Economy This Week (27th Jan to 9th Feb 2020)

1. Rising forex reserves (BS 29/1/20)

- India's forex reserves would be reaching $ 500 bn soon if the accumulation increases at the same pace as last year.
- The forex reserves have already reached $ 462 bn. The reserves have increased by over $ 60 bn in 2019. This increase would shield the economy from external economic shocks, but the continued flow would complicate domestic policy management.
- With higher foreign flows, the rupee will experience an upward pressure. This will make exports less competitive in the international market. Hence RBI is intervening in the market to protect India's trade competitiveness.
- The issue is that with increased RBI intervention, the liquidity infusion in the system will increase. With inflation already on the higher side, this excessive liquidity will further complicate policymaking.
- This may force RBI to sell bonds and reduce liquidity (this would affect the yield rates in the market).
- In this regard, India's approach to external finance is puzzling. On the one hand, the central banker is buying foreign currencies in large quantities and on the other, it is encouraging foreign inflows (has doubled the VRR limit).
- There is a need for the government and the central banker to evaluate what kind of foreign inflows will serve the economy better.

2. Phase out of exemptions may hit the savings (IE 4/2/20)

- The Government, in the recently concluded budget, has announced a new income tax regime under which the tax rates have been reduced for various slabs and the taxpayer will not be given any exemptions.
- This is expected to hurt the savings rate of the economy which is already experiencing a declining trend.
- The savings of the economy represent investible surplus that is there with the households which could be used by the government and the private sector for investment purposes. In essence, the growth rate that could be achieved by the economy is critically dependent on the savings rate in the economy.
- The Government in the past had introduced deductions in the income tax regime to promote savings in the households. The objective was to channel these savings in the market.
- The savings rate has been declining over the past six years. In 2012, the savings rate was around 36% of GDP which has declined to 30% in recent times (during the 1990s it was stuck at 23-24% of GDP).
- Much more concerning is the decline in the savings of the households. In 2012 it stood at 23% and by 2018 it was down to 17%. In addition to this, a point to be noted here is that of all the four categories it is the household which saves the highest and the remaining three are dis-savers in aggregate (the household here refers to not only the average families but also to unregistered firms such as kirana shops, etc.)
- Apart from this, it has been an issue that the financial savings of the households against the physical assets are not even enough to cover the total borrowings of the government.
- It is a primary reason as to why the interest rates are not falling in the economy.
- If India wants to grow at 8% with an ICOR of 4, then the savings rate should be at 32% and at an

ICOR of 5, to achieve the same growth rate, there is a need to save at 40% of GDP.

3. Govt to reintroduce the FRDI bill (BS 8/2/20)

- The government is in the process of reintroducing the Financial Resolution and Deposit Insurance (FRDI) bill.
- The government had earlier introduced the FRDI bill and then had withdrawn it in August 2018 after there was a backlash against the provisions of the bill.
- Recently, the government proposed to increase the deposit insurance to ₹ 5 lakh.

4. Restoring trust - statistics calendar (IE 27/1/20)

- In recent times there have been certain concerns raised over the ability of the Indian statistical system to bring out timely and credible data. The Government has not helped matters with its approach towards some of the reports prepared by the statistical agencies.
- Having said so, the government has taken some steps recently to restore the credibility of the institutions.
    - It has set up a committee under the chairmanship of Pronab Sen.
        - Having said so, the remit of the committee is limited - ends with the submission of good and timely data to the National Statistical Office.
- What should be done?
    - The Government should put in place a calendar for all the data releases.
    - Such a frequent and timely release would aid in policymaking.
    - The government's position on the NSC (National Statistical Commission) must be reconsidered (the NSC bill will make it into a public sector undertaking without any powers of its own).

5. Govt arms itself with powers to ban imports or export of any item (LM 5/2/20)

- The Government, as of now, is allowed to only ban imports and exports of gold and silver under the Customs Act, 1962.
- The government has proposed to amend the Customs Act to give itself wide powers to ban imports and exports of goods.
- Once the amendment in the Finance Bill is approved, the government will have full powers to ban exports and imports of all goods.
- Such measures are aimed at narrowing the trade deficit with China.
- This comes amidst rising protectionist trends in the global market where reforms are being taken to protect the domestic companies amid slowing economic growth.
- Apart from this, the government has also proposed to amend the Customs Tariff Act, 1975 to strengthen the mechanism to prevent dumping of cheap goods in the domestic market.
- Last year, the government had merged bodies handling anti-dumping and import safeguards to form the Director General of Trade Remedies (along the lines of the US International Trade Commission).

6. Banks plan to restructure major chunk of ₹ 2 tn MSME loans (BS 30/1/20)

- MSME NPA rates have increased from 11.7% in Sep 2018 to 12.2% in Sep 2019.
- The MSME sector has been under stress in recent years.
- The RBI has provided for loan restructuring of the MSME sector (under special dispensation).
    - This was announced by RBI in January 2019.
    - Under this, the banks were supposed to restructure the loans where there is default but are yet to be classified as NPAs.
    - The total fund and non-fund based exposure to the borrower should not have crossed ₹ 25 Cr.
- Under this, the banks are looking to restructure loans worth ₹ 2 tn. More than 50% of the target was met until November-December.
- Apart from this, there have been many other initiatives taken by the government to address credit-related issues.