Economy This Week (23rd Mar to 5th Apr 2020)

1. IBC - Default threshold increased (BL 26/3/20)

- The Ministry of Corporate Affairs (MCA) has operationalised the centre's decision to increase the threshold for default under IBC from ₹ 1 lakh to ₹ 1 Cr.
- This will prevent insolvency resolutions against a large number of companies, especially the MSMEs. This will reduce the stress of resolution on these companies during this time of stress caused by the pandemic.
- On the other hand, the rise in the threshold level would be a big blow to the small and midsized operational creditors.
- Apart from this, there is also a need for the government to look into suspending Sections 7, 9 and 10. This would prevent the creditors (financial, operational creditors) from filing insolvency cases on the companies.

Also read: Insolvency and Bankruptcy Code

2. Why has Kerala sought relaxation of FRBM rules (TH 29/3/20)

- The Kerala Government has announced a relief package of ₹20000 Cr in which it has planned to borrow as much as ₹12500 Cr from the market in April 2020. For this, the state has asked the Centre to relax or provide certain flexibility to the state under the Fiscal Responsibility and Budget Management Act 2003, so that the finances of the state are not adversely affected in the rest of the fiscal.
- FRBM was enacted in 2003 and tries to ensure inter-generational equity in fiscal management and long-term macroeconomic stability. In order to achieve this, the Act sets limits under various parameters related to debt, fiscal deficit, transparency in fiscal operations of the government and conduct of the fiscal policy in medium term framework.
- The Government was supposed to achieve the FRBM target of 3% of GDP in case of fiscal deficit by the end of FY09. This was changed to FY21 and most recently to FY23.
- In order to ensure that the states too are fiscally prudent, the 12th Finance Commission recommended linking the debt relief to states to similar laws enacted by these states. The states in this regard implemented the Fiscal Responsibility Law which set a limit of 3% of GSDP for these states.
- The state of Kerala wants to ensure that there is sufficient expenditure allocated for the fight against the pandemic, and fiscal constraints will not be a hurdle in this regard. Hence, it has sought flexibility from the Centre.
- This relaxation is usually provided under 'escape clause' under Section 4(2) of the Act. In this, the Centre can exceed the FD target citing grounds such as war, national security, national calamity, collapse of agriculture, structural reforms and decline in the real output growth of a quarter by at least three percentage points below the average of the previous four quarters.
- In the past also, the targets have been revised, the most notable among them has been in 2008-09 (targets were revised for the states also), and most recently in the concluded budget.

3. Govt to infuse ₹ 1340 Cr in RRBs (TH 26/3/20)

- The Government has approved recapitalization of ₹1340 Cr into the Regional Rural Banks (RRBs).
- This is expected to help these banks in meeting the CRAR (Capital to Risk Weighted Assets Ratio).

- RRBs are critical to the provision of credit in the rural areas. They provide 75% of their total credit as PSL (Priority Sector Lending) with special focus on agriculture credit, micro entrepreneurs, etc.
- Of the total, half would be from the centre i.e., ₹670 Cr and the remaining half would come from the sponsor banks.
- The infusion will help the banks to have minimum regulatory capital for the year 2020-21 (for those who are unable to meet the norm of CRAR 9%).

4. NRIs can invest in specified govt bonds (TH 31/3/20)

- The RBI has introduced an FAR - Fully Accessible Route - which allows NRIs to invest in specified government bonds from 1st April 2020.
- This follows the announcement done by the government in this regard in the Budget 2020.
- Eligible investors will be allowed to invest on specific types of government bonds without any investment ceilings.
- This will work along with two of the existing routes - Medium Term Framework (MTF) and Voluntary Retention Route (VRR).
- This will:
    - Help in inclusion in global bond indices
    - Ease access to NRIs
    - Help in inflow of stable investment in the government bonds

5. India invokes peace clause for rice farmers (BL 3/4/20)

- India has invoked the peace clause of WTO.
- This comes after the country ended up exceeding the ceiling of 10% on support to farmers.
- The Government has informed the Committee of Agriculture (WTO) that the value of its rice production in 2018-19 was $43.6 bn and the total measure of support to the farmers stood at $5 bn. This comes to around 11.46% of the production value against the limit of 10%.
- Under the Bali Ministerial Conference (2013), developing members can invoke the peace clause to protect their public stockholding programmes from legal challenges.

6. Fisher bodies call for halt to WTO talks (BL 3/4/20)

- Fisher and farmer organizations from India and other developing countries have called for a halt on the negotiations happening at WTO with regard to fisheries subsidies as it is non-inclusive and ad-hoc, amid the coronavirus pandemic.
- The WTO members had sought to wrap up fisheries negotiations on fish subsidies (which are harmful and estimated to be at $14 to 20.5 bn annually) at the Ministerial meeting in Kazakhstan in June 2020.