

Economy This Week (28th Sep to 4th Oct 2020)

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1. Vodafone ruling - centre to contest (BS 28/9/20)

- The government to contest the Vodafone ruling.
- When the company would approach the judiciary for the enforcement of the tribunal ruling, the government would be opposing it.
- Alternatively, the government has the provision to approach the Singapore International Arbitration Centre to appeal against the ruling (it's the Seat of Arbitration under the India-Netherlands Bilateral Investment Treaty).
- There is also a concern that such a move would be counter to the renewed interest of foreign investors in India. Worry for these investors is that India does not provide for a formal route for arbitration in its tax treaties with most countries.

2. Difference on GST may trigger dispute resolution mechanism (LM 29/9/20)

- The states which are opposed to borrowing plans proposed by the centre are threatening to invoke the dispute resolution mechanism.
- Many states have rejected the two proposals given by the government to bridge the shortfall of GST revenues. As many as 22 states have agreed to borrow, which is enough for the council to make the decisions through a vote.
- As per the provisions in the Constitution, in case of a dispute, the GST Council can set up a mechanism to adjudicate the dispute between the centre and state/s. This mechanism is yet to be set up.

3. Centre sticks to borrowing goal (LM 1/10/20)

- The Centre has clarified that it will be sticking to the ₹ 12 tn borrowing plan that it had set up in May 2020.
- This would be calming the nerves of the investors and the market which feared that the government would be increasing its selling of bonds in the market.
- The impact of the pandemic forced the government to increase its borrowings by 54% to ₹ 12 tn compared to the budget estimates of ₹ 7.8 tn.

4. ESG funds (IE 29/9/20)

- ESG funds, which imbibe Environment, Social responsibility and Governance, are finding favour in India in the Indian mutual fund industry.
- There are currently three ESG schemes managing close to ₹ 4500 Cr. In addition, five more fund houses have lined up new schemes.
- ESG investing is also referred to as sustainable investing or socially responsible investing.
- While investing, the ESG fund will shortlist those companies which score higher on environment, social responsibility and corporate governance. After this, it will look into financial factors (it essentially looks into the companies' environment-friendly practices, ethical business practices and employee-friendly record). It is being done because modern investors are evaluating their impact on these factors. As a result of this, the companies will be forced to follow better ethical practices, better governance, environment-friendly practices and social responsibility.
- There are over 3300 ESG funds globally and the number has tripled in the last decade and the value of assets applying ESG to investment decisions now stands at \$40.5 tn.
- In India, there are three schemes:
 - SBI Magnum Equity ESG
 - Axis ESG
 - Quantum India ESG

5. Govt decides to waive interest on interest for loans up to ₹ 2 Cr (IE 4/10/20)

- The government in its affidavit to the SC has stated that a complete waiver of interest during the moratorium period will affect the survival of the banks.
- The government rather has said that it will be waiving off the interest on interest or compound interest during the moratorium period. It would be applicable for the personal loans up to ₹ 2 Cr and loans for MSMEs.
- The type of loans covered would be - education, housing, auto, consumption and consumer durable loans, personal and professional loans, credit card dues up to ₹ 2 Cr.
- The government has noted that moratorium meant that it would be a deferment of interest and not a waiver of interest.
 - That's why more than 50% of the borrowers did not opt for the moratorium.
 - If interest is waived off on all the loans then the amount will be over ₹ 6 lakh Cr.
 - The banks will not be able to sustain such amount of waiver and will affect their viability.
 - The non-payment of interest on the loans will affect the interest payment on deposits of small savers.

6. RBI extends enhanced borrowing limit for banks (TH 29/9/20)

- Amid the pandemic, [RBI](#) has decided to extend the enhanced borrowing facility for banks by six more months.
- This facility is available for the banks to meet the shortage of liquidity until March 31, 2021.
- RBI had increased the [Marginal Standing Facility \(MSF\)](#) from 2% to 3% of NDTL from 27th March 2020.
- This facility was initially available till 30th June, was later extended to 30th September.
- This has been done to provide comfort for the banks on their liquidity requirements and also enable them to continue to meet LCR requirements.
- This extension would allow the banks ₹ 1.49 lakh Cr (this would qualify as a part of HQLA - High Quality Liquid Assets - under the Liquidity Coverage Ratio - LCR).
- Under MSF, the banks can borrow overnight by dipping into the Statutory Liquidity Ratio (SLR).

