Economy This Week (10th Feb to 23rd Feb 2020)

1. Board for aligning RBIs fiscal year with that of govt's FY (TH 16/2/20)

- RBIs FY is from July to June and that of the government is from April to March. Since there was a difference in the accounting year, RBI had to provide an interim dividend to the government.
- RBI's board has recommended that its fiscal year be changed to match with that of the government from 2020-21 and has approved a proposal to be forwarded to the government for its consideration.
- The FY 2020-21 will start from July 1 and will end on 31st March 2021 i.e., after nine months. Thereafter, it would be aligned with the FY of the government (1st April to 31st March).
- This was recommended by the Bimal Jalan Committee.

2. There may be few takers for tax amnesty scheme (BS 16/2/20)

- The Finance Minister, in the recently concluded budget, has announced a direct tax amnesty scheme - Vivad Se Vishwas Bill 2020.
- Under this, the taxpayer can choose to pay up the disputed amount (without any interest or penalty) before 31st March 2020 (if the case is before any appellate authority including HCs and SC).
- If the taxpayer misses the deadline and still wants to opt for the amnesty, he will have to pay 10% of the disputed amount in addition to the disputed amount.
- Around 5 lakh cases involving ₹ 9 tn in direct taxes are locked up in litigation at various stages of appeal.
- Apart from this, another point to be noted here is that the government is a major litigant and suffers from losing 90% of these cases.
- **Issues or concerns:**
    - The Government has provided for the payment of 100% of the disputed amount, unlike in the previous situations such as disputed excise and service tax scheme, where the government had provided for the payment of 50% of the disputed amount.
    - If no waiver is provided, then the taxpayers may not show interest in the scheme, as it is alleged that often it is the high pitched assessment (irrational, in fear of CAG or to be noticed by their seniors) which is the root cause of the mounting tax litigation. This has been so prominent that CBDT itself has issued a circular warning to its officers against such a practice.
    - In addition to this, if the taxpayer accepts to pay up, it would amount to an admission of guilt.

3. Increase in insolvency cases could pose challenges (BS 19/2/20)

- It's been over three years since the insolvency code was implemented (December 2016). It has been one of the primary reasons for India's improved performance under Ease of Doing Business Rankings. The World Bank has noted that the Code is much better than the economies in South Asia with a higher recovery rate in less time.
- However, as per the recent report of the Insolvency and Bankruptcy Board of India (IBBI):
    - The number of ongoing cases has more than doubled in the December quarter compared to the same quarter last year.
    - The number of cases going for liquidation has also increased significantly.
    - So far 3312 cases have been filed, of which 190 cases have seen a resolution and 780 cases have seen liquidation (though this liquidation number is high, a majority of these were either defunct or were under the Board for Industrial and Financial Reconstruction). Simply put,

these are legacy cases. Once these cases are over, the number of cases going for liquidation would come down.
- The other cases need policy attention.
    - 30% of the remaining cases have crossed the time period of 270 days. Hence it is important to blind capacity (adequate resources to the NCLT) in the system so that the cases are cleared within the time period. This would:
        - Aid creditors in minimising the damage.
        - Reduce the stock of NPAs and would improve the flow of credit.

4. Tweaking IBC process (BL 20/2/20)

- The PMO has flagged the issue of creditors using the Insolvency and Bankruptcy Code for resolution of loans of ₹ 200 Cr or less. Rather, these creditors must be focused on making a restructuring package to bring these units back on track.
- Many of these companies are MSMEs.
- The concern for the government is that the economy is in a slowdown and the monetary and fiscal policies are trying to increase the credit availability for the industries and MSMEs. On the other hand, the bankers are worried about the restructuring of loans and that any restructuring decisions taken by them would be investigated in the future.
- In addition to this, RBI report has pointed out that NPA would be surging from 9.3% to 9.9% by September 2020. This would have been because of the macroeconomic climate. In this situation, it would be unfair to expect that the banks would be taking more risk either by increasing their credit to the industries or by restructuring their loans.
- In this regard, the PMO must take measures to give the banks the confidence that their restructuring decisions would not be probed.
- However, it is unfair to blame the bankers alone for clogging the IBC, as the operational creditors are also empowered to drag the borrowers to the NCLT (even if the default value is a mere ₹ 1 lakh).
    - As per IBBI, around 50% of the cases admitted are on account of the operational creditors.
- Way forward
    - A new framework has to be set up like 10% of the debtor's overall liabilities or ₹ 10 lakh, whichever is lower, to activate insolvency proceeding.

5. Cabinet makes crop insurance optional for farmers (BS 20/2/20)

- The Government launched the PMFBY three years ago to provide insurance cover for the farmer. So far the government has spent about ₹ 50000 Cr in the form of premium subsidy.
    - Farmers pay 2%, 1.5% and 5% of the sum insured as their share of the premium for Rabi, Kharif and horticulture crops respectively.
    - The difference between the actuarial premium and premium paid by the farmers is equally shared between the centre and states.
- The scheme is voluntary for non-loanee farmers and this number has been increasing. As of Kharif 2016, around 10.2 mn non-loanee farmers had enrolled, this increased to 12.4 mn by Kharif 2018 - increased by 22%).
- The total enrolments have been decreasing. It was 40.4 mn in Kharif 2016 and has come down to 34.8 mn by Kharif 2018 (drop of 14%). The Government has blamed loan waivers by states and mandatory AADHAAR linking for this decline. Critics, however, have pointed out that the decline could be because of the inefficient functioning of the scheme and delayed compensation payment.

- The Government has made certain changes to the Pradhan Mantri Fasal Bima Yojana (PMFBY) to make it more farmer-friendly:
    - It has been made optional for loanee farmers from the Kharif season 2020 (as per the government data, 58% of the farmers are loanee farmers).
    - States are supposed to release their share before March 31st for Kharif season and September 30th for Rabi season. If there is a delay, then the states will not be allowed to implement the scheme.
    - The states will have to keep the insurance companies enrolled for a minimum of three years as against the present situation of one to three years (3 private companies have opted out in 2019-20).
- Critics have pointed out that making the scheme optional may further reduce enrolments and in turn, increase the premiums. However, others are of the opinion that the enrolments would increase as no other country in the world provides crop insurance at such lower cost.
- Apart from this, the government has also taken a decision to launch a new scheme for promoting and creating 10000 new Farmer Producer Organisations (FPOs) in the next five years starting from 2019-20.