ETW 1st to 14th June 2020

- **India needs labour law reforms but must do it in proper way (LM 1/6/20)**
  - Government has so far implemented first generation reforms (post LPG reforms), but has been lagging in the second generation reforms in areas such as labour, land, capital etc.
  - Though the present govt has implemented some serious reforms, it has steered away from such important reforms.
  - Now various states have attempted to take the leap towards the labour reforms with the hope that foreign companies would be willing to locate their business in these states.
  - These measures have drawn a lot of opposition (some politically motivated) and these have been taken to International Labour Organization (ILO) and the Union Labour Ministry.
  - The avenue of the reforms is flawed:
    - The time limit of relaxation is three years and serious investors will be mindful of it
    - Various economists have been asking for easy hiring and firing policy but the govt has provided for relaxation in abolishing occupational health and safety regulations, arbitrarily raising working hours, which are not at all correlated.
    - In addition to this, ordinance route has been chosen, thereby eroding any democratic credibility that the process might have had.
    - Even if the states muster support to get these done, these may find very less favour at the central level (these are ordinances).
    - The whole exercise may simply tarnish the efforts needed for important labour reforms.
  - Way forward:
    - If the centre rejects these ordinances, then the states will have no other option but to go as per the democratic norms, seeking consultations from stakeholders.

- **Moody's downgrades India's rating (TH 2/6/20)**
  - Moody's has downgraded India's rating from Baa3 to Baa2 and has maintained a negative outlook.
  - This has been done citing prolonged period of low growth and deteriorating fiscal position of the govt.
  - Baa3 is the lowest in investment grade in Moody's rating and any further downgrade would mean that India will be under junk grade ratings.
  - Earlier Moody's had upgraded India's rating to Baa2 in 2017.

- Though the decision to downgrade India's rating has been taken in the time of pandemic, it must be noted that it has not been influenced by it.
- It has stated that the pandemic has amplified the vulnerabilities in India's credit profile that were present in India's profile even before the pandemic.
- There has been slow reform momentum and constrained policy effectiveness which have contributed to prolonged period of slow growth.

➢ **<u>From subsidies to cash transfers (IE 8/6/20)</u>**
- Agriculture sector has registered a growth rate (in terms of Gross Value Added) of 4% in the first year of the new government (higher than GVA of whole economy which grew at 3.9%) and is expected to register GVA of 2.5% for the current fiscal against an estimated growth rate of negative 5% for the whole economy (as per CRISIL report).
- Agriculture accounts for 44% of the country's labour force and is important in order to ensure food security and development for all.
- The demand for industrial goods is higher at the bottom of the pyramid because of the growth in agriculture sector in china:
  - Has registered an average growth rate of 4.5% for the last 40 years.
  - Produces three times that of India in a cultivation land lesser than that of India.
  - Land holding size in China is far lesser than that of India (0.7 ha and 1.08 ha respectively)
  - The migration of the labour from agriculture to other sector is because of the demand pull (better skilling) rather than push factor that is seen in India (agriculture cannot support such a big working population).
- The govt has taken some good initiatives recently in the form of amending Agricultural produce market committee Act, Essential Commodities Act (ECA), Contract Farming Act and expects all the stakeholders in the system to get the benefit from this. However there are certain issues to consider:
  - In ECA, there are stocking limits imposed in case there is an extraordinary price rise. This is defined as a 100% increase and 50% increase for perishables and non-perishables respectively over a period of 12 months
    - In such a case onion prices which are hovering at a lower level would spike in future triggering the stock limits. This would defeat the whole purpose as the private sector would not be interested in investing in the sector.

        - This provision may simply lead to rent seeking and inspector raj.
        - Rather, the stock limits should be imposed in case of calamity, famine, wars etc .
  - Govt has set a target of doubling the real income of the farmers by 2022-23 and as per Ashok Dalwai committee the sector must grow at 10.4% per annum in order to achieve the objective.
    - Sector has grown at an annual growth rate of 4.8% between FY17 to FY 20 and this year is expected to grow at 2.5%.
    - Even if in the next two years, the sector grows at 4%, then for the seven year time period (FY17 to FY23) the sector would have grown at the rate of 4.2% and this is unlikely to double the income of the farmers.
    - This is likely to achieve just 50% increase in the target of doubling the income.
  - Hence the govt should look into using direct cash transfers in areas such as fertiliser and food subsidies.

- **<u>Forex reserves cross $500 bn for the first time (IE 13/6/20)</u>**
  - The forex reserves have crossed $500 bn mark for the first time supported by low crude oil prices, decline in imports and healthy FDI and FPI inflows.
  - In the first week of June the reserves have crossed $500 bn mark.
  - Rising forex reserve has provided cushion for the economy in covering the imports, this has resulted in stability in rupee against the dollar.