

Economy This Week (17th Aug to 23rd Aug 2020)

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1. Central bank opens the door for financing deficit (LM 17/8/20)

- The central banker has announced a dividend of ₹ 57182 Cr, slightly short of the budgeted amount of ₹ 60000 Cr. The finance ministry and RBI both have different accounting years and recently the central banker had proposed to bring its accounting year in synchrony with that of the government (as per the recommendations of the Bimal Jalan Committee). Hence, the accounting year for **RBI** for 2020-21 will be for just nine months.
- The dividend announced is much smaller compared to ₹ 1.76 lakh Cr announced last year by RBI.
- The government is working on its second round of fiscal stimulus package and the central banker seems open to the idea of financing the deficit of the government.

2. Why India's forex reserves are rising (BL 17/8/20)

- The forex reserves for the month of March to August have tripled compared to the same time period a year earlier. The total forex reserves for this period stood at \$60.38 bn as against \$17.70 bn a year ago.
- At this rate, the addition to forex reserves in the first five months would be equivalent to the addition done in the whole of the last fiscal (last fiscal the addition was \$62.69 bn).
- With this, the reserves have touched \$538.19 bn and India holds the fourth highest forex reserves in the world.
- This spike is because of a jump in the inflow of **FDI** and dip in the trade deficit. In addition to this, the rise in the prices of gold is also an important contributor (as 6% of the forex reserves comprises of gold).

3. Airport privatisation - Kerala and centre on collision course (BS 21/8/20)

- Kerala CM has written against the decision of the Centre to privatise the Thiruvananthapuram airport.
- The state's proposition to match the bid made by the highest bidder has not been allowed by the Centre.
- The Centre has been reducing its presence in various sectors and the Kerala Govt., on the other hand, has been increasing its presence, for example, it owns 33% stake in Kochi airport.
- In 2018, when the Centre invited bids on the airport and the Kerala Government's offer failed, it asked the Centre to allow it to match the bid made by the highest bidder. Since it was an open bidding, the tender has been allocated to Adani, as per the rules.

4. A new monetary policy panel (LM 17/8/20)

- The monetary policy committee (MPC) has completed its tenure and now the government has to form a new inflation target and a new monetary policy committee.
- The MPC comprises of 6 people out of which three are experts appointed by the government.
- The framework is governed by the RBI Act and as per the provisions, the search committee (for selecting three experts) will consist of the Cabinet Secretary, the Economic Affairs Secretary, the RBI Governor, three external experts appointed by the government.
- This is happening at a time when the pandemic has exposed the limitations of the central bank action in the absence of fiscal intervention. The central banker has taken so many measures to infuse liquidity in the market only to see the economy barely respond.
- The new MPC members will have to confront three critical issues:
 - The banking sector is facing very severe financial issues with the pandemic wreaking havoc on the corporates/businesses that have taken a loan. The rise in NPAs has been contained because of the measures taken by RBI but it has reduced the policy options available for the central banker.
 - In recent times the RBI Governor has taken certain unilateral decisions (such as the reduction in reverse repo), so it is the right time to look into the objectives of the MPC.
 - Have to increase transparency which will increase its credibility in asset markets and improve transmission from benchmark rates to real lending rates.

5. Curbing food inflation (BL 20/8/20)

- The consumer food price index has risen from 8.72% for June to 9.62% for July 2020.
 - This has been fuelled by pulses, cereals, vegetables and spices.
- This particular inflation is because of the supply-side constraints or disruptions. The factors that have caused this are higher transportation costs, logistical hurdles, limited availability of labour.
- However, with easing of lockdown, there has been an increase in mobility or transportation. In addition to this the advance estimates show that sowing is up, the food processors are procuring more and with various innovations, the farmer collectives are supplying the food directly to the households, therefore there is no reason for the food prices to stay up.
- The obvious explanation to this is that there could be instances of hoarding by the intermediaries.
 - In the Rabi season, the mandi arrivals had come down by 30 to 40% (in some of the crops such as Chana and mustard seed, the arrivals had come down by 60 to 70%).
 - These food grains which are missing could be lying in some of the private warehouses. The lack of this data may cause problems for the stakeholders.
 - To track the stocks in the private warehouses, the Warehousing Development and Regulation Authority (WDRA) has developed a digital platform.
- **Use WDRA**
 - The Centre must mandate all the warehouses to be registered under WDRA.
 - These warehouses must be issuing eNWRs (electronic Warehouse Receipts). Once done, the tracking of the food grains in real-time will become easier (the eNWRs are issued to only those keeping stocks in warehouses registered under WDRA).
 - WDRA keeps digital records of all the stocks that come and go out of warehouses. In addition to this, it also oversees creation, transfer, pledge and e-auction of NWRs.
 - Currently, the private sector warehouses do not show interest in registering under WDRA.

6. Centre targets PSBs stake sale by march (TH 19/8/20)

- The Finance Ministry is working to expedite the sale of stakes in four state-owned banks - IDBI Bank, Punjab and Sind Bank, Bank of Maharashtra and UCO bank.
- The aim is to complete the disinvestment process in the current fiscal.
- The government is looking to divest its stake in these banks at a time when the pandemic has affected its finances.
- The government holds a majority stake in these 4 banks either directly or indirectly.
- As per the plan proposed under [Atmanirbhar Bharat Abhiyan](#), a new Public Sector Enterprises policy would be identifying strategic sectors in which no more than four PSUs would be allowed and the rest would be privatised, merged or bought under holding companies. The banking sector would be classified as a strategic sector.

7. Reimagining and reinventing the Indian economy (TH 18/8/20)

- The COVID-19 pandemic has disrupted the global economy and the impact is no different in India. The economy is contracting in the first quarter of FY21 and may continue to do so in the subsequent quarters as well.
- To overcome the impact, the government announced a ₹ 20 tn stimulus package in May. The plan was to provide a lifeline to companies, small businesses, the agriculture sector, etc. In addition to this, a lot needs to be done.
- At this point, India needs a two-pronged strategy - minimising the impact of COVID-19 and reviving growth.
- The reforms are required in four areas - big companies, MSMEs, startups and NRI/OCIs.
- The measures:
 - Big businesses must be provided tax incentives or easy procurement of raw materials or other goods and services on credit. This will energise consumer demand and boost the functioning of vendor or ancillary industry in the MSME sector.
 - The central banker should look into providing debt restructuring for these companies.
 - The Govt. should prepare a 5-year plan to attract 60% of those companies that are moving out of China.
 - States should be thinking of establishing self-contained industrial cities that earmark space for manufacturing, commercial, educational, residential and social infrastructure.
 - Promote sunrise sectors such as battery manufacturing.
 - Start-ups are under huge pressure to stay afloat and the government needs to provide support to the start-up ecosystem.
 - In the auto sector, there is a need to reduce GST and also propose old vehicles scrap policy with incentives.
 - Turnkey plug and play model should be provided in various areas. For example, the land acquisition should be made available with all the necessary pre clearances at the central, state and municipal levels.
 - The investments from overseas Indians and NRIs must be treated at par with domestic investments (taxing, regulations on repatriation, etc).