Economy This Week (12th Oct to 18th Oct 2020)

TABLE OF CONTENTS

1. Property cards launched (FE 12/10/20)

- PM launched Survey of Villages and Mapping with Improvised Technology or Svamitva - a new scheme to distribute property cards. **Read more about Svamitva Scheme in PIB dated April 27, 2020.**
- These property cards are expected to enable the beneficiaries in taking loans and also resolve land disputes.
- Scheme beneficiaries are from six states - Uttar Pradesh, Haryana, Maharashtra, Madhya Pradesh, Uttarakhand and Karnataka.
- One lakh property holders can download the property cards through the link sent to their mobile phones and later, physical cards would be distributed by the respective state governments.

2. OMO on state govt bonds (BS 12/10/20)

- RBI has announced secondary market purchases of the State Development Loans (SDLs).
- These bonds carry implicit guarantees.
  - Consolidated Sinking Fund (CSF) used by RBI to provide debt servicing.
  - Guarantee Redemption Fund (GRF) can be used in case of a default.
- Foreign investors are reluctant to buy these bonds. Till October 11, the FPIs had used just 1.03% of their investment limit in these (whereas in the case of central govt. securities, the utilisation level is 41.13% of the limits). These stay away because they consider the accounting disclosures of the states to be non-transparent and many of the states are facing financial pressure. In addition to this, another issue is that these bonds are non-liquid i.e. there is no secondary market for these bonds.

3. Rising inflation is a supply induced problem this year (LM 15/10/20)

- Despite registering a slowdown and then a contraction, the retail inflation rate (CPI) has been over the mandated target range of 2 to 6% (for the month of September it was 7.34%). This high rate has been because of food inflation which has been on a higher side. Since the food articles are given higher weightage under CPI, the overall inflation rate has been on the higher side.
- This high price of food articles is despite having a good agricultural output (surplus production). The supply disruptions and subsequent curbs/lockdown restrictions have increased the costs. A rise in MSP and aggressive procurement by the government may also put pressure on prices.
- In the next couple of months, it is expected that these supply-side constraints will ease, leading to the cooling down of prices.
- The average inflation rate between October 2016 to March 2020 was 3.88% and in the last twelve months, it has been 6.51%. To cool it down, resolving the supply-side disruptions is the key.

4. India needs export growth push (FE 17/10/20)

- The former CEA has pointed out that no emerging economy has been able to sustain economic growth without promoting exports.
- Though there is a lot of pessimism related to exports, the economy grew at over 6% post-1991 and the real export rate has stood at over 11% (before this the rates were 3.5% and 4.5% respectively).
- The growth rate in exports was the driving force behind the growth rates during 2003 - 08 and not consumption. The former had an average growth rate of 17.8% and the latter, 7.2%. As a result of higher exports, the gross fixed capital formation also grew at 16.2% per year.
- The exports have fared poorly post 2014, because of the sharp appreciation of the rupee, demonetisation and GST.
- The argument is that global demand is much bigger than the local demand. The inward-looking policy cannot work since the local demand is too small to sustain any serious substitution strategy or attract investors.
- Since the situation in the economy is dire - households do not have sufficient savings to invest, the government does not have sufficient revenues, etc., the way out for the Indian economy is to promote exports.
- The disruption caused by the pandemic has given India a chance to promote an export-driven strategy. The reduction of corporate tax rates and reformed labour laws would be helpful here but the policy of imposing higher import duties will reduce the effectiveness of previous reforms. India has increased tariffs on 3200 out of 5300 product categories. This approach needs revision and in addition to this, the government should focus on signing newer trade agreements.

5. GST - centre to borrow for states (TH 16/10/20)

- The centre would be borrowing to bridge the ₹ 1.1 lakh Cr of GST compensation shortfall this year.
- The government would be borrowing this in tranches and transferring it to the states as back to back loans. This would be reflecting in the books of the states.
- This is expected to break the deadlock that has been dominating the GST council meetings.
- As of now, 21 states have accepted the first option - to undertake the borrowings to meet the shortfall. The principal and interest are to be paid from the future GST compensation cess collections.

6. Diaspora bonds

- Kerala has around 2 million migrant workers in the West Asian region and has been affected by the covid pandemic as its remittances have come down sharply. The remittance flows for Kerala was $13 bn and $14 bn in 2018 and 2019 respectively.
- Kerala and Punjab are states with very high remittances.
- The state (KIIFB - Kerala Infrastructure Investment Fund Board) is gearing up to issue diaspora bonds after taking necessary clearances from RBI.
- The idea is to tap into the savings of non-resident Keralites, a majority of whom are residing in the Gulf Cooperation Council (GCC) countries, where their bank deposits are earning a net zero percent rate of interest.
- KIIFB is a statutory body under the state's Finance Department.
- The World Bank has been actively involved with the state government in building resilience to natural disasters and has recently designated KIIFB as the nodal agency to issue diaspora bonds. In

addition to this, there has also been a discussion to issue the rupee-denominated diaspora bonds to the non-resident Keralites and non-resident Indians.