Economy This Week (9th Nov to 15th Nov 2020)

TABLE OF CONTENTS

1. India's proposal of waiver pitted against options (BL 9/11/20)

- India is facing challenges in garnering adequate support at WTO for its proposal on fishery subsidy as several developing countries are coming up with alternative formulas.
- 2020 is the target year for fixing fishing subsidies.
- The members are trying to arrive at an agreement to prohibit harmful fisheries subsidies estimated to be $14 to $20.5 bn annually.
- India has proposed that countries with GNI per capita lower than $5000 should be exempted from making reduction commitments.
- ACP (African, Caribbean, Pacific) group said that they wanted a list-based approach wherein positive or good subsidies would be exempted from the ban.

2. Sahoo Panel suggests 90 days for resolution (BL 9/11/20)

- The government had set up the Sahoo Panel to recommend on pre-pack insolvency.
- The panel has recommended an insolvency resolution time period of 90 days. This is substantially lower than the 330 days prescribed under the insolvency and bankruptcy code.
- Pre-packed insolvency framework is an arrangement where the resolution of a company's business is negotiated with a buyer before the appointment of an insolvency professional.
- It will be a blend of informal and formal mechanisms.
- As per the panel, this new mechanism will not disrupt the present process, the committee of creditors will still be the decision making authority and approve the resolution.
- Since the objective of insolvency resolution is to maximise the value, the Swiss Challenge model has been proposed.

3. 15th Finance Commission (TH 10/11/20)

- The 15th FC has come up with state-specific recommendations by taking into consideration the unique requirements of each state.
- The commission has recommended a devolution formula for the period of 2021-22 to 2025-16.
- The commission has recommended on all the unique terms of references such as a new non-lapsable fund for national security and defence, performance-related incentives to the states that delivered on reforms.

- The FC has submitted two volumes:
  - The first one focuses on centre-state finances - the focus is on the key departments, medium-term challenges facing the centre and a roadmap for the future
  - The second volume is dedicated to the states wherein the finances of each state have been analysed in-depth

4. RBIs issues with non-banks stems from less control (LM 14/11/20)

- Between FY09 to FY19, the assets of NBFCs grew at 18.6% per year reaching ₹ 51.47 tn. In the same time period, the assets of the banking sector grew at just 10.7% per year.
- In the time period between FY09 to FY20, the lending of banks to NBFCs jumped from ₹ 78938 Cr to ₹ 8.07 tn growing at 21.4% per year.
- NBFCs borrow for the short term but lend for the long term. This asset-liability mismatch puts them into trouble when their finances dry up.
- Between 30th September 2018 to 31st March 2020, banks have loaned more than ₹ 2.6 tn to NBFCs. NBFCs in turn have loaned a large part of this to the real estate sector, this has increased the systemic risk. Once the defaults start to surface in the sector, the banking sector will experience a spillover effect.
- Hence the systemically important NBFCs must be converted into commercial banks or must be scaled down. This is expected to increase the regulation of the NBFCs.

5. Govt kicks off discoms privatisation for UTs (LM 11/11/20)

- The central government has begun the process of privatising the distribution companies (discoms) in UTs.
- In this regard, the first step has been taken up in Chandigarh. The administration has made a request for proposals to sell 100% of the government stake in the discom.
- The next set of the privatisation bids will be called for discoms in Andaman and Nicobar Islands, Dadra and Nagar Haveli; Daman and Diu.
- In the case of Ladakh, Jammu and Kashmir, this has been delayed because of security concerns and in the case of Lakshadweep, it would not be conducted as the power demand is low.

6. Indian economy contracts (TH 12/11/20)

- As per the RBI Bulletin, Indian economy rebounded from a sharp contraction in the first quarter to register a growth rate of a negative 8.6% in the second quarter.
- India has entered into recession for the first time in its history with two successive quarters showing negative growth.
- Indian economic activity has rebounded sharply from May/June.

7. Centre unveils incentives to boost manufacturing (TH 12/11/20)

- The central government has unveiled the Production Linked Incentive (PLI) Scheme to encourage domestic manufacturing investments in 10 more sectors.
- This is expected to cost the government ₹ 1.46 lakh Cr in the next five years.

- These 10 sectors are identified based on their potential to create jobs, linkages with global value chains, sunrise sectors and also help India become self-reliant.
    - Food processing, telecom, electronics, textiles, steel, automobiles and auto components, solar photo-voltaic modules, white goods (air conditioners and LEDs).
- Earlier the government had announced PLI for medical devices, mobile phones and specified active pharmaceutical ingredients with an outlay of ₹ 51311 Cr.
- The scheme will:
    - Make Indian manufacturers globally competitive
    - Attract investments in areas of core competency and cutting edge technology
    - Ensure efficiencies
    - Create economies of scale
    - Enhance exports
    - Make India an integral part of global supply chains

8. Social infra PPPs eligible for Viability Gap Funding (VGF) (TH 12/11/20)

- The government has expanded the provision of financial support by Viability Gap Funding (VGF) for Public Private Partnerships (PPP) in infrastructure projects.
- This will include critical sectors such as health, education, water and waste management.
- The scheme was introduced in 2006 and will be continued till 2024-25.
- A total allocation of ₹ 8100 Cr has been done between 2020-21 to 2024-25 and of this ₹ 2100 Cr has been allocated for social sector projects.
- In identified sectors, the centre would chip in with 30% of the cost of the project, the state can also chip in with another 30%.

9. Household savings climb (LM 12/11/20)

- The household savings have climbed to 21.4% of GDP in the June quarter from 7.9% a year earlier.
- The rise is because of the reduced expenditure owing to the pandemic despite reduced earnings or income.
- The increased savings will provide an option to the households to consume more once the economic sentiment revives.
- The propensity of the households to save more during the pandemic has risen on two accounts:
    - Households have been forced to save more
    - Households have raised their precautionary savings due to uncertainty about their future incomes. This is reflected in increased bank deposit flows despite the banks cutting interest rates (bank deposits and bank loans account for 56% and 80% of the households' financial assets and liabilities respectively)
    - The bank deposits have been growing at a faster pace compared to the loans which clearly shows a lack of demand.

10. e-invoicing mandatory for firms with turnover ₹ 100 Cr from 1st Jan (BL 12/11/20)

- The Finance Ministry has notified e-invoicing for all companies with turnover ₹ 100 Cr from 1st Jan.
- This is already in implementation (from 1st October) but for firms with turnover ₹ 500 Cr.

- e-invoicing essentially involves reporting the details of the specified GST documents to a government-notified portal and obtaining a reference number. Its advantages include:
    - Business standardisation
    - Interoperability
    - Auto-population of invoice details into GST return and other forms like e-waybill
    - Reduction in processing costs
    - Reduction in disputes
    - Improvement in payment cycles
    - Overall improvement in business efficiency