dispose off the assets at deep discounts but with upfront cash payments, whereas the ARCs are finding this difficult because they do not have sufficient cash. Instead the ARCs want to pay 15% upfront and remaining to be issued in the form of security receipts. In the process of recovering the value of the asset on behalf of the banks, the ARCs will earn fee
- The recovery in this route is also good but this process involves lengthy legal procedure and the banks do not want this

- RBI has been experimenting with many steps to resolve the issue of NPAs and except for bigger accounts, it is the smaller accounts which are creating problems and the ARCs are more interested in these loans (accounts below ₹ 1000 Cr).

6. Managing the rupee (BS 14/8/19)

- Govt is planning on providing a fiscal stimulus package to revive the economy and the industry is expecting a package of ₹ 1 tn, but the fiscal space available for the government to provide such a stimulus is very limited. Hence the govt should think this through before committing to additional spending or tax concessions. In addition to this, industries such as automobiles are demanding a tax cut. When the issues plaguing the economy are structural in nature, quick fixes like tax cuts would be a temporary solution
- Rather than focusing on quick fixes, the govt should focus on macro-economic challenges such as trade in order to boost the output. Indian exports comprise a very small percentage of the global trade and the global trade scenario also has become very competitive, hence the govt should focus on increasing the market share of Indian exports
- This has become much more complicated with the fact that the Yuan has depreciated in recent times to cross the psychological level of seven to US dollar. Though US President has expressed his displeasure over this, the economies cannot go for competitive devaluation
- India should look at protecting its interests in case of exports and exchange rate. Indian rupee has appreciated by 18% against Yuan in real terms in the past five years. The overvaluation of the rupee is one of the reasons for India's trade deficit with China
- Now with higher trade tensions between USA and China, the Yuan could slip (depreciate) further
- Infact Indian rupee has appreciated against many currencies. The 36 currency based REER (Real Effective Exchange Rate) of rupee has stood at 118.54 in June, which means that it is overvalued. This affects the Indian exports, which have remained stagnant in the last couple of years.
- The stated position of RBI is that it does not target any particular value of rupee, rather it will try to reduce the volatility in the market, however in this situation of global turmoil, the central banker in consultation with the govt will have to come out with a methodology to protect the rupee.