

Economy This Week (6th Apr to 19th Apr 2020)

1. RBI eases norms for the states (LM 8/4/20)

- The RBI has extended the overdraft facility (till 30th September) for the states facing short term mismatches.
- This is the second time that the bank has relaxed the guidelines in relation to states' borrowing limits.
- The number of days for which a state or centre can avail overdraft facility has been increased from 14 days to 21 days. Similarly, the number of days for which a state can be in an overdraft in a quarter has been increased from 36 to 50 working days.
- This is the latest move by the central bank to deal with the pandemic. Earlier it had increased the WMA (ways and means advances) limit by 30% for states and UTs from 1st April to September 30.
- The government is allowed to borrow from the [RBI](#) for a period of up to 90 days at repo rate under the WMA. If the government doesn't repay it within 90 days, then it becomes overdraft. This facility has been extended by 7 days.

2. Ways to raise govt resources (BL 11/4/20)

- In the current pandemic situation, the Centre has announced:
 - Transfer of ₹ 500 into accounts of 200 million women Jan Dhan Yojana bank account holders
 - [PM Garib Kalyan Yojana](#) at a cost of ₹ 1.7 lakh Cr
 - To release tax refunds of ₹ 18000 Cr

With all of this, the expenditures of the government are set to increase and revenues will be suppressed due to the disruption in economic activity. In this context, some of the ways through which resources can be raised by the government are:

- Propose a scheme for religious institutions - these institutions must be convinced to donate for PM CARES Fund and in return, must be provided with a tax deduction of 100% (currently it is 50%).
- Launch of amnesty scheme - This can be launched against tax evaders so that there is generation of revenue.
- Tax free NRI bonds - dollar denominated bond issued by the government would attract investments as the interest rates in the global markets are low.
- Settling the industrial disputes - if the telecom companies are forced to pay the AGR dues, some of these companies may have to shut shop which would not be a desirable outcome for any of the stakeholders involved - customers, lenders, etc. and this would be devastating in this situation. Hence, the government should come to an agreeable solution with these companies.
- Get state governments to be more pragmatic - the states will be asking financial assistance from the Centre. The states must be pushed towards being pragmatic and review various ways so that they can also raise some revenues.

3. Falling rupee spells trouble for corporates (BL 7/4/20)

- One of the outcomes of the pandemic has been that the rupee has depreciated from 71.3 to 76.2 against a dollar between February to 24th March i.e. by 7% in a span of one and half months. This has been the result of the FPIs exiting.
- This is because of the uncertainty caused and the effect (capital flight) is felt by the markets across the global economy.

- As per estimates of the Institute of International Finance, over \$ 95 bn worth of capital has been withdrawn from the emerging markets since January 21 (is four times the value of capital flight post the 2008 crisis).
 - In the case of India, the net outflows have been around \$15.9 bn.
 - Though the declining oil prices could neutralize the depreciation, a steep fall in oil prices has conflicting effects - while it reduces the foreign exchange outflows (on account of imports), it also adversely affects remittances which are one of the sources of support for the BoP (balance of payments).
 - India has about 18 million migrants living around the world and is the largest recipient of remittances - \$78.6 bn in 2018.
 - Of this, 3.4 million people are located in the UAE, 2.7 million in the US, 2.4 million in Saudi Arabia.
 - Preliminary analysis has shown that falling global growth and falling oil prices had affected the remittance flows in the last quarter of 2019.
 - The rupee depreciation spells trouble for the corporates.
 - In recent times, borrowing through this has increased.
 - The central banker eased some of the rules/guidelines and promoted this route.
 - The value of borrowings done under ECBs (external commercial borrowings) has tripled between 2016 (\$17 bn) and 2019 (\$50 bn).
 - The repayment of interest in rupee value may spike on account of rupee depreciation. With the lockdown and the pandemic leading to economic crisis, there could be defaults by many of these companies and bankruptcy in extreme situations.

4. eNAM completes 4 years (BL 14/4/20)

- eNAM has 585 mandis across 16 states and 2 UTs and will be adding another 415 mandis this year. It has 1.7 Cr farmers and 1.3 lakh traders on board.
- 70 APMC mandis in Andhra Pradesh and Telangana have moved all of their operations on to [eNAM](#). The farmers in the region are happiest (though they have to travel about 30 to 40 kms to reach these mandis) as there will be transparency in the auctioning, cartels have been broken, immediate payment settlement, etc.
- How the system is better:
 - Earlier, there were systems such as secret bidding and collusion between traders, as a result of which the farmers did not get the right prices. Under eNAM, traders will not be allowed to cancel or revise the bids, and the system allows the traders from other states also to participate in the auction. This has increased competition, price discovery and has made price rigging difficult.
 - Better weighing has also added to the earnings. The weighing is done on electronic scales which are integrated with the portal through Bluetooth (earlier the farmers used to lose 2 to 3 kgs as the agents were cheating).
- **Way Forward:**
 - States need to work with the Centre. Telangana has announced a discount on the Mandi fees if the sales are done through eNAM. Such steps could be taken by other states also.
 - There is a need to ensure quality testing so that private food retailers come on board of eNAM (none are registered on eNAM as of now). The states need to utilize funds given to them to set up eNAM.

5. RBI rate cut (BS 18/4/20)

- The RBI has stopped conducting reverse repo auctions post the 27th March policy announcement. Until then, it was conducted once every fortnight.
- Earlier, the repo rate and reverse repo rates stood at 5.15% and 4.9% respectively. The difference between both is referred to as the liquidity adjustment corridor or LAF, which stood at 25 bps. Thereafter, the RBI cut the repo rate by 75 bps to 4.4% and reverse repo rate by 90 bps to 4% widening the corridor to 40 bps. The reverse repo rate has been further reduced by 25 bps, increasing the corridor to 65 bps.
- The rate cut has been done by the RBI to stop lazy banking, i.e., banks preferring to park the money with the RBI to earn risk free interest rather than lending in the market.