Economy This Week (16th Nov to 22nd Nov 2020)

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1. RCEP takes off (TH 16/11/20)

- The initialising ceremony for the 15-member mega trading bloc - Regional Comprehensive Economic Partnership (RCEP) - was conducted.
- India, if it wants to become a member, will have to write expressing intention to join the organisation. The organisation stated that the new developments will be taken into consideration when India re-applied.
- The group represents 30% of global GDP and will emerge as the largest free trade agreement in the world.
- This agreement is seen as an important one for China to restart trade with other countries post covid.
- Though the door remains open for India to join, there has been cynicism about India among other trading partners as there is a sense that India is increasingly turning inward and doesn't connect with a region which is looking to come together.

2. PSEs are not gold mine for dividend for govt anymore (LM 16/11/20)

- The tax collection for the government between April to September is down by 21.6% to ₹ 7.2 tn. The collection of union excise has been higher and other tax collections have shown a decline. The increased excise collection is primarily due to the government increasing the tax rate on petrol and diesel.
- The disinvestment target for current fiscal is ₹ 2.1 tn and of this, so far the government has been able to garner ₹ 5781 Cr or just 2.75% of the target.
- The dividend payment from PSEs to the Centre peaked in 2009-10 at 0.33% of GDP and since then there has been a decline and stood at 0.24% of GDP in FY20. This is not surprising as the net profits of the companies have been declining from 1.45% of GDP in FY10 to 0.75% in FY19.
- Now the government wants the PSEs to dip their hands into the reserves and pay dividends this year.
- PSEs have been losing out the market share to private sector companies except in some of the sectors in which they have a stronghold. In FY19, the PSEs collectively made a profit of ₹ 1.43 tn of which the top 10 PSEs accounted for 75% of the profits. These companies operate in oil and gas, power and coal, etc. wherein they do not have much competition.
- In FY19, 70 out of 249 operating PSEs have incurred losses and in case of many others, the profits earned do not justify the capital invested. This explains the decline in the profits earned and dividends paid to the government.

3. WPI rises to 1.48% (BL 17/11/20)

- The [Wholesale Price Index (WPI)](), also known as Producer's Inflation, has risen to an eight-month high of 1.48% in October.
- The CPI has reached to a 77-month high of 7.61%.
- The inflation numbers especially the CPI play an important role in policy formulation and with CPI being much higher than 6%, the hopes of a rate cut in monetary policy are very low.
- Key factors for this rise are the vegetables and pulses.
- Core inflation has hit an 18 month high of 1.7% against 1.1% for the month of September.
- This increase in core inflation signifies an increased demand.

4. Rescuing the bank (IE 21/11/20)

- The investors in Laxmi Vilas Bank (LVB) are unhappy over the decision of RBI to write off the entire paid-up equity capital and reserves. This reminds of the earlier write off of AT1 bonds which were issued by Yes Bank.
- The bad loans in LVB have risen to 25% of its revenues and deposits have shrunk to ₹ 6900 Cr in the last one year. With the bank management failing to come up with any credible plan, RBI was forced to intervene.
- The LVB is amalgamated with a wholly-owned Indian subsidiary of Singapore's DBS Bank.
- While the complaints of the investors are understandable, the main objective of RBI is to protect the interest of the depositors. It is important to note this because no bank can survive if all the deposits from it are withdrawn no matter how well capitalised it is.
- India in the last two years has seen the collapse of four financial firms - IL&FS, Dewan Housing Finance Limited, Punjab and Maharashtra Cooperative Bank and Yes Bank.

5. RBI committee for conversion of large NBFCs into banks (IE 21/11/20)

- The Internal Working Group (IWG) is headed by P K Mohanty. It was set up in June by RBI to review ownership, licensing for corporates, etc.
- It has recommended:
  - The guarded entry of corporates in the banking sector. The Banking Regulations Act, 1949 has to be amended. These can be allowed to be promoters of banks (RBI is against allowing corporate houses to set up and run commercial banks).
  - Conversion of big NBFCs into banks and hike the promoter's stake from 15% to 26% in the long run i.e. in 15 years. This will be a percentage of total paid-up voting equity share capital of the bank.
    - The NBFCs with asset size of ₹ 50000 Cr and above can be considered for conversion subject to completion of 10 years of operations.
  - The minimum capital for the new banks should be increased from ₹ 500 Cr to ₹ 1000 Cr for universal banks and from ₹ 200 Cr to ₹ 300 Cr in case of SFBs (of the 10 SFBs which have started operations, 7 had a net worth of more than ₹ 300 Cr and the net worth of remaining three crossed ₹ 300 Cr within a year).
  - For those Payment Banks aiming to get converted into Small Finance Banks, a track record of three years can be considered as sufficient (earlier it was five years).
  - The Payment Banks and Small Finance Banks may get listed in six years from the date of reaching a certain net worth.

6. Atmanirbharta has a heavy price to pay (FE 21/11/20)

- BSNL has written to the government raising concerns over recent issues.
  - The government has asked the PSE to cancel the tender and source more from the domestic companies/vendors.
  - The vendors have never participated in a BSNL tender earlier.
  - BSNL is competing with private sector companies and the technology, equipment, etc. will have to be competitive.
  - The vendors participating are quoting a much higher price when compared to global prices (Indian vendors are quoting 50 to 89% higher prices than what the foreign vendors are willing to supply at).
- The issue of costs of Atmanirbharta goes beyond just BSNL and has larger implications for the economy. As per a paper written by former CEA Arvind Subramanian, Indian import duties have fallen from 125% to 13% between 1991 to 2014 but thereafter have seen a spike and have risen to 18%. The tariff hikes are applicable on 70% of its imports.
- This is contrary to how global trade is moving. For example, the agreements such as RCEP are trying exactly the opposite i.e. are reducing the tariffs. In addition to this, the analysis has shown that India has achieved higher growth rates in the years with higher exports.