Economy This Week (3rd Aug to 9th Aug 2020)

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1. Govt suggested to reduce stake in PSBs (BS 3/8/20)

- RBI has suggested that the government must reduce its stake in six leading PSBs to 51% in the next 12 to 18 months. This would provide a much-needed push to the disinvestment efforts of the government.
- RBI has raised concern against privatisation of the PSBs as it fears that the exercise may turn out to be like the case of IDBI where LIC ended up purchasing a 51% stake from the government.
- If done, the government would be fetching an amount of ₹ 43000 Cr and the government has targeted ₹ 25000 Cr.
- The focus in these banks now is on improving the asset quality. These may not be involved in bigger loans and focus on addressing the NPAs.

2. Bank reforms must not be held off by this crisis (LM 4/8/20)

- With the loan moratorium coming to an end, the banks are facing a huge rise in the NPAs. Many businesses or borrowers who had opted for the moratorium have been facing losses and are expected to default on their repayment.
- Majority of the loans (up to two thirds) in the market are issued by the PSBs and with the NPAs mounting, the requirement of capital in these banks is expected to increase. As per various estimates, the PSBs may require anywhere around ₹ 90000 Cr extra capital only in this fiscal. Some of this may be raised by the government by reducing its stake in PSBs as recommended by RBI.
- But this will only be an interim relief. What we want from the PSBs is that they should start performing much better, on par or better than their private sector counterparts. Short of privatisation what can be done now is to separate the management from ownership i.e., setting up an equity holding company as a buffer between the banks and the government. This will provide more autonomy to the banks to take decisions and compete with the private sector.
- If the holding company is given autonomy it can decide which of these PSBs are important in terms of serving the country and can recommend privatisation in them.
- The loan books of these banks are opaque and if the moratorium is extended beyond August then it will create more problems than it solves. To address the issues of borrowers and also protect the banks a better way out would be loan restructuring.

3. Exporters want govt to curtail MEIS benefits (BS 3/8/20)

- MEIS (Merchandise Exports from India Scheme)
  - Was launched in 2015 and replaced five schemes (Focus Product Scheme, Focus Market Scheme, etc.).
  - Under this, transferable duty credits are given to the exporters which they can use to pay customs duties on imported goods.
  - The objective was to offset infrastructural inefficiencies and associated costs.
- The benefits given by DGFT were arbitrary for many of the products.
  - Exporters of dairy products - 20% of FOB (Free on Board)

  - The number of products getting the benefit has increased from 4914 items to 8015 in the last five years.
- Finance Ministry is irked as the expenditure under the scheme has increased to ₹45000 Cr whereas the exports have remained stagnant at $310 bn since 2014-15. Hence, it has capped the outlay to ₹ 9000 Cr this year and wants the Commerce Ministry to make the scheme more focused, sector-specific and performance-linked.
- Earlier, a panel at WTO asked the government to withdraw the MEIS as it amounted to export subsidies. The government has appealed against this at the now dysfunctional appellate body.
- The government has also announced that MEIS would be withdrawn and would be replaced by Refund of Duties and Taxes on Export Products (RoDTEP) scheme, which is yet to be done.
- Many of the exporters have already factored in the incentives in determining their prices for the current year. If these incentives are not given or there is a delay, then it would have an impact on the finances of these exporters.

4. Is India really open for business (BL 6/8/20)

- Advantages that India has:
  - Is one of the biggest markets
  - Has demographic advantage with a large population in the earning population
  - Has a large manpower pool
  - Creaky but working legal system
  - Most importantly a working country with a robust democracy (though it is an attraction, could act as an irritant as the government change in 5 years means there could be a change in the policies)
- As per the Nomura report, only 3 out of 56 companies that shifted out of China in the midst of the trade war with the USA have come to India in 2018-19.
- During the pandemic, the government gave a call for 'Make in India' and followed it up with "buy local be global campaign" to promote exports, boost investments, scale up technology. Though the intentions are very commendable, the translation into reality is not easy.
  - Bureaucracy has been a speed breaker, centre and states are not on the same page (especially when both are run by different parties)
  - Corruption and activism delay the projects
  - Inadequate and poor infrastructure
  - Labour issues
  - Land acquisition issues

All these put together have led to delays, rent-seeking and higher costs. On the other hand, China scores very well on all these parameters except corruption.

- Single party rule has meant that there is no dissonance amongst political parties.
- Rule structure does not permit activism and; labour laws and land acquisition are done as per the centre's diktat.
- In terms of infrastructure, they have the better of it which can cater to the present and requirements in the next decade.
- Universities are credited with developing technologies with forethought.
- SEZs models have functioned very well wherein each city has developed a specialisation for a particular product and common facilities are made available for many outfits (barring few SEZs, this model is yet to take off in India).

- Though the performance of India in EoDBR has improved, there are still a lot of things that need to be looked into.

  - A plethora of licenses and permits are required to start a new business in India (for example, in Mumbai one needs to get 20 permits to start a hotel, it is much higher in many other cities/metros). In contrast, you just need four permits in China and Singapore.
  - India lags in parameters such as ease of starting a business, registering property in India, paying taxes, enforcement of contracts.
- So far the only concrete step it has taken is the drop in the corporate tax rate, cut to 25% (which is in line with what most of the peers charge).
- Way forward
  - NITI Aayog has suggested:
    - 10-year full tax exemption for companies investing $500 mn in sectors such as medical devices, electronics, telecom equipment, capital goods.
    - Giving four year tax holiday to companies investing $100 mn or more in labour-intensive sectors such as textiles, food processing, leather and footwear.
    - These investors would also be getting a lower corporate tax rate of 10% for six more years.
    - A single window centre-state clearance is also in the offing.

5. India has trade deficit with 9 of the top 10 commerce partners (BS 8/8/20)

- India continues to import more from the majority of its trading partners than it exports. India had a trade deficit with 9 of the top 10 trading partners (bilateral trade) at the end of FY20.
- India has a comfortable trade surplus with the US but a trade deficit with rest of the top 10.
- On the other hand, India had a slim surplus with the UAE, which has turned into deficit with many scams and tighter norms for diamond trading, reducing market share for Indian apparels, etc. are to be blamed for it.
- Imports from China had also been increasing but recently (post-2018) the government has started imposing more tariffs especially on the non-essential imports.
- Though there is a discussion on whether India should review its FTAs (Free Trade Agreements), only 3 countries (Singapore, Indonesia and South Korea) of the top 10 are countries with which India has signed an FTA.
- The trade deficit that India has with its top 10 trading partners forms 70% of its total global trade deficit.